
Informal Employment and the Life of Informal Economy Workers in Vietnam

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Abstract: This paper aims to analyze the concepts of informal economy, informal employment, and informal economy workers in Vietnam. The author has also explored the characteristics of the informal economy workers in Vietnam about their education level and income, spiritual and material life, and social policies for them such as social insurance, health insurance, or other social welfare. Informal economy workers are those who have bad technical expertise, unstable jobs, lack labor contracts, or work on verbal contracts to earn a low income. In this paper, the author has proposed some recommendations on improving the life of informal economy workers. The government should enhance public policies and guarantees for them. It is necessary to strengthen the implementation of labor law in the formal sector. Besides, there is a need to enhance assistance on training to improve occupational skills for informal economy workers. The State should encourage informal economy workers to participate in voluntary social insurance programs. To reduce the number of informal economy workers, it is necessary to promote official employment by creating opportunities for the informal economy workers to work in companies, to have labor contracts, and to join social insurance and health insurance.

Keywords: Informal Sector, Informal Economy, Informal Economy Workers, Social Security, The Life

1. Introduction

Informal economy (including informal sector and informal employment) has existed for a long time; however, this sector has not received adequate attention in many countries, including Vietnam. In the period of accelerating industrialization and modernization in our country, the rapid development of industries and services in the national economy has led to an increase in the number of workers and laborers working in this area. The process of urbanization has also shifted a large number of peasants in rural areas to become informal economy workers. They are known to have bad technical expertise, unstable jobs, lack labor contracts, or work on verbal contracts to earn a low income. The income of informal economy workers is still impossible to meet basic family demands. Besides low wages, they also suffer from unfavorable working conditions and lack of legal protection. This requires our State to have suitable social policies for informal economy workers in the coming time.

2. A Brief Literature Review

2.1. Informal Economy

Researchers have used various labels to refer to “informal economy”. Ferman and Ferman called it “the irregular economy” [1]. It has been called “the underground economy” by Simon and Witte [2]. Dilnot and Morris used the label “the black economy” [3]. Frey, Weck, and Pommerehne used the term “the shadow economy” [4]. The term “informal economy” was first used in an International Labor study of Ghana in 1973.

There are also many definitions of informal economy. Feige defined “informal economy” as all currently unregistered economic activities, which contributes to the official gross domestic product [5]. According to Nguyen Hoai Son, the informal sector consists of all private non-agricultural businesses and businesses, without business registration and providing products and services for the market [6]. The Institute of Statistical Science has defined

informal sectors as all businesses without a legal status and business registration, producing at least one or several products and services for sale or exchange and do not include agriculture, forestry, and fishery” (referred to as agriculture) [7]. The reason agricultural production and business activities are not included in this definition is due to differences in agricultural and non-agricultural activities, such as seasonality, organizing labor, income levels, and research instruments in two areas. Formal production households (with business registration) belong to the official economic sector.

According to the 15th International Conference of Labour Statisticians (ICLS), the informal sector consists of units engaged in the production of goods or services with the primary objective of generating employment and incomes to the persons concerned. These units usually operate on a small scale, low level of organization, little or no division between labor and capital as factors of production, considered as inputs for production. Labor relations (where they exist) based on casual employment kinship or personal casual employment, not contracts with formal guarantees. The operation of informal enterprises does not intend to evade current laws and administrative regulations such as tax payment, social insurance, and labor registration. Therefore, the activities of the informal economic sector are different from those of concealed economic activities.

Each country should have the concept of the informal economic sector, depending on each specific case, one or more of the following criteria can be selected:

- a) Non- registration of enterprises;
- b) No complete accounting records;
- c) The size (number of employees) is small;
- d) No specific business name;
- e) No fixed business location.

According to International Labor Organization (ILO) recommendations, informal sector is defined as the active area for all business production units, without legal status, producing at least one or more products and services for sale or barter without business registration. In Viet Nam, most are individual non-agricultural business production households and business groups because the characteristics of the informal economic sector are very different from agricultural activities in terms of seasonality, organizing activities, income, and legality.

Although there are different points of view, in general, the informal economic sector is the area of operation of all production and business establishments without legal status, producing at least one or several products and services for sale or exchange without business registration (without a business license). In Vietnam, production, and business establishments operating in this area are mainly non-agricultural individual business and production groups and cooperative groups [8].

2.2. Informal Employment

Informal economy workers and informal employment are regarded as two different concepts with distinct content.

Informal economy workers refer to those who hold informal employment while informal employment refers to jobs. According to Hart, the term informal employment typically incorporates all economic activities that operate outside government rules, taxes, regulations, and monitoring [9]. Portes defines informal employment as work performed in income-producing endeavors that operate without formal wage arrangements [10]. Nguyen Hoai Son (2013) stated that, “Informal employment consists of jobs in the informal sector without insurance and welfare”.

According to ILO, informal employment is defined as employment without social issuance (especially compulsory social issuance) and an absence of at least a three-month labor contract [11].

2.3. Informal Economy Workers

Informal economy workers are defined as those who hold informal employment. The total number of “informal economy workers” in society means the total number of “workers in informal employment”. Each worker is only classified according to his/her main job (or main employment). As such, informal economy workers can be found inside and outside the informal sector.

Informal economy workers are consensually determined based on the following principles:

1. Economic sector (formal sector, informal sector, and household);
2. Status of employment;
3. Employment contract (no-term contract, fixed-term contract, verbal agreement or no signed contract);
4. Social insurance for currently held job (whether compulsory social insurance is covered or not);
5. Informal economy workers are defined by informal jobs.

(1) Determined by economic sectors

(a) Formal sector includes:

1. All enterprises and their branches (including State-owned enterprises, private and foreign enterprises);
2. All types of cooperatives and cooperative groups being operated under the 2012 Cooperative Law;
3. State agencies (legislative/executive/judicial agencies);
4. Service units (irrespective of whether owned by the State or non-State);
5. International organizations operating in Viet Nam;
6. Communist Party organizations, unions and authorized associations (with certificates of establishment and own seal);
7. Individual business production households with business registration;
8. Agricultural, forestry and fishery households with business registration.

(b) Informal sector:

1. Individual business production establishments/households without business registration (not considered as legal entities);
2. Freelancers.

(c) Household sector:

1. Non-agricultural, forestry and fishery households

producing products for their own consumption and households hiring paid domestic workers;

(2) Determining informal labor according to employment status

(d) Formal sector

1. Employees in the formal sector without an employment contract or with a verbal agreement, lump-sum contract or short-term contract (less than three months) or a more than three-month contract without compulsory social insurance;
2. Family-contributing workers in the establishment belonging to the formal sector;
3. Members of cooperatives without compulsory social insurance.

(e) Informal sector

1. Persons are defined as establishment owners in the informal sector;
2. Own-account workers in the informal sector;
3. Wage workers (employees) in the informal sector;
4. Family-contributing workers in the establishment belonging to the informal sector.

(f) Household sector

1. Own-account workers engaged in production of goods and services for own consumption of their households;
2. Wage workers (employees) in the household sector (workers hired by households). [12]

“The working class of Vietnam is a large, growing social force, consisting of manual and intellectual workers, salaried workers in various types of production, business and industrial services, or production, business and service of industrial nature” [13].

From these above definitions, according to our opinion, informal economy workers are manual workers and white colors, wage earners in various types of production, business and industrial services without social insurance (especially compulsory social insurance) and no labor contract of 3 months or more. In other words, informal economy workers are temporary workers, working for less than 03 months, lacking labor contracts in factories, and other types of industrial business to produce seasonal products. Currently, informal economy workers are often used by businesses to reduce input costs and increase benefits.

In the current market economy, the trend of social development and socialization of the world, businesses' needs and human needs are increasing, leading to the fact that the demands for employment also increases rapidly. However, some problems arise about working time, job demands, and work pressure makes some workers have to do seasonal jobs and become informal economy workers in enterprises.

The informal economy workers also include students because seasonal jobs are suitable for their time. The poor who do not have a degree or have low professional skills choose to become informal economy workers because these jobs create an opportunity for them to improve their skills and have income in a short period of time before they can find a new job. However, their jobs are unstable, with low

income, long working- hours and lack labor contract. They lack social, health, and unemployment insurance. They have not been paid allowances and other social welfares. These informal economy workers are often poor, limited in capacity, knowledge and working conditions, so there are not many opportunities for them to integrate into the society. Consequently, this is also a major barrier to sustainable development and social justice.

3. The Life of Informal Economy Workers in Vietnam

3.1. Regarding Education Level and Income of Informal Economy Workers

The main characteristic of informal economy workers is that their education level and income are low. They have to work for long hours and have little opportunities to develop their professional skills. In fact, in Vietnam today, workers, in general, are forming two distinct classes. A small part of workers are official workers having stable jobs, high-tech trained skills, and good material and spiritual life. The majority of workers are short-term trained, even unskilled labor, and because of low education level and no technical expertise, most of informal economy workers are co-workers. With the salary given by the employers, their life is very hard. According to statistics in Vietnam, only 10% of workers are vocational trained and 15% of them are long-term trained [14]. The salary of informal economy workers in industrial parks and export processing zones is very low, only slightly higher than the minimum wage. If two workers have two children, they will be very poor [15]. In addition, informal economy workers are always facing the threat of salary penalties and deductions.

There are many factors affecting the income level of workers in general and informal workers in particular. Firstly, the wages of informal economy workers do not follow the minimum wage policy and wages of some industries are lower than the regional minimum wages, resulting in the fact that the basic benefits of informal economy workers have not been guaranteed. In this case, the wage will not be entirely based on the state's minimum wage, but rather through the agreement of the business owner and the employee [16].

Secondly, many enterprises in industrial parks such as textile - garment, food processing electronic components assembly tend to use simple, low-skilled labor force without training. This is an opportunity for the people in rural areas to find seasonal jobs and become informal economy workers. But the owners only recruit workers at a certain age and firing them after a certain working time. In addition, the situation of having ill children, expensive medical services, and ineffective businesses has made the lives of informal economy workers even more difficult. In a nutshell, since informal economy workers are not recognized, they are not protected by labor market institutions. They have to face the risk of becoming a "poor working class" and their families are disadvantaged since not being regulated by labor laws. In addition, the voice of informal economy workers in the informal sector is rarely

mentioned in the policy decision-making process. In recent years, the Government has made great efforts to extend protection to this group of workers through improving the national legal framework and developing policies to address the challenges of the informal economy.

3.2. With Regards to Spiritual and Material Life of Informal Economy Workers

Regarding the material life, too low incomes and unstable jobs make it difficult for informal economy workers to realize their housing needs. Due to low income, most of informal economy workers live in cheap shared houses with poor quality of environmental sanitation, electricity and water supply. Informal economy workers do not have the conditions to rest and relax to regenerate their labor after a hard-working day.

Concerning the spiritual life of informal economy workers, in the current market mechanism in Vietnam, many businesses only focus on the methods to increase the surplus value on the labor force. Many businesses pay informal economy workers too low under the level regulated by the law while they have to work very hard. Therefore, workers in general and informal economy workers, in particular, do not have the conditions to participate and enjoy culture, arts, and sports activities. It can be said that, in enterprises, especially in industrial parks and private enterprises, many legitimate rights of informal economy workers are not respected. There are many causes for this situation.

Firstly, due to competition, benefits, and lack of humanity and morality of a significant number of employers.

Secondly, the legal system is incomplete, slow to adjust, and unable to keep up with real life.

Thirdly, the system of trade unions in enterprises has not been fully established and not strong enough to protect the legitimate interests of informal economy workers.

Fourthly, the system of public cultural institutions of our country is still weak, unable to meet the minimum needs of workers in general and informal economy workers in particular.

Therefore, improving the quality of the material and spiritual life for workers in general, seasonal and informal economy workers, in particular, is a legitimate, urgent and indispensable task of the Party, the State, and trade union organizations. In particular, the responsible cooperation of businesses will create a good impact: both contribute to improving the quality of human resources and increasing labor productivity, branding for businesses. Therefore, the Party, the State and trade unions should urgently have a comprehensive and accurate investigation of this situation in order to build a comprehensive policy system suitable to the practical and feasible situation. Besides, it is necessary to promote the construction and consolidation of the trade union system with a contingent of qualified officials representing the working class and workers and protecting their legitimate benefits and improving and raising the status, material and spiritual life for working people including seasonal and informal economy workers.

3.3. Regarding Social Security Policies for Informal Economy Workers

Social security for informal sector of the economy is a system of mechanisms, policies, and solutions of the State and community to assist members of the informal sector to cope with risks such as socio-economic shocks leading to a decline or loss of laborers' income due to illness, maternity, accidents, occupational diseases, old age, or other objective reasons and falling into poverty. Social security provides health care services to the community, through policy systems on social, health, and unemployment insurance, social assistance, and special assistance (social incentives).

Being outside the coverage of the legal system, informal economy workers are not entitled to sick leave, leave and allowances, and lack written labor contracts. This raises concerns about the protection of interests as well as the rights to social security of this group of workers. Most informal economy workers do not have social insurance because of the following reasons:

First, informal economy workers do not pay social insurance because of their low and unstable income.

Second, informal economy workers do not have savings. Meanwhile, the condition for paying social insurance is to have a job, income and more importantly, to have savings and accumulation. However, this type of employee has a low income. If any money is saved, it will be used to build houses and family business. Therefore, their remaining amount to be able to contribute and participate in social insurance, as well as other types of insurance, is not much.

Third, most of informal economy workers lack of knowledge and information about social security policies and social insurance regimes. They do not want to pay social insurance because they do not believe in social insurance activities or find that procedures for receiving payment of social insurance is complicated and benefits are limited.

Fourth, labor contracts for informal economy workers are lax and employers avoid insurance. The role of health insurance and social insurance is to minimize losses for participants. However, for employers, if they don't pay social insurance for their employees, they can reduce a considerable amount of expenses. For workers, lacking social insurance is a big disadvantage. Unexpected diseases and accidents may occur and informal economy workers have nothing to prevent and minimize the losses. Theoretically, employers and employees spend very little on initial costs for cooperation (no labor contracts, or oral agreements), so the motivation and cooperation are also low. When choosing employees to work, employers also rely on some personal factors such as their honesty and diligence. The cooperation between the two sides will not be sustainable. Especially when the economic situation is difficult, informal economy workers have to face the pressure of food, accommodation, study, and entertainment costs. Employers do not raise wages to offset market-changing costs, sometimes they even owe wages to workers. The lax cooperation between informal economy workers and employers is even more vulnerable in such a

context. The benefits of cooperation do not increase leading to negative actions such as employees' quitting jobs and disputes about rights between employers and employees. Employers take advantage of loopholes of the Law on Social Insurance to evade social insurance contributions or only pay for a small number of employees. Specifically, according to the Law on Social Insurance, the monthly payment for Social Insurance is based on the salary and wages stated in the labor contract. Therefore, many businesses find ways to declare low wages, even some enterprises only pay social insurance at the minimum wage. In summary, a lot of informal economy workers are unable to pay social and health insurance and social responsibility of production and business facilities is mainly not implemented through official channels, without any constraints and depends entirely on employers. Informal economy workers are disadvantaged in terms of benefits. This requires the State to check, inspect, supplement and perfect the system of social policies so that workers have the opportunity to improve their professional skills and stable jobs with higher income.

4. Some policy Recommendations

4.1. Enhancing Public Policies and Guarantees for Informal Economy Workers

The state's responsibility is to ensure the basic rights of workers including labor contracts, social insurance, and basic working conditions, enforcing laws on fair wages and income, protecting workers from employer abuses. Although the informal sector and informal labor have made great contributions to the economy in Vietnam, they are still ignored in many public policies, rarely protected by Trade union and laws. Social and legal support activities have not been accessed by informal economy workers. In addition, the majority of informal economy workers do not know how to benefit from public policies, consultation organizations and the political system. They have remained passive, with a limited awareness and ability to protect themselves. With the contribution of informal labor to the society and economy today, recognizing the position, the social role of informal economy workers and enabling them to enjoy public services are indispensable. Therefore, to close the gap between the formal and informal economic sectors, as well as to promote the economic development of this sector, the General Statistics Office recommends: "To overcome the weakness and reduce the vulnerability of informal economy workers, the State needs to have specific policies and supportive measures to expand the protection to this group of workers, and promoting their potentials in socio-economic development".

Therefore, there is a need for strict reward and punishment mechanisms and to effectively supervise each economic activity, occupation, and unit hiring informal economy workers in terms of labor safety assurance, especially for workers at high risk of labor accidents, occupational diseases or activities harmful to the health and safety of communities.

4.2. Strengthening the Implementation of Labor Law in the Formal Sector

The proportion of informal economy workers in the formal sector is very high, posing enormous challenges for labor management. In fact, there is a blank space in labor management, supervising the implementation of the Labor Law in the area of small and medium-sized enterprises as well as in the implementation of construction and mining projects.

Along with communication and mobilization to improve workers' and labor users' awareness and responsibilities with regards to legal compliance, it is necessary to strengthen supervision, examination and sanctions for those who violate regulations on employment contract signing, implementation of labor safety regulations and social insurance payments to workers. It is necessary to finalize a reporting mechanism on workers engaged in business production establishments and develop a system of labor market information, employment services and legal consultations for workers.

4.3. Enhancing Assistance on Training to Improve Occupational Skills for Informal Economy Workers

It is necessary to accelerate education reform, with a priority on higher education and vocational system. It is time for higher education to be regarded as a training market, which provides "labor goods" to the labor market. The training institutions must be viewed as businesses with many characteristics, so that the policy system is designed by thinking: human resource training is a goods market and the schools are businesses.

In short, the vocational training system should be the regarded as "a link" which can create high efficiency and easily change faster. To increase effectiveness, promoting marketability and competitiveness in training service provision should be considered. Accordingly, instead of "paying directly" for workers to learn vocational training, we should provide a "training voucher" for workers in the area of training support. That person will use the "voucher", registering for a course run by a business – a vocational school - that he thinks meets his needs. Enterprises will accumulate "vouchers" to receive funds from the National Vocational Training Fund. This approach helps to increase the level of competition, thereby increasing the quality of service providers' training, and increasing autonomy and self-responsibility. By doing this, private vocational schools will have great motivation to develop and meet labor market needs. The criteria for the effectiveness of grants from the budget have also been improved: to ensure fairness in supporting labor while ensuring the efficiency by applying market competition mechanism.

To increase labor productivity, the competitive capacity of the informal sector and workers, besides the policy environment and other material factors, the quality of the workforce should be considered as a determinative factor. Due to limitation in ability, knowledge, and financial capacity of the informal economy workers, it is necessary to

develop vocational training programs and methods suitable for each particular group of workers to ensure accessibility, cost-efficiency, and linking training with employment and career start-ups. Currently, vocational training programs have not effectively met the demands of workers and business production households in the informal sector. Even small and medium-sized enterprises in the formal sector have limited access to state-sponsored vocational training programs. Some training programs have not met the real demands of informal economy workers and establishments. In particular, women's access to vocational training programs is more difficult than men's. To improve effectiveness and meet the demands of workers, public vocational training service providers should be enhanced to create advantages for private sector participation in vocational training programs sponsored by the State budget. Also, ensuring an adequate level of education for informal economy workers' children is important.

4.4. Researching and Improving Development on Voluntary Social Insurance Programs

The proportion of informal economy workers participating in the health and social insurance of informal workers is still very low. The Ministry of Labor, War Invalids and Social Affairs was aware of this problem but there have not had policy solutions. The government should open the insurance market further to the private sector. Removing barriers to market entry, simplifying administrative procedures (conditions for service delivery, establishment procedures, reporting...) is an important way for private enterprises to participate in. To attract informal economy workers to social insurance, the government should study and propose mechanisms to encourage and partially support funding for informal economy workers to participate in voluntary social insurance. The programs should ensure flexibility in payment rates and payment methods. In addition, providing better information on the voluntary social insurance program should be considered a priority in social insurance promotion activities in the future.

5. Conclusion

In conclusion, informal sector and informal economy workers exist in every economy, but it is essential to minimize the number of informal economy workers to protect the rights of workers and promote the development of the nation. To do so, it is necessary to improve the capacities and skills of workers. Also, workers need to be able to adapt to the rapid changes in many types of jobs. Policies that encourage and support job registration along with simple, convenient administrative procedures and technology application will gradually shift the informal labor to the official one. The drastic and synchronous implementation of the above-mentioned solutions is not only a condition for the country's sustainable economic development, but it is also a premise for the implementation of social security to all types of employment in the economy. An economy with all

workers protected by social security systems including social, unemployment, and health insurance is a strong economy with long-term development goals that are sustainable both economically and socially.

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