

Concept Paper

On

Managing HR in Laos: Backgrounds, Characteristics, and Trends

for

HRI International Symposium 2015

“Managing HR in CLMV: Trends, Challenges and Lessons Learned”

Organized at Chaopraya Park Hotel, Bangkok

December 22nd, 2015

By

Chansathith Chaleunsinh (Ph.D)

Researcher and Deputy Chief of Social and Environment Research Division (SERD), National Economic Research Institute (NERI), Ministry of Planning and Investment (MPI)¹

¹ However, opinions expressed in this concept paper are the author's own and do not necessarily reflect the view of NERI/MPI.

1. The State of Lao Economy and Labour Market

1.1 Economic Development

Economic Growth

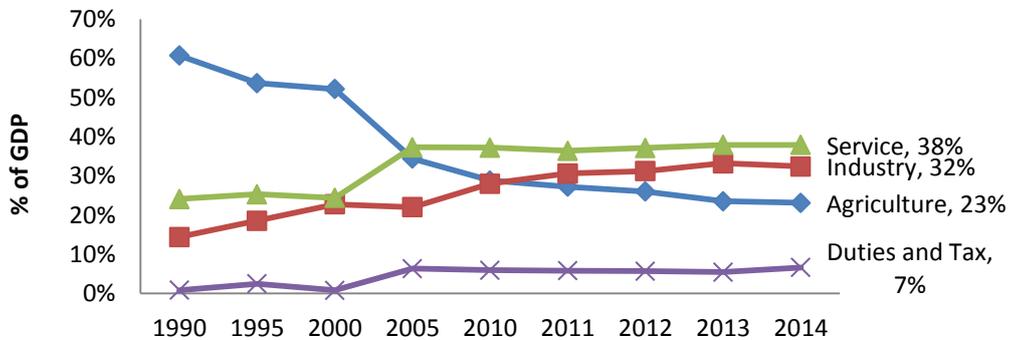
Lao economy has been rapidly developed in the past two decades; GDP per capita is now \$1,725 (2014) and income poverty rate went down from 46% in 1992 to 23% in 2013. GDP grew averagely by 6% a year during 1990s to the first half of the 2000s, then went up to approximately 8% in 2006-2014. In sectoral perspective, industry is the fastest growing sector (10-13% per year) compared to services (6-9%) and agriculture (3-5%). Due to continuous and high growth rates of industry and service sectors, their contribution to GDP has been increasingly larger than agriculture's and that leads to structural changes in Laos.

Table 1: Average GDP growth rates from 1991-2014 (% per year)

	GDP growth	Growth by sector		
		Agriculture	Industry	Service
1991-1995	6.4%	4.1%	12.3%	6.8%
1996-2000	6.2%	5.2%	10.2%	6.6%
2001-2005	6.3%	2.9%	10.8%	7.4%
2006-2010	8.0%	4.2%	13.2%	8.3%
2011-2014	7.9%	3.3%	10.8%	9.1%

Source: Ministry of Planning and Investment of Laos

Figure 1: Contribution to GDP by sector from 1990-2014 (% of GDP)



Source: Ministry of Planning and Investment of Laos

Social Well-being

Despite rapid economic growth, overall development still progresses at relatively slow speed compared to other countries. Human Development Index (HDI) increased from 0.3 in 1980s to 0.4 in 1990s and 0.5 in 2000s. However, HDI ranking is getting deteriorate from the 120th in 2000 to 139th in 139 which means some other developing countries have better overall performance compared to Laos. Life expectancy at birth for Laos in 2013 is 68.3 with 10.2 expected years of schooling (mean is 4.6)² and GNI per capita of 4.351 (2011 PPP\$).

² Current basic education includes 5 years of primary school, 4 years of lower secondary school and 3 years of upper secondary school

Table 2: HDI and HDI ranking for Lao PDR from 1980-2013

	1980	1990	2000	2005	2008	2010	2011	2012	2013
HDI	0.34	0.395	0.473	0.511	0.533	0.549	0.56	0.565	0.569
HDI ranking	104	118	120	128	132	141	139	139	139

Source: UNDP

1.2 Labour Demand and Supply by sectors

Labour Supply and Employment situation

Laos' population will continue to increase from around 6.2 million in 2010 to between 10.3 million to 10.7 million in 2050. The country has a young population structure which is continued to grow (as figures in below table). The changing age structure is leading to what referred to as the “demographic bonus,” meaning that the proportion of the population in the working age group will increase³. According to Labour Force Survey in 2010, people at age of 15 and above covers 67% of population (3.9 million persons), where 79% of them were economically active in different forms of works i.e. 15.6% were paid employees, 0.49% were employers, 49% were self-employed, and 35% worked as unpaid workers for family enterprises.

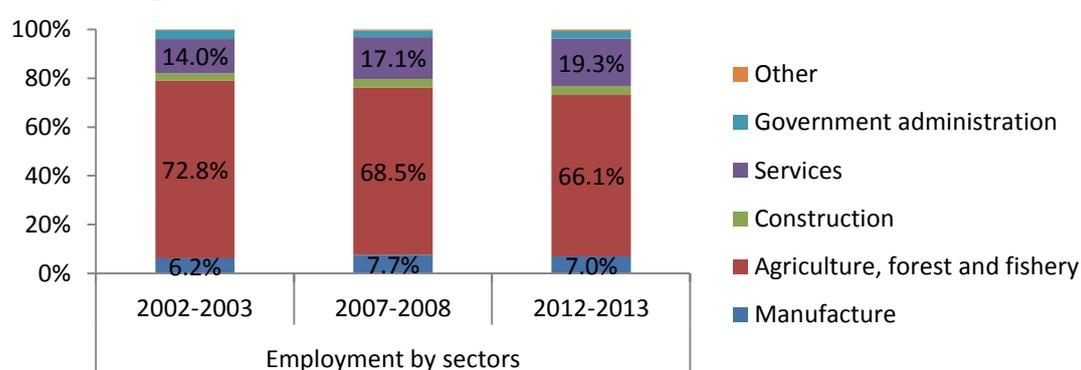
Table 3: Labour force and working status

	1995	2005	2010	2012
Population	4,574,848	5,621,982	5,818,447	
Working age population (15+)	2,551,195	3,404,043	3,886,618	
	(56%)	(61%)	(67%)	
Labour force/Economically active	2,074,785	2,640,064	3,079,852	
LFPR	81%	78%	79%	
- Employed	2,035,667	2,606,471	3,021,212	
	(98%)	(99%)	(98%)	
- Unemployed	39,118	33,593	58,640	
	1.89%	1.27%	1.90%	

Source: population census 1995 & 2005 and Labour force survey 2010, LSB.

According to the World Bank's study⁴, an additional 96,000 young people will be looking for jobs every year in the coming decades. However, large proportions of the workforce are trapped in lower-productivity farming jobs, nearly 7 in 10 Lao workers are employed in the agriculture sector.

Figure 2: Employment by sectors



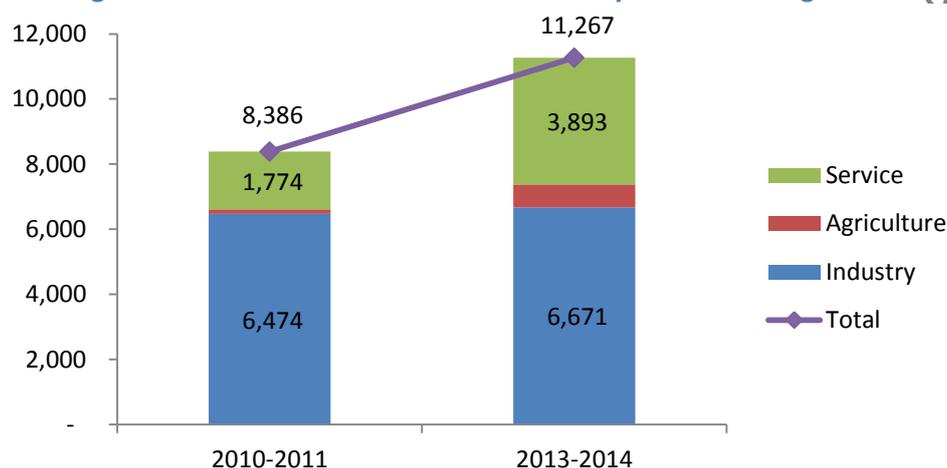
Source: LECS 3, 4 and 5

³ Demographic Analysis, MPI and UNFPA, 2015.

⁴ Lao PDR Development Report 2014: Expanding Productive Employment for Broad-Based Growth, the World Bank.

In order to facilitate supplying skilled labours, within the country, there are 165 skills development and training centres and 15 recruitment agencies in 2014. According to the Swiss Cooperation in the Mekong Region, there currently are roughly 600,000 Lao migrant workers abroad, including who migrated as refugees and resettled. Majority of them are in Thailand (49%), the United States (33%) and France (8%). However, underestimated/official figures provided by Ministry of Labour and Social Welfare show that in 2013-2014 at least 11,267 workers were sent by Recruitment Agencies to work in Thailand and majority of them are in industry and services sectors.

Figure 3: Workers sent to work in Thailand by recruitment agencies



Source: Ministry of Labour and Social Welfare

Labour Demand

Due to the rapidly growing in industry and services sectors, both skilled and unskilled labours are demanded by growing number of enterprises. Due to lacking of accurate and timely labour market data, we have to estimate labour demand using following indicators.

Figures in below table, from the Economic Censuses, show that number of foreign workers has increased from 13,578 persons in 2006 to 26,725 persons in 2012. Among different sectors, in 2012 more than half of foreign labours worked for the establishments such as whole sale, retail trade and repair (39%) and manufacture (18%). However, demand for foreign works is seemingly growing in sectors such as mining and quarrying; accommodation and food services; and electricity, gas, energy, and other.

Table 4: Number of foreign workers by sectors (persons)

	Foreign workers by sectors	
	2006	2012
Agriculture, forest and fishery	602	1,424
Mining and quarrying	607	2,101
Manufacture	3,183	4,702
Electricity, gas, energy and other	73	201
Water supply, sewerage	125	20
Construction	2,483	988
Whole sale and retails trade, repair	4,971	10,475
transportation and storage	63	134
Accommodation and food services	572	1,822
Other services	899	4,858
Total foreign workers	13,578	26,725

Source: Economic census, 2006 and 2012

Before 2012, it was understood that demand for unskilled labours in Laos is met therefore many unskilled workers migrate to work in neighboring countries (especially Thailand), and only way to create more opportunity for Lao workers is to improve their skills by promoting vocational training. That's partly true but something more. Findings from World Bank Enterprise Survey 2012 show that nearly 50% of firms operating in Laos complain that not enough workers are applying for jobs, even the low skilled jobs. Series of questions raised in Lao Development Report 2014⁵: "Why aren't people moving to fill vacancies in manufacturing that offer potentially better opportunities? Does Laos lack enough workers, and/or is it a problem of works lacking the right skills?"

2. Labour Regulations

2.1 Labour Policy

In January 2014, the new Labour Law (2013) was formally approved, replacing the Labour Law (2006). The law includes 181 articles under 17 sections (listed in Annex 1). Some main topics will be discussed as below.

General principles and employer obligations	<p>The employer is obliged to:</p> <ul style="list-style-type: none"> ▪ provide training to develop employees' skills and knowledge; ▪ ensure working conditions are safe, and ensure there is appropriate lighting, supply of drinking water and washing water, showers, toilets etc., a storage room for the storage of toxic substances and other measures against electric shocks and fire.; ▪ Facilitate medical examinations of employees once a year and provide a first aid kit on site.
Internal employment conditions (Work Rules)	The workplace must have its own Internal Regulations, and they must not conflict with the Labour Law. They must be approved by the Labour Administration Authority. The Labour Administration Authority has a template of the Internal Regulations that companies are encouraged to use.
Hours of work	Normal hours of work are 6 days a week, no longer than 8 hours a day or 48 hours a week.
Overtime	The employer may request the employee to work overtime. When overtime is necessary for more than 45 hours per month or 3 hours per day, the employer must request a particular authorization from the Labour Administration Agency and either the trade union, worker's representative or the majority of employees in the labour unit. Overtime cannot be worked for more than 4 consecutive days (except in the case of natural disaster).
*Weekly rest and public holidays	Workers have the right to at least one day's rest a week. Lao employees must be given 6 public holiday days as listed in the Labour Law, with foreign workers additionally entitled to the national day of their country.
Sick leave	Workers paid on a monthly basis have the right to sick leave with full pay for 30 days a year, on presentation of a medical certificate.
Annual leave	Workers employed under an employment contract made for an indefinite period or for a definite period of one year or more, who have already worked for one full year shall be entitled to 15 days of annual leave, at full pay. If the employee is unable to take their annual leave days by fault of the employer, the employee shall receive full pay for such day/s.
*Personal	In additional to Annual Leave, employees have the right to request (from the employer) paid

⁵ Lao Development Report 2014: Expanding Productive Employment for Board-based Growth, World Bank Group, October 2014.

leave	<p>Personal Leave of not less than 3 days in the event:</p> <ul style="list-style-type: none"> ▪ any members of the employee's immediate family are injured and hospitalized and nobody else can care for them; ▪ the employee's immediate family pass away; ▪ the employee gets married; ▪ the employee's wife gives birth or miscarries; ▪ the employee is affected by a natural disaster.
*Employment of foreign workers	<ul style="list-style-type: none"> ▪ Employers have a duty to give priority to Lao nationals, -approval must be obtained from the Ministry of Labour and Social Welfare to employ foreign workers. ▪ Foreigners undertaking manual labour can make up no more than 15% of the total number of Lao employees, and no more than 25% of the Lao workforce for professionals with specialised skills. ▪ Foreign workers must hold a valid business visa and work permit. ▪ Foreign workers can enter into employment agreements for a period of 12 months, renewable for another 12 months. The total working period for foreigner workers in Laos cannot exceed 5 years. Employers can however submit a request to the Labour Administration Authority for a foreign employee to continue working in Laos for an additional period (up to 5 years) based on the expertise of the employee and the requirements of the business/organisation of the employer.
*Employment of women	<p>An employer cannot require a pregnant woman or woman with a child under 1 year of age to carry heavy loads, stand for long periods, undertake dangerous work or work at night, work overtime or on a day of rest. If necessary, the employer shall temporarily assign the employee to more suitable work during this period, but pay her the normal salary.</p>
*Employment of children	<ul style="list-style-type: none"> ▪ Children of the ages of 14-17 years may be employed provided they do not work overtime. ▪ Children of ages 12 and 13 may be employed for "light work" provided they shall not be required to undertake work that is unsafe, interferes with their schooling or vocational training or is dangerous to their body, psychology or mind.
Employment contracts	<ul style="list-style-type: none"> ▪ An employment contract must be in writing between the employer and employee. ▪ The contract can either be for a fixed term or an indefinite period. If a fixed term contract, including any extensions, is longer than 3 years, the contract will be deemed to be an indefinite employment contract. ▪ If the parties wish to extend the term of a fixed term employment contract they must notify each other 15 days before its expiry, with the extension commencing within 60 days of the date of expiration of the contract. ▪ The contract must stipulate the place of work, the work to be performed, the level of wages, the duration of the contract, commencement date, expiry date and any probationary period, workings days, rest days and holidays, any welfare entitlements of the worker, the benefits the employee will receive at the expiration of the employment contract and any other matters agreed between the parties.
Probationary period	<ul style="list-style-type: none"> ▪ The employer has the right to impose a probationary period on the employee. In the case of manual labour, the period will not exceed 30 days. In the case of specialized skills, the period will not exceed 60 days. The probationary period cannot be extended. ▪ During the period of probation, each party has the right to terminate the employment. 3 days' notice is required for manual labour and 5 days' notice is required for specialized fields. ▪ If the employment is terminated during probation, the employee is entitled to receive salary or wages and other entitlements under the law, calculated from when he began

work to when he stopped.

- 7 days before the end of the probationary period, the employer shall inform the worker in writing whether or not his or her employment will be confirmed.

Termination of an employment contract

- An employment contract for a fixed term will terminate upon expiration or may be terminated by mutual agreement or for reasons of breach by one of the parties.
- An employment contract made for an indefinite period may be terminated any time by either party, with 30 days' notice for manual work and 45 days' notice for specialized skills.

Termination of an employment contract by the employer

- An employer can dismiss an employee where the employee lacks specialized skills, where the worker is not in good health and cannot continue work, or the business needs of the company require a reduction in staff.
- The employer must notify the Labour Administration Authority in writing when an employee is dismissed for reasons of redundancy.
- Where an employment contract is terminated by the employer, the employer shall pay a termination allowance according to their period of work.

Limits on employer's right to terminate an employment contract

An employer cannot, without prior approval from the Labour Administration Authority, terminate the employment of an employee if the employee is sick, suffering a disaster such as fire or flooding, is a female employee who is pregnant or within a year of giving birth, on annual leave or leave approved by the employer, still performing work at another workplace on assignment from the employer, filing a complaint or claim against the employer in relation to the Labour Law, or carrying out activities as a worker's representative.

*Termination due to acts of the employee

The employer may terminate an employee's employment in the following circumstances with no payment of a termination allowance or notification to the Labour Administration Authority:

- Deliberately causing damage to the employer (where there is evidence of same);
- Violating Internal Regulations in spite of previous warnings from the employer;
- Abandoning work for 4 consecutive days without a valid reason;
- Being sentenced to prison by a court;
- Violating the rights of other employees having already been warned by the employer.

Unlawful termination of employment contract

Termination of an employment contract by the employer is unjustified if the employer:

- Terminates the employment contract without a valid reason;
- Abuses their power (i.e. directly or indirectly forces the employee to terminate the employment contract);
- Violates the fundamental rights of the employee; or
- Acts in breach of its contractual obligations.

In such cases, the employee then has the right to request reinstatement. If the employer does not reinstate the employee, the employer is required to pay a termination allowance.

Severance pay

- If employment contracts are terminated unilaterally, either by the employee or by the employer (for justified reasons) the employee will be entitled to a severance payment of 10% of the monthly salary before termination for each month of work.
- Where an employment contract is terminated by the employer for unjustified reasons, the employee is entitled to compensation of 15% of the employee's monthly salary for the whole period of working.

Salary and payment of wages	<ul style="list-style-type: none"> ▪ The employer must pay at least the minimum wage set by the government. The minimum wage is currently 900,000 kip / month. ▪ Wages are to be paid at the beginning or end of the month. ▪ Deductions from an employee's salary are permissible to compensate for damage to the property of the employer to the value of the item damaged. If the employee is not able to repay the amount owing, the compensation must be deducted from his salary or wage but not exceeding 20% of his salary or wage. ▪ The employer has the duty to declare the income which is paid to the employee to the Tax Department in order to deduct personal income tax.
*Compulsory social security	Every workplace shall make payments to the National Social Security System with respect to their employees in accordance with the new Social Security Law governs social security payments.
*Maternity leave and maternity allowance	<ul style="list-style-type: none"> ▪ A woman is entitled to at least 105 calendar days of fully paid maternity leave, at least 45 days of which must be after the birth. ▪ During the year after birth, the woman is entitled to have one hour a day of rest in order to feed and take care of the child. ▪ If a woman suffers a miscarriage, she is entitled to leave on full pay for a period as determined by a doctor. On the birth of a baby, a woman is entitled to an allowance as specified in the Social Security Law.
*Calculation of overtime	<p>Overtime is calculated as follows:</p> <ul style="list-style-type: none"> ▪ On a regular working day, 150% of the regular hourly rate for each hour; ▪ Overtime at night on a regular working day, 200% of the regular hourly rate for each hour; ▪ Overtime worked on a weekly rest day or holiday, 250% of the regular hourly rate for each hour; ▪ Overtime worked from 4:00pm to 8:00pm on a weekly rest day or holiday, 300% of the hourly wage of a regular working day for each hour; ▪ Overtime worked from 10:00pm to 6:00am on a weekly rest day or holiday, 350% of the hourly wage of a regular working day for each hour worked. <p>Specific payments for night work or shift work shall be paid at no less than 15% of the hourly wage of a regular working day for each hour worked.</p>

*These provisions represent new or revised articles appearing in the Labour Law (2013).

Source: [Arion Legal](#)

2.2 Recent Regulations

1. Social security Law, No.34/NA, dated 26 July 2013
2. Amended Labour Law, No. 43/NA, dated 24 December 2013
3. Decree on Minimum Wage, Notification on the Minimum Wage, No. 808/LSW, dated 9 February 2015
4. Decree on Social Welfare (drafting)
5. Decree on Persons with Disabilities (drafting)

3. Characteristics of Labour

3.1 Employment Practices

Based on Labour Force and Using Child Labour Survey in 2010, only 15.63% of employed persons work as paid employees and 83.78% were in vulnerable employment (self-employed and unpaid family workers) and 89% of employed females are in these forms of employment. In regards that some workers engage in more than one job, average number of hours worked for all economic activities is 48.1 hours a

week (50-51 hours for legislators, senior officials, managers, clerk/office assistant, craft and related trades workers). By occupational sectors, majority of employed people are skilled agriculture and fishery worker (70%), 91% of them live in rural area (with and without road).

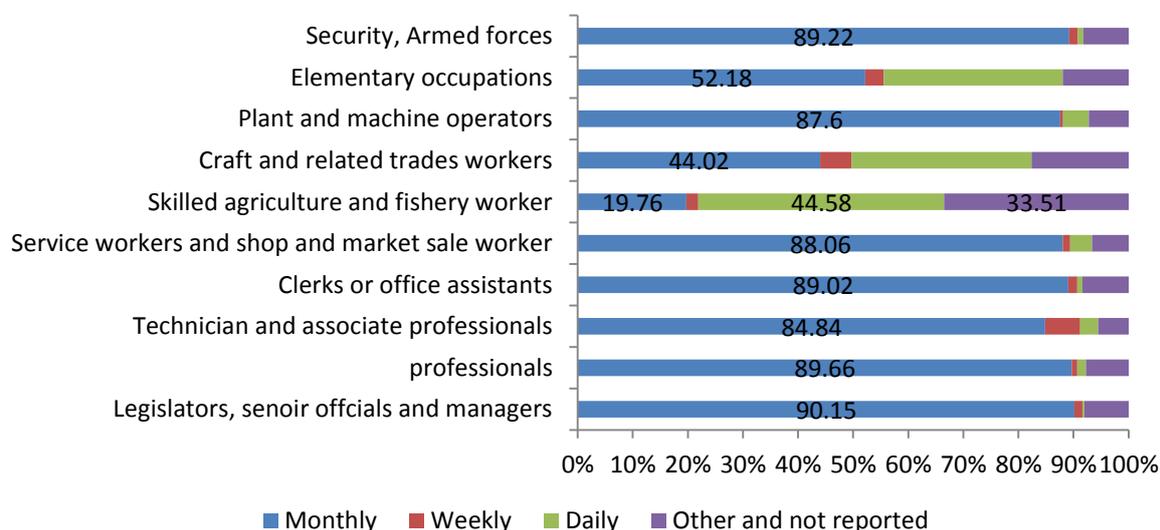
Table 5: Employed people by occupational sectors and location

	Employed			
	Total	Urban	Rural	
			With road	Without road
Legislators, senior officials and managers	47,029	31,692	14,303	1,032
Professionals	145,180	89,550	52,019	3,613
Technician and associate professionals	37,961	27,066	10,580	315
Clerks or office assistants	20,510	18,474	2,037	-
Service workers and shop and market sale worker	177,457	117,616	58,952	891
Skilled agriculture and fishery worker	2,118,213	294,345	1,560,524	263,344
Craft and related trades workers	97,590	63,673	33,608	309
Plant and machine operators	79,410	53,562	25,254	595
Elementary occupations	265,173	158,563	101,903	4,707
Security, Armed forces	27,838	15,996	11,741	100
Note reported	4,847	1,008	3,623	217
Total	3,021,208	871,545	1,874,544	275,123

Source: Report on Lao Labour Force Survey, 2010

In term of payment frequency for paid employed persons, more than 50% of people in each occupation sector reported that they receive payment monthly, except for the skilled agriculture and fishery workers who are mostly (44.58%) paid on daily-basis. And Along with persons work in agriculture and fishery, significant portion of workers in craft and related trades and elementary occupations also reported earning daily wage.

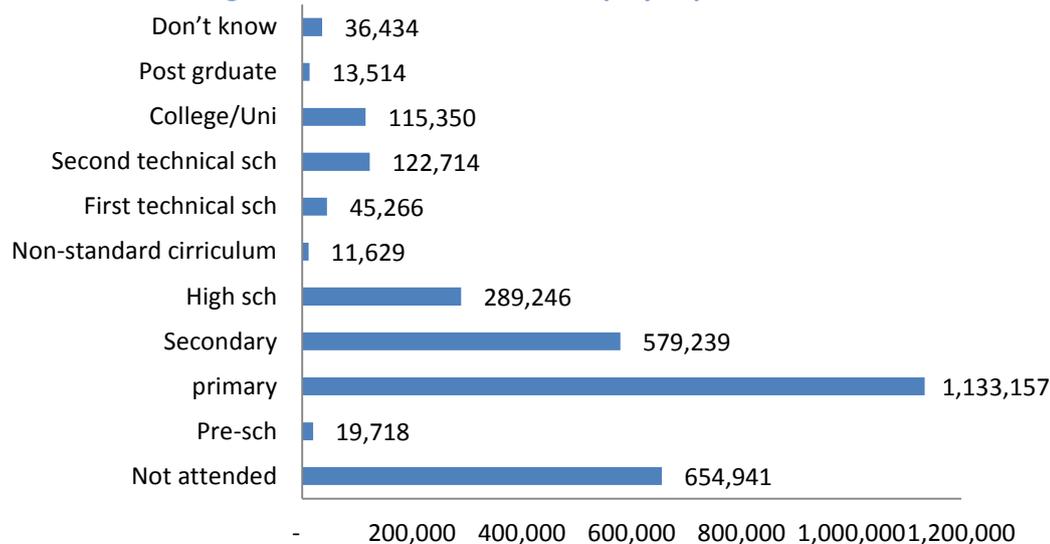
Figure 4: Frequency of wage/salary paid to workers in each sector



Source: Report on Lao Labour Force Survey, 2010

Among the employed people, 60% of the currently employed persons completed only primary school and lower. By sector, workers primary education and lower are mostly labour in agriculture and fishery (73% of workers in the sector), elementary occupation (46%) and service worker and sale.

Figure 5: Educational level of employed persons



Source: Report on Lao Labour Force Survey, 2010

3.2 Strength and Limitation of Labour and Labour Market

Strengths

Lao people/Labour	Labour Market/economy
<ul style="list-style-type: none"> - Kind, sincere, honest, friendly and generous - Traditionally experienced and knowledgeable on farming and foraging - Skilled full in some particular handicrafts such as basketry, hand weaving, etc. 	<ul style="list-style-type: none"> - Demographic bonus - Land-linkage and potential economic zones - Political, socio-economic and financial stabilities

Limitation of Lao labour

Lao Labour	Labour Market
<ul style="list-style-type: none"> - Averagely low level of education - Notably not familiar with industrial disciplines (but trainable) - Lack of skills currently needed by economic units 	<ul style="list-style-type: none"> - Lack of accurate and timely data and information on labour market - Poorly developed labour market information system - Lack of labour market related research to correctly inform the policy makers on policy intervention into the labour market - Lack of specific strategy/policy for creating employment - Lack of conducive environment for matching labour supply and demand - Lack of system to facilitate labour mobility from sector with labour surplus to sector (s) with labour shortage, or from rural to urban. - SMEs which are major source of employment are slowly developed

4. Recommendations for HRM Practices

- Continue providing basic education and vocational training
- Strengthen enforcement of all labour/employment related law and regulations for Lao people to have better jobs for all (including, women, people with disabilities, ...).
- Improve labour market information system and make it more accessible in order to match labour supply and demand
- Reduce illegal out-bound migrant labour by developing better recruitment system and cooperate with recipient countries for seeking the solutions
- Create regular and standardized data collection system regarding to labour market
- Encourage/promote more research on labour issues
- Strategic ally mainstream labour issues into the sectoral plans and/or formulate national employment strategy/policy especially for rural area, participated by all stake holders
- Sustain SMEs development especially for potential sectors such as agriculture (Coffee, silk, NTFPs, large livestock, organic vegetables), tourism (eco-tourism), trade services and handcraft, therefore to increase the labour demand.
- Provide investment incentives to labour-intensive enterprises that are able to provide on the job training to Lao workers

Annex 1: The Amended Labour Law (2013)

Section	Name of section	Contents (Articles or Chapters)
Section 1	General Provisions	Objectives, Interpretation of Terms, Policy on Labor, Principles of labor affairs, Scope of Application of the Labor Law, International Cooperation (articles)
Section 2	Labor Skills Development	Labor Skills Development System, Labor Skills Development Courses, Skills Standards, Competitive Labor Skills (chapters)
Section 3	Recruitment Promotion	The Recruitment System, Creation of Employment Opportunities, Domestic Recruitment Services, Overseas Recruitment Services, Importation of Foreign Labor, Establishment and Dissolution of Recruitment Service Enterprises (chapters)
Section 4	Labor Protection	Labor Regulations, Night Work and Night Shifts, Internal Regulations of Labor Units, Lao Labor Working Abroad, Foreign Labor in Laos, Social Insurance (chapters)
Section 5	Employment Contracts	Employment Contracts, Termination and Expiration of Employment Contracts (chapters)
Section 6	Employment of Women and Youths	The Employment of Women, The Use of Youth Employees (chapters)
Section 7	Salary and Wages	Determining Salaries and Wages, Protection of Benefits in Wages or Salary, Overtime and Holiday Pay (chapters)
Section 8	Labor Health and Safety	Protection of Labor Health and Safety, Labor Accidents and Occupational Diseases (chapters)
Section 9	Migrant Labor	Types of Migrant Labor, Migrant Labor within the Country, Migrant Labor Exiting the Country, Migrant Labor Entering the Country, Obligations when Accepting and Delivering Migrant Labor, Measures on Migrant Labor without Documentation (articles)
Section 10	Labor Fund	Labor Fund, Sources for the Labor Fund, Administration and Use of Funds (articles)
Section 11	Information on Labor	Provision of Labor Information, Information on the Labor Market, Information on Labor Protection, Survey and Registration of Labor (articles)
Section 12	Prohibitions	Prohibitions for Employers, Prohibitions for Employees, Prohibitions for Labor Inspection Officials, Prohibitions for Other Individuals or Organizations (articles)
Section 13	Resolution of Labor Disputes	Types of Labor Disputes, Forms of Labor Dispute Resolution, Compromise, Administrative Resolutions, Resolution by the Committee for Labor Dispute Resolution, Court Rulings, Dispute Resolution with International Characteristics (articles)
Section 14	Third Party Agencies	The Labor Administration Agency, Agencies Representing Employers, Agencies Representing Employees, Bargaining and Collective Labor Contracts (chapters)
Section 15	The Labor Inspection and Labour	Labor Affairs Inspection, Labor Inspection (chapters)
Section 16	Policies Toward Persons with Outstanding Achievements and Measures Against Violators	Policies Toward Persons with Outstanding Achievements, Measures Against Violators (articles)
Section 17	Final Provisions	Implementation, Effectiveness (articles)