LABOR MARKET ASSESSMENT, 2010

A. Introduction

1. The absence of overall, consistent up-to-date labor market data on the skill needs of enterprises in Lao PDR has been a continuing constraint on both national planning in general, and on the planning and implementation of the Technical and Vocational Education and Training (TVET) system. At one level this absence of labor market information has been an aspect of the more general but continuing lack of significant and ongoing linkages between TVET and the private enterprise sector. More specifically, it has acted to reinforce a training system that has no basis for training decisions in terms of the current and future skills needs of industry and thus the employment opportunities for its graduates.

2. To address this problem, the ADB Project Preparatory Technical Assistance (PPTA) for the development of the proposed Strengthening TVET Project (TA 7299-LAO), included specific resourcing for the design and commissioning of a specialist Labor Market Assessment. This was carried out in early 2010 through the PPTA in conjunction with the Ministry of Education (MOE) and the Ministry of Labor and Social Welfare (MOLSW). The design, implementation, data analysis and findings of this survey are summarized below.

3. In addition to the gathering of data about skill shortages and unmet or inadequately met labor needs, the Labor Market Assessment investigated the major factors that currently influence the labor market in Lao PDR including: (i) the role of infrastructure; (ii) cross border flows of labor; and (iii) the impact of the 2008 financial crisis. Extended supporting meetings with employers’ associations and other stakeholder groups were held to conform, extend, or elaborate the findings of the survey.

4. Specifically, the Labor Market Assessment focused on labor market demand in order to clarify current and potential labor market needs in the different economic sectors. Special attention was given to TVET graduates at different levels and the transition from school to work. The informal economic sector was not included in the study.

B. Labor Market Assessment Procedures

1. Background and Objectives

5. The PPTA Terms of Reference provided for: (i) review and assessment of existing sources of information on the labor market in Lao PDR; (ii) development of the scope of a Labor Market Assessment and nature of survey(s) to be conducted; (iii) preparation of terms of reference for required surveys and development of survey design and methodologies; (iv) preparation of survey tools, training programs and training manuals; (v) execution of surveys as required; (vi) preparation of labor market projections; and (vii) assessment of existing labor market information systems (LMIS) and identification of weaknesses in the institutional, legal and regulatory framework for development of an improved LMIS. A further, indirect objective has been the training of representatives from the MOLSW and MOE in the planning and conduct of such a survey.

2. Methodology

6. The key elements in the methodology for carrying out the Labor Market Assessment included:
A questionnaire for economic units was prepared by the consultant, in coordination with Ministry of Planning and Investment (MPI)/DoS and agreed by MOE and MOLSW. The questionnaire was trialed in preliminary interviews with enterprises and modified according to identified problems.

Through a PPTA public tender and approved by ADB, a local company –EDC– was given the task of carrying out the data collection and data entry. They were selected based on their recent experience carrying out similar assignments.

Economic units were at a first stage selected from the GTZ enterprise survey (2006), through information given by the MPI and through Provincial Departments of MoE and MoLSW. The sample was based on size the economic units, whether they belonged to potential priority sectors, and the area in which they operate, as follows:

- **Size**: The survey sample consisted of economic units (companies). The selection of the economic units could be defined as a random cluster sampling. The sample initially clustered the economic units based on the size of the economic units: small with less than 10 staff, medium with between 10 and 100 staff, and large with over 100 staff. The number of economic units in each cluster was chosen for establishing a balanced number of staff in each cluster. The final sample consisted of small - 384 economic units; medium – 297 economic units; and large - 136 economic units.

- **Sector**: Since the survey was set to target economic sectors with potential for the Lao PDR economy of special and with the prospect of offering employment opportunities, such economic sectors were emphasized in the sample. These included: Mining and electricity/ hydropower, garment, textile construction, tourism/ hospitality, agriculture, wood processing, furniture, handicrafts, wholesale and retail, manufacturing. The pre-selection of these sectors was made by the PPTA in close coordination with MoE, MoLSW and MPI/Department of Statistics. Because of the size of the sample, representativeness cannot be achieved within each of these sectors, however it can provide indications on the trends at a broader level.

- **Area**: To have a country wide reach while still being able to provide regional conclusions, the survey covered 8 provinces spread over the whole country, namely: Vientiane Province, Savannakhet, Champassack, Luang Prabang, Vientiane Municipality, Khammuane, Luangnamtha and Attapeu provinces. Moreover, both economically advantaged and economically disadvantaged provinces were selected. The sample size in each province was further defined by the number of economic units in the GTZ enterprise survey list, and selection of the provinces made by the PPTA in close coordination with MoE, MoLSW and MPI/DoS.

7. The fieldwork for the survey was carried out in February and March 2010. Twenty-two enumerators, mostly students at higher education institutions were trained to collect the data. The process of data collection was monitored by five officers from each of MOLSW and MOE and supervised by EDC and the PPTA consultants.

8. As a complement to the quantitative survey, direct meetings and interviews were carried out with trade associations and large economic units representing the key sectors. Most of these were in and around Vientiane, which is also where most (75%) of the large economic units are based. Findings from these interviews provided complementary qualitative input to the analysis of the quantitative data from the survey.

10.
C. Key Findings

12. Analysis of the survey data and the supplementary interviews indicate the following:

(i) Despite the global financial crisis the GDP in Lao PDR continued to increase, partly probably due to the isolation of agriculture in Lao PDR from international demand, and many economic units continued to recruit staff during the crisis period. All the contacted economic sectors declared during interviews that for them the economic crisis was over (January-March 2010) and they have a development perspective for the future. Increased recruitment was reported to have commenced in 2009, mainly in the large companies (over 100 employees). These were mainly skilled workers.

(ii) Some jobs have a bad image, especially in construction, and despite relatively fair wages, youth are apparently not interested in becoming carpenters or plumbers; 23% of the surveyed economic units claimed they hired foreign skilled workers because of the lack of available Lao PDR workers at the same skill levels.

(iii) In general, economic units foresee a major increase in their need for skilled workers in the near future, but believe they will need to recruit foreign skilled workers in many important and developing sectors (for instance Vietnamese people in construction and furniture).

(iv) In general the level of salaries is low, especially in the north and the south of the country, but companies are ready to pay higher salaries to find skilled workers (construction, furniture, tourism). In some economic sectors there is tough competition to find the best skilled workers. Big differences were reported between the average highest salaries and the average lowest salaries.

(v) Graduates employed as unskilled workers receive a low salary whatever level of formal education they have attained.

(vi) In general the findings show that certificate holders are in relative terms paid at very low levels suggesting that it is the skill level rather than the certificate which decides the salary level.

(vii) Vacancies were reported in almost all economic sectors, particularly for skilled workers. Estimates based on responses suggest a current need for 3,000 skilled workers in furniture, 2,000 in tourism, more than 1,000 in mining. Among the economic units surveyed which noted a change in number of staff, 69% reported an increase. Among economic units expecting change in worker needs before the end of 2010, 82% were expecting an increase.

13. Employers claim that many young Lao PDR new workers face problems in adapting to the rules and expectations of the workplace, increasing the preference of many employers for foreign skilled workers. The current TVET system does not appear aware of, or perhaps capable, of addressing this issue.

14. There is no career guidance or counseling structure or information systems able to deliver relevant labor market information to youth and adults about job requirements, opportunities and workplace expectations. This should be considered a priority to reduce the current mismatch between labor demand and supply.

15. ILO has started to implement employment services in three locations with plans to open additional offices. A development plan of their activities has already been proposed by ILO but implementation will depend on funding provision. The scope and reach of these offices is limited however.
16. **Employer Views on TVET:** Only about 17% of economic units contact TVET institutions when they wish to recruit skilled workers, despite their reported problems in finding skilled workers, but only 4% state that they recruit directly from TVET institutes. However, 42% of economic units in fact employ people from TVET institutes but through indirect recruitment processes.

17. The employer and trade association interviews indicated a strong negative image of TVET. It was repeatedly stressed that TVET graduates at all levels have to be trained again by the economic units. The training currently being provided in TVET institutions was considered to be exclusively theoretical, and delivered by teachers (sometimes graduates from the TVET school) who do not have the necessary work experience or real skills.

18. At the same time, many employers, and the major employer associations, expressed strong interest in becoming involved in TVET curricula development, and in initiatives to strengthen the links between companies and TVET institutions. However, they consider that instead of a partnership, there is a lack of willingness from the public sector, giving the impression that the education system is focusing on the diploma rather than on the way the graduates will enter and fit into the labor market. These findings underline a current misunderstanding or suspicion between the TVET institutions and the private sector but also the necessity for closer public private partnerships.

D. **Sectors of Major Skills Shortage**

19. The overall findings of the labor market assessment indicate five major sectors of current and apparently likely continuing skills shortage where strengthened TVET training provision may have considerable social and economic benefits.

20. **Furniture.** There is at present an international demand for high quality Lao PDR furniture, and official restrictions have recently been placed on Lao PDR timber exports to encourage domestic added value. However, meeting this demand is currently hindered by low quality skills and a mismatch between what the furniture sector is able to produce and what buyers demand. An estimate by the Lao Furniture Association indicates an approximate need for an additional three skilled workers per company, that is about 3,000 skilled workers. The labor market survey indicated that 42% of the workers working within the furniture sector were female, and that the sector is almost entirely comprised of small and medium enterprises.

21. **Construction.** The construction industry is cross-cutting, as it incorporates a number of trades in the construction of buildings, but also trades which can also be found in infrastructure sectors such as road and bridge construction, mining and hydropower. There is a considerable growth in all these economic sectors, and there is especially need for technical civil engineering skills. The Ministry of Public Works and Transport (MPWT) has for example in their 2010–2020 Master Plan a list of 808 projects on the National, Provincial and Rural Roads network (including bridges), reaching some 13,700 km of construction and rehabilitation. The Ministry of Mining and Energy (MOME) has at present approved 168 mining projects in different stages of development. A broad estimate by MOME notes that it is reasonable to expect that 50% of these pipeline projects will develop into actual mines, and will require many skilled workers in construction/civil engineering related trades. Similarly, there are at present some 75 approved hydropower projects at different stages of development, eventually requiring a large number of skilled workers. For mining and hydropower the extensive possibilities and need for skilled workers in the supply chain should also be taken into consideration.
22. At the same time, the lack of skills in the basic cluster of construction sub-trades – masonry, carpentry, electrical, plumbing etc – is being met by large scale employment of foreign workers, and total output of the TVET system in these skills is currently negligible. Over the sector as a whole, the majority of firms are small and medium enterprises, with a few larger corporate concerns. An unknown number of informal sector operators are reported to exist but these were outside the scope of the survey.

23. **Tourism and Hospitality.** The number of visitors to Lao PDR has been increasing with about 300,000 new arrivals every year, and is considered the fastest growing sector in the country. In broad terms the sector includes skilled workers in hotels, restaurants, tour operations and tourist guiding. Employment ranges across a relatively few large-scale corporate undertakings, through a relatively large number of middle sized concerns, to family-run hotels, guest houses and restaurants, only the larger of which are in the formal sector.

24. Industry predictions indicate that the current mix of tourists will change over the next few years with a lower proportion of regional tourists and increases in up-market, higher spending groups. Major shortages of appropriate skilled labor, with language skills and high quality service skills are reported.

25. Senior level (high diploma) programs in IT, business and management have become the fastest growing component of TVET (and graduate) provision in Lao PDR, and the largest single student group across the sector as a whole. However, despite reported difficulties in obtaining employment, few such graduates appear willing to undertake basic level “commercial” duties in the increasing SME areas of the private sector, in government offices and at the lower levels of the tourism and hospitality sectors. Currently there are no certificate level students in public TVET institutions. These skills are considered as critical cross cutting skills in that they can be applied to support existing business in the other 3 priority skill areas including procurement, book keeping, stock control, customer service. The labor market assessment also identified a high demand for these skills in tourism and hospitality which can be targeted through the planned project marketing activities.

26. **Mechanical Maintenance.** There is reported emerging need for technical skills across the range of mechanical maintenance and repair trades, likely to be much increased with the expanding number of mining and hydropower operations in the pipeline. It was reported during the assessment interviews that at present when equipment is breaking down, maintenance workers are brought in from neighboring countries. In addition, the recent survey carried out by the MPWT showed an annual national increase in traffic (not including motorbikes) of approximately 12%, suggesting an increase in the need for maintenance and repair workshops at about the same rate. At present most enterprises involved in these activities are small, with smaller numbers of relatively medium size. Large numbers of informal sector repair workshops are reported. The survey findings indicated a lack of skilled local workforce across the subsector as a whole.