

THE REALITY OF INFORMAL ECONOMY IN VIETNAM AND POLICY RECOMMENDATIONS

Nguyen Van Doan *

Abstract: *Informal economy (IE) is a group of businesses that produce goods and services with an attempt to majorly create jobs and income for laborers. For Vietnam, the enterprises of the informal economy exist mostly in communes and wards. Up to now, the reality of the informal economy, however, has not been evaluated and considered in terms of the policy as well as measured by statistics on the scale and extent of the economy in the informal economic area. The article provides readers with the current shortcomings and offers some recommendations of policies for the informal economy.*

Keywords: *Informal economy, non-observed economy, latent economy, illegal economy, household self-production, and self-consumption economy, shadow economy, hidden economy.*

Similar to many countries in the world, especially the developing countries like Vietnam, the enterprises of the informal economy exist and operate in most of the nationwide communes and wards. However, the reality of the IE area in our country has not been considered and evaluated formally in terms of the policy, as well as measured by statistics on the scale and extent... Many people even regard the IE sector as a “shadow economy”, “hidden economy”, “non-observed economy” [2]. In 2007, the Institute of Statistical Science (General Statistics Office) presided over and coordinated with the French Agency for Research and Development, Institutions and Analysis in long-term – Institutions of Research and Development (DIAL-IRD) of France to research the informal economy area with the strategy to collect information on the area as follows: (i) Improved new surveys of labor and employment; (ii) Conducted a specialized investigation of

the IE area based on a sample of labor and employment surveys in Hanoi and Ho Chi Minh City. The specialized survey provided realistic estimates of key indicators for the IE area. The results of the research were presented at many domestic and international conferences, disseminated in publications, and sent to the Government Office to report to the Prime Minister. Especially, the Institute of Statistical Science sent a report on the research results enclosed with several publications about the IE area to the Deputy Prime Minister Vuong Dinh Hue in 2017. Currently, the General Department of Statistics is presiding over and coordinating with other ministries and agencies in drafting the Project of “Non-observed economy area statistics” under the guidance of Deputy Prime Minister Vuong Dinh Hue to fully reflect the GDP scale of our country. This article will focus on an overview of the IE area; distinguishing activities related to informal economy

* Director of the Institute of Statistical Science

from latent economy and illegal economy; the reality of informal economy area in our country; several policy recommendations for the IE area.

1. The overview of the informal economy area

- **Concept:** The International Labor Organization (ILO) and the United Nations Statistics Division (UNSD) put forward the concept of the IE area – which is most generally understood - as *a group of businesses that produce goods and services with an attempt to majorly create jobs and income for laborers*. These units usually operate on small scales, mainly based on casual labor relations, kinship, or personal relations rather than contractual agreements with formal guarantees [4].

- **Features:** Production - business establishments in the informal economy area have the following characteristics: legal; no business registration; small scale (by turnover or labor); incomplete accounting records; Production costs are often indistinguishable from household expenditure, with assets such as houses and vehicles which often used in conjunction with consumption needs by households.

- **Identification criteria:** The ILO provides three criteria to identify production and business establishments in the informal economy sector: (i) Labour scale; (ii) not registered businesses in specific forms of legal law; (iii) not registered workers (labor contracts, insurance, unemployment).

- **Scope of the informal economy area:** Theoretically, business establishments in the informal economy area operate in all industries. However, the statistical scope of the informal economy sector depends on the conditions of each nation. When analyzing data, it is necessary to separate the industries of agriculture, forestry, and aquaculture.

Many countries all over the world have applied the recommendations of the ILO to their practical conditions to define the criteria and scope of the informal economy area (Table 1). In Table 1, it can be seen that each country defined a business establishment in the IE area according to one of or all three criteria at the same time: unincorporated (unregistered), labor scale, or incompleting accounting records. Regarding scope, the informal economy area in many countries does not include agriculture, forestry, and aquaculture.

2. Distinguishing the informal economy area with the non-observed economy area

The System of National Account (SNA) 2008 dedicated the whole Chapter 25 to provide guidance on the informal aspects of the economy, in which, it includes the unobserved economy area. However, many economic analysts often confuse the IE area with the NOE area.

The NOE area is all of production and business activities that cannot be collected in the basic data sources for the compilation of national accounts, including latent economic activities, illegal economic activities, informal economic activities, economic activities of engaging in the production of goods for own end use by households, and economic activities omitted due to deficiencies in the basic data collection programs.

As a result, the NOE area consists of 5 components: (i) Latent economic activities; (ii) Illegal economic activities; (iii) Non-observed informal economic activities; (iv) Economic activities of households engaging in the production of goods for own end use by households; (v) Other economic activities omitted due to deficiencies in the basic data collection programs.

The NOE here covers only a part of the the entire IE area. It is easy to differentiate non-observed informal economic area, not between the IE and the NOE areas (P.1)

Table 1. Criteria and scope of the informal economy area of some countries

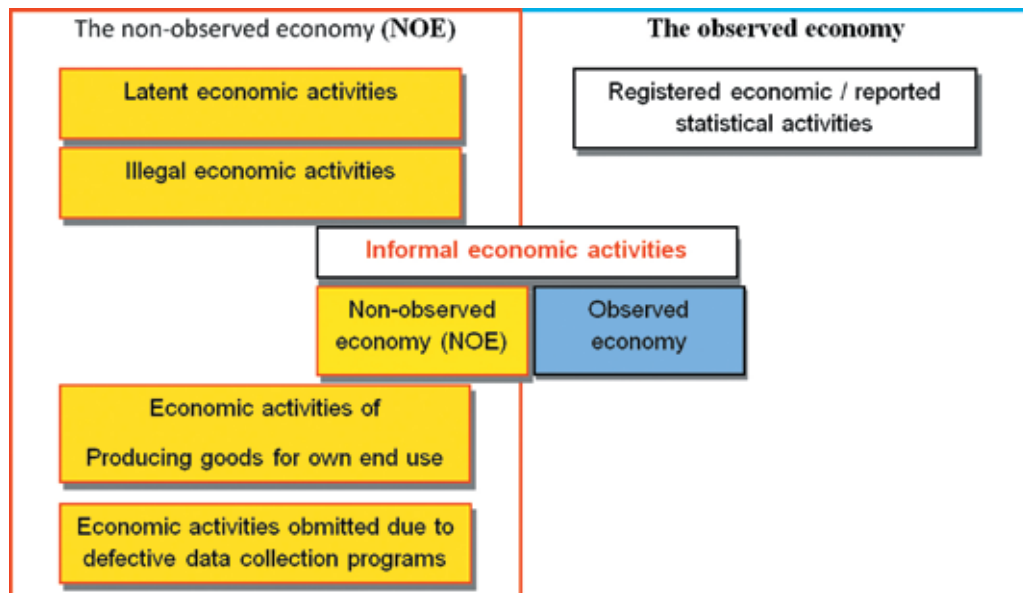
No	Nations	Criteria for defining the informal economy area	Scope
1	Brazil	- Being unincorporated enterprises - Having a smaller Labor scale than a certain threshold	Not including agriculture, forestry, and aquaculture
2	Mexico	- Being unincorporated enterprises - Having incompleted accounting records - Being unregistered	Not including agriculture, forestry, and aquacultur
3	Panama	- Being unincorporated enterprises - Having smaller Labor scale than a certain threshold	Not including agriculture, forestry, and aquaculture
4	Africa	- Being unincorporated enterprises - Being unregistered; and/or: - Having incompleted accounting records	Not including agriculture, forestry, and aquaculture
5	Ethiopia	- Being unincorporated enterprises - Having incompleted accounting records - Having smaller Labor scale than a certain threshold or being unlicensed	Not including agriculture, forestry, and aquaculture
6	Mali	- Having smaller Labor scale than a certain threshold or being unlicensed - Unregistered to social security - Having incompleted accounting records	Not including agriculture, forestry, and aquaculture
7	Tanzania	- Being unincorporated enterprises	Not including agriculture, forestry, and aquaculture
8	Moldova	- Having not registered	Not including agriculture, forestry, and aquaculture
9	Russia	- Being unincorporated enterprises, or: - Having not got business registrations	All of the industries
10	Japan	- Being unincorporated enterprises; - Having smaller Labor scale than a certain threshold	Not including agriculture, forestry, and aquaculture
11	India	- Being unincorporated enterprises	Not including agriculture, forestry, and aquaculture
12	Pakistan	- Being unincorporated enterprises - Having smaller Labor scale than a certain threshold	Not including agriculture, forestry, and aquaculture
13	Philippine	- Being unincorporated enterprises - Having smaller Labor scale than a certain threshold - Having incompleted accounting records	All of the industries

3. The Informal Economy area in Viet Nam

a) *Concept, criteria, and scope of determining the Informal Economy area in Vietnam*

- **Concept:** The informal economy area includes household economy [3] unincorporated enterprises, produced goods or services for sale or exchange without a business registration certificate as prescribed by law.

P.1. Diagram of defining from informal economy and non-observed economy in SNA 2008



- **Identification criteria:** A household business which ensures two criteria: having labor size of under 10 employees; and having no business registered certification [1];

- **Scope:** Not including agriculture, forestry, and aquaculture;

- **Features:** The IE area has the characteristics of individual business-production establishments, household enterprises: (i) Fixed assets and other assets do not belong to the production units, but the owners - investors; (ii) These production units cannot sign contracts on their own directly with other businesses under the law and cannot pay debts themselves. (iii) Owners must balance the revenues and expenditures with their own risk; (iv) It is unable to distinguish from production costs and family living expenses. Similarly, the

use of valuable goods, such as houses or vehicles, is indistinguishable for business or family consumption.

b) *The existing process of household business*

- From 1954 to 1957, the Resolution of the Politburo (September 1954) stated: "It is necessary to attach great importance to the restoration of commerce and industry, making the existing public and private enterprises continue to do business". The Government's Decree No. 489 / TTg (March 30, 1955) also mentioned the Charter of registration of various types of industrial and commercial business. The result was a legal framework for the legalized individual business, the non-agricultural individual economic sector developed strongly (55,000

establishments, more than 160,000 employees; contributed 80% of total retail sales of the whole country)

- The North of Vietnam (from 1958) and the whole country (after 1975) carried out the socialist creation task for small scale industry and trade. The article 24th of the 1980 Constitution states that “small traders are instructed and helped to switch to other suitable production or jobs”. The Government’s Decree No. 119-CP issued on April 9th, 1980 stated about the Regulation on business and industrial registration applied to collective and individual economic sectors. As a result, business establishments and small owners entered cooperatives, cooperative groups, and the economy at that time consisted mainly of two types of economy: state-owned enterprises and cooperatives.

- From 1986 to 1990: The Sixth National Party Congress (December 1986) identified “Developing multi-component economic structure to liberate production capacity”. The decree No. 15 / ND-BCT (1988) of the Politburo on reforming the management mechanism for non-state-owned enterprises in the economy. The decree No. 29 / ND-HDBT (March 9, 1988) of the Council of Ministers set criteria for regulating the family economy, individual households, and industrial smallholders. The Laws on Private Enterprises and Corporate dated December 21, 1990.

- From 1991 to 1999: The Resolution of the Seventh National Party Congress continued to affirm the views on encouraging in the individual economic sector. The decree No. 66 / HDBT (March 2nd, 1992) was a breakthrough in making

clear the procedures of business licensing for individual business establishments.

- In the current period: The decree No. 78/2015 / ND-CP dated on September 14th, 2015 of the Government dedicated the entire Chapter III with 13 articles (from Article 66th to Article 79th), provisions for the household business. Accordingly, a household business is owned by an individual or a group of individuals that are Vietnamese citizens aged 18 or older and have the full civil capacity, or owned by a household, that is allowed to register to operate their business at one location only, employ fewer than 10 employees and will take responsibility for business operations with all of their property (Clause 2nd, Article 66th).

Households engaged in agriculture, forestry, aquaculture, salt production and street vendors, nomadic business people, and service providers earning low revenues are not required to apply for the establishment of household business, except for conditional business lines, The People’s Committees of provinces or central-affiliated cities shall specify the low revenues applied within the provinces or cities (Item 3rd, Article 66th).

Thus, the household business has existed objectively for a long time in our country, increasingly developing and becoming a unique culture: “pavement business culture”. However, the term “informaleconomyarea” is commonly used in research works, but has not been used officially in legal documents, including in statistics, even in state statistics (¹).

c) Measurement of Vietnam’s informal economy area

¹ The term “informal employment” has been used in several areas.

Based on our country's concept, criteria and scope on the IE as mentioned above, mapping into legal documents, as well as periodic statistical surveys conducted by the General Statistics Office ⁽²⁾ and the investigation of the IE area in Hanoi and Ho Chi Minh City (2008) ⁽³⁾, we can dissect data on the number of establishments, the number of employees in the IE area.

Specifically:

- *The economic census* was conducted

in 5 periods in 1995, 2002, 2007, 2012 and 2017. However, only in 2012 and 2017 the information about the business registration status, the non-agricultural individual producing business establishments and business establishments were collected. Based on the information on business registration status, we can extract data on the number of establishments, the number of employees in the IE area from this Census (Table 2).

Table 2. Number and employment of non-agricultural producing business establishments

Year	Business establishments, establishment			Employment, persons		
	Total	IE area		Total	IE area	
		establishment	%		Persons	%
1995	1,879,402	1,237,767	65.86	3,241,129	2,128,959	65.69
2002	2,619,341	1,189,908	45.43	4,436,747	1,880,055	42.37
2007	3,748,138	2,716,996	72.49	6,593,867	4,415,412	66.96
2012	4,624,885	2,829,684	61.18	7,946,699	4,258,684	53.59
2017	5,142,978	3,259,156	63.37	8,701,326	4,895,419	56.26

The data in Table 2 show that the proportion of unregistered individual productive business establishments (or belong to the IE area) accounts for over 60% of the total number of non-agriculture individual productive business establishments (less than 50% in 2002). The number of employees in the IE area accounts for a lower proportion than the number of business establishments.

- *The Investigation of non-agricultural individual production and business establishments* is conducted periodically on October 1st every year (except the years of the Economic Census). These are provincial and national representative sample surveys. However, they do not collect information about

the business status of establishments. To have the data range from 2013 to 2016, we use the average structure of the 2 years of the census (2012, 2017) to calculate the number of establishments, the number of employees in the IE area as shown in Table 3 below.

The data in Table 3 show the continuous growing rate (next year compared to the previous year) for the survey years, but were "broken" for the census years. In other words, the number of individual production and business establishments in the IE area developed continuously every year from 2010 to 2017, except for the years in which the economic census was conducted (in 2012 and 2017 decreased compared to the previous year).

² Economic census; Investigation of non-agricultural individual production and business establishments; Investigation of labour and employment.

³ It is the first and only statistical survey (so far) of the IE area.

Table 3. Number and employment of non-agricultural production and business establishments in the informal economy area

Year	Production and Business Establishments (Establishments)		Employment (People)	
	Establishments	Continuous development speed, %	Number	Continuous development speed, %
2010	2,336,418	100.0	3,625,712	100.0
2011	2,298,145	98.4	3,683,847	101.6
2012	2,484,735	108.1	3,937,560	106.9
2013	2,571,268	103.5	4,075,919	103.5
2014	2,640,748	102.7	4,155,865	102.0
2015	2,829,684	107.2	4,258,684	102.5
2016	2,827,564	99.9	4,252,278	99.8
2017	2,911,900	103.0	4,368,874	102.7

Source: Data in 2012 and 2017 were the results of the economic census;

Data in 2013, 2014, 2015, 2017 calculated from the results of the survey of non-agricultural production and business establishments (according to the average structure of the years 2012, 2017).

- Labour and employment investigation: From 2014 to the present, the General Statistics Office has added information on informally employed workers to the questionnaire of the annual labor force survey (4) to collect information related to informal employment in the economy. The informal

labor in the economy includes (i) Informal employment in the IE area and (ii) Informal employment in the formal economic area. The labor force survey has estimated the number of informal employment in our country as 16,829,100, 17,534,200, and 18,018,400 respectively in 2014, 2015, and 2016 (Table 4).

Table 4. Labour and informal employment in the period 2014-2016

Year	Total, 1,000 persons	Informal employment	
		Number, 1,000 persons	Compared to the total, %
2014	52,744.50	16,829.10	31.9
2015	52,840.00	17,534.20	33.2
2016	53,302.80	18,018.40	33.8

Source: Labour force survey of the General Statistics Office

The Table 4 shows that the informal labor force in the economy accounts for about one-third of the total employed workers in the economy and has increased continuously over the past 3 years. Specifically, in 2014 formal labor accounted for 31.9%, in 2015 and 2016 the figure was 33.2% and 33.8%. Thus,

with the results of the Economic Census, the survey of non-agricultural individual production and business establishments, the labor and employment survey shows that a part of the informal economy area and informal employment have been integrated into the national economy. The rest of the IE area has not been observed.

- *The IE area investigation in Hanoi and Ho Chi Minh City.* As presented at the beginning of the article, in 2007, the Institute of Statistical Science presided over conducting in-depth research of the informal economy area, which conducted an investigation of the informal economy area in two major cities, Hanoi and Ho Chi Minh City. The results of this research have been disseminated through publications and presented at many domestic and international conferences. In particular, the research results have been reported to the Government, Prime Minister (2010), and Deputy Prime Minister Vuong Dinh Hue. Although this research has been done for 10 years now, it still has scientific and practical significance.

The followings are some key conclusions drawn from the results of the above investigation.

(1) The number of informal productive household businesses is increasing.

In 2009, The number of informal productive household businesses in Hanoi was 725,000 and was 967,000 in city Ho Chi Minh City. With the expansion of the administrative boundaries in Hanoi, the number of informal productive household businesses has increased by 2 or 3 times between the two years 2007 and 2009. If considering the new area of Hanoi, the growth rate of the number of informal productive household businesses estimated to be 23%. In Ho Chi Minh City, the estimated number was 29%.

(2) The IE area still has a leading position in providing jobs in Hanoi and Ho Chi Minh City. The Labour force survey in 2009 recorded 3,326,000 jobs in Hanoi and 3,670,000 jobs in Ho Chi Minh City. In particular, the number of jobs in the IE area accounts for 32% of total employment in Hanoi and 34% in Ho Chi Minh City

(57% and 41% of the total non-agricultural employment respectively in the two cities). Those figures affirm that the IE area is the leading place in providing jobs in both cities. During the period between 2007 and 2009, the number in the IE area increased by 56,000 jobs in Hanoi (6%) and 206,000 jobs in Ho Chi Minh City (19%). In Ho Chi Minh City, the proportion of employment in this sector increased by 1 percentage point between 2007 and 2009 and contributed 40% of newly created jobs.

(3) The importance of the IE area in terms of production results is growing. The revenue in 2009 for the entire informal non-agricultural area was VND 143,000 billion in Hanoi and VND 138,000 billion in Ho Chi Minh City. The informal productive household businesses in Hanoi have produced a volume of products and services equivalent to VND 69,000 billion and generated VND 34,000 billion in added value. In Ho Chi Minh City, the informal productive household businesses generated 72,000 billion VND, added 40,000 billion VND to added value. Each group of industries (manufacturing, trade, services) generated about 1/3 of the total value added in this area in Hanoi, while 1/2 of the added value of this area in Ho Chi Minh City created by service productive household businesses. Formal productive household businesses play a less important role than informal ones in terms of contribution to production value and added value in both cities.

4. Some policy recommendations

(1) The Government, especially the Ministry of Finance, needs to balance the budget to implement the Project "Statistics of unobserved economic areas", to fully measure the unobserved economy area (NOE).), including the IE area. Without

adequate and accurate data on the NOE area, any policy on this area is lacking evidence that there will be a lot of risks for the economy in general and the NOE area.

(2) The IE area in our country exists objectively, therefore, the term “informal economy area” in terms of legal documents and state statistical information should be formalized soon.

(3) To complete the system of laws, mechanisms, and economic management policies in order to encourage individual productive business establishments in the informal economy area to move in to the business sector. It is necessary to have specific policies to support and protect the individual productive business establishments in the informal economy area./.

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THỰC TRẠNG KINH TẾ PHI CHÍNH THỨC Ở VIỆT NAM VÀ NHỮNG KHUYẾN NGHỊ CHÍNH SÁCH

Nguyễn Văn Đoàn *

Kinh tế phi chính thức (KTPCT) là tập hợp các đơn vị sản xuất ra sản phẩm vật chất và dịch vụ với mục tiêu chủ yếu nhằm tạo ra công ăn việc làm và thu nhập cho người lao động. Đối với Việt Nam, các cơ sở thuộc khu vực KTPCT tồn tại hầu hết ở các xã, phường. Tuy nhiên, cho đến nay thực trạng KTPCT chưa được đánh giá và xem xét trên góc độ chính sách cũng như đo lường bằng những con số thống kê về quy mô, mức độ của kinh tế khu vực KTPCT. Bài viết cung cấp cho bạn đọc những bất cập đang có hiện nay, đồng thời đưa ra một số giải pháp khuyến nghị về chính sách đối với khu vực KTPCT,

Từ khóa: Kinh tế phi chính thức, kinh tế chưa/không được quan sát, kinh tế ngầm, kinh tế bất hợp pháp, kinh tế hộ gia đình tự sản tự tiêu, kinh tế bóng đen, kinh tế chìm.

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* Viện trưởng Viện Khoa học Thống kê