



International
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► Informal employment
in Viet Nam:
Trends and determinants



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► **Informal employment in Viet Nam:**
Trends and determinants

► Foreword

Today in Viet Nam, more than 36 million people are in informal employment. Addressing the vulnerabilities and risks faced by workers in informal employment represents a critical policy challenge for Viet Nam's leadership. The country is on a trajectory of sustained growth and has set the goal of reaching upper-middle income status by 2030. For this objective to materialize, the low levels of productivity and protection that characterize informal jobs need to be addressed.

Some level of informality exists in all countries. However, evidence shows that each country requires a specific approach to reducing its informality levels. The effective policy mix must correspond to the diversity of characteristics and drivers of informality. Reliable and accurate statistical data are necessary if policy-makers are to understand the complex characteristics of informality and monitor any progress towards formalization.

Informal employment in Viet Nam: Trends and determinants examines the characteristics of and trends in informal employment in Viet Nam. Given both the complexity and heterogeneity of the phenomenon, the report considers the definition of informal employment as well as underlying labour market concepts. It outlines the characteristics of informal employment in the country, analyses medium-term trends, and investigates the individual-level determinants of informality. It also examines individual transitions into and out of informal employment.

This report was prepared in the context of the technical assistance provided by the ILO to the Ministry of Labour, Invalids and Social Affairs, Viet Nam's Chamber of Commerce and Industry, Viet Nam's General Confederation of Labour, Viet Nam's Cooperative Alliance and the Central Economic Commission on the formalization of the informal economy. The objective of the ILO's assistance is to support these partners efforts to understand in more depth the complex aspects of informality in the country and to eventually formulate policy action, guided by the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). Recommendation No. 204 is the only international labour standard focusing on the informal economy.

This publication is the result of a collaboration between the Employment, Labour Markets and Youth Branch of the Employment Policy Department of the ILO, the Regional Economic and Social Analysis Unit of the ILO's Regional Office for Asia and the Pacific, and the ILO's Country Office for Viet Nam. It was extensively reviewed by ILO constituents and partners, as well as academics, in Viet Nam.

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► Abbreviations

GDP	Gross domestic product
GSO	General Statistical Office (Viet Nam)
ICLS	International Conference of Labour Statisticians
ILO	International Labour Office/Organization (according to context)
LFS	Labour Force Survey
IMF	International Monetary Fund
NEET	not in employment, education or training



▶ 1. Introduction

Viet Nam has boasted an impressive growth record in recent decades. The International Monetary Fund (IMF) estimates that between 2000 and 2010 the country achieved an average annual real gross domestic product (GDP) growth rate of 6.8 per cent.¹ GDP growth continued through the following decade, to 2019, at an average rate of 6.5 per cent. This economic growth has been translated into substantial reductions in working (and non-working) poverty (ILO 2019). In the new millennium, the percentage of workers living in extreme or moderate poverty – those living on incomes below US\$3.20 per day – has been reduced drastically, from 72.4 per cent in 2000 to just 7.1 per cent in 2019.² More recently, the COVID-19 pandemic has certainly taken its toll. At the time of writing, the IMF estimates the real economic growth rate in the country in 2020 to have been 2.9 per cent. However, this is still well above both the global real GDP growth rate, estimated at –3.6 per cent, and the average growth rate in emerging and developing Asian economies, currently estimated to be –1.0 per cent, in 2020.³

Unemployment is low in the country – in 2019, just 2 per cent of the labour force was unemployed. In comparison, the global unemployment rate in 2019 was 5.4 per cent, while the unemployment stood at 3 per cent in Association of Southeast Asian Nations (ASEAN) member countries and 5.3 per cent among all lower-middle-income countries. At just over 10 per cent of the youth population (aged 15–24), the share of young people who are not in employment, education or training – the NEET rate – is also low compared with other ASEAN countries (18.3 per cent in 2019), lower-middle-income countries as a whole (26.7 per cent in 2019) and, indeed, the world, with the global NEET rate standing at over 22 per cent in 2019. Moreover, prior to the COVID-induced economic crisis,

1 Calculated from IMF estimates, World Economic Outlook Database, October 2020 (<https://www.imf.org/en/Publications/WEO/weo-database/2020/October>).

2 ILO modelled estimates, November 2020 (<https://ilostat ilo.org/>).

3 IMF estimates, April 2021 (<https://www.imf.org/en/Publications/WEO/weo-database/2021/April>).

NEET rates had been falling in the country since 2015 – again in contrast to the global picture – albeit slowly, marking some progress towards SDG target 8.6 to “substantially reduce the proportion of youth not in employment, education or training” by 2020 (SDSN, n.d.). And, again in contrast to other Asian countries, and to the global situation prior to COVID-19, the gender gap in the NEET rate is relatively low (ILO 2019).

The economy is industrializing, and there has been a steady shift away from agriculture and towards manufacturing and services. Between 2010 and 2019, agricultural employment fell from just under one half (48.4 per cent) of adult workers in Viet Nam to below a third (29.2 per cent). Employment in manufacturing and market services – in that order – absorbed the bulk of these workers, increasing from 14.3 per cent to 22.3 per cent, and from 20.1 per cent to 27.2 per cent, respectively. The prevalence of employment in construction and non-market services also increased, albeit to a lesser degree.

Job quality remains an issue and the vast majority of workers in Viet Nam are employed informally. However, as we shall see, informal employment is very clearly, albeit gradually, on the decline in the country. Does it matter? Well, yes it does. By the nature of their situation, informal workers and entrepreneurs are characterized by having a high degree of vulnerability. They are not clearly recognized under the law and therefore they have limited access to legal protection, are unable to enforce contracts and lack security of property rights. They are excluded from the contributory social protection system and need to rely on a voluntary system that is unaffordable by most.⁴

In concrete terms, informal workers tend to be paid less than formal workers and have no job security or access to other job-related benefits, such as occupational pensions. At the societal level, there is a clear association between the size of the informal economy and income inequality (Perry et al. 2007; Loayza, Servén and Sugawara 2009). Moreover, although the prevalence of informal employment tends to fall as a country gets richer, this is not always the case, and (perhaps more importantly) extensive informality itself can impede development. The informal sector is typically dominated by small, unproductive firms, which are often largely disconnected from the formal economy and exhibit little growth potential. These labour-intensive firms are mostly run by poorly educated micro-entrepreneurs and have little potential for integration into the formal sector (Elbadawi and Loayza 2008; Gatti et al. 2011; La Porta and Schleifer 2008, 2014). Furthermore, for a given level of public spending, a higher informal employment share implies an increasing tax burden on the formal sector, which might hold back new and productive (formal) firms that – in contrast to their counterparts in the informal economy – may have the potential for driving growth. Furthermore, while informal workers and firms use and congest public infrastructure, they do not contribute to the tax revenues needed to maintain and renew it (Gatti et al. 2011). Thus, it is not surprising that informality puts a brake on growth.

Since early 2020, countries throughout the world have been grappling with the consequences of the COVID-19 pandemic. The response in Viet Nam was rapid and decisive, but also cost effective, meaning that the immediate economic impact of the virus was less severe in the country than in many of its neighbours. Indeed, as noted above, Viet Nam’s real economic growth remained positive in 2020, in contrast to much of the rest of the world. However, the country is not immune to the effects of COVID-19, and weakened domestic and external demand is responsible for reducing expected annual growth from an average of over 6 per cent for the decade to 2019 to under 2 per cent in 2020 (Dabla-Norris, Gulde-Wolf and Painchaud 2020). While this will clearly have a negative impact on employment as a whole, its effects on the prevalence of informality are less obvious. On the one hand, informal employees lack any kind of employment protection and are consequently

4 Adapted from ILO (2002).

much more likely to lose their jobs as the demand for labour adjusts downwards in response to a negative economic shock like that accompanying the spread of the COVID-19 pandemic. With the current pandemic, informal workers also tend to work in sectors and jobs which are more susceptible to lockdown measures themselves. This has meant that they have borne the brunt of the COVID-related economic downturn (ILO 2020a), with informal workers more likely than formal workers to lose their job during the current pandemic. As a result, one would expect a reduction in the prevalence of informal employment – that is, a fall in the share of all workers who are informally employed.

At the same time, however, reduced employment opportunities in the formal sector, as a consequence of the pandemic, are also shifting workers out of formal and into informal employment, and the generally weakened economic situation of many households forces many to seek whatever type of employment they can find, typically informal in nature. This tends to counterbalance, to some extent, the downward trend in the prevalence of informality.

Evidence from the labour force survey in Viet Nam suggests that in 2020 employment fell most severely in agriculture, which lost 721,000 jobs, 99 per cent of which were informal (ILO 2020b). “Overall, informal workers accounted for 61 per cent of employment losses in the second quarter in Viet Nam.... Between the second and third quarters, however, when there was again positive growth in employment in Viet Nam, the majority (86 per cent) of jobs gained (or regained) were in the informal economy” (ILO 2020b, 44). This confirms that, above all, informal employment has acted as buffer, with both positive and negative variations in labour demand being reflected most strongly by shifts in informal (rather than formal) employment.

This paper examines the characteristics of and trends in informal employment in Viet Nam. Given both the complexity and heterogeneity of the phenomenon,⁵ as well as the variability of its definition in time and space, Section 2 considers in some detail the definition of informal employment, as well as definitions of some other underlying labour market concepts. It also compares the national definition of informal employment with the standard international ILO definition and considers the implications of the differences. Section 3 outlines the characteristics of, and trends in, informal employment in the country, while Section 4 digs a little deeper into the individual-level determinants of informality. Section 5 enriches our understanding by examining individual transitions into and out of informal employment, while the concluding Section 6 draws together the implications of the preceding analysis for policy.

5 As will be discussed further, informality covers a wide range of employment, unified only by the absence of formality in the employment relationship.





► 2. An aside on definitions

Conceptualizing and defining informal employment is not straightforward, and the ILO, through the International Conference of Labour Statisticians (ICLS),⁶ has been developing and refining the concept and definition for at least half a century. Things are further complicated by the fact that the definition of employment itself has recently undergone revision, which of course has implications for the identification of informal employment. It is worth bearing in mind, however, that the main purpose of identifying informal employment is to identify sources of low-quality employment, the existence of which contributes to poverty and lowering the well-being of workers. The facilitation of the transition from informal to formal jobs and enterprises, the creation of formal jobs and the prevention of informalization, leading to a reduction in informal employment, supports the overarching aim of promoting decent work and promoting development.⁷ Definitions are important, but they serve a wider purpose of seeking to reduce the prevalence of low-quality employment.

Before progressing to the consideration of trends, characteristics and determinants, it is worth mentioning the key labour market definitions employed here, based on standard international classifications adopted and applied by the ILO. The approach adopted here applies unified definitions from the period 2013 to 2020. One important consequence is that some recently proposed (and realized) changes in the definition of employment are not incorporated. These are also specified here.

⁶ The ICLS is vehicle for standard-setting in labour statistics, hosted by the ILO every five years. It makes recommendations on selected topics of labour statistics in the form of resolutions and guidelines, which are then approved by the Governing Body of the ILO before becoming part of the set of international standards on labour statistics. These standards usually relate to concepts, definitions, classifications and other methodological procedures which are agreed as representing “best practice” in the respective areas.

⁷ As envisaged by, for example, the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).

Defining the labour force

In the first place, a distinction is made between people who participate in the labour market – the **labour force** – and those who do not. The labour force is composed of people who are employed and people who are unemployed. Those who are neither employed nor unemployed are considered to be outside the labour market and are simply referred to as being “not in the labour force”.⁸ There are many reasons for this. Among younger people, a major reason for not being in the labour force is participation in education, although it is perfectly possible to be employed – and hence in the labour force – at the same time as studying. In this case, the inclusion in the labour force associated with working takes precedence, for definitional purposes, over the (implied) exclusion associated with participation in education. In any event, as people get older this typically becomes a less important source of non-participation in the labour force and other reasons increase in importance, such as family responsibilities, disability and retirement.

The **employed** comprise **all** those of working age who, during a short reference period, worked in a job for at least one hour; or who were not at work due to temporary absence from a job or to working-time arrangements (such as shift work, flexitime and compensatory leave for overtime). The employed can be subdivided by **status in employment** (ICSE-93),⁹ which broadly comprise employees on the one hand and the self-employed on the other. The latter group can be further subdivided into employers, own-account workers, members of producers’ cooperatives and contributing family workers. In the discussion of informal employment that follows, we use the standard indicators of employment and status in employment because these remain the most widely used classifications to date.

Suggestions for revisions to these classifications have been adopted by the ILO and in the future this will affect the definition of informal employment. Specifically, the 19th ICLS passed a resolution limiting the concept of employment to those engaged in any activity to produce goods or provide services **for pay or profit** (ICLS 2013). Since this resolution was not widely applied until recently, we use the previous, slightly broader conception, which includes, for example, unpaid family workers and those engaged in production for household consumption.¹⁰ In the future, however, the application of this concept will involve a significant revision in the estimates of informal employment due principally to the exclusion of those involved in household agricultural production for own use.

The **unemployed** are those who are (a) without work, (b) currently available for work and (c) actively seeking work (ICLS 1982). All three criteria must be fulfilled, so this excludes, for example, those who wish to work but are not actively seeking to do so – perhaps because they know or believe that no work is available. The unemployment rate is simply the number of unemployed expressed as a share of the labour force.

Taken together, the employed plus the unemployed comprise the labour force – the **economically active**. All others are classified as being **economically inactive**.

Identifying informal employment

Informal employment refers to employment arrangements that do not provide individuals with legal or social protection through their work, thereby leaving them more exposed to economic

8 These people are sometimes referred to as “economically inactive”. The terminology “in the labour force” and “not in the labour force” was adopted by the 19th ICLS in 2013 in its revision of the definition of employment, and hence is the approach adopted here.

9 See <https://ilostat.ilo.org/resources/concepts-and-definitions/description-employment-by-status/>.

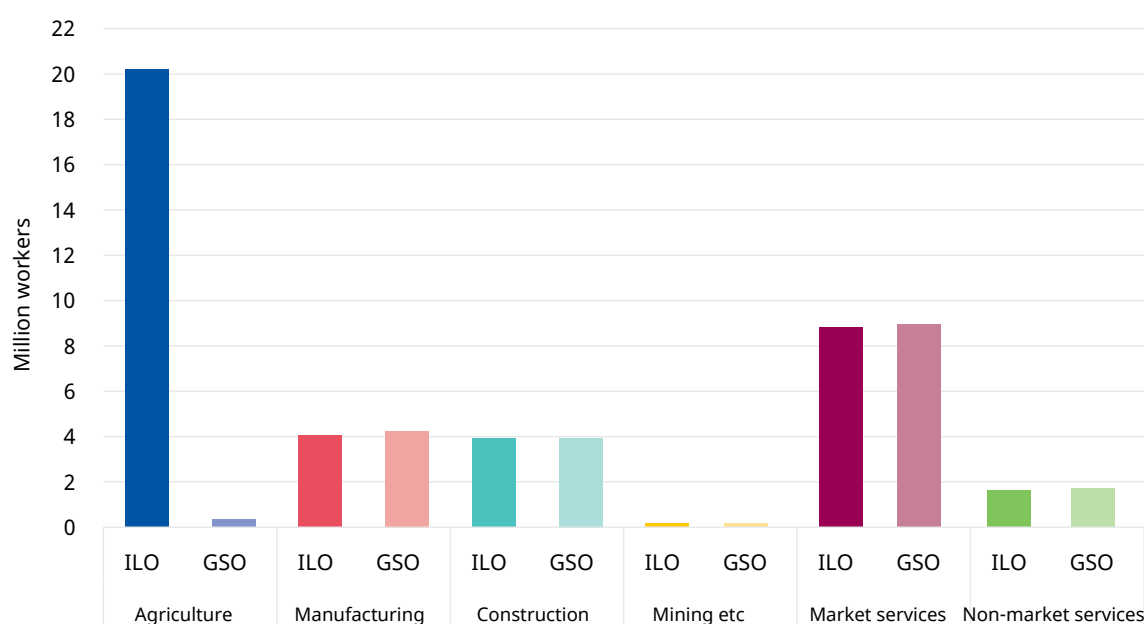
10 In 2018, the ICLS also proposed revisions to the concept of status in employment. See <https://ilostat.ilo.org/resources/concepts-and-definitions/classification-status-at-work/>.

risk. This includes both workers employed within the informal sector and workers in informal employment outside of the informal sector (ILO 2013a). Obviously, this is dependent on the definition of employment used (see above), but it can also be rather tricky to implement in practice. Here we follow the ILO guidelines in first defining the informal sector, which comprises all those working in unregistered businesses, whether as own-account workers, contributing family workers or employers, to which we then add informally employed workers engaged in formal sector firms.¹¹ We also include informal agricultural employment in the definition, which has some significant implications for what follows. One obvious but fundamental characteristic of informal employment is its inherent heterogeneity (Chacaltana and Leung 2020). Informality is defined by the absence of formality and consequently covers a very broad range of employment types and firms, unified only by the fact that they do not constitute formal employment. This is important when considering appropriate policy options for reducing informal work and will be returned to below.

The implications of the definition: comparison of informal employment according to ILO and GSO definitions

As noted above, when looking at the situation and trends in informal employment in Viet Nam we take the ILO approach, which is used for creating internationally comparable statistics on informal employment. To be as comprehensive as possible, we also apply this to agricultural employment. Indeed, this is the main difference between the definitions used here and those applied by the Vietnamese National Statistical Office (GSO). In order to see the differences a little more clearly, let us compare measures of informal employment as applied to Vietnamese Labour Force Survey (LFS) data for 2018.

Figure 2.1. Informal employment by economic sector according to national (GSO) and international (ILO) definitions (2018) (millions of workers)



Note: The figure reports absolute numbers of workers engaged in the different economic sectors in 2018 according to the two definitions of informality.

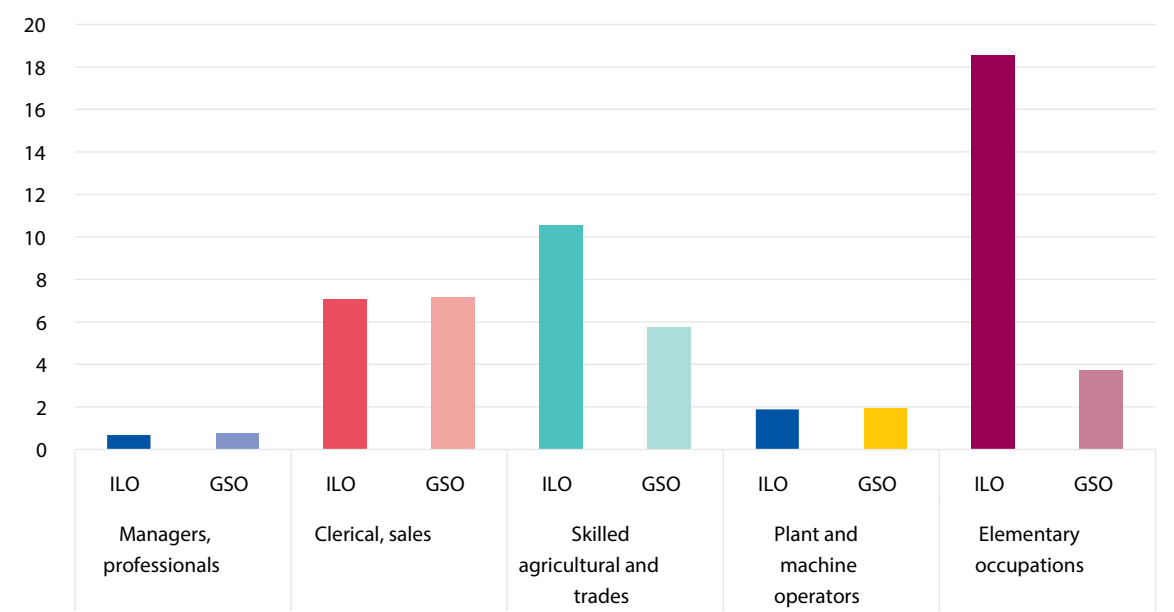
Source: Author calculations based on Viet Nam LFS micro-data.

¹¹ See ILO (2018) for an operational definition. Note too that workers in informal employment also include (some of) those engaged in household production. However, given changing definitions over time, we include work in the household sector as part of the informal sector for the purposes of this paper.

The principal difference between the definitions of informal employment applied by the GSO and the ILO relates to the inclusion – or not – of household agricultural production,¹² which is clearly reflected in the sectoral distribution of informal employment in Viet Nam (figure 2.1). As can be seen, this results in a large difference in the number of informal workers in the agricultural sector, and consequently a large divergence in the number of informal workers, when estimated using the different definitions. Using the ILO definition suggests there were 38.8 million informal workers in the country in 2018, while the GSO definition suggests there were only 19.3 million – or about one half.

The exclusion of most agricultural employment from the definition of informal employment also has some implications for the occupational structure of informal employment (figure 2.2). The main difference between the numbers using the ILO and GSO definitions of informality are to be found in the ranks of the elementary occupations and, to a lesser extent, among skilled agricultural and trades workers; both for fairly obvious reasons.

Figure 2.2. Informal employment by occupation according to national (GSO) and international (ILO) definitions (2018) (millions of workers)



Note: The figure reports absolute numbers of workers in informal employment by occupation in 2018 according to the two definitions of informality.

Source: Author calculations based on Viet Nam LFS micro-data.

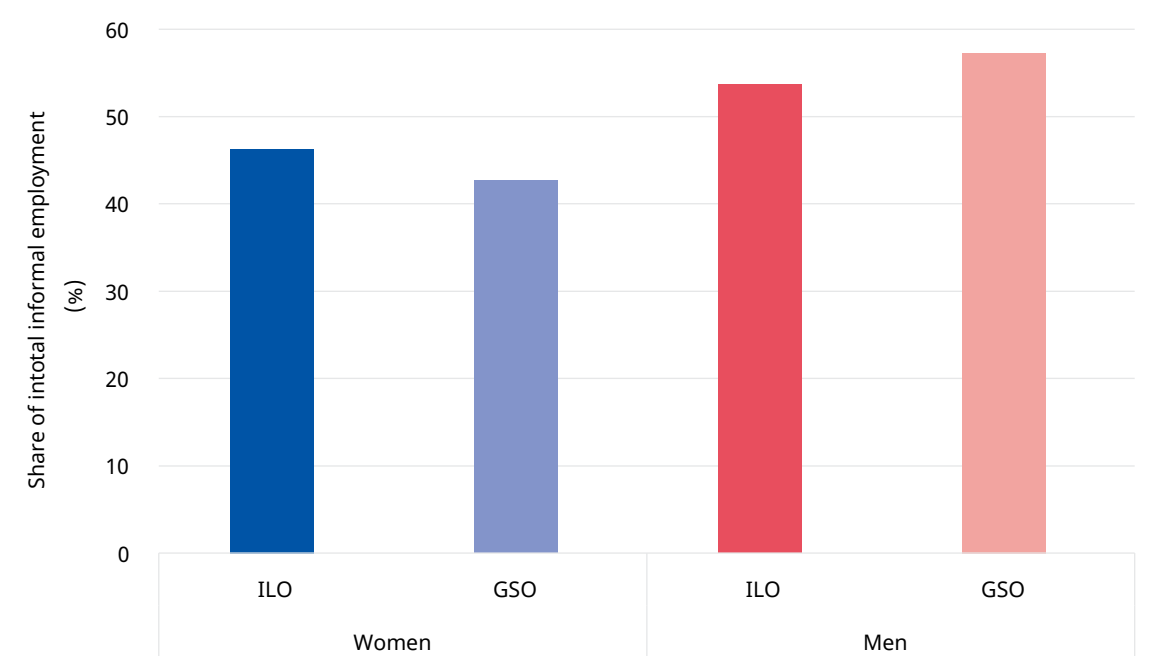
On the other hand, for our purposes, in delineating trends and characteristics of informal employment in the country, the divergence is not so significant – and its source is easily identifiable. The downward trend in informal employment in the country is both clearly evident and similar in size using both definitions and, for the most part, the distribution of informal employment across different individual characteristics is also rather similar. This allows us to say quite a lot about informality in the country without worrying too much about the difference in definitions. It is not to say that the definition is not important. Rather, in seeking to better understand the phenomenon,

12 There is another difference between the GSO and ILO definitions. The GSO considers two criteria when determining whether a person’s main job is informal: whether the person has an employment contract, and whether that person has access to social protection. The ILO only recommends the use of the social protection criterion. In Viet Nam, this difference in definitions has only a limited impact on the final informal employment figures.

it is more important that we understand the substantive trends. The implications of this will be returned to below.

For now, it can be seen that, using either definition, more men than women are employed informally (figure 2.3).¹³ The gender imbalance is slightly more marked using the GSO definition, but the pattern is rather similar between the two definitions.¹⁴

Figure 2.3. Informal employment by sex according to national (GSO) and international (ILO) definitions (2018) (percentage of total informal employment)



Note: The figure reports the distribution of gender-specific informal employment in 2018 expressed as a share of total informal employment according to the two definitions of informality.

Source: Author calculations based on Viet Nam LFS micro-data.

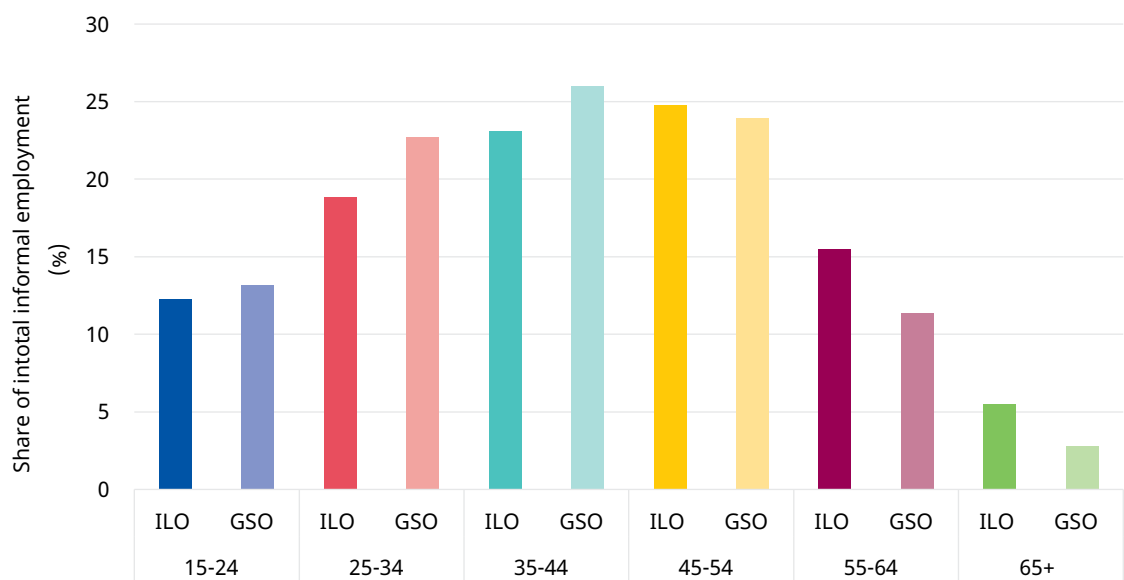
Also, the age pattern of informality does not vary greatly according to the definition used. Including agricultural employment evidently shifts informal employment a little towards older age groups (figure 2.4).

Where the contrasting definitions do make a difference, of course, is in the urban–rural balance of informal employment. However, even using the GSO definition, which excludes most agricultural employment, over 60 per cent of workers in informal employment are based in rural localities (figure 2.5).

13 In this figure, as in the remainder of this section, the reported percentages refer to the *distribution* of informal employment across the different individual categories separately for each (ILO or GSO) definition.

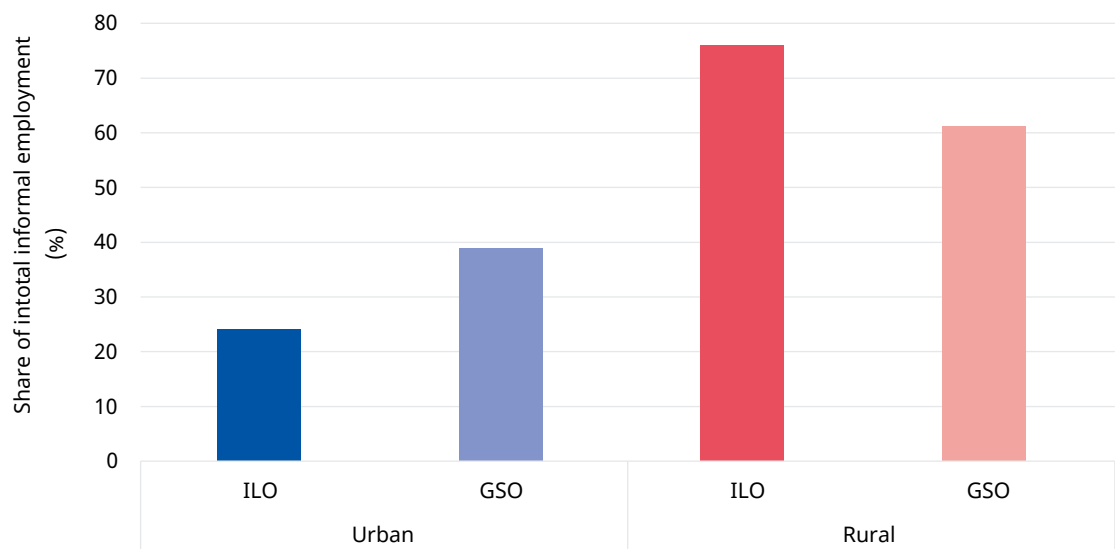
14 Note that, given that women are less likely than men to be employed (in any form of employment), this does not necessarily imply that the prevalence of informal employment (that is, the gender-specific share of the employed who are in informal jobs) is greater among men than women – although this is also true. See figure 3.8.

Figure 2.4. Informal employment by age according to national (GSO) and international (ILO) definitions (2018) (percentage of total informal employment)



Note: The figure reports the distribution of informal employment across age groups expressed as a share of total informal employment according to the two definitions of informality.
Source: Author calculations based on Viet Nam LFS micro-data.

Figure 2.5. Informal employment by urban or rural location according to national (GSO) and international (ILO) definitions (2018) (percentage of total informal employment)

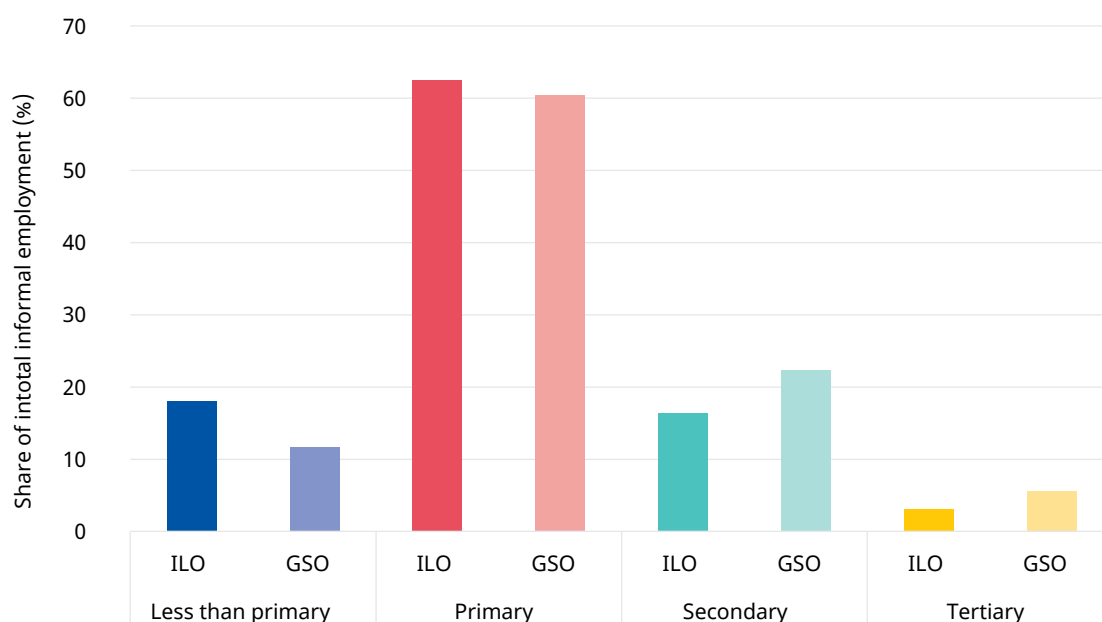


Note: The figure reports the distribution of informal employment between urban and rural areas expressed as a share of total informal employment according to the two definitions of informality.
Source: Author calculations based on Viet Nam LFS micro-data.

Unsurprisingly, there are some differences in the distribution of informal employment by educational attainment (figure 2.6). In line with the classification differences emerging from economic activity and occupation described above (figures 2.1 and 2.2), in which greater concentrations of informal workers are to be found in agriculture and in less-skilled occupations more generally, those workers identified as informally employed using the ILO definition are a little less educated on average than

those identified using the GSO definition. Under the ILO definition, 18 per cent of informal workers have less than primary education, while just under 12 per cent of GSO defined informal workers fall into this category.

Figure 2.6. Informal employment educational attainment according to national (GSO) and international (ILO) definitions (2018) (percentage of total informal employment)



Note: The figure reports the distribution of informal employment by educational attainment expressed as a share of total informal employment according to the two definitions of informality. Educational attainment is defined on the basis of the International Standard Classification of Education (ISCED) 2011 as follows: less than primary = ISCED level 1 or 2; primary = ISCED level 3 or 4; secondary = ISCED level 5 or 6; tertiary = ISCED level 7 or 8 (UNESCO-UIS 2012).

Source: Author calculations based on Viet Nam LFS micro-data.

Thus, there are some differences according to which definition is used. However, as we shall see below, this does not greatly influence the policy implications – or rather, the way in which it might alter the policy approach to informal employment is clear. In what follows, we will stick to the ILO definition of informality, although we provide some consideration of the differing implications of the GSO definition in the concluding section.





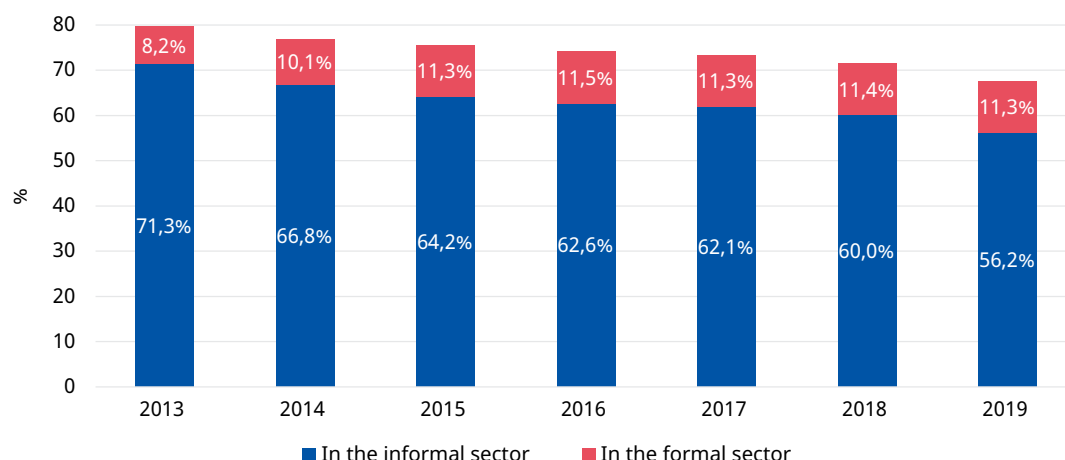
▶ 3. Characteristics of informal employment

The prevalence of informal employment in Viet Nam has been falling over the past decade (figure 3.1).¹⁵ Between 2013 and 2019, it fell by over 12 percentage points, from 79.6 per cent to 67.5 per cent of the employed aged 15 or over. This is very clearly accounted for by a reduction in informal sector employment. Indeed, informal employment in the formal sector actually increased slightly over the same time frame. This in part reflects the ongoing economic development process, with its accompanying structural adjustments.¹⁶

15 Note that hereafter we employ exclusively the ILO definition of informal employment, including informal employment in agriculture.

16 The process of development, and of economic growth more generally, almost invariably involves structural adjustment, with a shift of employment out of agriculture and into sectors with higher productivity (manufacturing or services).

Figure 3.1. Prevalence of informal employment according to form of informality (2013–19) (percentage of total adult employment)



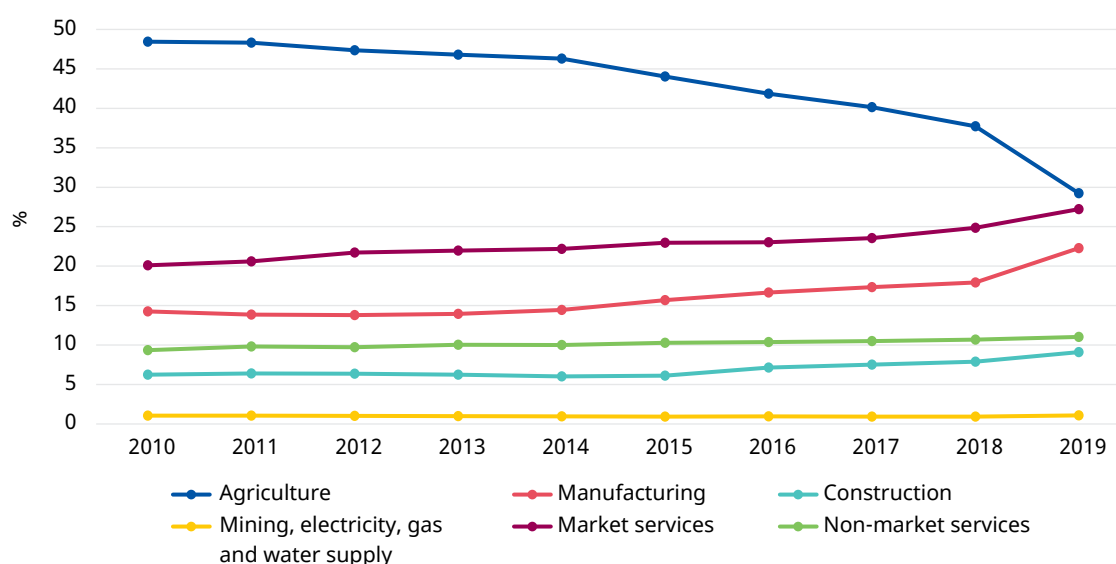
Note: Informal employment is defined using the standard international ILO definition (see Section 2). The prevalence of informality is calculated as the percentage of the adult working population aged 15 years and above who are in informal employment. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

Falling informality and structural adjustment

Over the past decade, Viet Nam's strong economic growth has involved a rapid movement of workers out of agriculture and into other sectors of economic activity – most notably to manufacturing and market services, but also to construction, albeit to a slightly lesser extent (figure 3.2). Since the prevalence of informality is higher in agriculture than in other forms of economic activity, the shift of workers out of agriculture has meant a reduction of the prevalence of informal work, as noted above.

Figure 3.2. Distribution of total employment by economic activity (2010–19) (percentage of total employment)

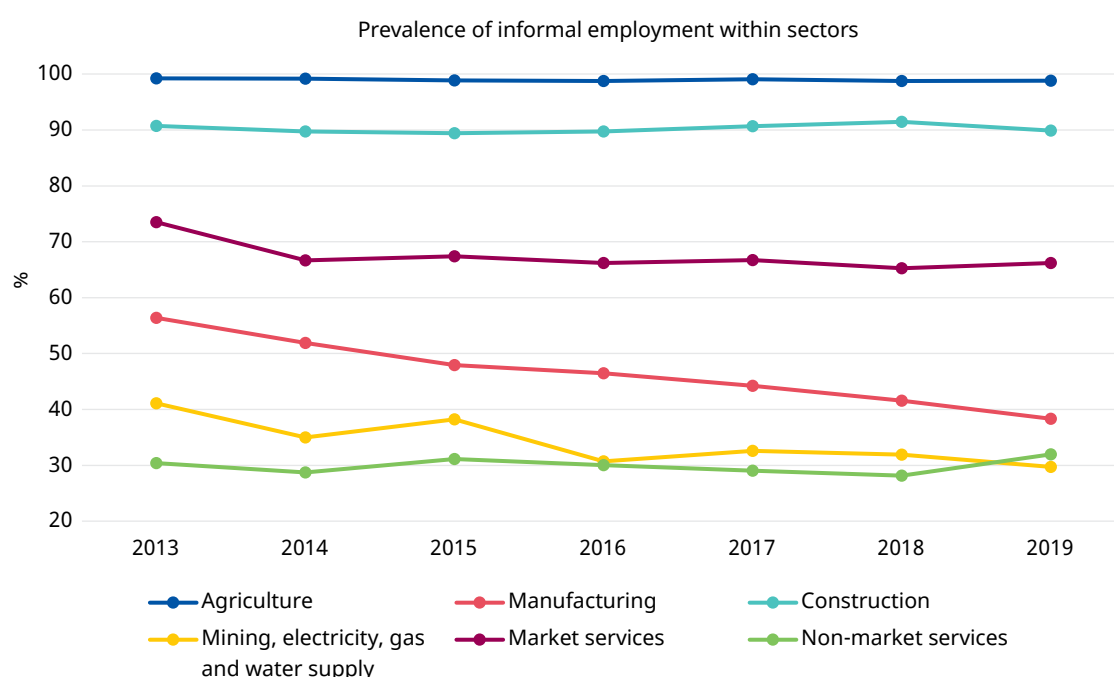


Note: The figure reports the share of employment in each sector of the economy as a percentage of total employment for the period 2010–19. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

Almost all agricultural employment is informal, and this has changed little over time (figure 3.3). Indeed, this is one reason why indicators on informal employment have often excluded agricultural employment from consideration. The prevalence of informal employment in other sectors of economic activity has, in contrast, in some cases shifted quite considerably over time. Thus, not only is informality less pervasive in sectors of economic activity other than agriculture, but it has also typically been falling over time; sometimes quite rapidly. Perhaps of most interest is the sharp fall in the prevalence of informality among manufacturing workers, which decreased from 56 per cent in 2013 to 38 per cent in 2019. As illustrated in figure 3.2, the share of employment in manufacturing has also been expanding rapidly, so that by 2019, 22.3 per cent of the employed were working in manufacturing; up from 14.0 per cent in 2013. To put this another way, manufacturing employment has increased by 55 per cent between 2013 and 2019. But, of the 4 million net new jobs created in manufacturing between 2013 and 2019, only 200,000 (or 5 per cent) were informal.¹⁷

Figure 3.3. Prevalence of informal employment by economic activity (2013–19) (percentages)



Note: The figure shows the sector-specific prevalence of informal employment (i.e. the share of informal employment in total employment) for the period 2013–19. Informal employment is defined using the standard international ILO definition (see Section 2). There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights

Source: Author calculations based on Viet Nam LFS micro-data.

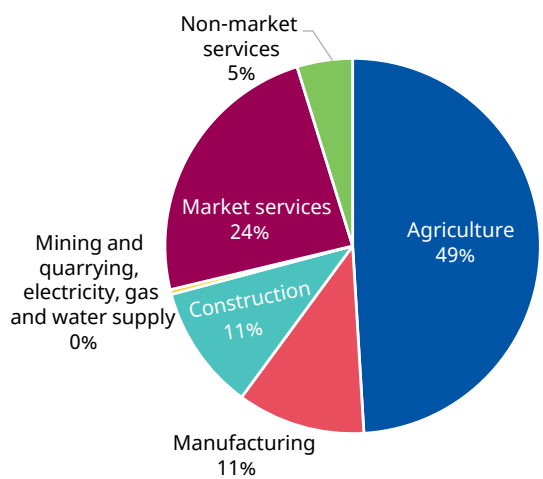
This means that the fall in informal employment is due both to shifts in employment across sectors – principally from agriculture to manufacturing and market services, where the prevalence of informality is lower – and to increasing formalization within sectors, particularly manufacturing. Almost all (around 95 per cent) of the expansion of employment in manufacturing between 2013 and 2019 is attributable to an increase in formal employment. So, although rapidly diminishing in size, agriculture is still the principal source of employment in the country, and, since the prevalence of informality is higher in agriculture than in other sectors of economic activity, it is obviously also the main source of informal employment (figure 3.4).

¹⁷ That is, there were 4 million more people employed in manufacturing in 2019 than in 2013. The number of new jobs may well be significantly higher than 4 million, because some manufacturing jobs would have been lost in the interim and, indeed, there would presumably also be some composition effects, with some informal jobs becoming formal and vice versa.

Regional variations on informal employment are pronounced

Informal employment also varies strongly across the regions of the country (figure 3.5). This reflects the distribution of employment across economic sectors and, in particular, regional variations in agricultural employment (figure 3.6). The descriptive statistics presented in appendix table I.3 illustrate this further. At almost 86 per cent of total employment, informal work is most prevalent in the Central Highlands region, where agricultural employment accounts for more than seven out of every ten jobs (72.1 per cent), and is least prevalent, at 49.7 per cent, in the South East region, where only around one in eight workers (12.4 per cent) is engaged in agriculture.¹⁸

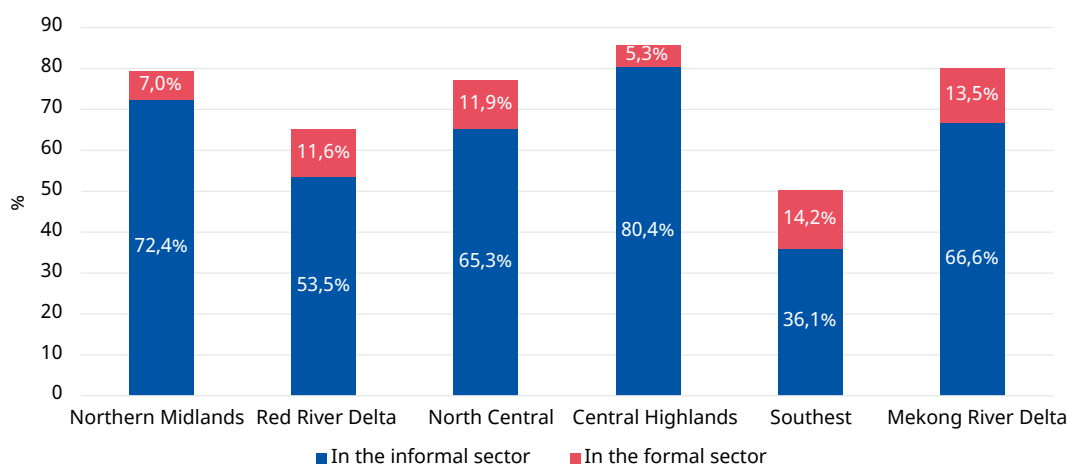
Figure 3.4 Distribution of informal employment by economic activity (2019) (percentages)



Note: The figure shows the sectoral shares of informal employment in 2019. Informal employment is defined using the standard international ILO definition (see Section 2).

Source: Author calculations based on Viet Nam LFS micro-data.

Figure 3.5. Prevalence of informal employment in Vietnamese regions according to form of informality (2018) (percentage of total adult employment)



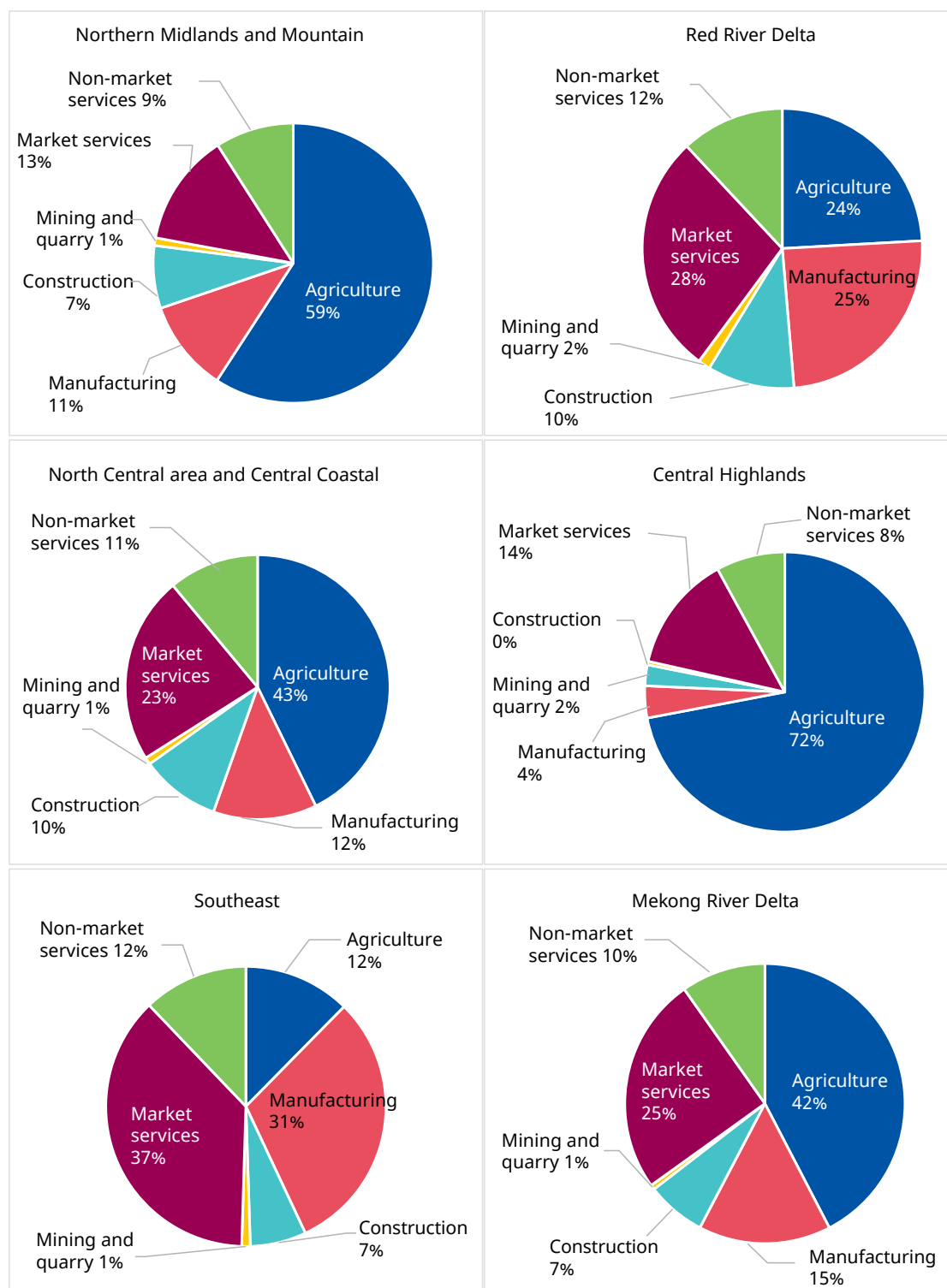
Note: Informal employment is defined using the standard international ILO definition (see Section 2). The prevalence of informality is calculated as the percentage of the region-specific adult working population aged 15 years or above. In this figure, data for 2018 were used because the regional breakdown is not available in the 2019 data file.

Source: Author calculations based on Viet Nam LFS micro-data.

18 Indeed, the simple correlation between the prevalence of agricultural employment and the prevalence of informality in each region is 0.96.

Similarly, the regions in which the prevalence of informal employment is greatest tend to be those in which the relative importance of informal sector employment – as opposed to informal employment in the formal sector – is also most pronounced.

Figure 3.6. Distribution of total employment by economic activity and region (2018)
(percentages)



Note: Each figure reports the sectoral shares of total employment in each region in 2018.

Source: Author calculations based on Viet Nam LFS micro-data.

In the South East region, informal employment in the formal sector constitutes nearly 30 per cent of all informal employment (and 14.2 per cent of total employment) – whereas in the Central Highlands region, informal employment in the formal sector constitutes a mere 6 per cent of all informal employment (and 5.3 per cent of total employment).¹⁹

The distribution of agricultural employment is clearly a key driver of these patterns, but it is by no means the only one. The sectoral distribution of employment in general, and the prevalence of manufacturing employment in the different regions in particular, are also crucial. More generally, in designing strategies to combat informality, care must be taken to identify as precisely as possible the types of informal employment present in each case, and to adapt strategies to deal with the particular situation. Indeed, as shown in figure 3.1, while overall prevalence of informal employment has fallen, the prevalence of informal employment in the formal sector has actually increased.²⁰

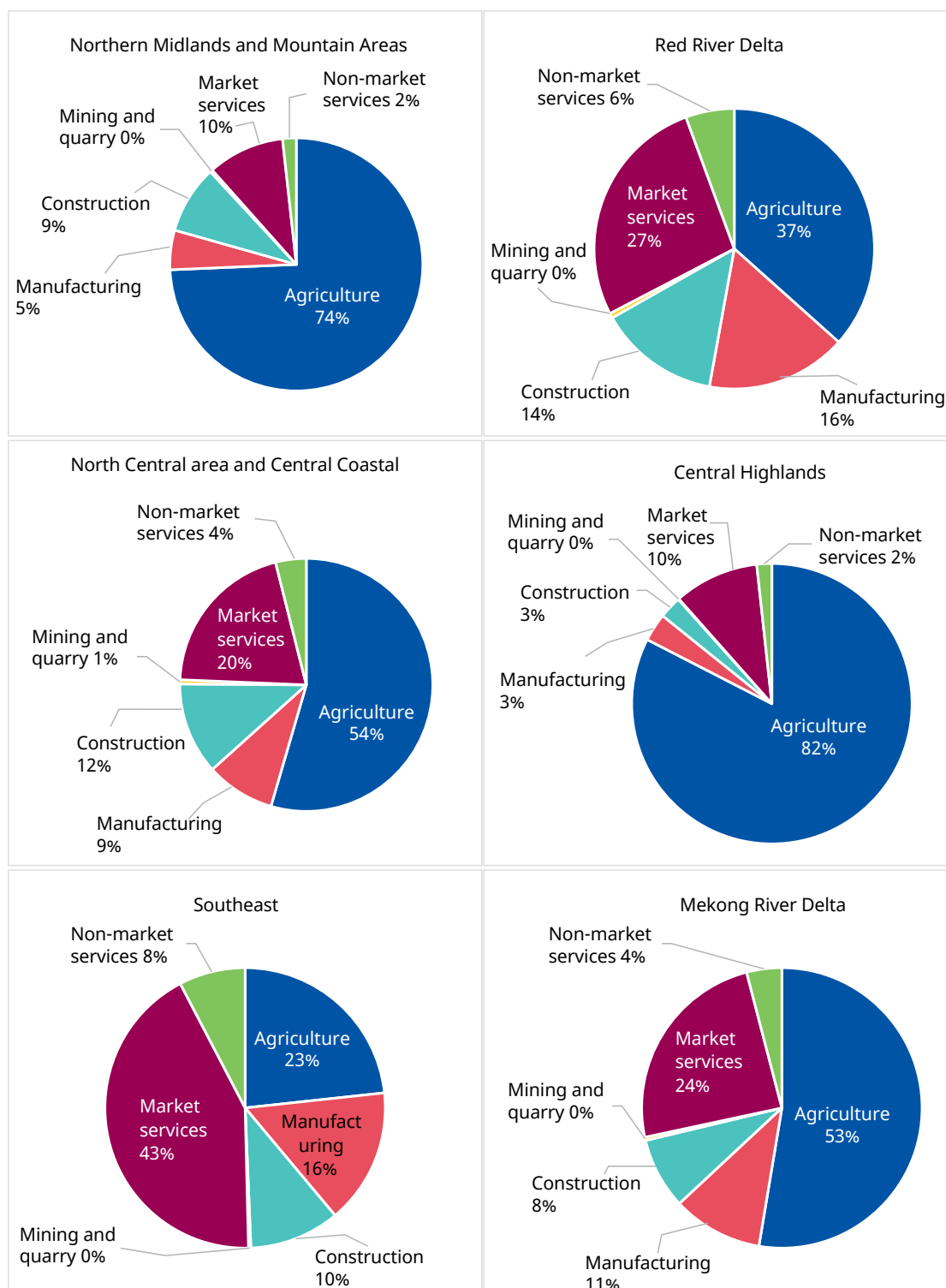
As structural transformation has taken place in the country, resulting in movement of workers out of agriculture and into manufacturing and services, some forms of informal employment have clearly increased. This pattern is in line with what has been found elsewhere. At least in the short and medium terms, economic development can also create and contribute to new forms of informal employment. For example, development-driven rural-urban migration may lead to an excess of labour supply in local urban labour markets, pushing migrants into informal employment (Kucera and Roncolato 2008). This means that one cannot seek a one-size-fits-all solution. When designing policies to combat informal employment, care is needed to ensure they are appropriate to the specific conditions prevailing in different areas, sectors and occupations.

Closer examination of the distribution of informal employment by sector and region reinforces the point (figure 3.7). There is, for example, much regional variation in the relative importance of different sectors in informal employment as a whole. In all but one region, the South East, agriculture is the dominant source of informal employment. In the South East, market services dominate informal employment – accounting for 43 per cent of informal employment in the region, and greatly exceeding the 23 per cent accounted for by agricultural work. In all the other regions, market services are the second most important source of informal employment. Manufacturing constitutes a substantial share of informal employment in the Red River Delta and South East regions – in both cases constituting 16 per cent of all informal employment – despite rapid increases in formal employment in the sector.

19 Taking the six regions as a whole, the simple correlation between the prevalence of informal employment in total employment and the prevalence of informal sector employment in total informal employment is 0.91.

20 As already noted, there is a similar relationship between informal employment as a whole and the prevalence of informal employment in the formal sector across regions.

Figure 3.7. Distribution of informal employment by economic activity and region (2018)
(percentages)



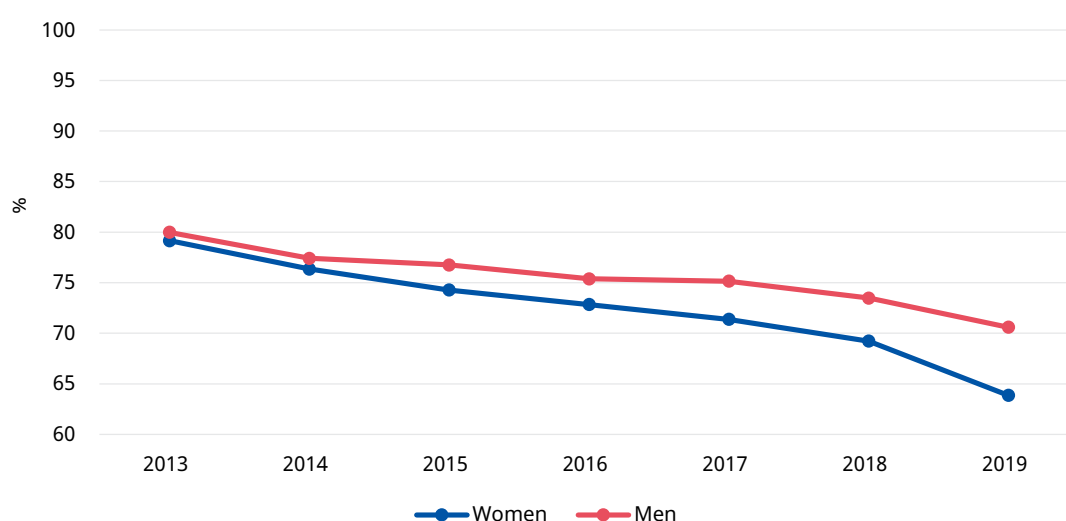
Note: Each figure reports the sectoral shares of informal employment in each region in 2018.

Source: Author calculations based on Viet Nam LFS micro-data.

The likelihood of being in informal employment also varies according to individuals' characteristics

Informal employment in Viet Nam is also distributed unevenly across different demographic groups. At the global level, there is no specific pattern to informal employment by gender. In Viet Nam, however, informal employment is more prevalent among men than women, and, perhaps more importantly, informal employment among women fell significantly faster than among men between 2013 and 2019 (figure 3.8).²¹ This is primarily due to the nature of structural transformation in the country.

Figure 3.8. Prevalence of informal employment by gender (2013–19) (percentage of total employment)



Note: Informal employment is defined using the standard international ILO definition (see Section 2). The prevalence of informal employment is expressed as a percentage of the gender-specific total employment. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

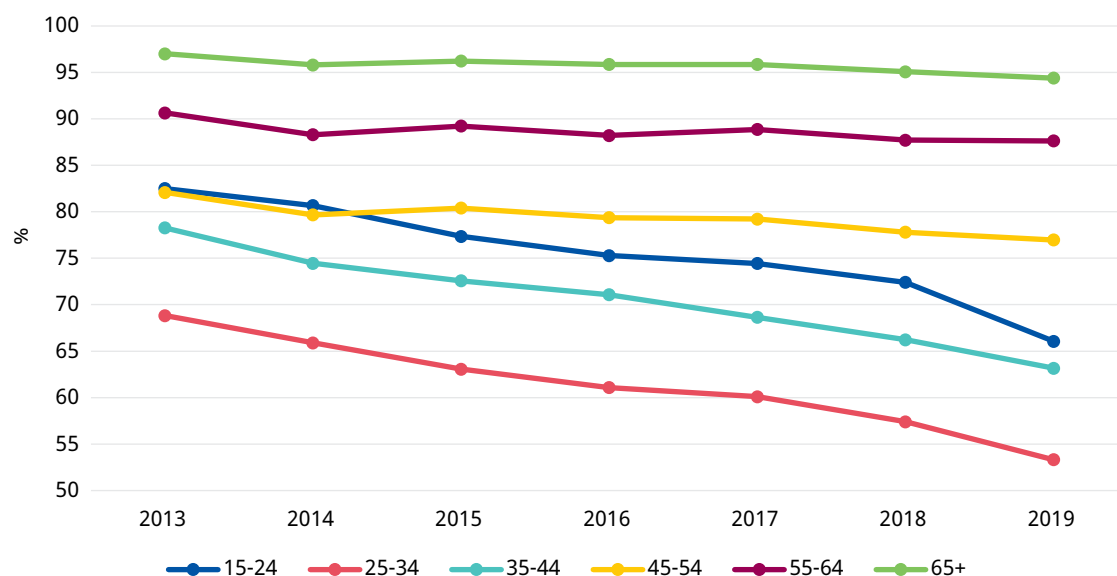
Specifically, female employment in agriculture – where the prevalence of informal employment is highest – has fallen faster than has male employment in the sector. Between 2013 and 2019, female agricultural employment fell by almost a half (45.7 per cent), while male agricultural employment fell by almost exactly one third (33.0 per cent). Similarly, although to a lesser degree, employment in manufacturing – where, as has been shown above, total employment has been growing fast while the prevalence of informality has been relatively low and falling – female employment has been growing faster than male employment. Between 2013 and 2019, female employment in the sector grew by 58 per cent and male employment by 52 per cent. Indeed, by 2019, there were nearly 1 million more female workers in the sector than male workers (specifically, 6.1 million women against 5.2 million men).

Looking across countries, the prevalence of informality typically follows a V-shaped pattern by age (ILO 2018). The share of workers in informal employment starts off high among young workers, then decreases with age, before increasing again. This is also – broadly – the case in Viet Nam; the

²¹ This, of course, does not imply by any means that women are by any means advantaged vis-à-vis men in the Vietnamese labour market. Indeed, the COVID-19 pandemic appears to have widened pre-existing gender gaps in the country. See, for example, ILO (2021).

prevalence of informal employment is highest among the over-65s, followed by those in the 55–64 age group. The lowest rates of informality are to be observed among those aged 25–34. Once again, examining the evolution of informal employment from 2013 to 2019, one can see that the pattern has been changing slightly (figure 3.9). In particular, the falling rates of informality over the period are clearly to be attributed to the decreasing involvement of the younger age groups in informal work. For those aged 45 or over, the prevalence of informality has remained nearly constant over the period, while for those aged under 45 there has been a clear downward trend.

Figure 3.9. Prevalence of informal employment by age group (2013–19) (percentages)



Note: Informal employment is defined using the standard international ILO definition (see Section 2). The prevalence of informal employment is expressed as a percentage of the age-specific total employment. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

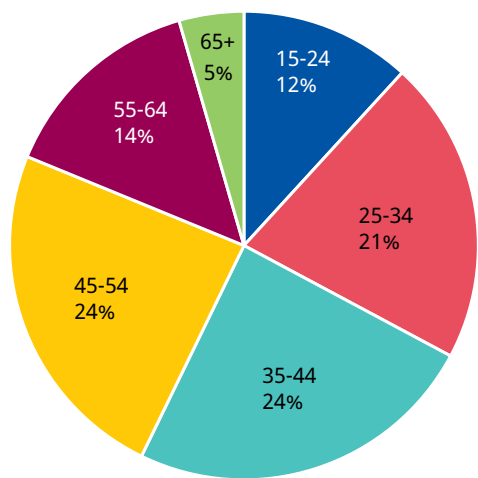
This trend is certainly encouraging and is examined in more detail in Section 4. Worth noting here is the fact that it does not tell us anything about how long individuals spend in informal employment over their lifetime or, in particular, whether workers in informal employment are able to progress to formal work. However, it does imply that either:

- over time, young people are becoming less and less likely to obtain informal jobs when they enter the labour market; and/or
- younger people are more able to exit informal employment than their older counterparts.

This issue will be examined further in the econometric analysis in Section 4 and in the analysis of transitions in Section 5. It is also important to bear in mind that members of the youngest and oldest age groups are the least likely to participate in the labour force, because a significant share of the youngest will still be in education, and many of the oldest will have already left the labour force for reasons of age and/or infirmity. Thus, the bulk – two thirds (69 per cent) – of informally employed workers are aged between 25 and 54 (figure 3.10).

Informal employment is particularly concentrated among own-account workers and contributing family workers (in households) compared with employees. In 2019, over 90 per cent of the self-employed (and, by definition, 100 per cent of contributing family workers) were informally employed, while under 50 per cent of wage workers had informal jobs (figure 3.11).

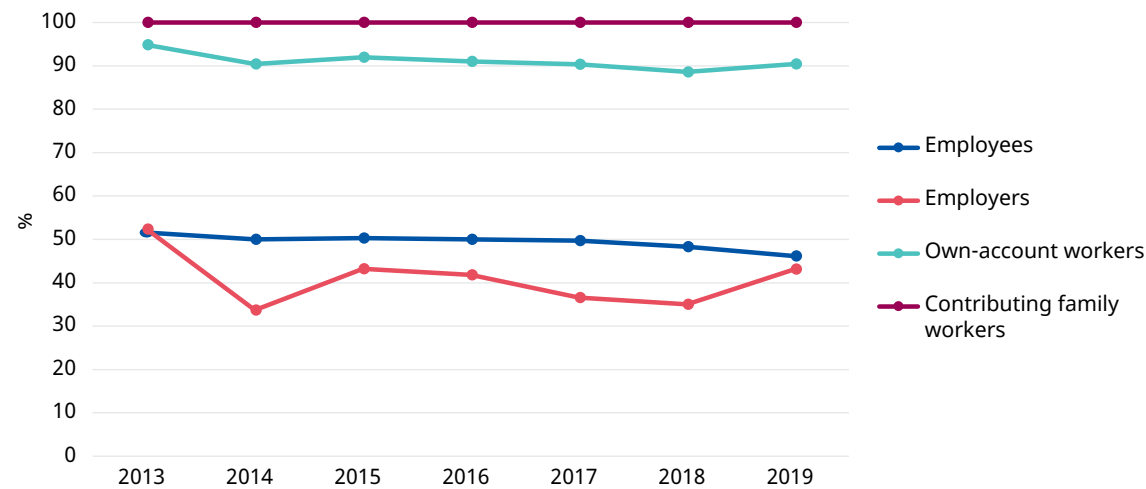
Figure 3.10. Distribution of informal employment by age group (2019) (percentage of total informal employment)



Note: Informal employment is defined using the standard international ILO definition (see Section 2). The chart breaks down total informal employment according to age group. Each slice represents the percentage of informal employment accounted for by a specific age group. For example, the largest slice shows that 24 per cent of the informally employed are aged between 45 and 54.

Source: Author calculations based on Viet Nam LFS micro-data.

Figure 3.11. Prevalence of informal employment by status in employment (2013–19) (percentage of total employment)



Note: The figure reports the share of informal employment in total employment (the prevalence of informal employment) specific to each employment status over the period 2013–19. Informal employment is defined using the standard international ILO definition (see Section 2). The figure excludes members of producer cooperatives, who numbered just over 1000 informal workers in 2019, or much less than one hundredth of 1 per cent. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

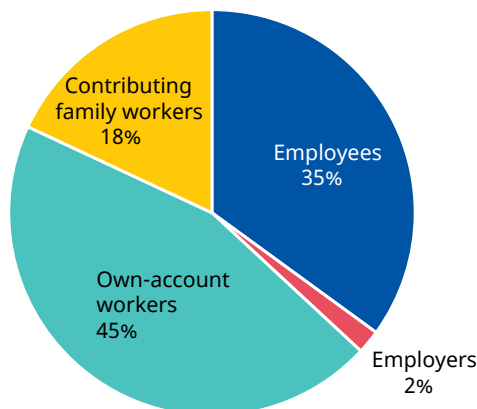
Source: Author calculations based on Viet Nam LFS micro-data.

Interesting here is that the falls in these percentages over time have been relatively slow, reflecting the fact that falling informality has as much to do with a shift from own-account to wage employment as it does with falling informality rates among either own-account workers or wage workers. The

prevalence of informality has indeed fallen among both groups, very slightly more among wage workers; however, this is far from sufficient to account for the fall in informality as a whole.²²

Despite the fairly rapid shift from own-account work to wage work, which is characteristic of countries that are developing rapidly, own-account workers still make up the largest share of informal workers (figure 3.12). However, informal wage workers are rapidly gaining on them and, in 2019, were only 10 percentage points behind (35 per cent versus 45 per cent for own-account workers).

Figure 3.12. Distribution of informal employment by status in employment (2019) (percentage of total informal employment)



Note: The figure reports the distribution of informal workers across different forms of employment in 2019. Informal employment is defined using the standard international ILO definition (see Section 2). The figure excludes members of producer cooperatives, who numbered just over 1000 informal workers in 2019, or much less than one hundredth of 1 per cent. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

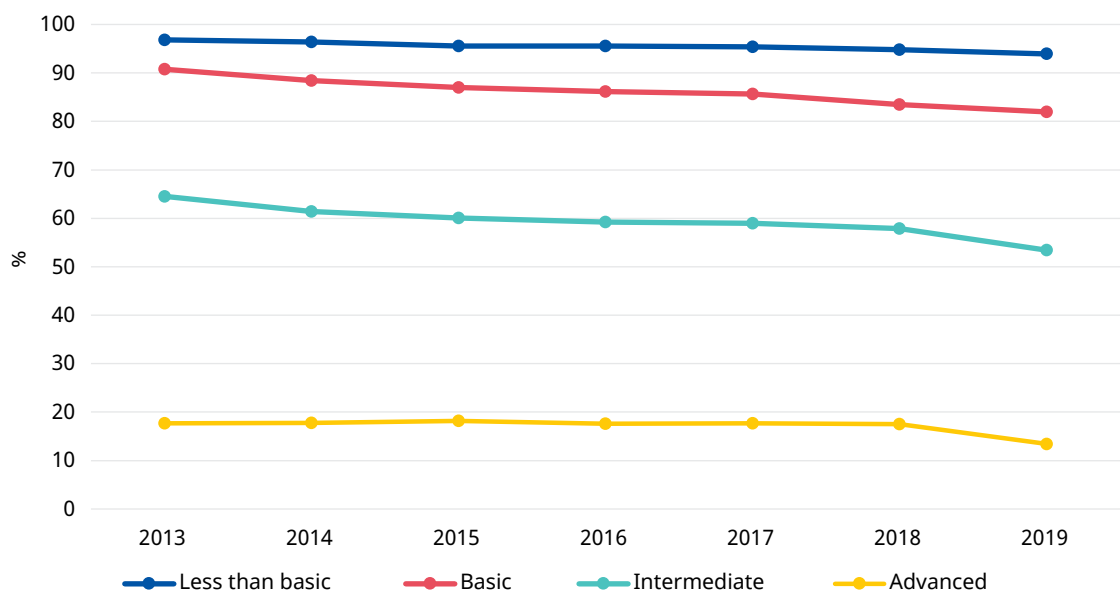
Source: Author calculations based on Viet Nam LFS micro-data.

Educational attainment is key...

Informal employment is, not surprisingly, concentrated among the least educated (figure 3.13). Again this conforms to what one might expect and what one sees in other countries. However, in Viet Nam, the distinctions are rather pronounced. Globally, 94 per cent of those with less than primary education are informally employed, while only 24 per cent of tertiary-educated workers have informal jobs. Among the low- and middle-income countries (or developing and emerging economies), the gap is narrower; the prevalence of informal employment is again 94 per cent among the least educated, but nearly one third (32 per cent) of tertiary-educated workers have informal jobs. In Viet Nam, the corresponding shares (in 2019) were 95 per cent and 14 per cent, respectively. While it is no doubt a positive thing that so few tertiary-educated graduates are informally employed, it does emphasize the strong labour market inequalities associated with informal employment. These are becoming more pronounced over time. During the period 2013 to 2019, the prevalence of informal employment among the least educated fell by less than 2 percentage points (from 96.8 per cent to 94.9 per cent), while among tertiary-educated workers, the corresponding reduction was almost 4 percentage points – or double that of the least educated (from 17.7 per cent to 14.0 per cent). Between these two extremes, informality rates declined the most for those with primary or secondary education – by around 7 and 9 percentage points, respectively.

22 Over the period, informal employment fell by around 5 percentage points among own-account workers (from 95 per cent to 90 per cent) and by around 6 percentage points among wage workers (from 52 per cent to 46 per cent), while the prevalence of informal employment fell by nearly 12 percentage points overall.

Figure 3.13. Prevalence of informal employment by educational attainment (2013–19)
(percentages)

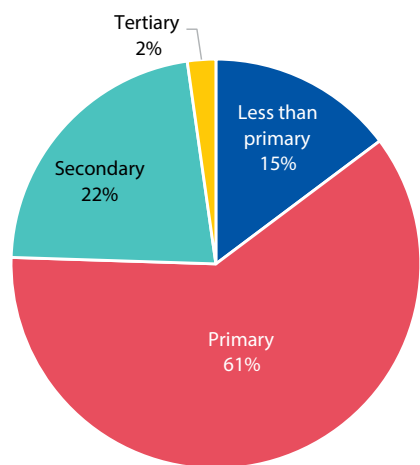


Note: Informal employment is defined using the standard international ILO definition (see Section 2). There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights .

Source: Author calculations based on Viet Nam LFS micro-data.

Although Viet Nam has achieved impressive progress in moving towards universal basic education (ILO 2019),²³ the bulk of the Vietnamese labour force as a whole still has only primary education or less. Because the prevalence of informal employment falls with increasing educational attainment, this means the vast majority of informal workers in the country (61 per cent) have only primary education (figure 3.14). At the other extreme, only 2 per cent of informal workers have tertiary-level degrees.

Figure 3.14. Distribution of informal employment by educational attainment (2019)
(percentages)



Note: Informal employment is defined using the standard international ILO definition (see Section 2).

Source: Author calculations based on Viet Nam LFS micro-data.

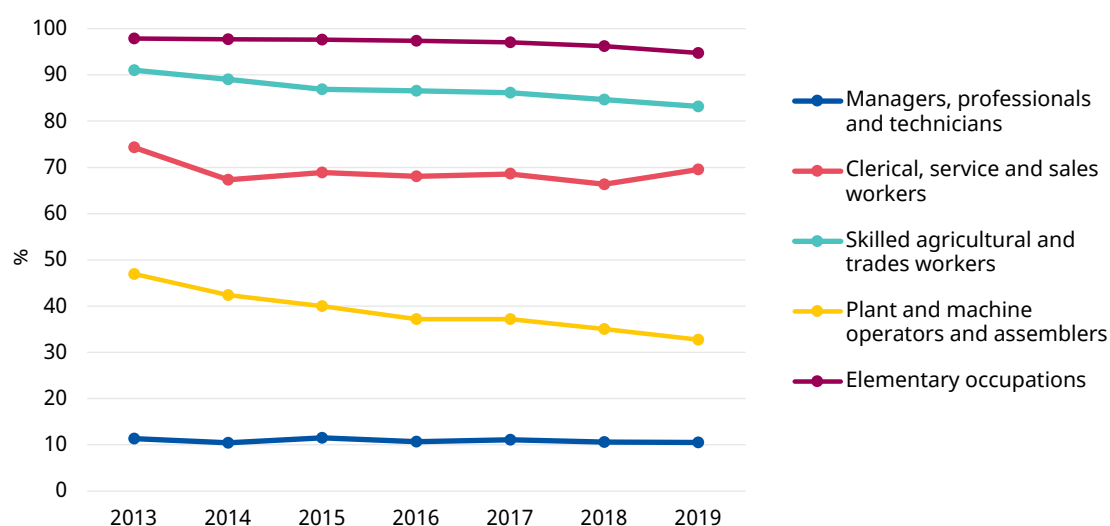
²³ In 2018, 97 per cent of children completed at least primary education in Viet Nam. This compares favourably with the 94 per cent primary completion rate for children in South East Asia and 84 per cent in lower-middle-income countries as a whole (UNESCO 2020).

...which is also reflected in the skills levels of informal workers

This pattern is reflected in the skills levels of informal workers. The prevalence of informal employment is highest among workers in elementary occupations and lowest among managers and professionals. Once again it is the mid-level occupations that have seen the greatest fall in the prevalence of informality. The informality rate for plant and machine operators fell from 47 per cent to 33 per cent between 2013 and 2019, a 14 percentage point decrease (figure 3.15). Also encouraging, since they comprise a large portion of the Vietnamese workforce, is the substantial reduction in informality observed for skilled agricultural workers, from 91 per cent to 84 per cent during the same period.

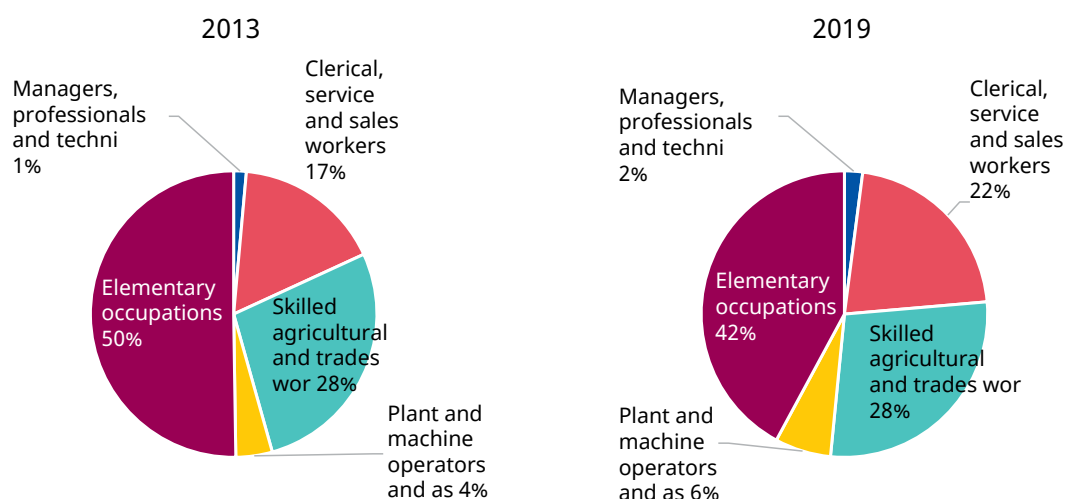
Of course, those in unskilled jobs are by some distance the largest group among the informally employed. However, the share of informal employment accounted for by elementary occupations has fallen quite sharply – from 50 per cent to 42 per cent between 2013 and 2019 (figure 3.16). In contrast, the share of skilled agricultural workers and tradesmen among the informally employed has remained more or less constant, at 28 per cent over the period.

Figure 3.15. Prevalence of informal employment by occupation (2013–19) (percentages)



Note: Informal employment is defined using the standard international ILO definition (see Section 2). There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam Labour LFS micro-data.

Figure 3.16. Informal employment by occupation, 2013 and 2019 (percentages)

Note: Informal employment is defined using the standard international ILO definition (see Section 2).

Source: Author calculations based on Viet Nam LFS micro-data.

Emerging patterns in informal employment

Taking these various trends and observations together, one begins to see a clear pattern underlying the shifting nature and characteristics of informal employment in Viet Nam, which can be summarised as follows:

- There has been a strong movement of workers out of agriculture and into manufacturing and (market) services. At the same time there has been a strong reduction in the prevalence of informality among agricultural and trades workers, although these workers have continued to make up over one quarter of the informally employed. Moreover, there has also been a sharp reduction in the proportion of low-skilled workers among the informally employed. Identifying precisely what underlies this would require deeper investigation, which would go beyond the scope of this overview. However, it is clear that structural changes in employment in Viet Nam are driving the reductions in informal employment. The reduction in informality within elementary occupations and the reduction in the informality rate for workers in skilled trades are almost certainly results of a shift from agricultural employment to manufacturing and services.
- At the same time, informality rates among the young and more educated point to the fact that these changes are being driven by younger, more-educated members of the workforce entering new formal jobs, primarily in the manufacturing sector.
- More generally, the heterogeneity of informal employment illustrated here serves to emphasize the need for varied approaches to combating it, tailored to the local, sectoral and occupational realities. To date, the rapid economic growth and consequent rapid structural transformation that the country has been undergoing for some decades now has meant a substantial reduction in the prevalence of informal employment. Yet, on its own, this is clearly not enough. The shift of employment from agriculture to manufacturing has led to significant falls in informal employment, but the corresponding expansion of market services has also produced new sources of informality.

These issues shall be returned to in Section 6.



► 4. Determinants of informality

As noted at the outset, informal employment is both an indicator of the level of development of an economy – as GDP rises, the prevalence of informal employment tends to fall – and an impediment to development. Informal enterprises tend to be small and relatively unproductive, partly as a consequence of their informality, and informal firms and workers do not pay taxes on the income they generate, which has implications for the tax burden on others in the economy and the consequent ability of the economy to grow.

The negative relationship between GDP and the prevalence of informality across countries is well documented (La Porta and Schleifer 2008, 2014; McCaig and Pavcnik 2015); on average, the wealthier a country, the lower the prevalence of informal employment. However, the corresponding relationship between economic growth and falling informal employment within countries is much less clear cut (e.g. ILO 2013a, chap. 3; O'Higgins 2017, chap. 7). Economic growth on its own is by no means sufficient to reduce informal employment. For example, in Latin America and Southeast Asia the informal employment share increased between 1980 and 2010 despite strong economic growth (OECD 2009).²⁴ Efforts to reduce informality need to be based on a coordinated and comprehensive approach, which has an economic development strategy as its central, but not its only, component. As noted above, in Viet Nam rapid economic growth has involved a reduction in agricultural employment. This has been accompanied by rapid expansions of both manufacturing and service sector employment; however, it is the former which is clearly primarily responsible for the reductions in informal employment.

²⁴ In more recent years this trend has been reversed in Latin America owing to the concerted efforts of governments in the region to formalize employment and economic activity. Indeed, Latin America provides a number of examples of approaches to formalization, and measures addressing young workers specifically, which will be returned to below.

The analysis of trends and characteristics of informality in Viet Nam given in Section 3 has served to emphasize the importance of the substantial structural changes in employment over the past decade, driven primarily by the rapid expansion of formal employment in manufacturing. In order to take the analysis one stage further, this section examines in more detail the individual determinants of informal employment in Viet Nam. Simple econometric models of the probability of individuals being informally – as opposed to formally – employed are estimated on the basis of micro-level LFS data (table 4.1).²⁵ This allows us to say something more about the factors that determine which people are informally employed and which are formally employed.

Taken as a whole, the results of the econometric estimation largely confirm the impression arising from the descriptive statistics reported above. Moreover, with the partial exception of urban areas, the models have extremely high explanatory power.²⁶ However, one should be careful in interpreting these associations as causal relationships. Rather, the models allow us to identify more precisely these associations, offer some interpretations of them, and thus shed some light on the underlying relationships:

- **Informal employment is strongly – and negatively – associated with both educational attainment and skills.** Taken together, these factors are the most important determinants of whether an individual is employed informally or formally. This is true for both men and women, and also for every region (table 4.1, appendix table I.4). Although these factors are highly correlated – highly skilled jobs are typically held by highly educated individuals – it is also interesting that they both play a role.
- As one would expect, **economic sector is also a crucial determinant of whether a person works informally or formally.** As we have already seen, formal employment is particularly pronounced – and has grown rapidly – in the manufacturing sector. Formal employment is also dominant in mining and quarrying, although that sector employs relatively few people.
- Even controlling for economic sector, **the probability of being in informal employment is higher in regions where agricultural employment is predominant.** Moreover, even within regions, the probability of being informally employed is higher in rural areas than in urban areas.
- **Women are less likely than men to be informally employed.** This is true whether one uses the ILO or GSO definition of informality. The gender difference is more pronounced using the GSO definition, which reflects the greater (relative to men) engagement of women in the informal sector in urban areas and, more generally, outside of agriculture. The gender difference is also smaller than one might expect from an examination of the descriptive statistics, suggesting that other factors included in the model are involved in determining gender differences. There is quite a lot of regional variation in these differences, with women being more likely to be engaged in informal employment in the Northern Midlands and Red River Delta regions and less in the North Central and the Mekong River Delta regions (appendix table I.4). Moreover, there are substantial differences in the gender-specific marginal effects associated with the sectoral coefficients for men and women (table 4.1, columns 2 and 3). This suggests that it is occupational differences within sectors which are playing an important role. Clearly, this is an issue worthy of further investigation.

²⁵ Separate estimates by region are reported in appendix table I.4.

²⁶ For all the models except in urban areas, the pseudo R^2 is close to 0.5, which is extremely high for such a cross-section micro-econometric model. Even in urban areas, the pseudo R^2 is close to 0.35, which is still high for such models.

- **Age is also an important determinant of informal employment.** As in other countries (ILO 2018), informal employment is most prevalent among the oldest and youngest cohorts (table 4.1). The age pattern of informality does vary quite a lot across regions (appendix table I.4).
- **The age distribution explains part of the gender differences** in informal versus formal employment noted above. There is more age variation in informal employment among women than among men, with a concentration of formal employment among young adult women (aged 25–34) and of informal employment among older women (aged 55–64).
- **Single people are more likely to be informally employed than married ones.** This is slightly surprising and contrasts with, for example, the findings from a similar model, which was estimated just for young people across a variety of countries (O'Higgins 2017, chap. 7). Again, more investigation of this issue would be worthwhile.

Table 4.1. Probit model of informal (vs. formal) employment (2018)

Variables	(1)	(2)	(3)	(4)	(5)	(6)
	All	Men	Women	Urban	Rural	All - GSO
Sex						
Female	–0.003*** (0.001)			0.005** (0.002)	–0.007*** (0.001)	–0.019*** (0.001)
Age						
Age 25–34	–0.032*** (0.002)	–0.025*** (0.003)	–0.041*** (0.003)	–0.065*** (0.005)	–0.022*** (0.002)	–0.034*** (0.002)
Age 35–44	–0.034*** (0.002)	–0.034*** (0.004)	–0.032*** (0.003)	–0.084*** (0.005)	–0.017*** (0.003)	–0.039*** (0.002)
Age 45–54	–0.005** (0.002)	–0.010*** (0.004)	–0.001 (0.003)	–0.051*** (0.005)	0.012*** (0.003)	–0.020*** (0.002)
Age 55–64	0.034*** (0.003)	0.029*** (0.004)	0.045*** (0.004)	0.003 (0.006)	0.046*** (0.003)	0.004 (0.003)
Age 65+	0.080*** (0.005)	0.089*** (0.006)	0.074*** (0.007)	0.073*** (0.009)	0.079*** (0.005)	0.008** (0.004)
Marital status						
Married/union/cohabiting	–0.035*** (0.002)	–0.044*** (0.002)	–0.019*** (0.002)	–0.060*** (0.003)	–0.022*** (0.002)	–0.037*** (0.002)
Educational attainment						
Basic	–0.068*** (0.002)	–0.065*** (0.003)	–0.067*** (0.004)	–0.087*** (0.006)	–0.056*** (0.002)	–0.059*** (0.002)
Intermediate	–0.157*** (0.003)	–0.158*** (0.004)	–0.149*** (0.004)	–0.209*** (0.006)	–0.126*** (0.003)	–0.149*** (0.003)
Advanced	–0.253*** (0.004)	–0.265*** (0.006)	–0.231*** (0.006)	–0.334*** (0.008)	–0.207*** (0.005)	–0.237*** (0.003)
Occupational skill level						
Medium-level skill	–0.107*** (0.002)	–0.097*** (0.003)	–0.118*** (0.003)	–0.134*** (0.005)	–0.089*** (0.002)	–0.051*** (0.002)

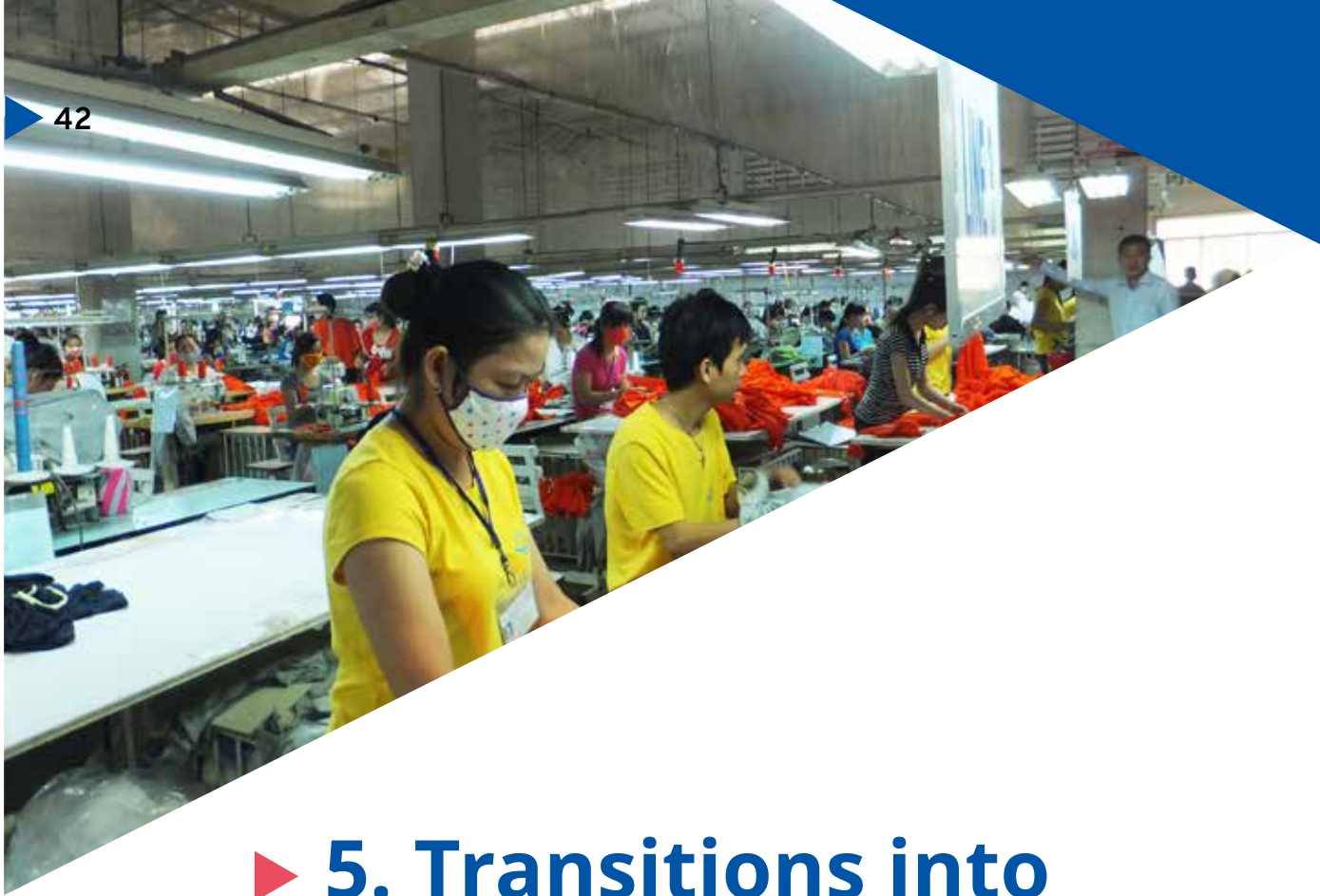
Variables	(1)	(2)	(3)	(4)	(5)	(6)
	All	Men	Women	Urban	Rural	All - GSO
High-level skill	-0.344*** (0.005)	-0.325*** (0.006)	-0.357*** (0.007)	-0.422*** (0.007)	-0.304*** (0.007)	-0.239*** (0.003)
Economic activity						
Manufacturing	-0.421*** (0.003)	-0.372*** (0.004)	-0.465*** (0.004)	-0.476*** (0.005)	-0.379*** (0.004)	0.469*** (0.002)
Construction	-0.031*** (0.002)	-0.016*** (0.002)	-0.111*** (0.007)	-0.087*** (0.006)	-0.008*** (0.002)	0.880*** (0.002)
Mining and quarrying; Electricity, gas and water supply	-0.464*** (0.009)	-0.457*** (0.010)	-0.486*** (0.017)	-0.586*** (0.010)	-0.354*** (0.013)	0.450*** (0.009)
Market services (Trade; Transportation; Accommodation and food; and Business and administrative services)	-0.194*** (0.002)	-0.206*** (0.003)	-0.189*** (0.003)	-0.267*** (0.004)	-0.148*** (0.002)	0.702*** (0.002)
Non-market services (Public administration; Community, social and other services and activities)	-0.286*** (0.003)	-0.298*** (0.005)	-0.281*** (0.005)	-0.350*** (0.006)	-0.249*** (0.005)	0.606*** (0.003)
Geographical location						
Rural	0.021*** (0.001)	0.025*** (0.002)	0.017*** (0.002)			0.015*** (0.001)
Country region						
Northern Midlands and Mountain Areas	0.034*** (0.002)	0.050*** (0.003)	0.010*** (0.003)	0.008** (0.004)	0.047*** (0.003)	0.013*** (0.002)
Red River Delta	0.072*** (0.002)	0.074*** (0.003)	0.066*** (0.003)	0.092*** (0.004)	0.072*** (0.003)	0.071*** (0.002)
North Central area and Central Coastal	0.069*** (0.002)	0.069*** (0.003)	0.063*** (0.003)	0.082*** (0.004)	0.070*** (0.003)	0.092*** (0.002)
Central Highlands	0.049*** (0.003)	0.061*** (0.004)	0.029*** (0.004)	0.058*** (0.005)	0.057*** (0.004)	0.036*** (0.003)
Mekong River Delta	0.067*** (0.002)	0.066*** (0.003)	0.068*** (0.003)	0.094*** (0.004)	0.065*** (0.003)	0.071*** (0.002)
Observations	459,163	235,465	223,698	185,428	273,735	459,163
Standard errors in parentheses						

Notes: The table reports marginal effects from a probit model of the probability of being in informal employment as opposed to formal employment. A negative effect implies that the variable is associated with a greater probability of being in formal (as opposed to informal) employment. The omitted (default) categories are: Male for sex variable; Age 15–24 for age variables; Single for marital status; Less than primary education for educational attainment variables; Low-level skill for skill levels; Agriculture, forestry and fishing for the economic activities; Urban for geographic location; and South East region for the regions. Statistical significance is indicated as follows: *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$. Standard errors are given in parentheses. See Appendix I for more detailed description and descriptive statistics of the variables included.

Source: Author calculations based on Viet Nam LFS micro-data, 2018.

On the one hand, the econometric results presented here serve to emphasize the broad general pattern observable in the country as a whole, made evident by the descriptive statistics outlined in Section 3. Thus, the importance of structural transformation on the demand side and rapid growth in educational attainment on the supply side finds confirmation here. On the other hand, however, these results also allow us to identify more subtle variations across regions, sectors and individual characteristics, which serve to reinforce the importance of taking into account geographical, sectoral and gender specifics in promoting the formalization of employment in the country. Structural transformation, the growth of manufacturing employment and the increasing levels of education in the population have achieved much, but still two thirds of Vietnamese workers remain in informal employment. These macro-level policies, fundamental though they are, now need to be accompanied by more fine-tuned policies and programmes to accelerate the formalization of employment.





► 5. Transitions into and out of informal employment: Is informality a stepping stone or a dead end?

During their working lives, workers experience a number of changes in their situation in the labour market. They move into and out of employment, and might move from informal into formal employment or vice versa. A worker that is currently in informal employment might either remain informal for a long time period or become formal at a certain point. Alternatively, the worker might drop out of employment, either because of personal circumstances and decisions or as a result of being laid off. Labour markets are hence not static but dynamic in nature.

In the context of informality, traditional labour market analyses typically focus on how many workers at a given point in time are in formal employment, informal employment or out of employment. This often ignores the underlying dynamics, as workers move between those different labour market statuses. Looking at the numbers of workers that move between these statuses (“flows”) is relevant and can complement information on the number of workers in a particular status at a given point of time (“stock”). For example, two countries may have exactly identical shares of workers in formal

employment. However, one country might be characterized by large numbers of workers moving into and out of formal employment within a certain time period, while the other country might be characterized by very limited mobility into and out of formal jobs. These differences in labour market dynamics can give rise to very different policy recommendations, which hints at the importance of considering labour market transitions in labour market analyses.

LFS data in Viet Nam are particularly well suited to the analysis of labour market transitions, as the surveys are conducted as an overlapping panel. Individuals respond to the survey not just once, but twice over two consecutive quarters, which allows us to observe whether the labour market situation of individuals has changed between those quarters (Samaniego and Viegelahn, 2021). This information is valuable, because – in the context of informality – an analysis of workers' transitions can provide some insights into whether informality is a stepping stone towards formality or whether workers are likely to remain in informal employment for long periods of time and with low likelihood of exit.

This section presents the probabilities²⁷ that workers will transfer between informal employment, formal employment and non-employment, or will remain where they currently are, between one quarter and the next (see Appendix II for methodological details).²⁸ Data are available for 2013 to 2019. Probabilities are shown for all workers, and also by sex, age group, level of educational attainment and geographical area.

Informal employment is quite persistent over time

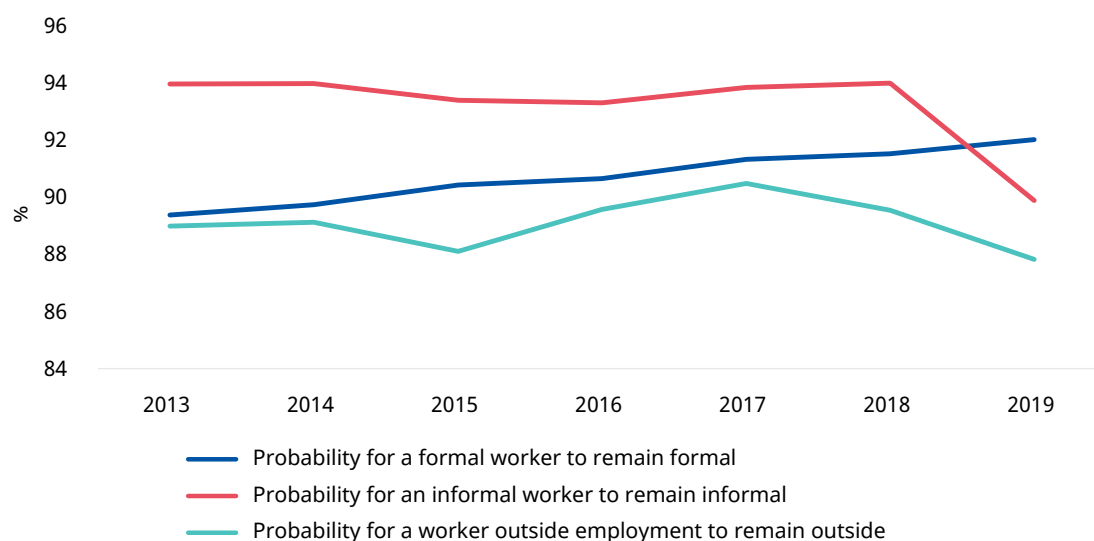
On average, workers remain in a job for several years. This means that the vast majority of workers will not experience a transition between one quarter and the next, but will rather remain in the job that they are currently in. This is reflected in the relatively high probabilities for an informal worker remaining informal and for a formal worker remaining formal. In 2013 to 2018, the probability that an informal worker would remain informal in the coming quarter was about 94 per cent to (figure 5.1), indicating a relatively high persistence of informality. The probability dropped to 90 per cent in 2019, which was related to significant revisions of the weights used in the survey (see note below figure 5.1), which is still high. Once a worker is in informal employment, it is very likely that he or she will remain in informal employment for some time.

The probability of remaining in formal employment has slowly but steadily increased over time, from 89 per cent in 2013 to 92 per cent in 2019, which is a sign of higher job security and longer job tenure for workers in formal employment. In other words, it has become more likely over time that a worker with a formal job will remain in formal employment.

27 The term “probability” is used here in line with the terminology applied in the academic literature. See for example Shimer (2012) or Elsby, Hobijn and Şahin (2013).

28 Using these short-term measures and looking at transitions from one quarter to the next is not only due to data availability, but also allows for an accurate picture of labour market transitions to be drawn. If workers were observed only every 5 years, one would likely miss some transitions that had occurred within that time period, as workers might have moved between formal employment, informal employment and non-employment several times within those 5 years. In any case, short-term transitions directly relate to long-term transitions. For example, if the probability of an informal worker moving into formality within the next quarter is low, and if it remains low for a long time period, the probability of that worker moving into formal employment over the longer term will also be low.

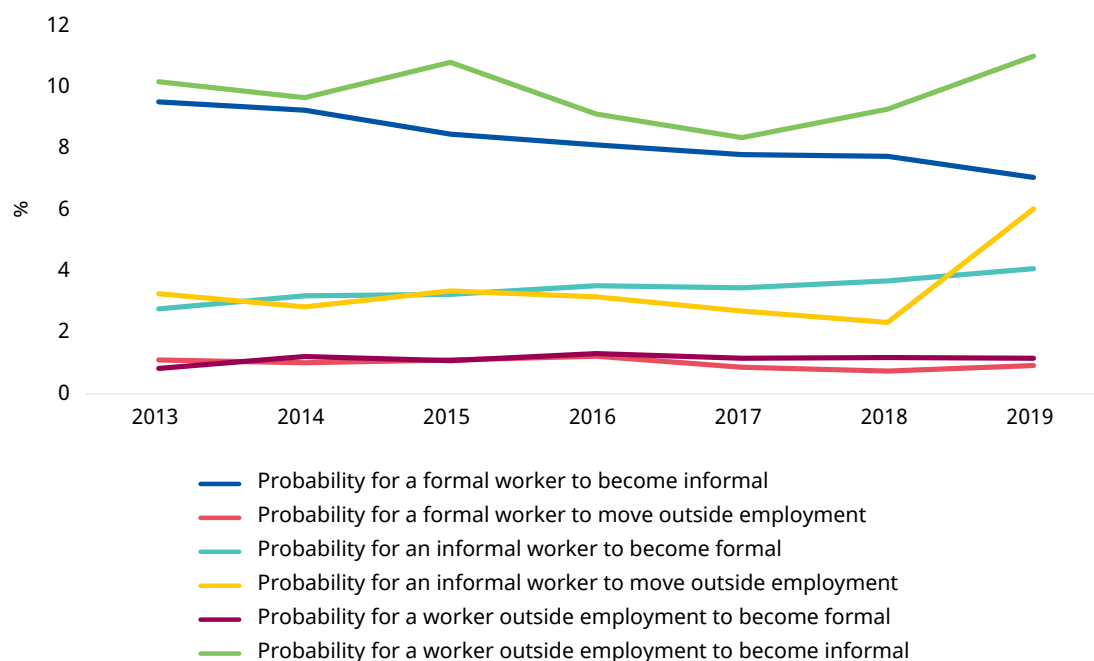
Figure 5.1. Probability that a worker remains formal, informal or out of employment in the next quarter, all workers (2013–19) (percentages)



Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3 and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

Figure 5.2. Probability that a worker changes status in the next quarter, all workers (2013–19) (percentages)



Notes: See figure 5.1.

Source: Author calculations based on Viet Nam LFS micro-data.

Informal employment is more easily accessible than formal employment for workers out of employment

Even though most workers remain in their current labour market situation, there are some workers who move between formality, informality and non-employment (figure 5.2). The probability that a worker outside employment moves into formal employment has been stable at around only 1 per cent. This is indicative of high entry barriers into formal employment for workers who do not have a job. In contrast, the transition from non-employment to informal employment appears much easier, with the probability of transition varying between 9 per cent and 12 per cent.

Workers outside employment include those who are unemployed (and hence available to work and actively looking for a job) and those who are economically inactive (see Section 2 for definitions of labour market status). Unemployed workers are hence naturally more likely to move into employment. However, even when focusing on these workers only, informal employment is much more accessible than formal employment. The probability of an unemployed worker becoming formally employed in the next quarter varied between 5 per cent and 9 per cent from 2013 to 2019, while the probability of an unemployed worker finding an informal job was much higher, varying between 27 per cent and 39 per cent.

Informal employment is a stepping stone to formal employment, but only for a few workers

Only few workers manage to use informal employment as a stepping stone to formal employment. The probability of an informal worker moving into formal employment has increased slowly, but steadily, over time, from 2.8 per cent in 2013 to 4.1 per cent in 2019. It has, therefore, increasingly become possible for informal workers to move into formal employment. However, the share of workers who are able to use informal employment as a stepping stone to formal employment can be considered relatively small – smaller than the share of workers who transit in the other direction, from formal into informal employment. The probability of a formal worker becoming informal stood at 7.1 per cent in 2019, down from 9.5 per cent in 2013.

These two trends – the increasing probability of moving from informal to formal employment and the decreasing probability of moving in the opposite direction – are driving the decline in the prevalence of informal employment observed between 2013 and 2019, as documented in Section 3 (figure 3.1). With more workers over time moving out of informal and into formal employment, and fewer workers moving out of formal and into informal employment, the share of informal workers has been decreasing over time.

The transition from informal to formal employment is not automatic. The extent to which informal employment is either a stepping stone or a dead end depends on a variety of factors. Informal employment is more likely to serve as a stepping stone if it allows workers to accumulate skills on the job and to gain expertise and work experience that are valued in the job market. This transition to formal employment is also more likely to happen for an informal worker if his or her job allows for professional networking (Slonimczyk and Gimpelson 2015; Danquah, Schotte and Sen 2019). However, informal employment is more likely to be a dead end, due to skills depreciation and the stigma associated with informal jobs. Moreover, workers who search for a formal job at the same time as having to work in an informal job, to sustain their living, have been shown to be less successful in their job search efforts than workers who are unemployed (Fields 1990).

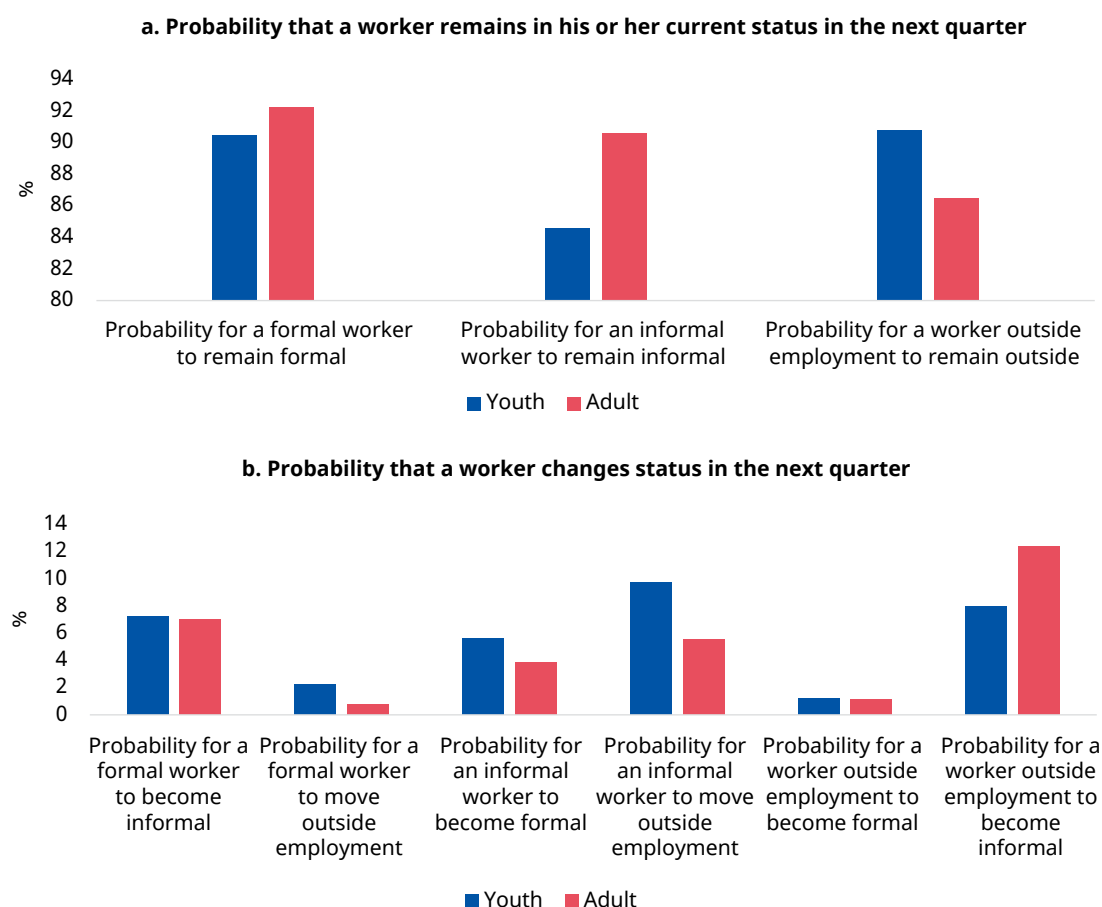
The following subsections look at particular subgroups of workers and their probabilities of moving between formal employment, informal employment and out of employment.

Young workers have shorter employment spells, but are more likely to use informal employment as a stepping stone

Young workers aged 15–24 have a lower probability of remaining in either informal or formal employment than adult workers, indicating that workers in the early stages of their career have less job security and higher job mobility (figure 5.3). Less secure forms of employment increasingly tend to dominate the entry-level jobs available for young workers (ILO 2020c). The boom in wage employment over the recent years, which Viet Nam too has experienced, has led to more casual and temporary wage employment for youth (ILO 2017).²⁹ Being jobless, young workers are more likely than adult workers to remain in their current situation. This can either be a sign of labour market entry barriers for youth or could simply reflect continuing attendance in education or the increased importance of family responsibilities for young workers relative to adults.

Young workers have a higher probability of moving outside employment than adults. The probability of a young informal worker moving outside employment is higher than the corresponding probability for a young formal worker. This is likely to be, at least partially, driven by young parents – usually women – who might find it easier to keep a formal job than an informal job after the birth of a child. This is due to the maternity protection that is associated with formal jobs, but which is often absent from informal jobs.

Figure 5.3. Transition probabilities by age group (2019) (percentages)



Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3 and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition. Youth are workers aged 15–24.

Source: Author calculations based on Viet Nam LFS micro-data.

²⁹ According to ILOSTAT, the share of wage employment in Viet Nam grew from 33.7 per cent in 2010 to 51.2 per cent in 2019.

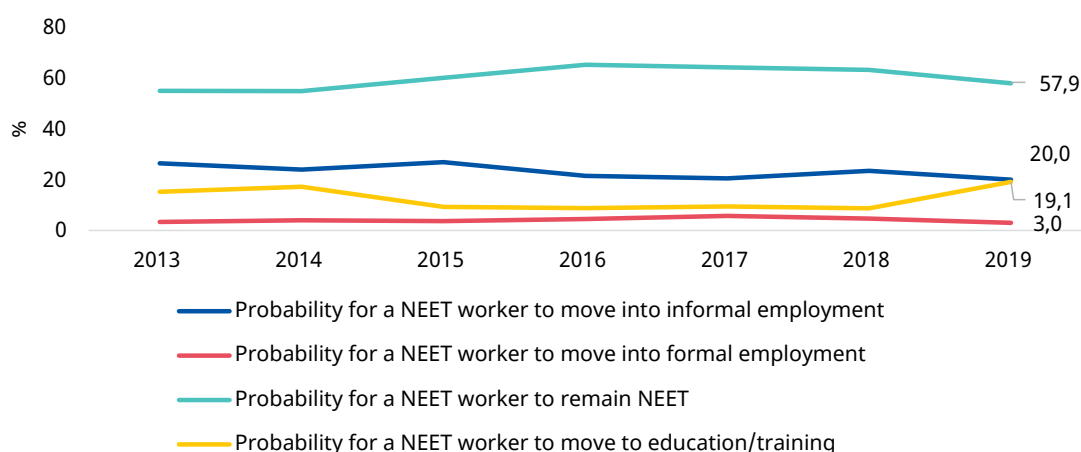
Young workers are more easily able to use informal employment as a stepping stone to a formal job than are adult workers. For informal young workers, the probability of moving into formality was 5.6 per cent, compared with 3.9 per cent for adults. On the one hand, this could be a sign that younger workers are more likely to be in informal jobs that provide some opportunities for learning and networking, creating the necessary conditions to transit into formal employment. On the other hand, it could be driven by the fact that contributing family work – which is informal – does tend to be a temporary category for many adolescents, especially young women, who then move into something else (ILO 2013b; Elder and Kring 2016). When distinguishing between young men and young women, it is seen that young women showed a slightly higher probability (7.4 per cent) of moving from informal to formal employment than young men (4.6 per cent). In contrast, there was barely any difference between the probabilities of adult women and adult men transitioning from informal to formal employment.

For young workers who are not in employment, education or training, the probability of finding an informal job is more than six times higher than for finding a formal job

In 2019, 14.6 per cent of young workers aged 15–24 were not in employment, education or training (NEET).³⁰ A young worker who is either unemployed or inactive, but not in education or training, is much more likely to escape his or her situation by finding an informal job than a formal job. The probability of a young NEET worker exiting NEET status and moving into informal employment in the next quarter has been declining, from 26.5 per cent in 2013 to 20.0 per cent in 2019 (figure 5.4). However, this probability is still about six times higher than the probability of a young NEET worker finding a formal job, which was 3.0 per cent in 2019.

Young women are less likely than young men to move from NEET status into informal employment, and are about equally likely to move into formal employment. However, in 2019, 57.9 per cent of young workers who were NEET in one quarter were still NEET in the next quarter.

Figure 5.4. Transition probabilities for youth aged 15–24 who are not in employment, education or training (NEET) (2013–19) (percentages)



Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3 and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition. Young workers are workers aged 15–24. There is a significant break in the LFS data series between 2018 and 2019 primarily due to a major revision of survey weights.

Source: Author calculations based on Viet Nam LFS micro-data.

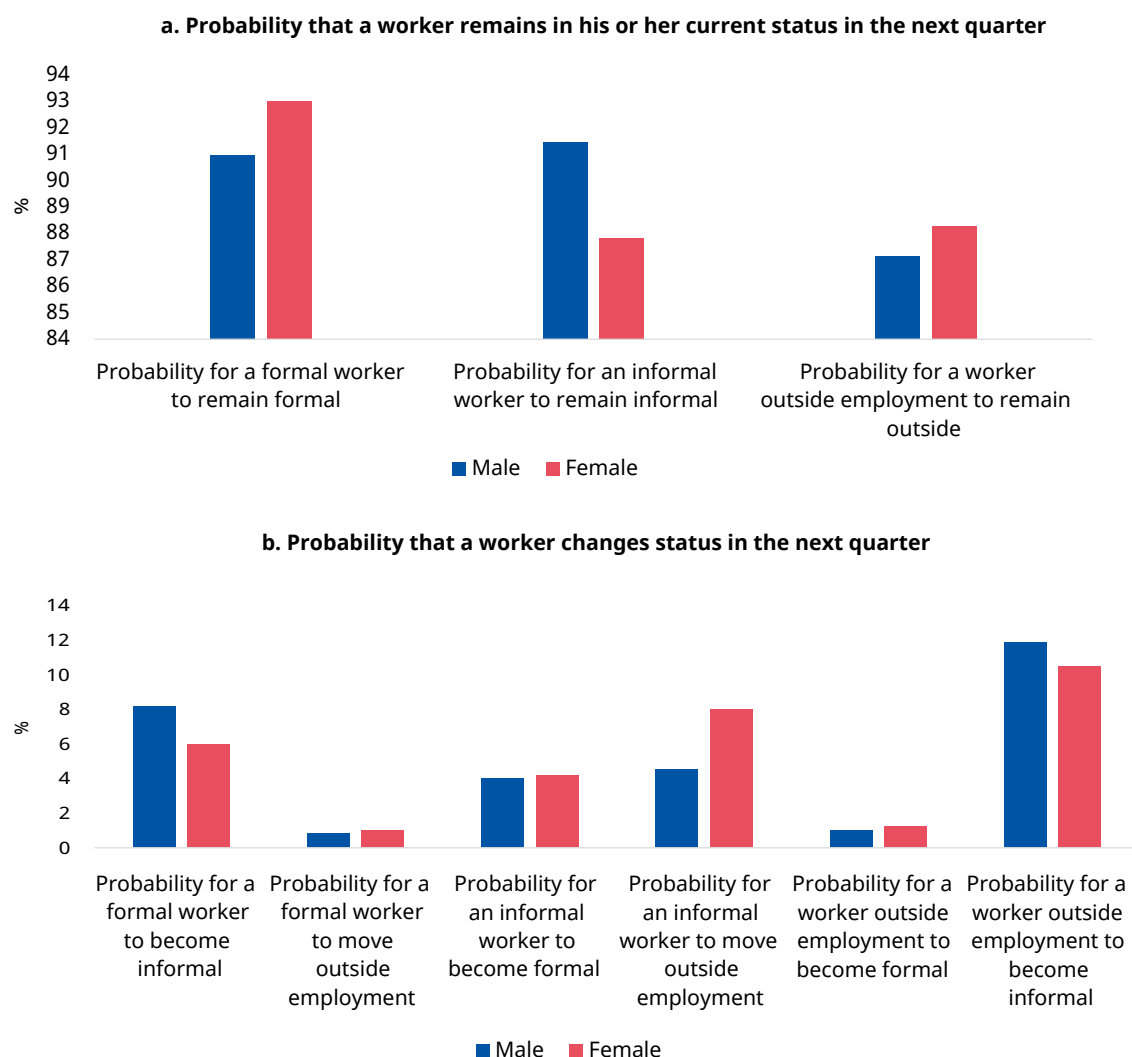
³⁰ Data are taken from ILOSTAT.

Women are more likely than men to exit informal employment and move out of employment

Analysis of transitions by sex reveals that women in formal employment are slightly more likely than men to remain in formal employment (figure 5.5). In contrast, women in informal employment are less likely to remain in informal employment than men, and they are nearly twice as likely as men to move from informal employment to non-employment. At least some of this pattern could be driven by young women who become mothers or take on unpaid care work or other family responsibilities at home, preventing them from keeping their informal job. New mothers who are in formal employment might more easily be able to keep their job due to maternity protection, which only women in formal jobs can benefit from.

The probability of a woman in formal employment moving to informal employment is lower than the corresponding probability for men. However, women are slightly more likely than men to move from informal to formal employment – this is driven predominantly by young women (see above).

Figure 5.5. Transition probabilities by sex (2019) (percentages)



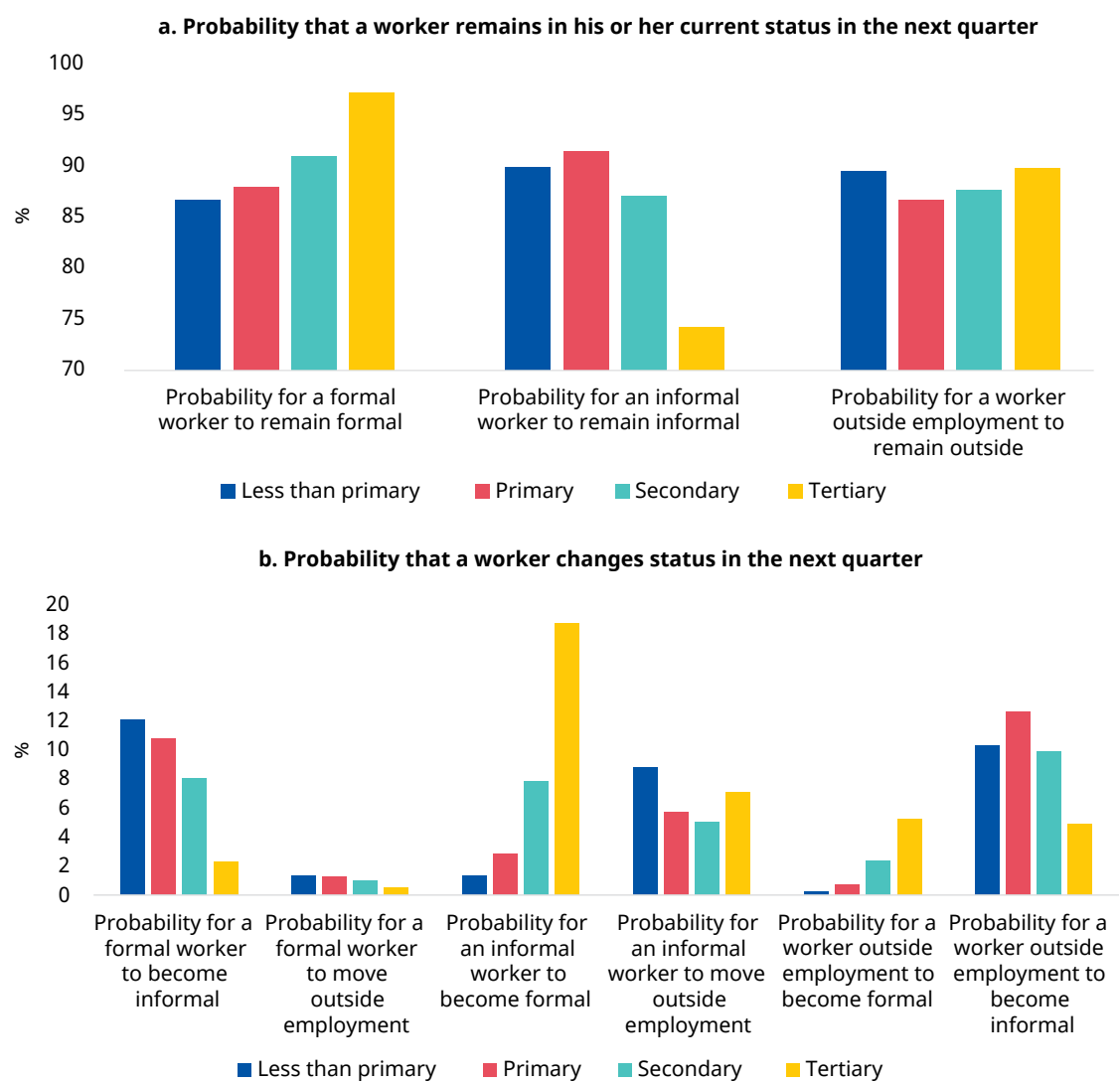
Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3, and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition.

Source: Author calculations based on Viet Nam LFS micro-data.

Education is key for the transition of workers from informal to formal employment

Educational attainment is a key factor in determining whether a worker is in informal employment or not (see Section 4). It is hence not surprising to see that it is also a key factor that impacts on the probabilities of workers transiting between formality, informality and non-employment. The higher the educational attainment level of workers, the higher their probability of remaining in formal employment and the lower their probability of moving outside employment or into informal employment (figure 5.6).

Figure 5.6. Transition probabilities by level of educational attainment (2019) (percentages)



Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3 and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition.

Source: Author calculations based on Viet Nam LFS micro-data.

In contrast, the probability of remaining in informal employment tends to decrease with higher educational attainment levels, and is especially low for those with tertiary education. However, this is not because more-educated informal workers are more likely to lose their job and move outside employment, but rather because more-educated workers are much more likely to move

from informal into formal employment; in 2019, the overall probability of moving from informal to formal employment was 4.1 per cent, but it was 18.7 per cent for workers with tertiary education, 7.8 per cent for workers with secondary education, 2.8 per cent for workers with primary education and 1.3 per cent for workers with less than primary education. However, even those informal workers with tertiary education still had a probability of 74 per cent for remaining in informal employment in the next quarter.

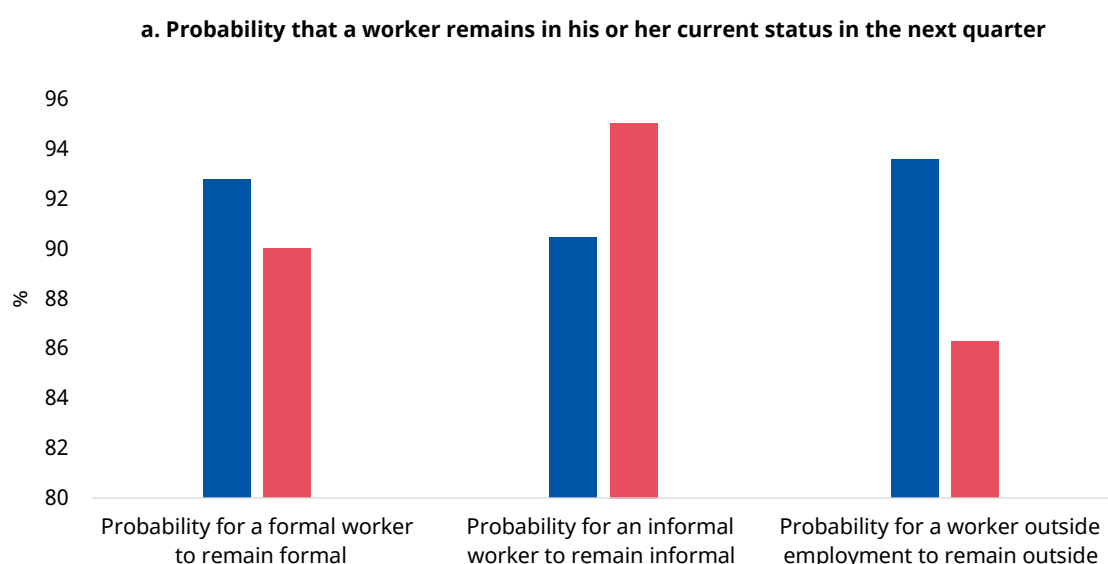
Informal workers in rural areas do not have many formal employment opportunities

Geographical location is another dimension that is relevant to labour market transitions. The vast majority of informal workers in rural areas work in the agricultural sector: in 2018, almost 62 per cent of rural informal employment was in the agricultural sector (compared with 22 per cent of urban informal employment).³¹

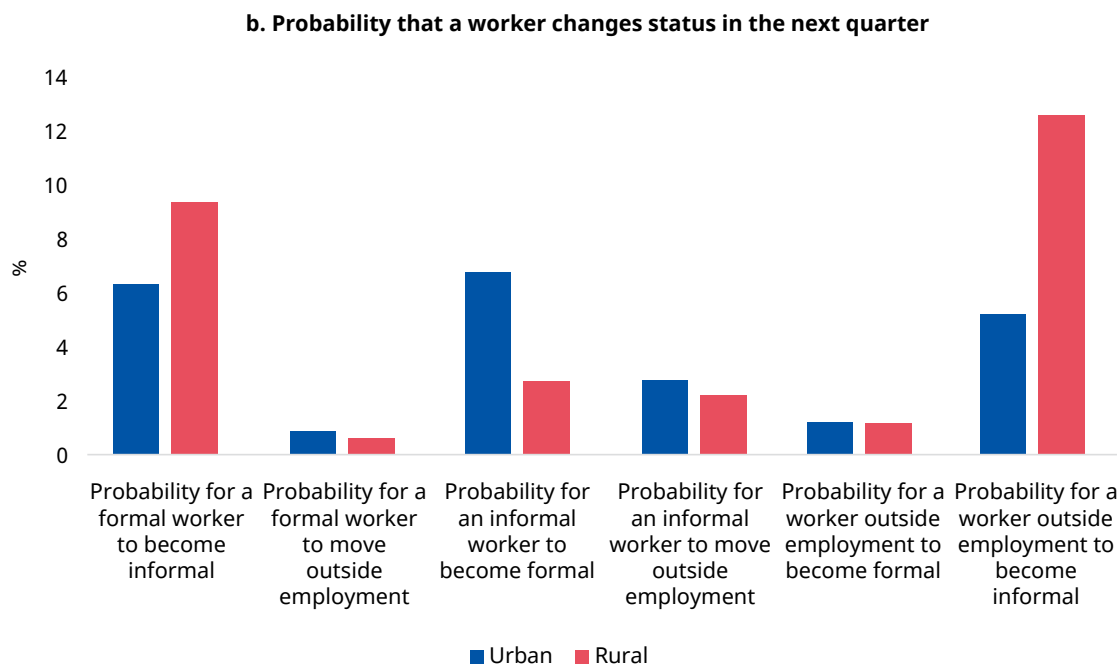
Informal workers in rural areas are much more likely to remain in informal employment than informal workers in urban areas, because urban informal workers have more opportunities for formal employment and can more easily move from informal to formal employment (figure 5.7). This also contributes to the lower probability of urban workers remaining outside employment, relative to rural workers. Formal workers in urban areas are also at an advantage relative to their rural counterparts, as they tend to have higher job security and longer employment spells.

Urban workers had a higher probability (6.8 per cent) than rural workers (2.7 per cent) of moving from informal into formal employment. The probabilities for transiting from informal to formal employment were very similar for women and men, both in urban and rural areas. The probability of a worker outside employment moving into informal employment was higher in rural areas; this is in line with the idea that agriculture provides an informal employment option for those in rural areas who are looking for a job.

Figure 5.7. Transition probabilities by rural and urban area (2018) (percentages)



31 Calculations based on LFS data.



Notes: The annual data shown in the figures corresponds to the average of quarterly transition probabilities between Q1 and Q2, between Q2 and Q3, and between Q3 and Q4, while transitions between Q4 and Q1 of the next year are not available. Survey weights were used and no adjustment was made to correct for attrition. Data for 2018 are shown, as information on the geographical area (urban/rural) was not available for 2019.

Source: Author calculations based on Viet Nam LFS micro-data.

The majority of rural workers in Viet Nam work in the agricultural sector. When looking at the differences between workers in the agricultural and non-agricultural sectors, it is apparent that an informal agricultural worker is much less likely than a non-agricultural worker to transition into formal employment. In 2019, the informality–formality transition for an agricultural worker occurred only with a probability of 0.7 per cent, while the probability was 6.6 per cent for a non-agricultural worker. Agricultural workers are seemingly stuck in informal employment, with barely any opportunities to move into formal employment.

Is informal employment a stepping stone to formal employment or a dead end?

In summary, informal employment can be a stepping stone to formal employment, but only for a few workers. For far too many others it is a dead end. It is predominantly the young, well-educated workers based in urban areas who have the highest probability of moving from informal into formal employment. For other workers, informal employment is quite persistent – once a worker is in informal employment, he or she is likely to stay there for a long period of time. This is especially the case for adults who are in the rural workforce and have lower levels of educational attainment.



▶ 6. Conclusions

Reducing informal employment is an important part of a country's development process. A formalization strategy requires a coordinated and comprehensive approach. Promoting economic growth is an important element, but is not in itself enough. The examples of Latin America and South East Asia – where informality grew between 1980 and 2010 despite strong economic growth (although the trend was subsequently reversed in Latin America, despite a slowdown in growth) – provide strong evidence of this. In order to inform the policy development process in Viet Nam, we have in this overview examined the trends and characteristics of informal employment in the country. The analysis has thrown up a number of interesting and informative findings. Some of these are very much in line with what one finds in other countries, while others are more directly specific to Viet Nam. Together they provide the basis for a better understanding of the phenomenon in Viet Nam and what to do about it. The principal findings are as follows:

- As one might expect, informal employment is more prevalent in agriculture and in rural areas; the analysis of transitions also made clear that movements out of informality and into formality are much lower in such areas. One implication is that supporting and encouraging the ongoing structural shift away from agriculture and towards other economic sectors should remain an important element of the country's formalization strategy.
- The analysis of the trends and characteristics of informal employment in Section 3 makes clear that the changing amount and pattern of informal employment in the country is primarily related to the changing sectoral – and consequently also occupational – structure of employment in the country. In particular, the substantial shift in employment from agriculture to manufacturing has driven the falling informality rates observed. Service sector employment has also been expanding rapidly. However, the role of services in the formalization of

employment has been much less pronounced than the role played by manufacturing through the development of formal jobs. There is clearly room for more proactive interventions at the sectoral level in order to drive the formalization of jobs outside of manufacturing. This will require a much more detailed understanding of the nature and characteristics of informality in different geographical and sectoral contexts than has been possible in this overview of trends.

- At the individual level, informal employment is driven by educational attainment and skills – or rather, by a lack of them. The prevalence of informality is much higher among the least educated and the least skilled, such that transitions out of informality and into formal employment are much less likely among the less educated. The development of formal employment in manufacturing and the associated decline of informality as a whole have been supported by rapidly increasing educational attainment among the younger cohorts in Viet Nam. This suggests that measures to raise educational attainment are important for supporting the process of formalizing employment, through their role in facilitating and promoting development in the country as a whole. It is important to be clear, however, that while raising educational attainment levels is of fundamental importance for a number of reasons – and, in this context, specifically for its role in supporting the move towards formalization – having a better-educated young populace is not sufficient to solve the formalization issue. Raising educational attainment of itself will not be sufficient to eliminate informal employment.
- Both young and adult workers are much more likely to enter formal employment from informal employment than from non-employment. Once again, education plays a central role here. More-educated (young) workers find it much easier to move out of informality than do their less-educated compatriots.³² One hastens to add, however, that the tendency of workers to remain in informal employment is still rather high – even among the more educated. The key factor in promoting formalization has been, and is likely to continue to be, structural transformation, with an emphasis on ensuring that any new jobs thus created are formal. This fact, along with the high degree of inertia observable among those who do find themselves in informal work, serves to emphasize the important role that more-targeted initiatives (discussed further below) have the potential to play in the formalization process.

Key policy implications

So what does this mean for policies and programmes to reduce informality in Viet Nam? Although only broad trends are outlined above, it is clear that, thus far, the formalization of employment in the country has occurred through the steady structural transformation visible in the country; that is, via macro-level economic development, with a strong movement of workers out of agriculture and into manufacturing in particular. Of course, this is not through a direct transfer of workers, but rather largely through the emergence of younger, more-educated workers, who have been taking up new formal jobs in manufacturing, typically after having spent some time in informal employment.

These macro-level structural shifts could usefully be accompanied by more micro-level measures targeted at promoting further the formalization of employment. Formalization requires an integrated approach, the precise form of which will depend on local specifics, which themselves require careful examination – which goes beyond the scope of this review. The ILO's Transition from

³² The important role of education in facilitating transition out of informality has also been found in other regions, such as in Latin America. See, for example, Maurizio and Monsalvo (2021).

the Informal to the Formal Economy Recommendation, 2015 (No. 204) emphasizes that increased formalization can be achieved through a combination of policies to:

- facilitate the transition of workers and economic units from the informal to the formal economy;
- promote the creation, preservation and sustainability of enterprises and decent jobs in the formal economy; and
- prevent the informalization of formal economy jobs.

This can be achieved through a comprehensive and coherent policy package to combat informality. Islam and Lepeyre (2020, 28) emphasize the importance of such an integrated approach, since “interventions are more effective when they are combined to tackle different drivers of informality, enabling them to address the diversity as well as the scale of the informal economy”. Chacaltana and Leung (2020, 165) observe that “the only way to sustainably facilitate the transition to formality is to engage in interventions in the multiple dimensions of informality at the same time”, and that structural transformation needs to be accompanied by “a combination of incentives and enforcement measures (sticks and carrots) for business and/or labour”. The authors argue that, in Asia, the focus should be on the formalization of enterprises, through the facilitation of business registration – partly by simplifying procedures, but more specifically by providing tax incentives particularly focused on larger economic units, accompanied by effective implementation of regulatory frameworks. This can often be facilitated by technological innovation (Chacaltana, Leung and Lee 2018).

More generally, there is a growing body of international evidence on the effectiveness of policies and programmes to promote formalization. Overall, Jessen and Kluge (2021) find that a substantial proportion of interventions do have positive impacts, particularly tax incentives, and that effects are greater where positive economic conditions exist. They also find that measures to formalize workers are more effective than those that target the formalization of firms; however, they do note that the latter is de facto a prerequisite for the former. They also find that large-scale, broad interventions are more effective than smaller-scale, individual programmes, reaffirming the importance of a coordinated approach noted above. Consistent with these findings, a meta-analysis of the impact of firm formalization policies by Floridi, Demena and Wagner (2020) found that such interventions are often not successful, but that those providing incentives to formalize – particularly tax breaks – appear to be more effective. They also found that large scale is important and, hence, policies targeting informal micro-enterprises are less likely to achieve formalization than those aiming at small and medium-sized enterprises, reiterating the importance of a careful approach to targeting and, as noted above, the greater effectiveness of a concentration on slightly larger-sized enterprises.

One approach to encourage the formalization of workers is the introduction of subsidized formal employment – particularly if this takes the form of interventions aimed at promoting formal first jobs among young new labour market entrants. “First job” programmes, policies and laws – which have become popular in Latin American countries in particular, but also elsewhere – aim to influence work trajectories by improving young people’s first experiences in the labour market. These programmes can promote learning processes through quality apprenticeships, traineeships and internships, as well as through hiring subsidies and special youth employment arrangements (Dema, Diaz and Chacaltana 2015).

Given the many forms and varieties of informal employment in Viet Nam, however, care is needed to ensure that the design of any measures is appropriate given the different economic and geographical

contexts. In order to design appropriate policies, more information and analysis is needed. As has already been mentioned, the substantial heterogeneity of informal employment necessitates carefully targeted approaches. “Country experiences globally confirm that there is no universal policy framework but rather a very diverse array of possible responses that can be combined into integrated policy frameworks and adapted to each specific country context” (Williams and Lansky 2013, 371). Moreover, rapid economic growth and improvements in educational attainment have been accompanied by the emergence of new forms of employment facilitated by technological change, such as emerging digital platform labour and the gig economy. These present new opportunities, but also new challenges. It is hoped that further analysis will facilitate the adoption of appropriate choices in Viet Nam in order to better support growing formalization, thus raising incomes and promoting decent work.

► Appendix I: Additional notes and tables

Data utilized in this study came from the Vietnamese quarterly Labour Force Survey 2010 to 2019. Sections 2 to 4 used the annual version of the dataset primarily for the years 2013 to 2019, while Section 5 relied on a quarterly transition panel constructed from quarterly data, as described more fully in Appendix II. The choice of years and quarters for specific analyses was determined by the availability of relevant variables/identifiers in the datasets used to construct consistent series and estimates.

In this appendix we report descriptions of and descriptive statistics for the relevant variables and present some additional econometric results.

Table I.1. Descriptions of variables used in the analysis

Variable	Description
Formal	Worker in formal sector (unit of production) and in formal employment (nature of job)
Informal	Worker in informal sector (unit of production) or in informal employment (nature of job)
Women	Sex: Women
Men	Sex: Men
Age	Age in years (between 15 and 99+)
Single	Marital status: Single; Widowed; Divorced; Separated
Married	Marital status: Married; Union; Cohabiting
Not elsewhere classified	Marital status: Not elsewhere classified
Less than primary education	Educational attainment (ISCED 97 aggregate level): No schooling; Pre-primary education
Primary education	Educational attainment (ISCED 97 aggregate level): Primary education; Lower secondary education
Secondary education	Educational attainment (ISCED 97 aggregate level): Upper secondary education; Post-secondary non-tertiary education
Tertiary education	Educational attainment (ISCED 97 aggregate level): First stage of tertiary education; Second stage of tertiary education
Low-level skill	Occupational skill level (ISCO 08 aggregate level): Elementary occupations
Medium-level skill	Occupational skill level (ISCO 08 aggregate level): Plant and machine operators, and assemblers; Craft and related trades workers; Skilled agricultural, forestry and fishery workers; Service and sales workers; Clerical support workers
High-level skill	Occupational skill level (ISCO 08 aggregate level): Technicians and associate professionals; Professionals; Managers
Agriculture	Economic activity (ISIC Rev. 4 aggregate): Agriculture, forestry and fishing
Manufacturing	Economic activity (ISIC Rev. 4 aggregate): Manufacturing
Construction	Economic activity (ISIC Rev. 4 aggregate): Construction

Variable	Description
Mining and quarrying	Economic activity (ISIC Rev. 4 aggregate): Mining and quarrying; Electricity, gas and water supply
Market services	Economic activity (ISIC Rev. 4 aggregate level): Trade; Transportation; Accommodation and food; Business and administrative services
Non-market services	Economic activity (ISIC Rev. 4 aggregate level): Public administration; Community, social and other services and activities
Rural	Geographical coverage: Rural
Urban	Geographical coverage: Urban
Southeast region	Country region: South East
Northern Midlands and Mountain Areas region	Country region: Northern Midlands and Mountain Areas
Red River Delta region	Country region: Red River Delta
North Central area and Central Coastal region	Country region: North Central area and Central Coastal
Central Highlands region	Country region: Central Highlands
Mekong River Delta region	Country region: Mekong River Delta

Table I.2. Descriptive statistics for the variables used in the econometric analysis, Viet Nam (2018)

Variable	All	Women	Men	Formal	Informal
Formal (%)	28.4	30.8	26.3	-	-
Informal (%)	71.6	69.2	73.7	-	-
Women (%)	47.9	-	-	51.8	46.3
Men (%)	52.1	-	-	48.2	53.7
Age (years)	40.8	40.9	40.7	36.72	42.5
Single/Widowed/Divorced/Separated (%)	22.0	22.2	21.8	22.5	21.8
Married/Union/Cohabiting (%)	78.0	77.8	78.2	77.5	78.2
Education: Less than primary (%)	13.6	15.2	12.1	2.5	18.0
Education: Primary (%)	53.6	52.8	54.3	31.1	62.5
Education: Secondary (%)	20.2	18.4	21.9	29.9	16.4
Education: Tertiary (%)	12.6	13.6	11.7	36.5	3.1
Occupation: Low-level skill (%)	35.7	38.0	33.5	4.8	47.9
Occupation: Medium-level skill (%)	52.7	49.4	55.7	58.5	50.4
Occupation: High-level skill (%)	11.7	12.7	10.8	36.7	1.7
Agriculture (%)	37.8	38.8	36.9	1.7	52.1
Manufacturing (%)	17.9	20.8	15.3	36.9	10.4
Construction (%)	7.9	1.6	13.7	2.4	10.1
Mining and quarrying (%)	0.9	0.5	1.3	2.2	0.4
Market services (%)	24.9	26.2	23.8	30.4	22.7
Non-market services (%)	10.5	12.2	9.0	26.5	4.2
Rural (%)	67.7	67.6	67.8	47.1	75.9
Urban (%)	32.3	32.4	32.2	52.9	24.1
Southeast region (%)	16.8	16.2	17.4	29.4	11.8
Northern Midlands and Mountain Areas region (%)	14.0	14.5	13.6	10.1	15.6
Red River Delta region (%)	21.9	23.1	20.7	26.7	19.9
North Central area and Central Coastal region (%)	21.5	22.0	21.1	17.1	23.3
Central Highlands region (%)	6.6	6.5	6.6	3.3	7.9
Mekong River Delta region (%)	19.2	17.6	20.7	13.4	21.5

Table I.3. Descriptive statistics of the variables used, by region (2018)

Variables	South East	Northern Midlands and Mountain Areas	Red River Delta	North Central area and Central Coastal	Central Highlands	Mekong River Delta
Formal (%)	49.7	20.5	34.7	22.6	14.1	19.8
Informal (%)	50.3	79.5	65.3	77.4	85.9	80.2
Women (%)	46.1	49.6	50.6	48.9	47.7	43.9
Men (%)	53.9	50.4	49.4	51.1	52.3	56.1
Age (years)	38.9	39.6	42.4	41.6	38.3	41.7
Single/Widowed/Divorced/ Separated (%)	29.7	18.1	17.6	21.5	24.4	22.9
Married/Union/Cohabiting (%)	70.3	81.9	82.4	78.5	75.6	77.1
Education: Less than primary (%)	10.1	17.1	3.2	12.2	19.2	25.5
Education: Primary (%)	49.4	53.4	52.0	55.3	58.2	55.6
Education: Secondary (%)	23.0	20.3	27.3	20.7	15.0	11.0
Education: Tertiary (%)	17.6	9.2	17.5	11.8	7.7	7.8
Occupation: Low-level skill (%)	17.6	62.0	29.3	34.5	44.8	37.5
Occupation: Medium-level skill (%)	63.7	29.8	55.4	55.2	48.2	55.2
Occupation: High-level skill (%)	18.7	8.2	15.3	10.2	6.9	7.3
Agriculture (%)	12.4	59.3	24.2	42.8	72.1	42.4
Manufacturing (%)	30.7	10.6	24.6	12.7	3.7	15.3
Construction (%)	6.5	7.3	10.1	9.8	2.4	6.9
Mining and quarrying (%)	1.0	0.9	1.4	0.9	0.4	0.5
Market services (%)	37.4	13.1	28.0	23.0	13.5	25.2
Non-market services (%)	12.0	8.9	11.7	10.9	7.8	9.6
Rural (%)	38.5	84.1	64.6	73.9	72.4	76.4
Urban (%)	61.5	15.9	35.4	26.1	27.6	23.6

Table I.4. Probit model of informal (vs. formal) employment, regional estimates (2018)

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Southeast	Northern Midlands and Mountain Areas	Red River Delta	North Central area and Central Coastal	Central Highlands	Mekong River Delta
Sex						
Female	0.001	-0.016***	-0.009***	0.005**	0.002	0.007***
	(0.004)	(0.002)	(0.003)	(0.002)	(0.003)	(0.002)
Age						
Age 25–34	-0.049***	-0.010***	-0.035***	-0.026***	-0.035***	-0.029***
	(0.008)	(0.003)	(0.006)	(0.005)	(0.005)	(0.004)
Age 35–44	-0.039***	-0.023***	-0.022***	-0.037***	-0.055***	-0.035***
	(0.008)	(0.004)	(0.006)	(0.005)	(0.005)	(0.004)
Age 45–54	0.004	-0.003	0.033***	-0.018***	-0.041***	-0.020***
	(0.009)	(0.004)	(0.006)	(0.005)	(0.005)	(0.004)
Age 55–64	0.058***	0.023***	0.087***	0.029***	-0.020***	-0.008
	(0.010)	(0.004)	(0.007)	(0.005)	(0.005)	(0.005)
Age 65+	0.101***	0.040***	0.170***	0.079***	-0.019**	0.021***
	(0.019)	(0.008)	(0.011)	(0.008)	(0.008)	(0.008)
Marital status						
Married	-0.046***	-0.026***	-0.046***	-0.027***	-0.025***	-0.025***
	(0.005)	(0.003)	(0.004)	(0.003)	(0.003)	(0.003)
Educational attainment						
Basic	-0.095***	-0.047***	-0.086***	-0.047***	-0.042***	-0.070***
	(0.008)	(0.005)	(0.011)	(0.005)	(0.004)	(0.003)
Intermediate	-0.215***	-0.092***	-0.202***	-0.127***	-0.077***	-0.165***
	(0.010)	(0.005)	(0.011)	(0.005)	(0.005)	(0.005)
Advanced	-0.325***	-0.129***	-0.318***	-0.228***	-0.111***	-0.273***
	(0.014)	(0.007)	(0.012)	(0.008)	(0.008)	(0.008)
Skill level						
Medium-level skill	-0.127***	-0.092***	-0.106***	-0.098***	-0.067***	-0.085***
	(0.008)	(0.004)	(0.006)	(0.004)	(0.004)	(0.003)
High-level skill	-0.369***	-0.338***	-0.360***	-0.350***	-0.371***	-0.311***
	(0.013)	(0.013)	(0.009)	(0.010)	(0.020)	(0.010)
Economic activity						
Manufacturing	-0.534***	-0.386***	-0.403***	-0.332***	-0.142***	-0.388***
	(0.008)	(0.009)	(0.007)	(0.006)	(0.009)	(0.005)
Construction	-0.036***	-0.026***	-0.028***	-0.008**	-0.006	-0.032***
	(0.010)	(0.004)	(0.006)	(0.003)	(0.006)	(0.004)

	(1)	(2)	(3)	(4)	(5)	(6)
Variables	Southeast	Northern Midlands and Mountain Areas	Red River Delta	North Central area and Central Coastal	Central Highlands	Mekong River Delta
Mining and quarrying	-0.576*** (0.025)	-0.433*** (0.019)	-0.519*** (0.015)	-0.347*** (0.019)	-0.499*** (0.045)	-0.292*** (0.023)
Market services	-0.202*** (0.008)	-0.202*** (0.006)	-0.186*** (0.006)	-0.184*** (0.004)	-0.204*** (0.007)	-0.166*** (0.003)
Non-market services	-0.299*** (0.011)	-0.267*** (0.009)	-0.248*** (0.008)	-0.256*** (0.007)	-0.309*** (0.013)	-0.277*** (0.007)
Location						
Rural	0.022*** (0.005)	0.022*** (0.002)	0.029*** (0.003)	0.023*** (0.002)	0.013*** (0.003)	0.005** (0.002)
Observations	54,199	105,433	84,063	93,159	41,523	80,786
Pseudo R ²	0.323	0.631	0.414	0.454	0.563	0.470

Notes: The table reports marginal effects from a probit model of the probability of being in informal employment as opposed to formal employment. A negative effect implies that the variable is associated with a greater probability of being in formal (as opposed to informal) employment. The omitted (default) categories are: Male for sex variable; Age 15–24 for age variables; Single for marital status; Less than primary education for educational attainment variables; Low-skill level for skill levels; Agriculture, forestry and fishing for the economic activities; and Urban for location. Statistical significance is indicated as follows: *** = $p < 0.01$, ** = $p < 0.05$, * = $p < 0.1$.

Source: Author calculations based on Viet Nam LFS data, 2018.

► Appendix II: Estimating transitions into and out of informal employment

This appendix describes the methodology used to produce estimates of transitions between informal employment, formal employment and non-employment, as presented in Section 5. For more details, see Samaniego and Viegelaahn (2021).

The LFS in Viet Nam is conducted as an overlapping panel, in which individuals respond to the survey not only once, but twice over two consecutive quarters, implying that any change in the labour market situation of an individual between those quarters is observable in the data. More specifically, the LFS allows for the tracking of individuals between two consecutive quarters of a calendar year; however, it does not allow tracking of individuals between quarters in different calendar years. In other words, the Labour Force Survey allows for tracking of individuals between quarter 1 and 2, between quarter 2 and 3 and between quarter 3 and 4 within a calendar year, but not between quarter 4 and quarter 1 of the next calendar year.

The informal employment status of an individual i in quarter t , labelled as c_{it} can have three different states: “employed with a formal job”, “employed with an informal job” or “outside of employment”. The latter state comprises both workers that are unemployed and workers that are inactive in the labour market. For each possible pair of states (j, k) , this report estimates transitions from state j in quarter t to state k in quarter $t + 1$ as a weighted sum of all individuals who transition between these two states:

$$N(j, k)_t = \sum_i I[c_{it} = j, c_{i,t+1} = k] \times \omega_i$$

The weights ω_i that are used are the survey weights provided by the GSO as part of the Labour Force Survey. The estimated quarterly probability, $p(j, k)_t$, for an individual in state j to transit into state k between quarter t and $t+1$ is obtained by dividing the transitions $N(j, k)_t$ by the weighted sum of all individuals in state j in quarter t .

The set of all individuals varies in this report, which shows results separately for: the full sample of workers; for youth and adult workers; for male and female workers; for workers with less than primary, primary, secondary and tertiary education; and for urban and rural workers. Results are also reported for young men, young women, adult men, adult women, rural men, rural women, urban men and urban women. Further disaggregation – for example, looking specifically at young female workers who live in urban areas and have tertiary education – is not pursued, as the sample size in such cases risks becoming too small to provide reliable estimates of transitions. The overall number of observations on which the estimates of transitions between formal employment, informal employment and non-employment are based varies between about 59,000 and 69,000, depending on the particular year and quarters.

This report shows annual and not quarterly data points. To obtain an annual data point, a simple average over the three available quarterly data points within a year is calculated as follows:

$$p(j, k)_y = (p(j, k)_1 + p(j, k)_2 + p(j, k)_3)/3$$

There are several sources of possible biases. First, the vast majority of survey respondents can be identified in two consecutive survey rounds; however, a few survey respondents are lost from the sample, for several reasons. For example, some respondents cannot be tracked between different surveys or are only surveyed once. These observations are dropped from the analysis. As shown in Samaniego and Viegelahn (2021), adjusted survey weights that correct for the potential bias that arises from dropping these observations can be constructed. It turns out that the data series of labour market transitions that rely on adjusted weights is in general very similar to the data series constructed with the original survey weights, which is why the latter are shown in this report.

There are also concerns about a possible time aggregation bias: the state of a worker is only observed every quarter. There is hence a risk that some temporary transitions that occur within this 3-month time interval are not taken into account. As discussed in Samaniego and Viegelahn (2021), it is not possible to correct for this bias, given the data limitations. There is, however, in principle no reason to assume that this bias varies systematically over time or between different sets of individuals, suggesting that it is unlikely to affect the main findings significantly.

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