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Background

In Sub-Saharan Africa, a significant number of people are engaged in small and household enterprises outside formal wage employment. Although the prospects for economic growth have improved in the region since 2000 along with prospects for the expansion of modern industries and wage employment, household enterprises and small businesses remain a cornerstone of national economies and make up the livelihoods of millions. Of the many definitions of informal employment, this study focuses on small enterprises and self-employment in the nonfarm sector. Over 65 percent of people employed in Sub-Saharan Africa are engaged in farming, but nearly 70 percent of employment outside farming is in the informal sector. Previously expected to be a temporary phenomenon that would diminish in importance as countries progressed on the path to industrialization, the informal sector has instead become a significant and durable feature of Africa’s economic landscape.

The nonfarm informal sector has established its role as a major source of employment and earnings for rapidly growing populations. Informality, at least in developing countries, appears to be less the result of cumbersome regulations and mistrust in public institutions and taxation, and more a result of significant pressures on job creation and sustaining livelihoods. From 1985 to 2010, the population 15–24 years of age doubled in the region. At the same time, urban populations almost tripled in tandem with some outflows from farming activities (figure O.1). However, economic growth—and with it the expansion of labor demand in the formal wage sector—has been slower than anticipated. Wage and salaried jobs, generally offering higher earnings and better working conditions, account for much less than half of total employment in the countries of Sub-Saharan Africa, and the share has increased only very modestly in the past 25 years (figure O.2).

The informal sector is likely to continue to absorb the majority of workers in the nonfarm sectors in the future. As seen in figure O.1, demographic trends will continue to put pressure on employment opportunities.
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Figure O.1 Youth and Urban Populations in Sub-Saharan Africa, 1985, 2010, and 2035

Sources: UN 2010, 2011.

Figure O.2 Wage and Salaried Workers in Sub-Saharan Africa, 1980s–2000s


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Meanwhile, the changing economic and political environment in Africa holds promise for improving economic growth. Given the small size of the formal sector, however, its labor demand is not likely to be able to match the dynamics in labor supply, even with extraordinary growth rates. Thus, the informal sector will likely continue to provide most of the employment in the nonfarm sector. In the event of a more significant exodus from farming activities, pressures for job creation will be even greater.

Improving the productivity of the nonfarm informal sector is therefore essential for employment, income growth, and poverty reduction in the region. Many factors affect this productivity. Among them are not only access to finance, infrastructure, and an investor-friendly business climate, but also the level of human capital, including skills relevant to the labor market. In this context, the Africa Region of the World Bank launched this study on how workers are prepared with skills for informal sector employment and how governments could encourage further investments in skills alongside other interventions that would raise productivity and earnings in the sector.

This book looks at the experience of skills development in five African countries—Ghana, Kenya, Nigeria, Rwanda, and Tanzania—that together account for one-third of the nearly 900 million people living in Sub-Saharan Africa. The study examines (a) the employment characteristics of the informal sector, (b) its size and impact on poverty, (c) the profile of education and training in the informal and formal sectors and the links with employment and earnings, and (d) the skills development strategies of those working in the informal sector. It draws on household survey data in the five countries as well as institutional analyses of the many programs offering opportunities for skills development.

This book defines the nonfarm informal sector as follows: (a) the self-employed (that is, those working on their own and with additional workers), (b) the contributing family members, and (c) the wage workers in small and household enterprises. Chapter 2 discusses the background for this definition. The empirical analysis of the five country cases shows that the nonfarm informal sector is a significant part of the economic landscape in these countries. The study is well anchored in a larger literature on the informal sector, and its findings are linked to and consistent with this literature. Its findings are therefore expected to be relevant to many other countries in the region, as well as other regions such as South and East Asia.

The book aims to provide insights and messages for a wide audience concerned with skills development. It raises issues relevant to government policy makers, the donor community, and those responsible for labor market institutions that provide information, regulate, and support the intermediation of labor demand and supply, as well as for public and private skills providers, employers, children and their parents, new labor market entrants, and of course those already working in the informal sector.
Main Findings
The study confirms the significance of the nonfarm informal sector as a source of employment and earnings in Ghana, Kenya, Nigeria, Rwanda, and Tanzania; the strong link between education and different labor market opportunities; the limited skill levels available in the informal sector; and the need to continue to focus on skills development in the informal sector to increase productivity and earnings.

Characteristics of Those Employed in the Nonfarm Informal Sector
On the basis of available household surveys in the five country cases, the profile of people employed in the nonfarm informal sector reveals the following:

- The average income of people employed in the nonfarm informal sector is lower than that of people employed in the formal sector but exceeds earnings in farming. Although farming remains the largest employer in Sub-Saharan Africa, labor continues to leave the farm in search of other employment. Because Africa does not offer large numbers of low-skilled jobs in manufacturing and construction, as found in East Asia, most migrants find jobs in petty trade and services that still offer welfare gains compared to farming. Although average earnings in the informal sector are lower than those of the formal sector, the earnings display considerable variation, and for some, the earnings of the nonfarm informal sector compare favorably with those in the formal sector (figure O.3).

- Employment in the nonfarm informal sector is associated with lower poverty. Higher earnings in the informal sector lead to lower poverty rates than in

Figure O.3 Distribution of Log Monthly Earnings by Formality Status in Nigeria

![Distribution of Log Monthly Earnings by Formality Status in Nigeria](http://dx.doi.org/10.1596/978-0-8213-9968-2)

farming. In Kenya and Rwanda, employment in the informal sector is associated with significantly lower levels of poverty than experienced by those in farming. In Rwanda, only 18 percent of those working in the formal sector belong to the 60 percent poorest households, compared with 40 percent in the nonfarm informal sector and 69 percent in farming; the same pattern is observed in Kenya (figure O.4).

- **Women are more likely to be working in more vulnerable and less profitable occupations and sectors.** The share of women active in the nonfarm informal and formal sectors differs among the countries, indicating the need for a gender focus in efforts to improve economic and social outcomes. Whereas men account for a majority of employment in the informal sector of Kenya, Rwanda, and Tanzania, women play a larger role in Ghana and Nigeria. However, women
are everywhere more likely than men to be engaged in farm activities, and for those working in the nonfarm sector, they are more likely to work in the informal than the formal sector (figure O.5). Within the informal sector, they are often confined to lower-earning occupations such as unpaid family work.

- *The reasons for working in the nonfarm informal sector are different in urban and rural areas, and the pattern by age is mixed.* Available information shows that workers are pushed into the informal sector in urban areas whereas they are attracted to nonfarm informal employment in rural areas, perhaps by the higher earnings compared with farming. In Tanzania, the push factors provide the principal reason for working in the informal sector with nearly 7 of 10 seeking additional income or unable to find other work opportunities. For those in rural areas, however, pull factors play an important role in the choice of employment, led by the perception of good business opportunities and the chance to open a business with the limited capital available to them. Age patterns are mixed. In Ghana and Tanzania, the mean age in formal and informal sectors is roughly the same, whereas in Kenya, Nigeria, and Rwanda the share of youth in the informal sector is higher than in the formal sector.
Most employment in the nonfarm informal sector is in trade and services. In Tanzania, more than two-thirds of informal sector jobs are in trade, restaurants, and hotels. These patterns repeat in Ghana, Kenya, and Nigeria. Concentration of the informal sector in trade and services places downward pressure on the earnings of those employed in these sectors. Thus, to diversify employment in the informal sector as a means to reduce this pressure and promote higher earnings, skills will be an important part of the equation.

The Role of Skills in Improving Productivity and Promoting Earning Mobility for People Employed in the Informal Sector

Education and training is an important asset for both formal and informal employment. Overall, the study findings point to the importance of basic education for all, which helps establish a solid foundation for further skills development. The combination of cognitive and noncognitive skills development in primary and lower secondary education provides a foundation for the acquisition of technical skills and the preparation of individuals for employment with secondary and postsecondary education. This foundation is also important to the subsequent reskilling and upgrading of workers later in the life cycle. Employers look for signals of prior education and training in the recruitment process.

The informal sector displays lower education levels than the formal sector, but workers in both sectors have higher education levels than farmers. Overall, analysis of household surveys in the five countries suggests that education is associated with different kinds of employment opportunities; the share of the population with at least a primary education is significantly higher in the formal sector than in the informal sector (figure O.6). The case of Tanzania also demonstrates the concentration of advanced education in the formal sector, and in particular the government sector, and the very low levels of education prevalent in farming. A vast majority of informal sector workers have completed primary education, but few have proceeded to secondary levels or higher (figure O.7).

Education translates into additional investments in skills and higher earnings. Skills acquisition is a cumulative process. In Tanzania, people working in the private formal sector are more likely to receive some form of additional training compared with those in the nonfarm informal sector. Almost 80 percent of government employees, who already have high levels of education, receive additional training. Access to basic education and literacy may open the door to postbasic education and provides a signal to employers about the ability of the worker to acquire higher levels of skills and productivity through training from different sources.

In urban and rural areas, traditional apprenticeships are the main source of skills for people in the informal sector, but traditional apprenticeships can also be valued for employment in the formal sector. Their prevalence, popularity, and gender balance differ among countries. In Tanzania, only about 1 in 10 informal operators have been through an apprenticeship; in Rwanda and Nigeria, this figure increases to 1 in 5, while in Ghana, half of those who have entered
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Figure O.6 Share of Population with Primary Levels of Education or More in the Formal and Informal Sectors

![Bar chart showing the share of population with primary levels of education or more in the formal and informal sectors. The chart compares Ghana, Kenya, Nigeria, Rwanda, and Tanzania. The percentage of the population with primary education or more is higher in the formal sector for all countries.]


Figure O.7 Employment by Education Level in Different Sectors of Tanzania

![Bar chart showing employment by education level in different sectors of Tanzania. The chart compares government, private formal, informal, and farming sectors. Education levels are categorized as postsecondary, completed primary, incomplete secondary, and none.]

the informal sector are former apprentices. Finding an apprenticeship is easier in urban areas than in rural areas: such residential differences are observed in Ghana, Nigeria, and Rwanda. Apprenticeships in Ghana are the main source of skills for those working in both the informal and formal sectors. However, despite their lower cost compared to formal forms of training, apprenticeships are less accessible to the very poor. Access to apprenticeships also requires some level of basic competencies, and most apprentices have a primary or lower-secondary education (figure O.8).

Education and training are strongly linked to the type of job held. The pattern among the five countries confirms the positive link between education and training and the probability of holding employment off the farm, and similarly, whether an individual is employed in the informal or formal sector. Formal education, and particularly higher education, increases the odds of holding employment in the formal, or wage, sector for all the countries. Those with limited education are more likely to work in the informal sector, but the association between education and informal sector employment weakens at higher education levels (figure O.9). In the five countries, the results point to the strong association between acquiring education, particularly secondary and higher education, and subsequently holding formal sector employment. Lower levels of nonformal training are linked to employment in the informal sector, whereas more advanced training is coupled with employment in the formal sector.

The shortage of higher levels of education is evident in higher returns to this education, especially in the formal sector. Returns to education in the formal sector generally become significant only after completing a lower-secondary or higher level of education, including technical and vocational education. In fact, in Nigeria, returns to higher levels of education account for most of the difference between the average earnings of the formal sector and the informal sector. In both Ghana and Tanzania, evidence shows that primary education is no longer enough to increase earnings (figure O.10). The returns in Ghana show that education influences earnings most in the formal sector and that the payoff begins only with those completing a lower-secondary education. The payoff to primary education may therefore be in promoting labor mobility out of farming into the informal sector with its higher earning opportunities, but once there, no further income gains are made until higher levels of education are attained.

In most countries (Rwanda is an exception), the returns to education are lower in the informal sector than in the formal sector. Several explanations are possible for such a gap being sustained. Skills taught may not be relevant to informal sector needs. Because of the absence of sufficient employment opportunities in the formal sector, some highly educated people may fail to find a job there and are compelled to work in the informal sector, where their skills are not needed. Moreover, noncompetitive wage setting in the public sector may increase returns in the formal sector. Crowding may exist in the informal sector, which depresses earnings, or earnings premiums in large (formal) firms
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Figure O.8 Access to Apprenticeship across Groups in Ghana

Source: Elaborations based on GSS 2005–06.

Figure O.9 Predicted Probabilities by Educational Attainment in Rwanda


Note: a. The figure presents multinomial logit estimations. b. Education levels are defined as follows: Edu0 = no education; Edu1 = some education but less than completed primary education; Edu2 = completed primary and some lower secondary; Edu3 = completed lower-secondary and some higher-secondary or vocational education; Edu4 = completed higher-secondary or extended vocational education and above.
caused by productivity differences may play a role. Possibly the quality of education available to those destined for the informal sector is inherently lower.

Technical and vocational education in schools is linked to employment in both informal and formal sectors and to higher earnings. Evidence from the five countries confirms the association between training and employment off the farm in both formal and informal sectors. In Nigeria, technical training raises the chances of being in formal sector employment by 26 percent. In Kenya, it raises the probabilities of both formal and informal sector employment compared to farm work. In Nigeria, vocational training does not produce earning gains in either the informal or formal sectors. In Tanzania, lower levels of vocational training are connected with employment in the informal sector, and advanced training can raise the chances of employment in the formal sector. In Rwanda, training does not raise earnings in either sector, although a technical vocational education appears to increase earnings in the informal sector. In Ghana, the returns of secondary technical and vocational education match those of general secondary education in both formal and informal sectors.

The evidence of the impact of traditional apprenticeships on earnings is mixed. Only in Rwanda is there statistical evidence of a positive association between apprenticeships and earnings. The primary effect appears to be opening access to off-farm employment and allowing some to find employment in the formal sector. Although apprenticeships are self-regulated, self-financed, and popular in Sub-Saharan Africa, their effect on earnings is limited because of
the low education levels and literacy of those who pursue their skills through this means, the low quality of the training offered by master craftspersons, and the dated technology and production methods used.

**Main Policy Recommendations**

A strategy to improve productivity and incomes in small businesses and household enterprises of the informal sector needs to consider factors behind the sector’s shortfall in skills. These factors include the low education of people in the sector, the unequal access to training experienced by some groups, the presence of inefficient markets encouraging skills development, the lack of interest in the needs of the informal sector shown by public training providers, and the existence of other market constraints to training for informal sector enterprises. Although expanding basic education is necessary to provide the underpinnings for further skills development, complementary measures must deal with the existing large stocks of people already in the informal sector and the number of potential future entrants to the sector. These measures will need to focus on the specific needs and constraints faced by small and household enterprises in enhancing the skills of their workforce. A strategy should include the following elements:

- **Increasing efforts of public skills providers in the informal sector:** Public providers can give more attention to entrepreneurship training, second-chance and literacy education, and short courses for in-service training of those already in the informal sector. To shift attention to the skills requirements of the informal sector, public skills provision needs to move away from supply-driven financing (focused on inputs) to results-based financing that holds providers accountable for training outcomes, especially those of the informal sector (that is, trainees placed, improvements in retention and completion, and services delivered to targeted growth sectors). Moreover, national poverty reduction strategies should not only recognize the importance of the informal sector but also include concrete action plans for addressing the sector’s development needs, including skills.

- **Encouraging investments in skills by small and household enterprises:** Reducing barriers to investments in skills by enterprises is an important part of the strategy for promoting higher productivity and incomes in the informal sector. Chapter 4 highlights a list of constraints to skills development faced by small and household enterprises. Lowering financing and information constraints and enabling small enterprises to invest in the skills they need to promote their growth and productivity will reduce the pressure on government to make such investments and allow government to focus on more strategic needs for improving market efficiency and equity.

- **Improving the quality of training offered by master craftspersons in apprenticeships:** Inadequate attention to the quality of apprenticeships poses a problem, as does
the absence of market indicators of this quality. Examples of progress are found in Kenya, where master craftspersons receive additional training and access to new technology, thereby improving their capacity as trainers. Steps to promote information about quality through including apprenticeship trades in testing and certification systems can help the market sort among good and bad training for apprenticeships. Examples exist in Ghana of these steps taking place with support from German technical assistance.

- **Expanding second-chance programs for education:** Programs are needed that open further education opportunities for master craftspersons and apprentices. Currently, besides literacy programs, few programs in Sub-Saharan Africa offer second chances for education to the large numbers of individuals without literacy or a basic education in the informal sector. Malawi is an exception with its Complementary Basic Education Program that targets youth and adults. The program serves individuals who leave the formal education system and provides, through community facilities and contract teachers, education credentials accepted as equivalent to those offered by formal education.

- **Providing small firms in the informal sector with information about the benefits of training and competitive sources for obtaining it:** Small enterprises, unlike their larger counterparts, rarely have the specialized expertise and knowledge to identify and design curricula for training programs that are tailored for their workers, who often have less than a secondary education. Thus, to meet small enterprises’ learning needs, providing them with information on the benefits of training along with information on providers who offer competitive services will be helpful. Industry associations can play an important role in providing this information to their members. Particularly to promote training among small firms, solutions need to be found to reduce their unit cost of training. Industry associations can play a role there, as well.

- **Encouraging industry associations to play a larger role in skills development for the informal sector:** Strengthening the capacity of small industry associations to play a larger role in skills development for their members can open the door to more information and better, more affordable training services for enterprises in the informal sector. The Micro and Small Enterprises Sector Board, as part of the Kenya Private Sector Alliance, has played an important role in analyzing training needs and designing training for its members as part of a youth empowerment project.

- **Improving information on training providers:** The market for information on skills for the informal sector is underdeveloped. Information on costs, quality, and outcomes associated with training is rarely available for nonformal training programs and traditional apprenticeships. To obtain such information, the performance of various providers needs to be monitored. For instance, simple inclusion of apprenticeships in current testing and certification systems and in
national qualification frameworks could provide a tool for comparing skill attainment among different providers and improve the portability of these skills. More attention needs to be given to the rigorous evaluation of training programs, public and private. External technical assistance can help in this area.

- **Promoting competition and innovation in training for the informal sector:** Financing through vouchers in Kenya has created a private supply response serving the skill needs of the informal sector. The use of demand-side financing instruments such as vouchers, training funds, and results-based financing can encourage competition and innovation in training delivery, as can opening markets to private training providers. In Rwanda, the emergence of microtrainers as an innovation has created a new source of skills training for the informal sector. Improving financial services to enterprises in the informal sector also has the potential to encourage private investment in training and stimulate the supply response to this market.

- **Improving understanding of skills and policy effectiveness:** Much work remains to enrich household survey measures of skills, broaden measures of training, and enhance measurement of activity in small enterprises run out of the household. At the other end, emphasis on results-based policy making needs to be supported by program monitoring and evaluation to establish what works, where, and why.

All stakeholders (governments, public and private providers of training, and international development and financing agencies) have roles to play in the implementation of this comprehensive strategy.

- Governments can play an important role in building a market for skills for the informal sector and in supporting basic education. They can also promote efficiency and equity in training markets that serve the informal sector by changing the incentive system to serve market needs for both formal and informal sectors. Governments can use different tools to address both supply and demand constraints through financing, information, quality assurance, and the like. They can lead efforts to strengthen statistical sources and improve program monitoring and evaluation.

- Public providers of skills (including the technical and vocational education offered by ministries of education and the nonformal training offered by other ministries such as labor, youth and sports, industry, and agriculture) can play a larger role in providing skills for the informal sector. They can introduce reforms such as the use of modular curricula for training that offer greater flexibility in delivery and reduce the time needed away from work for those in the informal sector. Although the private sector is more responsive to the informal sector, public providers can offer other services that contribute to the skills needed by those in the informal sector, such as introducing adult literacy, second-chance education, and entrepreneurship courses.
Private providers of skills that already play an important role in serving informal sector enterprises should be encouraged and their efficiency improved. Evidence shows that private training providers are responsive to increased demand in the informal sector, and better regulation and market information can improve their efficiency. On the supply side, governments and donors can play an important role in strengthening the capacity of informal sector associations for organizing and delivering training. On the demand side, financing through targeted vouchers and training funds can improve equity and access to skills for the informal sector.

International development and financing agencies can also play an important role in the financing of skills for small and household enterprises and ensure that their assistance focuses on interventions that help improve productivity and incomes for the nonfarm informal sector. Among possible investments are improving the skills and pedagogy of master craftspersons; building the capacity of industry associations to serve the skill needs of the informal sector; offering targeted demand-side financing to promote equity in access to skills, competition, and innovation for the informal sector; supporting public sector reforms in technical and vocational education that expand services to the informal sector; strengthening market institutions that provide information about quality; and supporting rigorous evaluations of programs for skills development serving the small and household enterprises of the informal sector.

References


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