Social Protection in Lao PDR

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Abstract

Lao People's Democratic Republic (PDR) is a low-income LDC (least-developed country) with per capita income in the US$300 range. Approximately 38.6% of the population of 5.2 million lived below the poverty line in 1997/98. In 1986, the market economy approach was adopted in the form of the New Economic Mechanism (NEM) with a series of objectives, including the downsizing of the public sector, development of the private sector, privatization of state-owned enterprises (SOEs) and public administrative reform. Higher growth rates have been recorded averaging 5.8% over the period 1980–97, 4% in 1998 and 1999 and improved GDP rates are forecast for 2001 and 2002. Social indicators reflect some progress but there are major concerns over the marked rural-urban disparities in health, education and general living standards.

Since 1986, employees in the public sector were provided with comprehensive social security benefits featuring health care and pensions with high replacement rates. Contributions of 6% of salaries are deducted and paid to the Social Security Fund in the Treasury. The Labour Law, which was promulgated in 1994, stipulates the rules governing contracts and their termination, minimum wages, severance pay and entitlements to social security benefits. This is part of the measures to increase the attractiveness of the private sector and was followed by a decree in 1999 on a comprehensive social security system for employees, including those in SOEs. The initial emphasis is on health care for insured persons and their dependants. Implementation began only in the Vientiane municipality in June 2001. Financing is by employer and employee contributions of 5% and 4.5% of insurable earnings respectively.

The public sector scheme is unsustainable and extensive reforms are planned to establish adequate financing and to equalize the pension ages of men and women at age 60. In time, the two schemes may be merged to create a single scheme for the formal sector workforce. Extension of coverage is a prime objective once the new scheme has completed the initial implementation phase satisfactorily.

Considerable changes are needed with regard to the provision of basic social services and the improvement of human capital if commitments for poverty eradication and equitable socio-economic development, expressed in Lao PDR as human resource development, are to be met. It is proposed in this report that a high-level and representative Social Protection Coordination Commission should be established to address all major issues within a broad framework integrating social, economic and fiscal policies. Such a body operating with a two-tiered structure should have sufficient authority to determine needs and capacities to meet them and to formulate

short-, medium- and long-term plans for future development of appropriate, equitable and sustainable systems of social protection for the country as a whole.

* The exchange rate of the kip against the US dollar at the time of writing was US$ 1 = 9500 kip.

1. Institutional Framework

1.1 General Political, Social and Economic Framework

Country Overview

Laos is a landlocked country bordered by China, Myanmar, Thailand, Cambodia and Vietnam. In mid-2000, the population was estimated at 5.2 million with a population density of 22 per sq km. Administratively, there are 18 provinces with population density ranging from 152.5 per sq km in the Vientiane municipality to as low as 8.7 per sq km in the Xaysomboun Special Region. About 45% of the population lives in the four most populous provinces. Some areas are remote mountainous regions in which ethnic minorities predominate and where poverty is concentrated. Approximately 12% of the total population lives in the capital, Vientiane.

Lao PDR was established in 1975 by the Lao People's Revolutionary Party who began to build up a centrally planned economy based on the twin pillars of the collectivization of agriculture and state management of the industrial sector. Due to a series of major economic setbacks and problems, the government decided in 1986 to halt the creation of agricultural cooperatives and to adopt the market economy approach in the form of the New Economic Mechanism. The NEM aims to generate rapid economic growth and to significantly reduce poverty in the country. The main policy objectives are extensive and structural reforms, which include measures to downsize the public sector, stimulate private sector enterprises, the privatization of some SOEs and public administrative reform.

In 1986, a system of social protection was introduced for public employees, including civil servants, the military and employees in state enterprises. A new Constitution was adopted in 1991 which accords Laotians specific rights to social protection as follows:

- Article 20 stipulates state responsibility for the provision of medical services and for the social protection of war invalids, of the families of persons who died in the service of the country, or distinguished themselves in its service, and of civil servants;
- Article 26 specifies the right to work, to rest, to medical care in the case of illness, and to assistance in the case of incapacity for work, invalidity, old age or other cases determined by law.

The Labour Law was promulgated in 1994 and constitutes the framework for social protection for the formal sector except for health care since this was provided free through the public health system until 1995. From that date, user charges were introduced from which few exemptions are prescribed. A decree was approved in late 1999 for a social insurance scheme for private sector workers, which came into force in June 2001.

Population and Demographic Features[1]

The need and process of developing social protection in Lao PDR have special dimensions due to its status as least developed country in transition to a market economy. The LDC ranking is due to such factors as:

- the per capita income of about US$300;
- the Human Development Index of 0.465 (gender-related 0.451) reflecting the mortality rates for infants of 93 per 1,000 and for children under 5 years of 150, a maternal mortality rate of 650 per 100,000 births and life expectancies at birth of 52 years (male) and 54.5 years (female) for 1995 to 2000;
- the high incidence of poverty, which was assessed as 46.1% in 1993 (an official estimate for 1997/98 gives the poverty incidence as 38.6% with wide variations from 12.2% in the capital to 74% in an area in the Northern Region).

The 1995 Census found that the population numbered about 4.85 million and it is estimated that the total is now about 5.2 million with 77% in rural areas (reduced from 87% in 1980, see Table 1, Appendix). The population is relatively young with 43.9% under age 15 (42.8% female and 44.3% male) and 51% in the main working age group 15–59 (51.7% female and 50.3% male) (see Table 2, Appendix). The total fertility rate (TFR) per woman was 6.7 in the period 1980–85 but this dropped to 5.8 in 1995–2000 and is estimated as 4.9 in 2000. However, there are marked differences between urban and rural areas as the TFR was 2.8 in the former but 5.4 in the latter.

Favourable trends are seen in health indicators, but the distribution of health facilities is poor, affecting the majority of the population. Although there is a national network of provincial, district and central hospitals, personal health services are greatly restricted by resource deficiencies. Whilst urban dwellers, such as those in the capital Vientiane, have access to hospitals (five of the eight central hospitals are located in Vientiane itself), rural households are severely under-served by basic social services, notably health services. For example, 70% of rural dwellers are more than 3 kilometres from a hospital or dispensary and 49% of villages in rural areas are located two to three days from health-care services. For the country as a whole, skilled health staff attends only 30% of births, and it can be assumed that the proportion in rural areas is extremely low. The urban-rural disparity is illustrated by the following data for 2000:

- infant mortality rates for urban areas of 41.7 compared with 87.2 amongst the rural population;

1 The main sources for this section are *National Human Development Report*, 1998; *Country Strategy Note Lao PDR and the UN until 2000*, 1996; *Basic Statistics of the LAO PDR,* 2000; ILO, 2000; and World Bank, 2001. Data is provided in the Appendix.

- maternal mortality rates of 170 and 580 per 100,000 births, respectively, for urban and rural areas;
- lower life expectancy at birth in rural areas with the extreme of ten years difference for males and nine for females between the least developed province and the capital city.

Reductions in fertility and mortality rates are reflected in the changes projected in the proportion of young and older persons in the population (see Table 1, Appendix). For example:

- the youth dependency ratio is now about 83.4% and a decline to 72.3% is foreseen by 2010 and to 51.9% by 2030;
- the population over age 60 is only about 5.3% at present for both sexes, which is expected to rise to 5.6% by 2010 and 7.4% by 2030, causing the old-age dependency ratio to rise from 6.3% to 6.5% in 2010 and 7.9% by 2030.
- the total dependency ratio will therefore decline from about 89.6% in 2000 to 78.8% by 2010 and 59.7% by 2030.

For the immediate future the main priorities are for primary education, health and labour market policies. Planning for population ageing is another emerging priority, which is evident in the plans for higher female pension ages (see Section 2.1.2).

Educational progress is limited and gender disparities are apparent. In 1998, the adult literacy rate was 82% for males over age 15 and 55% amongst females. Net enrolment ratios (both sexes combined) have shown some improvement, as comparing 1997 with 1980 they have increased from 72% to 73% at the primary stage but from 53% to 63% at secondary level (see Table 8a, Appendix). The percentages reaching grade 5 in 1996 were 57 for males and 54 in the case of females (see Table 1, Appendix). The average number of years of schooling in 1998 was three for females and four for males, but the 15–19 years age group attended for one year longer. However, school periods were much shorter for the majority of children and youth in rural areas (see Table 8b, Appendix). With donor support, more village schools are opening up in previously deprived areas to encourage enrolments and longer periods of education, especially amongst girls.

Macro-Economic Framework

Relatively high economic growth rates were achieved with GDP (Gross Domestic Product) increasing by an annual average of 5.8% between 1980 and 1997. Real GDP per capita tripled in the period from 1989 to 1996. Changes in the composition of output occurred over the 1980 to 1997 period including a reduction in the share of agriculture from 61% to 52% and an increase from 11% to 21% for industry, due mainly to rises in manufacturing, especially garments, and construction, and in services, which rose markedly to over 25%. The main increases were in trade and transport. Real GDP increased by 7.3% and 5.8% in 1999 and 2000, respectively (see Table 5, Appendix) with industry recording the highest growth rates of 8% and 7.6%, respectively.

International donor support and foreign investments have played crucial roles in recent years. Grants from abroad over the period 1996/97 to 2000/01 averaged 3.7% of GDP compared with 12% for government revenue. Nevertheless, total annual revenues from taxes and grants have fallen short of expenditures for some years. For example, whilst revenues and grants over the period 1996/97 to 1999/2000 have averaged 15.86% of GDP, the equivalent percentage for expenditures was 21.84. Main tax revenues are from turnover tax, profits tax and excise tax, and more effective enforcement is planned to boost collections since the limited taxable capacity is a constraint on the government's development plans. Approved foreign investments for the period 1997 and 1999 ranged between US$113.8 million to US$122.5 million per year but only US$24.6 million was recorded for the first nine months of 2001.

Lao PDR joined ASEAN (Association of Southeast Asian Nations) and AFTA (ASEAN Free Trade Area) in 1997 and is committed to reducing trade barriers by 2006. About 70% of trade is within ASEAN, but, with growing international links, Lao PDR has applied to join the WTO (World Trade Organization). Some exposure to regional economic trends following the Asian financial crisis in 1997 has resulted in lower growth rates averaging 4% in 1998 and 1999 (see Table 4, Appendix). The government forecasts increases to 5.84% in 2000 and 6.65% in 2001. The CPI (Consumer Price Index) rose from 100 in December 1995 to 712.8 five years later (see Table 6, Appendix). However, by late 2000 the inflation rates were moderating and fell to 27.1% for 2000. Average inflation levels are projected to rise with an expected growth in imports.

Public expenditures on education, which are heavily dependent on donor support, were only 2.1% of GDP in 1997 and health expenditures averaged 1.2% of GDP over the period 1990 to 1999. In contrast, military expenditures reached 9.8% of GNP in 1992 and were 3.4% in 1997.

Labour Market Structure

The labour force numbered approximately 2,166,000 at the time of the 1995 Census with over 78% engaged in agriculture. Labour force participation rates for males are about 90% compared with 77% for females. The total participation rate was 83.8% in 2000 and was projected to fall slightly to 83.4% by 2010 (see Table 3a, Appendix). The non-agricultural sector was estimated to have the following composition in 1997[2]:

- public sector 70,000;
- military and police 80,000;
- private sector 183,000.

Precise recent information is lacking on the informal sector but it is understood to provide the livelihood of a significant proportion of the labour force. The last full-

2 Main source: *Report to the Government on the Actuarial Valuation*, 1999.

scale survey in 1994 found that about 43% of urban employment was in the informal sector. Further details are given in Section 2.2.1.

Despite plans to downsize the civil service, it had grown to 91,144 by the end of 2001, or 29% more than in 1995 when public administration reform was launched. A process of devolving functions to local government has contributed to the increase in numbers. Currently, only 20% of civil servants are assigned to the administrative centres and 80% work in provincial and district areas. The aim now is to reduce the number of civil servants by 5% by 2005.

Distribution of Income and Allocation of the Budget

The prevalence of poverty is a serious concern and is at the core of development policy for government and international donors. The data available dates from the early 1990s when the rural incidence of poverty was 53% and urban was 24% giving a national average of 46.1%. The Gini Index was 30.4 in 1992 as income distribution was as follows:

- the lowest 10% had 4.2% compared with 26.4 % for the highest 10%;
- the lowest 20% had 9.6% of income compared with 40.2% for the highest 20%. Further details are found in Table 7, Appendix.

1.2 Availability and Quality of Data

There are extensive limitations in statistical systems in Lao PDR, which hamper all types of planning for development in the country. These are manifest with regard to labour market information. Presently, data is gleaned from Urban Labour Force Surveys but these have not been conducted regularly (official reports still quote 1994 Census data and the labour force survey of 1995). There are no legal requirements for employers to report vacancies to employment exchanges or for the unemployed to register for work. Establishment surveys also have been lacking due to the Register of Enterprises becoming obsolete. This has been rectified and survey data should become available on a systematic basis. Education statistics have been more reliable although affected by technical problems in achieving satisfactory reporting standards.

The National Statistical Centre as the main government body in this area has drawn up plans for comprehensive improvements, including the approval of the necessary legislation for the collection of statistics. Budgetary resources are lacking for the implementation of these changes.

1.3 Existing Institutional Framework

The 1994 Labour Law stipulates in Article 11 that “A trade union shall be established in all labour units in accordance with specific regulations of the sectors concerned. Where there is no trade union, workers’ representatives shall be established”. The Article includes negotiation with employers on social security matters as part of the responsibilities of these representatives.

The mass organizations function under the direction of the Party and these include the Lao National Front for Construction, the Lao Women's Union (LWU), the Lao People's Revolutionary Youth Union and the Lao Federation of Trade Unions. The Lao Federation of Trade Unions (LFTU) is active in tripartite circles and is represented on Boards such as the Social Security Board. The main employers' group is the Chamber of Commerce and sections are industry-wide such as the division responsible for the garment industry. The LWU is organized at four levels – village, district, provincial and central – and is very active throughout the country. The Lao National Front for Construction is responsible for relations with the ethnic minorities living in the highlands.

The formation of associations must be monitored by a government agency, which restricts the development of NGOs (Non-Governmental Organizations), but international NGOs work closely with mass organizations. For example, the LWU is involved in development projects at community levels and is the governmental partner for activities of international NGOs, including micro-finance and income generating programmes. Cooperatives are missing from the scene due to their negative public image after the collapse of the 3,000 or so agricultural cooperatives set up between 1975 and 1977. Instead, savings and credit unions have been established widely throughout the country.

Tripartism is seen in the context of social protection by the composition of Project Steering Committees on a tripartite basis. One example is the Project Steering Committee (PSC) for the UNDP/ILO (United Nations Development Programme/International Labour Organization) project on the Development of Social Security, which made important recommendations for the type of social insurance scheme to be implemented in Lao PDR.

1.4 Government Support

The planning of social protection does not take place in a vacuum as the social and economic aspects are inter-linked. There is a need for collaboration in and consistency with the strategies for various other important relevant programmes and government initiatives. Lao PDR, in common with other low-income and transition economies, is engaged in extensive developmental activities originating internally, and those derived from commitments made to achieve various targets established at international conferences. The latter are listed below. A number of developed countries and international NGOs have established priority programmes in Lao PDR in relation to some of these objectives:

- A reduction by one-half in the proportion of the world's population living in extreme poverty (from one-quarter to one-eighth) by 2015;
- Allocation of at least 20% of government budgetary expenditures and 20% of official development aid to basic social services as soon as possible and preferably by 2000;
- Demonstrated progress towards gender equality and the empowerment of women by eliminating gender disparity in primary and secondary education by 2005;

- Universal primary education in all countries by 2015;
- A reduction by two-thirds in the mortality rates for infants and children under age 5 and a reduction by three-fourths in maternal mortality, all by 2015; and
- Access through the primary health-care system to reproductive health services for all individuals of appropriate ages as soon as possible and no later than by the year 2015.

The government's commitments to eliminate mass poverty and to break the vicious circle of underdevelopment by 2020 have been translated into a number of goals which include the allocation of more than 20% of public expenditures and investments to education, health and welfare. There are eight national priority programmes amongst which human resource development (HRD) is understood in Lao PDR to mean the government's intention to enlarge socio-economic development for the well-being of the population as a whole. HRD is defined in Lao PDR to include health, education, employment and social security, as well as public administration and the development of children, youth and women. In summary, the concept of HRD encompasses social protection and provides a framework for the formulation of government policies for the development and extension of suitable systems for the different sections of the population.

1.5 Traditional and Contemporary Perception of the Social Protection System

In common with other low-income countries, large sections of the population in Lao PDR who live in rural areas engaged in subsistence farming, and those working in the informal sectors are outside the scope of any statutory or other organized systems of social protection. Furthermore, there are no crop or livestock insurance schemes. Households live within narrow limits. Remittances from relatives abroad are a virtual lifeline for many families but are not guaranteed and fluctuate according to economic changes in the countries concerned. These persons can only rely on their savings, if any, and family and community solidarity in times of need. Households are vulnerable to many risks, such as crop failure, illness, loss of income and food from work, and death; they follow the traditional approach to coping with a crisis or emergencies by turning to family support in the first instance and secondly to the community for assistance on the basis of mutual obligation. This is generally accepted by rural populations being largely unaware of alternative approaches and with low expectations of significant reductions in their vulnerability.

In this connection, Decree No. 102/PM of 1993 states that any geographical area comprising over 20 houses, or with a population exceeding 100 persons, is classified as a village and as such elects a chief every two years. His duties include the management of social organizations and assistance to the poor, disabled, the elderly, widows and orphans. When a death occurs, the chief may call a village meeting to discuss how they can contribute towards some financial support for the bereaved family.

The Rural Household Finance Survey (UNDP and UNCDF) in 1997 showed the ability and willingness of the rural population to save on a regular basis. However, the average deposit levels were very low. A survey on savings habits in two provinces in 1998 found that despite poverty all rural households had some financial savings held in cash and a few assets such as precious metals and livestock. The purpose is to provide for emergencies, including the costs of medical care, and expensive social events such as weddings and funerals. Another traditional practice found more in urban areas is the savings club, which provides each member in turn with the 'pot' of the total monthly contributions.

Considering the very low income levels and the extent of dependency in households it is clear that savings can only be marginal and that individuals remain very vulnerable to the multiple risks faced by poor communities. At the present stage of social and economic development there is little expectation of government social assistance, subsidies or earmarked funds other than certain types of micro-finance programmes to deal with acute poverty and some public works projects. Coping through family and community solidarity has definite limits especially when covariant risks occur. The outcomes of serious or prolonged household crises may well be disposal of scarce assets, taking a child out of school to work, and an increase in indebtedness.

2. Review of the Existing System

2.1 Social Protection in the Formal (Organized) Sector

2.1.1 Categorization of the Formal Sector

Due to the lack of data and information, it is difficult to distinguish between the formal and informal sectors as precisely as desired, since at the current stage of development of the private sector it is described as a mixed set of formal companies and informal enterprises with multiple forms of ownership and different forms of linkages with the government.[3] The available official data on the urban employed population in 1994 given in Table 3b, Appendix, indicates the relative sizes of the formal and informal sectors at that time.

The public sector had 91,144 civil servants in central and local government by the end of 2001. Growth in the private sector has been assisted by foreign investments and these trends can be expected to continue, although not easily predictable due to the many factors affecting the supply of capital from abroad. The growth in wage employment is significant as the dependence on money incomes increases the needs for social security protection. The SOE privatization programme started in 1994 rapidly reduced the number of SOEs from about 600 to about 90. In the longer term it is envisaged that a core group of 29 strategic SOEs, including state banks, will remain. SOEs ceased to be part of the public sector in 1994 when the Labour Law was promulgated for the non-public sector. Recently, the privatization programme slowed down as many were only leasing arrangements. Consequently, the sector

3 The main source on this subject: *The Banking and Financial Sector of Lao PDR Financial Sector Note*, 2001, with additional information obtained from various reports by the Ministry of Industry and Handicrafts.

contains SOEs, leased SOEs, joint ventures between foreigners and either the government or Lao companies, wholly owned foreign firms and domestically owned firms.

Enterprise size distribution was recently estimated as follows:

- 95 companies with more than 100 workers;
- 512 enterprises with 10 to 99 workers;
- approximately 20,962 concerns with 1 to 9 staff, many of which operate in the informal sector.

Promulgation of the Labour Law in 1994

In 1994, the Labour Law came into force. It applies to the private sector and SOEs, including the civil service and the Armed Forces, and remains the basic law for social protection of this section of the population. Its effect was to separate SOEs from the social security scheme for the public sector described in Section 2.1.2 leaving the continued coverage of their staff dependent on any new scheme introduced within the framework of the Labour Law. Implementation of the Labour Law was entrusted to the newly established Ministry of Labour and Social Welfare (MOLSW).

The Labour Law regulates employment conditions and stipulates the rights and obligations of employers, workers and the system of labour administration. The form and nature of employment contracts are specified and the rules on dismissals are set out together with those on labour protection. Severance pay and minimum wages are prescribed. The right to organize and to belong to mass organizations that have been formed lawfully is laid down in Article 3.

The Labour Law stipulates the responsibility of enterprises to provide social security protection especially through the provisions in Article 48 'Each labour unit[4] in the socio-economic sectors shall establish a social security fund or pay contributions to a compensation fund to ensure the living standard of its workers in accordance with the social security system. Workers and employers shall contribute to the social security fund in accordance with regulations adopted by the government. Where the employer has paid contributions to the compensation fund and the social security fund, these funds shall be entirely responsible for providing social security coverage to workers.' Other relevant provisions are outlined in the following paragraphs.

Sickness Protection. Article 29 provides monthly paid workers with an entitlement to 30 days sick leave on full pay per year, which is available also to hourly and daily paid and piece-rate workers who have more than 90 days service. Sickness lasting more than 30 days becomes the responsibility of the social security system.

Maternity Protection. Under Article 36, women workers are entitled to maternity leave on normal pay for 90 days from their employers or the social security fund if contributions have been fully paid, which shall include post-confinement leave of at

4 According to Article 5 of the Labour Law 'labour units' refers to 'all workers and employers who carry on activities in any socio-economic sector'.

least 42 days. A maternity grant of at least 60% of the minimum wage is also payable and that is increased by 50% for additional births.

Employment Injury Protection. Articles 51–53 deal with occupational injuries and prescribed diseases. Medical expenses for immediate and continued treatment are the responsibility of employers plus payment of funeral grants and lump sum benefits in the event of death. Article 53 specifies the following cash benefits to be paid by either the employer or the social security fund:

– Full pay for up to six months whilst undergoing medical treatment and rehabilitation and then 50% of salary or wages for up to 18 months;
– It is then stipulated that 'after 18 months, social security benefits shall be granted' which leaves open the question of how this could apply to uninsured workers;
– If disabled, workers or their heirs are entitled to compensation as specified in the regulations.

Old-age Protection. Article 54 sets out the rights to retirement pension as conditional upon satisfaction of the following conditions (persons failing these conditions are entitled to lump sum compensation):

- attainment of ages 60 (men) and 55 (women);
- completion of 25 years of service;
- the above are reduced to ages 55 (men) and 50 (women) and 20 years service for persons who worked for over five years continuously in hazardous employment, and
- payment of social security contributions for 25 years, or 20 years for persons who worked for over five years continuously in hazardous employment.

This legislation has acted as a guide to enterprises that were considering the question of how to protect workers in various contingencies. However, it does not include needs for medical care that was provided free in 1994 by the public health services. The change of policy requiring user charges occurred in 1995 and there is no provision for health protection although only the very poor, students and monks are exempt from user charges.

In fact, in the absence of a health insurance scheme, enterprises were soon faced with the problem of heavy costs incurred by workers with serious illnesses and had to resort to salary loans in most cases. In a few instances, small health insurance funds were also established for this purpose. To some extent the Labour Law provisions on enterprise responsibility for social security arrangements inspired the latter. Overall, the absence of detailed rules on benefits and contributions limited the impact of the social security provisions in the Labour Law pending the introduction of a social security scheme for the private sector. This took place from June 2001 initially with respect to enterprises with 100 or more workers, as outlined in Section 2.1.2.

2.1.2 Social Insurance and Savings Schemes

Overview of the Public Sector Scheme

The social security system for civil servants, army, and public employees introduced in 1986 covers sickness, invalidity, maternity, old age and death. These benefits were provided as a benefit of service until December 1989 when the law was changed, requiring civil servants to contribute 6% of their salaries to the Social Security Fund to continue coverage. However, the fund was only established in the Treasury in 1992. The implementation of the scheme is the responsibility of MOLSW. The main features of the benefits are the following:

- **Medical care** for civil servants (both active and retired), military and police, spouses and children up to age 18 consists of medical consultations, tests, medicines, X-rays and artificial limbs on the basis that the Ministry of Health (MOH) covers the costs of hospital accommodation, food and other services;
- **Sickness benefit** is payable to civil servants who are entitled to full salary for 30 days per year, followed by 60% of salary and if hospitalized to 30 days at full salary and 80% for 12 months; there is also entitlement to 30 days at full salary if an infant child is sick;
- **Invalidity benefits**[5] are payable at the rate of 70% of the last basic salary to persons with more than five years of service who are certified as having lost more than 80% of their working capacity;
- **Maternity benefits** consist of three months leave on full pay, a grant of 60% of basic minimum salary, and medical care costs up to statutory limits;
- **Survivor's benefits** are payable to the surviving spouse in the form of a funeral grant (basic salary of the last 10 months or 12 months of the basic minimum salary in rural areas) and a lump sum of between six and 15 times the last monthly basic salary according to length of service;
- **Employment injury benefits**, which are mainly paid to war veterans, consist of medical care (in accordance with stipulated amounts for each type of service), full salary for up to six months and 80% for a further six months, which is followed by invalidity pension. Additional allowances are paid to retired or working invalids, including war invalids, residing in invalidity centres or returning to rural areas; and
- **Retirement pensions** after 25 years eligible service and attainment of ages 60 (men) and 55 (women). For civil servants the pension is 75% of their basic pre-retirement salaries plus 1% for each year up to a maximum of 90% of salary and a lump sum of 15% of the last drawn basic salary[6] per year of service.

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5 Invalidity benefits have replaced convalescence allowance except for those persons who had their entitlement on 1 January 1994 and those with 20 years service who have not yet retired.

6 The qualifying period is reduced to 20 years and pension ages to 55 (men) and 50 (women) for revolutionaries and persons who worked in hazardous conditions for five years or more, and the benefit is 75% per cent of the last basic salary after 20 years service plus 1% per additional year up to the maximum of 90%.

In addition, there are **child allowances** of monthly sums for civil servants and pensioners for each child under age 18. Severance payments in the event of voluntary retrenchment are at the rate of one month's salary per year of service plus one month's salary and one year's child allowance, and housing and education assistance. The rules for short-term benefit payments are not applied because of the low salaries in the public sector. Pensions in payment are fully indexed to the last salary grade of retirees and clearly are the major item of expenditure (details are in Table 9, Appendix).

The scheme is not sustainable as there is no system of funding, leaving the state budget to subsidize up to 70% of the expenditures in the past two years. The employee contribution of 6% of earnings is not based on any financial estimates and the income is used to meet short-term costs of the medical scheme. Options for reform have been under consideration for some time. The principle of equalization of male and female pension ages at 60 years is included in the plans for restructuring.

Social Insurance Protection for the Private Sector

Main provisions. The Decree No. 207/PM of 1999 provides for nine social security contingencies plus a death grant. The provisions introduce all but child benefits and unemployment insurance. The latter are to be brought into being at a time to be determined in the future. The decree is based on the Labour Law and integrates relevant benefit provisions with those under the Decree.

The administration of the scheme is entrusted to the Social Security Organization (SSO) as an autonomous body under the MOLSW with appropriate powers and responsibilities. Its Board has 11 directors consisting of three representing the government, four the employers and four the employees. The Minister submits the list of candidates for the approval of the Prime Minister. The Board elects its own Chairman and Vice-Chairman. Its main responsibilities are to 'serve as the logistical arm of the Ministry of Labour and Social Welfare in the consideration and adoption of short-, medium- and long-term social welfare plans' and to undertake important functions such as determining the contribution rates and the administrative expenses of the SSO under the final authority of the Minister in accordance with the provision that these expenses shall not exceed 10% of the total revenue of the scheme.

The regulations stipulate that the SSO is legally and financially independent of the government but responsible to the Minister to whom it must submit its annual reports and audited accounts. The scheme is backed up by the financial guarantee of the state.

The legislation is applicable to enterprises with ten or more employees including their branches with fewer than ten staff. Regulations limit the initial coverage to enterprises with 100 or more employees in the Vientiane Municipality. There are 80 such enterprises with an estimated 60,000 employees. The implementation commenced in June 2001. Voluntary insurance by enterprises is permitted and once accepted this, in effect, becomes compulsory and permanent. Any economically active person can apply for voluntary membership and if accepted will pay both employer and employee contributions.

By November 2001, 70 large enterprises in the Vientiane Municipality had registered with over 20,000 workers of whom 61% were female. Some of these firms have fewer than 100 workers but are keen to join. In some cases this is in order to continue previous coverage under the public sector scheme as SOEs. Enforcement procedures are being developed in order to cover all liable companies in the near future. The preponderance of women is mainly due to the inclusion of the large garment factories that supply the export trade. Contributions for 13,213 workers were paid by 60 employers. The income and expenditure is given in Table 10, Appendix. The main costs have been capitation payments to the accredited hospitals.

Finance. The Decree provides for a self-financing scheme through the collection of contributions and receipt of other revenues for allocation to the following autonomous funds under the control of the SSO:

- Health insurance;
- Short-term benefits;
- Employment Injury;
- Pensions.

The rates of contributions are determined by the Board on the principle that the employees' share shall not exceed 50% of the total after making it clear that contributions for employment injury insurance are the sole responsibility of employers. Following an actuarial valuation, the contributions were determined as follows:

Table 1: Total Contribution Rates

Benefit	Rate	Employee	Employer
Health care	4.4*	2.2	2.2
Sickness	0.9	0.45	0.45
Maternity	0.7	0.35	0.35
Birth grant	0.4	0.2	0.2
Death grant	0.4	0.2	0.2
Employment injury	0.6		0.6
Pensions	2.2	1.1	1.1
Total	9.5	4.5	5

* Figures and totals are rounded and may not add up exactly.

Different financial systems are in operation for each Fund, appropriate to the characteristics of each benefit. For pensions, an intermediate system of funding, termed the scaled premium system, was selected between pay-as-you-go on the one hand and full funding on the other. Contributions will increase from time to time in future years. Regulations lay down financial rules for the maintenance of contingency and technical reserves and the principles for investment of social security funds. Actuarial valuations are required at five-year intervals as a minimum.

Health Care. The insured person, spouse and children, who must be under age 18 or under age 25 if undergoing full-time education (with no age limit for disabled children who are incapable of self-support), are entitled to medical care, consisting of medical consultations, treatment as out- or in-patients and approved medicines, provided that the insured person has paid contributions for a minimum of three months in the preceding 12 months. No co-payments are required for any of these services nor do patients meet costs and claim reimbursement, as under the public sector scheme. Medical providers are paid through regular capitation payments from the Health Insurance Fund maintained by the SSO.

Sickness Benefit. Decree 207/PM coordinates the sick leave entitlements under the Labour Law and the Decree in the following system of benefits:

- after expiry of the 30 days sick leave per year on full pay liability of employers under the Labour Law, the scheme will pay 60% of insurable earnings averaged over the last six months subject to a contribution condition that a minimum of three months contributions were paid in the last 12 months;
- the duration of benefit is given as one year at which point medical advice is to determine whether benefit should continue in expectation of recovery or a claim should be made for invalidity benefit;
- benefit is also prescribed for partial incapacity after a period of being entitled to sickness benefit when the insured person is unable to resume his or her normal duties, at the rate of 60% of the difference between the old and the new insurable earnings.

Maternity Benefits. Benefit is payable for childbirth, miscarriage and adoption subject to a contribution condition of at least nine contributions in the last 12 months. The rate is 70% of insurable earnings averaged over the last six months payable for three months. Extension of the sickness benefit rate is allowed based on medical advice. Under the regulations, employers are required to top up the SSO benefit to 100%. Adoption is included where the child was under 12 months old. Maternity grant of 60% of the minimum wage is payable per newly-born child to an insured person or the wife of an insured person provided that at least 12 contributions have been paid in the last 12 months.

Death Grant. Subject to a contribution condition of at least 12 months contributions in the last 18 months, which is waived for current beneficiaries, death grants are payable to relatives who are responsible for the funeral ceremonies of the following amounts of insured earnings:

- six months with respect to the death of an insured person;
- three months on the death of the spouse;
- two months for the death of a child as defined in the Decree.

Employment Injury Protection. The contingencies covered in this branch are temporary incapacity, need for medical care, permanent partial disablement, permanent total disablement, and death. The main principles are:

- no fault coverage for all accidents which could reasonably be accepted as arising out of and in the course of employment, which may include commuting accidents;
- employees facing risks of occupational injuries are protected without contribution conditions from the first day of insurable employment;
- financing is solely by employers;
- the medical and cash benefits should be provided throughout the contingency and should extend to medical and vocational rehabilitation.

The main features of the benefit system are:

- temporary incapacity benefit is an employer responsibility, comprising full salary or wage for a maximum of 30 days. After this, the SSO is liable to pay 100% of insurable earnings, as averaged over the last six months, for a maximum of six months. This may be followed by a further period of 18 months with benefits at the rate of 60%;
- as under the sickness benefit provisions, there is provision for a return to work even if the person is unable to return to former duties and for SSO to make up the difference between the old and the new wages;
- claims for permanent disability have to be dealt with by medical boards to determine the degree of disability, which determines the proportion paid; the benefit rate is calculated by multiplying 67.5% of insurable earnings, as averaged over the last 12 months, by the degree of disability;
- persons adjudged to require the services of a caregiver can receive benefit based on the minimum wage according to the number of hours of care-giving;
- in case of death from employment injury, death grant is payable of six months insured earnings and survivors' benefits as outlined below:
- if the deceased had paid a minimum of five years contributions, adaptation benefit of 80% of the insured earnings, as averaged over 12 months, for up to 12 months to a spouse and eligible children (this is to ensure the same entitlement as provided by the Pensions Branch), which may be succeeded by the longer term benefits described below where there are eligible survivors;
- for the following benefits, survivors are defined as follows:
  - as the spouse, being the wife aged 44 years or more, or who has one or more minor children (defined in regulations as children under age 15) or who is disabled and unable to work or the husband who is disabled and unable to work;
  - if no spouse, parents who were supported by the deceased (the regulations stipulate 'main source of financial support') and who meet the qualifying rules, and
  - children of the deceased, stepchildren and adopted children;
- survivors' benefits are calculated from the average of the insured earnings over the last 12 months and consist of pensions up to a total of 100% of the rate of permanent total disablement benefit applicable to the deceased, of 50% for the spouse or parent and 15% per child, or 20% if no spouse or parent, up to a maximum of 60% for children.

Pension Protection. Old-age, invalidity and survivors' benefits should be integrated into one pension system. In the case of *old-age pension*, the Decree prescribes pension age as 60 years for men and women and the qualifying period for pension as five years pension insurance. Persons reaching pension age with shorter periods of insurance qualify for lump sum payments in lieu of pensions. Pension rates are determined from the number of accumulated pension points, the total average earnings and the accrual rate of 1.5%. Early claims are permitted from age 55 subject to the reduction of pensions by 0.5% per month between the month the pension commences and the month age 60 will be attained. Deferred retirement is rewarded by increasing the pension by 0.5% for each month of continued employment beyond age 60.

Pension points are derived each year from dividing the annual average earnings by the total average earnings of all insured persons.[7] Older persons joining the scheme may have difficulties in accumulating enough pension points to qualify for adequate pensions and therefore pension points to the value of 0.8 per year are credited to persons who are 31 years old or more when first registered. These are allocated according to age on entry as follows:

- the number of pension points is calculated for persons aged 31 to 45 by deducting 30 years from their ages; and
- persons aged 45 or more shall receive free pension points for 15 years.

Pension points of husband and wife are to be divided in the event of divorce before pension age to the extent of the duration of the marriage within the insurance period. For divorces after pension age the pension shall be divided according to the divorce decision.

Survivors' Benefits. On the death of an insured person who has paid contributions for at least five years, or a pensioner, the eligible survivors shall be entitled to benefits as follows:

- Adaptation benefit of 80% of the insured earnings, as averaged over 12 months, for up to 12 months to a spouse and eligible children, which may be succeeded by the longer term benefits described below where there are eligible survivors;
- Widow or widower benefit for the widow if aged 44 years or more, or has one or more minor children (aged under 15 years), or is disabled and unable to work, or the widower who is disabled and unable to work at the rate of 60% of the deceased's pension or pension rate (the extent of disablement must be 66% or more);
- Children of the insured person, or step children or adopted children who are within the age limits of 18 years or 25 years if under full-time education, with a disabled child who is unable to work included without age limit, are entitled to 20% of the deceased's pension or assumed invalidity rate up to a maximum of 60% for children;
- The widow / widower and children's benefits are subject to an overall maximum of 80% of the pension rate or 100% of the invalidity pension rate which would have been payable if the insured person had qualified for such pension prior to death.

7 Periods of non-payment for any reason are excluded from the calculation but periods in receipt of sickness, maternity, temporary incapacity, permanent disability benefits for 60% disability or more and caregiver benefits qualify for inclusion.

Invalidity Benefits. The definition of invalidity in Article 96 is that an insured person 'cannot fulfil his duties and undertake his work tasks attributable to ill health or disability and that the SSO has evaluated that the relevant person is unable to work'. The contribution condition for pensions is that at least five years' contributions have been paid. Lump sum benefits are due for shorter periods of insurance. Invalidity benefit is calculated in the same way as old-age pension plus the addition of the remaining period up to age 60 as insurance years. Caregiver benefits are provided if necessary on the same basis as for employment injury victims. The Decree provides for medical care and rehabilitation and sanctions in the form of benefit reductions or termination for persons who refuse these services. The invalidity pensions are converted into retirement pensions at age 60.

2.1.3 Social Assistance and Services: Benefits and Transfers

The MOLSW is responsible for social welfare and operates very limited programmes. These programmes cover disaster relief, reintegration of refugees and assistance to orphans and children in difficulties. These activities respond to donor priorities and rely heavily on external financial support and grants. The Decree No. 52/PM of 1995 on health financing exempts monks, students and indigents from payment of user charges. There are few other free or subsidized services. Poor villagers tend to utilize local pharmacies, licensed or not, when sick rather than take the time and pay the costs of transportation to and the charges levied by health facilities that usually lack essential medicines.

The rudimentary nature of social welfare leaves the responsibility for the care of destitute persons and those suffering from temporary financial hardship with families and communities.

2.2 Social Protection in the Informal Sector

2.2.1 Categorization of the Informal Sector

The growth of the informal sector is a fact of life in developing and transitional economies with the effects of downsizing of the public sectors, the drift away from agriculture and the limited capacity for absorption in the emerging private sectors. According to various surveys, in 1993 the informal sector provided the livelihood of about 14% of the national labour force comprising all types of small-scale private business activities, small shops, street vendors, crafts, repair shops and similar micro-enterprises. The 1994 Urban Labour Force Survey used the international definition for the informal sector established by the 15th International Conference of Labour Statisticians in 1993. This refers to two characteristics: a private non-agricultural business which is household-operated and has no more than five paid employees.[8] The results of the survey are given in Table 3b, Appendix.

In terms of the current status definition about 43% of urban employment was classified as informal and 53% formal with 4% engaged in small-scale agriculture. Women

8 ILO/EASMAT, 1996.

accounted for 61% of informal sector workers. Industry-wise, the main sector is wholesale and retail trade followed by construction, hotels, restaurants, business services, manufacturing and transport. Self-employed persons constitute 72% of the informal workforce and unpaid family workers account for 17%. Wage levels were about 15% lower on average than in the formal sector although working hours tend to be about 11% longer for informal sector workers. Up-to-date information is lacking but some of the more general information on types and conditions of work may be valid today.

A later study in 1996 found about 146,000 small and micro enterprises employing 260,000 persons including home-based units. Only 10% had paid employees. The main activity was wholesale and retail trade followed by handicrafts, services and transportation.

2.2.2 Problems and Features of the Informal Sector

Longer hours, lower pay, lack of job security, absence of any welfare provisions, poorer working conditions and exposure to higher levels of risk are all features of informal sector employment. This may be defined as that segment of the economy and labour market characterized by very small production units, own-account workers and the low-income self-employed in household and micro-enterprises. The main features are:

- low levels of capital, skills and technology;
- operating outside the scope of regulations on business registration, labour and social protection;
- low and unstable levels of income, especially amongst employees, with the owner liable for gains and losses; and
- poor working conditions.

Due to the lack of capital, small and micro-enterprises function with a minimum of technology and chronically low productivity. The reasons for persons seeking work despite these obvious drawbacks are deficiencies in building up human capital through adequate educational systems and training schemes, and the limitations of labour market information. For example, school leavers often are ill equipped to find work in formal sector enterprises where they could have opportunities to improve marketable skills. Furthermore, due to the weaknesses of employment services in providing information on job vacancies, and the lack of training schemes to assist workers with their job search, retrenched workers with little or no financial benefits are often forced to take the first available option to maintain earning levels and ensure continued membership of social security schemes. Such persons can subsequently become trapped and lose their ability to obtain suitable jobs with the working conditions they were used to.

It may be more realistic to plan expansion of social protection schemes to the informal sector as part of comprehensive action programmes that address the basic concerns and problems of those whose livelihood is derived from this sector. The first priorities may be strengthening prospects of survival and improving incomes, rather than with investing scarce resources in social protection, such as social insurance schemes. Those countries that have adopted strategies for the uplifting of informal sector activities usually have the following objectives as a minimum:

- improvement of the productive potential, and therefore of the employment and income-generating capacity;
- improvement of the welfare of the poorest groups; and
- establishment of the appropriate regulatory framework, including appropriate forms of social protection and regulation.

2.2.3 Social Assistance and Services: Benefits and Transfers

In the current economic situation, the main poverty alleviation measure is micro-finance. As stated in Section 2.1.3, there are extremely limited resources available for social assistance, social services and disaster relief.

2.2.4 Voluntary Schemes: Savings, Credit and Micro-insurance Schemes

Micro-insurance Schemes

In general, insurance concepts are not widely understood in Lao PDR and commercial insurance products are not well known or sought after. There is only one insurance company that provides insurance cover for motor vehicles and occupational injuries. The fact that the legal liability to insure motor vehicles for third-party risks is widely ignored (only about 25% take out this insurance) illustrates the low esteem in which insurance is held.

The issue of priority needs arises as the costs of medical care are clearly a concern for sections of the population relying on uninterrupted earning capacities, but in rural areas with high incidences of poverty amongst subsistence farmers, food security may well be the most important aim. Due to the unsatisfactory standards of health facilities and their relative inaccessibility, the rural communities are accustomed to self-medication with traditional remedies and medicines bought from local pharmacies.

Consequently, support for micro-insurance may be more likely amongst urban households. In fact, WHO (World Health Organization) is due in early 2002 to launch a community-based health insurance project in a district of the capital Vientiane on a pilot basis. The strategy is to develop design guidelines in semi-urban areas with contributory capacities and some health facilities and then to apply these in rural areas meeting certain criteria. This project is designed for collaboration between WHO and the Ministry of Health and, in the longer term, the schemes which are developed may be replicated in other areas of the country.

The formation of associations in Lao PDR must be monitored by a party or government agency. Whether this is an obstacle to community or group action is difficult to ascertain but the existence of some associations is accepted in the agricultural sector.

Savings Schemes

Mutual Assistance Fund (MAF) of LFTU. MAF was set up by the Lao Federation of Trade Unions in 1993 to supplement the public sector social security scheme described in Section 2.1.2. The membership, which is voluntary, recently stood at approximately 33,000 out of the trade union membership of about 77,000.

MAF is a savings scheme to which members contribute a standard 1,000 kip per month, but local autonomy exists, as there are district committees that can vary rates to suit local preferences. Consequently, some districts levy contributions as high as 6,000 kip per month. Benefits are paid with respect to sickness, maternity, employment injury, death and marriage. Examples are as follows:

- 20,000 kip upon marriage;
- 20,000 kip per child upon birth;
- 30,000, 50,000 and 80,000, respectively for minor, medium and major surgical operations;
- disaster relief of up to 100,000 kip per year; and
- on the death of a member, from 200,000 kip for under one year's membership up to 600,000 kip for over three years' membership.

These payments are deducted from the individual accounts that can go into deficit. However, no interest is added to the accounts and only 70% of the balance is repaid when the account is closed for whatever reason (death, retirement or withdrawal from MAF). Although these features detract from the attractiveness of the scheme, LFTU states that it has other features increasing its popularity. These include additional financial and some social support for sick persons or others in difficulties with resources from the reserve funds. In fact, the lack of other means of savings with interest may account for the sizeable membership. Also membership in the trade union may entail joining MAF semi-automatically rather than voluntarily.

Welfare Fund for Teachers. Information was obtained on the voluntary welfare fund established in 1992 in the Hai Xai Phong District of Vientiane Municipality with the aim of promoting solidarity amongst the teachers of the district. With about 560 members (290 women and 270 men), who are either primary or secondary school teachers or former teachers, the fund operates on insurance principles. Members contribute 2,000 kip per year and may receive 1,000 kip per day if hospitalized up to a maximum of 20 days per case and two episodes of hospitalization per year. Members may have access to loans and payments are made to families upon the members' death.

This scheme may be an example of similar schemes for groups such as teachers who have a professional connection with each other and may be drawn to a system of mutual support. Nevertheless, as teachers are public servants and therefore members of the public sector scheme, which provides medical benefits, the rationale for this scheme may lie mostly in the access to credit at low rates of interest.

Credit Schemes

A variety of credit schemes have been established at village levels in recent years through international donors and NGO efforts in support of specific development goals. More attention has been paid to micro-finance projects that include savings components. Few if any have insured loan recipients against sickness and death. When the momentum of micro-finance projects, including capacities to repay the loan, is affected by illnesses, usually there is no established procedure but a low-interest loan may be provided to pay medical costs. This adds to the indebtedness and increases the difficulties of improving economic status and therefore some persons may delay receiving medical care only to worsen prospects of recovery. Health and life insurance cover could be negotiated by the micro-finance institution for loan recipients and charged to the applicants. Alternatively, insurance cover could be made an obligation for applicants but this would be less appropriate when insurance facilities are unavailable in remote areas of the country.

Emergency Funds

Emergency funds are schemes set up in workplaces as an expression of group solidarity to assist employees faced with crises such as a death in the family or to pay for the customary celebratory gifts on the occasion of marriage or births. No information is available on the number of these funds but some are known to exist in garment factories that are staffed by young single females from rural areas. Living in dormitories and seeking to maximize savings to take home at the end of their contracts, as well as to send regular remittances home, these workers have limited resources for any lengthy illness for which user charges are levied at urban facilities.

These funds arise out of the discussions amongst workers on the respective merits of contributing regularly to funds or meeting requests for donations as they arise. Usually, contributions are kept as low as possible because of the general reluctance to make regular contributions to funds amongst persons who are unfamiliar with the notion of risk pooling.

2.3 Labour Market Policy

2.3.1 Active Labour Market Policy

Since employment is the primary source of income for the poor, well-functioning *labour markets* with the appropriate balance between adequate standards and flexibility are crucial for their welfare and social protection. Active labour market programmes may be instituted for many purposes, such as to facilitate and promote opportunities for employment, reduce labour market segmentation, and increase access to skills upgrading and micro-credit schemes. Designated categories, such as youth and females, can be given special attention. In many countries, the focus of job creation policies includes the promotion and well-being of small- and medium-sized enterprises or SMEs. They need support and assistance in many respects to which government agencies and international NGOs respond with appropriate programmes.

For example, in Lao PDR there is a demand for schemes and projects for the improvement of capacities to establish and operate small businesses. One development is an Agricultural Market Information System that is designed to improve market access for farmers. SMEs also require ready access to credit, which is more problematical due to the weaknesses of some state banks and difficulties in undertaking restructuring exercises in this sector.

Currently, employment promotion in Lao PDR is focused on two main objectives:

1. Encouragement of self-reliance in rural areas in absorbing labour through expansion of activities in areas such as handicrafts and in the improvement of the infrastructure, including the construction of major bridges across the Mekong River with bilateral financing.
2. Promotion of foreign contract employment to gain a larger market share and foreign exchange, and protect workers from exploitation.

Under point 1, some training is provided for handicrafts and income generating activities, such as fish breeding and mushroom growing for vulnerable groups. Labour exchanges deal mostly with unskilled workers and lack training facilities for the upgrading of working capacities. This is linked to point 2 since it is necessary to meet demands for various types of skilled labour.

Active labour market policies call for significant investment of public funds in networks of labour exchanges using effective systems of labour market information and well-designed and appropriate training programmes. Even if national networks of labour exchange exist, the usual situation is that skills training programmes and employment services are not sufficiently accessible to informal sector groups on the fringes of labour markets and rural workers. In LDCs such as Lao PDR, with limited tax revenues compared with needs for public expenditure, the budgetary allocations for these purposes tend to have insufficient priority, and there is little to suggest that the importance of active labour market policies is fully appreciated.

This is a cause for concern in today's world of trade liberalization to which the country is committed through AFTA and eventually WTO. In fact, an urgent reappraisal of active labour market policies is warranted on the basis that they are not an option but a necessity in one form or another. For example, there would be much to gain from building up capacities for import substitution and expansion of exports in sectors where the country still has a comparative advantage. The wide range of imports gives some scope but the small domestic market is a constraint leading to suggestions that Lao PDR should identify niche markets both inside and outside the country and also follow the classical developmental path of establishing labour-intensive industries. The proviso is that increased efforts are made to create a more business-friendly environment including enforcement of commercial laws and a reduction in corruption.

2.3.2 Passive Labour Market Policy

Education

Lao PDR is committed to the goal of universal primary education by 2015, and, as explained in Section 1.4, aims to invest more heavily in basic social services, notably education, health and welfare. Poverty alleviation and its eradication is another major priority and requires actions across the board including the comprehensive strengthening of education and training throughout the country, but especially in deprived areas. Some progress is evident from the data in Table 8, Appendix, on enrolment, duration of schooling and educational facilities. From this data, the teacher-student ratio in 2000 was 1 to 27.51 and about 32 students per classroom, but if the total numbers in the 5–14 age group are included, the teacher ratio drops to 1 to 40 and the classroom ratio to 47 students. This indicates the extent to which the 5–14 age group is underserved and reflects the reality that most urban children are reasonably well provided for at the expense of serious deficiencies in many rural areas. Considerable expansion of facilities and training facilities and capacities is vital for future progress considering the demographics resulting from the high fertility rates in rural areas of recent years.

Minimum Wages

The importance of the minimum wage system for social protection is to the extent of its effectiveness in reducing the vulnerability of low-income households to such risks as unemployment, and in establishing basic standards for the various programmes that are based on earnings. Examples of the latter are social insurance schemes and provisions on severance pay. Minimum wages are also important for their effects on wages in general since workers on higher wage scales may benefit from adjustments designed to preserve differentials.

In Lao PDR, minimum wages were increased in October 2001 from 93,600 kip per month to 150,000 kip for the government sector and to 220,000 kip in the private sector. These are very low by any standards. Formal sector workers at least have some allowances, which improve take-home pay. However carefully minimum wages are formulated, some sectors and enterprises will find them too high and evasion occurs. The extent of compliance is not known but it is possible that the levels are relatively high due to the role of trade unions in enterprises.

Social Protection of the Unemployed

The inadequacies of social protection for workers who become redundant were evident during the period of mass layoffs during the Asian financial crisis. With relatively few unemployment insurance schemes in developing countries, severance pay is the main method of compensating these workers. Receipt of a lump sum allows some time to find suitable new jobs, but this type of benefit suffers from delays and evasion. Linkage with length of service makes severance pay more a form of retirement provision than an unemployment benefit. As an employer liability benefit, there is no requirement for advance funding and the system is not well designed for situations where enterprises run into severe financial difficulties and have to terminate large numbers of workers. The provisions are seen at their most ineffective when:

- enterprises make little or no advance provision and have inadequate capital resources to make large-scale payment in addition to wages when redundancies occur;
- enforcement through labour inspection is weak;
- mass layoffs are required due to bankruptcy;
- widespread unemployment results from a general economic crisis and bank credits are unavailable.

The rates of severance pay under the Labour Code are 10% of monthly salary for each month of service except that for more than three years' service the rate is increased to 15% per month. MOLSW does not maintain records of severance payments and the extent of compliance is not known.

Participating in labour markets exposes workers to risks, and social protection for the workforce should, when conditions are suitable, include appropriate schemes which meet requirements for income maintenance in certain contingencies, including unemployment, without weakening incentives to work or adding excessively to labour costs. The purpose would be to allow some time for the unemployed to search for the best available jobs rather than opt for readily available lower paid jobs and continued exposure to risks and insecurity.

When the question of the feasibility of suitable modest unemployment protection schemes arises it is evident that effective labour market machinery is required for the process of adapting labour supply to demand and that active labour market policies are a pre-requisite for the introduction of unemployment insurance. Usually, this would require upgrading of the existing labour market machinery. If this is not possible for financial or other reasons, the main alternative would be unemployment assistance financed from general revenues. This would impose fiscal burdens and inevitably reduce the scope of protection to the most needy and raise concerns about increases in poverty.

This is the type of dilemma faced by a number of developing countries that are considering how to adapt labour market policies and social protection to the changing economic conditions in their countries.

3. Assessment of the Effectiveness and Efficiency of the Existing System

3.1 Coverage, Feasibility and Financial Sustainability

There are as yet no informal sector schemes of any significance and the assessments in this section are of the two statutory schemes outlined in Section 2.1.2 designed for the public and private sectors, respectively.

Responsibility for these schemes rests with MOLSW, which has been advised by a tripartite Project Steering Committee (PSC) attached to an ILO/UNDP project entitled 'Development of Social Security'. The PSC made important recommendations on the reform of the public sector provisions, the structure and scope of the new scheme for SOEs and private sector enterprises, and for the evolution of one uniform system for all formal sector employees. The latter is not attainable in the short term because of factors such as:

- the public sector scheme, which is not designed on strict social insurance principles as it reflects the intention to reward public servants with a package consisting of secure but low-paid employment and generous pension provisions in terms of qualifying periods including periods of war and patriotic service, high replacement rates, and full indexation to salary increases;
- the un-financed accrued liabilities of the public sector pension scheme which has operated on a pay-as-you-go basis since its inception; and
- the marked disparities in salary levels between the public sector and private sector workers that could undermine the financial systems of the new scheme for pensions and medical care, respectively.

Public Sector Scheme

Coverage is for the 91,144 pensionable staff (whilst other personnel are eligible for the private sector scheme), so extension of coverage is not an issue and the assessment is in relation to the objectives of the scheme. These are to provide adequate standards of health and income protection for public sector staff and their dependants. The general view is that performance has fallen far short of the objectives, as explained below. Furthermore, the scheme is not sustainable financially.

In the case of **medical care**, the benefits are provided on a fee-for-service and reimbursement basis and the complaint is the low rate of reimbursement and the delays in settling claims. Often public servants are unable to pay for the provided medical services and hospitals have to absorb the medical costs. This causes concern to hospital authorities because of the extent of unpaid bills. Consequently, the financial barriers to access to health care are still in evidence for the covered population. The cash benefits are criticized for their low rates but in fact the scheme merely reflects the low earnings levels amongst the public sector staff. Indexation to salary increases ensures continued protection at the same replacement rates.

Public administration reform envisages the gradual downsizing of the public sector and its upgrading in terms of efficiency and the payment of salaries on a par with the private sector. The PSC has identified reform options with the objective of eventually achieving uniform standards for all formal sector employees. This involves changes in the re-distributive elements separating war veterans from the general scheme, equalizing pension age at 60 years for men and women and adequate bipartite financing on full salaries.

In this connection, an actuarial valuation found that pension costs alone would be between 11% and 12.5% of earnings by 2020, depending on the insured growth assumptions, compared with 6% presently collected from the payroll. Another issue is the preservation of the pension rights of the SOE staff who were excluded from the public sector in 1994. Evidently, concepts of state financing from tax revenues were still prevalent when this scheme was introduced. Debiting 6% from employee salaries came later, establishing the principle of bipartite financing for the future reform of the scheme.

An actuarial valuation will be needed to establish costs of the reform proposals in the context of any definite plans for revision of public sector salaries, and to propose suitable financial systems for each benefit branch. The method of administration should be determined on the principle that the funds of the private and public sector schemes, respectively, are separate entities.

Private Sector Scheme

Due to the strategic importance of a dynamic private sector for economic growth, government policy changed by giving first priority to the design and an introduction of social insurance scheme for the private sector rather than the reform of the public sector provisions. Comparable social security benefits to those of the so-called 6% scheme were seen as an essential inducement to qualified personnel to opt for careers in the private sector, within the framework created by the Labour Law 1994, rather than to aim for pensionable status in the civil service. Originally a modest scheme consisting of some short-term cash benefits, it was envisaged for implementation initially in Vientiane and later throughout the country.

Scope of Protection. The PSC took the major decision in July 1997 that the outstanding priority of employees and their families was health insurance and that this should be included in the new scheme from the outset not only for insured workers but also their dependants, defined as spouse and children meeting the conditions in the Decree. This was seen as possible using the capitation payment system for medical providers as a means of establishing appropriate incentives and strengthening cost containment.

This far-reaching decision strengthens gender equity in access to health care, but raises the issue of feasibility of delivering adequate medical services in an acute form in view of the difficulties in predicting utilization under a pre-payment system and the limitations of the public health system.

The PSC also decided to include old-age pensions since actuarial studies found that pensions could be financed through low contribution rates in the initial years under a system of partial funding appropriate to the social and economic situation in Lao PDR. The introduction of pensions insurance when demographic factors are favourable constitutes an important stage in developing a comprehensive social security system. The payment of the first pensions after five years should mark a gradual change in needs for support of the elderly.

Delayed Implementation. These far-reaching changes from a modest to a very ambitious scheme have presented considerable challenges, although due to be implemented initially only in the Vientiane area. The Decree 207/PM on the social security regime for private sector employees submitted by the PSC in November 1998 was promulgated only in December 1999, and after further delays the Social Security Organization (SSO) was established in June 2000. It was necessary to delay implementation until June 2001 and to restrict the initial coverage to enterprises in Vientiane with 100 or more workers. The scheme was finally launched in June 2001 with contribution rates of 5% of insurable earnings by employers and 4.5% by employees, but initially medical benefits were restricted to insured persons and children under age 6.

Extension of Coverage. The scheme has started slowly with an initial 20,000 employees but SSO plans both to expedite implementation in the Vientiane municipality and then to extend coverage as widely as possible. The Decree envisages compulsory inclusion of all private sector enterprises with ten or more workers. Other enterprises may apply for voluntary coverage. The question arises whether the introduction of a comprehensive scheme will hamper the extension of coverage to smaller enterprises and to areas outside the capital because of:

- difficulties in upgrading the medical facilities to the required standards for accreditation to the scheme;
- higher costs than if a more modest scheme for initial membership had been introduced to allow for a gradual process of increasing contribution levels over a period of years.

Good Governance. In developing countries aiming for good governance of social security systems, it is customary to establish an autonomous body to manage the social security programmes under tripartite supervision in the form of a governing board answerable to the responsible Ministry (Malaysia, Singapore, Philippines and Korea). The concept envisages that staff will become professionals through long-term careers acquiring experience and skills through training and that services to the insured will be enhanced. This is the aim in Lao PDR but is still not in prospect because of lack of funds in the initial years of the scheme. For this period, the government provides budgets and there is concern that trained staff in the key areas such as the computer and accounting sections will not be retained because of the more attractive salaries available in the private sector.

Gender Issues. The scheme aims for gender equity but issues arise in relation to the large numbers of young single women recruited from rural villages to work in garment factories for a few years before returning home. These workers live on the premises, send remittances home to maintain their families and expect to settle down to rural life when their contracts expire. Although expected to contribute at the same rates as married insured persons, their dependants cannot benefit from the medical benefits. Furthermore, it is uncertain whether pension rights will ever be realized. Although this is normal in defined benefit schemes, this may become an obstacle to achieving high compliance standards in the initial period of implementation.

3.2 Gender Equity

A key element in both the private and public sector schemes is the equalization of pension ages of men and women at 60 years. This enhances:

- gender equity by reducing the vulnerability of female employees to the redundancy policies of enterprises which target persons who can qualify for a pension, and also increases opportunities for female persons to build up full pension rights;
- equality of treatment of men and women since longer female life expectancy results in some subsidization of female old-age pensioners; and
- the financial sustainability of the pension schemes.

Changes in pension age of this type invariably require phasing over several years because of acquired pension rights and the need for labour market changes which permit female employees equal access to work up to age 60. Until such changes occur, female employees who are forced to retire at age 55 and unable to find other insured jobs will be faced with the following choices in respect to their pension entitlement:

- Paying voluntarily both the employer and employee contributions up to five years; or
- Claiming early retirement pension and suffering reductions of 0.5% per month in advance of age 60 (or 6% per year).

Evidently, at least in the initial years a pension age of 60 years could disadvantage some sections of the female labour force and it will be advisable to phase-in changes gradually over a period of about ten years. Furthermore, rapid reforms of official employment policies are needed relating to older workers in both public and private sectors. Otherwise, many women may qualify only for lump sums in lieu of pensions. It is therefore urgent to equalize retirement at 60 years in Article 54 of the Labour Law and to promote measures for the continued employment of women workers up to age 60. This change would benefit working women whether or not they are insured.

Gender equity is strengthened by provisions for the sharing of pension rights in the event of divorce and enabling widowers to qualify for survivors' benefits on the same terms as widows.

3.3 Costs of Administration

The public sector scheme is administered by MOLSW through the government budget since no separate funds have been established. Specific figures have not been published but it appears that costs are relatively low because there is no contribution collection system and pension payments are computerized.

Decree 207/PM on the private sector scheme provides for the administrative costs which are limited to 10% of all revenue. These will be drawn from each autonomous fund as costs are incurred. Table 10, Appendix, shows that administrative costs in the initial stages were only 2.16% of income. True cost levels will be established when more operational systems come into force and contribution collections reach optimum levels.

The aim for the public sector scheme is to be self-financing using autonomous funds and to operate efficiently and economically. In time, both schemes will be under supervision by Boards to monitor performance and keep costs within legal limits.

3.4 Targeting

The public sector scheme is financed from tax revenue, and benefits public servants and their families. The problems of the public service include low pay, which has required high replacement rates for social security benefits. Tax-financed systems raise equity issues since low-income persons outside the social security scheme concerned may be paying regressive taxes that subsidize persons with secure employment even at low salary levels. In this sense, public sector staff has clear advantages over other groups such as informal sector workers.

The private sector scheme is designed to be self-financing although like all statutory schemes, the government guarantees its solvency. Employers and workers pay contributions from their incomes and the question arises whether these costs are absorbed or lead to additional costs for consumers. Either approach is possible in individual cases or in different sectors, but with relatively low charges in force (5% by employers and 4.5% by employees) this may not constitute a major issue in the initial years of implementing the scheme.

3.5 Accountability and Transparency

The new private sector scheme has been designed to achieve good governance and will rely on extensive public information to disseminate information on rights and how to obtain them, quality assurance for the health insurance services, internal and external auditing, publication of annual reports and accounts and, above all, on tripartite supervision. Realistically, accountability and transparency, and good governance in general, may be achieved gradually depending on such factors as how well the tripartite Board of Directors becomes an effective defender and promoter of the scheme. It will be a difficult transition for some persons from being representatives of government departments or institutions to that of independent (but part-time) directors placing the interests of the insured persons first. For example, in some countries pension schemes may be under pressure to increase benefits for political reasons when this is inadvisable for financial and other reasons. How such boards react in these circumstances will be all-important for the evolution of sound and accountable systems of social security protection.

Much depends therefore on the development of the social security institution. Essentially, such developments usually follow the accepted norms in a country but in this instance the processes will be assisted by externally financed technical assistance for the first four years of implementation.

In addition to effective performance and services for the insured population, overcoming bureaucratic tendencies in favour of prompt actions placing the interests of insured persons and their families first, attention has to be paid to issues such as corruption. Will some benefit claimants believe that they should pay if they want quick service and will a few of the defaulting employers try to avoid detection and prosecution through bribes to inspectors? These are well-known problems in countries similar to Lao PDR and it is only realistic to expect that such practices may occur and to prepare accordingly. The new administration aims to prevent such practices and to detect and punish any which are reported or discovered by checking and supervision as well as maintaining good communications with employers and insured workers.

4. Development of Innovative Programmes and Alternative Social Protection Schemes

Strategies for Extending Coverage

Extension of coverage is now fully recognized as a critical issue in many developing countries that are examining ways of strengthening their systems of social protection. Many have expressed concern about the lack of social protection of the excluded groups. As regards the farming communities, some countries are examining the feasibility of new agricultural insurance schemes. A number of countries have prioritized public works projects and micro-credit schemes as effective instruments for poverty reduction. In the urban informal sector, one of the main aims has been to extend existing social insurance schemes. The problems of doing so have proved to be intractable and little progress has been made.

The basic problem is that compulsory comprehensive social insurance schemes do not permit partial coverage for each benefit separately and are designed for employees who are able to contribute regularly together with their employers. This is specified in the legislation by excluding other types of workers whose coverage would require adaptation of the contribution and benefit systems. A re-thinking of this approach is required.

Important issues arise when planning extensions to excluded informal sector groups:

- whether these persons will join schemes on a voluntary or compulsory basis as voluntary insurance cannot ensure effective targeting and may not be financially sound;
- whether the group is self-financing and can participate in the general scheme or needs a special scheme or subsidies.

With regard to social insurance, special efforts are needed to overcome obstacles to coverage, including:

- low contributory capacities and limited or no resources from employers;
- adverse selection and under-financed participation in general schemes where minimum pensions are payable and in health insurance programmes;
- concern about manipulation of earnings declarations to pay low contributions until it is profitable to pay high rates to qualify for high earnings-related benefits;
- administrative problems in registering individuals working on their own account, as opposed to employees, and in collecting contributions.

Undoubtedly, challenges on this scale raise the issue of whether developing countries can overcome the numerous difficult problems involved in designing and implementing sound innovative special schemes for the priority needs of these groups. One prerequisite in many countries would be significant increases in the institutional capacities of social insurance organizations.

Some of the self-employed persons in small household and micro-enterprises may have sufficient resources to insure themselves against some risks. There is a potential role for the private sector in meeting some of the needs of the self-employed and other persons for low-cost pension and health insurance plans and for greater involvement in the agricultural insurance sector.

Community-Based and Micro-Insurance Schemes

Types of schemes. One option for informal sector groups in both urban and rural areas is self-insurance not only for health care but also funeral costs and similar short-term risks through voluntary schemes established by mutual benefit societies, cooperatives and similar organizations or civil society groups that rely on trust engendered through occupational groupings or community solidarity. Work-based organizations may start with credit and savings schemes and develop an interest in establishing contributory social protection schemes.

Micro-insurance principles can provide an alternative approach to agricultural insurance where public schemes are lacking or unable to meet the needs of smaller scale farmers. Another potentially important area is micro-credit schemes to improve the capacity of small-scale farmers to develop production and in time qualify for commercial credit.

There is increasing recognition in national and international circles that these initiatives should be encouraged as part of the strategies for strengthening social protection for sections of the labour force with demonstrably little hope of coverage by public schemes or lacking protection when schemes are non-existent, as in the case of agricultural insurance. However, equity concerns may arise where micro-insurance schemes have restricted coverage as some are organized for particular groups, and poorer persons may be excluded, especially if their health record is below average. Social exclusion can be reinforced rather than overcome since the basic objective is to minimize risks to the pooled funds.

Problems of Sustainability. The most popular sector for action has been health insurance mainly for primary health care only but some schemes cover hospital care. Small-scale voluntary schemes have to overcome difficult challenges in

- establishing the required contribution and benefit levels, and building up adequate reserves;
- coping with problems of adverse selection and moral hazard;
- providing adequate services, given the unequal distribution of medical personnel and facilities; and

- administering the scheme efficiently and economically and retaining the confidence of members in pooling funds.

Covariant risks are a special problem for such small-scale local pooling arrangements. A sickness epidemic or widespread crop failure could consume all reserves in the relevant schemes. The existence of public disaster relief schemes could reduce incentives to contribute to private schemes unless some additional disaster relief benefits are provided in recognition of the fact that by coping with manageable risks these schemes reduce the dependence of members on public support through social assistance and public works projects.

Comprehensive voluntary social security schemes, such as that operated by the Self-Employed Women's Association (SEWA) for many years in Gujarat state, India are an example of what can be achieved with some external support. Evidently, there are few such schemes that are able to demonstrate sustainability. Rural health insurance schemes in China are progressing with the help of financial support from local governments, but such subsidies are generally not a viable option for mutual benefit schemes in other countries. Another approach to financing is the use of excise taxes on the products of certain types of home-workers and miners in India for non-contributory welfare funds. This requires government action and support for the management of the funds.

The strategy of broadening membership and enlargement, for the purpose of wider risk pooling, also presents difficulties because this may weaken the defences against the problems of moral hazard and adverse selection, which can be contained in small schemes by local knowledge and social pressures. As expansion is vital for survival, it must be a priority on the basis that this helps to achieve economies of scale and sufficient bargaining power with health-care providers.

Strategies for Improvement. In general, developing countries have very little experience of micro-insurance and may need external technical support in order to formulate effective policies and strategies for the promotion of sound and well-designed micro-insurance schemes. Because of viability issues, it is unlikely that micro- and community insurance schemes can meet pressing needs for even basic social protection for significant numbers of the groups lacking protection without some form of government assistance towards ensuring the sound development and sustainability of such schemes. This should include facilitating reinsurance of the risks, which has to be taken into account in financial systems as an essential expenditure.

In the case of the health insurance schemes, it is often suggested that social insurance institutions should provide technical advice and support on such key aspects as the contribution and benefit structures and maintenance of records. This is unlikely on any large scale in the short-term where these bodies are themselves struggling to cope but could become an objective in strategies for improving institutional capacities. Suitable associations such as credit unions, or their equivalents, could assist in implementing any government plans for promoting micro-insurance but this would be best if coordinated or guided within a framework established by governments.

This should in time include regulatory legislation for the operations of this type of scheme and support such as tax relief on contributions where schemes meet legal requirements.

Collecting and dissemination of information on existing schemes and publicity on best practices, and some of the pitfalls, could generate pressures for action and motivate suitable bodies and groups to consider how to establish their own suitable schemes. Another important step would be for governments to increase efforts to rectify deficiencies in the health infrastructure in deprived areas rather than rely solely on market forces to meet organized demand from micro-insurance schemes.

Agricultural Insurance Schemes

In rural areas, the smaller scale, traditional subsistence farmers, who have high exposure and vulnerability to risks, can rarely participate in voluntary agricultural insurance schemes for crops or livestock unless the relatively high premiums are heavily subsidized. The benefits are not only income protection but also better access to credit. Where such schemes are yet to be introduced or have been discontinued after suffering severe financial losses, these groups have to rely on family and community support networks if crops fail or government disaster relief if covariant shocks occur. It appears that few group and community micro-insurance schemes have been organized to cope with these types of risks. The question of subsidizing agricultural insurance or finding alternative solutions to the problems of the vulnerabilities of these large farming communities is a major one considering the magnitude of the possible costs involved. A start could be made on a small scale in particular regions in order to experiment with and evaluate different types of schemes.

Motor Vehicle Accident Insurance Schemes

There is a serious and growing problem of meeting the costs of medical care of accident victims arising from the constantly increasing numbers of motor vehicle accidents in Lao PDR and especially in Vientiane, where vehicle ownership is concentrated. This is largely a problem of younger persons driving uninsured motorcycles with little or no training. Accident victims are unprepared for the heavy costs of hospital treatment and they and their families face severe financial problems in meeting these charges. The injured include pedestrians and others who are unable to obtain redress from uninsured drivers. A Motor Vehicle Accident Insurance Fund could be established with finance from a levy on the insurance premiums or higher vehicle registration fees. The fund's main purpose would be the financing of medical care, in conjunction with insurance companies, but it also should aim to promote comprehensive insurance and to reduce accidents through preventive measures.

5. Policy Recommendations

The description and analysis of social protection in Lao PDR shows that a policy basis exists for the formal sector employees. Two social insurance schemes are in operation for the public and private sectors and they constitute the framework for further development of social protection for these workers and their families. Two major issues are the priorities attached to and the feasibility of:

- the further development of social security protection for the formal sector;
- the development of adequate systems of social protection for other economically active persons and their families, and other population groups, ranging from modest micro- or community based insurance schemes for one contingency, public works projects, social assistance, micro-credit and savings programmes to fully fledged statutory schemes of one type or another.

How to devise appropriate, realistic and affordable policies and strategies for the short-, medium- and long-term development of social protection for the country as a whole is a difficult question facing many countries since responsibility is spread amongst several government departments such as MOF (Ministry of Finance), MOLSW and MOH. These ministries may have their own objectives, which may overlap such as the desire of fiscal authorities to develop capital markets with the aid of defined contribution schemes for which investments are managed by the private sector. However, such objectives may conflict with the preferences for risk pooling as the basis for social security schemes. Limited resources must be allocated in the most effective way in order to benefit as many persons as possible. In time, countries may develop multi-pillar systems but these rarely result from a process of overall planning in which social, economic and fiscal considerations are carefully balanced.

It is a matter for each country to determine how best to coordinate entitlements and to meet aims for providing adequate remuneration and benefits within a policy framework for ensuring that levels of labour costs are consistent with strategies for economic development and employment generation. Since determining these objectives and establishing the most suitable approaches on particular issues involves the responsibilities of several government departments, as well as the social partners and civil society, a forum is needed in which to work out policies and future strategies. However, Lao PDR, like many other developing countries, has no formal framework to address such issues and to determine overall policies and strategies in the field of social protection. The establishment of a Social Protection Coordination Commission or Committee is one approach that warrants consideration in view of the various standpoints that should be included in the equation.

The objective should be to devise policies and strategies for the orderly development of effective and sustainable social protection systems for the entire population of the country. This would entail analysing needs and capacities (human, financial and institutional) to meet them. Such a Commission should be two-tiered with the political leaders and decision makers directing and overseeing the work at official levels. Membership of the technical level of a Commission would comprise high-level representatives of the relevant government ministries, trade unions, employers' groups, civil society, the existing schemes and the commercial insurance industry. It would be essential for persons outside the formal sector to have a voice in the debates and discussions on the way ahead to achieve equitable progress in the field of social protection.

Appendix*

Table 1: General Data

Indicator and period	Data				
Size of population					
1980	3.2 million				
2000	5.2 million				
Population average growth rates					
1980–1990	2.3%				
1990–2000	2.6%				
Population density 1999	22 per square km				
Urban population (% of total)					
1980	13				
1999	23				
Demographic structure and trends	**1980–1985**	**1995–2000**			
1. Total fertility rate (per woman)	6.7	5.8			
2. Infant mortality rate (per 1000 births)	128	93.0			
3. Mortality rate under age 5 (per 1000 births)	193	150.0			
4. Life expectancy at birth					
– Male	44.5	52.0			
– Female	47.0	54.5			
– Both sexes	45.8	53.2			
5. Maternal mortality rates (per 100,000 births)	650 (1990)				
Lifetime risk of maternal death	1 in19 (1990)				
Ageing (percentages of total population)	**1980**	**2000**	**2010**	**2030**	**2050**
1. Population over age 60	4.7	5.3	5.6	7.4	11.8
2. Population over age 65	2.8	3.3	3.6	4.9	7.7
3. Population over age 80	0.2	0.3	0.4	0.7	1.2
Dependency ratios (%)	**1980**	**2000**	**2010**	**2030**	**2050**
1. Old-age dependency ratio	5.1	6.3	6.5	7.9	11.3
2. Youth dependency ratio	76.2	83.4	72.3	51.9	24.9
3. Total dependency ratio	81.3	89.6	78.8	59.7	46.2
Adult literacy rate (% aged 15 & above) 1997/98	Males 82	Females 55			
	Urban 96	82			
	Rural 79	49			

* Main sources: Selected World Development Indicators, ILO, 2000 and publications of the Lao PDR National Statistical Centre.

Table 2: Population – Estimated Average Mid-year of Population by Age Group and Sex, 2000 (1000s)

Age-group	Female	%	Male	%	Total	%
0.4	340.5	12.9	345.6	13.4	685.0	13.1
5–9	398.5	15.1	407.4	15.8	807.1	15.8
10–14	393.3	14.9	389.4	15.1	784.1	15.0
15–19	274.5	10.4	276.0	10.7	550.6	10.6
20–24	198.0	7.5	175.4	6.8	371.1	7.1
25–29	192.7	7.3	165.1	6.4	357.8	6.9
30–34	163.6	6.2	144.4	5.6	308.0	5.9
35–39	166.3	6.3	159.9	6.2	326.9	6.3
40–44	118.8	4.5	131.5	5.1	251.6	4.8
45–49	95.0	3.6	110.9	4.3	205.1	3.9
50–54	92.4	3.5	72.2	2.8	164.0	3.1
55–59	63.3	2.4	61.9	2.4	124.7	2.4
60–64	47.5	1.8	51.6	2.0	98.2	1.9
65–69	37.0	1.4	36.1	1.4	73.5	1.4
70–74	23.8	0.9	25.8	1.0	51.0	1.0
75+	34.3	1.3	25.8	1.0	60.0	1.1
Total	2,639.3	100.0	2,579.0	100.0	5,218.3	100.0

Source: *Basic Statistics of the LAO PDR*, 2000 (not all totals agree due to rounding).

Table 3a: Labour Market Structure

Indicator and period	Data			
Labour force participation rates	**1980**	**1995**	**2000**	**2010**
1. % of population aged 15–64				
a. Male	92.1	91.0	90.4	88.9
b. Female	77.1	77.4	77.6	78.0
c. Total	84.7	84.1	83.8	83.4
2. % of youth aged 10 to 15 years	31.0	27.2	25.4	21.7
3. % of elderly (older than age 64)	44.3	40.1	38.7	36.5
4. Economic dependency ratio (no. of economically active per 100 active)	94.0	107.0	110.0	103.0

Source: ILO, 2000.

Table 3b: Currently Employed Urban Population by Formal and Informal Sector, 1994

Sector	Usual status		Current status	
	No. of persons	%	No. of persons	%
Formal sector	47,460	54.5	47,523	53.5
Informal sector	36,457	41.9	38,008	42.8
Small farmers/fishermen	3,181	3.7	3,345	3.8
Sub-total	87,098	100.0	88,876	100.0
Not stated	7,410		5,631	
Total	94,507		94,507	

Source: ILO/EASMAT, 1996.

Table 4: Macro-economic Framework

Indicator and period	Data
GNP	
1. Size (billions of dollars, 1999)	1.4
2. Rank (1999)	160
3. Average annual growth rate (%, 1998–1999)	4.0
GNP per capita	
1. Size (dollars 1999)	280
2. Rank (1999)	184
3. Average annual growth rate (%, 1998–1999)	1.5
Public expenditure on education	2.1 % of GNP (1997)
Public expenditure on health	1.2 % of GDP (1990–99)
Military expenditures	9.8% of GNP (1992) 3.4% of GNP (1997)
State expenditure on public sector social security scheme	0.14% GNP (1999)

Main Source: ILO, 2000.

Table 5: Real GDP by Industrial Origin at Constant Prices (billion kip)

	GDP		Growth percent	
Sector	**1999**	**2000**	**1999**	**2000**
Agriculture	556	584	8.2	5.1
Crops	306	346	13.5	13.0
Livestock & fishery	197	203	2.3	2.9
Forestry	53	35	2.3	–33.6
Industry	234	252	8.0	7.6
Mining and quarrying	5	6	33.5	17.1
Manufacturing	176	190	7.1	7.8
Construction	28	25	–0.6	–10.5
Electricity, gas and water	25	31	21.6	24.3
Services	268	284	6.7	6.0
Transportation, storage & communication	60	65	5.8	9.5
Wholesale and retail trade	100	106	7.2	5.4
Banking and insurance	13	14	3.0	3.0
Ownership of dwellings	32	33	2.5	2.5
Public wage bill	31	31	6.7	0.7
Non-profit institutions	8	9	–4.8	8.0
Hotels and restaurants	22	24	21.6	11.8
Other	2	21	19.5	22.5
Import duties	6	6	–38.8	–3.4
GDP at constant prices	1,065	1,128	7.3	5.8

Source: Basic Statistics of the LAO PDR, 2000.

Table 6: Consumer Price Indices, 1997–2000, NSC Index 100 December 1995

Month	**1999**	**2000**	**12 month % change**	
January	372.0	654.5	150.8	75.9
February	419.0	665.9	150.5	58.9
March	461.7	672.0	167.1	45.6
April	508.4	686.2	159.3	35.0
May	529.4	694.4	155.4	31.2
June	577.5	701.8	124.7	21.5
July	639.0	707.3	135.7	10.7
August	670.4	715.6	140.2	6.7
September	668.0	733.0	122.6	9.7
October	670.7	727.4	121.1	8.5
November	642.3	713.8	94.3	11.1
December	644.7	712.8	86.7	10.6
Period Average	N/A	N/A	134.0	27.1

Source: *Basic Statistics of the LAO PDR*, 2000.

Table 7: Distribution of Income or Consumption and Poverty

Indicator	Data		
Gini index	30.4 (1992)		
Percentage share of income or consumption (Survey year 1992)	Lowest 10%: 4.2 Lowest 20%: 9.6 Second 20%: 12.9 Third 20%: 16.3 Fourth 20%: 21.0 Highest 20%: 40.2 Highest 10%: 26.4		
	Rural	Urban	National
Poverty (population below the National Poverty Line 1993)	53.0	24.0	46.1

Source: *Basic Statistics of the LAO PDR*, 2000.

Table 8a: Educational Data – Enrolment Data

Education	Primary		Secondary	
	1980	**1997**	**1980**	**1997**
1. Net enrolment ratio (% of relevant age group)	72	73	53	63
	Male		Female	
	1980	**1996**	**1980**	**1996**
2. Percentage of cohort reaching grade 5	—*	57	—*	54

* No data available.

Table 8b: Educational Data – Time Spent on Schooling

Number of schooling years	Female	Male	Female 15–19	Male 15–19
Lao PDR	3	4	4	5
Urban	5	6	7	7
Rural	2	4	4	5
Education time (Hours per day)	Under 14 years	Under 14 years	15–19 years	15–19 years
Lao PDR	3.1	3.7	1.9	2.4
Urban	4.3	6.3	3.9	5.4
Rural	2.9	3.3	1.5	1.9

Table 8c: Data on Educational Institutions

Type of institution	1999	2000
1. Kindergarten	728	741
– Teachers	2,200	2,200
– Children	36,900	37,700
2. Schools	8,960	8,971
– Teachers	38,200	39,700
– Students	1,082,400	1,092,300
– Classrooms	32,600	33,700
3. University	1	1
– Students	7,400	9,200
– Teachers	400	600
4. Institutes	5	5
– Students	4,700	5,100
– Teachers	500	500
5. Technical Schools	20	20

Source: *Basic Statistics of the LAO PDR*, 2000.

Table 9: Public Sector Social Security Scheme, Income and Expenditure 1998–1999 to 2000–2001 (kip)

Item	1998–1999	1999–2000	2000–2001
Income*	**23,352,278,090**	**30,299,889,701**	**42,413,596,362**
Expenditure			
– old-age pension	10,353,288,585	12,667,893,299	13,995,795,302
– child allowance	2,400,296,240	2,893,762,193	4,274,965,924
– disability allowance	3,051,824,670	3,705,437,027	4,237,170,060
– health care	1,683,859,941	1,920,592,307	2,194,810,994
– maternity benefit	100,344,200	103,963,200	109,857,510
– death grant	1,905,691,297	3,274,736,335	3,469,252,305
– prosthetic aids	27,729,100	43,058,000	150,165,300
– cost of living	951,222,609	2,227,083,833	9,037,856,154
Totals	20,473,956,642	26,886,526,194	37,429,873,549

* Note: Income consists of contributions by the covered employees and subsidies by the government usually in the 70% of expenditure range. The latter are estimated annually so as to ensure that no deficit occurs and are transferred to MOLSW for the payment of benefits. The cost of administration falls on the government budget.

Source: Department of Social Security, MOLSW.

Table 10: Private Sector Social Security Scheme, Income and Expenditure from Implementation Date June 2001 (kip)

Item	Amount
Income from June to December 2001	**2,352,262,410**
– Contributions	2,324,782,410
– Interest on investments	27,480,000
Expenditure from June 2001 to 21 January 2002	**458,016,042**
– Capitation payments to hospitals	395,005,132
– Emergency care	3,693,100
– Sickness benefit	4,653,633
– Temporary incapacity benefit	742,254
– Death grant	3,059,250
– Administration	50,862,673

Source: Social Security Organization, MOLSW.

Acronyms

AFTA	–	ASEAN Free Trade Area
ASEAN	–	Association of Southeast Asian Nations
CPI	–	Consumer Price Index
GDP	–	Gross Domestic Product
HRD	–	Human Resource Development
ILO	–	International Labour Organization
ILO Easmat	–	ILO East Asia Multi-Disciplinary Advisory Team
LDC	–	Least-Developed Country
LFTU	–	Lao Federation of Trade Unions
LWU	–	Lao Women's Union
MOLSW	–	Ministry of Labour and Social Welfare
MAF	–	Mutual Assistance Fund
MOF	–	Ministry of Finance
MOH	–	Ministry of Health
NEM	–	New Economic Mechanism
NGO	–	Non-Governmental Organization
PDR	–	People's Democratic Republic
PSC	–	Project Steering Committee
SEWA	–	Self-Employed Women's Association
SOE	–	State-Owned Enterprise
SSO	–	Social Security Organization
TFR	–	Total Fertility Rate
UNCDF	–	United Nations Capital Development Fund
UNDP	–	United Nations Development Programme
WHO	–	World Health Organization
WTO	–	World Trade Organization

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