

**Institute of Social Studies**

**A GENDER ANALYSIS OF  
THE IMPACT OF INDIRECT TAXES ON  
SMALL AND MEDIUM ENTERPRISES IN VIETNAM**

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## ABSTRACT

This paper brings together gender analysis, small scale enterprise analysis, and gender budget analysis in a development context<sup>1</sup>. The paper demonstrates that gender matters not only to the ownership of an SME, but also to its most likely principal activity, the stock of the assets that it possesses, the labour that it utilizes, the costs that it faces, the revenues that it generates, and the profits that it earns. In particular, lower earnings for female-owned SMEs can be attributed to the different input cost structures facing female and male-owned SMEs, which in turn are influenced by the indirect tax system. In this context, the paper identifies five gender biases in Vietnam's VAT system. These biases help explain the higher costs and lower profits of female-owned SMEs in Vietnam. This explanation is different from the more common explanation given for lower performance of female owned enterprises in developing countries, which is the gender segregation of sectors. Although this also plays a role, we argue that gender biases in costs and earnings, partly caused by the tax system, are the more dominant factor.

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1. The authors are grateful for very helpful comments received at the IAFFE conference, held in June 2003 in Barbados, and for comments from Susan Johnson. We have also benefited from the work of colleagues and students in the National Economics University, Hanoi, the University of Economics, Ho Chi Minh City, the National Committee for the Advancement of Women, the Vietnam Women's Union, and the Government-Donor Gender Strategy Working Group. Finally, we extend our thanks to Fred Burke and his colleagues at Baker MacKenzie in Hanoi for their assistance in finding relevant policy documents.

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## 1. INTRODUCTION

This paper is part of the growing body of literature in the area of gender budget analysis (GBA)<sup>2</sup>. The majority of GBA studies focus on public expenditures, whereas only a few analyse government revenues (for an excellent literature review of gender analyses of revenues, see Kathleen Barnett and Caren Grown, 2003). Moreover, whereas most studies on revenue are concerned with income taxes, this paper is concerned with a gender analysis of indirect taxes in so far as they affect entrepreneurs in the small and medium enterprise (SME) sector. In particular, the paper will examine the question of how indirect tax policies affect male and female entrepreneurs differently in the SME sector. Hence, the paper does not focus on the gender dimensions of the government revenue ‘envelope’, but rather on the issue of how to construct an enabling environment for female entrepreneurs in the SME sector. It should be stressed that neither author is a tax economist, and that the analysis that is undertaken is based upon using the insights of feminist development economics and not the economics of public finance. In addressing this issue, the paper uses Vietnam as a case study and is based upon the analysis of secondary data.

The paper starts with an overview of the development of the SME sector in Vietnam. The next section reviews the indirect tax system in Vietnam, and in particular value added tax (VAT) and special commodity taxes, commonly known as excise taxes. The paper continues with a description of the socio-economic situation of female SME entrepreneurs as well as their performance, relative to male SME entrepreneurs, using data from the 1998 Vietnam Living Standards Survey (VLSS). The paper then goes on to examine how Vietnamese indirect tax policy towards the SME sector has differential impacts upon male and female entrepreneurs, recognizing that impacts may work out differently for different groups of women. In particular, five implicit gender biases in the SME indirect tax regime will be identified and discussed. The paper concludes by arguing that it is not the type of activities undertaken that result in the lower earnings of female-owned SMEs, as rather the cost structures that they face, the impact of which are accentuated by the VAT system in Vietnam. Cumulatively, it can be concluded that the VAT system in Vietnam is gender-biased.

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2. GBA is a policy tool which helps to assess gender inequalities in government expenditures and revenues, and provides insights into how such inequalities might be addressed through the government budget.

## **2. DOI MOI AND THE SME SECTOR IN VIETNAM**

Vietnam has implemented a series of economic reforms since the 1980s, which have collectively become known as *doi moi*, or renovation. The common principle underpinning many of these reforms was an emphasis on markets as the principal mechanism of resource allocation and an eventual cessation of a primary role for central planning (Ardeshir Sepehri and A Haroon Akram-Lodhi, 2002). Among other things, reform sought to redirect development policy by seeking to enhance the role of the private sector, while at the same time vigorously pursuing external trade liberalization and internal de-regulation, including changes in agricultural markets, public sector restructuring, and financial sector reform. The reform program was, on the face of it, a remarkable success, and by 1993 Vietnam was firmly on a high growth path. During the 1990s the average annual rate of growth of gross domestic product (GDP) per capita was 7.6 per cent, exports soared, inflation fell to single digits, while macroeconomic and fiscal balance was maintained (World Bank, 2001a). This growth had a clear impact on poverty, which declined in its incidence between 1993 and 2002 from 58 per cent to 29 per cent (Joint Donor Report to the Vietnam Consultative Group Meeting, 2003: Table 1.1). The number of undernourished people dropped from 18 million in 1990-92 to 14.2 million in 1997-99 (*The Economist* 20 October 2001), and hunger has been 'almost eradicated' (National Centre for Social Sciences and Humanities, 2001: 35). Nonetheless, with a per capita income of less than US\$400, Vietnam remains a poor country.

The process of transition has clear gender dimensions, despite the fact that, overall, Vietnam ranks quite well in terms of gender indicators. There have been some apparent structural changes in the gender dimensions of economic activity. In particular, there has been a 'feminisation' of the agricultural sector and the emergence of the 'foreign invested sector' as an important source of paid employment for unmarried women in their early twenties (Government of Vietnam-Donor-NGO Poverty Working Group (PWG), 1999; National Committee for the Advancement of Women, 2000). There is clear evidence of a widening gap in nutritional status between adult men and women, and gender-based differences in upper secondary education and tertiary education have not improved (PWG, 1999; Jaikishan Desai, 2000). Reforms have also resulted in an intensification of that time allocated to unpaid caring activities economy. Thus, health sector reforms have resulted in an increasingly prevalence of self-diagnosis and home care, with its attendant implications for the intensity of the

labour process within the household and thus the intra-household gender division of labour (Ardeshir Sepehri, Robert Chernomas and A Haroon Akram-Lodhi, 2002).

Despite the emphasis on market reforms the state has had an ambivalent relationship with the private sector during the transition. In the early stages of reform, the state sought to maintain its leading role in the economy by focusing development policy on the promotion of market-oriented state-owned enterprises (SOEs). Despite these efforts, however, the principal source of economic dynamism in the 1980s and early 1990s was the agricultural sector (A Haroon Akram-Lodhi, forthcoming). This changed during the mid-1990s, when the source of economic dynamism shifted from agriculture to the foreign invested sector, which was interested in Vietnam not so much as an export platform as rather an emerging market for consumer goods and services. The East Asian economic crisis had a marked effect on the foreign invested sector, in the form of substantial declines in fresh inflows of foreign direct investment. As a consequence, since the late 1990s the domestic private sector has been the most important component of the formal economy. In 2003, for example, the domestic private sector was forecast to grow by 19 per cent, which is 60 per cent greater than the state sector and 17 per cent greater than the foreign invested sector (World Bank, 2003a). The domestic private sector has thus emerged as a pivotal engine of GDP growth, which for 2003 was estimated to be close to 7 per cent (World Bank, 2003a)<sup>3</sup>. It is in this light that legislative developments can be viewed. The formal domestic private sector was established with the passage of the Company Law in 1990 and the Law on Private Enterprise in 1991. In 1992 the new Constitution recognized the equality of all economic sectors under the law. Nonetheless, it was only when the National Assembly passed Constitutional amendments in 2002 that the private sector was formally recognized as a key component of the economy. A special plenum of the Communist Party of Vietnam that same year praised private entrepreneurs for their role in the development of the country's economy, while more recently private business people have been allowed to join the ruling Communist Party.

Driving the dynamic growth of the domestic private sector in Vietnam has been the SME sector. Table 1 indicates the cumulative number of private SMEs that were

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3. Although the potential impact of severe acute respiratory syndrome and the Iraq war on the Vietnamese economy have yet to be quantified, the government's ability to manage the many crises that it has faced over the past 15 years suggests that the impact will be less than that which might be expected.

created between 1998 and 2000, indicating that between 1998 and 2000 the number of private SMEs reached more than 55,000. The table also demonstrates the rapid rate of growth of cumulative registration, private employment, and private manufacturing employment.

Region	Number in 2000	Cumulative registration growth, %	Private employment growth, %	Private manufacturing employment growth, %
The north	11717	78	86	107
The centre	6046	54	130	194
The south	37357	41	44	55
Total	55120	49	61	71

Note: Figures do not take account of enterprise closures, and so the number of operational SMEs is lower. In 1999 and 2000 closures as a proportion of new registrations averaged 6.7 per cent (Liesbet Steer, 2000).

Source: World Bank, 2001a.

The growth of private SMEs accelerated in the wake of the January 2000 Enterprise Law, which introduced non-discretionary registration of private firms and thus significantly reduced the bureaucratic obstacles to establishing a small business. Thus, by early 2003 it could be estimated that there were between 70,000 and 80,000 private SMEs in Vietnam (World Bank, 2001a, 2003a), and that at least 1200 new SMEs are being registered every month, making it the fastest growing type of enterprise in Vietnam (World Bank, 2001a: xiii). Of these, 70 per cent are start ups, while the remaining 30 per cent emerge from within the existing stock of more than 600,000 unregistered informal household micro enterprises. The share of start ups in new SME registration indicates the significant role that the SME sector is now contributing to domestic investment, and indeed it is likely that the total capital stock of the SME sector is more than 6 per cent of GDP (World Bank, 2001a). In this light, it is not surprising that SMEs generate approximately a quarter of GDP (Government-Donor-NGO Partnership Groups, 2000: 46). The private SME sector is also a significant source of employment. Since January 2000 private SME employment has

grown at around 30 per cent a year, and private SME manufacturing employment at around 35 per cent per year. Overall, the SME sector may employ half the labour force (Government-Donor-NGO Partnership Groups, 2000: 46). As might be expected, it has been estimated that 87 per cent of all new firms created since 1998 employed less than 100 people (World Bank, 2001a).

The growth in the private SME sector has thus raised the level of economic activity, investment and employment, and it is important that this be maintained for the continuing success of the Vietnamese transition. The government's 10 year Socio-Economic Development strategy for the period between 2001 and 2010 has a target rate of growth for industrial GDP of 10 per cent per year (World Bank/Asian Development Bank (ADB)/United Nations Development Programme (UNDP), 2000). In light of the weaknesses in the SOE sector, and the structurally static role of the foreign invested sector, this ambitious target suggests domestic private companies would be the sources of this growth, and in particular private SMEs. In recent years growth in value added attributable to private SMEs was 9 per cent a year. Achieving the rate of industrial growth targeted in the 10 year strategy requires, according to the World Bank, that this be doubled or trebled between now and 2010 (World Bank/ADB/UNDP, 2000: 7).

In recent years, the private sector in Vietnam, which is numerically dominated by SMEs, has been oriented towards trade, and not towards industry, with sectoral shares of 51.3 and 21.4 per cent, respectively (Steer, 2000). Within manufacturing there is also a clear concentration of activity, with food and beverage manufacturing accounting for more than one-half of all private sector manufacturing activity. The next most important sub-sector is wood and paper, but it accounts for only 16 per cent of the activity generated by food and beverages. In a distant third position is the textiles and garments sub-sector. The reason for the trade orientation of SMEs is relatively easy to understand. The sector has lower barriers to entry, particularly in terms of access to land and to capital, than the manufacturing sector. Moreover, the role of the state in trade had diminished considerably over the years, opening up space for private entrepreneurs. Finally, up until the late 1990s the potential of private companies to export was quite limited, and this too would have pushed entrepreneurs into domestic trade. It can be noted that some of these constraints have eased notably in the past 4 years. There has been a large reduction in the number of sub-sectoral licensing restrictions that existed, opening up additional space for private entrepreneurs, and the



government has also identified additional sub sectors where licensing will end in the near future. In addition, the 2001 liberalization of the rules governing the determination of interest rates improved access to formal financial credit, although policy based lending continues to limit access and an easing of ongoing restrictions on bank lending are thus required.

### **3. THE INDIRECT TAX SYSTEM IN VIETNAM**

Income tax is a direct tax. If it is compared to the more indirect form of taxation of sales of goods and services, it is clear that in developing countries indirect taxation tends to be more important in national revenue collection than income tax (World Bank, 2001b: Table 5.5). Unfortunately, sales taxes are regressive, in that they tax the poor relatively more than the rich if compared to income taxes. This leads to an immediate general point: given the fact that in most developing countries the majority of the poor are female (United Nations Development Programme, 1995) there appears to be an implicit gender bias in the application of sales taxes when compared to the use of income tax (Janet Stotsky, 1997; Barnett and Grown, 2003). Moreover, there may be additional gender biases in the application of sales taxes depending on the categories of goods taxed and the tax rates for these categories of goods, as well as rules regarding to tax exemptions.

In Vietnam, taxes are levied by the central government. Including oil revenues, corporate income taxes comprise 27.9 per cent of all taxes. Sales taxes, including VAT and turnover tax, make up about 24.5 per cent of all taxes. Approximately 30.5 per cent of tax revenues come from import and export duties. Remaining tax revenue comes from personal income tax, social security contributions, property taxes and other small taxes (International Monetary Fund, 2003: Table III.2).

However, in addition to these formal taxes, the lowest level of public administration, the commune, can levy 'fees' and 'contributions'. These compulsory payments can be for local services such as water, electricity, education, infrastructure, child assistance and local security services, and supplement the resources transferred to the commune by the central government by way of the province and the district. These fees can make up a significant portion of commune revenue—from 32 to 71 per cent in 6 communes that were recently studied (Government of Vietnam-Donor Working Group on Public Expenditure Review, 2000: 23). Field observations and participatory poverty assessments suggest that fees, in health and education in particular, can have

gender-differentiated impacts, with men and women being responsible for different type of fee payments (A Haroon Akram-Lodhi, 2002: 5).

The principle indirect tax in Vietnam has been a turnover tax. However, as part of the transition process, and on the advice of the multilateral institutions, in 1999 this was replaced by a VAT, in combination with special consumption, or excise, taxes for several consumer items. According to a Circular of the Ministry of Finance (1998), the VAT system has four rates, of 0, 5, 10 and 20 per cent. Exports are zero-rated. Basic goods and services such as drinking water, food, medicines and agricultural inputs as well as scientific and technical services have a rate of 5 per cent. The 10 per cent 'standard' rate is valid for most consumer and producer goods. The 20 per cent rate is for trading in precious minerals, lotteries, maritime agents and brokerage services, as well as for hotels, tourism and food catering. On the last item the Ministry of Finance Circular explicitly states that the application to food catering is 'regardless of common or high grade food'. VAT is payable by any registered business unless it can demonstrate that for at least 3 months deductible input VAT is larger than payable output VAT, in which circumstances VAT payments are refunded.

There are 27 categories of exemptions from VAT. Among these is category 14, 'goods and services by businesses below threshold'. The threshold is the minimum level of business turnover minus a 'reasonable' cost of business operation at which VAT is applied. The threshold is set at the official minimum wage for the foreign invested sector. In 1999, this minimum wage was set between Vietnamese dong (VND) 417,000 in poor areas and VND 626,000 per month in the two major cities. At official exchange rates in 1999 this would be equivalent to a minimum wage of between US\$35 and US\$45 per month (Ministry of Labour, Invalids, and Social Affairs, 1999)<sup>4</sup>. In addition to category 14, many of the other categories for which exemptions are offered are products and services where a gender bias has been documented or might be inferred: land ownership, technology transfer, international trade-related items, and armaments, to name a few.

As noted, in addition to VAT there are special consumption taxes that are applicable to imported cars, buses and vans, cigarettes and alcohol, and demerit goods and services. Special consumption taxes are levied at rates in excess of the highest

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4. According to a 2002 World Bank study the average monthly wage rate for shop floor workers was VND 720,000 in the manufacturing sector and about VND 920,000 in the services sector (Liesbet Steer and Markus Taussig, 2002).

VAT band. In the case of imported cars, the tax is levied at a rate of 100 per cent, while imported vans and buses face a tax levy of between 30 and 60 per cent. In terms of cigarettes and alcohol, the main categories of excise taxes are beer, with an average rate of 63 per cent; cigarettes, with an average rate of 45 per cent; and other alcoholic beverages, with an average rate of 37 per cent. The rates for demerit goods and services include 30 per cent for playing cards, 22.5 per cent for betting, 20 per cent for golf course memberships, and 20 per cent for massage and karaoke businesses.

In order to make VAT payments, claim deductions, use exemptions, and receive refunds, entrepreneurs need to register their enterprise and pay a license fee. In so doing, the enterprise becomes part of the formal economy, although it may, of course, still use informal labour or obtain finance through family members rather than through the formal banking system. The business license fee is between VND 25,000 annually for a monthly income below VND 150,000 and VND 850,000 annually for a monthly income above VND 1,250,000<sup>5</sup>.

#### **4. THE GENDER DIMENSIONS OF VIETNAM'S SME SECTOR**

In general women's participation in the paid economy is high in Vietnam when compared to other countries. This is a function of dominant values that promote gender equality when it comes to contributions to household income (Russell Dalton, Pham Minh Hac, Pham Thanh Hghi, and Nhu-Hgoc Ong, 2001). These values facilitate relatively low gender segregation in the labour market in Vietnam, and the gender wage gap is, at 86 per cent, less than that found in many other countries (Desai, 2000). The gender wage gap is particularly low in SOEs, where, it must be noted, employment patterns are male dominated, and in state employment, where employment patterns at lower levels of the civil service are more equal (Sarah Bales, 2000).

The 1998 VLSS shows that the female labour force participation rate in 1998 was 80 per cent, which was very close to the male activity rate of 83 per cent, and among the highest female activity rates in the region and the world. It also demonstrates that 61 per cent of wage earners are male, and 39 per cent of wage earners are females (General Statistical Office, 1999: Table 4.2.6.5), a figure that had become more imbalanced since 1993. By way of contrast, 54 per cent of non-agricultural household enterprises, which include micro enterprises and SMEs, were operated by

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5. In early April 2004 the exchange rate was VND 15735 to US\$1.

women and 46 per cent were operated by men (Desai, 2000: Table 4.10). In other words, private enterprise is a relatively more important source of female income than it is for men. This point will be returned to below.

Gender differentiation in the non-agricultural household enterprise sector, and by implication the SME sector, goes beyond its role as a source of income for those who operate the enterprise. Women tend to be more active in trade, and men more in production and services. However, within production, women are more important in the already mentioned key sub-sectors of food and beverages and textiles and garments. This gender differentiation is illustrated in Table 2, which compares the types of non-agricultural household enterprises operated by men and women in rural and urban areas.

According to the available data, women tend to have smaller enterprises, with fewer employees, less hired labour, lower turnover (except for services), lesser asset values, and lower profits (Desai, 2000: Tables 4.11, 4.12 and 4.14). In both rural and urban non-farm enterprises, those controlled by a male have a larger value of total business assets than those controlled by females. In rural areas, female operated non-farm enterprises have a value of total business assets that are 70 per cent that of male operated non-farm enterprises. In urban areas, female operated non-farm enterprises have a value of total business assets that are 52 per cent that of male operated non-farm enterprises (Desai, 2000: Table 3.5).

The best enterprise earnings are associated with those in trade, where male operated non-agricultural household enterprises earn calculated profits of VND 4,950,000 per year in rural areas and VND 10,985,000 per year in urban areas. This compares with female operated non-agricultural household enterprise earnings of VND 3,600,000 per year in rural areas and VND 7,040,000 in urban areas (Desai, 2000: Table 4.12). Thus, on average calculated profits in female operated non-agricultural household enterprises, which include SMEs, were about 70 per cent of the profits made by male operated non-agricultural household enterprises. In rural areas, revenues in female operated non-agricultural household enterprises were 64 per cent of those in male operated non-agricultural household enterprises. In urban areas revenues in female operated non-agricultural household enterprises were 76 per cent of those in male operated non-agricultural household enterprises.

**Table 2:** Types of non-agricultural household enterprises operated by men and women in rural and urban areas, in per cent

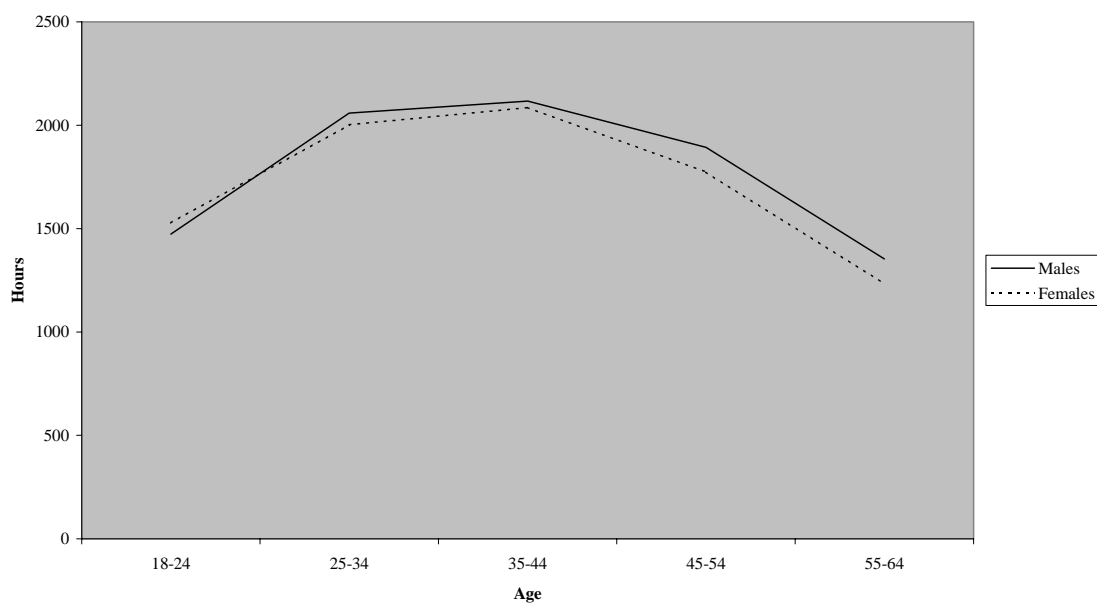
	<i>Rural</i>			<i>Urban</i>		
<i>Type of enterprise</i>	<b>Male</b>	<b>Female</b>	<b>Total</b>	<b>Male</b>	<b>Female</b>	<b>Total</b>
<b>Production</b>						
Agriculture and forestry	9.6	3.1	6.4	0.6	0	0.2
Aquaculture	15	2.9	9	8	0	3.3
Mining	2.4	1	1.7	0.3	0	0.1
Food and beverage processing	10.9	13.7	12.3	4	4.5	4.3
Textiles, garments, & leather products	3.2	9.7	6.4	5.5	9.4	7.8
Wood and paper products	9.8	8.2	9	5.8	1.2	3.1
Other production/processing	5.1	0.1	2.7	6.7	1.1	3.3
Construction a& utilities	4.6	0.2	2.4	2.7	0.2	1.2
<b>Trade</b>						
Vehicle sales, maintenance, repair	1.2	0	0.6	2.5	0.3	1.2
Wholesale and agent sales	14.7	2.3	3.5	2.2	2.7	2.5
Retail sales	14.8	51.5	32.8	20	59.9	43.7
<b>Services</b>						
Hotel and restaurant	0.4	3.7	2	4.6	11.7	8.8
Transport & communication	8.1	0.6	4.4	19.8	0.9	8.5
Business & financial services	2.6	0.2	1.4	3	1.2	1.9
Education, health, cultural services	2.8	0.4	1.6	4.3	2.9	3.5
Sanitation & personal services	4.9	2.4	3.7	10.2	4.1	6.6
<b>All production</b>	60.6	38.9	49.9	33.5	16.3	23.3
<b>All trade</b>	20.7	53.8	36.9	24.7	62.9	47.4
<b>All services</b>	18.7	7.3	13.1	41.8	20.8	29.4
<b>TOTAL</b>	100	100	100	100	100	100

Source: Desai, 2000: Table 4.10.

With regards to business expenses, female operated non-agricultural household enterprise expenses in rural areas were 65 per cent that of male operated non-agricultural household enterprise expenses, whereas in urban areas the business expenses of female operated non-agricultural household enterprises were 105 per cent that of male operated non-agricultural household enterprises. Why urban female operated non-agricultural household enterprises face higher business expenses is not known, and is clearly a matter for further research. One possibility, which is applicable only to non-registered enterprises, is introduced below.

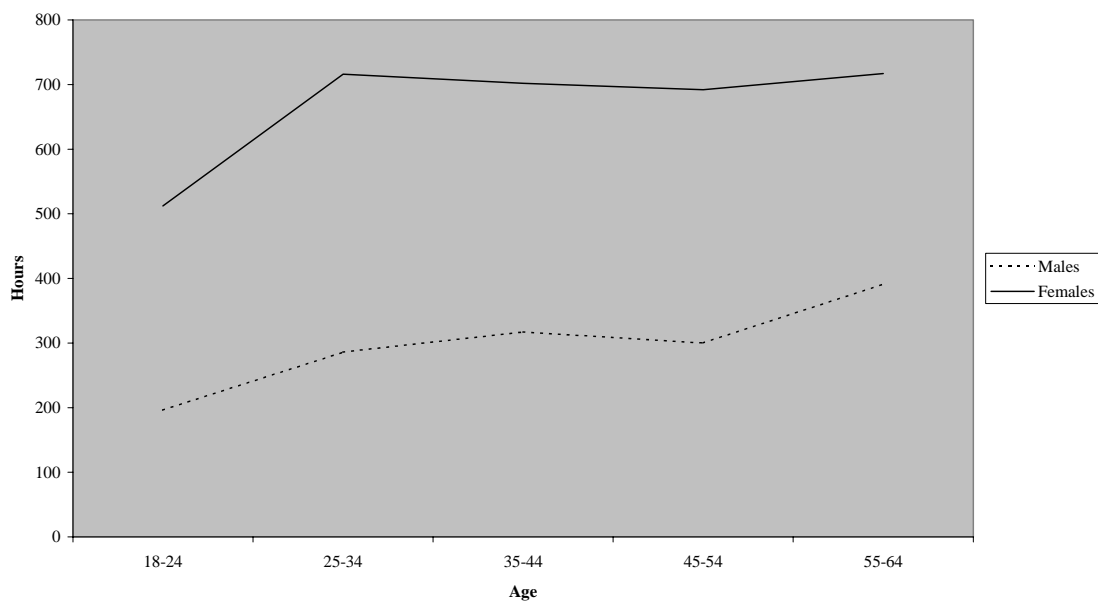
It has been noted that female-owned enterprises employ relatively more women than men, and that registered female-owned companies have higher profit rates than registered male-owned companies (Thanh-Dam Truong, 1999: 2). This latter point may explain why female-owned enterprises have a 9 per cent higher chance of survival than male-owned companies (Wim Vijverberg and Jonathan Haughton, 2002). It is interesting, but not surprising, to note that in agricultural SMEs women compensate for their lower capital stock and lower hired labour inputs with longer hours of work. Indeed, overall the total workday is longer for women than for men, largely due to the fact that while men and women work almost as much as each other in the paid economy women are responsible for undertaking 70 per cent of the 33 hours of unpaid household work required a week to support the maintenance of the household (Desai, 2000: 21). These differences are illustrated in Figures 1 and 2. Since the borderline between housework and a household enterprise is often thin (Elizabeth Oughton and Jane Wheelock, 2003), and this even more likely so in agricultural businesses which often will be located near or in the place of living, it is not extraordinary to expect that a part of women's unpaid work is used to provide investments or services to the agricultural household enterprise. In other words, the high time-use of women compared to men may not only reflect a high labour burden but also, in the light of relatively low earnings of female owned enterprises, underemployment.

Figure 1: Mean hours worked per year in income generation



Source: Desai, 2000: Table 4.2

Figure 2: Mean hours worked per year in house work



Source: Desai, 2000: Table 4.2

SMEs also provide some women with a viable career path, for while female private sector managers may be in a minority in Vietnam, 30 per cent of them had

already been an owner of an SME. However, the behavioural motivations behind female SMEs go beyond career development. The Vietnam Women’s Union and the Vietnam Chamber of Commerce have reported that female-owned enterprises are relatively more security-oriented in comparison to male-owned enterprises, which are relatively more profit-oriented (Truong, 1999: 2).

Nevertheless, as already indicated, the impact of female-owned SMEs on household income is significant. Table 3 details the share of female SME entrepreneurs’ income in total household income, according to a survey conducted by the Vietnam Women’s Union and the Vietnam Chamber of Commerce.

Table 3: Interviewee’s contribution to household income, in per cent

Percent of household income	Share from female SME entrepreneurs
21-40%	15.7
41-60%	49.3
61-80%	31.4
81-100%	3.6
Total	100

Source: Vietnam Women’s Union, 1998.

Table 3 demonstrates that half of the female SME owners contribute between 40 and 60 per cent of household income, while a third of the female SME owners contribute an even larger portion of household income. Hence, female SME owners provide a very substantial part of household income in Vietnam, in contrast to some other countries where their income is deemed to be a secondary income designed to supplement a male breadwinner’s contribution. This high female household income share makes it even more pressing to analyse how female SME entrepreneurs are taxed, since it effects net household income, and hence, household purchasing power and living standards.

Entrepreneurs must register their business in order to make VAT payments and be eligible for VAT refunds. The data from the previously mentioned Vietnam Women’s Union-Vietnam Chamber of Commerce survey indicates that 65 per cent of female SME owners have obtained a licence, whereas 35 per cent have not. From the



VLSS more detailed information about licenses is available, which also offers a comparison with men. In rural areas, 16 per cent of non-agricultural household enterprises, including micro enterprises and SMEs, operated by men have a license, whereas only 11 per cent of those operated by women have a licence. In urban areas the rates are higher for both men and women: 33.6 per cent of male operated non-agricultural household enterprises have a license, whereas 27.2 per cent of female operated non-agricultural household enterprises have a licence (Desai, 2000: Table 4.11). In trade, the sector which is relatively and absolutely dominated by female SMEs, the differences are revealing: in rural areas 24.1 per cent of male operated non-agricultural household enterprises have a license and only 15.9 per cent of female operated non-agricultural household enterprises have a license. In urban areas, 40.5 per cent of male operated non-agricultural household enterprises in the trade sector have a licence, against 31 per cent of female operated non-agricultural household enterprises in the trade sector.

There may be gender-based differences in savings and credit behaviour between female operated SMEs and male operated SMEs. According to field research, women borrow more frequently than men, borrow smaller amounts than men, and have smaller stocks of savings than men (Lynellyen Long, Le Ngoc Hung, Allison Truitt, Le Thi Phuong Mai and Dan Nguyen Anh, 2000: 71, 72 and 83). However, the more authoritative VLSS shows that in male-headed households the mean value of household savings in savings accounts was VND 675,000, whereas for women it was VND 1,024,000 (Desai, 2001: Table 3.16). Other forms of savings, such as cash, precious metals, and jewellery, were more or less equal for men and women. For borrowing the VLSS indicated that 53 per cent of male-headed households had borrowed, while 42 per cent of female-headed households had borrowed. The relevant data are presented in Table 4. In addition, Table 4 shows that the average amount borrowed in male-headed households was VND 2,930,000, whereas the average amount borrowed in female-headed households was VND 2,180,000 (Desai, 2000: Table 3.17). In general, it would appear reasonable to conclude that female-headed households have higher savings, lower borrowing frequency and lower levels of borrowing. Of course, this information is only indicative: household saving and borrowing behaviour may or may not mirror that of businesses. In fact, as is indicated in a study by Tran Tho Dat (2004), informal credit from the family is predominantly lent for non-business purposes, whereas credit

from moneylenders is used both for business purposes and for consumption, housing and emergency expenditures.

Table 4: Gender and finance

	Male	Female
All borrowers, %	64.4	35.6
Who borrowed, %	53	42.3
Mean amount borrowed	2930	2180
Who lent, %	16.3	10.8
Mean amount lent	1074	624
<i>Purpose of loan</i>		
Working capital	56.4	47.8
General consumption	7.6	14.4
<i>Source of loan</i>		
Moneylender	8.4	11.6
Family and friends	39.8	50.5
Banks and state programmes	46.6	32.4
Median monthly interest rate, %	1.2	1.4

Source: Desai, 2000: Tables 3.17, 3.18 and 3.20.

At the same time the sources of finance are gendered: Table 4 shows that men borrow more often from formal credit sources like banks, whereas women borrow more often from informal sources, including moneylenders. An important reason for this gendered difference is the failure to include women's names on land use certificates, which are the principal source of collateral for all bank transactions in Vietnam (World Bank, 2003b). When collateral is not necessary, it is usually personal networks that women do not have access to that can facilitate a loan. Thus, the Vietnam Bank for Agricultural and Rural Development is able to provide loans of up to VND 5,000,000 without collateral if the loan is guaranteed by the Chairman of the Commune People's Committee—something that Chairmen may refuse more often to women than to men. As a result of differences in sources of credit there are differences in the interest rates charged to men and women. Money lenders have monthly interest rates of between 7 and 10 per cent, whereas bank rates are between 1.7 and 2.8 per cent per month (Gilberto Llanto, 2000). Overall, Table 4 demonstrates that median interest rates for women are higher than men.

Clearly, the SME sector can be gender differentiated. This applies not only to the ownership of an SME, but also to its most likely principal activity, the stock of the assets that it possesses, the labour that it utilizes, the costs that it faces, the revenues that it generates, and the profits that it earns. It is also possible that savings and credit behaviour of SMEs may be gender differentiated. In short, gender is a critical analytical variable when investigating the SME sector in Vietnam. If this is the case, and if indirect taxes are likely to have gender differentiated effects, it is likely that the impact of the introduction of VAT in Vietnam on enterprises would depend upon whether the SME was owned by a man or a woman. It is to investigating this possibility that the paper now turns.

## **5. A GENDER ANALYSIS OF THE VAT SYSTEM ON FEMALE OWNED SME'S**

Desai (2001: 34) formulates the hypothesis 'that households tend to allocate their labour resources such that women work in activities in which earnings are lower'. This would suggest, in terms of the SME sector, that female owned SMEs have lower revenues and profits because women choose to enter lower revenue lower profit activities. Here, we pose a slightly different hypothesis, which does not exclusively attribute women's lower earnings and profits to the activities they undertake, but also to gender-based differences in the costs of operating an SME. More specifically, we hypothesize that female-owned SMEs face different input cost structures in general than male-owned SMEs. In this context, indirect taxes, which by definition are regressive, place a relatively higher burden on female-owned SMEs and this, by increasing their total costs, results in lower profits. In what follows we will distinguish the following input cost categories for SMEs in our gender analysis of VAT: labour costs; capital costs; and material input costs. In addition, we will also discuss the incomes earned by female and male-owned enterprises, and the gender implications of the VAT system for non-VAT registered enterprises.

### **5.1 Labour costs**

The 1998 VLSS indicates that contrary to agricultural household enterprises female operated non-agricultural household enterprises, which include micro enterprises and SMEs, employ less paid labour but at the same time also utilise less unpaid household labour when compared to male operated non-agricultural household

enterprises. The relevant data on paid and unpaid labour is presented in Table 5. Gender analysis would indicate that the most likely explanation for this is the gender division of labour within the household. More specifically, female operated non-agricultural household enterprises do not have access to the same amount of unpaid family labour as do male operated non-agricultural household enterprises. This is because female operated non-agricultural household enterprises would want to use, amongst other unpaid labour inputs, unpaid male household labour, and such labour is either not available, or not available in a sufficient quantity, because of gender stereotypes. By way of contrast, male operated non-agricultural household enterprises would want to use, amongst other unpaid labour inputs, unpaid female labour, and such labour is, given gender stereotypes, much more likely to be both available and available in a sufficient quantity. In short, the lower command that females have over male household labour limits the use of unpaid labour for female operated non-agricultural household enterprises, when compared to male operated non-agricultural household enterprises.

Table 5: Number of workers in non-agricultural household enterprises

	<b>Mean number of paid and unpaid workers</b>	<b>Percentage with waged workers</b>
<i>Rural:</i>		
Male-operated	2	11.5
Female-operated	1.5	1.8
<i>Urban:</i>		
Male-operated	2.6	18.2
Female-operated	1.6	7.6

Source: Desai, 2000: Table 4.11

This means that for any given amount of managerial time the female operator of a non-agricultural household enterprise, including micro enterprises and SMEs, puts into her business, as well as for any given amount of capital, the labour resources that

are available are less than those for male operated non-agricultural household enterprises. This is not an explicit cash cost, but it does nonetheless have opportunity costs: at lower levels of output, such as that which would typify an SME, lesser amounts of labour, even if it is unpaid, makes capital and management resources less productive than they could otherwise have been. Moreover, value added taxation is a proportion of the estimated value added that is generated by the enterprise. When male operated non-agricultural household enterprises, including SMEs, have more inputs of unpaid household labour, and specifically female labour, there is an uncoded 'invisible' input into the production process that generates value added and which will, as a result, affect the calculation of VAT.

The gender inequality in this arrangement is not a function of the absolute amount of VAT that is payable. In that uncoded inputs increase value added, they increase the absolute amount of VAT that is payable by male operated non-agricultural household enterprises. The gender inequality is a function of the regressive nature of indirect taxes in general, and VAT in particular, in the context of the gender division of labour. The gender division of labour results in female operated non-agricultural household enterprises having less access to unpaid household labour and, as a partial result, lower levels of value added. At the same, time, as has been demonstrated, Vietnam has fairly low indirect tax thresholds, above which VAT must be paid. The imposition of VAT on female operated non-agricultural household enterprises that have lower value added in part because of the gender division of labour results in female entrepreneurs paying a relatively higher proportion of their total earnings as tax as a consequence, in part, of the gender division of labour.

## **5.2 Capital costs**

The data on borrowing that has already been presented in Table 4 indicates that men have more access to market based finance and borrow higher amounts from it. There is thus gender segmentation in the financial market. Both of these dimensions of access to finance indicate that men are in all likelihood able to access finance at a lower cost than women. As has been demonstrated, females are more likely to have to use money lenders and other informal sources of credit. While the interest rates charged by family members tend to be low or even absent, money lenders charge considerable higher interest rates than formal credit providers. Moreover, as was discussed earlier, family members are mostly used as a source of finance for non-business purposes.

Hence, it is likely that female entrepreneurs who make use of informal credit sources rely predominantly on money lenders and much less so on family when they need credit for their enterprise. At the same time, males are more likely to take out larger loans, and these tend to have lower costs per unit borrowed because of savings on administrative costs and transaction costs for the borrower. As a consequence of the probable higher interest and transaction costs of borrowing for female entrepreneurs, it can be suggested that female SME owners face higher capital costs than male SME owners. There would be gender-based differences in capital cost structures.

Higher capital costs would reduce the earnings of female-owned SMEs. As we have seen in the description of the gender dimensions of the SME sector, urban female-operated non-agricultural household enterprises face higher costs, both compared to rural and to male non-agricultural household enterprises. This rural-urban difference among female operated household enterprises may be particularly related to the costs of capital, which for women, as demonstrated in Table 4, is often informal credit. It may be the case that women in urban areas are more dependent upon money lenders, where men have more access to formal credit, whereas in rural areas family ties may be strong enough to enable access to low cost credit from family sources for business purposes. Cumulatively, female household enterprise earnings might be reduced. This would be accentuated by the way in which VAT is calculated. The Vietnamese government does not calculate VAT payments on the actual cost of capital but rather on an estimation of a 'reasonable' cost of capital. An estimate of a 'reasonable' cost of capital is likely to use proxy variables such as, for example, the market interest rate for loans. However, gender segmentation in the financial market means that female SME owners often do not pay the market interest rate for loans. Rather, they face higher interest rates. This means that their actual capital costs will be higher than those estimated for VAT payments, which will, in turn, make their VAT payments higher than should be the case. Once again, the regressivity of the VAT system will mean that the impact of this will be stronger on lower earning SMEs, and these are more likely to be female-owned. Thus, gender segregation in financial markets results in female SME owners being more likely to have the value added of their enterprise overestimated, with the effect that the amount of VAT paid is more than that which would be the case if VAT were calculated on the actual cost of capital.

### **5.3 Material input costs**

As has already been noted, the ‘standard’ rate at which VAT is applied is 10 per cent. This rate applies, for example, to most goods that are traded, and thus applies to the economic sector in which, as has been demonstrated, female entrepreneurs are more likely to operate. Moreover, reduced VAT rates of 5 per cent for essential inputs are far less likely to apply, if at all, to finished goods that are traded, which are typical of this sector. Female entrepreneurs are thus more likely to face the 10 per cent VAT levy. By way of contrast, male-owned SMEs are more likely to operate in the production sector, and in this sector some inputs may receive the reduced VAT rate of 5 per cent. This would mean that the net tax rate facing male-owned SMEs in the production sector would be less than the net tax rate facing female-owned SMEs in the trade sector. Differential VAT regimes between the trading and production sectors would clearly affect the cost of production, and thus the cost structures facing female-owned and male-owned SMEs would be gender-differentiated. Moreover, gender-differentiated cost structures would affect average profit rates between the sectors and, by implication, the average profit rate for female-owned and male-owned SMEs.

In addition, it is notable that the one production sub-sector where women are more active, the food and beverages sub-sector, has been placed within the higher 20 per cent VAT band. This is so, as has been noted, irrespective of the type of food, and is thus applied to food stalls in markets and on the streets, where women are particularly active. This suggests that the profit rates for female-owned SMEs even in the production sector may be suppressed by the higher rates of tax that are applied to the types of enterprises operated by women in the sector.

It might be inferred from the discussion that for some female entrepreneurs there are benefits to remaining unregistered, in the sense that they would not pay VAT on their sales and hence increase their earnings. However, such enterprises will probably have paid VAT to their suppliers, unless, of course, these are unregistered as well, and failing to register reduces the ability to claw back a not insignificant fraction of the costs paid to obtain inputs. Moreover, business registration brings benefits. Registered enterprises receive market information from the chamber of commerce, access to trade fairs, opportunities for joint acquirement of inputs with other registered firms, and legal support or collective action in the case of security problems or the levying of bribes by local government officials and the police.

#### **5.4 Income earned**

As has been demonstrated, the SME sector is dominated by female entrepreneurs. However, it has also been pointed out that their earnings are lower than those of male entrepreneurs. This implies that on average it is more likely that female SME owners will find themselves earning less than the threshold amount of net income, above which VAT is paid. For these firms, as has been pointed out, the VAT regulations offer the possibility of VAT exemption for those entrepreneurs earning below the minimum wage. It is thus likely that the group of SME owners that are exempted from the payment of VAT will be numerically dominated by women. However, as has been stressed, exemptions are only granted to those entrepreneurs who are officially registered. In this context, it is significant that the registration rate for business licenses is lower for women than for men. There is thus a contradictory situation in which more women entrepreneurs than men entrepreneurs would fulfil the threshold income criterion for VAT exemption, whereas it is less likely that they will be granted the exemption because a higher share of women entrepreneurs are not officially registered. Moreover, as will be discussed in the next sub-section, whether a firm is registered or not does not preclude the payment of VAT on inputs. In this context, non-registration by firms that earn less than the threshold income for VAT payments may considerably reduce the net earnings of an enterprise, because of the foregoing of VAT exemptions. Such a situation is more likely to affect female-owned SMEs, for the reasons that have already been discussed.

#### **5.5 Non-registered SMEs and VAT**

In Section 4 it was shown that women's businesses face higher costs than men's businesses. The data on female operated urban non-agricultural household enterprises showed that the business expenses faced by female entrepreneurs are 105 per cent of those born by male entrepreneurs, whereas their earnings are only 67 per cent of those of male operated urban non-agricultural household enterprises. Granted, there might be sectoral reasons for this. As has already been demonstrated, men tend to operate in production, and women tend to operate in trade, which is, in general, a lower value added sector, in part because of higher input costs. However, there are, in addition to sectoral explanations, gender-based explanations as to why female-owned SMEs face higher input costs. In obtaining inputs entrepreneurs pay VAT incorporated into the



prices charged by their suppliers. The amount of VAT that is paid depends upon the price of the input, and thus the lower the price of the input the less tax that is paid. Female-owned SMEs operate on a smaller scale than male-owned SMEs, with lesser amounts of assets, lesser amounts of labour, and lower profits. In that they operate on a lower scale, female-owned enterprises would have less opportunity to buy inputs in bulk at reduced rates. The result would be higher input costs, and, not coincidentally, higher VAT payments.

Moreover, since women have a high burden of unpaid household care, which includes childcare, their freedom of mobility tends to be less than that of men, which reduces their opportunity to search for cheaper inputs. As a result, female-owned SMEs would face higher transactions costs, higher input costs, and, again not coincidentally, higher tax payments. This phenomenon is accentuated by the fact that women dominate trading, a sector where many input costs are material costs obtained through retail sources, for which prices include retail rather than wholesale mark-ups. By way of contrast, male-owned SMEs dominate the production sector in which the input structure relies less on material inputs obtained through retail sources and more on inputs obtained in bulk from wholesalers at lower prices. It thus appears to be the case that the smaller scale of female-owned SMEs could, as a result of transactions costs and the gender division of labour, affect the cost of their material inputs, and in so doing increase the amount of VAT that must be paid in order to obtain the inputs.

In this context, non-registration by female-owned SMEs may also considerably reduce the net earnings of an enterprise, because they may be paying tax on higher priced inputs for which no redemption of VAT payments on inputs will be available. Such a situation is more likely to affect female-owned SMEs, because, as has already been noted, female-owned SMEs are less likely to be registered.

## **5.6 Summary**

A gender analysis of the impact of the VAT system on SMEs in Vietnam reveals five biases in the VAT system that effectively penalizes female-owned SMEs. The first is that females have lesser command over unpaid male household labour. This limits the use of total unpaid labour for female operated non-agricultural household enterprises, when compared to male operated non-agricultural household enterprises, and results in lower value added in female operated non-agricultural household enterprises. In this context, the levying of VAT on female operated non-agricultural

household enterprises that have lower value added in part because of the gender division of labour results in female operated non-agricultural household enterprises paying a relatively higher proportion of their total earnings as tax as a consequence, in part, of the gender division of labour. By not recognizing the impact of the unpaid economy on SME production, the VAT system has a gender bias.

The second is that gender segregation in financial markets results in female SME owners being more likely to have the value added of their enterprise overestimated, with the effect that the amount of VAT paid is more than that which should be the case. By not recognizing the impact of gender segregation in the financial market and its gender-differentiated impact on the SME sector, the VAT system has a gender bias.

The third is that the VAT structure privileges a sector in which SMEs are predominantly owned by men, and does not offer a similar privilege to a sector in which SMEs are predominantly owned by women. The result is that male and female-owned SMEs can be expected to have differences in after-tax profitability in part because of biases in the VAT structure. However, the fact that female-owned SMEs in the production sector face higher rates of VAT for their activities and thus lower after-tax profitability means that it is not enough to say that the VAT structure is biased. By not recognizing the gender-differentiated impact of the VAT structure on the SME sector, the VAT system has a gender bias.

The fourth is the contradictory situation surrounding the threshold income criterion for VAT exemption, in light of the lesser likelihood of female entrepreneurs registering their business. The earnings data indicates that it is more likely that women entrepreneurs would fulfil the threshold income criterion for VAT exemption, while at the same time it is less likely that they will be granted the exemption because a higher share of women entrepreneurs are not officially registered. By not recognizing the gender-differentiated impact of the threshold income criterion, the VAT system has a gender bias.

The fifth is that female-owned SMEs are, because of their smaller scale, more likely to be paying higher prices for inputs. These inputs are taxed, but the larger share of non-registration by female-owned SMEs means that for a larger proportion of female-owned SMEs no redemption of VAT payments on inputs will be available. This will considerably reduce the net earnings of an enterprise. By not recognizing the gender-differentiated price structure facing non-registered enterprises, the VAT system

demonstrates its gender bias.

## **6. CONCLUSION**

Since the late 1990s the domestic private sector has been the most dynamic component of the paid Vietnamese economy. Driving the domestic private sector has been the growth of SMEs, which are the fastest growing type of enterprise, producing a quarter of GDP and employing around one-half of the Vietnamese labour force. The SME sector in Vietnam can clearly be gender differentiated. This applies not only to the ownership of an SME, but also to its most likely principal activity, the stock of the assets that it possesses, the labour that it utilizes, the costs that it faces, the revenues that it generates, and the profits that it earns.

Our analysis indicates that lower SME earnings and profits for female-owned enterprises can be attributed to the different input cost structures facing female and male-owned SMEs. Male owned SMEs tend to command more unpaid family labour than women, reducing the estimated value added. Female owned SMEs have less access to relatively cheaper formal credit and hence rely more on high cost informal sources of credit, leading to an over-estimation of their value added. In addition, female owned SMEs are less likely to be registered, and are thus less likely to be able to redeem tax payments on the higher priced inputs that they obtain because of their lesser scale. In all three instances, the VAT structure fails to recognize gender-based differences in input cost structures. At the same time, the female intensive SME sector, trading, tends to be taxed relatively higher than the male intensive sector of production. The VAT structure fails to recognize gender-based differences in SMEs. Finally, while it is more likely that female SME owners would fulfil the threshold income criterion for VAT exemption it is less likely that they will be granted the exemption because a higher share of female owned SMEs are not officially registered. The VAT system thus fails to recognize gender-based differences in SME registration.

Cumulatively, there can be little doubt that the VAT system demonstrates gender bias. If these findings can be uncovered by people with no training in tax economics, it would be extremely interesting to see what a properly trained feminist public finance economist could uncover in the Vietnamese indirect tax system. The analysis, after all, appears to be reasonably clear and consistent in revealing that, VAT,

which by definition is regressive, places a relatively higher burden on low earning female-owned SMEs. This increases their costs, and results in lower profits. Clearly, it is not that women work in activities in which earnings are lower: they dominate the trade sector, which has the highest earnings, for both women and men. Rather, women work in activities in which gender-differentiated input cost structures result in lower earnings. The key explanatory variable is thus not the activity, but is gender.

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