



MINISTRY OF PLANNING AND INVESTMENT
Business Registration Management Agency



LEGAL STATUS OF HOUSEHOLD BUSINESSES: CURRENT STATUS AND SOLUTIONS

Le Duy Binh

Ha Noi, 2023

INTRODUCTION

Household businesses represent a unique feature of the Vietnamese economy. Before 1986, household businesses existed as small-scale commodity production units consisting of handicraft household-based and individual producers, farmers, and small-scale service providers who were allowed to do business with government permission. According to the General Statistics Office, as of 1975, these small-scale private production units accounted for only 8.3% of GDP (Statistical Yearbook 1983). In 1986, small-scale non-agricultural household businesses accounted for 23.2% of total employment and generated 15.3% of gross industrial output (Statistical Yearbook 1988).

After the *Doi Moi* policy was issued, household businesses flourished and became the business form preferred by millions of entrepreneurs and proprietors. Until now, starting a business in the form of a household business remains a widely popular option thanks to its simplicity, low cost and convenience. The household business sector has become an important pillar in Vietnam's economy. It plays an extremely important role in fostering economic resilience, especially in times of external shocks. Currently, about 8.49 million employees work in the household business sector. The household, individual businesses and other forms of sole proprietorship contributes 30% to GDP but only 1.56% to the annual state budget (General Department of Taxation, 2018).

Despite its important role, household businesses are classified as being in the informal sector as its legal status is unclear. Household businesses face numerous difficulties in operation due to the ambiguity in its legal status.

The National Assembly and the Government of Vietnam have prioritized the objective of developing a clear and enabling framework for the development of the household business and other forms of business individual, sole proprietor and individually-run businesses. The study is implemented with an aim to make a contribution to this objective.

The study is prepared by Dr. Le Duy Binh who is an economist at Economica Vietnam with technical support by the Agency for Business Registration of MPI and the International Labor Organization (ILO).

The author is thankful for the support and insights by Mr. Phung Quoc Chi (Director General of the Agency for Business Registration), Ms. Nguyen Thi Viet Anh (Deputy Director General of the Agency for Business Registration), Ms. Le Thi Thuy (Director, Department of Policy and International Cooperation, ABR), Ms. Do Thu Ha, Mr. Vo Huy Hung and other colleagues at ABR/MPI.

The report benefits a great deal from comments from many experts including Dr. Doan Ngoc Xuan (Director General of the Social Department of the Economic Commission of the Party Central Committee), Mr. Tran Huu Huynh (Former Secretary General of VCCI and former member

of the Enterprise Law Implementation Taskforce), Mr. Ngo Vinh Bach Duong (Institute of State and Law), Dr. Nguyen Minh Thao (Central Institute for Economic Management), Mr. Phan Duc Hieu (Economic Commission of the National Assembly), Mr. Dau Anh Tuan (Deputy Secretary General of VCCI), Dr. Markus Taussig (Rutgers Business School) and many others.

The author is grateful for the technical inputs provided by ILO technical experts, especially by Mr. Sergeant Kelvin, Mr. Huynh Phu, Ms. Nguyen Thi Huyen, and Ms. Sandra Yu. The report benefits tremendously from support of Ms. Ingrid Christensen, Director of the ILO in Vietnam and staff of the ILO office in Vietnam.

The author is indebted to colleagues at Economica Vietnam, including Mr. Nguyen Tien Dung, Ms. Nguyen Thuy Nhi, Ms. Pham Minh Tuyet, Ms. Dong Thi Kieu Trang and Ms. Luong Thu Ngan who have provided technical inputs and time for discussions throughout the implementation of the study.

TABLE OF CONTENTS

I. EVOLUTION AND DEVELOPMENT OF HOUSEHOLD BUSINESSES.....	10
II. CURRENT SITUATION OF HOUSEHOLD BUSINESSES IN VIETNAM.....	11
1. <i>Number of household businesses</i>	11
2. <i>Contribution to GDP and job creation</i>	12
3. <i>Operational characteristics of household businesses</i>	14
III. LEGAL NATURE OF HOUSEHOLD BUSINESSES	16
IV. RECENT INITIATIVES TO ESTABLISH THE LEGAL STATUS OF HOUSEHOLD BUSINESSES.....	19
1. <i>Converting household businesses into enterprises</i>	19
2. <i>Inclusion of household businesses as a type of business under the Enterprise Law</i>	23
V. HOUSEHOLD BUSINESSES IN OTHER COUNTRIES AND LESSONS LEARNT FROM INTERNATIONAL EXPERIENCE	24
1. <i>Other countries do not have household businesses as in Vietnam but sole proprietorship is a popular form for starting a business</i>	24
2. <i>Lessons learnt from international experience</i>	26
VI. BARRIERS TO FORMALIZATION OF HOUSEHOLD BUSINESSES AND CAUSES	30
VII. LEGAL REFORMS TO ESTABLISH THE LEGAL STATUS OF HOUSEHOLD BUSINESSES.....	36
1. <i>Development of a separate law on sole proprietorship</i>	36
2. <i>Measures applicable to private enterprises, household businesses, and other types of business individuals, sole proprietors after the new legal framework is introduced</i>	38
3. <i>Simplification of registration procedures and setting up of the database on sole proprietors, business individuals and household businesses</i>	39
4. <i>Reforming regulations on governance, reducing compliance costs, protecting rights and legal status of sole proprietorship</i>	41
5. <i>Reforming regulations on labor and social insurance</i>	42
6. <i>Communication on the benefits of sole proprietorship</i>	43
VIII. CONCLUSIONS	43
REFERENCES.....	44

LIST OF ABBREVIATIONS & ACRONYMS

ABR	: Agency for Business Registration
CIEM	: Central Institute for Economic Management
DDCI	: District and Department Competitiveness Index
GSO	: General Statistics Office
ILO	: International Labour Organization
MPI	: Ministry of Planning and Investment
LLC	: Liability Limited Company
SME	: Small and medium-sized enterprises
VCCI	: Vietnam Chamber of Commerce and Industry

EXECUTIVE SUMMARY

The individual business sector (comprising household businesses, business individuals and other forms of individual business entities) currently contributes about 30% of annual GDP. The country currently has approximately 5 million household businesses. Of which, about 1.7 million are fulfilling tax obligations and contributing about 1.56% to the State budget. The remaining 3.3 million households are unregistered. The number of employment in the household business sector is 8.49 million.

In 2021, the average size of employment in the household business sector was 1.68 workers per household business while the average capital was VND 181 million per household business. As demonstrated by the size of employment, capital, fixed assets and revenue, household businesses are mostly featured as micro in size, individually-run in nature and with the household head being the sole proprietor and sole worker. Household businesses share the same features and nature as business individuals, sole proprietorships or sole traders (sole proprietorship) as commonly found in other countries.

The Vietnam's Civil Code used to recognized the legal status of household businesses and cooperative groups in parallel with the legal capacity of individual/natural persons (cá nhân) and legal person (pháp nhân). However, according to its Articles 101 and 104, the Civil Code 2015 passed by the National Assembly no longer recognize the legal status of household businesses and cooperative groups. The Civil Code only recognizes such capacity as individual/natural persons (cá nhân) and legal person (pháp nhân).

In the current legal system in Vietnam, except for Decree 01/2021/ND-CP which only provides regulations on household business registration, there is no legal document that provides a definition of household businesses, including their legal status. Therefore, the legal status of household businesses is unclear even though they are registered. This results in numerous difficulties and challenges for household business, especially when it is necessary for them to determine their legal status and their subject of law in business transactions.

The approach adopted in recent years to define and improve the legal status of household businesses is mostly in two directions. Firstly, regulations provide stipulations on mandatory registration and then incentive measures (after mandatory requirements proved to be unsuccessful and then were dropped) to encourage household businesses to register as enterprises under the Enterprise Law. Secondly, efforts were made to bring household businesses as a subject to be governed under the Enterprise Law.

Both of these efforts are unsuccessful mainly because they fail to address the root causes of the problem – that is reworking and reforming the legal foundation and regulations for sole

proprietorship in order to provide household businesses and business individuals a clear, solid and well-founded legal framework which is relevant to and fit with their nature and characteristics. Previous efforts sought to force household businesses and business individuals to register under the existing legal framework that contains just too many provisions which are not suitable with the nature and characteristics of household businesses.

Vietnam has already introduced regulations on sole entrepreneurship applicable to business individuals, sole proprietorship, or sole trader as regulated in the Enterprise Law. However, in the Enterprise Law, this form of enterprise is named as “*doanh nghiệp tư nhân*” which is often translated as *private enterprises*. This term in both Vietnamese and English versions of the Enterprise Law fail to reveal the connotation of sole proprietorship or sole trader. They are not self-explanatory and has become even misleading in many cases.

However, despite the availability of such regulations on sole proprietorship which can be applicable to business individuals, businesses in the nature of sole proprietorship as regulated in the Enterprise Law, *private enterprises* (sole proprietorship in nature) are becoming unattractive, obsolete and are no longer considered a suitable and low-cost option for business individuals when starting a business. Instead, they either conduct business without registration or register themselves as household businesses, then finding themselves facing numerous challenges due to the unclear legal status.

In 2022, only about 1,344 (or 0.9%) of 148,533 newly established enterprises were registered as *private enterprises* (sole proprietorship). 0.9% is quite low a number when compared with 20% in Singapore, 61% in Malaysia, more than 73% in the USA, or 80-90% in many EU countries. This also explains why the number of active businesses per 1,000 population in Vietnam is much lower than those in other economies, and why it is almost not possible to achieve the target of 1.5 million active enterprises by 2025 as set by the Government.

In reality, people who prefer to start their business in the form of sole proprietorship or individually-run businesses have decided to register as household businesses. Between 2011-2021, as many as 940,000 household businesses came into operation. Meanwhile, only 43,800 *private enterprises* (sole proprietorships) were registered, equal to merely 4.6% of the number of household businesses coming into operation in the same period.

This shows that the stipulations on *private enterprises* which are provided in a separate chapter and in different articles in many other chapters of the Enterprise Law have proven to become irrelevant and obsolete, failing to meet the practical requirements of sole proprietors when starting a business. Despite the fact that the Enterprise Law has devoted a significant volume to

the form of *private enterprise* (sole proprietorship in nature) with a separate chapter and a lot of articles, *private enterprises* is now the choice of a very few people when starting a business.

The Enterprise Law has made miraculous achievement in paving the way for the development of enterprises in Vietnam, including the *private enterprise* in earlier years of the law. However, recent revisions of the law failed to catch up with the new developments related to the form of *private enterprise* as stipulated in the law. The prevailing Enterprise Law have thus wasted many stipulations and space without being able to provide a well-founded and an enabling legal framework for sole proprietorship, i.e. for business individuals, household businesses, individually-run businesses which are numerous in Vietnam. Meanwhile, despite the increasingly rising number of household businesses, business individuals, individually-run businesses, there remains a significant legal vacuum on the legal status of household businesses and other types of individually-run businesses. This is really a paradox which need to be addressed.

In fact, it is not true that sole proprietorship is unattractive to sole proprietors in Vietnam when they decide to go alone in their business and to run their business on an individual basis. On the contrary, running business as individually -run business or as sole proprietorship is as much needed and preferred by Vietnamese sole proprietors and people as in elsewhere in the world. The rise in number of household businesses, business individuals and individually-run businesses in Vietnam in recent years have testified this statement.

The fact that sole proprietors not choosing to register as *private enterprises* which is essentially sole proprietorship in nature as stipulated in the Enterprise Law is due to regulatory and legal constraints and to limitations currently applicable to *private enterprises*.

Key limitations in current regulations applicable to *private enterprises* which are sole proprietorship or sole trader in nature are the following (i) Term-wise and literally, the term "*private enterprise*" in both Vietnamese and English do not reflect and reveal the connotation and the the nature of this form of business as sole proprietorship, sole traders individually-run businesses; (ii) the Enterprise Law do not consistently treat *private enterprises* as sole proprietorship or sole trader in all of its articles and provisions¹; (iii) sole proprietors and individuals preferring to run their businesses on an individual basis have to incur an excessively high regulatory compliance costs when and after registering as *private enterprises*.

¹ The prevailing laws and regulations, including the Enterprise Law and its implementation decrees, are silent about whether household businesses are individual/natural persons (cá nhân) or legal person (pháp nhân). This is really the crux of the matter. Therefore, any reform related to household businesses should start with providing a clear-cut and decisive answer to this question.

Therefore, efforts to reform and develop the household business sector should commence with reforming the legal framework and regulations on sole proprietorship, reforming stipulations and regulations related to *private enterprises* under the Enterprise Law.

It is therefore critically important to promulgate a law on sole proprietorship in the future. This law should be developed in a way that governs all kinds of sole proprietorship and sole traders in Vietnam, e.g. business individuals, individually-run businesses and household businesses (which is a very important group). Therefore, this Law should be given a name to reflect this scope, for example, the Sole Proprietorship Law. The name of such a law will cover not only household businesses but also many other types of sole proprietors such as business individuals, Internet-based shop owners, professionals and own-account workers such as freelancers or artists, etc. These sole proprietors and business individuals do need a clear, simple, convenient and low-cost regulations to join the formal economic sector and such a legal framework is still missing.

By developing a separate law on sole proprietorship and removing articles related to business individuals and *private enterprises* in the Enterprise Law, the regulations and legal framework applicable to business legal entities and business individuals can be separated, thus making the regulations on businesses and enterprises in Vietnam to be clearer, more systemic and more transparent.

I. EVOLUTION AND DEVELOPMENT OF HOUSEHOLD BUSINESSES

The term "household business" has been officially used in Vietnamese legal documents since 2006. They used to be called by different names such as small-scale commodity production units; household-based businesses, small-scale industrial households; individual household businesses... that changed over the time.

Before Doi Moi (1986), household businesses existed as small-scale commodity production units. They consisted of handicraft household-based and individually-run producers, farmers, and small-scale service providers who were allowed to do business with government permission.

After 1986 (Doi Moi) and when the Law on Private Enterprises and the Law on Companies were issued (1990), household businesses started to grow thanks to policies to develop a multi-sector economy. Before the Law on Private Enterprises and the Law on Companies (1990), household businesses existed as household-based businesses and small-scale industrial households and were officially recognized by Decree No. 27-HDBT by the Council of Ministers (now the Government). During this period and under historical and socio-economic conditions, the development of household-based businesses and small-scale industrial households was slow due to a wide range of prohibited or conditional business lines as prescribed by law. According to the General Statistics Office, in 1989, the country had 333,337 registered household-based businesses and small-scale industrial households.

Following the issuance of the Law on Private Enterprises and Law on Companies in 1990 and before the Enterprise Law 1999, household businesses existed as individually-run businesses (operated by an individual or group of individual with capital below a threshold) in accordance with the Government's Decree No. 66/2000/ND-CP.

Between the issuance of the Enterprise Law in 1999 and the Enterprise Law 2005, household businesses existed as individual household businesses owned by an individual or household according to Decree No. 02/2000/ND-CP of the Government. As stated in Article 24 of Decree No. 109/2004/ND-CP, "individual household businesses may hire no more than ten employees. Individual household businesses that employ more than ten employees or operate in more than one business location must be registered as enterprises".

Between the Enterprise Law 2005 and the Enterprise Law 2014, decrees guiding the implementation of Enterprise Law 2005² and Enterprise Law 2014³ renamed individual household

²Decree No. 88/2006/ND-CP in 2006, Decree No. 43/2010/ND-CP in 2010

³ Decree No. 78/2015/ND-CP in 2015

business as household businesses. The legal regulations in this period added a provision that allowed a household business can be owned and run by a group of individuals (besides by individuals and sole proprietors). Since 2020, laws and regulations no longer limit the number of workers which can be employed by a household business.

In the current legal system in Vietnam, except for Decree 01/2021/ND-CP which only provides regulations on the registration of household businesses, there is no legal document that provides a definition of household businesses, including their legal status.

As indicated in Article 79, Decree 01/2021/ND-CP on business registration:

"1. A household business is established by an individual or family household members who shall take full responsibility of the household business wholly by all of their property. If a household business is established by members of a household, one of them shall be authorized to act as the representative of the household business. An individual applying for registration of a household business or the person authorized by other household members to act as the representative of the household business shall be the owner of the household business.

2. Households engaged in agriculture, forestry, aquaculture and salt production, street vendor, petty trade, consignment trading, mobile businesses and service provision that generate low income under a given threshold are not required to register as household businesses, except for the cases when they operation in conditional business lines. The provincial People's Committees shall define the low-income thresholds applicable in their respective provinces."

II. CURRENT SITUATION OF HOUSEHOLD BUSINESSES IN VIETNAM

1. Number of household businesses

According to the General Statistics Office, the country counted 333,337 (registered) household-based businesses and small-scale industrial households in 1989. This number rose to 5 million household businesses by the end of 2021. The number of household businesses increased gradually over the years between 2011-2019, then decreased slightly in 2020 and 2021. The annual growth in the number of household businesses between 2016-2020 was 1.4%, compared with 3% in the 2011-2016 period. The growth slowed down and even decreased in the last 2 years, mainly due to the negative impacts of COVID-19.

Table 1. Distribution of household businesses by sectors

Year	2011	2015	2019	2020	2021
Total (1,000 households)	4,236.3	4,754.8	5,377.7	5,200.4	5,067.4
Structure (%)	100.0%	100.0%	100.0%	100.0%	100.0%
Industry-construction	22.4%	18.8%	17.9%	16.7%	17.3%
Trade and services	77.6%	81.2%	82.1%	83.3%	82.7%

Source: *General Statistics Office (2021)*

About 80% household businesses are in the field of trade and services. In trade and service sector, household businesses mainly focus on wholesale and retail trade, and repair of motor vehicles and motorcycles (over 45%), and hospitality and catering services (over 16%). The proportion of household businesses in other service sectors is quite low, standing at 0.2%-0.3% in finance, banking and insurance services, 0.3%-0.4% in professional, scientific and technical services or 0.2%-0.3% in education and training. These sectors require highly qualified and skilled workers, capital and good governance. In reality, it is difficult for household businesses to meet these requirements.

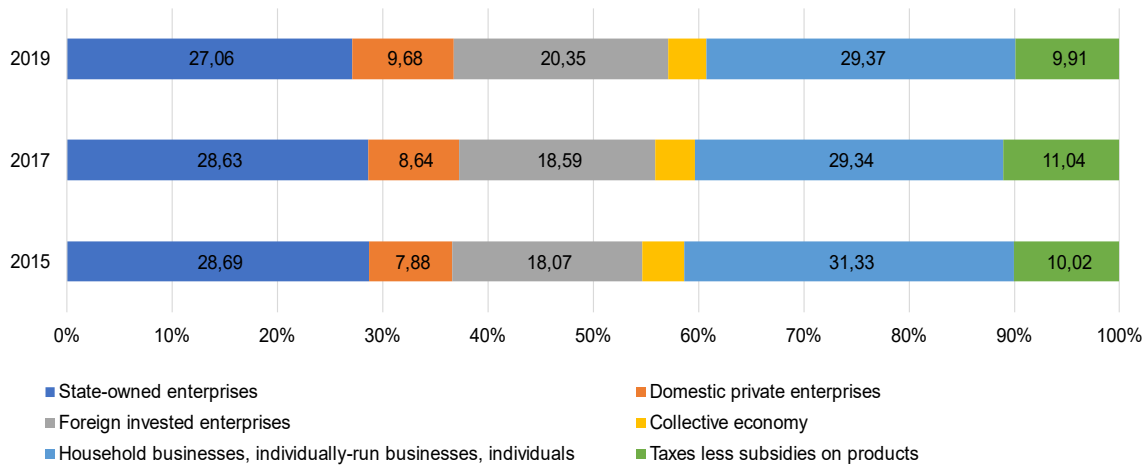
In 2021, the average household business incidence was 1 household business per 19.5 in population. In other words, for approximately every 19 Vietnamese, there is one who start their business and earn their living in the form household business⁴. This shows how popular household business is among Vietnamese people.

2. Contribution to GDP and job creation

The sole proprietorship sector (comprising household businesses, business individuals and other sole proprietorship entities) currently contributes about 30% of annual GDP. In 2018, there were more than 1.7 million household businesses fulfilling tax obligations and contributing to about 1.56% of the State budget (General Department of Taxation, 2018). The annual average tax paid by each household business was VND 2.7 million. Meanwhile, the annual average contribution to the state budget by each household business was VND 1.7 billion.

⁴This is higher than the proportion of about 1 enterprise per every 111 residents in 2021.

Figure 1. GDP contribution by economic sector



Source: *Statistical Yearbook, Economic Census, GSO (2021 and others)*.

Household businesses provided employment to about 8.49 million workers in 2021. Workers employed by household businesses in 2020 accounted for 37% of the total workforce of the business sector, higher than that in the private sector enterprises (36.85%), FDI enterprises (21.79%) and state-owned enterprises (4.3%).

Table 2. Number of workers by economic sector

Unit: thousand persons

Year	Household businesses	SOE sector	Private sector enterprises	FDI enterprises
2015	7,987	1,372	7,713	3,773
2018	8,668	1,127	8,977	4,714
2019	9,049	1,108	9,075	4,969
2020	8,656	1,005	8,607	5,090

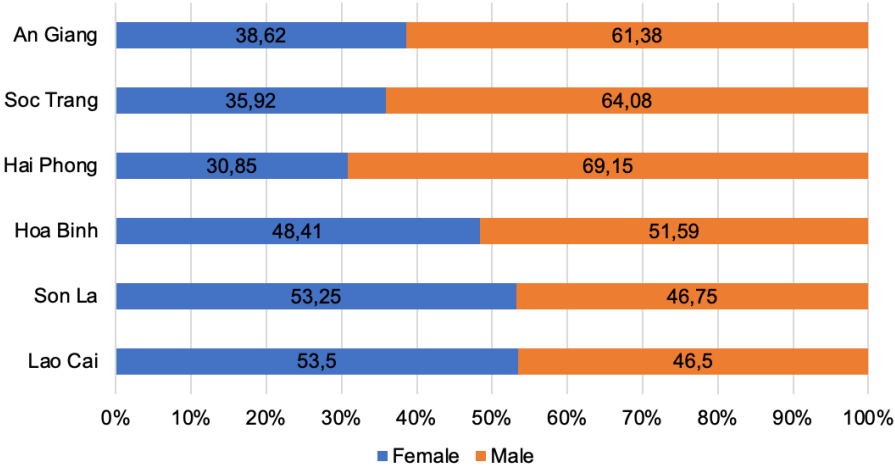
Source: *GSO (2021)*

Given a sharp increase in the number of household businesses in recent years and the significantly higher density of these business compared with other business categories, household businesses are playing an important role in job creation.

Household businesses also creates jobs for female workers, and is a good means for women economic empowerment. According to survey data for 2019-2021 collected in some provinces by Economica Vietnam, household businesses are creating more and more jobs for female workers. In all provinces covered by the survey, the percentage of women-led household businesses is over 30%. In mountainous provinces such as Son La, Lao Cai and Hoa Binh, the

percentage of women who own household businesses is approaching and even exceeding 50%. This indicates that women can be more involved in economic development via the household-based business model. In addition, in the surveyed provinces, female business owners also create more jobs for female employees when compared with male business owners.

Figure 2. Percentage of household business owners by gender (%)



Source: District and Department Competitiveness Index (DDCI) survey in some provinces, *Economica Vietnam* (2021)

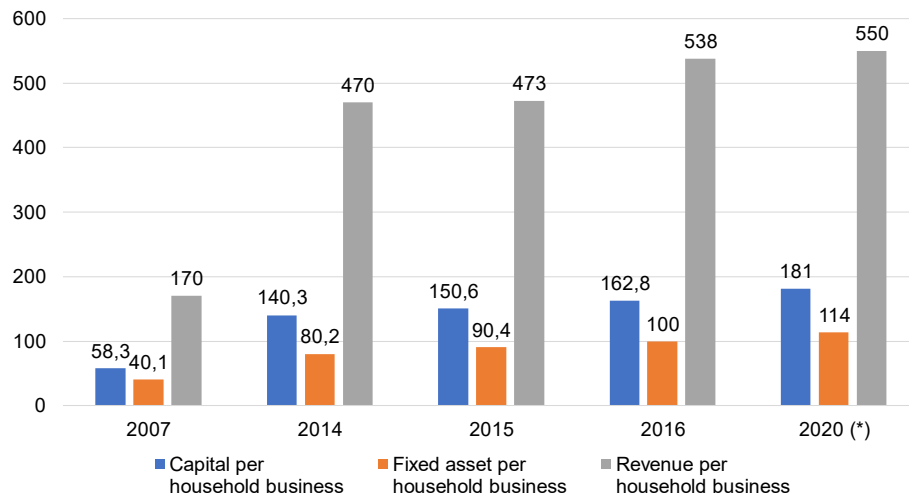
3. Operational characteristics of household businesses

The average employment size of a household business is quite low, featuring the nature of individually-run business. On average, a household business had 1.8 workers in 2010, 1.68 workers in 2015 and 1.68 workers in 2021⁵.

Household businesses generally has low capital size and fixed assets. In 2007, the average capital size of a household business was VND 58.3 million. This figure increased to VND 181 million in 2020. The average value of a household business’s fixed asset was VND 114 million only. The average size of capital and fixed assets of household businesses is quite meagre, reflecting the micro-scale operations of household businesses.

⁵ “Statistical Yearbook”, GSO (2021).

Figure 3. Size of capital, value of fixed asset and average revenue of a household business (VND million)



Source: *Statistical Yearbooks, Economic Censuses, General Statistics Office (2021 and other years) * Preliminary and estimated*

With a modest size of capital, the average annual earnings of a household business reached only VND 473 million in 2015 and about VND 550 million in 2020. As such on a monthly basis in 2020, a household business generated about VND 45 million in revenue per month. With a profit margin of about 10%, this would translate in into a monthly profit or income of VND 4.5-5 million per household business owners, including their worker. This is much lower than the average monthly income of salaried workers (which is about VND 6.6 million in 2020).

The revenue landscape of household businesses is also diverse. According to the General Department of Taxation, there are about 110,000 household businesses generating over VND 1 billion in annual revenue, or about VND 100 million per month. Out of 5 million household businesses, 1.7 million have obtained their tax codes and paid tax. The remaining 3.3 million households have not obtained a tax code, partly due of poor compliance with requirements on tax code registration but largely because these household businesses generate less than VND 100 million in yearly revenue (under VND 8.3 million/month) and are not subject to tax code registration.

These statistics about employment, capital, fixed assets and revenue of household businesses all reveal that household businesses are mostly operating at micro scale and on individually-run basis. Most of them operate individually with household heads being the sole trader, sole proprietor and also sole worker. Household businesses share the same features and nature as business individuals, individually-run businesses, sole proprietorship, sole trader as often found in other countries. Policy and legal reforms should seriously take into account these features of

household businesses as well as the diversity of the household business sector to ensure that policies and regulations governing the household business sector are relevant, practical and feasible. Given the size of capital, revenue, average profit and income of household businesses as shown above, careful thoughts should be given to whether household businesses should be forced or encouraged to be registered as enterprises under the current regulations in the Enterprise Law, or whether it is better to start the reform the regulations first before household businesses are encouraged to registered and become formalized.

III. LEGAL NATURE OF HOUSEHOLD BUSINESSES

The Vietnam's Civil Code used to recognized the legal status of household businesses and cooperative groups in parallel with the legal capacity of individual/natural persons (cá nhân) and legal person (pháp nhân). However, according to its Articles 101 and 104, the Civil Code 2015 passed by the National Assembly no longer recognizes the legal status of household businesses and cooperative groups. The Civil Code only recognizes such capacity as individual/natural persons (cá nhân) and legal person (pháp nhân). As such, laws and regulations now tend to treat household businesses and cooperative groups as individual persons.

The Enterprise Law neither defines nor provides provisions on household businesses. The law simply assigns "*the Government to develop regulations governing registration and operation of household businesses*" (Clause 4, Article 217, Enterprise Law).

Household businesses are now governed by Decree No. 01/2021/ND-CP by the Government. According to Decree No. 01/2021/ND-CP, household businesses do not have their own assets. They do not have a legal status as legal entity. The assets of individuals and family members who own household business are inseparable from the assets of the business. Household businesses do not have an official seal and are not allowed to open representative offices and branches, but can expand their business activities by opening many business premises.

Sole proprietors, individuals and family members who own household businesses shall have unlimited liability for obligations under the business. This is similar to the unlimited liability of owners of *private enterprises*, i.e. if corporate assets do not suffice to pay off debts, the business owner must use his/her own assets to repay the obligations incurred by the business. From this perspective, household businesses are very similar to *private enterprises* specified in the Enterprise Law, or sole proprietorships or sole trader in many other countries.

This illustrates a fact that though being mentioned in Enterprise Law 1999, 2005, 2014 , 2020, Commercial Law, Law on Tax Administration and some other legal documents, household businesses are yet to have their legal status clearly defined.

The prevailing laws and regulations, including the Enterprise Law and its implementation decrees, are silent about whether household businesses are individual/natural persons (cá nhân) or legal person (pháp nhân). This is really the crux of the matter. Therefore, any future regulatory reforms related to household businesses should start with providing a clear-cut and decisive answer to this question.

Household businesses have characteristics completely different from those of joint stock and limited liability companies. The table below describes some of these differences.

Table 3. Comparison between household businesses and other types of business according to prevailing regulations

	Types of business entities		
	Household businesses	Private enterprises	Limited liability companies & joint stock companies
Legal status	No	No	Yes
Liabilities of business owners, members and shareholders	Unlimited	Unlimited	Limited
Opening branches	No	Yes	Yes
Import & export activities	No	Yes	Yes
Bank loans under the name of the business	No	No	Yes
Raising capital by issuing securities	No	No	Yes
Purchase of share in other company	No	No	Yes
Registered at	At district level	At a provincial business registration office	At a provincial business registration office
Governed by Bankruptcy Law	No	Yes	Yes

Source: Based on the Civil Code 2015, Enterprise Law 2020, Bankruptcy Law 2014, Circular 39/2016/TT-NHNN of the State Bank

According to its Articles 101 and 104, the Civil Code 2015 no longer recognizes the legal status of household businesses and cooperative groups. The Civil Code only recognizes such capacity as individual/natural persons (cá nhân) and legal person (pháp nhân).

On the basis of the Civil Code, regulations in finances, credit, banking, contracts, etc. also no longer recognize the legal status of households as a party to civil contracts. Their transactions with banks, credit institutions and financial companies are also deemed as relationships between these institutions with individuals who own household businesses. Therefore, household businesses cannot borrow from banks in the name of the household businesses. They also face difficulties when entering into civil contracts under the name of household businesses. To borrow from banks, household businesses can take loans in the form of credit contracts between a credit institution and the proprietor who owns the household business⁶.

The tax regulations have been improved in line with the principles articulated by the Civil Code. The Law on Tax Administration 2019 handles this issue in a relatively clear and straightforward manner. According to the law, the tax code granted to a household business is also the tax code of the person representing the household business. Thus, the Law on Tax Administration has defined the legal capacity of household business as individuals. This has become a commonly accepted practice by the tax authority for years.

Legal changes in line with the latest Civil Code or regulations in the banking and tax sectors as above are appropriate from the legal development perspective and are in line with international practices. It is these changes that provide the initial basis for reforms which are in line with good regulatory practices, reality and with the nature of household businesses. Difficulties which household business face in borrowing from banks, opening bank accounts, or entering into contracts should not be attributed to changes in the Civil Code or regulations in banking, tax or contract. Rather, it should be attributed to the fact that provisions on the definition of household businesses, their legal status, registration procedures, governance, etc. have failed to catch up with the principles articulated in Articles 101 and 104 of the Civil Code 2015.

In fact, maintaining the legal capacity of the household businesses as it is today is going against the Civil Law and the regulations in the banking and tax sectors. This issue needs to be addressed soon to create the most enabling conditions for the development of the household business sector.

⁶ According to Circular 39/2016/TT-NHNN stipulating on lending transactions of credit institutions and/or foreign bank branches with customers, customer performing a borrowing transaction with a credit institution refers to any legal entity or individual, including: (i) Legal entities established and operated within the territory of Vietnam and/or those established abroad and legally operated within the territory of Vietnam; (ii) Vietnamese and/or foreign nationals. This means that household businesses and private enterprises are not allowed to borrow bank loans under the name of household businesses or private enterprises.

In the current legal system in Vietnam, except for Decree 01/2021/ND-CP which only provides regulations on household business registration, there is no legal document that provides a definition of household businesses, including their legal status. Therefore, the legal status of household businesses is unclear even though they are registered. This results in numerous difficulties and challenges for household business, especially when it is necessary for them to determine their legal status and their subject of law in business transactions.

The approach adopted in recent years to define and improve the legal status of household businesses is mostly in two directions. Firstly, regulations provide stipulations on mandatory registration and then incentive measures (after mandatory requirements proved to be unsuccessful and then were dropped) to encourage household businesses to register as enterprises under the Enterprise Law. Secondly, efforts were made to bring household businesses as a subject to be governed under the Enterprise Law.

IV. RECENT INITIATIVES TO ESTABLISH THE LEGAL STATUS OF HOUSEHOLD BUSINESSES

1. Converting household businesses into enterprises

Transforming household businesses into enterprises was first regulated in the Enterprise Law 1999. According to the law, *“the Government should provide guidance and create favorable conditions for large-scale individual household businesses operating under Decree No. 66/HDBT dated March 2, 1992 of the Council of Ministers to be converted into enterprises, perform business registration and operate under the Enterprise Law”*. Then, the Enterprise Law 2005 makes this more specific, that *“ household businesses that regularly employ ten or more employees must register as enterprises in accordance with this Law ”*. The Enterprise Law 2014 further retains this requirement. However, the Enterprise Law 2020 removes the stipulation which requires household businesses having more than 10 employees to register formally as enterprises.

The Law on Small and Medium Enterprises (SMEs) Support 2017 also provides for supports to SMEs which graduate from household businesses (Article 16). In addition, at local level, there are mechanisms and policies to encourage household businesses to register as businesses, especially those that meet eligibility conditions prescribed by the Enterprise Law. Supports may include exemption from enterprise registration fees, stamp-making fees, licensing fees, cost of accounting software and business signboards.

Regrettably, despite these mandatory or supportive policies, the number of household businesses switching to formal enterprises under the Enterprise Law is in fact quite negligible.

According to the survey of 374 household businesses and 46 enterprises by the Asian Development Bank (ADB) and the Central Institute for Economic Management (CIEM) in 2017,

only 17.8% of surveyed enterprises graduated from household businesses and up to 80% of enterprises started from scratch. The survey results also show that, up to 11.3% of household businesses had 10 or more employees, but only 5.63% of them planned to switch to other business types in accordance with the Enterprise Law. In terms of capital size, 13.21% of household businesses with a turnover from VND 300 million to less than VND 1 billion planned to register under the Enterprise Law while only 8.7% of household business with a turnover from VND 1 billion to VND 5 billion said they would do so.

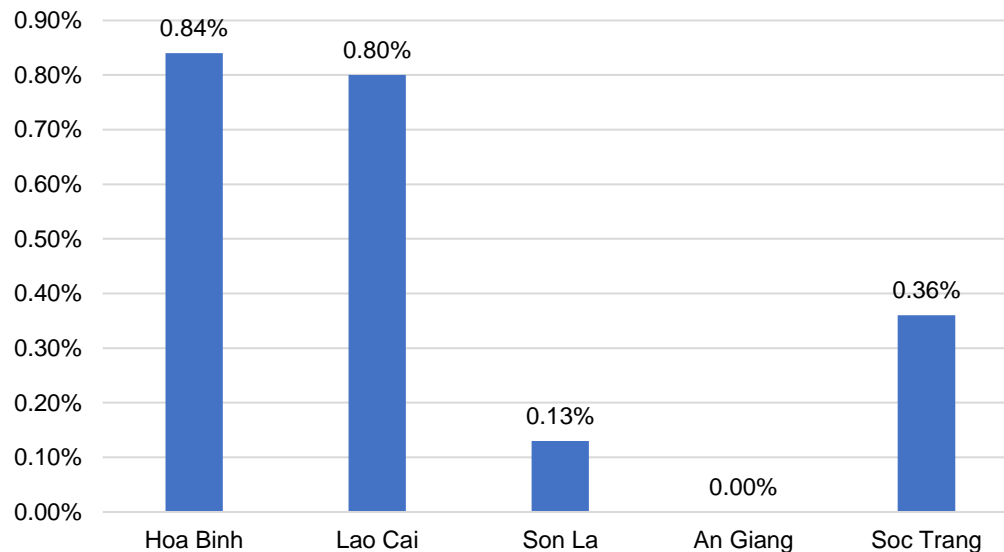
By industry and area of operations, 11.67% of household businesses providing hospitality and catering services said they would register under the Enterprise Law. By gender, 9.15% of male-headed household businesses plan to register as an enterprise and only 3.46% of female-headed household business planned to do so.

Between 2018 - 2020, despite the support which are made available under the SME Support Law to encourage household businesses to register as enterprise, only 1,875 household businesses were registered as enterprises. This includes over 1,000 enterprises in Thanh Hoa in 2018 and 2019, 247 in Ben Tre, 40 in Thua Thien Hue, 13 in Soc Trang, 12 in Binh Dinh, 11 in Ninh Thuan, 10 in Dak Nong, 8 in Ca Mau, 6 in Phu Tho, 6 in Lam Dong and 2 in Phu Yen (the Ministry of Planning and Investment, 2021).

In another study conducted by Economica Vietnam in collaboration with the provincial Statistics Offices within the framework of the District and Departmental Competitiveness Index (DDCI)⁷ survey, a question was asked on whether household businesses would convert themselves into enterprises and operate under Enterprise Law under the current regulations. To no one's surprise, only an extremely low percentage of household businesses responded yes to the question.

⁷For more information about DDCI, please visit <https://ddci.org.vn>

Figure 4. Percentage of household businesses indicating they would register or convert themselves into enterprises under the Enterprise Law



Source: District and Department Competitiveness Index surveys in Hoa Binh, Lao Cai, Son La, An Giang and Soc Trang provinces, Provincial Statistics Offices and Economica Vietnam (2021, 2022).

Specifically, the percentage of individual household businesses saying they would register or convert themselves into enterprises under the Enterprise Law was only 0.84% in Hoa Binh, 0.8% in Lao Cai, and 0.36% in Soc Trang. In An Giang, out of more than 1,000 surveyed household businesses, all of them said that they had no intention or desire to register or convert themselves into enterprises under the Enterprise Law.

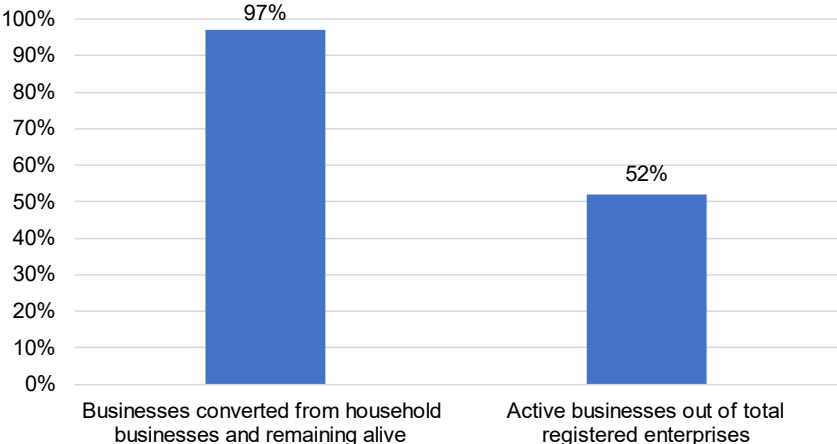
Although many household businesses are registered with the district government, the household business sector is classified as informal. However, starting up as a household business remains to be a more preferable option. Household businesses have proven to be a very convenient, easy, simple, low-cost and suitable form of doing or starting business for ordinary persons and individuals. Household businesses are still preferred to other legal forms of businesses under the Enterprise Law. Between 2011 and 2021, about 1.15 million business ideas were realized in the form of companies registered under the Enterprise Law while nearly 1 million business ideas were realized in the form of household businesses.

It should be highlighted that of these 1.15 million business ideas which were realized by registering as company under the Enterprise Law, only 578,000 enterprises or 50% of registered enterprises remain alive and active. In contrast to this, the nearly 1 million household businesses which were created during this period are still alive (as proven by the increase in the number of active companies and household businesses during this period).

The robust vitality of household businesses which is sole proprietorship in nature, and the fact that they are the preferred choice of the people to start up a business should be seriously taken into account by regulators and law-making agencies when implementing business regulatory reforms in Vietnam.

According to the Agency for Business Registration of the Ministry of Planning and Investment, in 2022, the proportion of enterprises graduating from household businesses and remaining active after 5 years is twice as high as such proportion of the whole population of enterprises registered under the Enterprise Law. After 5 years, as many as 97% of businesses converted from household businesses remain active. Meanwhile, this figure is only 52% of all enterprises and companies registered under the Enterprise Law.

Figure 5. Proportion of enterprises graduating from household business and remaining alive versus the proportion of the whole population of enterprises



Source: Agency for Business Registration, Ministry of Planning and Investment and Economic Vietnam (2022).

This high proportion is also understandable and completely logical because enterprises graduating from household businesses did have a history of running as a business before as household businesses. Now being registered formally as a company, they still keep running the same business. This enables them to avert the risks that businesses which start from scratch in the first 1-2 years of operation. Such a high proportion shows how important it is to have household businesses to registered as enterprises in order to meet the target of 1.5 million and then 2 million active enterprises as set by the Government. However, this should be facilitated by the regulatory reforms to make the graduation relevant to household businesses and attractive to household business owners.

According to the GSO, Vietnam currently has about 5 million household businesses. Roughly 1.7 million of which have been registered. About 1 million household businesses were started

between 2011-2021 and remains active. Assuming that only 50% of these household businesses are registered as sole proprietorship or sole traders rather than as household businesses as now, and given the high percentage (97%) of enterprises which graduate from household business and remaining alive as described above, Vietnam would have had another more than 500,000 formally registered enterprises. This would have brought the total number of active businesses much closer to the target of 1.5 million active businesses as articulated in the Resolution No. 10-NQ/TW of the 12th Party Central Committee on private economic development. Obviously, an regulatory framework which is conducive for household businesses to be registered under the Enterprise Law is really significant and meaningful from the perspective of business development, including development of the household business sector.

However, current legal regulations regarding sole proprietorship, business individuals, individually-run businesses are yet to create an enabling environment for the people, especially sole proprietors, to start up their business in the form of sole proprietorship. Attempts to convert household businesses, or measures to encourage them to formalize are merely incentives for household businesses to transform into another type of business which are existing in the Enterprise Law and with stipulations, conditions and terms which are not at all suitable with them.

In the coming time, the approach to encourage household businesses to formalize and to graduate into enterprises should be changed to reforming and revising legal regulations to be suitable to nature and characteristics of the household businesses and business individuals, rather than coercing them into a regulatory framework that contains too many stipulations that are not relevant to the nature, characteristics of household businesses.

2. Inclusion of household businesses as a type of business under the Enterprise Law

In 2020, the Enterprise Law was being amended. The drafts of the amended law included regulations on converting household businesses into enterprises (Chapter VIIa of the final draft before discussions and approval). According to the draft, the Enterprise Law would recognize household businesses as a type of enterprise and provide that household businesses would convert into enterprises. The draft stipulations were highly controversial, stirring up hot debate on the topic. Many experts, government agencies, business associations, household businesses, individually-run businesses and National Assembly deputies themselves disagreed with the proposed stipulations in the draft.

The National Assembly Standing Committee requested for votes from the National Assembly deputies. Results from the vote showed that 174/433 (40.18%) of the deputies of the National

Assembly agreed with having a chapter on household businesses in the (amended) Enterprise Law and 258/433 (59.58%) endorsed the formulation of a separate law on household businesses.

Based on the majority opinion, the National Assembly Standing Committee decided to remove the provisions in Chapter VIIa on household businesses and those on conversion of household businesses into enterprises. Also, to ensure continuity until a separate law on household businesses is promulgated, the Government is tasked with providing guidance on registration and operation of household businesses.

The revised Enterprise Law was passed without the Chapter and provisions on household businesses being included.

This is a right decision by the National Assembly, especially in its vision for a separate law on household businesses. However, while this future law will govern all of the household businesses, it should not be named the Law on Household Businesses. Rather, it should bear a different name such as the Law on Sole Proprietorship to reflect the legal nature and characteristics of household businesses and in order for the law to cover other business individuals, individually-run businesses and other sole proprietorship entities. Household businesses will be just be one of the subjects alongside with business individuals, individually-run businesses and other sole proprietorship entities being governed by the law.

Also, a number of articles of the Enterprise Law also need to be amended or annulled in parallel with or after such a separate law on sole proprietorship (or on household businesses) is formulated and promulgated. The following sections will explain further why such actions are needed.

Before going further, it is necessary to look at how other countries, especially those with developed and mature market and those with similar conditions with Vietnam, have been dealing with issues related to household businesses, and what lessons Vietnam could learn from them.

V. HOUSEHOLD BUSINESSES IN OTHER COUNTRIES AND LESSONS LEARNT FROM INTERNATIONAL EXPERIENCE

1. Other countries do not have household businesses as in Vietnam but sole proprietorship is a popular form for starting a business

In most countries, businesses fall in either one of the three following basic categories: (i) sole proprietorship or sole trader; (ii) partnerships; and (iii) liability limited companies/corporations. Based on these three categories, businesses can be divided into more specific sub-categories such as: (i) sole proprietorship; (ii) limited partnerships; (iii) single-member liability limited companies, two- or multi-member liability limited companies; (iv) joint-stock companies.

A business owned and run by an individual, where there is no legal separation between assets of that individual and his/her business, is called *sole trader*, *sole tradership* or *sole proprietorship* in the UK, US and Australia, *entreprise unipersonnelle* in France, or *einzelunternehmen* in Germany. This type of business is very similar to household businesses in Vietnam by sharing some key features: (i) the business is owned by an individual, proprietor, (ii) the registration is relatively simple; (iii) the owner is liable (unlimited liability) for all obligations under the business with all of his assets; (iv) profits from the business are accounted for as the proprietor's, owner's taxable personal income.

The term household businesses with the meaning and connotation as in Vietnam cannot be found in any other country. Instead, sole proprietorship or sole trader that share much similar features with household businesses in Vietnam is widely popular in these countries.

In terms of legal regulations, China enacted a separate law on business individuals and individually-run businesses. The law was named as Law on Sole Proprietorship Businesses and came into force on January 1, 2020. The Law on Sole Proprietorship Businesses of China consists of 6 chapters and 48 articles. Among others, the law stipulates that sole proprietorship business is owned by an individual who has unlimited liability for obligations related to the business. The proprietor can register the sole proprietorship with his home address as the business address. He/she can sign employment contracts and shall pay for employees' social insurance premiums. The tax applicable to sole proprietorship is personal income tax.

In Singapore and Malaysia, sole proprietorship or sole trader are governed by the Business Registration Act. In Thailand, sole proprietorship and individually-run businesses are governed by the Civil and Commercial Code. Regardless of the type of governing laws and regulations, sole proprietorships in these countries are the simplest, the most convenient, cost-effective form for starting up a business and for doing business. The regulation on registration, tax filings, financial reporting and other obligations are simple with low compliance cost. In these countries, tax applicable to sole proprietorship is personal income taxes.

Therefore, sole proprietorship and sole trader have become widely popular in different economies. For example in Southeast Asia, as of March 2023, the island nation of Singapore has 575,527 businesses and companies. Among them, 144,234 (25%) are sole proprietorships⁸. In Malaysia, 554,900 out of 907,065 (or 61.2%) of formally-registered businesses are sole proprietorships (SMECorp Malaysia, 2017).

⁸ <https://www.acra.gov.sg/training-and-resources/facts-and-figures/business-registry-statistics>

In the EU, among 2.3 million businesses registered in 2012, 1.6 million or 70% of them were registered as sole proprietorship. This percentage is especially high in some countries, for example 92.3% in France, 86.9% in Poland, 86.4% in Netherlands, and 86.1% in Czech Republic (EuroStat, 2013). In Hungary, among 450,733 active enterprises, 53% of them are in the form of sole proprietorship (OECD, 2016). 73% of small businesses in the US are sole proprietorships (US Small Business Administration, 2013).

2. Lessons learnt from international experience

Review of international experience shows that the term household businesses with the meaning and connotation as in Vietnam cannot be found in any other country. In these countries, business is based either on natural person or legal person.

In doing business, natural person is in the form of sole proprietorship, sole trader, individually-run businesses. This form of business share many similar characteristics with household businesses in Vietnam.

The difference is that sole proprietorships in these countries, especially developed economies such as the US, Canada, Europe, OECD countries and advanced economies in East Asia, are all registered formally. Due to its nature and size, sole proprietorship can be easily registered (with the local government or online) with very low compliance costs and with more simple accounting, financial reporting and tax filing regimes when compared with other types of business. Therefore, compliance costs and tax rates applicable to sole proprietorships in these countries are reasonable for business individuals and sole proprietors. This is the decisive factor of the attractiveness of this type of business, encouraging many entrepreneurs to start up in the form of sole proprietorship (as the Vietnamese sole proprietors have been with the form of household businesses).

International good practices show that the most important lessons learnt for Vietnam in reform in the regulatory framework for household business is to **use consistently sole proprietorship or sole trader as the legal form** for household business, and for individuals and proprietors if they wish to run their business on an individual basis. This principle will be used consistently in all laws and regulations related to household businesses. All other laws and regulations will be revised to treat household business as sole proprietorship, just like the good international practices seen in all other countries. This will create the foundation for regulatory reforms in business registration, tax management, accounting regimes, financial reporting, social insurance, bankruptcy, and intellectual property rights protection, etc. which are applicable to household business, business individuals and other individually-run businesses in Vietnam.

Now many questions might arise. For example, while sole proprietorships are very popular in most of other countries as the simplest, the most convenient, and cost-effective form of doing business, why isn't it growing in popularity in Vietnam? While *private enterprise* as stipulated under the Enterprise Law is sole proprietorship by nature and seems to be a particularly suitable form of business for sole proprietor to start with rather than with a household business, or for household businesses to be converted into when they decide to formalize, what has deprived the *private enterprise* form of business of its charm and attractiveness to become popular in Vietnam? The following sections will aim at finding answers to these questions.

VI. REGULATIONS ON SOLE PROPRIETORSHIP IN VIETNAM

To be precise, Vietnam has already introduced regulations on sole entrepreneurship applicable to business individuals, sole proprietorship, or sole trader as regulated in the Enterprise Law. However, in the Enterprise Law, this form of enterprise is named as "*doanh nghiệp tư nhân*" which is often translated as *private enterprises*. This term in both Vietnamese and English versions of the Enterprise Law fail to reveal the connotation of sole proprietorship or sole trader. They are not self-explanatory and has become even misleading in many cases.

Putting the terms aside, the definition of *private enterprises* in the Enterprise Law reflects the nature of sole proprietorship which can be applicable to business individuals, and sole traders or individually-run businesses. According to the law, "*a private enterprise is one owned by an individual who is wholly liable for the liability of the business by all of his assets*" (Clause 1, Article 188, Enterprise Law).

However, despite the availability of such regulations on sole proprietorship which can be applicable to business individuals, businesses in the nature of sole proprietorship as regulated in the Enterprise Law, *private enterprises* (sole proprietorship in nature) are becoming unattractive, obsolete and are no longer considered a suitable and low-cost option for business individuals when starting a business. Instead, they either conduct business without registration or register themselves as household businesses, then finding themselves facing numerous challenges due to the unclear legal status. This is in stark contrast to the fact that sole proprietorship is extremely popular in other economies as described earlier.

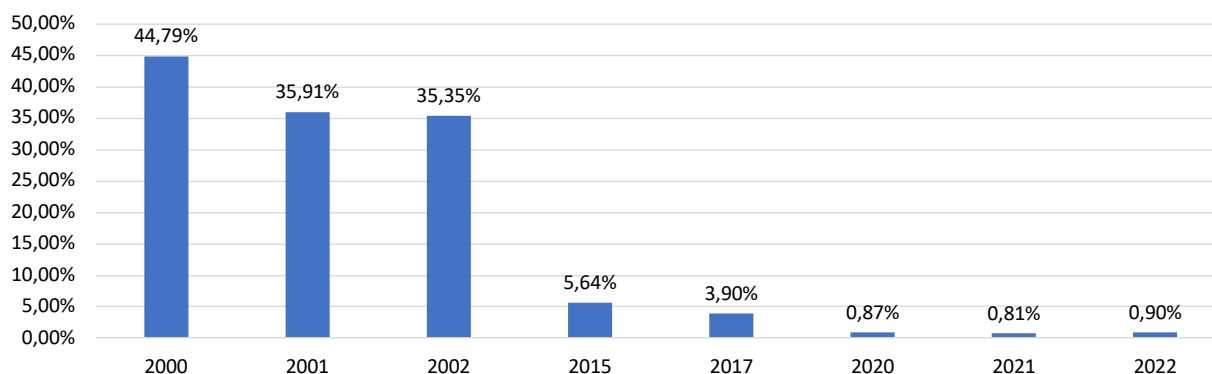
Sole proprietors and the people have voted to show their opinion and choice. Statistics in the last few decades show that they have bypassed the form of *private enterprises* as prescribed in the Enterprise Law and go for household business and one member liability limited company when they wish to start and run their business on individual basis.

Private enterprise is losing its attractiveness and is no longer a preferable option for sole proprietors and entrepreneurs when starting and registering a business. If in the early years of

the Enterprise Law 1999, nearly half of registered enterprises were registered as *private enterprises* (44.7% in 2000, 35.9% in 2001), only a very small percentage of enterprises are registered as *private enterprise* (3.9% in 2016, 2.47% in 2017 and 0.9% in 2022).

Even in the case of household businesses that decided to formalize and convert into enterprises, only a very small percentage have chosen to register themselves as *private enterprises*. Between 2018 and 2022, as little as 4,185 household businesses were converted into enterprises. On average, each year 837 household businesses were formalized as enterprise under the Enterprise Law. Among household businesses being converted into enterprises, only 2% chose to register themselves as *private enterprises*, 77% were converted into one-member limited liability companies, and the remaining 21% chose to the legal form of multi-member limited liability or joint stock companies.

Figure 6. Proportion of enterprises registered annually as "private enterprises" (%)



Source: Agency for Business Registration, Ministry of Planning and Investment and Economic Vietnam (2022).

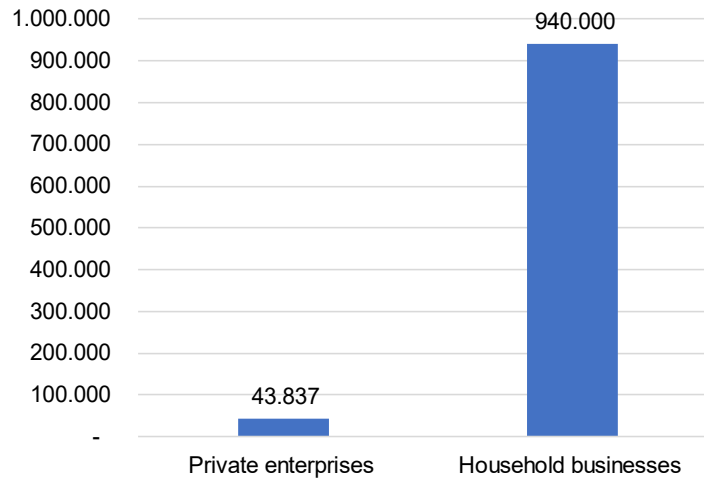
**Calculated on the total number of annually registered businesses*

In 2022, only about 1,344 (or 0.9%) of 148,533 newly established enterprises were registered as *private enterprises* (sole proprietorship). 0.9% is quite low a number when compared with 20% in Singapore, 61% in Malaysia, more than 73% in the USA, or 80-90% in many EU countries. This also explains why the number of active businesses per 1,000 population in Vietnam is much lower than those in other economies, and why it is almost not possible to achieve the target of 1.5 million active enterprises by 2025 as set by the Government.

Instead of opting for *private enterprises* which are sole proprietorships by nature, sole proprietors who prefer the nature of sole proprietorship as their form of doing business have registered themselves as household businesses. Between 2011-2021, as many as 940,000 household businesses were put into operation. In contrast to this impressive increase, only

43,800 *private enterprises* (as sole proprietorships) were registered, equal to only 4.6% of the number of household businesses that came into operation in the same period.

Figure 7. Number of *private enterprises* registered between 2011-2021 and increase in number of active household businesses in the period



Source: Agency for Business Registration, Ministry of Planning and Investment and General Statistics Office (2022).

Thus, though *private enterprises* are regulated in a whole chapter and many articles scattering in other chapters of the Enterprise Law, it has failed to catch up with the practical requirements of sole proprietors and entrepreneurs. The provisions on *private enterprises* in the Law on Enterprises, although having great impacts on the development of enterprises in the early stages, have become outdated, obsolete as the stipulations related to *private enterprise* is slow to be reformed.

The Enterprise Law has made miraculous achievement in paving the way for the development of enterprises in Vietnam, including the *private enterprise* in earlier years of the law. However, recent revisions of the law failed to catch up with the new developments related to the form of *private enterprise* as stipulated in the law. The prevailing Enterprise Law have thus wasted many stipulations without being able to create an enabling legal framework for sole proprietorship, including business individuals, or individually-run businesses. Meanwhile, despite a strong growth in the number of household businesses, there remains a big legal gap and regulatory vacuum, resulting in the absence of a clear and well-founded legal definition on the legal status of household businesses. This is really a paradox which need to be addressed.

Sole proprietorship, including business individuals, sole trader enterprises or sole owner enterprises, is the most suitable form legally that reflects operational features of individual

household businesses who should have chosen this instead of registration as household businesses.

What has made *private enterprises* which is sole proprietorship in nature or sole traders in Vietnam so unattractive to individual start-ups? Why do sole proprietors choose the form of household businesses despite the challenges they will face as a consequence of the ambiguity in legal status? Why are existing household businesses so hesitant to convert into *private enterprises* (sole proprietorships in nature) under the prevailing regulations? The sections that follow will aim at shedding some more light on these questions.

VI. BARRIERS TO FORMALIZATION OF HOUSEHOLD BUSINESSES AND CAUSES

It is not true that sole proprietorship, i.e., business individuals, individually-run business which are often seen in Vietnam is not unattractive in Vietnam when the entrepreneur wish to start up and run the business on their own and on individual basis. On the contrary, it is as popular and as preferable as in any parts of the world. The impressive increase in number of active household businesses as well as business individuals is a testimony to this statement.

The difference is sole proprietors in Vietnam have not chosen to registered as *private enterprises* which is essentially a form of sole proprietorship as stipulated in the Enterprise Law due to the legal obstacles, constraints and limitations in the regulations applicable to *private enterprises*.

Previous efforts to formalize household businesses, including conversion of household businesses into enterprises and inclusion of household businesses as one of the subjects being governed under the Enterprise Law, have been unsuccessful mainly because they fail to address the root causes of the problem – that is reworking and reforming the legal foundation and regulations for sole proprietorship in order to provide household businesses and business individuals a clear, solid and well-founded legal framework which is relevant to and fit with their nature and characteristics. Previous efforts sought to force household businesses and business individuals to register under the existing legal framework that contains just too many provisions which are not suitable with the nature and characteristics of household businesses.

In order to gain support from household businesses and business individuals, efforts to reform and develop the household business sector should commence with reforming the legal framework and regulations on sole proprietorship, reforming stipulations and regulations related to *private enterprises* under the Enterprise Law.

Numerous constraints in current regulations on sole proprietorship

“Private enterprises” are governed under the Enterprise Law. According to the Enterprise Law 2022, “A private enterprise is an enterprise owned by an individual who is fully liable for the entire operation of the business wholly by his/her total assets” (Clause 1, Article 188).

Private enterprises in current Vietnamese law are business individuals, individually-run business, sole trader and are sole proprietorship by nature. However, stipulations in the current Enterprise Law have numerous shortcomings, resulting in *private enterprises* being governed in a way that is so differently from the nature of sole proprietorship and from good international practices on governing sole proprietorship

Inaccuracy in name resulting in ambiguity

Term-wise and literally, the term "*private enterprise*" in both Vietnamese and English do not reflect and reveal the connotation and the the nature of this form of business as sole proprietorship, sole traders individually-run businesses. Inaccurate term results in ambiguity, confusion among sole proprietors and entrepreneurs, especially among those who plan to register as household businesses and among those who do not have much knowledge of laws or regulations relating to different types of businesses. Except for those who have good knowledge of the Enterprise Law, few can really tell that "*private enterprises*" are sole proprietorship by nature. The term "*private enterprise*" is also confusing as many would think that it is an enterprise in the private sector. The missing link between the name, connotation and the nature of such term should be addressed to facilitate proper interpretation by sole proprietors, entrepreneur, the public, regulators and even law-making agencies.

Inconsistency in treating private enterprises as sole proprietorship in laws and regulations

In other countries, the procedures for registration a sole proprietorship are simple, convenient, cheap. Procedures for registration of sole proprietorship are not treated the same like registering as a company or corporation. In developed countries, the registration procedures of sole proprietorship are simplified to reflect the fact that the sole proprietorship is a natural, simplest, most convenient and cost-effective to start up and run a business. Therefore, sole proprietorship are registered under administrative procedures rather than under judicial procedures.

This is different under Vietnamese laws and regulations. According to the Enterprise Law 2020, individuals who wish run a business as a *private enterprise* (a sole proprietorship by nature) must also follow the registration procedures exactly the same as those applicable for company and corporation registration (Chapter II of the Enterprise Law 2020). Legally speaking, the terms of “business establishment” and “business registration certificate” as used in the Law provide an impression that *a private enterprise* is an “established” entity and, once established, this entity exists independently from the sole proprietor. This contradicts the nature of sole proprietorship.

According to the Enterprise Law 2020, *a private enterprise* is understood as a tradable asset. Indeed, Articles 191 and 192 of the Enterprise Law 2020 provide that sole proprietors can sell and lease out *private enterprises*. Further stated in Article 193 of the Enterprise Law 2020, *private enterprises* are subject to inheritance rights. Legally speaking, the subjects of a sale and lease transaction can only be tradable assets. Following this logic, *private enterprises* are seen as a type of assets in the Enterprise Law 2020. This is inconsistent with the Civil Code 2015 and general knowledge on sole proprietorship globally. It would be more accurate if the Enterprise Law or other laws see the sale and lease of *a private enterprise* as the sale and lease of assets of its owner, formed from its investment, production and business activities. A private enterprise (sole proprietorship) is not an asset in itself and cannot own assets⁹.

According to the Circular guiding the implementation of Decree 218/2013/ND-CP and the Law on Corporate Income Tax issued by the Minister of Finance on September 14, 2015, *private enterprises* are, among others, subject to corporate income tax. Thus, *private enterprises* which are sole proprietorships by nature are required to pay corporate income tax, like limited liability and joint stock companies.

This shows that the Enterprise Law remains unclear and inconsistent in treating *private enterprises* as sole proprietorship which often exists as business individuals, individually run business in Vietnam.

With respect to bankruptcy, *a private enterprise* is a sole proprietorship and individually-run business in nature, having no status as a legal entity, but is required to be subject to the Bankruptcy Law, just like other types of legal business entities. Article 5, Bankruptcy Law 2014 clearly defines the right and obligation to file for bankruptcy of *a private enterprise*. However, household businesses, which are also business individual and individually-run business by nature, are not governed by the Bankruptcy Law. Household business follow the Civil Code when carrying out bankruptcy procedures.

This shows unclear and inconsistent treatment of regulations on *private enterprises* which are sole proprietorship in nature. *Private enterprises* are still treated the same as liability limited and joint stock companies in many cases as described in this section. This has triggered another problem, that is high compliance costs, if a sole proprietor chooses to register as *a private enterprise* under the Enterprise Law.

Too high compliance costs after registration as a private enterprise

⁹"Discussion on a number of regulations on private enterprises in the Enterprise Law 2020", Nguyen Thanh Tran, Vietnam Trade and Industry Review (2022).

As sole proprietorship by nature, but a *private enterprise* as stipulated in the current Enterprise Law is currently required to comply with all regulations, procedures for business registration, accounting, financial reporting and governance similar to other businesses and companies that have tens, hundreds or even thousands of shareholders.

For business registration costs, for example, according to current regulations, those wishing to register as a *private enterprise* can only do so at a provincial business registration office (i.e. one of 63 business registration offices in 63 provinces). This means that when registering a business as a private enterprise, business registrants have to visit provincial and city centers that are often far away from their residence areas, which is both time-consuming and costly.

Although online registration is possible via the National Business Registration Portal, it is not a factor that can cause an immediate change to practices of those living in rural, mountainous and remote areas when registering their business. Let's look at the cases of entrepreneurs, sole proprietors or owners of household businesses in Si Ma Cai (Lao Cai), Nam Tra My (Quang Nam), Binh Lieu (Quang Ninh), Con Cuong (Nghe An), Tinh Bien (An Giang), Ea Soup (Dak Lak), or Thanh Tan (Tay Ninh). If they wish to register their businesses as *private enterprises*, or agree to convert their household businesses into *private enterprises*, they are required to travel hundreds of kilometers back and forth to complete the procedures. This is a huge barrier, if compared to a case where they can visit an district-level office, more or less 10km away, to register their household business. This is also a reason why many choose to register as household businesses instead of *private enterprises*.

In addition, the current Enterprise Law does not have separate regulations on registration, governance, accounting, tax management and financial reporting of "*private enterprises*" which are sole proprietorships by nature. As sole proprietorship by nature, though, a *private enterprise* must comply with the same regulations as a multi-member limited liability company or a joint stock company with hundreds or thousands of shareholders. This means *private businesses* are required to recruit or hire an accountant, prepare periodic financial statements and tax reports, purchase equipment such as e-tokens, register for digital signatures to electronically submit tax reports, maintain corporate office and cover many other mandatory expenses as prescribed by law. When registering as or converting a household business into a *private enterprise* under the Enterprise Law, the minimum compliance cost for the sole proprietor or the household business owner is estimated at about VND 181.2 million per year¹⁰. This is a very significant burden for a business individual or household business. It is another factor that makes *private enterprises* being disfavored as compared with individual household businesses.

¹⁰ "Vietnam Private Sector: Productivity and Prosperity", MekongBiz/ADB and Economica Vietnam (2019).

The current Law on Tax Administration still has specific regulations on household businesses, including lumpsum tax (thuế khoán). Regulations on accounting and tax reporting regimes applicable to household businesses are also less strict. Registering or converting into *private enterprises*, sole proprietors or a household business owner will lose these significant benefits.

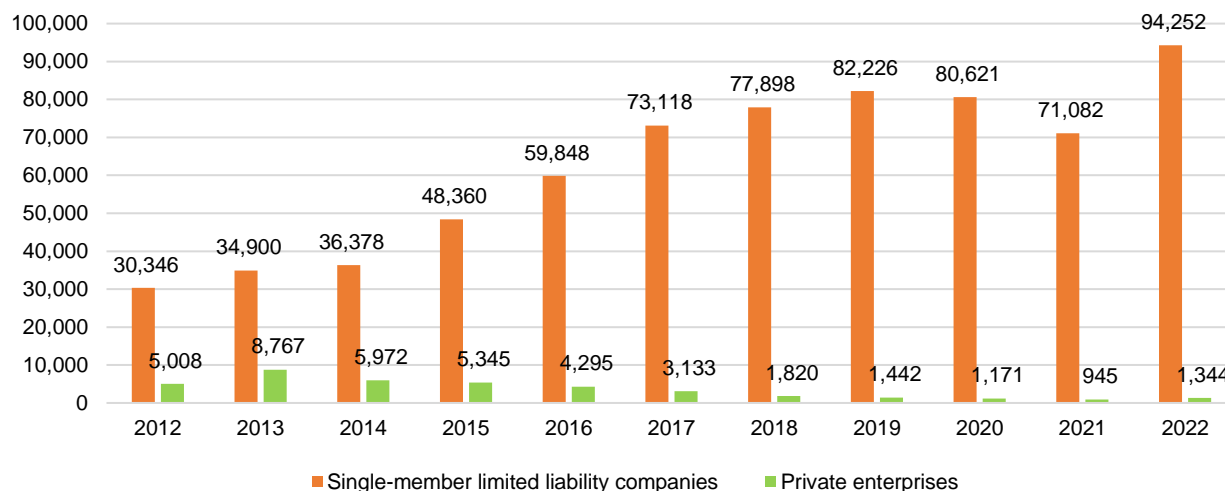
Private enterprises also have to incur many other legal compliance costs. *Private enterprises*, as sole proprietorship by nature and without status as legal entity, are subject to the same framework of tax and social insurance regulations as business legal entities such as limited liability and joint stock companies of much larger scale. Thus, pursuing sole proprietorship, though, they must pay the same corporate income tax and VAT rates as other formal business entities. For the owner of a *private enterprise*, in addition to corporate income tax applicable to *private enterprise* (without distinction between the assets of the business and those of the owner), s/he is also subject to personal income tax. Without a clear, detailed accounting (costing) system, they risk paying taxes twice.

These are not consistent with the basic principles, that it is necessary to develop legal regulations that fit business individuals and individually-run businesses (sole proprietorship) as the natural, most convenient and simplest form of doing business. Given existing provisions in the Enterprise Law and other legal documents, the compliance cost for sole proprietorship under the *private enterprise* legal form is just too high for all business individuals and sole proprietors. This discourages them from registering as *private enterprises* but household businesses instead. Existing household businesses are not interested in converting their business into *private enterprises* as stipulated in the Enterprise Law.

In addition, the *private enterprise* form has become even less attractive following when regulations on one-member limited liability companies are detailed in the Enterprise Law 2005. As limited liability and single owner (member) entities, this model presents more advantages on this regard than *private enterprises*, causing *private enterprises* to look less appealing. A one-member limited liability company can also be owned by an individual, but has the status as a legal entity, and the owner has only limited liability within his contributed capital. Before limited liability companies were legally recognized, *private enterprise* was preferred as it offered the possibility for sole proprietor or sole entrepreneur to register if s/he wish to start up the business on sole owner basis. Private enterprises now lose this advantage to one-member LCC. Owners of private enterprises have unlimited liability. In addition, *private enterprises* do not have status as legal entity.

The figure below shows the overwhelming dominance of one-member limited liability companies compared to *private enterprises* (both of which can be owned by one owner as stipulated in the Enterprise Law).

Figure 8. Number of registered one-member limited liability companies and *private enterprises* over the years



Source: Agency for Business Registration, Ministry of Planning and Investment (2022).

As seen in the figure, the one-member LLC model is much more preferred than the *private enterprise* model when starting a business. Out of 4,185 household businesses that converted into enterprises in the period 2018-2022, 77% chose to become one-member limited liability companies and only 2% chose to register as *private enterprises*.

The regulations on business individuals, specifically *private enterprises*, in the Enterprise Law and related laws are outdated, making this a unattractive and uncompetitive model compared to the household business model. Therefore, the sole proprietor who wishes to choose the simplest, lowest cost, most convenient, most natural form to start their business, or household who wish to convert into enterprise under the Enterprise Law while still keeping their sole proprietorship nature would not see the real benefits of *private enterprises*. Instead, they only see more obligations, higher compliance costs when compared with the form of household business.

Therefore, efforts to reform and develop the household business sector should be carried out by updating legal provisions on sole proprietorship, including business individuals, sole owner enterprises, and individually-run businesses. The form *private enterprises* as stipulated in the Enterprise Law should be reformed. This should be considered as the guiding principle when it comes to the formation and establishment of the legal status of household businesses, creating a solid and systematic foundation for the development of the household business sector.

The next section will present specific suggestions and recommendations on reforming legal regulations on business individuals, sole owner enterprises or individually-run business (sole proprietorship) to drive formalization and development of the household business sector.

VII. LEGAL REFORMS TO ESTABLISH THE LEGAL STATUS OF HOUSEHOLD BUSINESSES

Reforming legal regulations sole proprietorship to support and develop the household and sole proprietorship sectors should be implemented in a structured, synchronous and systematic manner under the underlying principles of observing the nature of sole proprietorship, business individuals, and individually-run businesses.

1. Development of a separate legal framework on sole proprietorship

Developing separate regulatory framework for business individuals and for business legal entity has been the approach followed by many countries, especially OECD member countries or or East Asian economies such as Japan and South Korea, and in ASEAN. China has developed its Law on Sole Proprietorship Businesses which came into effect in January 2000.

In 2020, the Enterprise Law was being amended. The drafts of the amended law included regulations on converting household businesses into enterprises. According to the draft, the Enterprise Law would recognize household businesses as a type of enterprise and provide that household businesses would be converted into enterprises. However, the National Assembly Standing Committee requested for votes from the National Assembly deputies. Results from the vote show that the majority of the National Assembly deputies agreed with removing the chapter on household businesses from the draft law of the Enterprise Law 2020, and agreeing with the formulation of a separate law on household businesses. On 17 June 2020, the Enterprise Law was passed with the approval rate of 90,68% by National Assembly deputies, in which the chapter and the stipulation on converting household businesses into enterprises had been removed (Article 199a of the final draft).

This is a right decision by the National Assembly, especially in its vision for a separate law on household businesses. However, while this future law will govern all of the household businesses, it should not be named the Law on Household Businesses.

This direction is also consistent with good international practices that separate the legal provisions between business legal entities and sole proprietorships.

In line with this direction, it is necessary to promulgate a law on sole proprietorship in the future¹¹. Before such a law can be promulgated, a Government decree on sole proprietorship or individually-run businesses can be formulated.

¹¹ In case it is decided differently that this new law on sole proprietorship will not be developed, the Enterprise Law will be amended instead. In that case, it is necessary to amend all stipulations, articles related to the form of *private enterprises* in the Law on Enterprises according to the recommendations and suggestions in this report so that *private enterprises* can truly reflect the nature of their business as sole proprietorship.

Such a law should be developed in a way that governs all kinds of sole proprietorship and sole traders in Vietnam, e.g. business individuals, individually-run businesses and household businesses (which is a very important group). Therefore, this law should be given a name to reflect this scope, for example, the Sole Proprietorship Law or the Law on Business Individuals, Sole Trader and Individually-Run Businesses. The name of such a law will cover not only household businesses but also many other types of sole proprietors such as business individuals, Internet-based shop owners, professionals and own-account workers such as freelancers or artists, etc. These sole proprietors and business individuals do need a clear, simple, convenient and low-cost regulations to join the formal economic sector and such a legal framework is still missing.

Such a law also needs to provide a clear regulation that household business are a sole proprietorship by nature, and that business households are treated as natural persons and as business individuals in line with the Civil Code. This is the basis for all other legal regulations in other fields in order to have a consistent and uniform treatment towards household businesses.

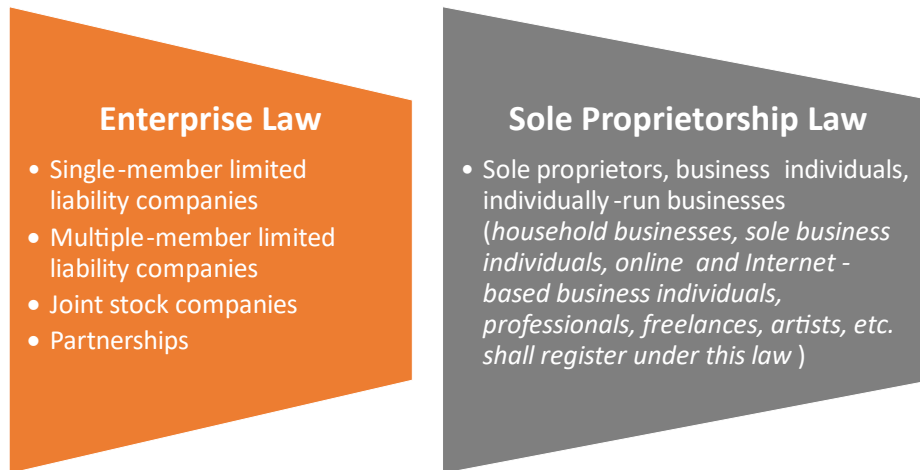
The law will provide provisions on such matters as registration, governance, accounting, financial reporting, general principles of taxation, general principles of social insurance and other obligations and benefits appropriate to the nature of sole proprietorship.

It is most ideal if the Law also makes it clear that its provisions will replace those on *private enterprises* currently prescribed in the Enterprise Law. Regulations related to *private enterprises* currently stipulated in the Enterprise Law 2020 will automatically cease to be valid after this Law takes effect. This option will ensure that sole proprietorship is not governed by two laws at the same time.

In the event that this option is not feasible as such a provision has too much impact on the Enterprise Law or this requires the Enterprise Law to be amended in parallel, this law may still be developed and promulgated while the provisions on *private enterprises* in the Enterprise Law will remain as they are, and will be amended in the future revision of the Enterprise Law.

In the long term, after this proposed Law is issued and the adjustments and amendments to the Enterprise Law are made, governing scope of the Enterprise Law and the sole proprietorship law can be illustrated as in the figure below.

Figure 9. Governing scope of the Enterprise Law and Sole Proprietorship Law



Source: *Le Duy Binh et al. (2023)*

In case there is a change in mind regarding the plan to formulate a separate law on sole proprietorship which will target mostly business households as decided by the National Assembly as above, the development of a separate legal framework sole proprietorship and individual business can be accomplished by amending the Enterprise Law. In that case, all the stipulations and provisions on *private enterprises* as in the law now will be which drastically reformed according to the suggestions and recommendations proposed in this report. Especially, the revisions should be firmly based on the principle of creating a separate regulatory framework for business legal entities and business individuals.

2. Measures applicable to *private enterprises*, household businesses, and other types of business individuals, sole proprietors after the new legal framework is introduced

If a Sole Proprietorship Law is developed and provisions on *private enterprises* in the Enterprise Law are removed as in the best case scenario, *private enterprises* registered under the Enterprise Law before the effective date of the new law will be automatically governed by this new law and will be treated as *sole proprietorship*. If they do not wish to maintain their status as sole proprietorship, they can choose to re-register as limited liability or joint stock companies under the Enterprise Law.

If a Sole Proprietorship Law is developed while the provisions in Enterprise Law being retained as they are, the *private enterprise* legal form will remain the same as they are until relevant provisions related to them in the Enterprise Law are revised.

Sole proprietors who are considering registration as household businesses will register under the new law sole proprietorship. After registration, they will be called *sole proprietorship* or *sole trader enterprises*.

Business individuals (who engaged in retail, services, professional activities or being Internet entrepreneurs, etc.) will register their business under the new sole proprietorship law.

Registered household businesses which already have a tax code (approximately 1.7 million) will be automatically governed by the new law and will be treated as sole proprietorship. Though they are encouraged to register under the new law, they are not required to register their business under the new law. However, they are supposed to do so when applying for renewal or changes to their business registration certificates. For re-registration or new registration under the new law, the business registration certificates will no longer name them household businesses but *sole proprietorships*.

About 110,000 large-scale household businesses (with a turnover of more than VND 1 billion/year), that employ many workers and operate in many business locations can choose to register and run their business under this new law or may consider converting their business into a limited or joint stock company under the Enterprise Law.

The law will require that all business individuals, household businesses, individually-run businesses need to register under the new law, but the law will also set a threshold on revenue or income below which the registered sole proprietorship, business individuals, household businesses, individually-run businesses are not subject to tax obligations, accounting, reporting requirements. This aims to set up a functioning database about household businesses, business individual and individually-run businesses.

3. Simplification of registration procedures and setting up of the database on sole proprietors, business individuals and household businesses

The database can be used to ease the access to government support when needed as it has been the case during the Covid-19 or for use in Government targeted supports for some target groups of household business and business individuals. Under the current regulations¹², household businesses and business individuals with revenue from production and business activities in a calendar year of VND 100 million or less are not required to pay VAT and income tax. However, they are still required to declare and submit tax returns on time and take responsibility for the accuracy, truthfulness and completeness of their tax returns. Currently, there are about 3.3 million household businesses nationwide in this category. These household businesses are yet to be registered with the tax authorities.

The database of sole proprietorship, business individuals, individually-run businesses will be built and managed centrally together with the national enterprise database to form part of the

¹² Circular 40/2021/TT-BTC providing guidance on value added tax, personal income tax and tax management of household businesses and business individuals.

National Enterprise Information System and the National Portal on Business Registration. However, reforms to establish the legal status of household businesses as above need to be carried out first, preceding other measures such as building a database and re-engineering the registration process for sole proprietorship, business individuals, individually-run businesses, household businesses. This is to ensure that the reforms and the development of such database and processes are systematic, clear, consistent and effective.

The Law will clearly stipulate that business individuals, individually-run businesses and all other kinds of sole proprietorship shall be registered at the district level (rather than at a provincial business registration office), i.e. the same administrative level as where the household businesses are currently registered.

The registration of sole proprietorship, business individuals, individually-run businesses, household businesses can be conducted online via the National Business Registration Portal currently managed by MPI. On the National Business Registration Portal, the management and delivery of business registration service for sole proprietorship, business individuals, individually-run businesses, household businesses will be delegated and decentralized to 710 districts across the country, thereby reducing travel time and business registration costs borne by sole proprietors or household business owners when they choose to register their business as sole proprietorship¹³.

Before a new law on sole proprietorship is promulgated as proposed above, the Government decree on household businesses which is being drafted need to be broadened to govern not only household businesses but also business individuals and sole proprietors and in the direction that these will be all treated as sole proprietorships and sole traders in the future. The database on household businesses which is being developed by MPI also need to be broadened to cover not only household businesses but also business individuals and other forms of sole trader and sole proprietorship.

¹³In addition, with this decentralization and the ability to register at the district level for this form of "sole proprietorship" or "sole traders", sole proprietors are able to go to the same location, meet the same officer handling the documents, carry out the same process, receive the same documents as prescribed, and be granted a business registration certificate in a convenient and fast way. Business registration facilitators at the district level can also advise household businesses on the benefits of household business registration in the form of "sole proprietorship" or "sole traders" (private enterprise as currently stipulated in the Enterprise Law) rather than in the form of household business.

4. Reforming regulations on governance, reducing compliance costs, protecting rights and legal status of sole proprietorship

On the basis of the principles established in Articles 101 and 104 of the Civil Code on legal entities and individuals, regulations applicable to sole proprietorship in terms of tax, labor, social insurance, finance, banking, credit, market entry conditions, intellectual property, bankruptcy and other legal provisions will also be revised towards a common, clear, coherent and consistent approach which is in line with international practices. The regulations on tax obligations and contributions to social insurance applicable to sole proprietorship will also need to be revised to be suitable to the individually-run nature of this kind of business.

The current Law on Tax Administration still has specific regulations on household businesses, including the provision on lumpsum taxation. To be in line with the Civil Code 2015 and in a straightforward manner, the Law on Tax Administration 2019 stipulated that the tax code granted to household businesses is the tax code of individuals or representatives of household businesses. Thus, the Law on Tax Administration has defined the legal capacity of household business as individuals. This approach needs to be maintained for household businesses and for all business in the form sole proprietorship under the Law on sole proprietorship in the future.

The tax regime applicable to business individuals, individually-run businesses and sole proprietorship in this law shall be the personal income tax, reflecting the true nature of sole proprietorship.

Accounting standards, accounting reports and tax filing reports applicable to sole proprietorship, including business individuals, individually-run businesses as specified in this Law will be developed in line with the nature of sole proprietorship and their legal capacity as individuals. Regulations on accounting standards, accounting reports, and tax reports applicable to these subjects must be different and much simpler than those currently applied to *private enterprises*, limited liability companies and joint stock companies covered under the Enterprise Law. Tax administration regulations also apply personal income tax deductibles for sole proprietorship, thereby enabling and encouraging people to start or register a business under this new law.

For household businesses that have not yet been converted after the Law on Sole Proprietorship comes into effect, it is necessary to consider a roadmap to phase out lumpsum tax policy and to switch to personal income tax being applicable to household businesses to ensure fairness and transparency with business individuals and sole proprietorships taking initiative to register or convert under the new law. This also encourages household businesses to re-register under the new law to be entitled to better legal rights and protections (now with a clearer legal status) in a level and transparent playing field, especially now that such benefits like lumpsum taxes no longer exist.

Regulations on contracts, contract conclusion, bank account opening, intellectual property protection, import and export also need to be amended to make it more convenient for sole proprietorships (including business individuals, individually-run businesses) when entering into a contract, opening a bank account, protecting intellectual property, and engaging in import and export activities.

The Law also does not apply the same strict requirements on office address of sole proprietorships (including business individuals, individually-run businesses) as it has been applied to other forms of businesses regulated under the Enterprise Law. In fact, household businesses can use their home addresses as registered business addresses. The law should allow sole proprietors to use their home address as business address of the sole proprietorship. The law also allows the use of a lawyer's office or a co-working space as a registered business address. This also reflects the nature of business individuals, contributing to reducing business costs, and being in line with current trends of online business and virtual offices in the context of rapid development of the digital economy and industry 4.0.

5. Reforming regulations on labor and social insurance

Current regulations on labor relations, labor contracts, enrollment in social insurance, health insurance and unemployment insurance also need to be clarified and supplemented to reflect the relationship between employees and sole proprietor (business individuals, owners of sole proprietorship and individually-run businesses). These regulations should be developed in a way that promote harmonious industrial relations while keeping compliance costs at a level appropriate to business individuals, owners of sole proprietorship and individually-run businesses.

The Law on Social Insurance needs to be amended to stipulate that “household businesses owners”, sole proprietorships (including business individuals, individually-run businesses) will be subject to compulsory social insurance. In addition, compulsory social insurance products applicable to household business owners, sole proprietors (business individuals, owners of sole proprietorship and individually-run businesses), and employees working in these businesses must be improved to be more affordable and suitable with the nature of sole proprietorship with more attractive contribution conditions and benefits.

Social insurance benefits and social insurance products for sole proprietorships (including business individuals, sole owner enterprises or sole trader enterprises) should always be based on the principle that these household businesses are business individuals rather than a business legal entity. Therefore, social insurance products and regulations need to be suitable and attractive to sole proprietors and business owners, so they will enroll themselves and their employees if they recruit workers.

6. Communication on the benefits of sole proprietorship

It is important to conduct communication and awareness-raising activities to promote the advantages of sole proprietorship. Sole proprietorships (including business individuals, individually-run businesses) need to be widely promoted as a simple, convenient, low-cost and officially recognized form of business, and a good alternative to household business. These communications activities must be realistic and supported by regulatory reforms to maintain true advantages of this type of enterprise as described above.

VIII. CONCLUSIONS

Establishing and defining the legal status for household businesses and other individually-run businesses by creating a clear and practical legal framework which is in line with scientific principles and international practices, should be considered as one of the priorities of law-making agencies and regulators. Such a legal framework will lay the foundation for reforms and sustainable development of household business, business individuals, individually-run businesses which currently contribute up to 30% of the country's GDP.

Changes to legal regulations on household businesses should target not only household businesses but also business individuals, individually-run businesses and other sole proprietorship entities which are booming and becoming increasingly popular. These businesses and individuals do not have a legal framework which provides them with a simple, low-cost, convenient and natural vehicle to start their business in a formal way. Developing a separate law on sole proprietorships will help solve the problem related to legal status for not only household businesses but also for other business individuals, other individually-run business entities operating in an increasingly high number in the economy.

A clearer legal status will certainly make a lot of sense for the development of the household business sector, business individuals, and other individually-run business entities operating in the economy. This will have a direct contribution to the goals of enterprise development, improving the competitiveness of the economy, of the business sector, expanding the formal sector and formal employment in Vietnam. These reforms are therefore highly meaningful both in social and economic development terms.

REFERENCES

- CIEM and ADB (2017). “Formalize” Household Businesses in Vietnam.
- Dinh Truong Hinh, Deepak Mishra, Le Duy Binh, Pham Minh Duc and Pham Thi Thu Hang (2013). “Light Manufacturing in Vietnam: Creating Jobs and Prosperity in a Middle-Income Economy”, Washington DC.
- Dao Quang Vinh. “Current situation and policies on informal workers in Vietnam”, ILO (2021).
- Economica Vietnam & GOPA (2021). “SME Sector and the EVFTA”
- Economica Vietnam & GOPA (2020). “Digital Economy and Digital Transformation in Vietnam”
- Economica Vietnam (2013). “Non-farm Household Business Sector in Vietnam”.
- ILO (2021). “Informal employment in Viet Nam: Trends and determinants”, ILO (2021)
- ILO (2021). “Assessment of the Decent Work Agenda 2017-2021”, ILO (2021).
- ILO (2021). “Technical Note on Informality”, ILO (2021).
- ILO (2013). “Measuring Informality: A Statistical Manual on the Informal Sector and Informal Employment.”
- ILO & GSO (2018). “2016 Report on Informal Employment in Viet Nam”.
- ILO & GSO (2018). “2016 Report on Informal Employment in Viet Nam”.
- ILO & GSO (2019). “Definition and Measurement of Informal Employment”.
- ILO (2011). “Women's Entrepreneurship Development in Vietnam: Learning from Good Practices”, ILO Project on Women's Entrepreneurship Development and Gender Equality (WEDGE), International Labour Organization, Vietnam.
- Jean-Pierre Cling, Mireille Razafindrakoto, and Francois Roubaud (2010). “The Informal Economy in Vietnam”, ILO, Hanoi.
- Nguyen Thanh Tran (2022). “Discussions on the stipulations on *private enterprises* as regulated in the Enterprise Law 2020”. Industry and Trade Magazine, Ministry of Industry and Trade.
- Le Duy Binh (2022). “Informal Employment in Vietnam”. Dan Tri Publishing House (2020).
- Le Duy Binh, Nguyen Thuy Nhi (2022). “Vietnam to Reach the Target of 2 Million Active Enterprises”. Ministry of Planning and Investment and USAID (2022).
- Le Duy Binh (2022). “Reducing Informality in Private Sector in Vietnam». Economics and Forecast Review. Ministry of Planning and Investment.
- Le Duy Binh (2022). “Private Sector Investment : Increasing Output by Increasing Capital is No Longer a Solution ». Economics and Forecast Review. Ministry of Planning and Investment.

Le Duy Binh & Pham Minh Tuyet (2021). "Country Programme Review Viet Nam Decent Work Country Programme 2017–2021, International Labour Organization, Vietnam.

Le Duy Binh (2020). "Policy Insight: Formalisation of Microenterprises in ASEAN", OECD.

Le Duy Binh (2018). "Vietnam Private Sector: Productivity and Prosperity". ADB/Mekong Biz.

Le Duy Binh & Pham Tien Dung (2017). "Converting Household Businesses into Enterprises: Barriers from the Cost of Compliance". Vietnam Law Newspaper, (36)163/9 – 2017

Pham Thu Lan. "Organization to represent and protect the rights of informal workers – Current practices in Vietnam and international experience", ILO (2021).

Taussig, Markus and Pham Thi Thu Hang. 2004. "Enterprise Formality and the Role of Local Government". ADB, Discussion Paper No. 2, November 2004.

General Statistics Office (2021). "Report on the Labour Force Survey 2020".

General Statistics Office (2010-2020). "Statistical Yearbook".

VCCI (2010-2020). "Provincial Competitiveness Report".

VCCI (2010-2018). "Annual Report on Vietnam Enterprises". National Political Publishing House.

Information webpage on Provincial Competitiveness Index (PCI): <https://pcivietnam.vn>

Information webpage on District and Department Competitiveness Index: <https://ddci.org.vn>