05

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CONTRIBUTION OF HBS AND THE INFORMAL SECTOR TO THE ECONOMY

This chapter focuses on a macroeconomic view of HBs and on the informal sector in particular. The 2014/15 HB&IS survey provides reliable information on the main economic activity indicators of HBs. As this survey is representative at the national level, aggregates can be computed for the whole country by economic sector and by urban and rural area. In particular, we are able to compute the contribution of the non-farm household business sector as a whole, and of the informal sector in particular, to the national economy.

The first section presents the main aggregates of the informal and household businesses sectors in the framework of national accounts at the national level, and it shows the contribution of the HB sector to the gross domestic product (GDP). The informal sector constitutes 12 per cent of the GDP. The contribution of all the HBs amounts to 23 per cent of the GDP. The bulk of the HB value added is the profit made by the businesses, as payroll and taxes do not account for a high amount. Informal taxation is marginal as well. The second section deals with labour productivity in the HB sector, which is an important indicator of the performance of this sector. The productivity of the informal sector is very low, especially due to a labour surplus. In contrast, the productivity of the formal HBs is closer to that of the private enterprise sector. The third section addresses the seasonal variations of production and sales, which is an important feature of this sector. The fourth section looks at the linkages between the informal sector and household businesses with the rest of the economy. The HB sector has weak linkages with the rest of the economy when measured by upward and downward transactions. Formal HBs are slightly better integrated and act as a buffer between formal enterprises in the public and private sectors and the informal sector.

1.
HOUSEHOLD BUSINESSES AND THE INFORMAL SECTOR IN THE NATIONAL ECONOMY

The level of operation of HBs is low on average, although a wide range of situations exists. Nevertheless, HBs supply jobs and generate wealth and income for more than one quarter of the population. Despite low productivity on average and the low level of income generated, their participation in the economy is far from being marginal.

1.1. Calculation of the contribution of household businesses and the informal sector to the GDP

The methodology used in the 2014/15 HB&IS survey allows building simplified accounts for each household business. Since most of them do not do bookkeeping and are not able to provide clear accounts of their activity, we had to reconstruct their accounts using a set of questions. Moreover, there was some reluctance among the respondents to give a fair report of their receipts, income and other accounting figures for their business. Some survey techniques were used to overcome this obstacle as much as possible.

We used the 1-2-3 survey methodology, which is currently the best way to get a fair estimate of the level of operation of HBs (Asian Development Bank 2011, ILO 2012). It allows for a more in-depth economic analysis of the informal sector (and the entire HB sector) and its integration into the national economy, which is something that no other survey can do. Some aggregates asked in one general question in other surveys are here the synthesis of a detailed investigation. For example, the payroll is the sum of wages, bonuses, insurance and other expenditures for each employee. Not only do we get information about workers, as analysed in Chapter 4, but also a much more accurate estimate of the payroll. It is the same for the number of hours worked as detailed by the workers. At the macro level, the calculation of productivity per hour is much more relevant with this detailed account of the hours worked.

Questions about income, profit and other economic aggregates are asked in different ways in the questionnaire. Production and the purchase of raw materials or merchandise are asked item by item except when it is not relevant. The period of reference is chosen by the respondent to fit better with the rhythm of his or her activity. When different aggregates appear to be somewhat incoherent, figures are recalculated, generally based on the purchase of merchandise or raw materials, which is deemed to be more reliable.

We reconstruct the accounts of the HBs following a structure based on the national accounts system. We first calculate the value added of the businesses. The value added is the creation of net wealth by the enterprises. It shows the extent to which labour and capital contribute to the creation of new wealth. At the enterprise level, it measures how efficiently inputs (raw materials, labour and capital) are used to produce wealth.

The value added is measured by subtracting the non-labour costs of inputs from the amount of sales. For the trade sector we calculate the margin that is the difference between sales and the purchase of merchandise. We determine the value added by subtracting other operation costs, e.g. electricity and the transport of merchandise. For manufacturing and service businesses, the value added is calculated by subtracting the purchase of raw materials and other costs from the total production of goods and services. We then see how the value added is decomposed in the payroll, taxes and profit of the business.

The 2014/15 HB&IS survey thus supplies us with incomparable information both about the weight at the macro level and about the structure and performance of the HBs (see Chapter 6). Analyses can be performed on a macroeconomic as well as a microeconomic scale.

We compare the results with the figures of the 2014 GDP published by the GSO (GSO, 2015). However, in the distribution of the GDP by institutional sector, the household business sector encompasses all activities run by individuals and households, including agriculture, fisheries and forestry. It accounts for 1,241 trillion VND or 31.5 per cent of the GDP. To estimate the non-farm household share of the GDP, we have to deduct agricultural production by households. However, this figure is not known. We only have the total value added of the agriculture sector, which was 697 trillion VND in 2014. We estimate here that 92 per cent of the value added in the agriculture sector (641 trillion VND) comes from households.[1]

Having estimated the agricultural production of households, we can then calculate the contribution of non-farm household businesses to the GDP, which is 1,241 – 641 = 600 trillion VND. Although these figures should be considered as estimates made by the authors, they are consistent with other figures produced by the GSO. This figure corresponds to 15.2 per cent of the GDP of Vietnam.

1. Calculated by the authors using the figures of the 2012 VHLSS survey.

1.2. A high contribution made by household businesses and the informal sector to the GDP

The contribution of the informal sector to the national economy is the sum of the value added of the HBs in this sector. The annualised value added of the informal sector amounts to 472 trillion VND (see Table 5.1). The informal sector contributes 12 per cent to the GDP of Vietnam. This contribution increases to 15 per cent when considering only the non-farm GDP. As the definition of the informal sector excludes activities in the agriculture sector, it is more meaningful to relate its contribution to the non-farm GDP.

The contribution of all the HBs, i.e. both the formal and the informal HBs, amounts to 23 per cent of the entire actual GDP and 28 per cent of the non-farm GDP. Thus, the informal sector and the formal HBs each contribute around half of this amount.

TABLE 5.1.
TOTAL VALUE ADDED OF THE HBS AND THE INFORMAL SECTOR AND THEIR SHARE OF THE GDP

	GDP (billion VND)			Contribution of HB value added to actual GDP (%)	
	Vietnam [a]	All HBs [b]	Informal HBs [b]	All HBs	Informal HBs
Agriculture	726,330	-	-	-	-
Manufacturing	1,475,361	334,705	181,261	22.7	12.3
Trade	550,019	345,144	164,756	62.8	30.0
Service	1,186,146	210,733	125,618	17.8	10.6
Total non-farm	**3,211,526**	**890,582**	**471,635**	**27.7**	**14.7**
Total (incl. agriculture)	**3,937,856**	**890,582**	**471,635**	**22.6**	**12.0**

Source: (a) GSO national GDP figures for 2014, (https://www.gso.gov.vn/default_en.aspx?tabid=775) preliminary figures; (b) 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

The estimate of the contributions made by the informal sector and HBs to the national GDP given here is probably the most relevant calculated so far. Since the 2014/15 HB&IS survey is the first national survey on HBs, its coverage is wider than other surveys, and it was conducted with a dedicated methodology to calculate the value added (see Chapter 1). The total value added of the HB sector is 891 trillion VND (42 billion USD), with 472 trillion VND generated by informal HBs. The GSO does not produce separate GDP figures for the formal and informal HB sectors; it provides figures for each institutional sector only. Thus, the HB&IS estimate led to a revaluation of the contribution of the HBs to the GDP. We found that the contribution to the GDP made

by HBs was underestimated by 291 trillion VND. The new estimate is 891 trillion VND, which is 48.5 per cent higher than the estimate based on the GSO figures (600 trillion VND). This in turn led to a revaluation of the total GDP, and the new estimate is 7.4 per cent higher than the previous one.

This new estimate of the GDP corresponds to the value added of the missing workers in the GSO's calculation of the GDP. The contribution of the HBs to the GDP, which comes from the Non-farm Individual Business Establishment (NFIDBE) survey, is based on a figure of 7.9 million workers in this sector, while there are 15.7 million workers according to the Labour Force Survey (LFS). Thus, the contribution of 7.8 million workers in the labour force is not taken into account in the current calculation of the GDP. The NFIDBE covers all the formal HBs and a share of the informal HBs, but it leaves out an important number of workers. The additional value added calculated from the 2014/15 HB&IS survey is the contribution of these workers to the GDP. We will see below that this contribution is a low estimate, but at the same time the results of the 2014/15 HB&IS survey are consistent with those from the NFIDBE survey for the formal HBs and the upper part of the informal sector.

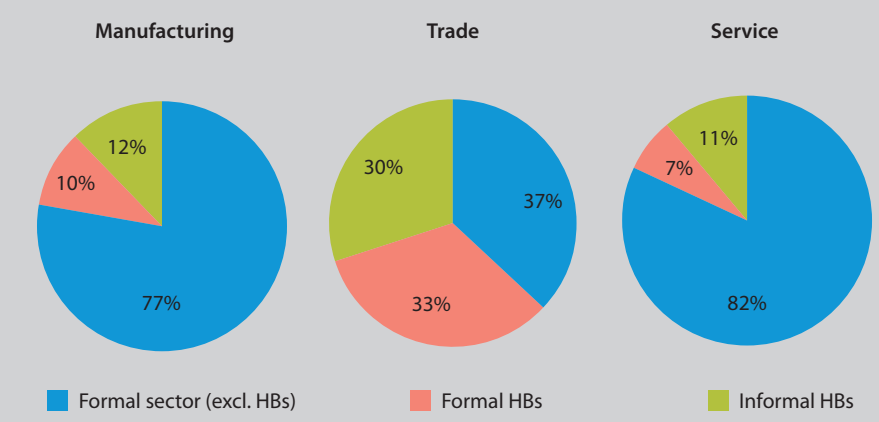
This should be considered as a minimum estimate. As seen in Chapter 1, the GSO's NFIDBE survey leaves out a great number of the self-employed and small informal HBs, and it is not consistent with the employment figures of the LFS. The 2014/15 HB&IS survey corrects this anomaly by calculating the contribution to the GDP of all workers based on the LFS figures. Despite the revaluation, the contribution per worker is still quite low (see section 2 below), and this is why we think that the total value added of the HB sector calculated from the 2014/15 HB&IS survey and based on the LFS figures of employment is not overestimated.

The weight of the informal sector and the formal HBs in the economy differs among economic sectors. The HBs represent 63 per cent of the GDP in the trade sector and 23 per cent in the manufacturing and construction sector (see Table 5.1 and Figure 5.1). In the service sector (which includes public administration), the share of HBs is smaller (18 per cent). The contribution made by informal HBs to the GDP is 12 per cent in the manufacturing and construction sector, 30 per cent in the trade sector and only 11 per cent in the service sector.

It is noteworthy that HBs are the main operators of commercial activities in Vietnam. Most HBs, and more specifically informal HBs, sell to the final consumers (see section 3 below), who seem to favour local retailers rather than supermarkets. Many factors

may explain this structure of commerce. In addition to consumer preference, there are technological factors such as an insufficiently developed cold chain, a lack of adequate transportation and a weak organisation of wholesale and large commercial networks. However, the domination of HBs in the trade sector may hide a deterioration of business operations due to a more fragmented structure of commerce.

FIGURE 5.1.
SHARE OF HBS IN THE NON-FARM GDP BY ECONOMIC SECTOR



Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

The value added in the informal sector in rural areas is higher than in urban areas. 62 per cent of the total value added in the informal sector is generated in rural areas (see Figure 5.2). This is similar to the share of rural labour in the informal sector (see Chapter 3), showing that the average productivity of labour is similar in rural and urban areas across economic sectors.

FIGURE 5.2.
SHARE OF VALUE ADDED PRODUCED IN RURAL AREAS BY INFORMAL AND FORMAL HBS AND BY ECONOMIC SECTOR (PERCENTAGE)

Read as follows: 65 per cent of the total value added for informal HBs in the manufacturing sector is generated in rural areas, and this percentage is 41 per cent for formal HBs.

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

While the informal sector is predominantly rural, formal HBs produce more in urban areas. 63 per cent of the value added of formal HBs is generated in urban areas, and as much as 79 per cent is generated in the service sector. One reason for this gap between informal and formal HBs is probably the fact that registration is more common in urban areas due to the proximity of fiscal or district authorities and perhaps better enforcement of the regulations on business registration.

The highest decile of HBs in terms of value added (the 10 per cent with the highest value added) generates 60 per cent of the total value added of all the household businesses. On the other hand, the lowest 5 deciles of HBs, which are very small (mainly the self-employed), generates less than 11 per cent of the value added of the HBs. Considering only the informal HBs, the largest 10 per cent in terms of value added generate 54 per cent of the informal sector's contribution to the national GDP, while the lowest 5 deciles only generate 12 per cent of this contribution. The economic sector where the contribution made by large HBs is the highest is the construction and manufacturing sector, while in the service sector the share of large HBs is less remarkable. This shows that the dynamism of the sector is the result of the activities of a small number of entrepreneurs, and the bulk of the informal HBs operate on a very modest scale (see Chapter 6).

It is also possible to form an estimate of the participation of the informal sector and HBs in the gross fixed capital formation. However, these figures are less reliable for reasons explained in the next chapter. Investment made by HBs is defined as expenses for equipment, furniture and premises that may not always be included in the gross fixed capital formation according to the definition used in the national accounts, so the figures given here are rough estimates. They highlight the fact that this sector not only contributes to the wealth created, but also to capital accumulation and to the creation of wealth in the future through investment.

In 2014, the gross fixed capital formation in Vietnam was 938.4 trillion VND (GSO, 2015). Informal HBs and formal HBs contributed 52.5 and 35.4 trillion VND (or 5.6 per cent and 3.8 per cent) respectively. This is less than the contribution of HBs to the GDP. The investment rate (gross fixed capital formation/value added) is thus lower for HBs than for the rest of the economy. The rate of investment at the national level is 11 per cent for informal HBs and 7.5 per cent for formal ones, while the average for the whole economy is 23 per cent.

1.3. Breakdown of the value added of HBs by industry

HBs and the informal sector are important players in all non-farm sectors of the economy. There is no major industry where they are not present.

The manufacturing and construction sector provides 40 per cent of the value added in the informal sector, while the various services (transportation, restaurants and other services) produce 31 per cent (see Table 5.2). The rest of the value added, 29 per cent, is contributed by the trade sector. The structure of the value added of formal HBs is quite different. The share contributed by the manufacturing and the trade sectors is higher than that of the informal sector. In contrast, formal HBs are nearly non-existent in the construction and transportation industries. These two industries are almost exclusively comprised of informal HBs, as they can operate without registering their business when they operate on a small scale.[2]

2. We do not take into account here the bulk of the "wage workers" in the construction sector, who in reality are self-employed workers who work on contract directly for households and were considered in the LFS to be part of the informal sector (see Chapters 1 and 2). Their contribution to the GDP is not counted as part of the informal sector, but most likely as capital formation (in the construction sector) or consumption by HBs.

TABLE 5.2.
DISTRIBUTION OF VALUE ADDED AND EMPLOYMENT BY INDUSTRY IN THE HB SECTOR (PERCENTAGE)

	Informal HBs		Formal HBs	
	Value added	Employment	Value added	Employment
Manufacturing	26.5	28.8	36.4	28
Construction	13.2	7.2	0	0
Trade	28.8	29.8	37.5	43.2
Transport	11.6	7.1	1.3	1.2
Rest. & Accom.	10.8	15.8	14.1	15.6
Other service	9.1	11.3	10.8	11.9
Total	**100**	**100**	**100**	**100**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

The distribution of informal and formal HBs, as measured by their value added, is quite different in rural and urban areas. Service HBs are relatively more developed in urban areas (due to the higher number of restaurants in cities), where they account for 38 per cent of the value added of all HBs, compared to 27 per cent in rural areas. In contrast, the contribution made by the manufacturing and construction sector is relatively more significant in rural areas (44 per cent of the value added generated by all the HBs in rural areas compared to 34 per cent generated by those in urban areas).

1.4. Decomposition of the value added

The value added is divided into three components: payment made to workers (not including the owner and family members), taxes due to the state, and profit made by the owner. The decomposition of the value added tells us how wealth created by the informal sector is distributed among these three components (see Table 5.3).

The bulk of the value added is constituted of profit made by the owner. Profit accounts for 86 per cent of the value added for all of the HBs on average, and the figures are very similar for formal and informal HBs. As most of the HBs have no hired workers, the owner's share of the profit is logically high. Profit here is the gross operation surplus, and it corresponds to the remuneration of the owner and eventually family members engaged in the business, as well as the remuneration of the capital of the business.

TABLE 5.3.
COMPONENTS OF THE VALUE ADDED IN THE HB SECTOR BY ECONOMIC SECTOR (PERCENTAGE)

	Informal HBs				Formal HBs		
	Payroll	Tax	Profit	VA	Payroll	Tax	Profit
Manuf. & constr.	21.5	0.1	78.4	100	19.3	1.0	79.7
Trade	7.1	1.0	91.8	100	8.0	2.3	89.7
Service	6.4	0.7	92.9	100	14.3	2.4	83.3
Total	**12.3**	**0.6**	**87.1**	**100**	**13.6**	**1.9**	**84.5**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

The share of the payroll is also very similar for both formal and informal HBs: around 13 per cent of the value added. This is more significant in the manufacturing and construction sector, where there are more wage workers, both at informal and formal HBs (see Chapter 3).

These average figures may be misleading as 84 per cent of the HBs (89 per cent of the informal HBs and 71 per cent of the formal HBs) have no hired workers. For those that hire workers, the breakdown of the value added is very different (see Table 5.4). It should be noted that HBs (informal as well as formal ones) that have wage workers have on average a value added that is eight times higher than those that do not have wage workers. They are also more profitable and earn a higher profit per worker. Hiring a wage worker is an economically rational decision that goes along with the growth of a business, but this is not true for non-wage workers.

TABLE 5.4.
COMPONENTS OF THE VALUE ADDED OF INFORMAL AND FORMAL HBS WITH WAGE WORKERS (PERCENTAGE)

	Informal HBs			Total	Formal HBs		
	Payroll	Tax	Profit	VA	Payroll	Tax	Profit
Manuf. & constr.	36.4	0.1	63.5	100	21.9	0.8	77.4
Trade	21.5	1.3	77.1	100	18.3	1.6	80.2
Service	25.1	0.4	74.5	100	25.6	1.6	72.8
Total	**25.1**	**0.4**	**74.5**	**100**	**21.7**	**1.2**	**77.2**

Source: HB&IS survey 2014/15, VASS-CAF & IRD-DIAL; authors' calculations

1.5. Taxation

Taxes, which are the share of the value added going to the state, are very low in the informal sector, from 0.1 per cent of the value added in the manufacturing sector to 1 per cent in the trade sector among informal HBs. Although this share is more than twice as high among formal household businesses, it remains very small: 1.9 per cent on average (see Table 5.3). The share of taxes in the value added is higher in urban areas (only for formal HBs) than in rural areas, at 2.2 and 1.4 per cent of the value added respectively.

Only 13 per cent of the informal HBs pay some taxes to the state (see Table 5.5). Among those that pay, the median value of the taxes is 0.3 million VND per year. The situation is quite different among formal HBs. Most of them (84 per cent) pay taxes, and the median amount paid is 2.1 million VND per year. For the taxpayers, the share of taxes in the value added is still low: 2 per cent of the value added on average. Only 2 per cent of the informal HBs and 13 per cent of the formal ones pay at least 10 per cent of their value added in taxes.

Household businesses have to pay several types of tax: a business tax, a personal income tax and several other types of taxes. The value added tax (VAT) is not payable by HBs as they do not utilise a legal accounting system, but they pay it on goods that they purchase.[3] These taxes are lump sum payments determined by the tax or district authorities according to the sector of activity, the type of business and the estimated income. Since most of the HBs, even formal ones, do not keep accounts, the administration cannot calculate taxes on a real basis.

The payment of at least one type of tax can be considered as an indicator of compliance with, or at least adherence to, administrative regulations or as an indicator of the ability of the tax department to enforce the tax regulations. Table 5.5 shows the proportion of HBs that pay at least one type of tax (the business tax, the income tax or other taxes) by registration status.

3. According to legal regulations, a household business has to pay three different types of tax: a license/business tax (an annual fixed tax based on the monthly revenue which the HB owner reported to authorities, stipulated in Circular 96/2012/TT-BTC dated 24/10/2012 from the Ministry of Finance) and a personal income tax (stipulated in Decision 16334/CT-QD dated 30/12/2008 from the Ministry of Finance). Other taxes are related to specific activities (excises and licenses).

TABLE 5.5.
PAYMENT OF DIFFERENT TAXES (PERCENTAGE OF HBS THAT PAY EACH TYPE OF TAX)

	Pays at least one type of tax	Business tax	Income tax	Other taxes
Informal HBs	13.4	7.3	1.5	6.6
Formal HBs	84.1	80.2	43.0	17.0
All HBs	**32.0**	**26.5**	**12.4**	**9.4**

Source: HB&IS 2014, VASS-CAF & IRD-DIAL; authors' calculations

Paying at least one tax is the main criterion that differentiates formal from informal businesses. Since they register their business, formal HBs are most likely to pay the business tax and some of the other taxes, but informal HBs are unlikely to do so. Those which act otherwise, i.e. formal businesses that do not pay any tax (10 per cent of them) and informal HBs that pay some tax (10 per cent of them) appear to be special cases: formal businesses that have not yet made their first tax payment and informal businesses that have to pay some specific tax even though they have not registered their business.

1.6. Informal payment in the informal sector

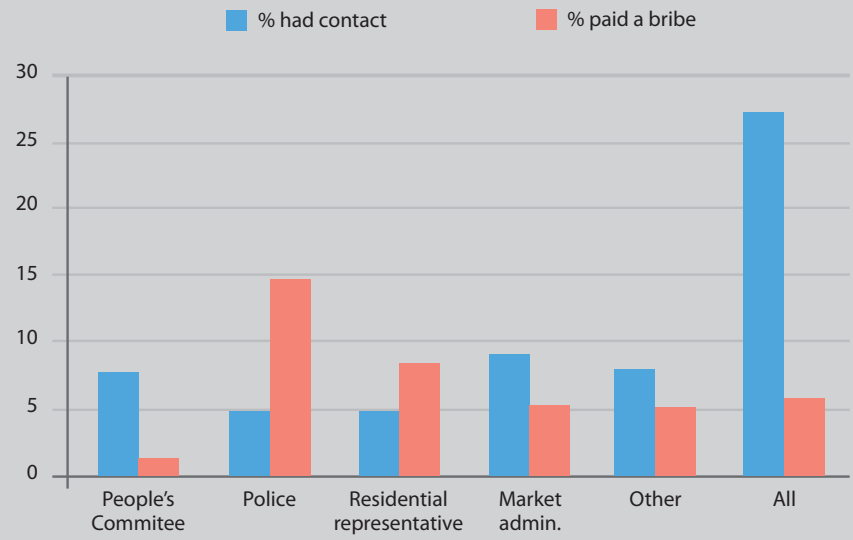
If HBs do not pay much in taxes, do they suffer from informal taxation in the form of bribes or other forms of corruption? It could be hypothesized that informal HBs that are not subject to taxation or pay very little in taxes are in fact obliged to pay bribes to officials or to the police at different levels. The literature on the informal sector has often emphasized this aspect of the informal sector. Bribery can occur at different levels: when starting the business, for example, by paying extra fees to obtain authorization to run the business or to replace taxes that are (sometimes) due.

Experience of corruption is often measured in two steps. First, people are asked if they have had any contact with different administrative bodies in the past twelve months. Second, they are asked if they have had to deal with an administrative body and, as a result, were the victim of an act of corruption, e.g. having to make a gift, having to pay fine without receiving a receipt, or any other form of bribery. The occurrence of corruption is measured by comparing the number of people who reported an instance of corruption to the number of those who had contact with the incriminated administration.

Only 27 per cent of the HBs owners stated that they have dealt with the People's Committee, the police, market administrators or residential authorities in the past twelve months. Formal HB owners have contact with such people more often than informal HB owners. More than half of the formal HB owners and only 18 per cent of the informal HB owners had contact with at least one of these administrative bodies. 6 per cent of the formal HB owners reported that they had experienced corruption.

These are the consolidated results for five types of administration. The frequency of contact varies, from 5 per cent for those who had contact with the police to 9 per cent for those who had contact with market administrators. The question only concerns contact related to business, not private matters. Incidents of corruption occurred more often with the police (14 per cent of the encounters with the police ended with the HB owner paying a fine or offering a gift without getting a receipt), but the incidence of corruption is negligible for encounters with the People's Committee (see Figure 5.3).

FIGURE 5.3.
SHARE OF HBS THAT HAD CONTACT WITH THE DIFFERENT ADMINISTRATIVE BODIES AND THE SHARE OF HBS THAT HAD TO PAY A BRIBE (PERCENTAGE)*



(*) % that had contact: the number of HBs that had contact with different administrative bodies divided by the total number of HBs; % that paid a bribe: the number of HBs that had to pay a fine or offer a gift without getting a receipt divided by the number that had contact with the administrative body.

Source: 2014/15 HB&IS, VASS-CAF & IRD-DIAL; authors' calculations

While previous questions concerned taxes and bribes, a similar question with a broader scope was asked about informal payments, including all kinds of contact with officials from any administrative body.[4] 4.2 per cent of the HBs (3.5 per cent of the informal HBs and 6.2 per cent of the formal ones) have experienced some form of corruption when dealing with the various authorities. When relating corruption practices only to HBs that have had contact with an administrative body (69 per cent of the informal and 81 per cent of the formal HBs), the proportion of those that were victims of some form of corruption increases to 5 per cent of the informal HBs and 7.3 per cent of the formal HBs.

No matter how the question is phrased, household businesses do not suffer much from corruption. Those that have experienced corruption paid rather small amounts (less than 2 per cent of the value added) that are comparable to the amount of taxes owed. On the macroeconomic scale, "informal taxes" account for less than 0.1 per cent of the GDP produced by HBs.

The largest HBs experience corruption most often.[5] Ten per cent of the HBs with a monthly value added of over 10 million VND stated that they had experienced corruption in the past twelve months, while the average for all HBs is 4 per cent. Formal HBs experience corruption more often than informal ones, urban HBs experience corruption more often than rural ones, and HBs in the trade sector experience corruption more often than HBs in other sectors. Thus, informal HBs, and in particular petty traders (who often operate in a grey zone between legality and illegality), are not particularly exposed to corruption. Some street vendors may be hassled by the police, but this is not representative of the bulk of the informal sector. On the contrary, informal HBs experience corruption less often than formal HBs.

A recent study of corruption in the HB sector in Vietnam (Giang *et al.*, 2016) found relatively high occurrences of corruption (collusion with tax officers or extortion) in the HB sector. However, this study focused on the upper segment of the HBs. All are formal and only 20 per cent of them have a revenue of less than 20 million VND per

4. The question was: *It is said that establishments are sometimes required to make gifts or informal payments to public officials to obtain authorization to do things like occupy a sidewalk or to "get things done" with regard to licenses, regulations, conflict resolution, and other types of services. In the frame of your activity, did you or anyone in your business have to make an informal payment to a government official or to an intermediary in the past year? Consider all possibilities, from paying a small bribe in order to occupy a sidewalk to paying a commission to facilitate contracts.*
5. This is consistent with the fact that some studies report a higher incidence of corruption among larger enterprises (see Giang *et al.*, 2016).

month (while in the 2014/15 HB&IS survey, 80 per cent of the formal HBs made a profit of less than 20 million VND per month). This shows that corruption is most likely to occur in lieu of excise taxes that are specific taxes for a trade HB such as a pharmacy or a karaoke parlour. Informal payments in lieu of registration fees and for business taxes are rare.

Corruption is essentially an urban phenomenon: 10 per cent of the urban HBs and only 3.5 per cent of the rural ones stated that they had experienced corruption.

Corruption is neither a major problem in the informal sector nor is it rampant in the HB sector in Vietnam.[6] The shortfall in state revenue that is due to corruption is probably very low, and it is a low percentage of the taxes collected in the HB sector, which is also very low.

It is thus true to say that the informal sector does not contribute much to the state revenue, including at the local level. This is also true for "informal taxes," which are not important or were not correctly captured in the survey. There is space for a fiscal policy that is adapted to the working conditions of informal and formal HBs that might increase their contribution to the state revenue. Nonetheless, such policies should be very cautious and gradual in order not to disrupt the dynamics of this sector.

6. Questions about corruption always relate to the framework of the business. They do not take into account bribery at schools or hospitals or with local authorities concerning matters related to administrative documents, land titles and things like that. The fact that HBs, as businesses, are not subject to much corruption does not mean that ordinary citizens do not face much corruption.

2.
LABOUR PRODUCTIVITY

Labour productivity is the output per unit of labour. It is an important indicator of the performance of the economy and of its different components. Two indicators of productivity are calculated. The first one (VA/L1) is the value added per worker per year, regardless of the number of hours worked. The second indicator is the value added per hour worked (VA/L2). It is more accurate but also more difficult to compute as detailed information on the hours worked by workers in the different economic or institutional sectors is seldom available.

2.1. Productivity per worker

The first indicator, value added per worker, is easy to calculate but it is not always accurate, as workers can work only part time or have two different jobs (and in this case, only the main job is taken into account). The value added per worker is the same for one worker working 24 hours a week and another one working 48 hours a week, even though the productivity of the second worker is twice as high as that of the first worker. Nevertheless, this indicator is often used at the aggregate level because detailed information about the hours worked per activity is not available.

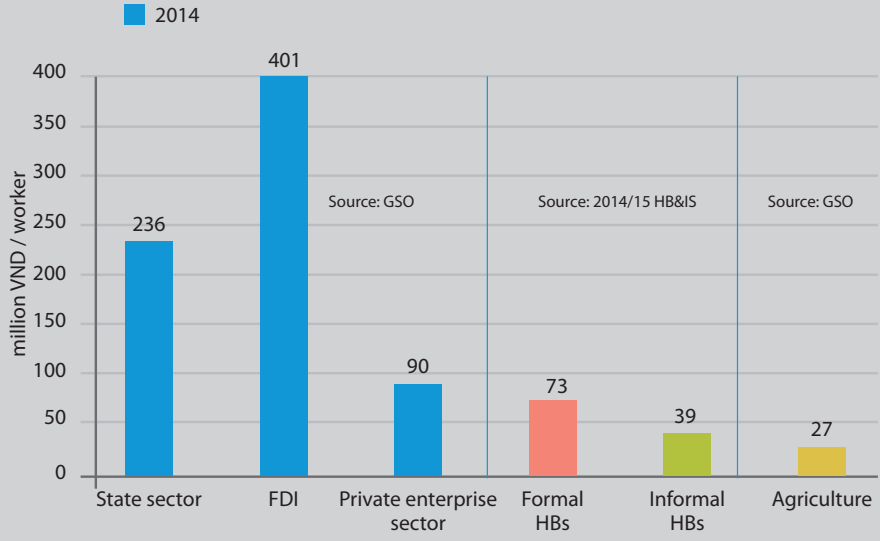
We use two different GSO sources to calculate the productivity of each institutional sector. The value added comes from the published figures of the 2014 GDP (GSO, 2015), while data on employment is extracted from the Labour Force Survey 2014. Both sets of figures were compiled independently, so there is no guarantee that they match perfectly.

The productivity of HBs is calculated from the results of the 2014/15 HB&IS survey presented above. The GDP of HBs is the sum of the value added calculated for these businesses extrapolated nationwide using the number of HBs in the 2014 LFS. The LFS provides a figure of 8.9 million businesses and 15.7 million jobs (see Chapter 2). This is much higher than the 4.7 million establishments and 7.95 million jobs covered by the GSO's NFIDBE survey (see Chapter 1).

In the informal sector, the productivity per worker is around 40 million VND per worker per year, and it is of the same magnitude in all three economic sectors. At formal HBs, productivity per worker is nearly twice as high as at informal HBs. This shows a higher scale of operation among formal HBs, which use more equipment to produce goods, hence the higher productivity.

This calculation differs from the one that used the GSO's data, because it applies to a higher estimate of the value added, as seen above. It also provides more information about the divide between formal and informal non-farm businesses. This new calculation does not modify the ranking of all the institutional sectors in the national economy. Formal HBs are in between private sector enterprises and informal HBs, and they are closer to the former. This is an indication that formal businesses are somewhere between informal HBs and domestic enterprises and that they could become corporate enterprises if the conditions were favourable. Our estimate of the productivity of the informal HBs is close to the GSO's estimate of productivity for all the HBs, despite the fact that the GSO's coverage of the HBs does not include the most precarious and unstable HBs, which are likely to be informal (see Figure 5.4).

FIGURE 5.4.
VALUE ADDED PER YEAR AND PER WORKER (LABOUR PRODUCTIVITY) BY INSTITUTIONAL SECTOR (MILLION VND)



Note: Productivity is calculated using published figures of the GDP per institutional sector divided by employment by sector from the Labour Force Survey.

Source: Authors' calculation based on the 2015 GSO survey and the 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

2.2. Productivity per hour

The second indicator is productivity per hour, which is deemed to be a more relevant measurement of productivity. It overcomes the disadvantage of the first indicator by considering production by the number of hours actually worked, thus taking into account the duration of the work and the periods when there was no activity. Moreover, hours worked are related to a specific activity, and workers who have two or more jobs are counted in the calculation using the time spent at each of these jobs. This indicator requires more information, which is not available for the whole economy.

The 2014/15 HB&IS survey allows a detailed calculation of the hours worked at each HB. It takes into account the hours worked by the owner, his/her spouse and the workers, who fall into several categories, including the temporary workers who work during periods of high activity. For the HBs which cease their activity for a period of time each year, only the months worked are taken into account. This allows a calculation of productivity that is much more accurate than calculations offered by many other sources (see Table 5.6).

As shown in Chapter 4, many HBs owners do not work full time, so the calculation of productivity per worker may be misleading when we compare sectors or businesses which have a different number of hours worked.

TABLE 5.6.
LABOUR PRODUCTIVITY PER YEAR AND PER WORKER (VA/L1) AND PER HOUR (VA/L2) (THOUSAND VND)

	Informal HBs			Formal HBs		
	VA	VA/L1	VA/L2	VA	VA/L1	VA/L2
Manuf. & constr.	93,400	41,300	22.6	323,200	92,800	41.5
Trade	75,800	42,400	16.7	138,700	67,300	23.6
Service	53,200	34,500	16.3	152,800	63,000	24.9
Total	**71,800**	**39,300**	**18.4**	**179,000**	**73,200**	**28.3**

Note : VA/L2= productivity per hour worked.
Source: HB&IS survey 2014/15, VASS-CAF & IRD-DIAL; authors' calculations; VA/L1= productivity per worker

When computed per hour, productivity is very similar in the service and trade sectors, both at informal and formal HBs. Productivity of labour per hour is significantly higher in the manufacturing sector, above all among formal HBs. Manufacturing activities usually require some technical knowledge and the use of more capital, while in the petty trade and service sectors there are fewer entry barriers (see Chapter 6).

The gap between informal and formal HBs is wider when one considers the productivity per worker instead of productivity per hour. This is due to the fact that part time work and seasonal work are more widespread among informal HBs. The productivity per worker at formal businesses is nearly twice that of informal workers, while the productivity per hour is 50 per cent higher at formal HBs.

2.3. Surplus of labour

Low productivity, especially at informal HBs, raises the question of labour surplus in this sector. Low productivity in the informal sector has been long pointed out in the literature (Hart, 1972; Blunch *et al.*, 2001). Productivity is an indicator of the efficiency of a business, so the low productivity encountered at informal HBs tends to show a low efficiency in this sector. Moreover, low productive businesses may not be able to survive, as their workers might shift to activities which yield higher output and incomes.

The persistence of low productive HBs and of the informal sector itself can be explained by the surplus of labour. In Vietnam, large cohorts were born in the 1970s and the 1980s (when fertility was high), and this boosted the labour supply when they entered the labour market in the 1990s and the 2000s. With more than one million newcomers in the labour market every year, which is an increase of 2-3 per cent of the labour force each year, the capacity of labour absorption among formal enterprises is insufficient (Oudin *et al.*, 2014). As agriculture does not absorb the surplus of labour, many workers choose to work in the informal sector.

A labour surplus can be detected in the employment of family members at HBs. While employing a wage worker corresponds to economic needs, this is not the case for family workers. The marginal productivity of additional wage workers is positive, but it is negative for family workers. Many HB owners employ their spouse or children (some of them part-time) even though so doing does not improve the performance of the business. They share their small profit with family members and thus reduce productivity per worker.

On the contrary, the employment of wage workers (many of whom have family ties with the owner) is done when it is profitable for the business. Additional wage workers contribute to boosting productivity. Table 5.7 shows that the average hourly productivity per worker declines with the number of workers when there are no wage workers, but it increases when there are wage workers.

TABLE 5.7.
AVERAGE PRODUCTIVITY PER HOUR BY SIZE OF THE HBS AND THE NUMBER OF WAGE WORKERS (THOUSAND VND)

	No wage workers	1 wage worker workers	2 wage workers or more
1 worker	31		
2 workers	25	35	
3-5 workers	12	36	47
6 workers or more	13	49	81

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

This has important implications. It means that if these family workers were unemployed, the average productivity per worker of small businesses would be higher. By employing jobless family members, spouses in particular, HBs contribute to limiting unemployment, but this reduces productivity.

However, the reduction of the labour supply which is expected in the near future (because less people will be entering the labour market) will gradually contribute to a reduction of the labour surplus and, in turn, increase the average productivity of the HB sector.

2.4. Changes in productivity

A comparison of labour productivity per hour between 2007 and 2014 in Hanoi and Ho Chi Minh City raises some crucial questions. As a whole, labour productivity has declined among informal HBs in Hanoi and stagnated in Ho Chi Minh City, and it has improved slightly, by 15 per cent in constant currency, among formal HBs (see Table 5.8). Although these findings have some limitations and cannot be generalised to the whole country, they suggest that part of the informal sector has not benefited from growth.

TABLE 5.8.
LABOUR PRODUCTIVITY PER HOUR IN HANOI AND HO CHI MINH CITY, 2007-2014
(THOUSAND 2014 VND)

	Hanoi		Ho Chi Minh City	
	2007	2014	2007	2014
Informal				
Manufacturing & construction	21.5	24.3	18.3	27.9
Trade	21.9	12.8	18.7	15.3
Service	25.5	22.7	23.5	18.5
All informal HBs	**23.1**	**20.8**	**20.5**	**20.8**
All formal HBs	**32.7**	**37.7**	**32.9**	**37.7**
All HBs	**25.9**	**27.7**	**25.5**	**22.4**

Source: Cling *et al.* (2010) and 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

There is a serious decline of productivity per hour in the trade sector and to a lesser extent in the service sector in both cities. Even if the data is not fully comparable,[7] it shows a degradation of the performance and/or the working conditions for at least a component of the informal sector. As hinted above, there is corroborating evidence that petty traders are in a highly precarious situation. Their situation may be worse in big cities, where their number is too high for the demand. The average productivity of labour in Hanoi and in Ho Chi Minh City in the trade sector in 2014 is below the national average for informal HBs, but it is above the national average in the other sectors (see Table 5.6).

In Chapter 2 we saw that the wage workers in the informal sector experienced the slowest growth in wages of all the wage workers in the various institutional sectors. A comparison with the 2007 findings suggests that the situation could be worse for non-wage workers, especially in the trade sector. As the number of persons working alone has declined and the number of HBs that use family labour has increased, a fall in productivity corresponds to what we have just seen above, i.e. the self-employed sharing the profit with family members who are employed but do not increase the value added and profit of the HB.

Things are different for formal HBs in the two cities. They perform better and there has been an increase in the average productivity of labour in both cities. This is an indication that formal HBs are more efficient economically and probably more integrated into the market.

7. In 2007, the spouses of the self-employed were not correctly recorded and this contributed to an overestimation of productivity, especially in the trade sector.

3.
SEASONALITY

HB production is not constant throughout the year. There are seasonal variations in the activity of HBs which are detailed in this section. We first consider seasonal variations at the macroeconomic level, and then we study the variations for the average HB according to geographic area and formality status.

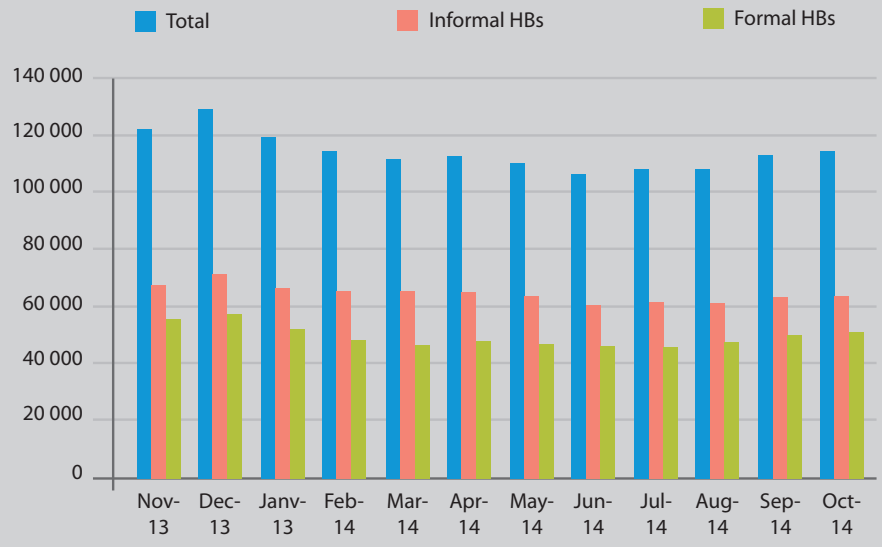
3.1. Seasonal variations in production among HBs at the macro level

As the survey covers only one month of activity per HB, the yearly economic aggregates need to be seasonalized in order to take into account the yearly variations and therefore avoid the bias due to the month of data collection. This is done by taking into account an entire year and asking the owners to state whether the activity for each month was high, medium, low or none at all.

As a whole, the difference in the total production during the peak month compared to the low season is not very significant. The whole aggregated production of HBs reaches a peak in December, and then it declines in January and gradually returns to the level it was in November. The decline continues between January and June, which is the month where the aggregated production is at its lowest: 17 per cent less than in December. This can be interpreted as an increase before the lunar new year festivities (Têt, which was on the 31st of January in 2014) and a decrease afterward until the summer, when it stabilizes before increasing again after August (see Figure 5.5).

Production fluctuates differently and at different periods of the year across economic sectors. On average, fluctuations are more significant for manufacturing and construction HBs. On the other hand, the service sector (transportation, restaurants, repair and other services) is relatively stable all year long. In the trade sector, production peaks in January, just before Têt.

FIGURE 5.5.
TOTAL MONTHLY PRODUCTION BY FORMALITY STATUS (MILLION VND)

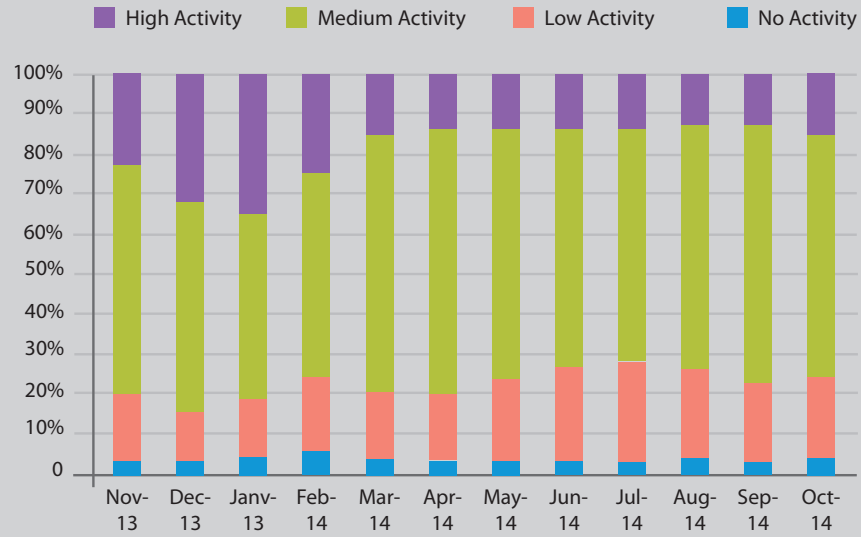


Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations.

3.2. Seasonal variations in the production of HBs

These averages hide important differences between HBs. For each month there is a significant proportion of HBs that stated that it is a month of high activity or, on the contrary, a month of low activity. For 35 per cent of the HBs, the Tết period is definitely a period of high activity (see Figure 5.6).

FIGURE 5.6.
DISTRIBUTION OF HBS BY LEVEL OF ACTIVITY EACH MONTH (PERCENTAGE)



Read as follows: In November, 4 per cent of the HBs are inactive; 16 per cent have a low level of activity; 57 per cent have a medium level of activity; and 23 per cent have a high level of activity.

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

Some informal HBs do not work all year long. In rural areas, 14 per cent of the informal HBs and 7 per cent of the formal ones cease activity for two months per year or more. This is due to the fact that these activities complement farm work, so they have to cease HB activity at the peak of the agricultural season. In urban areas, the proportions are just slightly lower, showing that farm activity also impacts urban HBs (see Table 5.9).

TABLE 5.9.
DISTRIBUTION OF HBS BY THE NUMBER OF NON-WORKING MONTHS, REGISTRATION STATUS AND AREA

Months of non-activity	Rural		Urban		Total
	Informal HBs	Formal HBs	Informal HBs	Formal HBs	
Works the whole year	80.7	90.8	84.5	89.1	84.2
1 month	5.5	1.9	4.4	2.9	4.4
2 months	5.0	2.7	4.1	2.8	4.1
3 to 5 months	5.4	4.5	5.0	4.1	5.0
Half of the year or more	3.4	0.2	2.1	1.1	2.3
Total	**100**	**100**	**100**	**100**	**100**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

At the HB level, seasonal variations are much more significant than shown by the macroeconomic figures, because HBs do not all have a reduction of activity at the same time. The exposure of businesses to seasonal fluctuations constitutes a major characteristic of the HB sector, and it is more acute for formal HBs than for informal HBs. Table 5.10 shows the ratio between the level of production for the highest month and the level of production for the lowest month. On average and for all HBs, the peak-month production is nearly three times the value of the lowest month's production. Formal HBs have on average a higher ratio between the highest and the lowest months of production, which corresponds to the high seasonal variations in the informal HB sector.

TABLE 5.10.
AVERAGE RATIO BETWEEN THE MAXIMUM AND MINIMUM LEVELS OF PRODUCTION

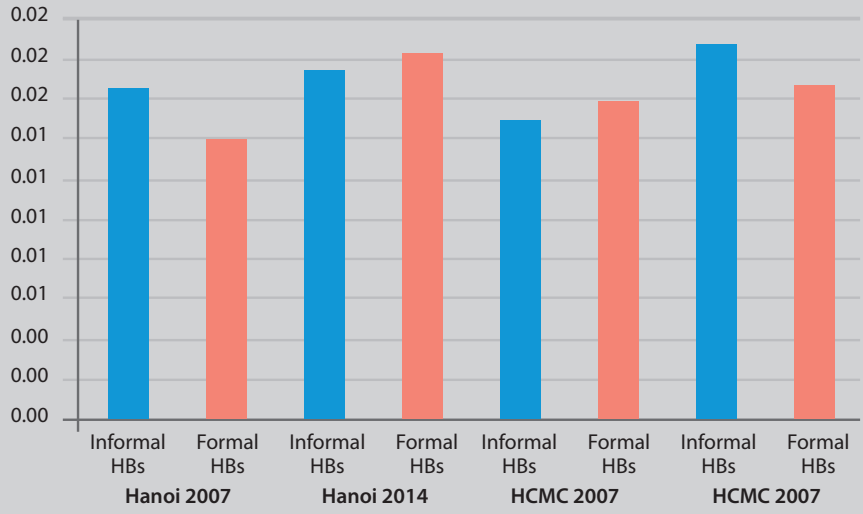
Max/Min ratio*	Rural		Urban		Total
	Informal HBs	Formal HBs	Informal HBs	Formal HBs	
Average	2.77	3.10	2.51	3.02	2.77
Median	2.00	2.50	1.88	2.00	2.00

*Note: For HBs that are inactive for one or more months, the lowest month of production is used to calculate the maximum/minimum ratio.

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

These high seasonal variations may be an indication of instability among the affected HBs and of difficulty for HBs to ensure a regular income all year long. A comparison of the ratios in 2007 and 2014 in Hanoi and Ho Chi Minh City shows that the situation has worsened in both cities, for the informal as well as the formal HBs. In all cases, the seasonal fluctuations were more significant in 2014 than in 2007 (see Figure 5.7).

FIGURE 5.7.
MEDIAN RATIO BETWEEN THE MAXIMUM AND MINIMUM PRODUCTION LEVEL, 2007-2014, HANOI AND HO CHI MINH CITY



Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

4. LINKAGES WITH OTHER SECTORS

The extent to which the HB sector, and specifically the informal sector, is integrated into the national economy is an important issue that may infer on policy provisions towards this sector. A better integration will indeed promote inclusive growth and a convergence of labour productivities and incomes, while isolation will have counter effects. The transfer of skills and technologies is also facilitated when the various components of the national economy are better integrated.

We consider here the upward and downward linkages between HBs and the rest of the economy in the form of the purchase and sale of products by HBs from or to the formal enterprise sector, but also to other sectors (e.g. farmers and the final consumers). Who are the suppliers and the customers of the informal and HB sectors, and what is the amount of goods and services that they exchange? This section answers these questions. We first consider the linkages from a macroeconomic point of view by considering the amount of goods purchased and the main suppliers.[8] We then

8. Integration can be understood here by filling in an input–output table of institutional sectors. In

study to whom the HBs sell their production and merchandise. Finally, we also consider another type of linkage: subcontracting arrangements. We conclude this section with an assessment of the integration of the HB sector, and specifically the informal sector, into the national economy.

4.1. Purchase of raw materials and merchandise

Household businesses mainly buy their inputs (raw materials and merchandise) from other household businesses. Street vendors who sell fruit buy their fruit from a market seller who buys it from farmers. Small restaurants buy their products from small grocery stores. The upward linkages with the formal enterprise sector, especially the private domestic sector, are not negligible, but they are far fewer than the linkages with household businesses. The whole HB sector buys three quarters of its inputs from other HBs. However, the figure is quite contrasted between formal and informal HBs (see Table 5.11).

Informal HBs buy 82 per cent of their inputs from other HBs (or farmers or individuals). In all economic sectors, HBs are by far the main suppliers of informal HBs for raw materials and merchandise. The second supplier of informal HBs is the formal domestic enterprise sector. All in all, the percentage of purchases made by informal businesses from private enterprises is about 17 per cent of the total purchases made by the informal sector. Purchases made by informal HBs from state companies as well as direct purchases from abroad are negligible.

The situation is somewhat different for formal HBs. Other HBs are still the main supplier of formal HBs, but their share is only 55 per cent. The amount of merchandise and raw materials purchased from the formal enterprise sector (private, public and abroad) is much higher than the amount purchased from informal HBs (45 per cent in total and 50 per cent in the trade sector). These purchases are mainly through private enterprises. Purchases from the state sector or directly from abroad are still negligible, but the portion is higher than the amount purchased from informal HBs.

economics, an input–output table shows the amount of production of each agent sold to other agents as intermediate products and to final consumers. Based on the Leontief matrix (Leontief, 1986), it shows the interdependencies between the different branches or agents of a national economy.

TABLE 5.11.
ORIGIN OF PRODUCTS PURCHASED BY HBS
(PERCENTAGE OF ANNUAL VALUE OF PURCHASES)

	Informal HBs				Total	Formal HBs			
	Public sector	Private enterprises	HBs	Abroad		Public sector	Private enterprises	HBs	Abroad
Manuf. & constr.	0.5	11.2	88.3	0.0	100	0.4	21.5	75.2	2.4
Trade	0.4	17.0	81.7	0.1	100	1.1	47.9	50.0	1.0
Service	2.0	20.6	77.0	0.4	100	3.9	15.1	80.3	0.8
Total	**0.7**	**16.7**	**82.1**	**0.1**	**100**	**1.2**	**42.3**	**55.3**	**1.2**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

All HBs, both formal and informal, buy a larger amount of their merchandise and raw materials from the private enterprise sector in rural areas than in urban areas: 19 per cent of the purchases of rural informal HBs and only 11 per cent of the purchases of urban HBs come from private enterprises. For formal HBs, the share of products bought from private enterprises is quite high (48 per cent), but it is only 32 per cent in urban areas. This can be explained by the fact that there is a higher density of informal HBs in cities, so they have more inter-linkages.

Previous figures were calculated from the total amount of purchases made by HBs at the macroeconomic level. Turning to the main supplier for each HB, we gain further insight into who the suppliers of formal and informal HBs are.

17 per cent of the informal businesses and 33 per cent of the formal ones have as their main supplier a public and incorporated enterprise in the formal sector (see Figure 5.8). Many raw materials, e.g. sheet metal and cement, are produced by large enterprises, and some HBs, more often formal ones, buy these materials directly from formal enterprises.

The fact that most HBs buy their inputs from other HBs does not mean that the majority of raw materials and merchandise used as inputs are produced by other HBs. Indeed, many products in the formal sector are channelled to the HB sector by HB traders. For example, a furniture maker will buy wood from an informal trader who bought the wood from a formal enterprise. Some formal HBs in the trade sector appear to act as intermediaries between the formal enterprise sector and the bulk of the HB sector, in particular informal HBs.

The share of farmers and individuals who provide raw materials is also significant. (They were counted with the HBs above.) One out of ten informal HBs in the manufacturing, construction and service sectors and 8 per cent of the formal ones have farmers or individuals as their main supplier.

FIGURE 5.8.
DISTRIBUTION OF HBS BY MAIN SUPPLIER OF RAW MATERIALS
(THE TRADE SECTOR IS NOT INCLUDED)

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

In the trade sector, where merchandise purchased is resold without transformation, 30 per cent of the formal HBs, and only 10 per cent of the informal HBs, have as their main supplier a company in the (mainly private) formal enterprise sector. Formal HBs in the trade sector, which are often grocery stores, also resell to petty traders. Trade is thus organised in a cascading manner so that most of the transactions before the final sale are made between HBs. Although many products originate from formal enterprises, they pass through several hands, e.g. from medium-size grocery stores to petty traders.

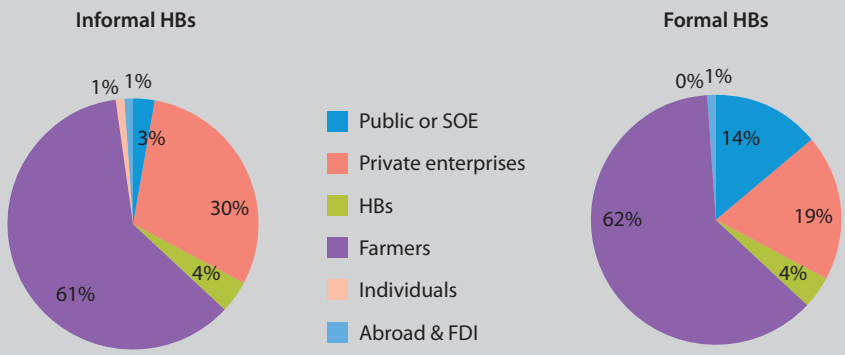
Thus, if the linkage between HBs and the formal enterprise sector appears to be weak in terms of amount of transactions, one cannot conclude that the informal economy is isolated from the formal enterprise sector or that it operates in a closed circuit. Formal household businesses, which purchase nearly half of their products from formal enterprises, may act as an entry gate for products from the formal enterprise sector to the informal sector. There are channels of penetration for products from the formal sector which greatly contribute to the dissemination of these products in the informal sector.

Informal HBs seem to be more isolated in terms of upward linkages. However, when compared with the situation in Hanoi and Ho Chi Minh City in 2007, the share of raw materials bought by informal businesses in the manufacturing sector directly from formal enterprises is on the rise, from 10 to 15 per cent in Hanoi, and from 4 to 19 per cent in Ho Chi Minh City. This is a significant change, although informal HBs continue to buy massively from other HBs.

4.2. Who are the customers of the informal sector?

Informal as well as formal HBs work mainly for the final consumers, who are individuals (see Figure 5.9). They also sell their products to other HBs (and in a small proportion to farmers), but it is difficult to know whether products sold to other HBs are really inputs for those HBs or if the HBs are the final consumers, as with individuals.

FIGURE 5.9.
TOTAL AMOUNT OF SALES OF HBS BY TYPE OF CUSTOMER (PERCENTAGE)



Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

Here again, there is a significant difference between formal and informal HBs. The former sell a more significant proportion of products to private enterprises than the latter.

Most HBs sell only to one kind of customer. 2 per cent of the informal and 5 per cent of the formal HBs have more than one type of customer (e.g. individuals and public enterprises, or farmers and HBs). Most of the HBs sell only to individuals for final consumption, but there is a small portion of them who primarily sell to farmers or other HBs, but also to the state sector or private enterprises.

Although the amount of sales to state entities is small, a significant number of HBs stated that they sell some of their products to the public sector. (There was a specific question regarding this.) The public sector here includes state-owned enterprises as well as public services and the local People's Committee. It is not uncommon that authorities at the commune or village level utilise small businesses for different kinds of work and services such as the supply and repair of furniture or equipment, construction work, food services or transportation (see Table 5.12).

TABLE 5.12.
PERCENTAGE OF HBS THAT SELL A PORTION OF THEIR PRODUCTS AND SERVICES TO STATE ENTITIES

	Informal HBs	Formal HBs	Total
Manuf. & construction	7.1	20.4	9.7
Trade	2.6	9.0	5.0
Service	4.0	17.1	6.7
Total	**4.5**	**13.6**	**6.9**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

Finally, the production of the informal sector is nearly entirely for the domestic market. Less than 1 per cent of the informal HBs stated that they directly export all or part of their products, and even less export their products indirectly.[9] These HBs include some manufacturing HBs, e.g. those that process wood or make handicrafts, and also some wholesale traders in the border provinces.

The informal sector thus mainly sells its products and services to the final consumers. These consumers are not the informal sector. (Such a statement would be meaningless.) Customers who utilise motorbike taxis or street restaurants come from all walks of society, including workers at large private and public enterprises. Just because upward and downward economic linkages with the formal enterprise sector are weak does not mean that the informal sector produces only for itself. As a provider of a multitude of goods and services, the informal sector is well embedded in society.

9. Direct export means that the customer is abroad. Indirect export means that the products are sold to an agent or company in Vietnam that then sells the products abroad. This distinction is based on the HB owner's statement.

4.3. Subcontracting linkages are few

Subcontracting is the practice of assigning some of the tasks of production to another party known as a subcontractor. It is another kind of possible linkage between the formal and the informal sector. It does not concern trade.

Much emphasis has been put on subcontracting practices in the informal sector, i.e. informal HBs doing some of the work that formal HBs have been contracted to do, especially in Asia. Some authors have put forward that through this kind of arrangement the informal sector supplies the formal sector with products at a low price, and the workers receive low remuneration for their labour and no social protection (Chen, 2007; Amin, 2002). The extension of subcontracting in Asian countries in the 1970s (which is limited, however, to several economic sectors) has often led to theories of the informal sector being seen as a provider of cheap and unprotected labour for the formal sector (Canagarajah and Sethuraman 2001), with informal HBs such as sweatshops and home workers (cottage industries) selling their entire production to one enterprise or to one trader, upon whom they are totally dependent.

Cling *et al.* (2010) found no evidence of a significant amount of subcontracting with large firms in the informal sector in Vietnam. They found that barely 1 per cent of the informal businesses are engaged in subcontracting arrangements with formal enterprises. Their analysis was limited to Hanoi and Ho Chi Minh City, and they concluded that we need to conduct a national survey of the informal sector, including rural areas, to determine whether or not subcontracting is a significant characteristic of this sector in Vietnam.

The 2014/15 HB&IS survey can provide an answer to this question. Our results confirm those of Cling *et al.* for Hanoi and Ho Chi Minh City. Subcontracting with formal enterprises is not common among HBs in Vietnam. One per cent of the informal HBs and only a slightly higher percentage of the formal HBs in the manufacturing and construction sector have contracts with large enterprises in the whole country (see Table 5.11). In Hanoi and Ho Chi Minh City, the proportion is slightly higher than average, and it is higher than in 2007, but one cannot conclude that there has been any significant change based on such low figures. Therefore, the idea of a strong linkage between HBs (those in the informal sector in particular) and the formal enterprise sector through subcontracting can definitely be ruled out. HBs that have subcontracting arrangements with large enterprises are found mainly in the garment, metal and wood industries; in the construction and transportation sectors; and among HBs that repair computers and equipment (and all in small numbers).

The above findings only concern subcontracting between HBs and large enterprises, and there are other subcontracting arrangements within the HB sector. Subcontracting between HBs, especially informal ones, is much more common than with large enterprises. In addition, when dealing with individuals, subcontracting refers to production that is made to order, where the customer supplies or selects the raw materials and defines an expected tailor-made product. This is common in the garment industry and in the furniture-making industry. The frequency of these kinds of contracts is shown in Table 5.13 (for the manufacturing and construction sector only).[10]

TABLE 5.13.
PERCENTAGE OF HBS WORKING AS SUBCONTRACTORS OR PRODUCING MADE-TO-ORDER GOODS IN THE MANUFACTURING INDUSTRY

	Subcontract with formal enterprises	Subcontract with other HBs	Orders from customers	No orders or sub-contracting	Total
Informal HBs	1	9.4	34.4	55.2	100
Formal HBs	1.4	5.4	43.5	49.7	100
Total	**1.1**	**8.6**	**36.2**	**54.1**	**100**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

Subcontracting with other HBs is more common than with formal enterprises, although it is not widespread. In the manufacturing sector alone, less than 9 per cent of the HBs work as subcontractors for another HB for part or all of their production. Subcontracting HBs are found in significant numbers in the garment industry above all, where one out of five HBs is engaged in subcontracting for another HB. We find the same proportion in basketry. There is nearly no subcontracting in the service sector.

More interestingly, HBs often do made-to-order work for their customers. This is typical of the way tailors and seamstresses operate, for instance, but this way of operating is also found in other industries and in some services. The customer supplies the raw materials (or buys them in the shop), places an order and sets the specificities. He or she then has to pay for the processing, which is in fact the cost of labour. 36 per cent of the HBs in the manufacturing sector carry out mainly (24 per cent) or partially (12 per cent) made-to-order work. The sectors where this way of operating is most common

10. This analysis is based on a set of questions:
Do some of your customers give you (or pay you to buy) raw materials and then ask you to transform them? What is the percentage of the turnover from these customers for the past month of operation? Which one is your most important customer? (1. State/SOE, 2. Domestic enterprise, 3. Foreign enterprise, 4. Household business, 5. Individual, 6. Direct exportation)

are the furniture-making industry (three out of four HBs), the construction sector, the garment industry and the metal industry, where half of the HBs work in this manner.

The amount of turnover that stems from subcontracting was also calculated. In the manufacturing sector, subcontracting with large firms yields 1.3 per cent of the total turnover of HBs. If we count subcontracting with other HBs (excluding orders from individuals), the amount of production subcontracted is 7 per cent of the total production of informal HBs in the manufacturing sector. This is not negligible. In the garment sector, where subcontracting is more common, 5 per cent of the production comes from subcontracting with large firms. This percentage increases to 30 per cent when we also include subcontracting with other HBs.

In terms of percentage of turnover, subcontracting is more significant among formal HBs. In the manufacturing sector, 10 per cent of the production of formal HBs stems from subcontracting with large firms. This proportion increases to 20 per cent when we include subcontracting with other HBs. Formal HBs which do subcontracting work are larger than average.

A negligible portion of the HBs in the informal sector, and in the HB sector in general, subcontract. In some industries (garment and metal) the amount of the production that is subcontracted is slightly higher. However, few businesses subcontract with the formal private enterprise and public sectors. Subcontracting between HBs is more widespread.[11]

4.4. Competition

Competition is very high within the informal sector. Competition contributes to keeping the prices low and reduces the profit margins. This is the main problem perceived by the owners of informal HBs (see Chapter 11). Entry barriers are low in many industries, especially in the service and trade sectors, as anybody can start a business at any moment with a minimum of initial funds (20 per cent of the informal HBs start their business with less than 1 million VND (see Chapter 6), and this fosters greater competition.

11. There might be some informal middlemen or traders who sell products subcontracted to household businesses to formal enterprises. This practice, if it occurs, is not captured by the survey.

However, more than one third (36 per cent) of the informal HBs and 24 per cent of the formal HBs stated that they have no competitors. Competition is most acute in the trade sector, and only one quarter of the informal HBs in this sector stated that they have no competitors (29 per cent of the informal and 21 per cent of the formal HBs), while nearly half of the informal HBs and one third of the formal HBs in the manufacturing and construction sector think they have no competitors (see Figure 5.10).

FIGURE 5.10.
PERCENTAGE OF HBS THAT STATED THAT THEY HAVE COMPETITORS

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

Who are the main competitors of HBs? The answer is clear: The main competitors are other HBs or individuals, i.e. the self-employed, who are counted with the HBs. Less than 1 per cent of the owners of informal HBs experience competition with private or public enterprises. It appears that the large private, foreign and public enterprise sectors serve a totally separate segment of the demand. The situation is similar for formal HBs (see Table 5.14).

This shows that somehow the informal sector works in a bubble. Informal owners are in their own world and assess their situation in comparison with similar HBs. Despite existing linkages and despite the fact that HBs mainly work for final customers (as many formal enterprises do), their feelings about who their competitors are reflects a lack of understanding of the economic changes at stake. Petty traders do not incriminate supermarkets, street restaurants do not feel threatened by the development of modern restaurants, and motorbike taxi drivers do not see taxi companies as their competitors.

TABLE 5.14.
MAIN COMPETITORS BY FORMALITY STATUS AND ECONOMIC SECTOR
(PERCENTAGE)

	Formal HBs				Informal HBs			
	Manuf.-constr.	**Trade**	**Service**	**Total**	**Manuf.-constr.**	**Trade**	**Service**	**Total**
Public or foreign enterprises	1.1	0.0	1.2	0.5	0.8	0.0	1.1	0.7
Domestic enterprises	2.7	2.0	4.3	2.8	1.0	0.7	1.1	0.9
HBs	93.0	91.8	85.6	90.2	84.2	87.4	84.1	85.2
Farmers or individuals	3.2	6.3	8.9	6.5	14.1	11.9	13.7	13.2
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: 2014/15 HB&IS survey, VASS-CAF & IRD-DIAL; authors' calculations

CONCLUSION

The HB&IS survey provides the first estimate ever of the contribution of the informal sector to the GDP. This contribution of 12 per cent is far from being negligible. In the trade sector alone, the contribution of the informal sector amounts to 30 per cent of the total value added of this sector. The informal sector thus plays an important role in the national economy. Taking into account all of the household businesses, the contribution is nearly one quarter of the GDP, or 22.6 per cent. This estimate is higher than those produced before, because the coverage of the HB&IS survey, which is based on the Labour Force Survey, is wider than the coverage of other surveys. Our results suggest that the contribution of the entire HB sector should be revaluated and increased by at least 16 per cent. This in turn should result in a revaluation of and a 3 per cent increase in the national GDP.

The 2014/15 HB&IS survey allows a good measurement of the labour productivity of HBs. Productivity is low in general, especially in the informal sector. Productivity per worker is nearly twice as high for formal HBs than for informal HBs, reflecting a higher scale of operation and the use of technology and equipment at formal HBs. Therefore, formal HBs are in between private sector enterprises and informal HBs, and they are closer to the former. This is an indication that formal HBs could become enterprises in favourable conditions. A surplus of labour, especially family labour, is one of the causes of low labour productivity, as shown by the negative marginal productivity of additional family workers. In contrast, the marginal productivity of additional wage workers is positive. Thus, employing a wage worker corresponds to economic needs, while this is generally not the case for family workers. However, the on-going reduction of the labour supply in Vietnam should contribute to increasing the average productivity of the HB sector by reducing the labour surplus.

This chapter has also highlighted the seasonality of HB activities, in particular for formal HBs. The exposure of businesses to seasonal fluctuations constitutes a major characteristic of the HB sector. Seasonality translates as a variation of the time worked at HBs, which results in large changes in the level of production, with the highest period of production just before the lunar new year (Têt) and the lowest during the summer. The production during the highest period could be three times the value of the production during the lowest period. Seasonal fluctuations are significant, and they increased between 2007 and 2014, suggesting that it has become more difficult for formal and informal HBs to ensure a regular income all year long.

Another important finding in this chapter is that the linkages of the informal sector with the rest of the economy are weak when measured by upward and downward transactions, which are the amount of purchases and sales of merchandise from or to the formal enterprise sector. This relative isolation of the informal sector may explain its resilience in the case of economic shocks and why the fluctuations of the formal enterprise sector have a small impact on the informal sector. In contrast, the informal sector and HBs in general are highly dependent on the final demand. Formal HBs are slightly better integrated and act as a buffer between formal enterprises in the public and private sector and the informal sector in a cascading system where some formal HBs serve as wholesale traders (and sometimes buyers) for the informal sector. Most inputs that come from big firms are channelled to the informal sector through a limited number of HBs, mostly formal ones. An increasing percentage of the products used in the informal sector are manufactured products that are made by large manufacturing firms or are imported, but the informal sector still operates mainly in relative isolation.

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Nhà xuất bản Thế Giới

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This book draws on an original and innovative data collection to provide new evidence on household businesses and the informal sector in Vietnam. This 2014/15 HB&IS survey conducted in late 2014 and early 2015 is the first national survey ever on this sector in Vietnam with full coverage of its different components.

The purpose of this book is threefold. First, it aims at filling the knowledge gap as to the role of household businesses and the informal sector in the Vietnamese economy. Second, it provides new insights for policymakers to unlock household business potential by identifying the factors blocking their performance and productivity. Thirdly, it identifies the sources of worker vulnerability in household businesses and the informal sector to inform the design of a suitable policy to tackle this vulnerability.

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