

## Requirements And Recommendations To Ensure Social Security For People Working In The Informal Economy Sector In Vietnam

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### *Abstract*

In Vietnam, the informal economy sector is witnessing significant growth. The number of individuals engaged in this sector surpasses that of the formal economy sector. Essentially, those working in the informal economy lack legal and social protections in their work. They are more susceptible to economic risks and vulnerabilities compared to ordinary workers. Therefore, the objective of this article is to examine and elucidate various issues encountered by workers in the informal economy sector, with the aim of proposing solutions to ensure social security for those working in the informal economy.

Keywords: Social security, labor, informal economy, law, Vietnam.

### **1. Introduction**

Social security for workers in the informal economy sector is understood as the appropriate provision through the State, social and political institutions to mitigate the risks faced by informal workers, including employment, occupational safety, life and health risk, maternity, old age, and others. Additionally, it encompasses basic assistance and social services to support both the workers themselves and their dependents in the informal economy sector.

It can be observed that social security for workers is considered as a component of social security when classified according to the beneficiaries of social protection. Workers are among the societal beneficiaries entitled to social security schemes, and specifically, they constitute a majority within society but are vulnerable to risks. Therefore, it is evident that a significant portion of social security focuses on serving and protecting the stability of the labor force, and human resources through such as the social insurance system (social insurance, health insurance, unemployment insurance), regulations on ensuring labor conditions in labor laws, and assistance policies under specific circumstances.

### **2. Literature review**

Research on workers in the informal economy sector in Vietnam can be found in several notable works such as Communist Review (2018), "Social security for workers in the informal economy sector in our country"; Nguyen Vinh Hung (2019), "The impact of the underground economy on the economy, society, and law"; Nguyen Vinh Hung (2020), "Managing the "underground economy" in Vietnam today"; International Labour Organization (2021), "Informal employment in Viet Nam: Trends and determinants"; Nguyen Vinh Hung (2023), "The underground economy in the context of the fourth industrial revolution"; Nguyen Vinh Hung (20203) , "Characteristics of the underground economy in Vietnam".

### **3. Methodology**

To study the topic of requirements and solutions for ensuring social security for workers in the informal economy sector in Vietnam, the group of authors primarily utilized conventional research methods from the fields of social science and legal science, including legal analysis, effectiveness evaluation of legal frameworks, comparative legal analysis, and sociological surveys. Overall, the research methods mentioned above were employed and closely integrated in a harmonious manner to achieve the research objectives of the article.

### **4. Results and discussion**

#### **4.1. Perspectives on the informal economic sector in Vietnam**

The informal economic sector also known as the underground economic sector, that is “a market where all business activities are conducted without regard to taxes, laws or business regulations” (Vietnam Open Educational Resources, 2017). Or consider “the nature of the underground economy” (Nguyen Vinh Hung, 2020, p. 54 - 55), “it refers to economic activities that generate wealth and income for those involved” (Nguyen Vinh Hung, 2023, p. 18). The Author Nguyen Vinh Hung supposes that “the underground economy is economic activities conducted with the purpose of generating profits for the participating entities, but often without reporting or registering them with state management agencies” (Nguyen Vinh Hung, 2019, p. 107). Alternatively, the underground economy is a “widely used concept in economics to assess unreported income sources that impact the economic development of each country” (Nguyen Vinh Hung, 2019, p. 106). In Vietnam, “the underground economy has a massive scale, which can account for 23-30% of GDP according to a study by Fulbright University” (Finance Review, 2019). As known, the underground economy cannot exist without implementers. In other words, it invariably attracts a large number of workers to engage in its activities. This greatly affects the labor market, labor laws, and social security laws.

Additionally, it should be noted that the underground economy is divided into two types: the legal underground economy and the illegal underground economy. The legal underground economy is “economic activities that are legally conducted but the participants often do not report their income to government authorities. This includes activities such as private tutoring by teachers, home-based medical services without public registration, informal parking attendants, artisanal work, babysitting, domestic helpers, street vendors, agricultural activities, motorcycle taxi services, and lottery ticket sales...” (Nguyen Vinh Hung, 2020, p. 55). On the other hand, “the illegal underground economy is activities that violate the law having adverse effects on the economy and society” (Nguyen Vinh Hung, 2023, p. 140). The illegal underground economy, although generating economic benefits, it is not allowed because it violates the law. Therefore, in Vietnam, many opinions suggest that only the legal underground economy can be considered as the informal economy sector.

#### **4.2. Social security requirements for workers in the informal economy in Vietnam**

Based on the above analysis, the social security issues for workers in the informal economy in Vietnam raise the following concerns:

First, requirements from the workplace of workers in the informal economy:

To understand the social security issues for workers in the informal economy, it is necessary to first examine and clarify the concept of the “informal economy”. According to the ILO, the informal economy is generally understood as a collection of units engaged in the production of goods and services with the primary goal of providing jobs and income for workers. These units often operate on a small scale, with labor relationships predominantly based on casual labor, kinship, or personal relationships rather than formal contractual arrangements with official guarantees (ILO, 2018).

According to the latest definition of ILO in 2021 about “informal employment” which “includes all employment agreements that do not provide individual workers with legal or social protection through their work, thereby exposing them to economic risks. This definition includes both workers operating within the informal sector and those working informally outside the boundaries of the informal sector” (ILO, 2021).

The issue arises from the characteristics of the informal economy which are small-scale production units, household businesses, family enterprises, and individual entrepreneurs. These economic entities are small-scale actors within the overall economy, yet they constitute a significant proportion. These traders often lack legal personality, have limited legal rights and privileges, possess relatively low economic resources, and rely heavily on their own efforts for production and business efficiency. The risks faced by these entrepreneurs in the economy are also greater, and achieving success in business is more challenging compared to the formal economy. Moreover, these informal economy traders are sometimes also workers themselves, juggling between economic development and personal or family concerns. Clear differentiation between business assets, personal assets, and family assets are often lacking for entrepreneurs operating within the informal economic sector.

Second, requirements relating to people working in the informal economy: Informal workers are typically characterized by low educational qualifications, as the informal economy consists of jobs that do not require high levels of skills and capabilities as the formal economic sector. This is evident by data provided in a 2021 report of ILO. In particular, informal workers whose higher education level account for only 2% having completed higher education or college, while 22% have completed secondary education, 61% have completed primary education, and 15% have not completed primary education (ILO, 2021).

Informal workers often have low and irregular incomes, long-working hours, unstable and non-fixed working schedules, and limited opportunities for skill development. For instance, in terms of income, according to the General Statistics Office, the contribution of the informal economy to the national

GDP in 2015 was observed to be 14.34%. Self-production and self-consumption activities of households accounted for 2.09%. The average monthly wage for informal workers is around 4.4 million (about USD180) Vietnamese dong (while it is approximately 6.7 million Vietnamese dong (about USD270) for formal sector workers) (Communist Review, 2018). Based on data from a 2018 report by the ILO, the types of jobs performed by informal workers include over 18 million individuals engaged in simple labor, over 7 million working in office, services, and sales roles, nearly 2 million operating and assembling machinery and equipment, and more than 10 million workers with skills in agriculture and manual labor (ILO, 2021).

Informal workers are less likely to be registered, recognized, or regulated by state authorities, leading to a lower level of protection compared to formal sector workers. The reason behind this assessment stems from the fact that informal workers can be categorized into four main groups: family workers (18%), self-employed workers (45%), employers (2%), and employees or hired workers (35%). Among these, employees or hired workers only constitute 35%, in which the proportion of them being managed and protected by government agencies is also very low.

Informal workers have limited access to social protection through the social insurance system, health insurance, and unemployment insurance. Those working in the informal economy have already faced economic challenges, but their income security is also not well ensured as they have fewer opportunities to participate in social insurance, health insurance, and unemployment insurance programs. They are not obligated to contribute to social insurance, health insurance, or unemployment insurance since they are not considered mandatory beneficiaries. They may choose to voluntarily participate in social insurance, but the coverage and benefits differ between mandatory social insurance and voluntary social insurance schemes.

Informal workers are often found in the lower strata of society, residing in rural areas, and are typically impoverished individuals with limited opportunities to escape poverty. According to an ILO report, informal workers constitute only about 24% in urban areas, with the majority residing in rural regions. In terms of employment distribution, approximately 49% are engaged in agriculture, 24% in market services, 5% in non-market activities, 11% in construction, and 11% in manufacturing. This poses a significant challenge in ensuring social well-being for individuals working in the informal economy (ILO, 2021).

Third, determine institutions implementing social security in the informal economy sector:

Regarding the employment status of the informal workers, it reveals social protection challenges for workers in the informal economy that have different concepts, contents, and characteristics compared to those in the

formal economy. The distinct feature of informal labor is that they often belong to self-employed and business households, which are not extensively regulated and protected by social protection mechanisms. Informal workers, whose jobs are vulnerable, constitute a significant proportion of society. Workers in the informal economy are usually outside the coverage of comprehensive social protection systems, making it difficult for institutions and organizations to adequately ensure their rights and well-being. Protecting the social security of these workers poses a significant challenge for existing systems. Therefore, a combination of State, social, political, institutions, and organizational mechanisms is necessary, with the State playing the most crucial role. This challenge has been further amplified during the severe impact of the Covid-19 pandemic. During this period, the State and other institutions have taken continuous positive actions to ensure social protection for this group of workers.

Fourth, measures to ensure social security for workers in the informal economy:

Along with the characteristics of employment in the informal economy, it can be observed that the content of social protection for informal workers will encompass measures to ensure employment, risk prevention through social insurance systems, assistance for special circumstances, and basic social services aimed at providing fundamental protection for workers. The overall social protection measures will have a great impact on the target group of workers in the informal economy. Specifically, it includes solutions such as job creation, labor training, skill enhancement for workers and rural laborers, planning for the development of craft villages, and utilizing local labor, which greatly affects the well-being of informal workers.

#### **4.3. Recommendations**

Based on the analysis of the aforementioned issues regarding social protection for workers in the informal economy, the following proposals can be put forward:

First, enhance measures to address employment-related problems and create new jobs in the formal economy, thereby reducing the number of workers in the informal economy

In addition, it is imperative to implement solutions to mitigate legal, economic, and social risks for workers in the informal economy. Further obligations can be imposed on traders (or workers also) in the informal economy, such as mandatory insurance coverage and requirements for ensuring safety and occupational hygiene. For example, previously, self-employed repair workers or those working for households often did not pay attention to issues of occupational safety, labor hygiene, or industrial hygiene. Now, specific jobs require qualifications and certifications to ensure

that they are equipped, knowledgeable, and prepared to implement protective measures, ensuring occupational safety, labor hygiene, and industrial hygiene.

Second, improve the qualifications of workers in the informal economy

Improving the skills of workers in the informal economy can provide them with opportunities to transition to the formal sector, where they enjoy greater legal and economic protection. Additionally, even if workers continue to operate in the informal economy, higher skill levels enable them to potentially earn higher incomes and have the ability to protect themselves against legal and economic challenges. For example, when workers have a higher level of awareness and knowledge, they can make informed decisions to voluntarily participate in social insurance and healthcare programs to protect themselves in case of work-related accidents, income loss, or retirement.

Third, job-related solutions in the informal economy aim to make those jobs stable, and long-term, and provide better and more stable incomes for workers, thereby ensuring better protection for them

Supporting the development of craft villages, business households, and networks of small traders, and establishing supportive mechanisms and institutions for these traders to grow their economy is also a vital determinant to stabilizing employment and income for workers in the informal economy.

Fourth, enhance labor management in the informal economy

Effectively managing the workers in the informal economy will enable the state to have a specific understanding of the labor situation in this economic sector. As a result, state management agencies can develop concrete, clear, and context-specific measures suitable for each locality.

Fifth, solutions to propagate, support and promote the participation in voluntary social insurance of workers in the informal economy.

Workers in the informal economy are often economically disadvantaged, making it difficult for them to access voluntary health insurance. Therefore, actively raising awareness and assisting workers in understanding the benefits of participating in voluntary social insurance and health insurance will increase the number of workers protected in case of income loss or reduction due to risks.

Sixth, enhance the operational capacity of institutions to ensure social security for workers in the informal economy

These institutions primarily focus on state agencies and local governments, which need to operate more effectively in addressing social security issues for workers in the informal economy at the local level. Moreover, political and social organizations as well as professional associations also need to

enhance their capacity in ensuring social security for workers in the informal economic sector.

Seventh, the solution to diversify and optimize measures to ensure social security for workers in the informal economy by the institutions:

The current solutions include vocational training policies for rural laborers; support policies for job creation from the National Employment Fund and other credit sources; public employment policies; policies to support the development of employment service organizations (The current solutions include: vocational training policies for rural laborers; support policies for job creation from the National Employment Fund and other credit sources; public employment policies; policies to support the development of employment service organizations (such as employment service centers and enterprises engaged in job placement services); voluntary social insurance policies; and occupational safety and health policies. Diversifying and optimizing measures to ensure social security for informal workers is also part of the broader issue of social security and requires specialized solutions for informal labor. This should involve a focus on diversifying forms of training to enhance awareness, knowledge, and skills for workers, understanding of occupational safety measures and occupational diseases, and awareness of the value of voluntary participation in social insurance and health insurance.); voluntary social insurance policies; and occupational safety and health policies. Diversifying and optimizing measures to ensure social security for informal workers is also part of the broader issue of social security and requires specialized solutions for informal labor. This should involve a focus on diversifying forms of training to enhance awareness, knowledge, and skills for workers, understanding of occupational safety measures and occupational diseases, and awareness of the value of voluntary participation in social insurance and health insurance.

## **5. Conclusion**

Workers in the informal economic sector in Vietnam often face various risks, both legal and economic. Furthermore, ensuring social security for these individuals has not received adequate attention. Therefore, it is crucial to prioritize social security for workers in the informal economic sector. To achieve this, it is necessary to implement a comprehensive set of solutions proposed by the authors. Only then can workers in the informal economic sector work with peace of mind and contribute to the economic and social development of Vietnam.

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