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Informal Labor in Vietnam

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Abstract

According to the International Labor Organization (ILO), “more than 6 workers among 10 and 4 enterprises among 5 in the world operate in the informal economy”, and over time, the informal sector has not decreased, but even increased in many countries. In Vietnam, informal sector labor has existed for a long time and plays an important role in economic growth, job creation, and income generation. However, compared to formal workers, informal workers

have low skill levels, temporary employment, low incomes, and lack full social security. Therefore, countries are looking for solutions to convert from informal labor to formal labor, reducing the rate of informal labor. The article is based on data on informal workers in Vietnam to analyze the employment situation, income, social insurance, and propose solutions to transition from informal to formal workers, as well as ensure their rights.

Keywords: Informal Labor, GDP, Vietnam

1. Introduction

In many countries, especially those in developing regions like Asia, the informal economy/informal labor constitutes a significant and vital part of the workforce. Informal employment often lacks assurances regarding wages (no minimum wage guarantee), working conditions, and social welfare (lack of working conditions assurance, no pensions, sick leave, and health insurance).

Informal employment (informal labor) is an indispensable part of the economic development process in Vietnam, contributing significantly to addressing unemployment and generating income for workers. An overview report on informal employment in Vietnam reveals that informal workers in Vietnam are indeed vulnerable, with low skill levels, temporary employment, a lack of social protection measures, and difficulty ensuring a minimum standard of living for themselves and their families. In 2023, the number of informal workers reached 33.3 million people, accounting for 63.5% of the labor force aged 15 and over, with an informal employment rate of 64.9% [2]. A high rate of informal labor not only hampers economic development but also affects the income security of workers and their families, as well as social welfare. Therefore, the ILO has recommended that countries convert the informal economic sector to the formal one and take measures to protect workers in this sector. Vietnam is no exception. To achieve economic development, stability and social justice, it is necessary to have solutions to address the constraints of informal labor.

2. Literature review

The informal sector and informal labor are indispensable components in economies, particularly in slow-developing and developing ones. While this sector significantly contributes to GDP, its most pressing issue lies in ensuring labor rights and welfare for workers. Consequently, numerous studies have been conducted on this issue.

Isabel Günther and Andrey Launov, Informal employment in developing countries: Opportunity or last resort. Whether employment in the informal sector results from labor market segmentation or from competitive market dynamics is a topic of continuous discussion among scholars and policy officials. In recent times, there has been a contention that the informal sector exhibits a heterogeneous structure, and that neither of the two theories adequately describes informal employment. Some workers find great job opportunities in the unofficial sector, while others who are shut out of the formal sector view the unofficial sector as a last alternative. Using an econometric model that accounts for many unobserved components of the informal sector, we assess the empirical applicability of this hypothesis by applying it to the urban labor market in Côte d'Ivoire.

Nguyen Huu Tai's research focuses on informal labor in Vietnam today. The article clarifies the concept of informal labor and the informal sector. It utilizes survey data from the General Statistics Office and the ILO on informal labor in 2016 to assess the current situation of informal labor in Vietnam, thereby proposing sustainable development solutions for the informal economic sector, and ensuring social security for informal workers.

ILO's report, "Women and men in the informal economy: A statistical update", provides a concise update, both globally and regionally, on data related to the extent of informal employment. This includes the number and proportion of informal workers, common forms of informal employment, and which group of informal workers accounts for the highest proportion of the economy. In addition, the report examines the characteristics of informal workers, the impact of the shortage of decent work, and compares their working conditions with those of formal workers.

Nguyen Thi Thu Hoai has done research "Protecting the rights of informally employed workers according to current Vietnamese law". The thesis establishes a theoretical framework for legal protection of the rights of informally employed workers. It analyzes legal provisions protecting the rights of informally employed workers in Vietnam, especially in the field of labor law, considering human rights perspectives. The thesis also evaluates the practical implementation of legal protection for informal workers in Vietnam, identifying limitations in legal provisions, and then proposing solutions to enhance the effectiveness of legal enforcement in protecting the rights of informal workers in Vietnam.

3. The concept of informal labor

The concept of the informal sector and informal workers has been articulated in many studies and may exhibit slight differences between countries. In 2003, the 15th International Conference of Labor Statisticians (ICLS) established a conceptual framework for informal employment (informal labor), defining labor engaged in the informal sector as individuals³ working in the informal economy. At the 20th ICLS Conference, countries agreed to amend the guidelines prescribed at the 15th ICLS Conference regarding the determination of informal employment, including workers engaged in activities such as agriculture, forestry, industry and fisheries within the informal sector.

Informally employed workers are individuals who perform tasks that are not protected by labor laws or are not recognized by law, or in practice, they do not receive legal protection. They may not pay income taxes or benefit from social protection schemes and other employment benefits (such as advance notice of termination, severance pay, annual leave entitlement, sick leave, etc.).

The General Statistics Office of Vietnam has defined: "The informal sector includes non-agricultural, forestry and fisheries production and business establishments that produce goods (materials and services) for sale and exchange and are not required business registration.

The criteria to determine informal workers in Vietnam are based on: (i) Characteristics of the establishments or workplace where the workers are employed (whether it belongs to the formal sector, informal sector or household sector); (ii) Employment status of the employees; (iii) Type of labor contract signed or agreed upon between the employer and employee; whether the employee is covered by social insurance by the employer.

Informal laborers include:

- Employees working in the formal sector: (i) Wage employees without labor contracts, or only with verbal contracts, piece-rate contracts, or contracts lasting one month or more but without compulsory social insurance contributions from the employer; (ii) Unpaid family workers; (iii) Cooperative members without compulsory social insurance.
- Workers working in the informal sector: (i) Business owners; (ii) Self-employed workers; (iii) Wage employees without compulsory social insurance; (iv) Unpaid family workers.
- For workers working in the household sector: informal workers are self-employed or wage employees (e.g. domestic workers, hired workers in households, etc.)

4. Current situation of informal labor in Vietnam

Vietnam is a country with a developing economy, achieving relatively high economic growth rates in recent years compared to many countries in the region and worldwide. This growth has been significantly contributed to by the informal economic sector and informal labor. Although there is no precise statistical data on the scale of the informal economic sector and its contribution, according to reports from various international economic and financial organizations, Vietnam has a large informal economic sector. If the value of this entire sector were calculated, it could increase GDP by about 30%. According to estimates from the General Statistics Office, in 2020, the informal economic sector contributed around 30% to GDP^[9]. This article explores various aspects of informal labor, including:

- In terms of labor scale:

Vietnam has a large population (approximately 97.47 million people in 2021), and during the golden population period, the working-age population constitutes about two-thirds of the total population. Each year, around 75% of the working-age population participates in the labor market, with the majority being informal laborers.

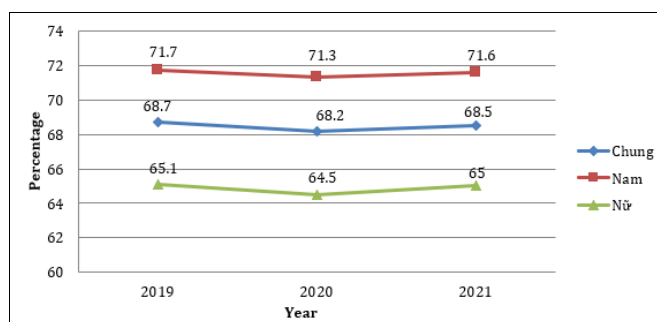
Table 1: Scale of informal labor

Criteria	Year 2019		Year 2020		Year 2021	
	Number (Thousand people)	Density (%)	Number (Thousand people)	Density (%)	Number (Thousand people)	Density (%)
Total	34,778.5	100	34,121.3	100	33,632.3	100
Male	19,604.4	56.4	19,222.1	56.3	18,789.1	55.9
Female	15,174.1	43.6	14,899.2	43.7	14,843.2	44.1
Urban	8,971.9	100	9,016.8	100	9,238.3	100
Male	4,917.3	54.8	4,911.1	54.5	4,998.4	54.1
Female	4,054.6	45.2	4,105.7	45.5	4,239.9	45.9
Rural	25,806.6	100	25,104.5	100	24,394.1	100
Male	14,687.2	56.9	14,311.0	57.1	13,790.7	56.5
Female	11,119.4	43.1	10,793.5	42.9	10,603.3	43.5

Source: General Statistics Office

Informal labor in the informal sector has shown a slight downward trend over the years. In 2020, it decreased by 657.2 thousand people compared to 2019, and in 2021, it decreased by 489 thousand people. Male informal laborers had a higher proportion compared to female laborers, approximately 9%, in general and both in urban and rural areas. Over 70% of informal laborers worked in rural areas (72.5% in 2021), which was reasonable as informal labor was concentrated in agriculture, forestry, and fisheries.

Compared to the total employed labor force, the rate of informal labor in Vietnam was quite high, corresponding to 68.7%, 68.2% and 68.5% in 3 years 2019, 2020, 2021 respectively. This rate was higher in men than in women and has not changed much over 3 years.



Source: General Statistics Office

Chart 1: Rate of informal workers divided by gender, 2019-2021

- In terms of educational and technical qualifications
 One of the characteristics of informal workers is low professional qualifications. Workers with specialized and technical training have better chances of finding formal employment. The higher the level of education and technical skills are, the lower the rate of workers working in the informal sector is (meaning a higher proportion of formal employment). Table 2 data shows that among workers without technical qualifications, over 80% engaged in informal labor, with the highest rate reaching 80.9% in 2021. For those with primary education, the average rate of informal labor was about 60%. The rate of informal workers among those with a university degree or higher was 15.9%.

Table 2: Percentage of informal workers by technical and professional level

Cal unit: %

Technical and professional level	2019	2020	2021
No technical qualifications	80.5	80	80.9
Primary level	62.4	62.7	56.4
Intermediate level	41.0	43.4	44.9
College	32.1	32.4	33.2
University or higher	15.8	15.9	15.9

- In terms of income:

Informal laborers, mostly lacking technical qualifications or with low educational levels, tend to have lower incomes from their main jobs. The average income of informal workers was only around 4.5 million VND/month (equivalent to approximately 200 USD per month). Moreover, in 2020 and 2021, incomes slightly decreased due to the impact of the Covid-19 pandemic. Urban laborers generally earned higher incomes than rural laborers, about 1.2 times higher. Table 2 data also shows that workers in urban areas were more affected by the Covid-19 pandemic, with incomes in 2020 lower than in 2019 and incomes in 2021 lower than in 2020. In rural areas, income remains stable. Additionally, men's income was much higher than women's, approximately 1.6 times higher.

Table 3: Income of informal workers

Cal unit: thousand VND

Income	2019	2020	2021
In general	4,526.3	4,486.1	4,454.7
Urban	5,564.5	5,377.9	5,139.5
Rural	4,167.5	4,165.8	4,195.1
Male	5,439.2	5,349.8	5,423.5
Female	3,348.2	3,371.9	3,226.8

Source:

General Statistics Office

- In terms of participation in social insurance:

Informal laborers are not obligated to participate in compulsory social insurance schemes. They can only join voluntary social insurance and are entitled to two benefits: retirement and funeral allowance. When participating in social insurance, these laborers do not have contributions

from their employers, so the state provides support for their contributions. However, the level of support is low, and since the incomes of informal laborers are also low, the number of participants in voluntary social insurance is relatively small.

Table 4: Proportion of workers participated in voluntary social insurance

Criteria \ Year	Cal Unit	2019	2020	2021
Number of participating workers ⁽¹⁾	Thousand people	558	1,125	1,150
Number of informal workers ⁽²⁾	Thousand people	22,226	22,626	22,959
Participation rate	%	2.51	4.97	5.0

Source: (1) Vietnam Social Security; (2) Calculated by author base on number of Labor Market Newsletter, Ministry of Labour, Invalids and Social Affairs and General Statistics Office

The number of people participating in voluntary social insurance has been increasing over the years, but compared to the number of informal workers, the participation rate is very low, reaching 2.51% in 2019 and 7.65% in 2021. It can be seen that the majority of informal laborers (over 90%) are not protected in terms of income when facing risks that reduce or eliminate their ability to work, such as illness, occupational accidents, or old age.

5. Solutions for informal workers

Although the contributions of informal labor to economic development cannot be denied, the high proportion of informal laborers in Vietnam (about 2/3), coupled with low educational qualifications, low incomes, and the majority not participating in social insurance, will impact the lives of the laborers and their families, directly affecting socio-economic development. Therefore, solutions are needed to ensure rights and livelihoods for informal laborers.

- *Firstly*, gradually transition from informal to formal labor (formalizing the informal economy)

Based on the concept of informal labor, to transition from informal to formal employment, there are two approaches: one is formalizing informal labor in the formal economy; the other is converting the informal economy to formal.

For informal workers operating in the formal economy, it is necessary to tightly regulate the signing of labor contracts and implement measures to ensure law enforcement. Currently, many employers do not sign labor contracts or sign seasonal contracts, service provision contracts (such as gig economy jobs like ride-sharing, delivery services, etc.), turning workers into informal laborers, thereby compromising their labor rights.

In 2015, the ILO adopted the Recommendation "Transition from the Informal to the Formal Economy", demonstrating the necessity of such transitions and garnering interest from many countries. To facilitate this transition at the macro level, it's crucial to improve the policy and legal framework and develop a roadmap for the transition. This provides the foundation for compelling stakeholders to enter the formal economy. Moreover, macroeconomic stability, improved investment environment, state governance capacity enhancement are essential for long-term economic development and transitioning from the informal to the formal economy. Additionally, simplifying business registration regulations, licensing procedures, and tax

registration processes are necessary to encourage small economic entities, especially households, to participate in formal economic activities. Furthermore, it's vital to develop financial institutions and microfinance for the informal economy sector. Promoting and supporting production linkages between the informal and formal sectors is also important.

- *Secondly*, enhancing vocational training support for informal workers

The level of skills and expertise of workers significantly influences both individual labor productivity and social labor productivity. Informal workers often have limited opportunities for vocational training. Therefore, the government needs to implement policies to support vocational skill training for informal workers. Additionally, there should be programs offering preferential credit schemes to enable them to borrow money for vocational training and entrepreneurship. Furthermore, labor management agencies should regularly provide information on the labor market and offer counseling services to informal workers to help them choose professions that meet future market demands. Ensuring the effectiveness of vocational training for informal workers is crucial.

- *Thirdly*, increasing the number of participants in social insurance

Increasing the number of people participating in social insurance not only ensures income security for workers but also ensures social welfare, especially security for the elderly. There are several measures to increase the number of participants in voluntary social insurance, such as: (i) Strengthening communication about voluntary social insurance so that employees can clearly understand the benefits, responsibilities, and rights when participating in voluntary social insurance; (ii) Enhancing financial support, in addition to support from the central budget, financial support should be offered from provincial budgets; (iii) Establishing a multi-tiered social insurance system, including a basic social insurance tier, to ensure that everyone receives a minimum pension when they reach retirement age.

6. Conclusion

Informal workers in countries, including Vietnam, have the same characteristics. These are unstable employment and income, not guaranteed by labor rights such as minimum wage/income, social insurance, etc. That causes informal workers to face poverty and other social problems. Reducing informal employment is an important part of the development process. Therefore, Vietnam needs to develop appropriate policies and organize policy implementation to gradually convert informal workers to formal ones, and ensure labor rights for informal workers when they haven't changed/have not found an official job yet.

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