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The Informal Economy in Viet Nam

Study for the Labour Market Project

"Better information for creating jobs and developing skills in Vietnam"

Note: The views expressed in the report do not reflect the views or policies of the ILO, EU or MoLISA.

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The Informal Economy in Vietnam

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EXECUTIVE SUMMARY

Paradoxically, despite its economic weight, knowledge of the informal economy is extremely limited in Vietnam as it is in most developing countries and researchers, whether Vietnamese or foreign, have paid little attention to the subject. This situation is due to a number of factors. First of all, the concept of what constitutes "informal" is vague with a multitude of definitions having been put forward by different authors. Secondly, measuring the informal economy is a tricky business since it operates on the fringes of the economy. Thirdly, the informal economy suffers from a lack of interest on the part of the authorities as it does not pay (or pays little) taxes and is seen more as a nuisance (especially in the towns) and a mark of underdevelopment inevitably doomed to extinction by the country's economic growth. These elements explain why there has been no really significant effort to date to improve knowledge in this area. Moreover, in Vietnam as in other developing countries, the current international economic crisis is supposed to provoke employment losses and employment restructuring. This increases the interest for the informal economy, which is one of the main victims of the crisis.

That is why the ILO in Vietnam has decided to commission a "Study on the Informal economy in Vietnam". Apart from the ILO's obvious interest in labour market functioning and policies for statutory reasons, it should be reminded that the ILO was one of the pioneers of the concept of "informal sector" that drew on the African experience documented in the famous 1972 study. This report sets out to amend this situation by providing accurate statistical data and in-depth analyses on the informal sector and informal employment in Vietnam for the first time ever. It draws on the results of several statistical surveys conducted with support from the authors and largely refers to a book recently published on this subject (Cling et alii, 2010). It is also based on some research lead by the authors on the impact of the economic crisis in Vietnam and on several interviews conducted with officials from the Ministry of Labour, Invalids and Social Affairs, the Ministry of Planning and Investment and the Ministry of Finance, as well as with Vietnamese academics. Last of all, this report has benefitted from the debates which took place during the National Workshop on the Informal Sector and Informal Employment in Vietnam, organized by the "Labour Market Project" (European Union-MoLISA-ILO) on 4th March 2010 in Hanoi[1].

Previous to 2007, the statistical information on the informal economy (in terms of labour, income and production) in Vietnam was scarce. Two main sources provided data on non-farm household businesses (NFHBs) and among them registered and non registered ones: the Vietnam Household Living Standards Survey (VHLSS) and the Annual Household Business Survey (AHBS). The two sources provide highly discrepant estimates. While the VHLSS estimates the number of NFHBs in Vietnam at 9.3 million in 2002, the respective figure given by the AHBS is 2.9 million. Despite careful intents to reconcile the two databases, the gap remains highly significant. As regards informal employment, this relatively new concept had never been measured in Vietnam.

Acknowledging these shortcomings, the General Statistics Office (GSO) launched in 2006 a joint research project with the French Institute of Research for Development (IRD-DIAL); the prime objective was to set up a statistical system that would measure Vietnam's informal sector and informal employment in a comprehensive and sustainable way, and in-keeping with international

[1] The authors wish to thank Ina Pietschmann for her support during the preparation of this report and for her valuable comments made on a first draft. Usual caveats apply.

recommendations. The outputs of this still ongoing initiative are many- fold, providing the core inputs for this report.

First, an operational definition of both the informal sector and informal employment has been adopted. The informal sector is defined as all private unincorporated enterprises that produce at least some of their goods and services for sale or barter, are not registered (no business licence) and are engaged in non-agricultural activities. Informal employment is defined as employment with no social security (social insurance). All employment in the informal sector is thus considered to be informal employment, as is part of the employment in the formal sector. In keeping with the ILO (2002), both the informal sector and informal employment are defined as belonging to the informal economy.

Second, data collection and analysis providing sound statistical indicators of the informal economy in line with these definitions have been conducted, following the recommended two-phase (or mixed household/enterprise) survey methodology. The Labour Force Survey (LFS) has been redesigned to capture accurately employment in the informal sector and informal employment and two rounds have been implemented nationwide in 2007 and 2009. Additionally, a specific Household Business & Informal Sector Survey (HB&IS) was grafted on to the LFS2007 and carried out by interviewing HB heads identified by the LFS. The HB&IS survey, which aims at estimating the economic accounts of the informal sector, has also been conducted twice (in 2007 and 2009) in Hanoi and Ho Chi Minh City (at writing, the results of the second round of surveys are not available yet). Decision 144/2008/QD-TTg has put GSO is in charge of extending the informal sector survey at the national level, but this decision has not been implemented yet.

The results drawn from the LFS show that the informal economy is predominant in Vietnam. In 2007, the informal sector accounted for almost 11 million jobs out of a total of 46 million jobs. This represents nearly a quarter of all main jobs (24%), with nearly half of non-farm jobs found in the informal sector. If we aggregate main and second jobs, a total of 12.4 million jobs are held in the informal sector. On the whole, there are 8.4 million informal household businesses in Vietnam. At the national level, “Manufacturing & construction” is the largest informal industry (43% of total employment in the informal sector), followed by “trade” (31%) and “services” (26%). Conversely, an impressive half of all industrial jobs in Vietnam are held in the informal sector. We estimate that the informal sector contributes to 20% of GDP, without knowing what share is already included in the national accounts.

As expected, most employment (82%) in Vietnam can be defined as informal employment. Informal employment is widespread in the economy, and not just found in agriculture and the informal sector: the majority of jobs in domestic enterprises are also informal. In some industries such as “construction”, “trade” and “accommodation”, most workers are informal workers, working either in the formal or the informal sector. In the remainder of this executive summary we will focus our analysis on the informal sector and not make further comments on informal employment.

Many classical results are comforted on the informal sector by the surveys, both at the national level (LFS) and in Hanoi and HCMC (HB&IS): low level of education and low incomes; precarious labour conditions; vulnerability of informal household businesses, which operate almost without capital and mostly without professional premises. Nonetheless, some new findings contrast with the common knowledge.

- First, the informal sector is not mainly an urban phenomenon: informal sector workers are more often found in rural and suburban areas (67%). But even in these areas, the informal sector is not primarily linked to agriculture. Whereas 19% of the households engaged in agricultural or informal sector activities are both farmers and informal, 63% are solely farmers and 18% are engaged exclusively in NFHBs. Neither does the informal sector constitutes a fall-back for migrants or ethnic minority groups, as often postulated (cf. the Harris-Todaro model).

- Second, the informal sector is not strongly integrated into the rest of the economy. Purchases from and sales to the formal sector are marginal. The main supplier of the informal sector is the informal sector itself. Its main market is households and household businesses; sales to the formal sector and sub-contracting are marginal and IHBs mainly compete with each other. This is somewhat paradoxical as "craft villages", especially near Hanoi, are often quite integrated into the formal economy. Thus, the empirical evidence is at odds with the stylised fact that, especially in the fast growing Asian economies, the informal sector plays a key supporting role to the formal sector, by raising its competiveness.

- Third, as the informal sector consists of micro-businesses operating in precarious and difficult conditions and generating low incomes, most IHBs would be expected to have major complaints and needs for assistance. On the whole, this is not the case: IHB expressions of difficulties and needs for assistance are far from widespread. It is all the more striking that the informal sector remains completely neglected by public policies. Not only does the informal sector not have access to the banks, it has no formal alternative, especially as micro-finance institutions, which are specifically adapted to HBs, are still nascent in Vietnam. Apart from micro-finance, no other support structures exist, whether private or public, to provide assistance with technical and accounts training, capacity building, market access, information, etc.

Our simulation shows that employment in the informal sector and its share in total employment will rise in the next few years even without the economic downturn. This phenomenon is due to the limited capacity of the private formal sector (even if it continues to grow with the same frantic rhythm as prior to the crisis) to absorb the new entrants in the labor market and the workers who move from agricultural activities to non-agricultural ones. Consequently, we can expect that the informal sector will continue to represent a huge share of the employment in Vietnam for a certain number of years.

Obviously, the global crisis is supposed to have an impact on the labor market dynamics. Most of the studies which have tried to assess the impact of the economic downturn tend to conclude that there will be a sharp rise in terms of unemployment but they fail to consider the informal sector. The first results (still unpublished) of the new LFS conducted by GSO in September 2009 show that employment in the informal sector has grown since 2007, although not as much as we expected (from 23.5% to 23.7%). Furthermore, and contrarily to all expectations, the unemployment rate has not burst up. These unexpected figures may be explained by the formidable flexibility of the labor market in Vietnam, which permits to mitigate the negative impact of the global crisis.

In economic literature three dominant schools of thought coexist on the origins and causes of informality, which are in part contradictory: the Dualist, the Structuralist and the Legalist schools. In fact, the informal sector presents a "multi-segmentation" phenomenon, whereby a number of very different categories of IHBs co-exist. Our multiple component analysis on the Vietnamese data clearly identifies these three specific IHB groups: the "Survivors" (39% of the total) are the most precarious and insecure and most of them have ended up in this business because they could not find a job elsewhere; the “Resourceful” (51% of the total) are better off and most of the IHBs in this group were created for reason not related to labour market constraints; the “Professionals” (10% of the total) are the high-end group and almost all of these IHBs set up in business to be their own boss.

The fact that many heads of IHBs declare that their working in the informal sector results from a deliberate choice does not in itself confirm the Legalist school hypothesis that they do so in order to escape registration and legal constraints such as taxes. Indeed, a vast majority of informal household businesses actually believe that registration is not compulsory, although our analysis underlines that most of them should be registered according to official regulations.

Thanks to the HB&IS Survey, which captures both formal HBs and informal HBs, it is also possible to estimate which factors lead some production units to register and others not. The explanatory factors can be classed into three categories:

- The first factors are those directly related to the legislation in force; the probability of registering increases with the annual value-added generated by the units or with their size; moreover, given identical business size, the probability of registration would appear to decrease with the number of employees, reflecting a will to dodge the obligation to register these employees with social security;

- The second category covers individual factors associated either with the production unit heads' characteristics or, in a corollary way, with the reasons why they set up the units; the most well educated are more inclined to register; they are better informed, more able to handle the procedures, and more ambitious when it comes to developing their business. Secondly, women seem less willing to register the businesses they run;

- A third category concerns the incentives; access to markets, the possibility of developing relationship with large firms and the possibility of becoming known all appear to have influenced the unit heads' decisions to register; similarly, one of the factors mentioned the most by the formal HBs is that registration means they are less exposed to corruption.

As the informal sector is here to stay, and since there is a strong connection between the informal sector and urban poverty, public policies cannot ignore this sector. Nonetheless, the State's ambivalent and inconstant attitude to the informal sector constitutes a source of uncertainty that needs to be lifted if the productive effort of informal entrepreneurs is not to be constantly frustrated. In Vietnam, there are currently no policies targeting the informal sector.

Targeted policies should especially take into account the heterogeneity of the informal sector. A “one size fits all” scheme would not be appropriate as there is no one single reason for working in this sector and different categories of IHBs experience different kinds of problems.

These policies could be designed along two lines. Formalising informal business households is a first priority. In general, formalising IHBs is seen as a way of increasing government revenues (by taxing those IHBs not previously subject to the tax) and improving IHBs' operating conditions and earnings. However, formalisation could not be introduced in the short and medium run. It would be too expensive. The flipside of formalisation policies is the need to help those that remain informal. The magnitude of the problems faced by IHBs necessarily calls for a wide range of Support policies towards the informal sector to be put in place: vocational training; improvements to access to credit (microfinance) and the introduction of social security schemes.

Last of all, and even before these as-yet-to-be-devised policies can be put in place, the very concept of the informal economy (sector and employment) needs to acquire a legal and recognised existence in Vietnam, so that the different public agencies can give it their full consideration. Additionally, the institutional channel has to be defined through which surveys on the informal sector can be permanently integrated into the national economic information systems.

This report is organized as follows. Section 1 provides a survey of literature on the informal sector in Vietnam. Section 2 assesses the existing official sources and presents the new framework put in place since 2007 by the GSO with the assistance of the authors. Section 3 draws on this original experience to synthesize the global picture of the informal economy in Vietnam. Section 4 underlines the dynamics of the informal sector and the informal employment, with a special focus on the impact of the global crisis (2008/09). Section 5 explores the determinants of transitions between formality and informality, while Section 6 is dedicated at gathering the previous results to elaborate policy recommendations.

1. SURVEY OF LITERATURE ON THE INFORMAL ECONOMY IN VIETNAM

A brief overview of the literature on the informal economy in Vietnam points up three observations (for a more comprehensive survey, see Nguyen Huu Chi, 2009). Firstly, researchers, whether Vietnamese or foreign, have paid little attention to the subject. Secondly, a certain number of questions to do with the informal economy have been addressed indirectly by related subjects, in particular the many studies on non-farm activities and the diversification of rural households' sources of income. Lastly, these studies have been constrained by the lack of data.

1.1. Few studies on the informal economy in Vietnam

In the past, rare were the studies that explicitly addressed the informal sector or "informality" in general (Vu Thu Giang and Tran Thi Thu, 1999; Le Dang Doanh, 2001; Jensen and Peppard, 2003; Tenev et al., 2003; Bernabe & Krstic, 2005; Taussig and Hang, 2004). The main characteristic of these studies is that they are based on ad-hoc partial surveys that only cover a few hundred businesses concentrated in certain activity sectors and certain provinces that differ depending on the study in question.

None of these studies takes up the international definition of the informal sector based on unregistered household businesses (see below). Either they cover a broader spectrum of private sector enterprises and include the informal sector in household businesses (ADB, 2004), or they adopt measures (Tenev et al., op. cit., look at both the informal sector and informal employment) using highly debatable methodology that has been severely criticised in the international literature (Navarrete and Roubaud, 1988; Thomas, 1999).

The focus is on two main closely linked topics, with a minor focus on two other issues.

Informality and the business climate. This first topic addresses the development of the private sector in Vietnam in general. It establishes a link with governance and the business climate, and takes up the classic theory that cumbersome public regulations, both *de jure* (2000 and 2005 Law on Enterprises) and *de facto*, obstruct the process of business formalisation (Van Arkadie and Mallon, 2003; ADB, 2004; Nguyen Trang and Pham Minh Tu, 2006; Vijverberg *et al*., 2006). This topic draws in particular on work by the World Bank's *Doing Business* programme (2009) and its local offshoots such as the *Provincial Competitiveness Index* (Malesky, 2008).

Informal sector dynamics. The second main topic studied looks to provide microeconomic estimates of inter-sector transitions among different types of business as well as employment and income dynamics and their associated factors (including primarily governance, but also economic liberalisation). This objective calls for panel data to be able to track changes in businesses' legal statuses over time. A first attempt was made by Ronnas and Ramamurthy (2001) using a panel of manufacturing businesses surveyed in 1991 and 1997. They were followed by Vijverberg and Haughton (2002), who worked on the 1993/1998 VLSS (*Vietnam Living Standards Survey*) panel. These studies were then followed up using more recent data, especially the 2002/2004 VHLSS (*Vietnam Household Living Standards Survey*) panel (Hansen et al., 2005; Bernabe and Krstic, 2005; Vijverberg et al., 2006; Oostendorp et al., 2008; Tran Quoc Trung and Nguyen Thanh Tung, 2008).[2]

[2] The VLSS and the VHLSS are household surveys conducted regularly by the GSO since 1993 (every other year since 2002) on large national statistically representative samples. They are based on the LSMS (*Living Standards Measurement Studies*) promoted by the World Bank worldwide

Households' non-farm activities and risk diversification. In addition to these specific studies, most of the publications covering the informal sector without necessarily making explicit mention of it concern the analysis of households' non-farm activities. The central question they address is rural households' risk diversification to reduce their vulnerability to various shocks, particularly from the point of view of survival strategies and in the tradition of studies by Ellis (1998), Reardon et al. (2000) and Lanjouw and Lanjouw (2001): Van de Walle and Craty (2004); Vu Tuan Anh (2006), Pham Thai Hung (2006); Oostendorp et al., 2008.

Craft villages. A fraction of the literature also looks at small and micro-enterprises and craft activities, especially the phenomenon of “craft villages” (JICA/MARD, 2004; Kokko and Sjöholm, 2004; Konstadakopoulos, 2006; Fanchette, 2009; Knorringa and Nguyen Thi Minh Huong, 2009). In a logical follow-up to work on industrial clusters in the 1970s, the main topics steering this research are the town-country connection, inter-sector integration practices (agriculture, crafts, and large national or foreign corporations) and international integration practices, the issues of assets and the environment, and lastly everything to do with the typologies and dynamics of businesses and entrepreneurs (survival vs. growth-oriented to take a classic comparison) in order to inform private sector support policies.

This focus on rural areas raises a paradox: although the literature on the informal sector concentrates mainly on the urban environment in most of the developing countries,[3] the same literature on Vietnam focuses almost exclusively on the countryside. This continued approach to informality through a rural lens is probably due to the economic (and historical and cultural) weight of agriculture and the relatively slow pace of the urbanisation process in Vietnam.

1.2. Studies on this subject have been constrained by the lack of data

If all in all, there are few studies, other than anecdotal and very small studies, it is also because there are no large-scale databases available to researchers on the informal sector in Vietnam. By way of illustration, the most ambitious survey (multi-round with large panel size and an extremely broad-based and varied questionnaire) on SMEs in Vietnam is managed by the CIEM and the University of Copenhagen (and conducted on the ground by ILSSA) as part of a research project funded by Danish aid (DANIDA). In 2007, the fifth wave of surveys covered 2,492 private businesses. In addition to the fact that it only takes in the manufacturing sector and a small number of provinces (three urban and seven rural), its coverage of the informal sector is largely biased. For example, the average size of micro-enterprises in this survey is 4.2 individuals as opposed to 1.5 for the informal sector in general.

Although the question of informality is addressed in the analyses that draw on the survey (Tran Tien Cuong et al., 2008), the survey itself cannot claim to be representative of this sector in any way whatsoever (and indeed the authors do not pretend it is). Moreover, if this survey, like many other smaller surveys, is not representative of the informal sector, it is because its sampling scheme is drawn from business censuses that do not adequately cover this sector (see below).

Some recent innovative work on this subject has been conducted since 2006 by a French-Vietnamese team made up of economists and statisticians from the Institute of Statistical Science (ISS) at the

3 For example, the publication by Perry et al. (2007), which is the most comprehensive analytic summary to date of studies on informality in Latin America, the continent on which research has been the most extensive for a number of decades now, never takes this agricultural perspective into consideration.

General Statistics Office (GSO) and the French research group DIAL (Développement, Institutions & Mondialisation), which is part of the French development research institute IRD and Université Paris-Dauphine. Two policy briefs on the informal sector in Hanoi and HCMC have been published, drawn from the results of two statistically representative surveys conducted in 2007/2008 by the research project (ISS/GSO-DIAL/IRD, 2009a and 2009b). A book has also been published which provides accurate statistical data and in-depth analyses on the informal sector and informal employment in Vietnam for the first time ever, with a focus on Hanoi and HCMC (Cling et al.2010).

In an accurate measurement, it points up the predominant weight and heterogeneity of the informal economy in Vietnam (informal sector and informal employment). The book finds that the main characteristics of the informal sectors in Hanoi and HCMC are very similar, and then that the characteristics of this sector in Vietnam are similar to those observed in other developing countries: weight in the economy, sector-based structure and unit size; the manpower's socio-demographic characteristics; precarious operations and working conditions; low productivity and incomes; lack of capital and investment; lack of integration into the economy, etc. (see section 3). This finding is important, as these similarities mean that Vietnam can learn a great deal from the analyses and policies conducted in other developing countries.

2. ASSESSMENT OF OFFICIAL SOURCES

Before our work was conducted, statistical information on the informal sector's economic weight (in terms of labour, income and production) in Vietnam was scarce. Information on the informal sector was based solely on case studies and small unrepresentative surveys. Aside from this, the only statistically representative data available concerned household businesses in general drawn from the GSO business censuses and surveys, which cover only part of the informal sector (GSO, 2009; Tran Tien Cuong et al., 2008).

2.1. The blurred contours of the informal sector in Vietnam

To date, no consensus has been reached on the definition of the informal sector in Vietnam, let alone its scope and coverage and even less so accurate knowledge of its functioning and determinants. For this reason, statements made on the subject have often contradicted one another and been either very vague or overly precise and obviously unrealistic.

As a result, the jury is still out on a heated debate over the number of non-farm household businesses in Vietnam (often used as an approximation of the informal sector) and, consequently, their real economic weight. Two main statistical sources have been used to try to accurately measure these businesses:

- Vijverberg (2005) draws on the Vietnam Household Living Standards Survey (VHLSS) to estimate the number of non-farm household businesses (NFHBs) at 9.3 million;
- The Annual Household Business Survey (AHBS) estimates this number at 2.9 million for the same year (GSO, 2006).

Work to harmonise the concepts applied in the two surveys has reduced the deviation between the two sources, even though it is still considerable. By applying the restrictive conditions imposed by the AHBS to the VHLSS survey data, Vijverberg (ibid.) identifies 6.1 million NFHBs run by 4.5 million households, which is twice the number reported by the official figures. Nguyen Van Doan (2008) puts forward an estimate of 3.4 million NFHBs based on the AHBS, which is still around half the figure found by the VHLSS. Vijverberg, with the support of the World Bank, concludes from this that the number of NFHBs produced by the GSO using the AHBS is underestimated, and that, "This would imply that Vietnam's GDP is roughly 7% higher than officially reported," (World Bank, 2005).[4]

To sum it up, before the implementation of a joint research project between ISS-GSO and DIAL-IRD which results have just been published in 2009-2010, the real number and economic weight of non-farm household businesses were still unknown. This is precisely one of the questions the project aimed to settle.

2.2. Implementation of a statistical framework.

The ISS-GSO decided to address this issue by conducting a research project in partnership with DIAL-IRD. The project's brief was to fill the gaps in data, research and policy recommendations by providing

[4] A working group was put together made up of the two parties, but it produced no conclusive findings as each party stood its ground on this issue (Vijverberg et al., 2006; Nguyen Van Doan, 2008). The World Bank decided to drop the subject, which it saw as a political hot potato.

comprehensive informal sector and employment statistics to pave the way for more in-depth analysis of the informal sector's role in the Vietnamese economy (Cling et al., 2008). In 2004, the GSO participated in a regional project to measure the Non-Observed Economy (NOE). Unfortunately, this project did not manage to produce any empirical results although it did raise awareness of concepts and best practices in this area. The ISS/DIAL research project drew on the lessons of this first undertaking to adopt a more sustainable approach combining four main elements: conceptual thinking, empirical surveys, economic analysis and capacity building.

Given the lack of data, the prime objective of the ISS-GSO/DIAL-IRD project was to set up a statistical system that would measure Vietnam's informal sector and informal employment in keeping with international definitions. This is absolutely vital to be able to improve our understanding of the different aspects of the informal economy and how it functions, and to endeavour to answer the questions raised by the different approaches mentioned above. To set the system up, we drew on DIAL's twenty years of experience in this area in both Latin America and Africa (Herrera, Razafindrakoto and Roubaud, 2008; Razafindrakoto and Roubaud, 2008), tailoring it to the specific environment in Vietnam.

In 2007, a suitable framework was designed and put into practice to measure the informal sector and informal employment in Vietnam. This framework was developed in line with international recommendations and tailored to the Vietnamese context (Razafindrakoto, Roubaud and Le Van Duy, 2008). In keeping with International Labour Organization recommendations (ILO, 2002), we adopted the following definitions:

- *The informal sector* is defined as all private unincorporated enterprises that produce at least some of their goods and services for sale or barter, are not registered (no business licence) and are engaged in non-agricultural activities".[5] We call such enterprises "informal household businesses" (IHBs), in line with the official Vietnamese term for this kind of business. The exclusion of farming is justified by the different characteristics found between farm and non-farm activities (seasonality, labour organisation, level of incomes, etc.) and the different types of survey tools required to capture agriculture. Formal (registered) household businesses (FHBs) belong to the formal sector;

- *Informal employment* is defined as employment with no social security (social insurance). In Vietnam, it is compulsory for all enterprises and registered household businesses whatever their size to register their permanent employees (with at least a three-month employment contract) with the Vietnam Social Security (VSS). All employment in the informal sector is thus considered to be informal employment, as is part of the employment in the formal sector.

In keeping with the ILO (2002), both the informal sector and informal employment are defined as belonging to the informal economy.

The methodology, which adopts the two-phase (or mixed household/enterprise) survey principles, is based on the 1-2-3 *Survey* scheme (Roubaud, 2009). The strategy included two components.

[5] The ILO definition leaves open two options to define the informal sector: the non-registration criterion and the maximum size criterion (under a certain threshold of persons working in the HB). In a further attempt to make the ILO recommendation operational, the Delhi Group suggested considering that informal households have fewer than five paid employees, mainly for country comparison purposes. Unlike the Delhi Group, we do not set any size threshold. However, in Vietnam, only 3% of informal enterprises have five employees or more.

First, a new improved questionnaire was designed for the Labour Force Survey (LFS). The GSO conducted the LFS for the first time in August 2007 on a very large nationwide sample of 173,000 households (prior to 2007, MoLISA rather than the GSO was responsible for conducting the LFS). In addition to the general objective to produce a broad set of labour market indicators in line with international standards, the questionnaire was also specifically designed to capture the informal sector and informal employment.

The LFS measures employment in household businesses (formal and informal) and therefore paints an overall picture of the informal sector in Vietnam, comparing it with other sectors of activity. In Vietnam, household businesses are supposed to have no more than ten employees and to have one establishment only. Above this threshold, or if they have two or more establishments, HBs must become enterprises governed by the Law on Enterprises. The LFS also identifies the household businesses' heads, who are interviewed in the second phase (see below). A set of questions in the LFS on the type of protection associated with the job also provides information on informal employment in the main and second job at national level.[6]

Second, a specific Household Business & Informal Sector Survey (HB&IS) was grafted on to the LFS2007 and carried out by interviewing HB heads identified by the LFS. It was conducted in Hanoi in December 2007 and in Ho Chi Minh City (HCMC) in January 2008. This representative business survey in each of the two provinces interviewed 1,305 HBs in Hanoi (992 informal and 313 formal) and 1,333 HBs in Ho Chi Minh City (962 informal and 371 formal).

This specific survey was designed to provide reliable, low-cost estimates of the weight of the informal sector (production, labour, capital, etc.), taking into account international and national experiences. The survey methodology was developed to be sound and sustainable to facilitate its integration into the National Statistical System (especially the national accounts). It also provides very rich and detailed information on the informal sector, which forms the basis of the research presented in this book.

The survey's seven modules cover an extremely wide range of subjects: the establishment's characteristics; the labour force; production and sales; expenditure and charges; customers; suppliers and competitors; capital, investment and financing; problems and prospects. The questions are mostly quantitative, but the questions on problems and prospects are qualitative in view of their different nature: they ask for the interviewees' opinions and perceptions.

6 The main job is the job where the interviewee spent most of his/her working time during the reference period. The second job is therefore another job which required less working time during the same period.

3. AN OUTLOOK AT THE INFORMAL ECONOMY IN VIETNAM

This section summarises the analysis of Vietnam's informal economy as drawn from the LFS2007 and the HB&IS Survey 2007/08 conducted in Hanoi and HCMC and presented in the previous section. It puts in evidence the predominant weight of the informal sector and informal employment in Vietnam both in urban and rural areas. The informal sector characterizes by low incomes and by precarious labour conditions. Focusing on Hanoi and HCMC, we underline the vulnerability of informal household businesses, which operate almost without capital and mostly without professional premises and at the margin of the economy (for a more in-depth analysis, see Cling et al., 2010; GSO-ISS & IRD-DIAL, 2009a and 2009b).

3.1. The informal economy in Vietnam

The LFS2007 is the first survey to paint a complete picture of the informal sector in Vietnam and pave the way for an assessment of labour conditions in this sector. In addition to providing national estimates and detailed information on job characteristics, the survey's main advantage is that it identifies jobs by institutional sector. Our analysis focuses on the informal sector, but systematically compares the findings with the five other institutional sectors: public sector, foreign enterprise, domestic enterprise, formal household business and agriculture.

A predominant informal sector. The LFS2007 reports that the informal sector accounts for almost 11 million jobs out of a total of 46 million jobs in Vietnam (Table 1). This represents nearly a quarter of all main jobs (23.5%), with nearly half of non-farm jobs found in the informal sector. If we aggregate main and second jobs, a total of 12.4 million jobs are held in the informal sector. On the whole, there are 8.4 million informal household businesses in Vietnam, of which 7.4 million are held by a head of HB in his/her main job and 1 million in his/her second job (Table 2).

Contrary to popular belief, the informal sector is not mainly an urban phenomenon: informal sector workers are more often found in rural and suburban areas, where 67% of them work (Table 3). At the same time, the share of the informal sector in total employment varies substantially among provinces. It is higher in more developed provinces and urban areas, despite the informal sector having relatively poor labour conditions (see below). This share is negatively correlated with the share of agricultural jobs (which is lower in these provinces/areas).

At national level, “manufacturing & construction” is the largest informal industry (43% of total employment in the informal sector), followed by “trade” (31%) and “services” (26%). We estimate that the informal sector contributes to 20% of GDP, without knowing what share is already included in the national accounts.

A majority of self-employment in the informal sector. At national level, the vast majority of IHBs consist of just one own-account worker, working at home or outdoors in the street. The proportion of wage workers is very low at just 24% of the labour force (Table 4).[7] Only agriculture posts a lower rate (7%). This compares with 30% of wage workers in total employment in Vietnam and 53% excluding agriculture.

7 In this report, the usual concept of “wage and salaried workers” is shortened to “wage workers”.

Many informal sector worker characteristics (age, gender, etc.) are similar to those in other sectors, with the exception of education: only farmers have a lower level of education than informal sector workers. Average income (1.1 million VN Dong/month) is also almost the lowest of all the institutional sectors, being higher only than average agricultural income. This corresponds to the "dualist" approach, where informal workers are at the bottom of the ladder and cannot find work elsewhere.

High heterogeneity. However, the income average is only part of the story, as the informal sector is highly heterogeneous, with a large majority of low-income earners and a small minority of successful entrepreneurs. The same heterogeneity can be observed in terms of level of education, working conditions, etc. The HB&IS survey provides detailed evidence of this heterogeneity in the case of Hanoi and HCMC (see hereafter).

Mostly wage workers in informal employment (out of the informal sector). Like the ILO, we also present some estimates on informal employment, adding employment in the informal sector to informal employment in the formal sector (unprotected forms of labour). As expected, most employment (82%) in Vietnam can be defined as informal employment (Table 5). Informal employment is widespread in the economy, and not just found in agriculture and the informal sector: the majority of jobs in domestic enterprises are also informal. In some industries such as "construction", "trade" and "accommodation", most workers are informal workers, working either in the formal or the informal sector.

3.2. The informal sector in Hanoi and HCMC

Drawing on the results of the LFS2007 for these two cities, let's start by underlining the fact that the informal sector is the number one employer in Hanoi and HCMC, as it is nationwide (excluding agriculture). We then turn to an analysis of the sector's main characteristics and labour conditions, based on findings from the HB&IS surveys conducted in Hanoi and HCMC, which provide detailed information on this sector.

If we exclude farming activities, the total number of informal household businesses comes to approximately 300,000 in Hanoi and 750,000 in HCMC. Total employment in these HBs amounts to respectively 470,000 and one million workers (Table 6). The large gap in the number of informal household businesses and jobs between the two largest cities in Vietnam (the ratio is less than 1 to 2) may be due to two factors. First, HCMC is the larger of the two cities in terms of geographical and residential area as well as population.[8] Second, the private sector in the southern city is reportedly more developed (as this city is more market-oriented compared with the capital city).

The informal sectors in Hanoi and HCMC share a fairly similar structure by industry. In both cases, IHBs are concentrated essentially in "*services*" (respectively 40% and 42% of total employment) and "*trade*" (31% and 29%), and only marginally in "*manufacturing & construction*" (28% and 29%). "Services" consist mainly of small restaurants, repair services and transport; "*trade*" of the retail trade; and *"manufacturing"* of food and textile & clothing products.

This sector breakdown differs a great deal from that observed at national level, where "*manufacturing & construction*" is the leading informal industry by far. The reasons for this discrepancy warrant further

8 The HB&IS survey was conducted before the government's decision to expand Hanoi, which was put into effect in August 2008. According to the 2009 Population Census, which included "greater Hanoi", the population of the country's capital (6.5 million inhabitants) is now almost equal to HCMC (7.1 million).

investigation. First, there is the share of "*construction*", which is much higher at national level. Second, "*craft villages*" may inflate the share of "*manufacturing*" at national level, but are not covered by our survey.[9]

Precarious operating conditions. IHBs operate in precarious conditions and have little access to public services (Table 7). They are atomised and entrepreneurial dynamics seem limited. The informal sector comprises an extremely high number of micro-units. In Hanoi as in HCMC, the average size of an IHB is 1.5 workers including the IHB head. The average size of an FHB is larger, especially in HCMC (Table 8).

The lack of premises is a major constraint that prevents IHBs from increasing their manpower. Only 16% of IHBs in Hanoi and 12% of IHBs in HCMC have specific premises from which to run their business. About 50% of informal entrepreneurs work from home and nearly 40% have no premises. The proportion of IHBs operating without premises is the highest in "trade" and "services", which often work outdoors, and the lowest in "manufacturing", where it is totally marginal.

Low earnings and poor labour conditions. The corollary of these precarious operating conditions is poor employment, income and labour conditions. Despite long working hours, earnings are low and social security coverage is non-existent. The median average monthly income is 1.5 million VND in Hanoi (slightly less in HCMC), without any significant difference between IHBs and FHBs (Table 9). The vast majority of the workers are self-employed or family workers (Table 10). The proportion of wage earners is very low. The number of years of schooling is below the average in Vietnam. Formal agreement between employers and employees in the form of a written contract exists only in exceptional cases. Workers in formal household businesses benefit from better conditions than in informal ones, even though these are far from satisfactory.

Women are overrepresented and discriminated against. Women are overrepresented in the informal sector, especially in HCMC where women represent 56% of employment compared with only 42% in the formal sector (Table 11). The wide gender income gap at the expense of female workers in informal production units is also worth noting. Men earn nearly 50% more than women in the informal sector despite there being no significant differences in working hours, education level and seniority. Female jobs are also more insecure than those held by men, and women less frequently have professional premises for their activity while a much higher proportion work outdoors.

Small percentage of migrants. Migrants only represent a small minority of workers in Hanoi (6%) and HCMC (17%). This finding is at variance with the Harris-Todaro model, which sees the informal sector as an employment fallback for migrants who cannot find work in the formal sector. This assumption is so widely accepted among economists that migration experts readily state, "The addition of migrants to the urban labor force has fueled the growth of the informal sector in LDCs" (White and Lindstrom, 2005). This is clearly not the case in Vietnam (at least not in Hanoi and HCMC), especially bearing in mind the migration control policy in force (*Ho khau*).

Employment surveys are usually restricted to gathering information on employment and worker characteristics. The HB&IS survey, which is an enterprise survey, takes things a step further and

[9] Few craft villages are covered by our surveys, as they operate neither in Hanoi (old restrictive definition before 2008) nor HCMC, but rather on their outskirts

collects data on production, capital and investment to gain a better understanding of how the informal sector works and its linkage with the rest of the economy, as well as its investment behaviour. An analysis of the main informal sector activity indicators calls for sector production and distribution accounts to be built. This is needed in particular to answer the abovementioned questions about the informal sector's integration into the national and international economy.

For most indicators, economic structure and performance are fairly close between both cities. This is especially the case with productivity, where average values are fairly similar in Hanoi and HCMC.[10] FHBs are not only much bigger on average in terms of average monthly value-added, but they are also much more productive: irrespective of the city and indicator chosen, average labour productivity is half to twice as high in FHBs as in IHBs.

The informal sector is not integrated into the rest of the economy. Purchases from and sales to the formal sector are marginal. In both cities, the informal sector is only marginally integrated into the rest of the economy. The main supplier of the informal sector is the informal sector itself. Its main market is households and household businesses; sales to the formal sector and sub-contracting are marginal. IHBs compete with each other. Competition is felt more keenly in Hanoi than in HCM City. This is somewhat paradoxical as “craft villages”, especially near Hanoi, are often quite integrated into the formal economy, as pointed out by Fanchette (2009). Yet as the HB&IS only covers the Hanoi province (old restrictive definition), the majority of these villages were not included in the sample.

Lack of capital and low investment rate. The analysis of capital held in the informal sector shows that it consists mostly of land and premises, along with equipment. The capital structure and investment behaviour of the informal sector in Hanoi and Ho Chi Minh City share many common characteristics, with the main one being an overall lack of capital and investment (except when starting up in business). This characteristic is consistent with the conclusion that the informal sector works on the fringes of the economy and as a “subsistence economy”.

Although most IHBs hold some capital, the median amount of capital is very low in both towns, which reflects their small size and lack of funding. IHBs usually own the capital they use, which is mostly made up of land and premises. The majority of the capital has been bought second-hand and is very old. The informal sector buys around half of its capital from the formal sector (public and private), with the rest coming from the informal sector itself and from households.

Less than one-fifth of IHBs invest for one year, usually when they start up in business, while they do not invest much thereafter (Table 12). This characteristic can be associated with a low percentage of IHBs applying for credit, which could be due to both a deliberate choice and difficulties with access to credit. The investment rate compared to the stock of capital is low, but is relatively high compared to their value-added. The “services” sector is the biggest investor in both cities, partly due to the younger average age of IHBs in this sector.

IHBs borrow to finance not their investments, but their current business, especially in terms of purchases of intermediate inputs. Yet whatever their use, only a small percentage of IHBs borrow funds. The banks are the main source of loans in Hanoi and in HCMC, with informal loans from family and friends far behind.

10 The similarity between the findings of the two independently conducted surveys can also be taken as an indicator of the high quality of the data collected.

Corruption appears to be marginal. In many countries, the informal sector is viewed as a grey zone prone to suffer from corruption. As IHBs often operate on the fringes of legality, they may be easy prey for malevolent civil servants or local officials. This issue is considered here for the first time in Vietnam, as we set out to quantify the phenomenon and provide reliable empirical evidence to guide the anticorruption strategy.

On the whole, corruption does not seem to be a major problem in the informal sector. In 2007, only 14% of Hanoi's IHBs and 7% of Ho Chi Minh City's IHBs had had a problem with the public authorities over the past year. The main problems generally had to do with compliance with public regulations, and business premises and location. The problem was settled with some sort of illegal payment in slightly under one-third of cases in Hanoi and less than one-fifth in Ho Chi Minh City (Table 13).[11]

In both Hanoi and HCMC, FHBs are more affected by corruption than IHBs. This appears to contradict the answers given by the FHBs, which consider (like the IHBs, but in twice as high a proportion) that the main and almost only advantage of registration is to reduce corruption. In addition to the fact that the FHBs giving this answer could be different from the ones affected by corruption, FHBs have different characteristics to IHBs such as larger size, which could explain their being more affected by corruption (although they might have been even more so if they had remained informal).

Few complaints and little demand for assistance. As the informal sector consists of micro-businesses operating in precarious and difficult conditions and generating low incomes, most IHBs would be expected to have major complaints and needs for assistance. On the whole, this is not the case: IHB expressions of difficulties and needs for assistance are far from widespread (Tables 14 and 15). Moreover, the largest and highest performance HBs (especially FHBs) are those that say they have the most problems and need for assistance. More than two-thirds of IHBs in Hanoi and more than half in HCM City say they have problems running their business. A higher proportion of formal HBs say they have problems, and competition is also felt more keenly by FHBs. Consistent with a higher percentage encountering difficulties of some sort, IHBs in Hanoi also express a greater demand for assistance than in HCM City. In Hanoi, the greatest demand concerns access to large orders. In HCMC, it concerns access to loans.

Whatever the number of IHBs expressing the need for assistance (the relatively low number on the whole could be due to a “fatalistic” making do), it is striking that the informal sector remains completely neglected by public policies. Not only does the informal sector not have access to the banks, it has no formal alternative, especially as micro-finance institutions, which are specifically adapted to HBs, are still nascent in Vietnam. Apart from micro-finance, no other support structures exist, whether private or public, to provide assistance with technical and accounts training, capacity building, market access, information, etc.

Last of all, IHB heads are not very optimistic about their prospects and only a small percentage of them would like their children to take over the business (Table 16). This percentage is very similar in Hanoi and HCM City. The proportion for FHBs is much higher. Our multiple component analysis shows that these “pessimistic” IHBs are also the ones that operate in the informal sector because they could not find wage work elsewhere.

[11] We define corruption here as the payment of bribes (also called “gifts”) to public officers, as well as fines without any receipt.

4. THE DYNAMICS OF THE INFORMAL SECTOR IN VIETNAM

IHB heads' opinions that there is little future for their IHB and lack of aspirations for their children to take over their business are an indicator of the rapid growth in formal employment in Vietnam, which provides opportunities for escaping the poor working conditions in the informal sector. However, the IHBs' hopes of getting formal employment might often be dashed, as medium-term projections suggest that employment in the informal sector is not going to decrease in coming years (even without allowing for the impact of the economic crisis in 2008-2009; Cling, Razafindrakoto and Roubaud, 2010). Provisional results drawn from the LFS make it possible to directly assess the informal sector's dynamics between 2007 and 2009.[12] These results confirm the growth of the informal sector during the last two years.

4.1. The informal economy is here to stay

Vietnam's impressive economic growth over the last decade has triggered a sharp increase in the rate of wage employment, which is one of the striking facts of the labour market developments in recent years: the rate rose from 19% in 1998 to 33% in 2006 (Cling et al., 2008). Wage employment grew particularly sharply in the industrial sector (including construction) during the last 10 years.

This spread of wage employment has affected all population categories (urban/rural, male /female, skilled and unskilled), but substantial differences in level subsist. Wage employment is obviously more developed among the most skilled manpower (86% among the highly skilled as opposed to barely one-quarter among the unskilled), and it is also more prevalent among urban dwellers and among men (35% compared to 25% for women).

The spreading of wage employment on the Vietnamese labour market has been accompanied with a steep decline in agricultural employment. From 1998 to 2006, the share of agricultural jobs has been reduced by 18 percentage points, from 67% to 49%. This trend is due to a vibrant urbanization process (according to the latest population census conducted in 2009 , the population has been growing by 3.4% annually in urban areas over the last decade, compared to 0.4% per year in rural areas; GSO and UNFPA, 2009). But at the same time, in all kinds of geographic areas, the proportion of out farm jobs has been on the rise, a shift particularly important in peri-urban areas (Cling et al., 2008). For instance, in the rural surroundings of the two main cities (Hanoi and Ho Chi Minh), agricultural employment has fallen down from 58% to 22% during the period.

In spite of the increase of wage employment and the expansion of the private formal sector underlined by here above, the informal sector still has a predominant weight in terms employment as shown by the LFS2007. Table 16 reports projections for 2010 and 2015 given the past trends (including the “demographic dividend” and the arrival of new entrants in the labour market). Our scenario is based on the following hypotheses:

- The demographic growth rate is maintained constant at 1.2% a year, according to results of the last Population Census 2009, corresponding to a 3.4% urban growth, while the rural growth rate is only 0.4% (GSO, and UNFPA 2009);

[12] A second survey on the informal sector was conducted in Hanoi and HCMC in November/ December 2009. The methodology and questionnaire were virtually identical, allowing for detailed time comparisons. The findings of this survey are not yet available.

- The number of jobs by institutional sectors and the unemployment registered in the LFS2007 have been adjusted to the "real" population in 2007, retropolated thanks to the newly available Census results. Consequently, the working age population has been reduced by 1,500,000 persons compared to the previous forecasts, and the age structure has been sensibly modified, in favour of the youngest (under 30 years old);[13]

- Vietnam will register a "demographic dividend", characterized by a massive arrival of new active population. Thus, the share of the 15-65 years old is supposed to increase from 62% in 2000 to 70% of the population in 2015 (GSO, 2009);

- We assume constant labour force participation rates by age category, distinguishing the 15 age group, as observed in the LFS2007.

- In terms of job's creation, we prolonged the previous sectoral trends, observed during the period 2003-2007 (GSO, 2008). During these years, two sectors registered a slight decrease in employment: -1% a year for primary sector employment and -0,4% for public jobs (both State and SOEs), while foreign enterprises grew at a huge + 18.7%, domestic enterprises registered + 14,4% and formal household business + 1.1%.

- Finally, we assume a constant unemployment rate by age group (2.2% at the national level; in fact, the past trend was even slightly decreasing).

Our simulation shows that **employment in the informal sector and its share in the total employment will rise in the next few years even without the economic downturn**. This phenomenon is due to the limited capacity of the private formal sector (even if it continues to grow with the same frantic rhythm as prior to the crisis) to absorb the new entrants in the labor market and the workers who move from agricultural activities to non-agricultural ones. The share of employment in the informal sector could rise from 23.5% in 2007, to 26% in 2010 and 27.2% in 2015. During this period the informal sector would gain 3.6 million jobs, from 10.8 million to 14.4 million. Consequently, we can expect that the informal sector will continue to represent a huge share of the employment in Vietnam for a certain number of years. Of course, these simulations can be refined, for example taking into account longer years at school for the young generation, and the consequent reduction in labour force participation rates, or some job reallocations due to changes in relative sectoral income. But the global patterns still hold.

One additional point should be stressed here. By contrast to the usual estimates of the number of jobs which have to be created each year on the Vietnamese labour market, commonly evaluated at 1.5 million, our work suggest that this figure is sharply overestimated.[14] According to our estimates (which are consistent to the employment figures found in GSO, 2008), the real labour force annual increase is around 1 million, and it will slightly decrease in the following years. In fact, the 1.5 million jobs roughly correspond to the size of the 15 year old age group. Obviously, not all of them will participate in the labour market. As a matter of fact, the labour force participation rate of the 15-19 years old group was only 37% in 2007. More comprehensive and evidence based data should be provided in the field of labour supply prospects in Vietnam.

13 The working age population includes all the population aged 15 years and older.

14 For instance, the Director of ADB in Vietnam declared recently that 1.57 million jobs should be generated annually in Vietnam (Vietnam News, September, 2009).

15 The MoLISA should be encouraged to undertake this domain of research more systematically.

This growth in informal employment is also shared with the other developing countries, contrary to the long-nurtured hope that the informal sector was a passing anomaly that would quickly disappear as development gained pace (Bacchetta, Ernst and Bustamante, 2009).

4.2. Evolution 2007-2009 and impact of the crisis

Most of the studies which have tried to assess the impact of the economic downturn tend to conclude that there will be a sharp rise in terms of unemployment but they fail to consider the informal sector (Cuong et al., 2009; Warren-Rodriguez, 2009). Many reports praise the formidable flexibility of the labor market in Vietnam, and assert that it permits to mitigate the negative impact of the global crisis. But at the same time they acknowledge that the negative impact on household income might be quite harmful (some workers will shift to lower paid jobs in the informal sector or return to agricultural activities). Unfortunately, due to the lack of reliable and relevant data, we know almost nothing on the share of the population who has experienced a job-loss or a sharp income drop. The great majority of the existing reports at the micro-level rely on qualitative analysis of some specific sub-sectors or categories of the population.

In fact, **the above mentioned studies miss a big part of the picture and overestimate the impact of the crisis on unemployment**. In Vietnam as in other developing countries, it is nowadays widely acknowledged that open unemployment is not the best indicator of market clearing: labour markets are clearing through qualitative adjustments more than through quantitative ones. In our report prepared to evaluate the impact of the crisis (Cling *et al.*, 2010), we considered that most new entrants on the labour market not finding jobs in the formal sector or laid-off workers will not become unemployed: they will end up working in the informal sector, which might be among the sectors most severely affected sectors.

The first results (still unpublished) of the Labour Force Survey conducted by GSO in September 2009 show that not only the unemployment rate has diminished (to less than 2%) but also that employment in the informal sector has grown since 2007 (although not as much as we expected). According to the LFS, employment has decreased in two institutional sectors: the public sector and agriculture both lost jobs; in the case of agriculture, the long term declining trend has therefore not been interrupted by the crisis. In the other institutional sectors, employment has increased, foreign enterprises registering a huge surge of employment (more than 50%). Domestic enterprises, formal household businesses and informal household businesses all gained jobs. Employment in the informal sector is now estimated to amount to 11.3 million jobs (+500,000 compared to 2007), which represents a slight increase of its share in total employment from 23.5% to 23.7% (Tables 18 and 19).

These unexpected figures may be explained by the formidable flexibility of the labor market in Vietnam, which permits to mitigate the negative impact of the global crisis. While the main structures of the labor market remained globally unaffected, the principal variable of adjustment during the slowdown has been the working hours. On the one hand, the average working time has been reduced by 1.6 hours a week, from 43.9 hours to 42.3 hours between 2007 and 2009. Part time workers (working less than 35 hours a week) where 21% in 2007. In 2009, they were 27%. On the other hand, to compensate for this contraction in available hours, more workers had to find additional sources of income by getting a second job. In two years, the multi-activity rate sharply increased from 18% to 25%.

Labour incomes do not seem to have been affected by the crisis: between 2007 and 2009, the average income increased by 66% in nominal terms (from 968,000 VND to 1,609 million VND). The rate of increase in the informal sector was equal to the average: it increased from 1 million VND to 1.7 million VND, which is the lowest of all institutional sectors except from agriculture.

The fact that the LFS 2009 was conducted in September must be underlined: the Vietnamese economy was already recovering by then according to some economic indicators (production, exports, etc.) and the worst of the crisis was already over. This can partly explain why the growth of employment in the informal sector is not higher and why incomes have increased so much. Because no adequate survey was conducted between 2007 and 2009,[16] we will never be able to evaluate the impact on employment of the crisis, when it hit Vietnam the hardest (that is during 2008 and up to the first quarter of 2009).

[16] The LFS 2008 was a very light survey which did not provide an appropriate breakdown of employment by institutional sectors (no information on the informal sector) and no information on incomes.

Box 1
Shedding light on informal sector dynamics;
A short analysis of HBs closing business between 2007-2009

In order to understand better informal sector dynamics and the impact of the crisis in Vietnam, two rounds of pilot surveys have been conducted by GSO in Hanoi and HCMC in 2007/2008 and 2009. These surveys have been conducted as part of a joint GSO-ISS/IRD-DIAL research project. The samples, which were drawn from the Labour Force Surveys 2007 and 2009, were statistically representative and more than 1,000 heads of household businesses were interviewed in each of these surveys. The methodology and questionnaire of both surveys were virtually identical, allowing for detailed time comparisons. The 2009 survey included a panel component which will help to measure better the evolution of the same household businesses over the period. Although the findings of this survey are not yet available when writing, we already managed to obtain information on household businesses which disappeared or changed activities since the first survey was conducted in Hanoi (2007).

The main conclusion we draw from our analysis is the relative stability of HBs over the period. Indeed, out of 1,310 household businesses interviewed in Hanoi in November 2007 (among which were 992 IHBs that is 76%), 958 (73%) are still operating as a household business in the same line of business two years later (November 2009). But 190 (14.5%) have stopped their business and 71 (5%) have changed activity, the remainder having changed the place of their premises (1.5%), become an enterprise (0.3%) or moved somewhere else without the interviewers being able to obtain information on them. Among household businesses, being registered or not (informal) does not affect the probability of having closed the business.

As this kind of survey was not conducted before in Vietnam, we cannot measure whether this attrition rate is normal in this country, or has been increased by the economic crisis. However, from the average age of HBs in 2007 (7.6 years), we can induce that over one two years around 26% of IHBs should have disappeared, making the hypothesis that their total number remains constant over the period (which is approximately the case according to the provisional results of the LFS2009 presented in this section). As the rate we obtain is much inferior to this, we can conclude that **the crisis has not provoked a massive closure of HBs and that is might even be the opposite**: in a normal growth period, there might have been more alternative job opportunities and more HBs might have closed.

The HBs have been asked about the reasons why they closed business. The rate of response is rather limited (only 129 out of 190 HBs gave the reason for closing business), so the answers can only be analyzed qualitatively. The main reason by far for closing business is related to finding a better job as an employee in the private or the public sector. Surprisingly, economic difficulties are evoked by a smaller proportion of HBs as the reason for closing business. Because the informal sector provides subsistence work at the bottom of the income scale in Hanoi, one can understand that in case of a reduction of demand, HBs will only close business when their income becomes too low to ensure the satisfaction of their most basic needs. Personal reasons (retirement, sickness, babysitting for grandchildren, etc.) are the third and last main reason for closing business.

We also have information on the characteristics of the HBs that closed their business, which is drawn from their answers to the 2007 survey. As expected, a higher percentage of HBs operating in the street, which are more precarious, has closed business than on average. HBs operating in the services sector have the highest rate of closure and manufacturing the lowest, which is consistent with the results we got from the 2007 survey on life expectancy of IHBs by industry. But the size of HBs or the age of their head does not seem to influence their probability of closure between 2007 and 2009.

5. DETERMINANTS OF FORMALITY AND INFORMALITY

In addition to the problem of the availability of suitable data, many feel that the chaos and confusion is due to the multifaceted nature of the informal sector and work motivations in this sector. Using multiple component analysis, we begin by underlining the existence of different categories of IHBs, corresponding to different work motivations. Our econometric analysis then allows us to understand the explanatory factors for registration, knowing that almost all IHBs are not aware of the regulations.

5.1. The "multi-segmented" informal sector

The economic literature contains three dominant schools of thought on the origins and causes of informality (Roubaud, 1994, Bacchetta, Ersnt and Bustamante, 2009).

The "dualist" school. The "dualist" approach is an extension of the work by Lewis (1954) and Harris and Todaro (1970). It is based on a dual labour market model where the informal sector is considered to be a residual component of this market totally unrelated to the formal economy. It is a subsistence economy that only exists because the formal economy is incapable of providing enough jobs.

The "structuralist" school. Unlike the dualist school, the "structuralist" approach focuses on the interdependencies between the informal and formal sectors (Moser, 1978; Portes et al., 1989). Under this neo-Marxist approach, the informal sector is part of, but subordinate to the capitalist system; by providing formal firms with cheap labour and products, the informal sector increases the economy's flexibility and competitiveness.

The "legalist" school. The "legalist" or "orthodox" approach considers that the informal sector is made up of micro-entrepreneurs who prefer to operate informally to evade the economic regulations (de Soto, 1989); this liberal school of thought is in sharp contrast to the other two in that the choice of informality is voluntary due to the exorbitant legalisation costs associated with formal status and registration.

According to the abovementioned "legalist" approach, micro-entrepreneurs made a deliberate choice to set up their business in this sector and are not constrained to do so, especially because of the lack of other job opportunities. The answers to our survey seem to confirm that many heads of informal units made indeed the deliberate choice to set up their business in this sector and do not consider it to be a marginal activity. But the claims made by this approach that informality is prompted by an excess of public regulations, especially steep rates of taxation in the formal sector, and the deliberate will on the part of informal set-ups to evade the legislation)is partially refuted in the case of Vietnam. All in all, regardless of the type of register considered (business, tax and social security registration), from 85% to 90% of the IHBs are not aware of the regulations. This high percentage is consistent with the results obtained by Tran Tien Cuong et al. (2008) on a large sample of household businesses surveyed in more than ten provinces. It is therefore essentially ignorance of their legal obligations that leads the heads of informal production units to fail to register.

In fact, the informal sector presents a "multi-segmentation" phenomenon as raised by the ILO and the WTO (Bacchetta, Ernst and Bustamante, 2009), whereby a number of very different categories of IHBs co-exist, each with their own characteristics. Our multiple component analysis finds that there are three specific IHB groups (this typology also applies more generally to all HBs):

- The *"Survivors"* IHBs (39% of the total) are the most precarious and insecure, that is the low-end group; their heads have a very low level of education; most of them operate outdoors (and therefore without any access to water or electricity) and the majority work in "services"; most of the IHBs in this group have ended up in this business because they could not find a job elsewhere;

- The *"Resourceful"* IHBs (51% of the total) are better off; the majority operate at home and have access to basic public services; half of their heads went to secondary school; the sector breakdown is much more balanced, with "trade" and "services" representing the bulk of the total, but also with a significant share of "manufacturing"; most of the IHBs in this group were created for reasons not related to labour market constraints, but for other reasons such as earning higher incomes;

- The *"Professional"* IHBs (10% of the total) are the high-end group; they are better educated, larger and often have professional premises; this group is more involved in "manufacturing" than the others; it includes a majority of male-headed HBs; lastly, almost half of these IHBs set up in business to be their own boss.

5.2. Explanatory factors for registration

The HB&IS survey has the advantage of capturing both formal HBs and informal HBs at the same time. We propose here using an econometric estimation to study more in detail why some production units register and others do not. The purpose of this is to identify different types of factors and analyse the extent to which they may have influenced business heads' decisions to become formal. The explanatory factors can be classed into three categories:

- The first factors are those directly related to the legislation in force;

- The second category covers individual factors associated either with the production unit heads' characteristics ("head of household business") or, in a corollary way, with the reasons why they set up the units;

- The third category concerns the incentives.

Legislation-driven factors. Bear in mind that HBs meeting a certain number of criteria theoretically have to register. Although the definition of these criteria and how they are enforced remains somewhat vague, they do concern three HB characteristics: income generated (if the income they generate exceeds a given ceiling); type of premises (itinerant activities do not have to register); and type of business (some activity sectors are subject to special controls). If the law were strictly enforced, these characteristics would be enough to explain why some HBs are formal (registered) and others are informal (unregistered). However, in keeping with the previous analyses, our econometric results find this to be far from the case.

The model's findings show that HB incomes, as well as size, are positively and significantly correlated with the registration decision. The probability of registering increases with the annual value-added generated by the units or with their size. The question could be asked as to the direction of the causality for these two variables. Did the HB's level of business lead its head to register? Or did the fact of being registered enable the business to grow? However, in both cases, concern to comply with the law (at the time of registration or before) could well have played a role.[17] Moreover, given identical business size, the probability of registration would appear to decrease with the number of employees (all the HBs are made up of an HB head accompanied, where applicable, by family workers and employees). This finding could reflect a will to dodge the obligation to register these employees with social security.

In terms of activity sectors, the law singles out mainly roving businesses (which are exempt) and a few specific activities calling for strict controls (health and safety: sale of food products, pharmaceuticals, gas, etc.), which are legally bound to register. So, aside from these few specific activities, we might expect to find relatively homogeneous behaviour in terms of registration.

Yet the probability of registering varies a great deal from one sector to the next. Manufacturing activities (textiles, manufacture of food products, etc.) and especially HBs in the “construction” sector turn out to be the least inclined to register. Service activities are in a mid-range position, but the probability of their being registered remains lower than roving traders. Trade businesses are the most liable to comply with the law. Of these, in keeping with the legislation, wholesale traders and retail traders set up in specific stores are more likely to register as formal businesses than roving traders.

Lastly, the type of premises plays a decisive role in registration. The decision to register is found much more frequently among HBs with professional premises and is much scarcer among HBs without fixed business premises. HBs that run their business from home are found between these two extremes.

Individual factors. Turning to the HB heads' characteristics, firstly, the level of education significantly influences their behaviour in the face of the legislation. The most well-educated are more inclined to register. They are better informed, more able to handle the procedures and more ambitious when it comes to developing their business. Secondly, women seem less willing to register the businesses they run, but the significance of the coefficient is small. This finding could be due to their attitude to their activity, which they do not see as a real “business”, but as an “auxiliary” activity. In line with this logic, the reasons why the HBs were set up also influence the registration decisions. Businesses set up to be independent or to follow a family tradition show a greater probability of being formal compared with those set up by default (for want of a wage job) or to make extra income for the household (auxiliary activity). Therefore, the formal or informal nature of a business would appear to be determined right from its creation. The number of years in business apparently has no impact on registration. Lastly, migrants, more vulnerable and less confident about how long their businesses will last, are less likely to register them.

Incentives. The unit heads (formal and informal) were asked about the advantages they could gain from registering their businesses. The incentives they mentioned do indeed prove decisive insofar as, other things being equal, the probability of having a formal business is greater among those who mention them (compared with those who raise no advantages). Access to credit is one exception since it could potentially be facilitated by registration, but this benefit is not confirmed by the registered HBs. However, access to markets, the possibility of developing relations with large firms and the possibility of becoming known all appear to have influenced the unit heads' decisions to register. Similarly, one of

[17] Note that the legislation does not directly consider HB size (number of persons working in the unit) as a criterion (except for units employing more than ten people, which must then register pursuant to the Law on Enterprises). Yet size is closely correlated with the level of business and is easier to measure reliably than income generated (or value-added). Secondly, the larger the units the more visible they are and therefore the more likely they are to be controlled by public

the factors mentioned the most by the formal HBs is that registration means they are less exposed to corruption. This finding is paradoxical in that formal HBs are also the hardest hit by corruption. To solve this paradox, we have studied the cross effects of the two variables (victim of corruption, on the one side, and saying that registration reduces corruption, on the other). The findings show that registration is positively and significantly correlated with mentioning this advantage, irrespective of whether the HBs are victims of corruption or not. So registration protects at least partially from corruption (as the HBs feel they would be harder hit if they were informal).

6. POLICIES

The nature of the informal sector's relations with the State is a central consideration in the role that this sector plays in the development process in poor countries. Paradoxically, despite causing a lot of ink to flow, this field of investigation remains largely unexplored, especially in Vietnam. The quality of the business environment is one question we need to study in this respect, as well as the actual and potential impact of public policies on the informal sector.

The World Bank's annual *Doing Business* report ranks Vietnam in an average position (92nd in 2009) for ease of doing business (World Bank, 2009). It ranks very low for "*starting a business*" (108th) and even worse for "*paying taxes*" (140th). Although some regulations weigh negatively on the business environment, it remains to be seen whether these regulations affect the informal sector.

Below a certain level of business done, household businesses are not required to get a business licence and can operate freely. Household businesses are exempt from business tax (and now from personal income tax) if their turnover is too small. The empirical evidence suggests that the informal sector as a whole is unknown to the State registration services. Nevertheless, the absence of registration (*business register*) does not mean that the informal sector is not taxed; more than one-third of IHBs pay one sort of tax in Hanoi (mostly local taxes), although this proportion is much lower in HCMC. The situation is quite different for the FHBs. By definition, all FHBs have a business licence. Most of them are also on a tax register and pay income and other sorts of taxes.

6.1. No policies towards the informal sector in Vietnam

As the informal sector is here to stay, and since there is a strong connection between the informal sector and urban poverty, public policies cannot ignore this sector. Nonetheless, the State's ambivalent and inconstant attitude to the informal sector constitutes a source of uncertainty that needs to be lifted if the productive effort of informal entrepreneurs is not to be constantly frustrated. In Vietnam, there are currently no policies targeting the informal sector.

Interviews have been conducted with MoLISA (Bureau of Employment) for the preparation of this study. They show that, although MoLISA is in charge of employment policies, it does not consider that the informal sector (of which it does not know the definition) should be a target of its policies. Overall, one has to underline the fact that there is no equivalent for employment of the strategy addressing poverty, within the National Targeted Programme for Poverty Reduction (NTP-PR) conducted by MoLISA. The preparation of a National Employment Strategy is contemplated for 2010, which should be included in the Socio-Economic Development Plan for 2011-2015.

Nonetheless, employment policies conducted by MoLISA have undoubtedly an impact on the informal sector, even if this sector is not targeted explicitly. It is especially the case of vocational training policies, some of which focus on farmers whose land was claimed (who might turn to work in the informal sector). The same can be said about support policies to craft villages conducted by the Ministry of Agriculture and Rural Development (MARD): also they do not target the informal sector specifically, one can expect that many informal household businesses working in the villages benefit from them.

Box 2
Business Registration of Household Businesses
(Decree N°88 dated 29/08/2006 on Business Registration, Article 36)

1. A household business as owned by one Vietnamese citizen, by one group of persons or one individual household may be registered for business at one location only, may employ only up to ten (10) employees, shall not have a seal, and shall be liable for its business activities to the full extent of its assets.
2. Household businesses which engage in agricultural, forestry, fishery or salt production or which are street hawkers, nosh vendors, long-distance traders, itinerant traders or service providers earning low income shall not be required to register their businesses, unless they conduct business in conditional lines of business. People's committees of cities and provinces under central authority shall stipulate the applicable level of low income within their locality. The stipulated level of low income may not be higher than the stipulated threshold at which personal income tax is payable in accordance with the law on tax.
3. Any household business which employs regularly more than ten (10) employees must register business as an enterprise.

The Ministry of Planning and Investment (MPI) is in charge of fixing the rules for registration of household businesses. Provincial directorates of the MPI are in charge of registration, which is conducted in practice by the districts. Decision N°88/2006/ND-CP dated 29/8/2006 of the Government on business registration fixes general rules on this subject (see Box 2). The decree is relatively vague on the exceptions for specific businesses and the threshold which is fixed at district level (it cannot be higher than the threshold at which income tax is payable), In fact, one can consider that almost all household businesses should theoretically be registered: as the thresholds are very low, there are almost no household businesses below them which are therefore exempted from registration. But this is far from being the case as it is shown by the results of surveys described in this study: around three quarters of household businesses are not registered at the national level. Interviews conducted at MPI show that this Ministry is aware of this situation but does not seem to consider that addressing this issue should be a priority.

The Ministry of Finance (MoF) is in charge of household business's taxation. Three kinds of taxes are collected: the registration tax, the VAT and the income tax. From our interviews with MoF's experts, it appears that the poorest HBs are exempted for social purposes. The key question is how to identify these low income HBs. Our MoF's interlocutors are quite confident tax evasion is not an issue in Vietnam. Concretely in the field, the exhaustive list of HBs (whether registered or not) is established at the local level by the tax administration (in collaboration with the local People's Committee). HB's heads are supposed to self-declare their activity (industry, turn-over, income, etc.), according to the HB's books. Then, this information is cross-checked by the local administration, which decides who should pay and for which amount. Furthermore, the list of tax payers and the nominative tax amount is publicly posted to the scrutiny of the neighborhood.

This process of “peer review” is supposed to equalize the tax burden, as each HB can claim for unfair treatment, if it considers it is paying more than it should compared to others operating with the same conditions. Nevertheless, we are less sure whether these procedures really ensure horizontal equity among the HBs. The empirical evidence suggests that the correlation between taxation and the true level of activity is quite fuzzy, the most “visible” ones being more often taxed, whatever their income. The huge discrepancy between the number of HBs controlled for tax purposes (around 1.2 million) and the total number of HBs captured through the statistical surveys (8.4 million) is compatible with a substantial phenomenon of tax evasion.

The government's approach towards household businesses seems to be changing progressively, with an increased interest towards them. In June 2009, the government has adopted Decree N°56/2009/ND-CP on Support to Development of Small- and Medium-sized Enterprises (SMEs). SMEs are defined according to different thresholds. The employment threshold if 300 employees in general and 100 employees in trade & services. SMEs employing less than 10 employees are considered as “Micro-enterprises” (and not as “household businesses” anymore). This could mean that in the future micro-enterprises will fall under the Law of Enterprise and not be considered apart anymore.

Decree N°56 considers three main kinds of support policies towards SMEs, especially for micro-enterprises: financial support (bonified credits); training; technical assistance. As it is the case for policies conducted by MOLISA, the informal sector is not specifically targeted by MPI's policies. One might even consider that it is excluded from them, as all SMEs are supposed to be registered according to this Decree (which is not the case for household businesses). Indeed, whereas micro-enterprises (=formal household businesses) have largely benefitted from bonified credits granted within the Stimulus Package launched by the Vietnamese government in 2009, informal household businesses have not benefitted at all from these bonified credits according to our surveys.

6.2. The need for targeted policies

Targeted policies should especially take into account the heterogeneity of the informal sector. A “one size fits all” scheme would not be appropriate as there is no one single reason for working in this sector and different categories of IHBs experience different kinds of problems. These policies could be designed along two lines (ILO and WTO, *ibid*.):

Formalising informal business households. In general, formalising IHBs is seen as a way of increasing government revenues (by taxing those IHBs not previously subject to the tax) and improving IHBs' operating conditions and earnings. In Vietnam, IHB registration does not appear to be considered to be difficult (World Bank, 2009). The priority is therefore first and foremost to put in place formalisation incentives, which could take the form of granting special advantages (access to credit, social security, professional premises, etc.) among others. Given that our analysis shows that many HBs are informal by choice on the basis of a cost-benefit calculation of formalisation, this means changing their trade-off terms.

Supporting the informal sector. Widespread IHB formalisation could not be introduced in the short and medium run. It would be too expensive. The flipside of formalisation policies is the need to help those that remain informal. The magnitude of the problems faced by IHBs necessarily calls for a wide range of policies to be put in place. High on the agenda are vocational training (in view of the low skills among the manpower, which reduce their productivity and income), improvements to access to credit (microfinance) and the introduction of social security formats for this sector with its highly precarious working conditions. Although the Vietnamese government clearly opted for a universal social security system, the voluntary membership programme introduced in 2008, which targeted informal sector workers in particular, counts merely a few thousand beneficiaries compared with millions who should benefit from the system.

Yet before these as-yet-to-be-devised policies can be put in place, the very concept of the informal economy (sector and employment) needs to acquire a legal and recognised existence in Vietnam, currently not the case despite its weight, so that the different public agencies can give it their full consideration. The adoption of a single concept underpinned by a consensus is vital for the definition of targeted policies. This would forge the missing link, overlooked by the development policies, between the shiny, globalised face of Vietnamese growth (foreign investment, public and foreign enterprise, exports, new technologies, higher education, etc.) and the peasantry as a priority target of poverty reduction policies.

Last of all, the institutional channel has to be defined through which surveys on the informal sector can be permanently integrated into the national economic information systems. Thanks to project advocacy and comprehensive results, the Vietnamese government has endorsed an official decision to conduct a specific national survey on the informal sector every two years starting in 2010,[18] while a new round of follow-up surveys at national level for the LFS and in the two main cities for the HB&IS surveys was launched in 2009. This is a huge step in the right direction. It should be furthered with research and think tank work on incorporating the information collected into the national accounts.

18 See the Prime Minister (2008): Decision 144/2008/QD-TTg on the National Survey Program, 29 October, Hanoi.

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ANNEX 1: LIST OF PERSONS INTERVIEWED

Ministry of Planning and Investment (MPI)

Nguyen Khac Huy, Division of Business Registration, MPI.

Nguyen Thi Bich Thuy, Division of Small and Medium Enterprises Development, MPI.

Ministry of Finance (MoF)

Huynh Vuong Nam, Deputy Head, VAT and Special Consumption Tax Division, Policy Tax Department, MoF.

Phan Thi Hong Nhung, Officer, Income Tax Division, Policy Tax Department, MoF.

Ministry of Labour, Invalids and Social Affairs (MoLISA)

Tao Bang Huy, Deputy Director, Bureau of Employment, MoLISA.

5th Public Policy Seminar, (College of Economics,VNU, October, 8, 2009)

Nguyen Thi Thu Hang, Professor, College of Economics, Vietnam National University, Hanoi.

Phan Quang Ngoc, Researcher, Development Policy Centre, DEPOCEN, Hanoi.

Vu Quoc Huy, Director of the Faculty of Development Economics, Vietnam National University, Hanoi.

National workshop on Informal employment in Vietnam (MoLISA, ILO, March, 4, 2010)

Le Dang Doanh, former Director of Center of International and Economic Management (CIEM).

Daniel Mont, Senior Economist, World Bank, Hanoi.

Nguyen Ba Ngoc, Vice Director of ILSSA, MoLISA.

Nguyen Dai Dong, Director of Bureau of Employment, MoLISA.

Nguyen Thi Hau, Vice Director of HCMC Institute for Development Studies.

Nguyen Van Doan, Director of Institute of Statistical Science, General Statistics Office (GSO).

Sandra Yu, Local Strategies for Decent Work Specialist, ILO, Bangkok.

ANNEX 2: LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AFRISTAT	Observatoire Economique et Statistique d'Afrique Subsaharienne
AHBS	Annual Household Business Survey
CIEM	Central Institute for Economic Management (Vietnam)
DANIDA	Danish International Development Assistance
DIAL	Développement, Institutions et Mondialisation (France)
FHB	Formal Household Business
GDP	Gross Domestic Product
GSO	General Statistics Office (Vietnam)
HB	Household Business
HB&IS	Household Business and Informal Sector Survey
HBC	Household Business Census
HCMC	Ho Chi Minh City
IHB	Informal Household Business
ILO	International Labour Organization
ILSSA	Institute for Labor Science and Social Affairs (Vietnam)
IRD	Institut de Recherche pour le Développement (France)
ISS	Institute of Statistical Science (GSO, Vietnam)
JICA	Japan International Cooperation Agency
LDC	Least Developed Country
LFS	Labor Force Survey
LSMS	Living Standard Measurement Study
MARD	Ministry of Agriculture and Rural Development
MoF	Ministry of Finance
MoLISA	Ministry of Labour, Invalids and Social Affairs

MPI	Ministry of Planning and Investment
NFHB	Non-Farm household Business
NSO	National Statistical Office
OECD	Organization for Economic Co-operation and Development
SME	Small and Medium Enterprise
VHLSS/VLSS	Vietnam Household Living Standards Survey / Vietnam Living Standards Survey
VND	Viet Nam Dong
VSS	Vietnam Social Security
WTO	World Trade Organization

ANNEX 3: MAIN RESULTS ON THE INFORMAL SECTOR AND INFORMAL EMPLOYMENT

Table 1. Main jobs in the informal sector by industry, Viet Nam 2007

Industry		Total Jobs	Informal sector jobs		Rate of ((Informality))
		Number	Number	Structure (%)	(%)
Agriculture*	**A**	**23,118,135**	**-**	**-**	**-**
Manufacturing & other:		**9,297,149**	**4,650,255**	**42.8%**	**50.0%**
Mining	B	300,555	117,895	1.1%	39.2%
Manufacturing	C	6,241,003	2,612,999	24.1%	41.9%
Electricity	D	131,956	3,692	0.0%	2.8%
Water supply	E	113,832	33,795	0.3%	29.7%
Construction	F	2,509,803	1,881,874	17.3%	75.0%
Trade:					
Wholesale/retail trade	G	5,533,135	3,352,031	30.9%	60.6%
Services:		**8,250,691**	**2,834,753**	**26.3%**	**34.4%**
Transportation	H	1,404,566	739,924	6.8%	52.7%
Accommodation	I	1,744,149	1,131,143	10.4%	64.9%
Communication	J	242,786	9,828	0.1%	4.0%
Finance	K	203,653	6,938	0.1%	3.4%
Real Estate	L	58,522	2, 636	0.2%	37.0%
Professional	M	167,303	24,984	0.2%	14.9%
Administration	N	155,126	36,041	0.3%	23.2%
Communist Party	O	1 104,011	-	0.0%	0.0%
Education	P	1,589,527	43,760	0.4%	2.8%
Human health	Q	401,617	28,910	0.3%	7.2%
Arts	R	254,933	120,295	1.1%	47.2%
Other service	S	775,285	566,299	5.2%	73.0%
Activ household	T	144,326	125,592	1.2%	87.0%
Extraterritorial	U	4,887	403	0.0%	8.2%
Total (non farm)		**23,093,065**	**10,860,770**	**100%**	**47.1%**

Source: LFS2007, GSO; authors' calculations.
**Agriculture includes Forestry and Fisheries.*

Table 2. Number of formal and informal HBs jobs by industry in Vietnam

Industry	Number of household businesses						
	In main job		In secondary job		In main and secondary job		
	Informal	Formal	Informal	Formal	Informal	Formal	Total
Agriculture	*16,774,800*	*55,600*	*5,161,300*	*5,100*	*21,936,100*	*60,700*	*21,996,800*
Manufacturing	2,177,500	266,700	472,000	10,700	2,649,500	277,400	2,926,900
Trade	2,908,300	1,011,600	327,600	34,200	3,235,900	1,045,800	4,281,700
Services	2,249,200	541,500	238,200	28,800	2,487,400	570,300	3,057,700
Total HB	**24,110,100**	**1,875,400**	**6,199,100**	**78,700**	**30,309,200**	**1,954,100**	**32,263,300**
Total non-farm HB	**7,335,300**	**1,819,800**	**1,037,800**	**73,600**	**8,373,100**	**1,893,400**	**10,266,500**

Source: LFS2007, GSO; authors' calculations.

Table 3. Socio-demographic characteristics of occupied workers by institutional sector in Vietnam (%)

Institutional sector	Rural (%)	Household heads (%)	Ethnic minorities (%)	Female (%)	Age	>=Upper secondary educ (%)
Public sector	43.9	39.3	6.4	45.7	38.1	79.3
Foreign enterprise	56.6	17.0	2.5	61.2	28.6	51.8
Domestic enterprise	49.2	26.5	4.2	39.5	31.7	47.3
Formal HB	46.0	35.5	6.1	46.5	36.9	31.2
Informal sector	**66.9**	**39.6**	**3.9**	**48.7**	**38.3**	**15.7**
Agriculture	94.1	38.4	22.8	51.6	39.5	9.2
Total	**75.2**	**37.4**	**13.8**	**49.4**	**38.2**	**23.1**

Source: LFS2007, GSO; authors' calculations.

Table 4. Main job characteristics by institutional sector in Vietnam

Institutional Sector	Seniority (years)	Wage workers (%)	Social Security (%)	Hours/week	Income* (1,000 VND/month)
Public sector	11.3	98.7	87.4	44.4	1,717
Foreign enterprise	4.1	99.4	82.8	51.0	1,622
Domestic enterprise	4.5	92.4	42.8	51.5	1,682
Formal HB	7.2	34.4	1.9	52.4	1,762
Informal sector	**8.0**	**23.9**	**0**	**47.5**	**1,097**
Agriculture	17.0	7.2	0.1	39.5	652
Total	**12.5**	**30.0**	**14.2**	**43.8**	**1,060**

Source: LFS2007, GSO; authors' calculations.
*Note: *: positive income only.*

Table 5. Socio-demographic characteristics of labour force by institutional sectors (Hanoi and HCMC)

Institutional Sector	Hanoi		Hochiminh City	
	Main jobs (Number)	Structure (%)	Main jobs (Number)	Structure (%)
Public	452 200	28.6	625 119	19.7
Foreign Enterprise	72 900	4.6	211 292	6.7
Domestic Enterprise	222 800	14.1	600 291	18.9
Formal Household Business	137 300	8.7	554 119	17.5
Informal Household Business	**473 200**	**29.9**	**1 044 000**	**32.9**
Agriculture	209 100	13.2	110 525	3.5
Total	**1 582 500**	**100.0**	**3 175 400**	**100.0**

Source: LFS 2007, GSO; authors' calculations.
Total employment is not exactly the sum of employment in all sectors, because nearly 1 % of jobs cannot be affected to a determined sector of activity.

Table 6. Informal employment in the main job by institutional sector in Vietnam

Jobs	Number (1,000)	Structure (%)	Enterprise's institutional sector (%)					
			Public sector	Foreign enterprise	Domestic enterprise	Formal HB	Informal sector	Agriculture
Formal	8,518	18.4	87.7	82.8	47.1	52.0	0	1.0
Informal	37,693	81.6	12.3	17.2	52.9	48.0	100	99.0
Total	**46,211**	**100**	**100**	**100**	**100**	**100**	**100**	**100**
Informal	**37,693**	**-**	**611**	**156**	**1,400**	**1,719**	**10,866**	**22,887**

Source: LFS2007, GSO; authors' calculations.
Note: Total employment is not exactly the sum of employment in all sectors, because 0.3 % of jobs cannot be classed in a given institutional sector.

Table 7. Type of premises among informal household businesses (% of Hbs)

Economic activity	Hanoi				Hochiminh City			
	No premises (road, market)	Home	Professional premises	Total	No premises (road, market)	Home	Professional premises	Total
Manuf.& constr.	6.5	85.4	8.1	100	2.0	91.5	6.5	100
Trade	45.3	32.5	22.2	100	42.5	41.5	16.0	100
Services	49.1	36.9	14.0	100	50.2	38.1	11.7	100
Total IHB	**39.9**	**44.1**	**16.0**	**100**	**37.2**	**50.9**	**11.9**	**100**
Total FHB	**5.8**	**35.3**	**58.9**	**100**	**2.9**	**36.3**	**60.8**	**100**
Total HB	**33.3**	**42.4**	**24.3**	**100**	**28.5**	**47.1**	**24.4**	**100**

Source: HB&IS survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 8. Average size of IHBs and rate of wage earners

Industries	Average size of Hbs		Rate of wage earners (% of jobs)	
	Hanoi	HCMC	Hanoi	HCMC
Manuf. & constr.	2.2	2.0	37.9	35.2
Trade	1.3	1.3	3.5	7.1
Services	1.3	1.4	9.0	10.5
Total IHB	**1.4**	**1.5**	**15.3**	**16.9**
Total FHB	**2.3**	**2.6**	**31.4**	**41.9**
Total HB	**1.6**	**1.8**	**19.7**	**26.3**

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 9. Working hours and earnings in the informal sector (including heads of Hbs)

Industries	**Weekly working hours**: average		**Monthly income: average** *(1,000 VND)*		**Monthly income: median** *(1,000 VND)*		**Hourly income** *(1,000 VND)*	
	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC
Manufacturing	51.4	51.6	2,298	1,919	1,500	1,300	10.6	8.9
Trade	48.6	55.2	2,195	2,055	1,330	1,270	10.8	8.9
Services	48.4	50.3	2,553	2,394	1,557	1,473	12.6	11.3
Total IHB	**49.3**	**52.1**	**2,365**	**2,156**	**1,500**	**1,371**	**11.4**	**9.9**
Total FHB	**54.4**	**59.9**	**3,597**	**3,737**	**1,500**	**1,500**	**15.7**	**15.0**
Total HB	**50.7**	**55.0**	**2,703**	**2,750**	**1,500**	**1,400**	**12.7**	**11.9**

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 10. Informal sector job type structure (% of Hbs)

Industries	Hanoi					Hochiminh City				
	Self-employment	No wage earners	Wage earners	Mix	Total	Self-employment	No wage earners	Wage earners	Mix	Total
Manufacturing	45.2	23.4	23.5	7.9	100	57.0	21.7	16.6	4.7	100
Trade	78.4	19.6	1.7	0.3	100	75.6	20.0	3.2	1.2	100
Services	79.1	13.3	5.6	2.0	100	73.8	16.2	6.9	3.1	100
Total IHB	**72.7**	**17.5**	**7.4**	**2.4**	**100**	**70.7**	**18.6**	**7.8**	**2.8**	**100**
Total FHB	**35.0**	**36.8**	**17.4**	**10.8**	**100**	**31.0**	**31.2**	**25.6**	**12.2**	**100**
Total HB	**65.4**	**21.3**	**9.3**	**4.0**	**100**	**60.6**	**21.8**	**12.3**	**5.2**	**100**

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 11. Characteristics of jobs in the informal sector

Industries	Number of jobs Total		Women %		Average age (years)		Average number years of schooling		Tenure (months)	
	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC
Manuf. & constr.	128,901	330,733	27.3	49.9	35.7	37.2	9.3	8.1	68.9	88.8
Trade	150,794	320,756	72.7	66.5	40.7	44.9	9.0	7.6	84.2	93.2
Services	183,520	466,084	47.9	51.9	42.3	41.9	9.8	8.1	68.8	84.2
Total IHB	**463,216**	**1,117,573**	**50.3**	**55.5**	**39.9**	**41.4**	**9.4**	**7.9**	**73.9**	**88.1**
Total FHB	**175,322**	**672,987**	**50.8**	**50.6**	**36.5**	**36.2**	**10.9**	**9.3**	**73.2**	**70.8**
Total HB	**638,538**	**1,790,560**	**50.4**	**53.6**	**39.0**	**39.4**	**9.8**	**8.4**	**73.7**	**81.6**

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 12. Investment amounts and ratios in the informal sector

Industries	HBs with capital which have invested (%)		Rate of investment Invest/capital (%)		Rate of investment Invest/Value-added (%)	
	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC
Total IHB	14.0	18.7	12.1	8.1	38.8	31.1
Total FHB	9.8	14.9	3.3	3.3	17.7	14.4
Total HB	13.1	17.7	7.8	5.4	31.1	22.5
Industries	**Value of total investment** *(billion VND)*		**Average amount by Hbs which have invested** *(1,000 VND)*		**Median amount by Hbs which have invested** *(1,000 VND)*	
	Hanoi	HCMC	Hanoi	HCMC	Hanoi	HCMC
Total IHB	5,043	8,467	117,236	64,724	2,000	500
Total FHB	1,325	4,412	178,529	118,989	2,000	10,800
Total HB	6,368	12,878	126,253	76,708	2,000	900

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.
Note: Due to the low percentage of borrowing HBs, the sector results are deemed insufficiently robust and are therefore not presented in the table.

Table 13. Problems with public officials and corruption in the informal sector

Industries	Problems with public officials (%)	For HBs that had problems with the state, how was the problem settled? (%)				Mean amount of payment (1,000 VND)		Incidence of corruption (% of HB)
		Fines (no receipt)	Bribes	Other	Total	Fines (no receipt)	Bribes	
Hanoi								
Manufacturing	5.2	23.7	9.1	67.2	100	-	138	1.7
Trade	13.4	3.9	10.1	85.9	100	212	1,773	1.8
Services	19.1	24.1	18.5	57.5	100	248	780	8.3
Total IHB	**14.4**	**15.8**	**14.2**	**70.0**	**100**	**241**	**924**	**4.5**
Total FHB	**16.7**	**14.1**	**27.0**	**59.0**	**100**	**816**	**1,665**	**7.4**
Total HB	**14.9**	**15.4**	**17.2**	**67.4**	**100**	**343**	**1,213**	**5.1**
Hochiminh City								
Manufacturing	2.0	0.0	16.2	83.8	100	300	200	0.4
Trade	7.6	9.2	3.2	87.6	100	126	2,400	1.0
Services	8.4	11.0	19.1	69.9	100	240	342	2.6
Total IHB	**6.8**	**9.6**	**13.0**	**77.5**	**100**	**209**	**468**	**1.6**
Total FHB	**10.4**	**20.1**	**19.8**	**60.2**	**100**	**769**	**1,221**	**4.4**
Total HB	**7.7**	**13.4**	**15.4**	**71.3**	**100**	**434**	**722**	**2.3**

Source: HB&IS Survey, Hanoi (2007), Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.
Note: The mean amount is calculated for each transaction.

Table 14. Five main problems encountered by the informal sector
(ranked in order of decreasing importance; % of Hbs)

Industries	Informal HB		Formal HB		HB	
	Problem	Among them: severe/major	Problem	Among them: severe/major	Problem	Among them: severe/major
Hà Nội						
1. Sale of production-too much competition	52.4	23	70.1	21.8	55.9	22.6
2. Sale of production-lack of customers	31.4	12	51.3	7.4	35.3	10.7
3. Lack of space, unsuitable premises	19.1	8.4	17.5	20.3	18.8	10.7
4. Supply of raw materials	13.9	7.7	31.6	1.9	17.4	5.7
5. Financial - access to loan	6.9	11.3	15.5	3.8	8.6	8.8
At least one kind of severe/major problem	**-**	**17.2**	**-**	**23.4**	**-**	**18.4**
No problem	**30,1**	**-**	**17,2**	**-**	**27.6**	**-**
TP. Hồ Chí Minh						
1. Sale of production-too much competition	20.3	26.9	41.1	31.4	25.6	28.8
2. Sale of production-lack of customers	17.0	16.0	26.2	13.3	19.4	15.1
3. Lack of space, unsuitable premises	15.5	26.6	17.3	27.2	16.0	26.7
4. Supply of raw materials	12.7	29.1	16.3	25.4	13.6	28.0
5. Financial - access to loan	6.9	8.6	17.1	9.2	9.5	8.9
At least one kind of severe/major problem	**-**	**18.6**	**-**	**26.3**	**-**	**20.6**
No problem	**48.7**	**-**	**32.4**	**-**	**44.6**	**-**

Source: HB&IS Survey, Hanoi (2007) & Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.
Notes: Column totals may be over 100% since more than one answer could be given.
Due to lack of space, the long list of problems mentioned by respondents has been shortened.
Problems not included in the table concern

Table 15. Five main needs for assistance required by informal production unit heads
(ranked in order of decreasing importance; % of Hbs)

Type of assistance *(from the most important)*	Informal Household Business			Household Business		
	Manufacturing	Trade	Services	IHB	FHB	Total HB
Hanoi						
1. Access to large orders	31.2	26.9	13.1	21.6	45.0	26.1
2. Access to market information	19.4	16.9	7.7	13.3	37.9	18.1
3. Access to loans	13.9	7.4	6.1	8.0	17.4	9.9
4. Supply assistance	10.2	10.2	3.1	7.0	18.0	9.2
5. Technical training	19	1.6	3.7	5.7	9.6	6.5
At least one type of assistance	**50.4**	**37.2**	**22.9**	**33.2**	**61.1**	**38.7**
Do not need any assistance	**32.5**	**43.1**	**65.9**	**51.3**	**32.6**	**47.7**
Hochiminh City						
1. Access to large orders	13.4	13.5	13.3	13.4	17.5	14.4
2. Access to market information	15.5	6.4	3.6	7.1	18.3	9.9
3. Access to loans	12.8	1.2	3.5	4.8	8.6	5.8
4. Supply assistance	6.1	3	2.4	3.4	12.3	5.7
5. Technical training	8.8	2.7	2.5	4	6.4	4.6
At least one type of assistance	**38.5**	**22.9**	**23.5**	**26.6**	**40.8**	**30.2**
Do not need any assistance	**57.2**	**69.5**	**70.8**	**67.4**	**53.9**	**64.0**

Source: HB&IS Survey, Hanoi (2007) & Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.
Note: Column totals may be over 100% since more than one answer could be given.

Table 16. Future prospects for the heads of informal production units (% of Hbs)

Industries	HB heads who think their HB has a future		HB heads who want to see their children take over the business	
	Hanoi	HCMC	Hanoi	HCMC
Manufacturing	64	42.6	33.5	23.5
Trade	44.2	26.7	18.1	14.6
Services	31.7	28.2	15	16.4
Total IHB	**42.2**	**30.9**	**19.5**	**17.4**
Total FHB	**73.4**	**64.3**	**37.1**	**42.4**
Total HB	**48.3**	**39.4**	**22.9**	**23.7**

Source: HB&IS Survey, Hanoi (2007) & Ho Chi Minh City (2008), GSO-ISS/IRD-DIAL; Authors' calculations.

Table 17. Projections of employment in the informal sector in Vietnam (2007-2015)

Institutional sector	2007 (LFS adjusted)		2010 (Projections)		2015 (Projections)	
	Nb (1 000)	Structure (%)	Nb (1 000)	Structure (%)	Nb (1 000)	Structure (%)
Public sector	4,954	10.7%	4,865	9.9%	4,810	9.1%
Foreign Enterprise	907	2.0%	1,508	3.1%	2,522	4.8%
Domestic Enterprise	2,646	5.7%	3,932	8.0%	5,883	11.1%
Formal Household Business	3,584	7.8%	3,679	7.5%	3,801	7.2%
Informal Household Business	**10,866**	**23.5%**	**12,759**	**26.0%**	**14,444**	**27.2%**
Agriculture	23,118	50.0%	22,253	45.4%	2, 570	40.7%
Total	**46,211**	**100%**	**48,996**	**100%**	**53,031**	**100%**
Unemployment	935	2.2%	1,084	2.2%	1,209	2.2%
Active population	47,146	100%	50,080	100%	54,240	100%

Source: LFS2007, GSO; Population Census 1999 and 2009, GSO; Projection of population by age, GSO, 2009. Authors' calculations.
Note: The adjustment of the LFS2007 (to fit with the last Population Census total population and age structure) leads to a small decrease in the working population (-500,000) and an increase in the number of unemployed (+100,000 persons).

Table 18. Employment by institutional sector and area in *LFS* 2007 & 2009

Institutional sector	2007			2009		
	Urban	Rural	Total	Urban	Rural	Total
Public	2,779,386	2,174,183	4,953,569	2,677,237	1,951,873	4,629,110
Foreign Enterprise	393,681	514,038	907,719	509,067	864,983	1,374,050
Domestic Enterprise	1,342,972	1,303,045	2,646,017	1,924,945	1,764,504	3,689,449
Formal HB	1,933,817	1,649,951	3,583,768	2,006,092	1,722,477	3,728,569
Informal sector	**3,601,354**	**7,264,429**	**10,865,783**	**4,188,263**	**7,129,828**	**11,318,091**
Agriculture	1,337,868	21,780,267	23,118,135	1,946,999	21,022,238	22,969,237
Unspecified	**80,373**	**55,792**	**136,165**	**4,159**	**45,538**	**49,697**
Total	11,469,452	34,741,705	46,211,156	13,256,762	34,501,441	47,758,203

Sources: LFS, 2007 & 2009, GSO. Total: Occupied population. Authors's calculations.

Table 19. Employment by institutional sector and area in *LFS* 2007 & 2009 (%)

Institutional sector	2007			2009		
	Urban	Rural	Total	Urban	Rural	Total
Public	24.2%	6.3%	10.7%	20.2%	5.7%	9.7%
Foreign Enterprise	3.4%	1.5%	2.0%	3.8%	2.5%	2.9%
Domestic Enterprise	11.7%	3.8%	5.7%	14.5%	5.1%	7.7%
Formal HB	16.9%	4.8%	7.8%	15.1%	5.0%	7.8%
Informal sector	**31.4%**	**20.9%**	**23.5%**	**31.6%**	**20.7%**	**23.7%**
Agriculture	11.7%	62.7%	50.0%	14.7%	60.9%	48.1%
Unspecified	0.7%	0.1%	0.3%	0.03%	0.1%	0.1%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Source: LFS, 2007 & 2009, GSO. Total: Occupied population. Authors' calculations.