

THE NON-FARM HOUSEHOLD BUSINESS SECTOR IN VIETNAM



Businesses in Vietnam take the form of State-owned Enterprises (SOEs), Private Sector Enterprises, Foreign Invested Enterprises (FIEs), Cooperatives (often generally translated as collectives), and non-farm Household Business (HHB). Having never been taken to the spotlight but non-farm Household Businesses have proven to be one of the mainstays of the Vietnamese Economy. In the last few years when economic difficulties have hit hard the country, non-farm HHBs have again proven its strong vitality. In difficult time, it is this business sector that has played the role as the mainstay for the economy, especially in terms of job creation and providing the much-needed income for the people of lower quintiles. Non-farm HHB is a typical feature of Vietnam's economy and has a longer history of development than any other types of formal enterprises. Non-farm HHB sector continues to provide million of jobs and contribute greatly to economic growth and poverty reduction in Vietnam. However, unlike SOEs or bigger private sector enterprises (especially those in property and financial and banking sectors), these tiny business entities are not benefiting from any bailout measures from the Government. They even do not have an association to clamor for one.

Vietnam's Working Definition

According to the Decree No.88/2006/ND-CP on business registration by the Government in 2006, low income household businesses shall not be required to register their businesses. Other household businesses have to register their businesses in the people's committees at the district level. These households also have to register tax codes. They should then have the simple accounting books without having to adhere to double – entry accounting principle. Not being considered to be part of the formal business (which are registered under the Enterprise Law, the registration and tax payment requirements made HHBs to be regarded as semi-formal businesses.

Box 1: Business Registration of Household Businesses in Vietnam

(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 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 employees has to register business as an enterprise.

ENTREPRENEURS IN VIETNAM

Companies registered under Enterprise Law

HHB with tax code

Fully unregistered business

FORMALITY

This paper is one among a series of Business Sector Profiles by Economica Vietnam that aim at providing a bird's eye view on a particular sector and industry or a rapid analysis of a certain socio-economic issue in Vietnam. The papers are developed by relying on existing literature, reports and data in combination with additional analysis by the Economica Vietnam research team. For more in-depth research, analysis or data or consulting services, please contact us at: contact@economica.vn.



The General Department of Taxation was recently applied the new management process for the non-farm HHB in January 2013. The provincial departments of taxation will be responsible for doing practical surveys that help them determine the tax payments. In which, business household will be grouped into two categories of tax collecting method: the enumeration method and the fixed payment method. The enumeration method is applied to households, which had business license and tax code. These households also had the simple accounting system with the double-entry accounting principle. Meanwhile, households pay tax based on the second method will be continually divided into sub-groups: pay the value-added tax and non-pay the value added-tax (but pay for an amount of fixed business tax). The fix payment is calculated based on the current regulation on minimum wage for labour working in business establishments.

Steady Growth in Number Despite Economic Downturn

Worsening economic conditions in Vietnam do not seem to affect the entrepreneurship of HHB owners. The number of non-farm HHBs kept increasing from 3,167,373 in 2005 to 4,270,860 in 2010. The sector experienced a slight decline in 2011.

Table 1: The number of Non-farm Household Business establishments in Vietnam

Year	2005	2007	2009	2010	2011
Number of Non-farm HHB	3,167,373	3,864,360	4,121,508	4,270,860	4,256,430

Sources: Statistical Yearbook of Vietnam 2011, GSO and calculation by *Economica Vietnam*

Forty three percents of non-farm HHB is in urban areas while 57% are in rural areas. Furthermore, non-farm HHB is mainly allocated in delta areas, such as: Red River Delta, Mekong River Delta or North Central & Central coastal areas. Among six geographical regions, the Red River Delta is the area where household businesses are most densely populated with 26.25% of the whole in 2011. It is followed by the North Central and Central Coast area (23.05%) and the Mekong River delta (21.36%). The Central Highland has the lowest incidence of HHB, accounting for 4.47% of the total.

HHB as An Important Job Generator

Household business sector has been identified as the major contributing factor for creating jobs in national economy, that providing nearly 80% of employment in Vietnam.

Table 2: The employment in period 2009-2011 by business sectors
(Unit: 1000 persons)

	2009		2010		2011	
	Number	%	Number	%	Number	%
Total	47,743.6	100	49,048.5	100	50,352.0	100
Non-state	41,178.4	86.2	42,214.6	86.1	43,401.3	86.2
<i>In which: Household</i>	35,911.0	75.2	35,979.5	73.4	n.a	n.a
State	5,040.6	11.4	5,107.4	10.4	5,250.7	10.4
Foreign Investment	1,524.6	2.4	1,726.5	3.5	1,700.1	3.4

Sources: Statistical Yearbook of Vietnam 2011, GSO

HHB created half of the much-needed jobs at the most critical time of economic downturn. Between 2009 and 2011, around 2,352,600 new jobs were generated in the country of which household business sector contributed 1,446,800 jobs.

As for non-farm HHB, the total workers increase 17% from 6.5 million in 2007 to 7.6 million in 2010 with the average annual increase of 5.3%.

Nationwide, almost half of the employments in household business establishments are female; the average age of household business workers is 37, and less than one-third have upper secondary education ILO (2010).

HHB Jobs are being Shifted more to industry, trade and services

In the HHB sector, the employment in agriculture, forestry and aquaculture has declined from 71.1% in 2006 to 62% in 2011. As a result, jobs are transferred more to the industry, construction, trade and service sector with a considerable increase in proportion of jobs in these two sectors during the period (Table 3).

Table 3: Household employment by economic sector (2006 and 2011)

Industrial Sectors	Proportion (%)	
	2006	2011
Agriculture, Forestry & Aquaculture	71.1	62
Industry & Construction	10.2	14.7
Trade & Services	14.9	18.4
Other	3.8	4.8

Sources: *The Survey on Agriculture, Farmer & Rural area 2011*, GSO

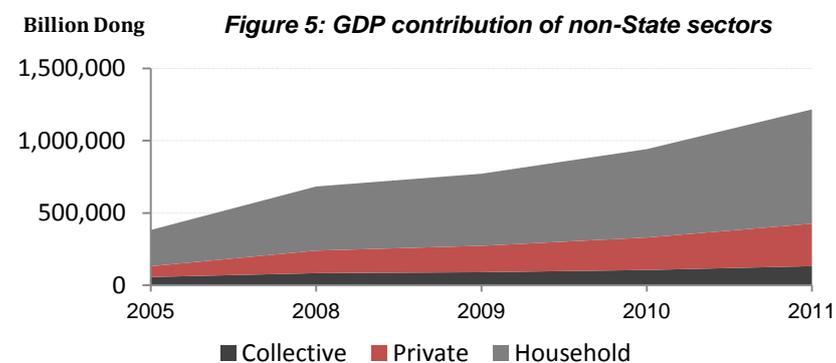
Non-farm HHBs have been playing an important role in smoothing this shift.



HHB as a Major Contributor to GDP

Interestingly, the share of HHBs contribution to GDP has been increasing steadily from 29.72% to 31.21% between 2007 and 2011. The increase is at the expense of the decrease of the State sector and cooperative and collectives (Figure 4).

In absolute number and by looking at the non-state sector only, HHBs show the highest increase in terms of contribution to GDP (Figure 5). Its contribution to GDPs increased sharply from VND 250,999 billion in 2005 to VND 791,186 billion in 2011. Meanwhile, the private sector enterprises could increase from VND 74,612 billion to VND 293,447 billion and the cooperative sector from VND 57,193 billion to VND 132,288 billion in the period.



Sources: Statistical Yearbook of Vietnam 2011 & calculation by Economica Vietnam

Assets and Capital Sources

As of October 2010, total asset of HHB is of over VND 556 billion. Their aggregate fixed assets reached VND 396 billion and current assets were VND 159 billion.

On average, one HHB has an asset of VND 138.8 million, which is doubled as compared with VND 83.5 million by 2009. 92.4% of the HHB capital is from owner's equity (up from 89.6% in 2009) and the rest of 7.6% are from other sources (down from 10.5% in 2009). This is a stark difference from the larger formally registered SMEs and the SOEs.

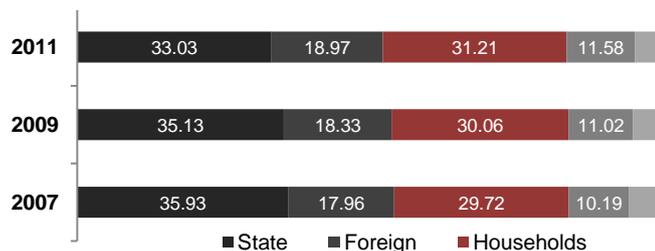
Table 4: Assets and owner's equity of HHB establishments

Unit: '000 VND

	Total assets	Liabilities	Owner's equity	Fixed assets (long-term assets)	Current assets
2007	242,067,400	19,652,449	222,414,951	150,442,467	91,626,400
2008	252,485,818	20,601,083	231,884,735	150,231,635	102,254,183
2009	332,730,097	34,458,310	298,271,786	199,408,254	133,321,843
2010	556,128,725	41,602,281	514,526,443	396,512,655	159,616,070

Sources: Survey on non-farm individual business establishments 2009-2011, GSO

Figure 4: GDP contribution by institutional sectors (2007-2011)

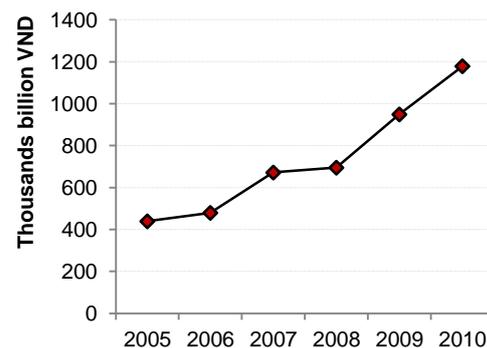


Sources: Statistical Yearbook of Vietnam 2011 & calculation by Economica Vietnam

Revenue

Total revenue of non-farm HHBs are respectively VND 439,364.2 billion in 2005 and 479,541.3 billion VND in 2006. The revenue sharply increased to VND 1,178,667 billion in 2010.

Figure 6: Total revenue of non-farm HHBs



Sources: Survey on non-farm individual business establishments 2009- 2011, GSO

On average, in 2010, a non-farm HHB has a revenue of VND 285.7 million. The retail sale itself of commodity and consumer goods in 2010 reached VND 1,178,667 billion, accounting for more than 70% of the total retail sale and consumer goods in the society.



Non-farm HHBs are tiny in size

On average, one non-farm HHB has 1.8 workers. Non-farms HHBs with less than one worker account for 62.3% of total, and those with of two workers or more account for 37.7%. The average capital size is VND 134.8 million and average fixed assets is VND 96.1 million VND.

Lower Wages and Income

The labour income in the household business sector has been relatively lower than the average income level of businesses in other sectors. The average monthly income of a household worker was VND 2,287,300 as compared with the average of VND 3,110,500 of other business sectors in 2011 (GSO, Labour Force Survey, LFS 2011).

Table 5: Scale of HHB establishments

	Unit	For all industrial sectors	Industry and construction	Commerce, services
1. Scale per establishment				
- Number of employees/estab	Person	1.8	2.4	1.6
- Capital size/estab	Million VND	134.8	92.2	147.3
- Total fixed assets/estab	"			
- Turnover/estab	"	96.1	62.1	106.1
2. Scale per employee				
- Capital size/employee	Million VND	74.8	37.7	91.3
- Total assets value/employee	"	53.3	25.3	65.8
- Turnover/employee	"	158.5	80.2	193.3

Sources: Survey on non-farm individual business establishments 2009-2011, GSO

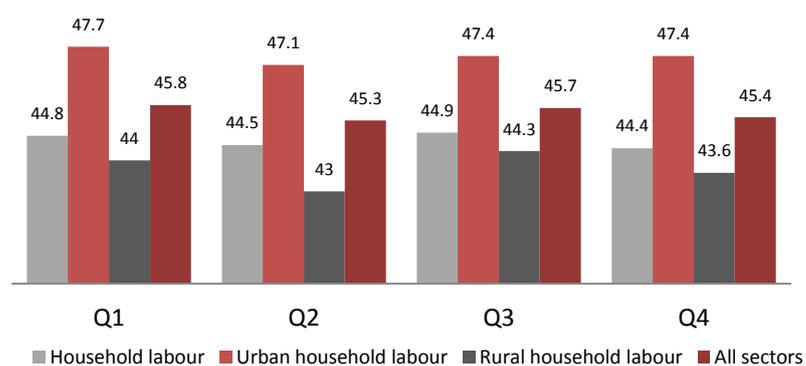
Table 6: Average monthly labour income by quarter in 2011 (Unit: '000 VND)

	Q1	Q 2	Q 3	Q4
Household	2,071.3	2,222.1	2,380.5	2,475.3
Urban	2,252.8	2,308.8	2,474.5	2,611.9
Rural	2,003.7	2,191.6	2,343.7	2,420.5
All sectors	3,144	926.8	3,127.2	3,243.9

Sources: Labour Force Survey 2011, GSO

HHB Workers Work Less Hour per Week

Figure 6: Average weekly workinghour of labour in household business sector by quarter



Sources: Labour Force Survey 2011, GSO

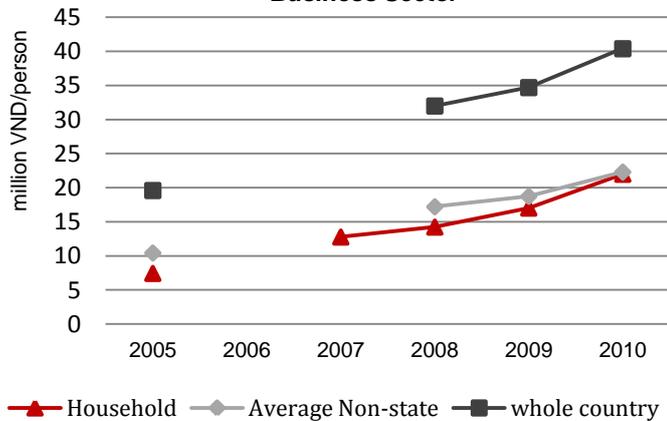
The Labor Force Survey 2011 by GSO shows that the weekly working hour of workers in the household business sector is relatively fewer than the average number of all institutional sectors. On average, a household worker works 44-45 hours per week. The survey also reveals that urban household workers work 'longer hours' with nearly four hours more than rural workers' working hours in 2011.

The figure might be different from one province to another. A study in 2010 by the International Labour Organization (ILO) has shown that average working hours in Hanoi and HCM city were among 50-55 hours per week, higher than the average of the country.



Productivity is Catching up¹

Figure 7: Productivity of labour in Household Business Sector



Sources: GSO and calculation by *Economica Vietnam*

The labor productivity in the non-farm HHB sector is picking up in recent years. In 2010, it has caught up with the average level of the non-state sector. However, this achievement equals to only half of the national level.

Formalization of HHBs

In general, formalising informal HHBs is seen as a way of increasing government revenues (by taxing those HHBs not previously subject to the tax) and improving HHBs' 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.

Widespread HHB 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.

Main Benefits and Consequences of Formalization in Viet Nam

Table 7: Some benefits and consequences of Formalization in Vietnam

	Main Benefits	Main Consequences	Main Benefits	Main Consequences
Economy	<ul style="list-style-type: none"> Increased standardization of regulation of labor conditions and environmental impact Increased clarity in division of government responsibilities, especially at local level Increase information inputs for policy analysis and formulation Greater investor confidence leading to increased mobilization of capital Increased revenues into national tax system 		<ul style="list-style-type: none"> Increased responsibilities for the Government, especially local authorities (straining existing capacity) 	
Enterprise	<ul style="list-style-type: none"> Right to legally access broader markets (i.e., trade beyond district) Right to legally employ more than 10 workers Stamp for making transactions more official Value-added tax receipts Right to set up branch establishments More predictable, law-based relationship with the Government Ability to access equity capital (liability limited, joint stock) Greater access to government investment incentives 		<ul style="list-style-type: none"> Greater costs of registration (and required public announcement) Annual registration fee <i>thue mon bai</i> Requirement for certified chief accountant Increased state reporting requirements Increased restrictions due to labor contracts Potential for increased attention from local authorities (regulators) Potential for increased taxes (with move from lump sum to standard tax calculation) 	

Sources: *Private Enterprise Formality and the Role of Local Government*. ADB. (2004)

¹ Productivity of employed population (VND/worker) = GDP/ (Average employed population)



The institutional channel has to be defined through which surveys on the HHBs 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, while a new round of follow-up surveys at the national level for the LFS and in the two main cities for the HHB 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 accounts².

Policy Issues

Despite the importance of non-farm HHBs, there is no explicit policy to support or encourage the development of non-farm HHB in Vietnam.

However, some existing policies have undoubtedly an adverse impact on the informal sector, even if this sector is not targeted explicitly. For example, priority in allocating resources (in terms of land, credit, etc.) to SOEs or FIEs sector also means fewer resources available to support HHBs.

HHBs do not have an association, at either at the national or provincial or district level to speak out their voices. Existing SME business associations have not laid adequate attention to the lower segment of their constituency - HHBs and microenterprises.



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² "The Informal Economy in Vietnam", ILO, March 2010.