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► A Theory of Change for transitioning from the informal economy to the formal economy in Viet Nam



► **A Theory of Change
for transitioning from
the informal economy
to the formal economy
in Viet Nam**



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► Foreword

As Viet Nam continues its remarkable journey from one of the poorest countries in the world in the 1980s to its current status as a dynamic lower middle-income country, it has set itself the ambitious goal to reach upper middle-income status by 2030 and become a high-income country by 2045. This transformation will require that the country significantly reduces the proportion of women and men earning their living in the informal economy, currently accounting for two thirds of employment. Expanding a thriving, resilient formal economy is well within the country's grasp. In recent years, considerable economic and social reforms have been put in place to overcome exclusion and marginalization in the labour market, and this momentum continues.

Supporting transitions from the informal economy to the formal economy requires a broad vision, underpinned by the multiplicity of policy pathways needed to reach that objective. This Theory of Change, developed through consultations with tripartite partners and a broad range of stakeholders, sets out a framework which can enable Viet Nam to accelerate progress towards its vision of a just and harmonious society and an inclusive, sustainable economy.

Sincere gratitude is expressed to the many representatives of the Central Economic Commission (CEC), the various departments and sections of the Ministry of Labour, Invalids and Social Affairs (MOLISA), and of the Ministry of Planning and Investment (MPI) who provided invaluable expertise and inputs. Similarly, thanks are gratefully extended to representatives of the social partners, including the Viet Nam General Confederation of Labour (VGCL), the Viet Nam Chamber of Commerce and Industry (VCCI) and the Viet Nam Cooperative Alliance (VCA), who provided important perspectives to shape this Theory of Change. Appreciation further extends to the numerous agencies and stakeholders from within the Government of Viet Nam, research bodies and other stakeholders, who contributed to the development of this framework.

The development of the Theory of Change was led by Sriani Ameratunga Kring, ILO consultant, and benefited from inputs and review from a number of ILO specialists from different teams of the ILO Headquarters (Geneva), the ILO Regional Office for Asia and the Pacific (Bangkok), and the ILO Country Office for Viet Nam, including: Valentina Barcucci, Andre Bongestabs, Florence Bonnet, Nuno Meira Simoes Cunha, Phu Huynh, Carlos André da Silva Gama Nogueira, Nguyen Ngoc Trieu, Nguyen Thi Huyen, Kelvin Sergeant, and Sandra Yu. The paper has been edited and proof-read by Christina Morrison, ILO consultant.

As is the case for other developing countries, formalization may represent a long journey ahead for Viet Nam, and one that requires a common understanding among all the national partners as well as a shared willingness and commitment to take action. The ILO, with more than 100 years of advancing social justice and promoting decent work, including more than 50 years of experience in supporting formalization, remains committed to supporting Viet Nam in its journey towards the common goal of formalization.

Ingrid Christensen
ILO Country Director for Viet Nam

► Contents

Introduction	6
Part 1: Theory of Change and a conceptual understanding of the informal economy	9
1.1 What is a Theory of Change?	10
1.2 The ILO's work on formalization	10
1.3 Ensuring sustained transitions to the formal economy for Viet Nam	13
Part 2: Progress and challenges in strengthening Viet Nam's enabling environment for formalization	15
2.1 Structural transformation and poverty reduction	17
2.2 Resilient economic growth	17
2.3 Data collection	17
2.4 Expansion of legal protection	19
2.5 Registration of enterprises	20
2.6 Drivers of informality in Viet Nam	21
Part 3: A Theory of Change supporting transitions from the informal to the formal economy in Viet Nam	25
3.1. Alignment with national development frameworks	29
3.2. A multi-policy pathway for transformation	31
3.2.1 Creating an enabling environment to support transitions	31
3.2.2. A focus on specific groups	37
Conclusion	41
References	42
Annex 1: Learning from sustainable formalization processes in other parts of the world	45
Annex 2: Lessons from the ILO's Global Programme on Formalization	48

Box 1: Terminology used in R.204 and its adaption in the Vietnamese language	12
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Figure 1: Theory of Change supporting transitions from the informal to the formal economy in Viet Nam	26
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► Acronyms

AFF	Agriculture, forestry, and fisheries
ASEAN	Association of Southeast Asian Nations
DWCP	Decent Work Country Programme
DOLISA	Department of Labour, Invalids and Social Affairs
EGDI	United Nations E-Government Development Index
FORLAC	Programme for the Promotion of Formalization in Latin America and the Caribbean
GDP	Gross domestic product
GSO	General Statistics Office
ICLS	International Conference of Labour Statisticians
ICT	Information and communications technology
MOLISA	Ministry of Labour, Invalids and Social Affairs
MPSARD	Master Plan on Social Assistance Reform and Development
MPSIR	Master Plan on Social Insurance Reform
MSME	Micro, small and medium-sized enterprises
OSH	Occupational safety and health
R.204	Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204)
SDG	Sustainable Development Goal
TOC	Theory of Change
UNSDCF	United Nations Sustainable Development Cooperation Framework

► Introduction

Transforming Viet Nam's labour market towards formalization: A Theory of Change

The economic miracle of Viet Nam's progression from one of the poorest countries in the world to a dynamic, lower middle-income country between the 1980s and the early 21st century is well documented. In recent years, the country has set ambitious goals to become an upper middle-income country by 2030, and a developed country by 2045. An essential aspect of this transformation will require the country to accelerate progress towards reducing the share its informal economy represents, which currently accounts for around two thirds of total employment. Over the last decade considerable momentum has been building to expand the formal economy. Through the implementation of appropriate measures, the country has immense potential to become a leading country in Asia and the Pacific in its efforts to overcome high rates of economic marginalization.

A number of essential pre-conditions are in place to ensure sustained transformation to reduce informality and expand and strengthen the formal economy. Among these are: a strong political will to promote formalization; recent legal and regulatory changes intended to include those who have been marginalized; the increasing integration of formalization narratives in national policy documents; robust economic growth, which has been resilient even in the face of the COVID-19 pandemic (including in key sectors that create formal jobs such as garment and footwear manufacturing); increased policy attention to the informal economy as a result of the pandemic; long-term structural change, which has seen the decline of agriculture as the most significant segment of the economy; and the convening of national agencies, ministries, social partners and other stakeholders to discuss an explicit multi-policy agenda for facilitating transitions to the formal economy.

With these important pre-requisites in place, and with appropriate policy responses, coordination and resource allocation, Viet Nam may be poised to join the small number of countries in Asia and the Pacific that have large, prosperous, and durable formal economies, including Japan, the Republic of Korea and Singapore.

Reaching this objective, however, requires a broad vision, underpinned by an analysis of the multiplicity of inter-linked interventions which can drive the process forward. Constituents and stakeholders in Viet Nam have initiated the process of dialogue and consultation to work towards the objective of transitioning from the informal economy to the formal economy. This report brings together their inputs.

Methodology

This report was developed through a series of consultations with Viet Nam's tripartite partners and with broader stakeholders in order to conceptualize a framework to catalyze an enduring transformation of the country's economy.

An initial desk review of recent analytical reports, legal and regulatory changes and national policy documents provided the basis for the Theory of Change (TOC). Numerous interviews were conducted subsequently which provided invaluable insights into the current economic context and labour market policies in the country. These inputs were synthesized into a draft which was discussed in more depth during a National Task Force meeting that brought together a wide range of stakeholders.

It is important to note that this TOC is conceived of as an evolving document and will no doubt change as dialogue among stakeholders on formalization deepens, and the process of prioritizing different policy measures continues.

Part 1 of this document will examine firstly, what a TOC entails, secondly, the ILO's contribution to analytical discussions on the informal economy, and finally, some key issues that Viet Nam will need to consider ensuring the sustainability of the transformation. Part 2 provides a brief literature review on recent key developments in Viet Nam which may be pivotal to transforming the informal economy, while also acknowledging existing challenges. Part 3 provides an initial conceptualization of the TOC based on the consultative process, along with snapshots of the potential multi-policy pathways for an integrated, comprehensive approach to achieve the objective of transitioning the informal economy.

The two Annexes provide information on successful examples of transformation from Latin America, Asia and Europe, and also a summary of the evaluation of the ILO's global strategy on formalization for the period 2014-18. These examples may assist Viet Nam to learn from successful experiences while avoiding some of the pitfalls along the pathway to transformation.





1

Part

Theory of Change and a conceptual understanding of the informal economy

► Theory of Change and a conceptual understanding of the informal economy

1.1. What is a Theory of Change?

A Theory of Change (TOC) provides a roadmap to reach an objective or achieve a change. It enables systematic thinking about how a transformation can take place in a complex external environment and maps a causal pathway to reach it. A TOC can demonstrate the collective impact of interventions and their linkages, and provide a framework for implementation, collaboration, monitoring and evaluation. When conducted in a participatory manner it helps to establish priorities within the complexities of the real world and the available resources, and assigns roles, responsibilities, and resources for a collective push towards transformation.

The starting point of a TOC is always the end point: the objective that needs to be achieved within the given timeframe. From there, a causal pathway is tracked backwards to establish how the results will be achieved through long-term outcomes, intermediate outcomes, and shorter-term activities. Along those pathways, underlying assumptions are detailed, as well as an analysis of the external environment, the risks involved, the strategies, partnerships needed, and the broad indicators to evaluate results.

A TOC can be expressed in narrative descriptive form and/or various diagrammatic forms, but it should always show causal linkages to achieve the overall objective.

This TOC for transitioning to the formal economy in Viet Nam cannot go into extensive detail regarding the specificities of transitioning every group or sector to the formal economy. Rather, it provides an overall framework to understand how the transformation can take place in broad terms. In this TOC, the narrative on the multiple pathways towards formalization is detailed in section 3.2 Key Activities.

1.2. The ILO's work on formalization

The ILO has been at the forefront of analysis and policy breakthroughs on the informal economy for several decades. As early as 2002 it defined the broad parameters for understanding the informal economy as:

*"[...] all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements."*¹

It also established the international consensus that the phenomena could not be confined to the informal sector alone but encompasses informal employment and activities in the formal economy too. Thus, the concept of the informal economy was conceived, with a wider conceptualization of varied manifestations across many sectors.

This new framework led to a more precise capturing of the informal economy through statistical recommendations emanating from the International Conference of Labour Statisticians (ICLS) meetings.²

1 ILO, [Resolution concerning decent work and the informal economy](#), International Labour Conference, 90th Session, 2002, para. 3.

2 Existing statistical standards on informality cover only two of the three dimensions of the informal economy: persons/jobs and enterprises. A third dimension that relates to productive activities and their contribution to GDP is included in the new statistical standard on informality to be adopted in 2023.

The structure and mandate of the ILO gives it several advantages and a unique position to support countries' efforts towards labour market inclusion. For instance, as a tripartite organization anchored in social dialogue, it can support its Member States in establishing good governance, and thus provide a vital means of bringing marginalized workers and entrepreneurs into democratic policymaking; as a normative organization it can provide guidance – developed through tripartite consensus – on a full range of international standards relevant to overcoming exclusion and inequality in the labour market; as a body which partners with Ministries of Labour it can assist countries to strengthen the institutions required for reaching marginalized segments of the labour market; and as an organization which encompasses all aspects of employment creation, it has a wide range of tools at its disposal which constituents can harness to address the complexity, depth and breadth of issues relating to transitioning to the formal economy.

While the ILO has developed a vast body of international standards, the most important instrument for a coherent, multi-policy approach to formalization is the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204) adopted at the 104th Session of the International Labour Conference in 2015.³ The instrument (Recommendation No. 204) invites Member States to design coordinated and integrated strategies to catalyze shifts out of informality. Acknowledging that formalization needs to be sustained and institutionalized, the instrument goes beyond a narrow focus on registration to a much more comprehensive approach that unlocks the multi-faceted constraints faced by informal economy workers and economic units.

Recommendation No. 204 sets out 12 guiding principles in Part II to frame such strategies. These principles recognize the need for tailored approaches across a broad range of policy areas to respond to the diversity of situations and drivers of informality, and the specificity of national circumstances. The approaches use a combination of incentives and capacity-building to encourage shifts, balanced with appropriate disincentives to remain informal.

The principles emphasize the need for the effective promotion and protection of the human rights of all those in the informal economy, and respect for fundamental principles and rights at work in law and in practice. Additionally, the instrument places emphasis on the promotion of gender equality and non-discrimination, and the need to pay special attention to the most vulnerable in the informal economy.

Guidance from the instrument recognizes that the informal economy is a vast repository of unrecognized skills, entrepreneurial spirit, creativity, and innovation that needs to be preserved and unleashed, while bringing informal actors and units under state oversight and protection.

Three objectives to ensure formalization are framed within the instrument:

- facilitating transition from informal to formal economy for workers and economic units;
- the creation of formal jobs; and
- preventing the informalization of formal jobs.

Among the tools that the ILO has developed to support concerted efforts to reduce informality among its Member States, is a global TOC which can be adapted to national and regional contexts (ILO 2021a). This framework was very useful in the design of the TOC in the context of Viet Nam.

³ ILO, [Recommendation No. 204 Concerning the Transition from the Informal to the Formal Economy](#), International Labour Conference, 104th Session, 2015.

Box 1**Terminology used in the R.204 and its adaption in the Vietnamese language**

R.204 defines the “informal economy” in the following way:

- (a) refers to all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements; and
- (b) does not cover illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law, including the illicit production and trafficking of drugs, the illicit manufacturing of and trafficking in firearms, trafficking in persons, and money laundering, as defined in the relevant international treaties.

“Economic units” in the informal economy include:

- (a) units that employ hired labour;
- (b) units that are owned by individuals working on their own account, either alone or with the help of contributing family workers; and
- (c) cooperatives and social and solidarity economy units.

The Recommendation applies to all workers and economic units – including enterprises, entrepreneurs and households – in the informal economy, in particular:

- (a) those in the informal economy who own and operate economic units, including:
 - (i) own-account workers;
 - (ii) employers; and
 - (iii) members of cooperatives and of social and solidarity economy units;
- (b) contributing family workers, irrespective of whether they work in economic units in the formal or informal economy;
- (c) employees holding informal jobs in or for formal enterprises, or in or for economic units in the informal economy, including but not limited to those in subcontracting and in supply chains, or as paid domestic workers employed by households; and
- (d) workers in unrecognized or unregulated employment relationships.

During a National Task Force meeting held in Viet Nam in December 2022, there was much discussion on how the terms are translated into and understood in Vietnamese. In particular there were concerns that “formalization” in Vietnamese carried “coercive” connotations.

This suggests that an important first step in this process is further dialogue among stakeholders on the appropriate terminology in Vietnamese in order to reach a common understanding about the nature of formalization, and how it can be applied to the context of Viet Nam.

In addition to establishing a Vietnamese term for formalization that is well suited to the national context, it is also important to have a clear understanding of the operational meaning of being “formal” for all the different types of employment and economic units; this concept should complement the statistical definition, and be understood in practice by policymakers, social partners and other stakeholders. Widespread awareness-raising on what the concept means in positive terms, and the advantages it will accrue for individuals, economic units and for the whole of society will also be essential.

For a summary of successful interregional and intraregional experiences see Annex 1. Annex 2 summarizes accumulated experiences from the ILO’s global strategy for formalization in the period 2014–18.

1.3 Ensuring sustained transitions to the formal economy

There are a number of considerations that Viet Nam will need to take into account in order to find durable solutions to address the informal economy. For instance, evidence suggests that formalization is a moving target. Informal economy actors can sometimes move in and out of informality depending on their own cost-benefit analysis of incentives and disincentives to make the shifts permanent or temporary. New forms of informality can emerge, while traditional forms may evolve, requiring new policy responses. Care must also be taken in designing tiered measures for particular categories of enterprises, so that it does not encourage them to remain small in order to retain particular fiscal incentives and other benefits.

The sustainability of interventions is also challenged where there is inadequate resourcing for roadmaps, plans and implementation; incomplete institutionalization⁴ of interventions; weak institutional coordination; inadequate monitoring over time; and weak capacity to deliver expected quality services and benefits. These factors can all lead to fragmented outcomes which can be easily dissipated.

Managing expectations on the pace of sustained change is also important. Transitioning is a complex and gradual process, and it can take time to build the necessary institutions and capacity. For example, changes in social protection systems, as well as effective changes in regulatory environments and their enforcement take time to develop. Similarly, workers and economic units will also vary in their readiness to formalize, and some will need to develop their capacities. Viet Nam will need to strike a balance between interventions fostering “quick wins” to build momentum, with longer-term strategies for deep-seated systems change. This also underscores the importance of monitoring intermediary results or outcomes.

A number of safeguards can be embedded into Viet Nam’s approach to ensure sustained transformation. Among them are:

Ensuring an integrated approach for permanent shifts. Such an approach reinforces and strengthens specific interventions in a much stronger way than single ad-hoc measures and can be tailored to the multiple drivers of informality. This calls for a mainstreaming of the issue of informality into related multi-stakeholder policy dialogue, in particular on the formulation of inclusive strategies.

Ensuring coordination and policy coherence. This integrated approach will also require coordination between agencies and actors working on formalization, as well as continuous monitoring supported by improvements in statistics on informality. Critically, it also requires adequate resourcing for interventions in addition to assigning roles and responsibilities across different stakeholders.

Establishing an explicit agenda for formalization. Considerable momentum is likely to be generated if the country has a well-defined development objective of transitioning to the formal economy, with relevant targets and indicators. This also provides an opportunity to consolidate, expand and “join-up” existing areas of work on the informal economy which may be ad-hoc and unlinked.

Nevertheless, it may also be possible that formalization can move forward through a cross-cutting presence in policies and relevant areas of work without needing a separate formalization strategy. Whichever way Viet Nam chooses to proceed on the goal of formalization, it will nonetheless need a dedicated institutional coordination mechanism.

⁴ Institutionalization refers here to the process where policy interventions become embedded within labour administration and other operational structures.

Prioritizing capacity-building. While Viet Nam continues to develop its labour market institutions, a strong element of capacity-building will be required to generate greater awareness of the processes that support an integrated, multi-policy approach to transforming the labour market. In addition to the tripartite partners, capacity-building will be required of other stakeholders, given that transitioning is an economy-wide process requiring collaboration with many government agencies and broader civil society actors.

Reducing decent work deficits. Not everyone and every enterprise in the informal economy will be in a position to formalize in a sustainable way in the very short-term. For some, the reduction in decent work deficits and vulnerabilities is the most realistic (and necessary) step along the pathway to formality. More generally, the reduction of decent work deficits is both a result of formalization and also an integral part of the process of formalization.

Designing and institutionalizing incentives that are responsive to the specific needs and constraints of informal economy workers, self-employed and economic units is essential. Appropriate disincentives to remain informal will also be required (particularly for larger economic units), but the focus on punitive sanctions for informal economy actors should be minimized for smaller economic units and survivalist segments of the informal economy, in favour of education, incentives and trust-building processes.

Awareness-raising campaigns on the benefits of being formal. Widespread experience from Latin America and Europe shows the importance of educating the whole population on the benefits of moving out of informality for individuals, enterprises and for the development of the whole of society. In the long-term, these awareness-raising efforts can change the behaviours and values associated with compliance and rights. Sustained transformation requires reconfiguring cultural values to foster social allegiance towards compliance (Williams 2021). This must be a two-way process; fostering the values for compliance can only be brought about by more public institutions becoming more responsive and transparent, as discussed in the context of the following point.

Building trust between informal economy communities and public authorities. An essential feature of an enabling environment for transition involves strengthening trust in authorities. Awareness-raising is one part of that process but equally important is the responsiveness and accountability of public institutions and their strengthened capacity to deliver services and benefits to the informal economy. Opportunities for building trust are also embedded in new technologies and e-formalization strategies (see Section 3.2), among other areas.

Strengthening national networks. Experience from other countries shows that networks and alliances have been vital for ensuring a wider impact and promoting long-term change towards formalization. These networks can not only push a formalization agenda but may also have greater capacity to reach informal economy workers and entrepreneurs, thus ensuring their needs, views and voices are taken into consideration in formalization processes.

Delivering on a transformative agenda for gender equality. Irrespective of the proportion of women and men in the informal economy, in all countries, women are typically in a more marginalized position compared with men. In Viet Nam there are more men than women in the informal economy, but women tend to be clustered in the more vulnerable segments. Policymaking needs to be gender responsive, analysing the specific constraints faced by women and men and taking appropriate measures to redress disadvantages.



Part 2

Progress and challenges in strengthening Viet Nam's enabling environment for formalization



► Progress and challenges in strengthening Viet Nam's enabling environment for formalizing the informal economy

Over the last decade, Viet Nam has been building the foundations to support transitions to the formal economy, though many challenges remain. With an explicit agenda of transformation, this progress can not only be consolidated, but accelerated. This will be discussed below in Part 3.

2.1 Structural transformation and poverty reduction

Trends in informality and poverty over the last two decades reveal considerable reductions in both. Poverty (incomes below US\$3.20 per day) has dropped significantly since the start of the millennium, decreasing from 72.4 per cent to 5.8 per cent in 2022 (ILO n.d.). Long-term trends in informality also show a reduction, but not as rapid. Between 2013 and 2019, informal employment fell by over 12 percentage points, from 79.6 per cent to 67.5 per cent of the employed population aged 15 years or over (ILO 2021b). This was mainly due to a reduction in informal sector employment, and in fact, informal employment in the formal sector increased slightly during this time frame.

With strong economic growth in previous years, the structural transition out of an agrarian economy towards industrialization and services has accelerated, resulting in a downward trend in informality. Between 2010 and 2019, agricultural employment fell from just under one half (48.4 per cent) of workers in Viet Nam to below a third (29.2 per cent). Almost all (around 95 per cent) of the expansion of employment in manufacturing between 2013 and 2019 can be attributed to an increase in formal employment (ILO 2021b).

2.2 Resilient economic growth

The impacts of the pandemic have been more muted in Viet Nam than in some other countries in the region, largely as a result of the country's prompt action and stringent measures in early 2020. Hence, while there was a sharp initial contraction in growth, the country still managed to achieve positive growth in 2020 and 2021. The country achieved growth of 8 per cent in 2022 and is forecast to achieve 5.8 per cent in 2023 (IMF 2023).

Nevertheless, evidence suggests that inequality has sharply increased (Barcucci, Cole and Gammarano 2021). Informal workers have been more exposed to the economic impact of the social distancing and lockdown, particularly within the sectors most severely affected by the crisis: SMEs serving the domestic market, accommodation and food services, wholesale and retail trade, and transportation and storage. The high concentration of women in these sectors has also meant that the effects have been disproportionately more severe for women (Barcucci, Cole and Gammarano 2021).

2.3. Data collection

Until recently, the General Statistics Office (GSO) used a definition of informal employment which differed from the ILO definition. The key difference was that agriculture, forestry and fisheries (AFF) were not included in the GSO definition. However, in 2021 the GSO adopted the recommendations

from the 19th International Conference of Labour Statisticians (ICLS), which included AFF. This has enabled the country to generate data on informal employment which is more closely aligned with international statistical norms.

Using data from 2020–21, the rich statistical pictures provided by GSO analysis illuminate the complexity, diversity and risk factors for informal employment. For example, the analysis reveals that:

- The share of workers in informal employment was 68.5 per cent (around 33.6 million informal workers);
- Informality was present in both the informal sector and the formal sector (in formal economic units and in households). There were some six million informal workers in the formal economy, among whom 47.8 per cent operated in individual business households, and 36.9 per cent in private enterprises; 15.3 per cent worked in other formal sector establishments, including the public sector;
- More than three quarters of rural employment (78 per cent) was informal. Some 42 out of 63 provinces had an informal employment rate above 70 per cent, and 26 exceeded 80 per cent;
- More than 90 per cent of employment in AFF was informal;
- There was a V-shaped correlation between age and informal employment, with very young workers and older workers facing a much higher risk of being in informal employment;
- A number of dimensions revealed gender disparities, including the fact that the proportion of female workers in low-earning informal jobs was nearly double that of men (61.2 per cent compared to 35.7 per cent);
- There was a strong correlation between having low skills and being in informal employment;
- There was a significant income gap between informal employment and formal employment, with informal workers earning half of that of formal workers, and nearly half of informal workers earning less than the regional minimum wage;
- Some 35.6 per cent of informal salaried workers worked more than 48 hours per week, which was 10.1 percentage points higher than their formal counterparts (25.5 per cent);
- Nearly 79 per cent of informal workers did not have a labour contract or had only a verbal agreement;
- The percentage of workers with a labour contract of one month or more, but without compulsory social insurance premiums paid, accounted for 20 per cent of formal sector employees because of a lack of compliance;
- Some 97.8 per cent of informal workers were not enrolled in social insurance, and only 2.1 per cent of informal workers participated in voluntary social insurance;
- Despite low incomes, there was minimal job mobility, with the job tenure of up to 41.1 per cent of informal workers ranging from between three years to less than nine years.

This data not only provides an accurate baseline to analyse transitions out of informality but will be essential for monitoring overall progress, since the GSO intends to provide data on the informal economy every quarter.

2.4. Expansion of legal protection

Important developments have taken place in legal and regulatory frameworks in recent years to expand social protection coverage to categories of workers that used to be excluded from the scope of labour and social security laws.

The 2019 Labour Code expanded legal protection to workers without labour relations and enshrines the principles of collective bargaining and organization for all workers (in accordance with its ratification of the Right to Organise and Collective Bargaining Convention, 1949 (No. 98)). It is also noteworthy that the Labour Code reflects a more pragmatic understanding of what comprises an employment contract. Article 13 makes it clear that regardless of its title, any agreement that reflects remunerated work, wages, and management, direction, or supervision by one party constitutes an employment contract. Article 14 provides that such contracts may be concluded through electronic means, including a text message. Both provisions will be of benefit to workers in the informal economy.

The Labour Code not only clarifies and prohibits sexual harassment, it also protects employees from discrimination in employment on the basis of race, skin colour, national or social origin, ethnicity, gender, age, pregnancy, marital status, religion, beliefs, political views, disability, family responsibilities, HIV infection, or participation in a trade union or internal employee organization.

Nevertheless, some ambiguities remain with regard to the informal economy and will require further clarifications.

The 2013 Law on Employment has specific provisions relating to the rights of vulnerable groups (including rural inhabitants, selected ethnic groups, youth, persons with disabilities, and those living in poverty) and to employment creation support (including public employment programmes, vocational training, and loans for micro, small and medium-sized enterprises through the National Employment Fund). The Employment Law is currently undergoing revisions which may provide further opportunities for specific policy measures to support transitions to the formal economy.

The 2015 Occupational Safety and Health Law makes specific reference to the rights of those working informally (those working without labour contracts, those working at home, apprentices, and interns) to occupational safety and health (OSH) information and safety measures, including training, and participation in voluntary OSH insurance.

Among legal measures to foster and enhance an enabling environment for enterprises include the 2020 Enterprise Law which, among other things, simplifies business registration, including through online portals; and the Law on Tax Administration which eases some regulations in the business environment.

While fine-tuning the development of implementation plans and clarifications in the legal system will continue, the most important trend with regard to legal reform is the intention to facilitate coverage in law and practice to those who used to be excluded or were at risk of exclusion. Future labour law reform, scheduled over the next four years, is also framed within this logic. This is a vital step forward for the country and transforms the challenge to one of enforcement of the law, rather than regulatory gaps.

2.5 Registration of enterprises and cooperatives

The most significant job growth in Viet Nam occurs through small and medium-sized enterprises; however, informal economic units comprise a significant proportion of these enterprises. Across the country, informal enterprises are diverse, ranging from small survivalist units often at the household level to cooperatives and large enterprises, each of which require a diverse set of policy responses to support transitions to the formal economy.

Viet Nam has a growing cooperative sector, with an estimated seven million persons working in businesses ranging from agriculture to finance establishments (ILO 2021c). The Government has a long history of supporting these types of productive organizations, and they are often a key channel for rural producers and others to gain entry into the formal economy. Cooperatives are also an important means for informal producers to have a voice and benefit from collective strength. Currently, the Cooperative Law is the Cooperative Law was revised and will come into force on 1st July 2024, which may provide more opportunities for the cooperative movement to expand into larger segments of the informal economy.

Registration of enterprises became less cumbersome through the 2020 Law on Enterprises. According to the World Bank it had the effect of quadrupling the number of enterprises registered, partly by encouraging firms to change their informal household enterprise status to registered enterprise status. Nevertheless, registration still remains a challenging and somewhat costly process. Moreover, registration of enterprises is only one aspect of the formalization of economic units, though it is one that governments often focus on. Without adequate incentives and measures in place to make being formal more attractive and less costly, these shifts are unlikely to be sustainable.

Appropriately designed incentives, capacity-building, deterrence measures, and tailored processes for social protection and taxation, as well as awareness-raising on the advantages of being formal, will be needed to ensure compliance among enterprises can be maintained and increased.

There are several highly effective incentives for registration, including access to justice and enforcement of contracts; expanded market opportunities; access to finance, technology, skills, land, business development services, networks, and other productive resources; and access to public procurement opportunities.

Smaller firms in Viet Nam, particularly at the household level, lack the necessary levels of productivity, income, and capacity to comply with formal regulations including taxation, social security, working conditions and OSH responsibilities. However, this group is likely to benefit from an enhanced enabling environment for private sector growth and increased productivity. In the longer term as these enterprises grow and increase their capacity to cover the costs associated with registration, they can be encouraged to formalize.

Evidence is already accumulating on the types of incentives that may encourage firms in Viet Nam to progress towards formalization. For example, while firms in Viet Nam can access support through investment incentives, tax exemptions or reductions, and soft loans from the Vietnam Development Bank or Vietnam Bank for Social Policies, only formalized firms can apply for investment incentives, tax exemptions or reductions. In contrast, informal firms are only able to access a small number of soft loans from these two same banks via their focus on poverty alleviation rather than for business development (Mehrotra 2021).

Another study investigated how social security provision – a key determinant of formality – impacts small and medium-sized firm performance in Viet Nam (Torm 2019). Based on enterprise census data covering firms registered from 2006 to 2011, the author found that those firms that increased social security coverage by 10 per cent experienced a revenue gain of 1.4–2.0 per cent per worker and a profit gain of up to 1.8 per cent, depending on the survival time of the firm.

These studies contribute to a more comprehensive understanding of the needs of enterprises and can be developed into concrete incentives to encourage their shift to the formal economy.

2.6 Drivers of informality in Viet Nam

While the country has been making considerable progress in establishing an enabling environment to support transitions to the formal economy, as described above, many challenges remain. The following provides a snapshot of some, though not all, of the drivers of informality in the country. These will be taken into account when considering the key policy areas that will need to be addressed in the TOC. Many of the drivers are interconnected, which further highlights the need for integrated policy approaches.

Lack of representation and voice. Informal economy workers and entrepreneurs are rarely organized and are thus unable to participate in social dialogue and decisions that affect them directly.

Skill levels. Many workers face challenges in moving towards formal employment due in part to a lack of technical expertise and a lack of softer skills related to employability. They also lack formal recognition of the skills they already have. For enterprises, weak skills often limit their productivity and incomes, and hence their capacity to join the formal sector.

Analysis by the World Bank reveals that 85 per cent of the labour force in Viet Nam, among which include many older workers, have only received a secondary school education or lower, placing them at high risk of being in informal employment. While the country scores highly in terms of basic education attainment, access to vocational, technical and university education is more limited. Relevance of skills continues to be an overriding factor (Cunningham and Pimhidzai 2018).

According to analysis in the Decent Work Country Programme (DWCP), expanding access to skills is one of the most important steps for the country to move forward, given that almost 40 per cent of workers in Viet Nam are undereducated for the jobs that they do. If this trend continues, the overall share of the labour force above 15 years of age with a tertiary education degree will only increase marginally by 2050 and the country will face potential skills shortages as it attempts to expand industrialization (ILO 2023).

While policy interventions are in place to support access to skills for some very vulnerable groups such as ethnic minorities, for the majority of those in the informal economy, gaining technical skills involves serious opportunity costs in terms of loss of current income and the increased financial burden on poor households.

Low-income levels. Poverty, which is linked to social and economic exclusion, is both a fundamental driver of informality and a consequence of informality. While not everyone in the informal economy is poor, there is a frequent overlap between informality and poverty. Although Viet Nam has made great strides in poverty reduction in recent decades, deep pockets of poverty remain. The vast majority (79 per cent) of Viet Nam's remaining poor are made up of ethnic minorities (World Bank 2022a).

Exclusion and disadvantage. Large concentrations of vulnerable groups are found in the informal economy as a result of marginalization in the labour market. Markers of disadvantage include gender, rural location, ethnicity, age, and disability, among other factors. While Viet Nam has put in place specific provisions through some policies to support vulnerable groups such as ethnic minorities, overcoming entrenched disadvantages remains a persistent challenge.

Gender discrimination is a key factor in concentrating women into informal work. Although in Viet Nam there are more men in the informal economy than women, women tend to be concentrated in more vulnerable segments, with less access to assets, skills, information, and resources which could improve their incomes, productivity, and formal work opportunities. As a result, the incomes of female workers in informal employment are often significantly lower than that of their male counterparts. This, in turn, is compounded by social norms which place a heavier burden on females than males for unpaid care responsibilities in the home, further constraining their opportunities to access formal jobs (Barcucci, Cole and Gammarano 2021).

Age also plays a role in informal employment in Viet Nam. As noted above, GSO data from 2021 shows that the risk of informality is higher for those in the younger and oldest age groups (GSO 2022).

Lack of knowledge and awareness. Limited awareness of rights, opportunities and benefits among informal workers and entrepreneurs in Viet Nam is another factor driving labour market marginalization. For example, a lack of information about the national pension scheme explains, in part, the shortfall in contributions to this scheme, especially in the informal sector where it remains largely unknown (Pasquier-Doumer et al. 2017).

Limited coverage by social protection. Despite the extraordinary success in establishing near universal social health insurance in Viet Nam, other branches of social security lag behind, with particularly weak coverage in the informal economy. While the country has committed to expanding coverage of social protection and is in the process of reforming the Master Plan on Social Insurance Reform (MPSIR) and the Master Plan on Social Assistance Reform and Development (MPSARD), many challenges remain. Among these include the following: differing legal frameworks and institutional arrangements of various branches of social security, and weak coordination between them; benefits which are not sufficiently attractive to incentivize joining social insurance; rigid eligibility criteria; and limited policy coherence between social protection and employment and other relevant policies (Gama and Nguyen 2022).

In 2019, some 97.9 per cent of those in informal employment in Viet Nam did not have access to social insurance benefits (ILO 2021a). Informal workers comprise the majority of workers in “the missing-middle” – workers whose income levels or contractual arrangements are not enough for them to be covered by the compulsory social insurance system, but whose incomes are too high to be covered by social assistance programmes (Gama and Nguyen 2022).

Barriers to formalize economic units. An array of barriers discourages enterprises, household business and cooperatives from joining the formal economy. These include low productivity arising from limited access to resources, unofficial fees, lack of information about the advantages of becoming formal, lack of incentives to become formal, and complex and costly administrative processes for registering. While progress has been made under the Enterprise Law 2020 to simplify costs and procedures related to registering, more needs to be done to make the process easier and faster, as well as to establish an array of incentives to encourage businesses and household enterprises to make the shift.

Weak enforcement and regulation. The labour inspection and supervision system have limited capacity and cannot cover the whole of the labour market. Among small and medium-sized enterprises, compliance with the labour law, including on occupational safety and health, and on enrolment in social insurance for workers, remains low. With the reduction of gaps in the legislative framework, the need to strengthen enforcement has become more urgent.

Weak public administration at provincial levels. While urban centers and some regions have stronger capacity, many provincial areas have weak public administration, which also hinders their ability to deliver benefits and services. This contributes to high levels of informality in remote and rural areas.

Economic crises, health shocks and natural disasters. Despite extraordinary progress in reducing poverty in recent decades, a large number of people in Viet Nam still hover near the poverty line. Any type of shock such as the recent pandemic, natural disasters or economic crises can push many households without protection into poverty and informal employment.

The devastation wrought by the pandemic illustrates this with sobering effect. GSO reported that by the end of 2020, almost one million workers in Viet Nam had been driven out of the labour force. Furthermore, the GSO estimates that by December 2020, some 32.1 million people aged 15 years or older had been negatively affected, including the unemployed and those working staggered hours. The most severely affected sector was the services sector with 71.6 per cent of workers affected, followed by industry and construction at 64.7 per cent, and AFF at 26.4 per cent (GSO 2020).

Technology. Advances in technologies can both drive informalization and offer potential solutions for informal employment. The potential for large-scale job displacement from automation and information and communications technologies (ICTs) is widely documented, with many female-dominated jobs in manufacturing at risk in the future. Without appropriate policy interventions for re-skilling and re-deployment, the destruction of formal sector jobs could result in more workers being pushed into the informal economy.

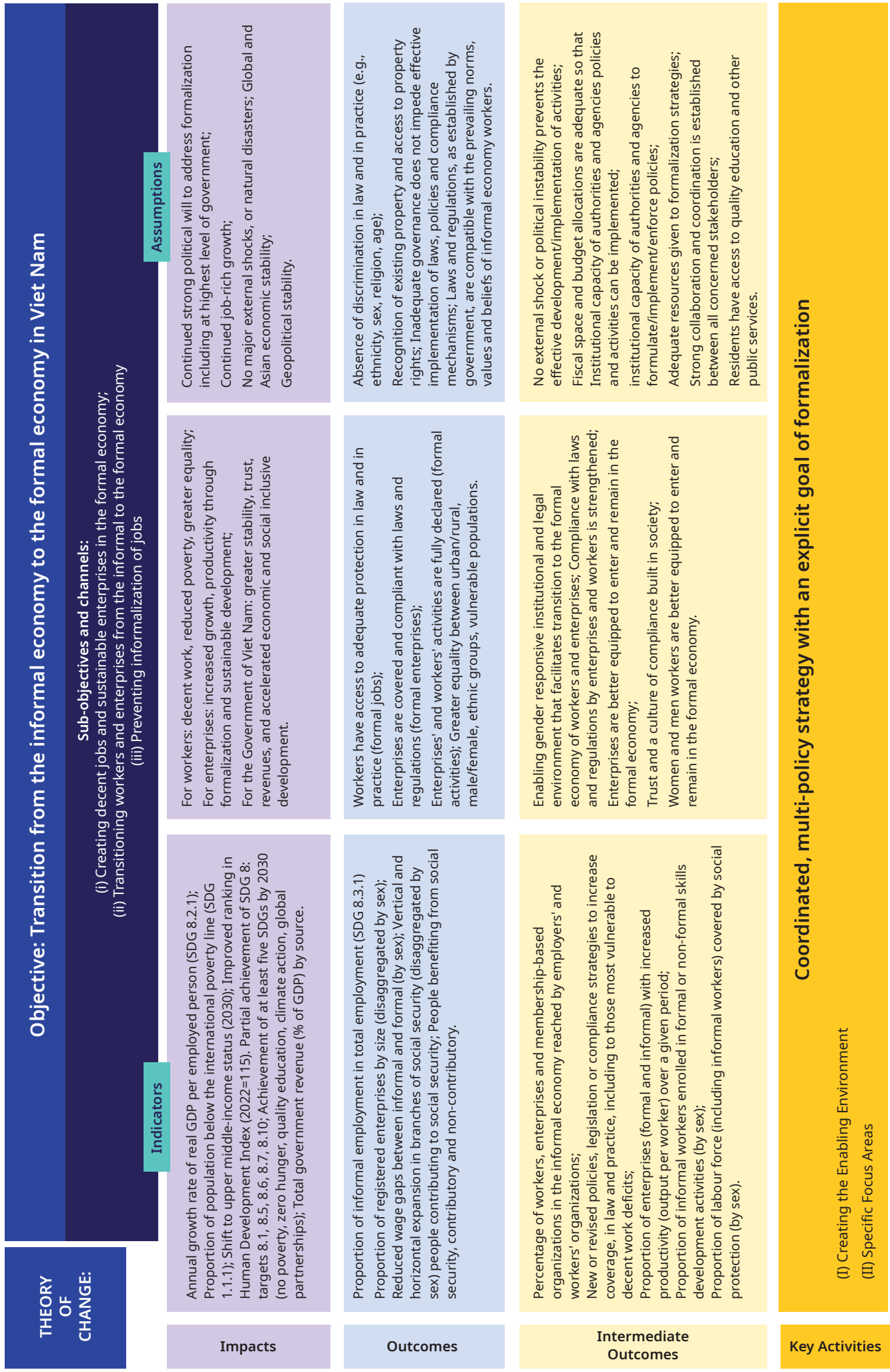
Similarly, rapid technological advances may outpace the ability of regulatory frameworks to respond effectively. Discussions around the growth of digital platforms and the platform economy for example, have highlighted the emergence of new forms of informality, arising from ambiguity around employment relationships.



Part 3

**A Theory of Change
supporting transitions from
the informal to the formal
economy in Viet Nam**

Figure 1 Theory of Change supporting transitions from the informal to the formal economy in Viet Nam



NB: Key Activities in this diagram are discussed in 3.2 below.

Key Activities (TOC):

Coordinated multi-policy strategy with an explicit goal of formalization

(i) Enabling Environment

Legal reform	Universal social protection	Social partners	Labour administration	Business environment	E - formalization	Skills and Active labour market policies	Public awareness - raising
Programme of labour related laws revised up to 2026 Identify, address sources of exclusion from the scope of legal coverage (from labour, social or fiscal laws); and/or the reasons that can prevent the effective implementation of those laws.	Expanding coverage through multi-tier, compulsory universal systems. Building of special regimes Linking with other policies.	Building capacity to be key implementors and drivers of formalization strategies Expansion of associations of IE actors, and out-reach of dialogue mechanisms.	Strengthen institutions to support compliance (both formal and informal units), including labour inspection, OSH, minimum wage systems Supporting capacity building and education of IE actors, units.	Increasing productivity by opening access to resources (finance, tech, markets, skills). Simplification and reduction in costs for all types of registration. Incentives to shift and remain formal Tailored policy approaches to different sized enterprises.	Accelerating formalization through digitalization Building trust and transparency Overcoming the digital divide in access and digital literacy.	Facilitating access. Forecasting future skills needs. Public employment services and job search counselling Public employment schemes.	Benefits of formalization. Rights and responsibilities Building a culture of compliance, and changing values Collecting and disseminating data and evidence.

Coordination mechanisms between Ministries, social partners and stakeholders to drive forward a formalization agenda. (Including continuous monitoring through data collection).

Key Activities (TOC): Coordinated multi-policy strategy with an explicit goal of Formalization				
(ii) Specific Focus Areas				
Household based businesses	Rural economy	Sectoral approaches and value chain analysis	Platform economy	Specific groups
Productivity support Information and education Incentives Simplification and reduction in costs of registration Tailored tax measures.	Local development strategies Building the capacity of local authorities Improving productivity Skills access Public employment programmes Public employment services.	Policy-oriented research to identify sectors and entry points for formalization (construction sector; tourism, hospitality, retail sectors; domestic work) Promotion of moving up value chains (wood processing value chain).	Collecting data. Clarifying the employment relationship Right to collective bargaining, wage protection, OSH, dispute resolution etc.	Young workers Older workers Street vendors Domestic workers Internal migrants Persons with disabilities Ethnic minorities Women.
Policies need to be gender responsive and supportive of climate-change mitigation				

3.1 Alignment with national development frameworks

The facilitation of transitions to the formal economy is embedded within the country's ambitious vision to become a developed country by 2045. This TOC is harmonized with major development frameworks including:

► **The National Master Plan for 2021–30, with a vision towards 2050**

The plan sets out Viet Nam's vision to become a developed country with upper income status, and an equal, democratic society with harmonious, modern infrastructure and a low-carbon economy.

► **Socio-Economic Development Plan 2021–25**

This document sets out the country's targets for progressing beyond its current status as a lower middle-income country, including promoting sustainable economic growth, developing science, technology, innovation, strengthening social security, and improving productivity and competitiveness of the economy.

► **One Strategic Framework for Sustainable Development 2022–26**

Signed in August 2022, this document details the priority areas of cooperation between the Government of Viet Nam and the United Nations. The four development outcomes of the framework will be a major boost to the enabling environment to support formalization of the labour market. These are:

- (i) Inclusive social development, covering gender-responsive, disability-sensitive, equitable, affordable, and quality social services and social protection.
- (ii) Climate change response, disaster resilience and environmental sustainability.
- (iii) Shared prosperity through economic transformation, promoting sustainable, inclusive and gender-responsive economic transformation based on innovation, entrepreneurship, enhanced productivity, competitiveness, and decent work.
- (iv) Governance and access to justice, improved governance, more responsive institutions, strengthened rule of law, protection and respect for human rights, and freedom from all forms of violence and discrimination in line with international standards.

► **Decent Work Country Programme (DWCP) 2022–26**

The planning document outlines the areas of cooperation between the Government of Viet Nam and the ILO and sets out three priorities, which are aligned to three out of the four priorities mentioned above in the United Nations Sustainable Development Cooperation Framework (UNSDCF). Through the DWCP, the ILO will support Viet Nam's efforts to achieve ten outcomes which have been set by the UNSDCF. The three DWCP priority areas are:

- (i) By 2026, people in Viet Nam, especially those at risk of being left behind, will contribute, and benefit equitably from sustainable, inclusive, and gender-responsive economic transformation based on innovation, entrepreneurship, enhanced productivity, competitiveness, and decent work.

- (ii) By 2026, people in Viet Nam, especially the poor and those at risk of being left behind, will benefit from inclusive, gender responsive, disability sensitive, equitable, affordable, and quality social services and social protection systems, will have moved further out of poverty in all its dimensions, and will be empowered to reach their full potential.
- (iii) By 2026, people in Viet Nam, especially those at risk of being left behind, will benefit from, and contribute to a more just, safe and inclusive society based on improved governance, more responsive institutions, strengthened rule of law and the protection of and respect for human rights, gender equality and freedom from all forms of violence and discrimination, in line with Viet Nam's international commitments.

Ten country outcomes describe the results sought within these priorities: Three under Priority 1 (employment), three under Priority 2 (protection), and four under Priority 3 (governance) (ILO 2023).

► Social protection frameworks

These include Party Resolution 28 and Party Resolution 15 which both have a strong focus on expanding social protection, which is closely linked to increasing formalization.

► Regional frameworks

In terms of regional frameworks, the Conclusions of the 2022 ILO Asia-Pacific Regional Meeting (Singapore Statement) are closely aligned with the drive to reduce informality in the region. Paragraphs 11, 14, and 18a make explicit reference to this goal. Similarly, this TOC is harmonized with the 2016 Vientiane Declaration on Transition from Informal Employment to Formal Employment towards Decent Work Promotion in ASEAN.⁵

The TOC is also linked to the ILO's advocacy for a Just Transition to Environmentally Sustainable Economies and Societies for All (for example, see ILO 2015).

⁵ ASEAN refers to the Association of Southeast Asian Nations.

3.2. A multi-policy pathway for transformation

(Narrative for the key activities in the TOC diagram)

Discussions with stakeholders in Viet Nam (held individually as well as within the framework of a national tripartite meeting held in December 2022), suggest that the key policy areas in the TOC can be framed within two main areas:

- (i) **Measures to support the enabling environment.** These involve interventions to institutionalize and support long-term systems change in the labour market. While in many cases achievement of outcomes may be long-term, the building blocks are already in place but will need to be strengthened, reformed, and recalibrated to meet the goal of formalization.
- (ii) **Specific focus areas.** These are areas that were raised by stakeholders in various meetings and may lend themselves to relatively faster policy development. A focus on specific groups/segments/sectors enables a tailored approach that is responsive to the diversity within the informal economy. However, a process of further prioritization by stakeholders may be necessary to sharpen the focus, particularly at the early stage of policy development for formalization.

3.2.1 Creating the enabling environment to support transitions

(i) Reform of legal frameworks to address gaps in legislation covering informal workers

The country has been undergoing significant legal reform which contributes both directly and indirectly to supporting transitions to the formal economy. This will be a critical juncture to address the sources of informality in legislation, in particular categories of workers not covered or insufficiently covered, either explicitly or because of their type of contract, employment status, sector, minimum thresholds, and other areas linked to being informal. During the period leading up to 2026, three more labour-related laws are scheduled to be revised, including the Employment Law and Social Insurance Law. This will provide further opportunity to reduce regulatory gaps in labour protection. Ultimately the legal framework should aim to cover all workers and economic units and include provisions to facilitate the inclusion of groups that are at risk of exclusions.

(ii) Social protection

Viet Nam has made considerable progress in establishing the architecture of social protection in a relatively short period of time. The almost universal social health insurance, with structures that include both contributory and non-contributory tiers within a universal system, represents an ideal model for the country to effectively expand social protection to the whole population.

International good practices show that the most effective mechanisms of enabling coverage of the informal economy include (Gama and Nguyen 2022):

- Special regimes within universal schemes, and the overall development of a multi-tier approach (both contributory and non-contributory tiers);
- The alignment and coordination of different branches of social protection.
- Their coherence with other policies such as employment policies.

In contrast, separate schemes for informal workers outside of the main instruments only serve to further marginalize informal economy populations. Importantly, they are often unaffordable for their beneficiaries without subsidization, and thus represent an inefficient use of resources (Gama and Nguyen 2022).

The ILO and other UN agencies have been providing technical support to the country to facilitate the development and expansion of universal social protection. Policy research has shown that compulsory, multi-tier social insurance based on contributory and non-contributory sources is the only path to achieving targets set in Party Resolution 28 and ensuring effective coverage to the informal economy (UN n.d.).

Key recommendations include the following:

- expand and increase short term benefits to make the schemes more attractive;
- develop subsidization mechanisms for populations unable to contribute while making the schemes compulsory;
- establish favorable conditions for enterprises in Viet Nam to join the formal economy and to formalize the workers they employ;
- relax eligibility criteria to join;
- ensure policymaking is gender-responsive;
- ensure policies are developed through dialogue with representatives of informal and other vulnerable parts of the population to ensure schemes are relevant to their needs and constraints;
- coordinate different branches of social security;
- align with other policies such as employment policies to support formalization;
- disseminate the evidence base that demonstrates how social protection reduces poverty and supports productivity and formal employment; and
- increase investment in social protection as a proportion of gross domestic product (GDP).

To enable their maximum impact on transitioning to the formal economy, social protection measures need to be aligned with other policy measures such those relevant to enterprise formalization, wage policies, education/training and health policies, macroeconomic policies and measures to strengthen productivity, among others (Gama and Nguyen 2022).

(iii) Organization and capacity-building of social partners and syndicates

Recommendation No. 204 emphasizes the role of employers' and workers' organizations in developing and implementing policies to support transitions to the formal economy, including those in the informal economy. Viet Nam is at the beginning stages of organizing within the informal economy. This has been given a boost through the 2019 Labour Code revision which allows for self-organization. Strengthening the capacity of employers' and workers' organizations and social dialogue mechanisms will be a vital part of enabling those in the informal economy to have their voices heard, and to participate in policy formulation that affects them directly.

In several southern provinces, many informal workers, such as motorbike taxi drivers, fishery workers and porters, have established their own syndicates. These syndicates are a part indicated in the Charter of Trade Unions, but they are usually strongly associated with official trade unions, creating an effective communication line between informal workers and authorities, and enabling trade unions to provide an array of services to these associations.

(iv) Strengthening labour administration

Ensuring compliance with regulations is a key aspect of transitions to the formal economy. Labour inspectorates are tasked with this role but are hindered in reaching the informal economy in a number of ways. Barriers often include legal exclusions, threshold barriers and the limited scope of labour law, as well as weak capacity to reach remote and dispersed workplaces.

Making labour inspectorates a key part of the transformation process for the informal economy involves directing and tailoring their existing strategies of information dissemination, awareness-raising, capacity-building, collaboration, and deterrence measures towards the informal economy, as proposed in Recommendation No. 204.

Their roles in transitioning to the formal economy can be enhanced by:

- strengthening legal frameworks for inspectorates to intervene in the informal economy (including in private households in the case of domestic workers);
- enhancing human, technological, and financial resources of inspectorates;
- emphasizing capacity-building for non-compliant economic units rather than punitive measures and fines;
- harnessing new technologies to reach “hard-to-reach” workplaces;
- developing partnerships with other stakeholders including social partners;
- building trust with informal economy communities including establishing oversight measures to prevent corruption and poor governance within inspectorates;
- developing specific capacities, training and institutional features to reach the informal economy; and
- designing appropriate capacity-building tools and awareness-raising campaigns for informal units in areas such as OSH, minimum wages, labour relations, social security, fundamental principles and rights at work, and the benefits of being in the formal economy.

Viet Nam has ratified the ILO Labour Inspection Convention, 1947 (No. 81), a key governance convention, which provides guidance on the role of labour inspectorates in providing technical advice to employers and workers on effective ways of complying with labour laws. This advisory role will be critical in building capacity in the informal economy.

In Viet Nam there are 63 Department of Labour, Invalids and Social Affairs (DOLISA) offices at the provincial level. These DOLISA offices further support and monitor 697 district divisions. Their work is covered under legislation by the Labour Code and the Law on Inspection. Their responsibilities include overseeing implementation with regard to general working conditions and OSH legislation, as well as

payments of social security dues and investigating occupational accidents. Inspectors are also responsible for ensuring compliance with the law with regard to the establishment of trade unions in enterprises, the negotiation and application of collective bargaining agreements, and the settlement of labour disputes.

Under their responsibilities, labour inspectors not only ensure enforcement of law, but also provide information and technical advice to employers and workers and bring to the attention of the competent authorities any abuses that are not specifically covered by the existing legal provisions. In some cases, they have other responsibilities including investigating complaints and adjudicating disputes between workers and employers. In order to meet the immense challenge of ensuring compliance for those in the informal economy, labour inspectorates in Viet Nam will undoubtedly need capacity-building, the development of digital tools and apps, as well as learning from international experience in reaching marginalized segments of the labour market.

(v) Enhancing the business environment

All enterprises, whatever their size, will benefit from an enhanced private sector development environment, including further simplification and reduction in costs for registering enterprises.⁶ This can include the coordination and integration of the registration process, for instance integrating enterprise, social security, and tax registrations into a single process, as well as reducing the complexity of the process by reducing the volume of information that needs to be provided. This can be achieved by drawing information from existing databases or reducing requirements to only essential information and documents. Reducing financial costs of registration (for example, decreasing fees) is also an important avenue through which to encourage lower income enterprises to formalize. Furthermore, online registration can prevent informal costs that may occur during the registration process.

The costs, both financial and operational, to remain formal must also be considered. Simplified processes to file taxes, register employees into social security and deposit contributions, as well as to comply with labour standards, need to be explored, particularly for micro, small and medium-sized enterprises (MSMEs) that often have limited resources, time, and skills needed to comply with all the requirements of formality. Tailored social security and taxation measures, depending on the size of the enterprise, can simplify the process of compliance, and in some cases reduce the effective costs of these obligations.⁷

Of critical importance is developing relevant incentives to encourage shifts to the formal economy. Access to enterprise development services can support economic units to improve their productivity and their capacity to comply with legal obligations, while providing tangible benefits to formalized firms. Similarly, incentives to enhance productivity can include facilitated access to assets, technology, and skilled human resources, for instance through links to market systems, business incubators, and links to technical and vocational training institutions. Effective access to credit, which can be accessed without unreasonable obstacles and have affordable interest rates, can also serve as a powerful incentive to register, as many businesses in Viet Nam still rely on informal borrowing from friends and family (ILO unpublished). The strategic use of public procurement to foster the growth of MSMEs at the local level can also establish concrete incentives for formalization.

⁶ The ILO has developed a large range of tools to support enterprise development including Start and Improve Your Business (SIYB), Know About Business (KAB), and GET Ahead which can be found on the ILO website.

⁷ Many of the international experiences with this come from Latin American countries which have developed various types of mono taxation schemes.

These incentives should be effective and widely disseminated. Therefore, awareness-raising and education for economic units are required to ensure that economic units in Viet Nam not only understand the benefits and the processes of formalization, but also the consequences and losses from remaining informal. Appropriate deterrents for large enterprises to remain informal will also need to be developed.

(vi) Promoting e-formalization

E-formalization has emerged as a potential way to accelerate transitions to the formal economy. Through the use of digital innovations, countries can potentially leapfrog traditional formalization barriers and foster inclusion (Chacaltana, Leung and Lee, 2018). E-formalization projects within existing e-governance strategies can help to build trust between informal economy communities and public authorities, since digitalization can make the core functions of governments more efficient, transparent, inclusive, and accountable to their citizens. This can also facilitate the out-reach of public services and resources to excluded communities.

Various ICT projects under e-governance can be developed and harnessed to support formalization. Among them include projects that seek to:

- improve working conditions such as occupational safety and health through apps and databases;
- harvest data to support labour administration, including labour inspection and minimum wage systems;
- enable access to grievance and justice mechanisms;
- enable access to banking services and business development services and support;
- disseminate simplified information and encourage democratic participation;
- provide a new interface for skills development;
- enable cashless transactions;
- facilitate social protection access, integrate databases, and streamline administration;
- ensure transparency in taxation and public procurement and provide incentives for informal firms to access lucrative public contracts; and
- simplify business and employment registration through single windows linked with taxation, social protection processes and other compliance dimensions.

In 2020, Viet Nam ranked 86 out of 193 nations in the UN E-government Development Index (EGDI). It jumped two rankings but still remains behind the majority of ASEAN Member States in the index. Nevertheless, the Government has made strong commitments to rapidly progress in e-governance. In 2019 it approved Resolution No.52-NQ/TW, the first comprehensive resolution outlining policies and targets for Industry 4.0 development. Two months later, the National Public Service Portal, an electronic platform for online public services was launched. In 2020, the National Digital Transformation Programme by 2025 was approved, aimed at creating a digital government, digital economy, and digital society. The Programme builds on previous work including establishing national databases, enabling online access to public services, and increasing access to 4G and 5G networks. Revenues from the information technology sector have been impressive, reaching US\$112.5 billion in 2019, double that of the figure from 2015.⁸

⁸ J. Nguyen, "Vietnam's E-government Ranking Only Tells Partial Story of Digital Transformation", Vietnam Briefing, 24 August 2020.

In every policy area related to transitioning to the formal economy there are opportunities for digitalization which can make processes more open and responsive, as well as accelerate processes of transitioning to the formal economy. However, a crucial element of this requires overcoming the digital divide for those in the informal economy, in terms of access as well as in terms of gaining digital skills.

(vii) Skills development and active labour market policies

The Government's Socio-economic Development Strategy 2021–30 recognizes that its workforce will need to attain a higher level of skills, and more relevant skills, if Viet Nam is to transform itself into an upper middle-income country. Already, shifts are taking place in the economy, driven by scientific, technological, and digital innovations and knowledge. However, the dearth of high-level skills remains a real challenge to meet these advances.

While Viet Nam's youth score exceptionally well in global secondary standards, most of the country's labour force has not completed secondary school and has a low average skills base, which in turn traps many in informal work. Limited skill levels will not only hinder integration with the formal economy, but also act as a barrier to the emergence of good jobs in a high value-added and knowledge-based economy.

Discussions with MOLISA revealed that important policy innovations are taking place which are vital for enabling those in the informal economy to access skills, and engage with career guidance and job search support, particularly for youth in rural areas. Similarly, examples of recognition of prior learning, vital for enabling informal economy actors to gain entry into formal jobs, are also emerging through certification in some vocational training institutes. Another important development observed in the process of developing this TOC includes examples of linkages between skills training institutions and the local business community to ensure skills obtained are demand driven.

The challenge that remains is to scale up these measures to reach a much larger proportion of those in the informal economy.

Developing a comprehensive long-term human capital development strategy can enable the country to address its skills deficits and facilitate shifts to the formal economy, increase productivity, as well as create the conditions for the economy to move to a high value-added and knowledge-based economy.

Key components of the strategy will need to address issues of access, quality, and relevance of skills, including through closer engagement with employers/industries, and ensuring opportunities for lifelong learning aligned with the rapidly evolving economy. Broadening the range of skills taught will also be critical for those in the informal economy to gain access to formal jobs, including training in socio-behavioural skills and digital literacy.

On the supply side, the country may need to increase its proportion of GDP allocated to higher and vocational training to ensure sufficient funding (in 2019, Viet Nam allocated 0.6 per cent of GDP to higher and vocational training), as well to overcome fragmentation in the governance structure of skills training (World Bank 2022b). An institutional role for the private sector to assist with meeting current labour market demand and long-term forecasting, will also be critical.

(viii) Awareness-raising campaign on the benefits of formalization

Various surveys in the country have shown a severe information deficit among those in the informal economy in relation to their rights, benefits, and responsibilities. Linked to this is the perception that becoming part of the formal economy brings few benefits. Investing in a widespread information campaign will be critical for the country to not only overcome information gaps but also to change perceptions and behaviours related to becoming formal. Experience from other countries that have successfully undergone formalization processes have demonstrated the importance of building trust through long-term awareness-raising campaigns. These awareness-raising efforts will invariably need to be associated with the delivery of quality services and benefits on the part of public authorities, as well as greater transparency and accountability.

3.2.2. Specific focus areas

(i) Household businesses

A large segment of enterprises in the country are household-based businesses, which often have low productivity, are informal, and are often rural. Discussions with the Ministry of Planning and Investment revealed that household firms in particular will need various kinds of support to register as enterprises, as required under new regulations. Identifying and implementing these supports will be critical to the success of the registration of household businesses.

While household enterprise owners largely prefer to continue running their small firms, they would like to access wider markets to increase earnings and decrease income risk, which suggests the types of incentives which can be tailored to their needs. More research needs to be undertaken with household businesses to identify their needs and constraints to inform policy development.

(ii) Transforming the rural economy

Viet Nam has undergone a considerable structural transformation away from agriculture which has reaped some dividends in terms of reduced informality. Nevertheless, the rural economy is still sizeable in the country, and it is for the most part, firmly embedded in the informal economy. Rural workers in Viet Nam have limited access to labour and social protection in both legal and effective terms. They have low incomes and productivity, which are linked to limited skills training opportunities, lack of technological adoption, inadequate infrastructure and weak outreach of public services and labour administration.

Transforming rural areas will be a major part of Viet Nam's efforts to forge a strong, resilient formal economy, though this is made more complex by the numerous government agencies and ministries responsible for rural development, as well as the limited capacity of provincial and local authorities.

The ILO has a vast toolkit to support rural development which will be invaluable for the country's efforts to transition to the formal economy, including more than 30 international labour standards that are of direct relevance to agriculture and rural development, covering rights at work, employment, social protection, and social dialogue.

Strategies that Viet Nam could explore in more depth to support rural employment include local development strategies and value chain work focusing on rural subsectors, such as tourism, small-scale agriculture, fishery, and non-farm processing sectors. Value chain analysis can identify opportunities to improve value capture at different parts of the chain, especially for producers and small economic units, which are often informal.

A number of Asian countries have developed rural employment guarantee schemes which, if designed and implemented appropriately, can be an important means of stepping into formal employment for the first time for many rural households. They can provide access to skills, decent wages and working conditions, which can take root in underdeveloped areas. Although a few national policy documents in Viet Nam have mentioned these types of schemes, it has not been extensively investigated to date, and the country may wish to further explore the potential of such schemes under the auspices of South-South cooperation.

(iii) Policy-oriented sectoral studies and value chain analysis

Taking a segmented approach to formalization lends itself to recognizing the diversity of needs and constraints of specific categories of workers or sectors. It enables policymakers to design appropriate measures for skills development, access to social protection, legal protection, organization, and other policy areas within an integrated approach for a category of worker or sector.

Various discussions with stakeholders in Viet Nam undertaken for this report highlighted a number of potential sectors and value chains which could be analysed with the objective of tailoring specific supports for formalization. The identification of sectors which are likely to reap the most dividends from investment may be very fruitful. These sectors can enable rural jobs to become more diverse and absorb surplus rural labour as the structural transition away from agriculture continues.

Stakeholders identified areas for research including the construction sector, the wood processing sector, the tourism sector, and domestic work. Some groups of workers were also highlighted, including street vendors, disabled workers, and older workers. A further process of sectoral prioritization may also be required to sharpen the focus of the TOC. The emphasis should be on research to inform sectoral policies that foster formal job creation and transition.

A sectoral approach to formalization is one approach that Viet Nam may wish to pursue, but it is not the only one. In their decision-making for the overall strategy, tripartite constituents may wish to prioritize one approach in order to avoid fragmentation and confusion over different strategies.

(iv) Addressing the platform economy

While the platform economy is closely related to sectoral studies noted in the previous section, it is a phenomenon that is growing in visibility and size in Viet Nam and is therefore being treated separately here. The issue was discussed in detail at the tripartite National Task Force meeting to develop this TOC, though no consensus was reached on the appropriate approach.

Internationally, the proliferation of digital labour platforms is gaining policy attention as a new form of work arrangement. While such platforms generate millions of jobs, they challenge traditional

regulatory frameworks, sometimes leading to significant decent work gaps. Misclassification of dependent workers as self-employed or independent contractors can lead to lack of legal coverage for labour and social protection, and more precarious working conditions, thus placing them in informal work.

The ILO has been calling for greater protection and oversight over platform work and enabling it to be anchored in the formal economy. Among the areas for better and more effective regulation, the ILO has called for (ILO 2021d):

- ensuring fair competition and creating an enabling environment for sustainable enterprise;
- requiring and promoting clear, transparent terms of engagement and contractual engagement for workers and business, including as reflected in labour and consumer laws;
- ensuring that workers' employment status is correctly classified and is in accordance with national classification systems;
- ensuring transparency in ratings of workers and businesses using digital platforms, as well as accountability of algorithms for workers and businesses;
- protecting workers' personal and work data, as well as data relating to businesses and their activities on platforms;
- working to ensure self-employed platform workers enjoy the right to bargain collectively, for example through greater harmonization of competition law with labour law;
- reaffirming anti-discrimination and OSH laws apply to digital platform workers;
- ensuring adequate social security benefits;
- ensuring the right to fair termination processes for platform workers;
- ensuring access to independent dispute resolution mechanisms;
- providing wage protection, fair payments and working time standards;
- allowing platform workers to move freely between platforms, including by facilitating portability of workers' data; and
- moving towards fair taxation of the digital economy.

In addition, the traceability of digital platforms could be used to support formalization. This will require strengthening the cooperation and exchange of information between platforms and relevant authorities and the development of frameworks for sharing information, simplification, and incentive mechanisms, as well as measures to address the lack of awareness or willingness to comply, among other measures.

► Conclusion

Overall, Viet Nam continues to build momentum towards shifting large segments of the labour force towards the formal economy. Political will combined with appropriate institutional developments and legal frameworks, as well as efforts to expand social protection are reaping new opportunities for durable transitions to the formal economy. The country will also be able to take advantage of its robust economic growth (especially in sectors that create formal jobs), to ensure the benefits are distributed fairly and in an inclusive manner. Much work still needs to be done to consolidate and drive forward a formalization agenda. Most importantly, a harmonized, multi-policy strategy is required to ensure sustainable shifts to the formal economy.

A process of consultation and dialogue was undertaken to develop this TOC, and it is likely that further dialogue is needed to fine-tune and prioritize areas for action. Stakeholders in Viet Nam may wish to consider a phased approach, aligning with commitments already made within the framework of the DWCP, Sustainable Development Goals (SDG) commitments, United Nations Joint Programming and various national development policy goals, but with a sharpened focus on promoting an explicit agenda of formalization.

It is also of critical importance to establish an institutional coordination framework across ministries, agencies, social partners and other stakeholders to drive the agenda. Assigning roles and responsibilities, allocating appropriate resources, and continuous monitoring of results will be key to ensuring policy coherence and concrete results.

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Annex



► Annex 1: Learning from sustainable formalization processes in other parts of the world

Over the years the ILO has built a rich repository of knowledge on sustained shifts to the formal economy around the world. These lessons will be invaluable to Viet Nam as it embarks on an accelerated journey to reduce informality.

Latin America

Experiences from Latin America, under the ILO Programme for the Promotion of Formalization in Latin America and the Caribbean (FORLAC) have shown the diverse pathways to addressing formalization in different country contexts. A number of key lessons from FORLAC have been distilled, including the following (ILO 2014):

- Economic growth is a necessary but insufficient condition for formalization.
- Each country has different entry points from which to approach formalization, but multiple policies are always required.
- Coordination between the different policies is essential, under an explicit objective to encourage formalization.
- There is no single model for transition. The specific institutional set-up, characteristics, and drivers of informality, as well as the priorities in each country will determine the approach. Some countries in the region have developed targeted and sectoral approaches, while others have taken a broader labour market approach.
- Every country requires a degree of capacity-building for labour market institutions and social partners including on integrated approaches.
- Capacity-building, education and incentives for enterprises and workers are far more effective than punitive sanctions, particularly for smaller economic units.
- A key thread running through all policy measures is the need to build a culture of compliance and trust. Awareness-raising on the benefits of being formal is essential, along with measures for transparency in government institutions. In many successful cases, social movements and civil society groups have been harnessed to carry forward initiatives to ensure the broadest impact.
- Institutional mechanisms need to be established to lead the policy process, including national plans, and formal coordination between agencies, social partners, stakeholders, ministries.
- Coordination between macro-level processes and micro-level tools is needed. In the FORLAC experience, the macro-level processes defined the pathways and the design of initiatives embodied in national strategies, plans, roadmaps, laws, and policies. They set out the objectives, the courses of action and links across levels of government and other bodies. The micro-level tools provided customized policy responses, including measures for incentives, capacity-building and other ways of ensuring compliance. Impacts were strongly tied to how these elements work together.

- Continuous monitoring and evaluation are required to build the evidence base, and if necessary, change direction when a particular policy is not working.

Four main groupings of policies were used to catalyze formalization in FORLAC countries:

- I. **Policies aimed at fostering formality in small business units**, including seeking to remove barriers to productivity, enhancing local development economic environments for enterprises, as well as simplifying administrative processes to operate under regulations.
- II. **Policies to ensure compliance towards labour regulations and taxation** through labour inspection, capacity-building, and incentives.
- III. **Policies and laws to address gaps in labour rights for workers** who have been either excluded, or insufficiently included in legal protection, as well as policies to improve their working conditions.
- IV. **Initiatives to extend social protection**, including a variety of instruments targeting the most vulnerable workers and sectors, such as rural workers, the self-employed and others. These include subsidized elements, and specifically designed taxation, health, and pension contributions for the informal economy.

Asia

Recent comparative research (Debanes et al. 2021) on the historical formalization pathways of Japan, the Republic of Korea and Singapore has illuminated the specific institutional environment that may be replicable in economies seeking to accelerate formalization processes.

In all three countries, the role of the state and public policy levers to drive economic development have been critical. The research highlights some of the key areas in which public policies drive transformation towards predominately formal labour markets, as follows:

- The structural transition from agriculture to industrialization was able to absorb surplus labour from rural areas, and was catalyzed through land reforms, promotion of manufacturing, sectoral strategies, and industrial policies. This prioritized utilization of abundant resources (for example, agriculture and labour), and drove production based on markets and productivity increases across sectors.
- All three countries invested significantly in the education system and vocational training as they progressed from saturated markets at the lower-value end to higher-value products and technologies. The private sector was mobilized in upgrading skills.
- The three countries also benefited from global trade integration, which enabled them to secure substantial governance leeway over value chains in the earlier decades.
- Legal frameworks were also developed to govern formal employment, including for minimum employment conditions, overtime pay, retrenchment benefits and so forth. An institutional layer of ministries and public agencies was dedicated to increasing business production and productivity using tax incentives, targeted subsidies, and performance monitoring which were made available only to legally operating firms.
- Governments in the three countries also dedicated a fair share of state subsidies to promote a more balanced industrial structure, create market linkages across firm sizes and to enhance innovation. Many of the incentives for larger firms also reached SMEs in the service sector.

The research on the three Asian countries highlights that direct and indirect ***public policy interventions along multiple channels*** were used by the respective Governments to achieve high economic growth and linkages, leading to an enabling environment for the formal economy to expand.

Europe

Many western European countries have been able to establish robust and resilient formal economies over several generations, which have been strongly linked to institutionalization of social protection in the form of the welfare state and the rights and responsibilities of citizens and governments embedded within the ***social contract***. Over time, various incentives, and measures to support formalization and prevent informalization have become part of the bedrock of these economies. This sustainability is further ensured through long-term information and awareness-raising campaigns on the benefits of formalization (Williams 2021). Building trust in government and its institutions is critical to ***fostering a culture of compliance and changing attitudes towards being formal***.

► Annex 2: Learning from the ILO Global Strategy on the Informal Economy 2014–18

Viet Nam will be able to tap into the considerable body of knowledge and experience that the ILO has built up since the adoption of Recommendation No. 204, and also from work conducted prior to the recommendation. The ILO Global Strategy primarily focused on supporting Member States to improve their economic and labour-related environment, and expand informal economy actors' rights and benefits, enabling them to seize economic opportunities and contribute to development, in line with guidance contained in the Recommendation No. 204. The strategy included support for the development, streamlining and adoption of regulations and incentives for the formalization of informal economic activities.

The evaluation of the strategy in the period 2014–18 noted significant achievements (though these are not elaborated on here). The evaluation also outlined several lessons which are important to overcome challenges in transitioning. Among them are (ILO 2019):

- It may not be immediately obvious to stakeholders that ***the need to formalize the informal economy exists***. This resistance is often due to the complexity, in terms of size and diversity, of the informal economy, and different points of view on the best way to address poverty.
- Related to the above, a lack of understanding on the transversality of the approach to formalization may lead to fragmentation in interventions. Similarly, stakeholders note that the ***multi-disciplinary nature of interventions*** require partnership with other ministries and agencies beyond traditional partners.
- The participatory development of ***national strategies, roadmaps and legal and policy frameworks*** needs to be strengthened, and it must be ensured that issues are clearly articulated, such as: labour standards, a conducive business environment, gender, non-discrimination, social dialogue, and a just transition to environmental sustainability.
- ***Mechanisms for social dialogue*** need to be strengthened. Additionally, building alliances with actors in the informal economy need to be given greater attention.
- Political considerations need to be factored in when designing long-term strategies, ensuring the ***highest-level leadership at the government level***, in order to ensure continuity of initiatives. Disruptions as a result of changes of government, changing political priorities and bureaucratic processes have been a key factor limiting the prospects of sustainable change at national level.

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