Policy Recommendations on Minimum Wage Setting Process Improvement in Lao PDR

- With reference to the High-Level Tripartite Seminar on Minimum Wage Setting in Vientiane on 1-3 October 2019
- With reference to the Capacity Building on Minimum Wage Setting Process Improvement workshops hosted by the International Labour Organization for Government, Workers and Employers in Lao PDR between 01-02 October 2019
- With reference to the internal discussion of LNCCI and opinions from the private sector, especially relevant Trade Working Groups and business associations

I. Opinion regarding the importance of Minimum Wage Policy

- Setting minimum wages is an important policy area for businesses, who generally seek both a predictable, transparent process and reasonable resulting levels of minimum wages. In Laos, the recent wage setting process has demonstrated that there is room for improvement in the current process for setting minimum wages. Improvements in the predictability and transparency of the process could provide significant benefits for employers.

- The current minimum wage in Laos is 1,100,000 Kip per month (US $128.59). The minimum wage in Laos is a single rate applicable to all employees, and does not differ based on region, skill level, or employer characteristics. The wage rate has increased significantly in the last decade. In 2008, the minimum wage was 290,000 Kip per month, though that was increased in 2009 to 348,000 Kip. In early 2012, the monthly minimum wage was increased from 348,000 Kip to 626,000 Kip, an increase of approximately 80%. In 2015, the wage was increased again, to 900,000 Kip per month. In 2018, the wage was increased again to its current level of 1,100,000 Kip per month.

- The minimum wage is policy matter of major importance to workers, employers and a country as a whole. The minimum wage has an important effect on the wellbeing of workers and their families, especially those at the lower end of the income distribution. It can also have an effect on the private sector, for example by influencing the viability of a business or incentivizing skills training or investment. Unsurprisingly, the minimum wage can be a contentious issue, with different parties taking different views on the process and level of the minimum wage. These can often lead to unpleasant public arguments and politicking. However, it is possible for Lao PDR to improve our minimum wage setting process through a clear, evidence-based process that is predictable and transparent.

- It is also important that minimum wage policy is supplemented by appropriate policy measures for enterprise development such as tax deduction for increased labour costs, financial support for working capital fund, stabilizing foreign exchange rates and deregulation of investment and business operations.

- While comparing minimum wages across countries is not a straightforward exercise, because each country has features in their wage system that can make comparison difficult, it is important for Lao PDR to be aware of wage levels in the region in order to ensure that the private sector is competitive and that people are enjoying a quality of life comparable to countries.
- Having reviewed key parts of the minimum wage setting process, identified major problems, the LNCCI makes its policy recommendations to address these problems and to promote effective compliance with the minimum wage.

II. LNCCI Recommendations on improving Minimum Wage Setting

- **On the purposes of the minimum monthly salary improvement target:**
  - The increase in real wages must be in line with the long-term growth of productivity, enabling both domestic and foreign investors to remain and continue to invest in the manufacturing and services sectors in the Lao PDR;
  - To improve workers' basic living conditions and allow entrepreneurs to pay, sell their products and make a reasonable profit;
  - Holding wages in the Lao PDR at the level of trade and investment competitors with the Lao PDR;
  - Reduction of the impact of inflation, the impact on SME and the manufacturing sector for export;
  - Make the minimum salary feasible;

- **On Minimum Wage Setting Authorities:**
  - Establish, through legislation, an independent and permanent body comprised of government, workers, employers, and labour economic experts to determine or make recommendations on minimum wages.
  - Request that this independent body be able to commission research and receive outside inputs about the minimum wage.
    - Conduct a study on gender pay gap in Laos to review all policy proposals in light of their gender impacts, and reconsider any proposals that may have a negative impact on gender pay gaps in Laos.
    - Conduct a study on whether to set different minimum wages in accordance with sectors or region. Avoid the use of a strict, codified formula for minimum wage setting. If there is strong sentiment towards adopting a formula, consider advocating that the formula only establish a range, and the exact level be fixed through an evidence-based process involving social partners.
    - Conduct a study whether to use a formula for minimum wage setting.
  - Request that Government allocate budget to the independent body, though with sufficient funds to fulfil its mandate and to conduct necessary studies.

- **On Minimum Wage Setting Data and Evidence:**
  - Consider proposing an amendment in the law that codifies the factors considered in minimum wage setting;
  - Propose that the CPI data from the Laos Statistics Bureau be used for minimum wage discussions;
  - Recommend that the law give “equal” consideration to both the needs of workers and their families and economic circumstances;
  - Consider including a provision in law that guarantees access to relevant data for an expert commission, social partners, and other interested parties;
  - Due to its subjectivity, avoid discussions about a “living wage” and instead focus discussion and advocacy on clear, well-defined concepts with supporting data;
  - Emphasize in minimum wage discussions that there is international evidence to suggest a slight negative relationship between minimum wage increases and employment;
  - Request the Laos Bureau of Statistics to provide existing productivity data, and to consider steps to improve productivity data;
- **On Minimum Wage Timelines:**
  - Given the current and projected relative stability of prices and high demand on the time of tripartite partners, review the minimum wage at a frequency of one time every two years;
  - If the change in CPI rose above a set level, then a special minimum wage review could be held outside of the normal two year schedule;
  - Propose that employers, workers, and other interested parties be provided with relevant data at least two weeks before substantive meetings, so that they have time to analyse data and form evidence-based positions;
  - Consider setting up a specialising unit comprising of the government, labour unions, labour agency and the experts, to research or comment on minimum wages;
  - Propose that the government, or the specialist unit, is capable of conducting the survey and can obtain outside opinions (other parties) on the minimum wage;
  - Propose the Government to approve the budget for the specialist units to be used adequately in carrying out its functions;
  - Propose the government a measurement of price controls and promote domestic consumption to balance living expenses whenever there is a minimum wage adjustment;
  - Propose to the government to free the domestic taxes;
  - Maintain a stable exchange rate that does not exceed risky percentage criteria;

- **On Compliance with Minimum Wage:**
  - High rates of non-compliance have negative consequences not only for workers but also for compliant employers, as it gives non-compliant enterprises an illegitimate cost advantage.
  - Compliance can be increased through implementation measures:
    - Financial support for LNCCI for employer’s awareness raising campaigns
    - Capacity building activities for employers’ and workers’ representatives

### III. Conclusions of the High-Level Tripartite Seminar

LNCCI supports the conclusions of the High-Level Tripartite Seminar on Minimum Wage Setting in Vientiane on 1-3 October 2019, particularly:

- To form a Minimum Wage Taskforce team involving of workers, employers, independent labour economic experts and line ministries;
- To request the technical assistance of the International Labour Organization (ILO) in the areas of developing the common methodology for a living cost survey, sharing other countries’ experience of Minimum Wage fixing, and assisting in data collection and analysis;

LNCCI urges the High-Level Tripartite Meeting to keep Minimum Wage Setting Process Improvement a standing agenda item with priority to ensure momentum behind the work of the Minimum Wage Taskforce.

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President

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