CHAPTER 1

Introduction

In This Chapter

The informal sector of Sub-Saharan Africa, represented by small and household businesses in the nonfarm sector, has proven prolific in creating jobs and incomes, cultivating entrepreneurs, and absorbing the large numbers of youth entering the regional workforce each year. Improving its productivity is essential for regional employment and income growth, and skills development is an important part of this equation. This chapter reviews the literature about skills development for the informal sector and the challenges to raising the productivity and incomes of people working in the informal sector.

Background

The informal sector first entered economic development literature in the early 1970s through the International Labour Organization (ILO) and its World Employment Programme (Bangasser 2000). Identified in Kenya and earlier in Ghana, the sector was described as including small household enterprises that operated largely outside the purview of government regulatory and tax authorities. It was set against a formal sector where firms were considered to be in compliance with those same authorities. The informal sector and its firms were understood to be a safety net for people unable to find employment in the formal sector. The informal sector was thought to provide a pool of surplus labor for developing countries that industrialization would in time absorb into the modern wage sector. However, it has since become clear that what was observed as the informal sector is not diminishing in size with industrialization. Instead, the informal sector is holding its own and even growing as a share of employment in countries throughout the world (Verick 2006).

The informal sector today is a global phenomenon and is found in developing and industrialized countries worldwide (Becker 2004; OECD 2009). According to the January 1993 resolution of the 15th Conference of International Statisticians under the ILO, the informal sector represents all unregistered or unincorporated enterprises in the nonfarm sector that are below a certain size

and that are operated by self-employed people who work on their own account or who employ contributing family members and, on an occasional basis, wage employees. Individuals who are in these employment categories and who work in small, unregistered enterprises, usually with fewer than 10 employees, are counted in the informal sector (Roubaud and Razafindrakoto 2007). The sector has become part of a growing trend of informal employment spurred by the competition of globalization, one that now includes those working in the modern wage sector without social protection and job security (ILO 2002c, 11–13).[1]

Sub-Saharan Africa's informal sector covers a large share of the nonfarm workforce employed outside the full-time, stable, protected employment of the formal wage sector. Researchers' view of the formal and informal sectors has changed over time as evidence grew that the record of compliance with regulations and taxes has been more mixed than initially described. Experience has shown that compliance is influenced by the benefits of regulations balanced against the cost of compliance.[2] Small and household enterprises in some instances find compliance with selected regulations beneficial. The formal and informal sectors are thus more like points on a continuum that range from full compliance to noncompliance with regulations. Because the informal sector cuts across many industrial sectors, it is often referred to as the *informal economy*.

This book focuses on the nonfarm informal sector because it has been a growing source of employment for youth over the past four decades, as well as for older workers pursuing entrepreneurial goals and others adjusting to structural changes in the region's employment (Bangasser 2000; Becker 2004; Fox and Gaal 2008; Haan 2006; ILO 2002a; Johanson and Adams 2004; Liimatainen 2002). The image of the sector has changed with time. Rather than viewing it as a safety net and a temporary stop while workers search for employment in the modern wage sector, growing numbers of school leavers see the informal sector as a destination that offers opportunities to those wanting to become entrepreneurs[3] and one that can offer job satisfaction as high as formal work. Indeed, expanding entrepreneurship has become one of the options for addressing Africa's sizable youth employment challenge (World Bank 2009b, 1–26).

The nonfarm informal sector in Africa continues to be an important economic feature, accounting for a significant share of national output and the well-being of a growing number of households. Africa's growth has not created enough productive jobs to absorb the 7 million to 10 million young people entering the labor force each year. Unlike other regions, Africa has little open unemployment. Instead, many individuals work in low-productivity jobs in the informal sector (World Bank 2011). The slow pace of job growth in the formal sector and the sector's small size make it unlikely to absorb the growing numbers of youth entering the workforce and those already employed in the informal sector. While continuing to create formal sector jobs, African countries need to increase the productivity—and hence earnings—of people employed in the nonfarm informal sector, many of whom work in household enterprises.

Employment in the nonfarm informal sector is robust and operates in tandem with industrialization. Capturing the scale and characteristics of informal

employment and its contribution to national welfare and poverty reduction is a first step for many countries in developing strategies that recognize the informal sector and promote ways to improve its productivity and income. Improving the skills of people employed in the nonfarm informal sector is prevalent among these strategies.

This book sets out to understand how skills are enhanced in the informal sector as part of a larger strategy to improve the economic performance of the sector. The nonfarm informal sector, with its small and household enterprises, promises to remain a part of the economic landscape for the future (Fox and Sohnesen 2012), and the ILO observes that the formal sector is experiencing increasing informalization as a consequence of globalization and competition. Given the cumulative relevance of the informal sector for growth, jobs, and poverty reduction in Sub-Saharan Africa, it makes sense for countries to think about how to improve the productivity and incomes of those working in the nonfarm informal sector. Providing access to skills is one way to do this but requires strategies that can successfully overcome the constraints that impede skills development in small firms.

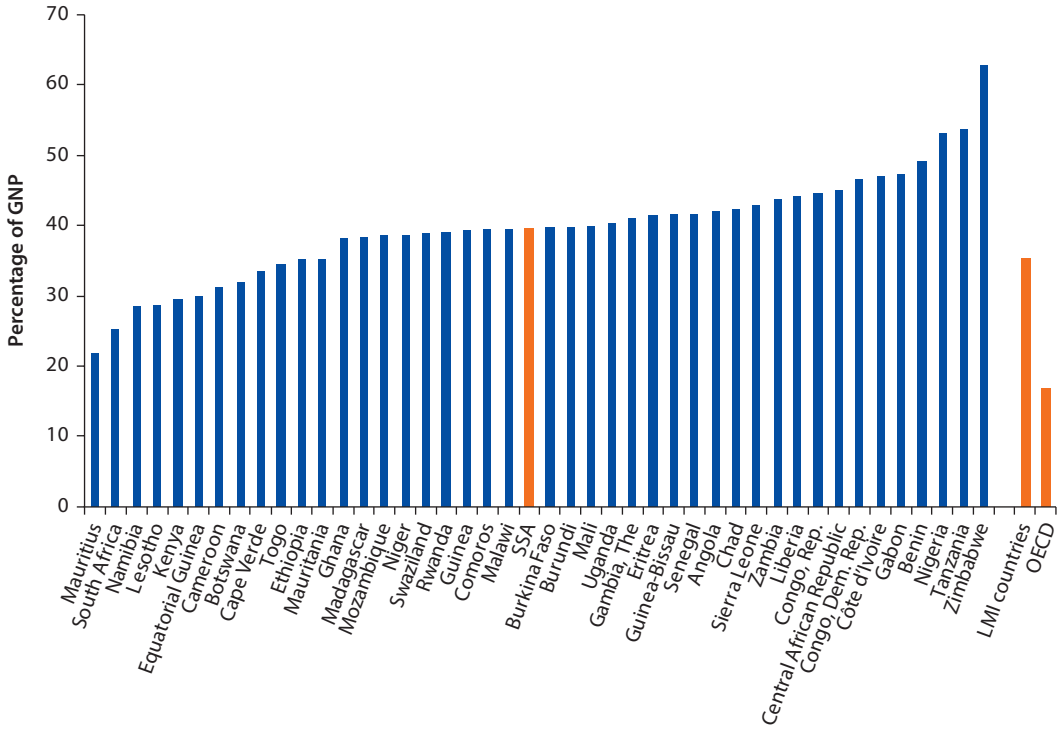
Public Interest in the Nonfarm Informal Sector

Informal sector activities in Africa hold a significant and, in some cases, dominant share of their respective markets, spanning mining, manufacturing, commerce, finance, and other sectors. Examples are found in countries like Kenya, Nigeria, and Senegal; on the streets and in home-based activities such as vending of food and small merchandise, tailoring of garments, manufacture of furniture, and repair of automobiles; as well as in health care provided by traditional healers. The size of the sector was estimated in 2007 for 43 countries in Sub-Saharan Africa (see figure 1.1). The sector accounted, on average, for 40 percent of gross national product in these countries. The sheer size of the sector has forced governments to acknowledge its existence and importance to the national economy and the welfare of those it employs (ILO 2002c, 24; Schneider 2002). In South Africa, which has a relatively large modern wage sector, the informal economy still contributes over 20 percent of GNP.

Public interest in the informal sector is driven by a series of questions. They include its size and the demographic profile of the people it employs, its contribution to national income accounts, the effect it has on household poverty, the access it provides workers to instruments of social protection to manage different risks, and the factors behind its sustained presence.

The growth of the labor force and the need for jobs have been a key source of interest in the informal sector of Sub-Saharan Africa. Since the 1970s, the sector has filled a gap left by the formal wage sector as a principal source of job creation (see, for example, Becker 2004; Chaudhuri and Mukhopadhyay 2009; Tiwari 2005). Rapid labor force expansion has outpaced job growth in the formal wage sector. Fertility rates behind this expansion have been higher in Sub-Saharan Africa than in other regions, and although these rates are declining, they remain elevated by comparison with other regions.[4]

Figure 1.1 Informal Economy as a Percentage of GNP in Sub-Saharan Africa, 2006–07

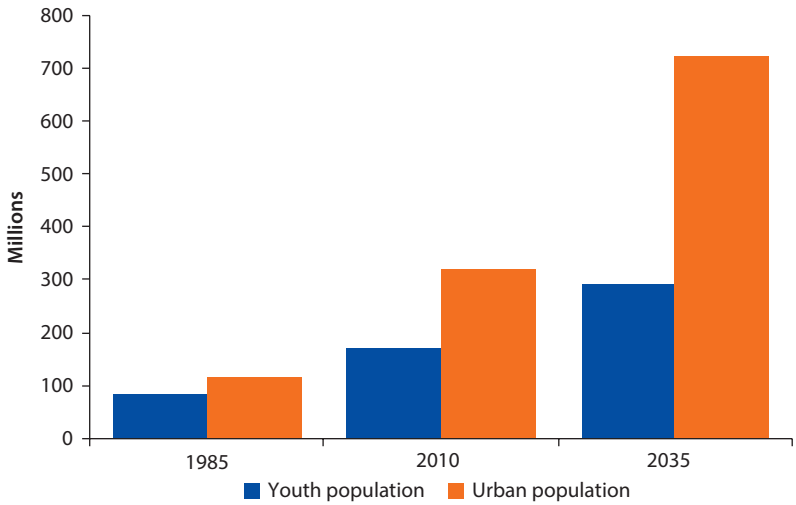


Source: Elaborations based on Schneider, Buehn, and Montenegro 2010.
Note: GNP = gross national product; LMI = low and middle income; OECD = Organisation for Economic Co-operation and Development; SSA = Sub-Saharan Africa.

Sustained population and labor force growth and accelerating rural–urban migration create pressure for job creation, especially for youth. Since 1985, the size of the youth population (defined as 15–24 years of age) doubled in Sub-Saharan Africa, from 85 million to 170 million. During the same period, urban populations almost tripled, from 120 million to 320 million, and the trends are likely to continue in the future (figure 1.2).

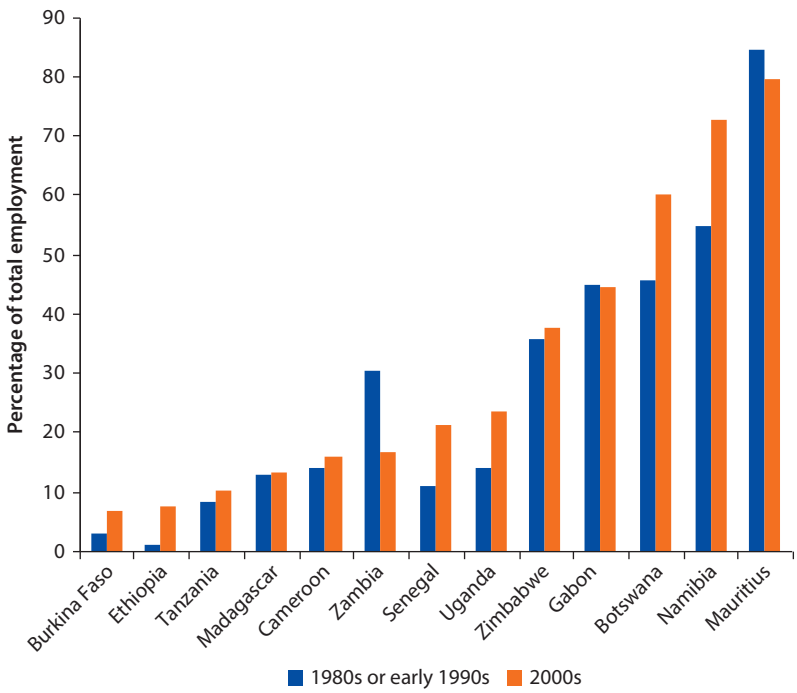
Modest economic growth rates have restrained formal sector job creation, which in turn has curbed labor demand and opportunities for higher-earning jobs. Employment opportunities in the formal wage sector have not developed in parallel with the labor force boom. In many countries, economic policies in the past did not foster the enabling environment needed to decisively raise investment, and with it labor demand, in the formal wage sector. Even in recent years, and notwithstanding pockets of regional growth in oil-producing countries and other diversifying economies, the modern wage sector's growth has remained sluggish, and wage jobs still account for less than half of total employment in most countries (figure 1.3). Meanwhile, low income levels and lack of social protection systems mean that few people can afford to be unemployed.[5]

Figure 1.2 Youth and Urban Populations in Sub-Saharan Africa, 1985, 2010, and 2035



Sources: UN 2010, 2011.

Figure 1.3 Wage and Salaried Workers in Sub-Saharan Africa, 1980s–2000s



Source: World Bank 2012.

This lack of job creation in the formal sector has meant a majority of people seeking employment outside the farm sector must create their own jobs in small and household enterprises of the informal sector. A majority of the region's population continues to depend on low-productivity farming, while the informal nonfarm sector has become the residual source of employment for growing numbers of youth seeking livelihoods (World Bank 2008). Some people may actively seek entrepreneurial opportunity in the informal sector, but the majority of informal work is likely the result of lack of other earning opportunities. Although the improved policy environment in the 2000s and the resulting prospects for growth hold promise, the small size of the wage sector suggests the informal sector will remain an important economic force for years to come.

Various sources indicate the informal sector is larger in Sub-Saharan Africa than in other regions (ILO 2002c; OECD 2009). Although variation exists between countries, the informal sector accounts for a sizable and often dominant share of nonfarm employment. Using nonfarm self-employment for the latest year available as a proxy for the size of the informal sector, its share reaches over 40 percent for a majority of countries, ranging from nearly 12 percent in South Africa to over 88 percent in Benin, and many of the self-employed operators are women (table 1.1).

A World Bank review of household enterprises in Sub-Saharan Africa (Fox and Sohnesen 2012) confirms that the informal nonfarm sector is an important contributor to economic development in low-income Sub-Saharan Africa as a source of employment, earnings, and household livelihoods. Thus, creating the conditions to grow the sector and implement effective employment strategies will, by necessity, be important for the next two decades. In particular, policies need to focus not only on productivity growth but also on viability.

All indicators point to the importance of the nonfarm informal sector as a source of employment in the region and as a significant presence in the economic landscape. Signs exist of growth that could restore the expansion of the formal wage sector, and the employment and earning standards of the informal sector may not meet the standards established by the formal sector. Nevertheless, the ubiquity of the informal sector is synonymous with the well-being of millions of workers and the vibrancy of their communities. Indeed, among the first questions to emerge, beyond the size of the sector, are its impact on household poverty and the profile of those employed in the sector. The answers to these questions are essential to informing policies for improving the economic performance of Sub-Saharan Africa.

Skills Play Different Roles in the Formal and Informal Sectors

Access to skilled workers and managers is a key ingredient to the success of any business in both the formal and informal sectors. This book focuses on performance-enhancing skills and how knowledge gained through different modes of skills development can improve the productivity and earnings of people who make their living in the informal sector. The literature surrounding

Table 1.1 Self-Employment as a Percentage of All Nonfarm Employment and Women as a Percentage of Self-Employment, Latest Survey Year

Country	*Self-employed in nonfarm employment*	*Women's share in nonfarm self-employment*
Benin	88.7	59.9
Botswana	18.8	44.7
Burkina Faso	69.7	53.6
Burundi	35.6	22.0
Cameroon	43.8	23.1
Central African Republic	57.5	47.4
Chad	72.4	54.0
Comoros	61.0	24.8
Congo, Dem. Rep.	51.8	39.5
Congo, Rep.	38.7	42.6
Ethiopia	73.6	60.9
Ghana	66.9	74.6
Guinea	71.8	31.0
Guinea-Bissau	48.4	35.5
Kenya	61.0	67.6
Lesotho	17.6	56.4
Liberia	40.8	38.7
Madagascar	46.3	45.9
Malawi	33.2	24.5
Mali	83.9	57.2
Mauritius	17.7	33.9
Mozambique	46.5	29.2
Niger	83.7	47.4
Rwanda	25.4	21.9
South Africa	11.6	57.1
Sudan	40.7	12.5
Tanzania	27.5	18.8
Togo	68.3	61.0
Zambia	17.9	46.6

Source: OECD 2009, 4–7, table 2.

micro- and small enterprise development emphasizes the importance of access to a range of business development services and finance as a means for achieving these objectives. Lack of access to capital and technology is acknowledged as a constraint to the growth and development of small business, as is the need for access to communications, transportation, marketing, accounting, and other services. At the core of a business's success, however, is the knowledge of the people engaged in its operations and management.

The system for skills development in many countries is designed for an industrial environment; it provides specialized skills in a full-time school setting and takes as long as two or three years for completion. Following national independence in the 1960s for many countries in Sub-Saharan Africa, governments and

donors sought to expand access to vocational and technical education to prepare households to take advantage of the new employment expected with industrialization. This training format is not well suited for the typical entrepreneur or contributing family member of today's informal sector.

Skills development for the informal sector is different from that of the formal sector, where large firms have the resources to acquire and sustain a well-educated workforce and to enhance skills with training on and off the job. Small businesses often depend on workers who perform multiple tasks and thus need multiple skills, yet finding this type of training ("multiskilling") and affording its cost often act as constraints to upgrading skills in the informal sector. The ability to absorb and benefit from training starts with a good foundation of formal education. This foundation has proven to be an important variable influencing later skills acquisition.

The acquisition of skills to improve productivity and earnings by small and household enterprises is more difficult than for the typical firm in the formal sector. Small firms lack the specialized knowledge and personnel needed to define skill needs and design appropriate training. In addition, questions surrounding the poverty status of people who work in the informal sector and their ability to finance skills acquisition are important. Not only does taking time off from production to participate in training have a high opportunity cost for small firms, their generated cash flow generally is insufficient to pay for training on or off the job. These costs effectively stifle investments in human capital and obviate the inability of the sector to leverage economies of scale (box 1.1).

How well has public school–based vocational and technical education adapted to the needs of the informal sector with its small and household enterprises? Public provision of skills training has been joined by that of for-profit and nonprofit nongovernmental organizations (NGOs). The quality and responsiveness of this training to the needs of the informal sector have posed similar quandaries. Much of this training capacity is located in larger urban settings where markets are sufficiently large to support profit-making institutions. The location of this capacity is well situated for the urban informal sector but less well

Box 1.1 Why Skills Development Differs in the Informal and Formal Sectors

Sources of difference in small firms in the informal sector:

- High opportunity cost to train.
- Low cash flow to pay for training.
- Greater needs for multiple skills.
- Lack of capacity to identify training needs and design training programs.
- Lack of knowledge about benefits of training.
- Absence of economies of scale for training, driving up cost.
- Limited supply of trainer capacity serving the informal sector.

positioned for small firms operating in rural areas. Just how large is the rural informal sector, and what options does it offer for providing the workforce skills? These are questions of significance to public policy concerned with improving the economic performance of the informal sector.

Enterprises are another source of skills development. In the informal sector, master craftspersons and owners of small businesses provide training for their workers through traditional apprenticeships. The apprenticeships involve commitments by the master craftspersons to the parents or youths to provide training for specified periods in exchange for small fees or the apprentice's labor. The training is recognized for its high relevance to the tasks performed and is self-financing, though subject to questions of quality (Johanson and Adams 2004). Although traditional apprenticeships address many of the constraints to skills development in the informal sector, they suffer weaknesses connected with the use of outdated technologies, limited instructional capacity of the master craftsperson, poor quality of training, and lack of portability of the skills obtained, as well as constraints imposed by the limited education of the apprentices. These issues suggest an agenda for how countries can improve skills development in the informal sector.

What can public policy do today to improve productivity and incomes of small and household enterprises through better access to skills? A useful beginning in answering this question is asking how many governments actually recognize the informal sector for its importance to the economy and have national strategies in place that strive to improve the economic performance of the sector and reduce barriers to its formalization. Removing barriers to business development and growth—including skills—for the informal sector can lead to better resource use and higher incomes, and balancing access to services whether by residence, income, or gender can promote wider opportunities for the poor. Existing literature has touched upon some of these issues; none has delved into the implicit intricacies.

What We Know about Skills and the Informal Sector

Work skills are acquired in different settings (classrooms, workshops, and on the job) and provided by public education and training institutions, private for-profit and nonprofit institutions, and employers through training in and out of the workplace. Training may be taken to qualify for employment or later to upgrade skills and prepare for the introduction of new technology in production. For people working in the informal sector, some or all of these approaches to skills may be used (McGrath and King 1994). Public and private schools play an important role in preparing individuals for creating their own employment by providing them with a technical skill, usually through a technical and vocational education curriculum. A commonly used approach to self-employment is working for another employer and acquiring skills on the job, either informally or through an apprenticeship, before leaving to set up one's own business. Each approach has strengths and weaknesses.

Public Provision of Skills

Surprisingly, public secondary and tertiary schools with technical and vocational education programs have played a smaller role than expected in preparing workers for informal sector employment (Atchoarena and Delluc 2001).[6] Most policies and practices reflect the postindependence thinking of the 1960s, overlooking (or dismissing) 50 years of structural change and growth within the informal sector (Brewer 2004; Filipiak 2007; Haan 2006; Liimatainen 2002; NISER 2007). Structural adjustment programs and tight government budgets contributed in the 1980s and 1990s to the deterioration of facilities and equipment and to the inability of these institutions to update programs and respond to the shift to informal sector employment (ILO 2002b; Johanson and Adams 2004).

Other factors have hindered the public sector's response to the skills challenge of the informal sector. The training offered by the public sector is considered theoretical without sufficient opportunities for practice and biased toward white-collar jobs in the wage sector (Liimatainen 2002). Entry requirements and fees are often too high for this schooling, and the training methods used are better suited to a more literate population. The courses offered fail to meet the multiskilling needs of the highly diverse informal sector. Where public financing is used without accountability for results, the institutions have few incentives to monitor and adjust to changes in the demand for skills (Ziderman 2003). Finally, weak accountability influences not only the responsiveness of the public sector to special needs of the informal sector but, in a more general way, to the changing demand for skills in the formal sector.

The population targeted for public training and its mode of delivery are factors behind the failure to reach out to the informal sector with skills. Public technical and vocational education programs are largely focused on full-time students preparing for entry into the world of work and require sustained periods of time in school. The focus on preservice training is not matched by a focus on in-service training for those already employed. This model proves ill-suited to people among the poor seeking to combine school and work in part-time fashion to provide families with income and similarly to meet the needs of older workers who are unable to afford time away from work for training. A more flexible approach is needed to meet the needs of those finding employment in the informal sector. Good practices can be found where schools have adopted modular, competency-based curricula that permit flexible entry to and exit from training at hours not interfering with the workday.

The Kenyan *Jua Kali* program (Kiswahili for "work under the hot sun") offered training vouchers to people in the informal sector in the mid-1990s and provides an interesting window on the response of public training institutions to the demand for skills these vouchers create. The vouchers were observed to produce a positive supply response to the demand created for skills, though predominantly from NGOs and master craftspersons in the informal sector. New programs were developed, tailored to the needs of voucher recipients, and offered during off hours to fit work schedules. Public institutions showed little interest in adapting their traditional programs to respond to this new source of

demand (Adams 2001). The motivation for responding to demand like this with innovative programs was reduced where public institutions were unable to retain locally generated income for quality improvements and incentives for instructors.

The more recent introduction of entrepreneurship education represents an innovation in public secondary and tertiary education institutions that is relevant to the informal sector. These programs help develop attitudes favorable to starting one's own business and provide knowledge and skills for running a business (for example, business law, accounting and bookkeeping, credit and finance, and marketing).[7] Just how well a public sector institution can provide entrepreneurial skills for the private sector is a question meriting more study. Farstad (2002) examined entrepreneurship education programs in secondary and tertiary education institutions in Botswana, Kenya, and Uganda. He found instructors generally well qualified but observed no immediate effect on the numbers of students leaving school to start a business after completing their education.

The fact that students did not immediately start new businesses is not an indicator of failure on the part of these programs, however. Farstad acknowledged that the more traditional route to self-employment starts with an initial period of apprenticeship or wage employment to gain practical experience and build professional self-confidence before setting out to start a new business. In a comparison of graduates of general secondary education programs and those from technical and vocational education programs, he observed that the latter group was more likely to start businesses within a few years of graduation. The technical education provided a skill that was then honed on the job with an apprenticeship and wage employment before launching a new business.

Entrepreneurship education has encouraged schools to think outside traditional patterns of classroom instruction. Periods of mandatory work placement have been introduced along with compulsory development of a business plan subject to examination and grading. In Kenya, entrepreneurship education is delivered with the assistance of Small Business Centers attached to all public postsecondary and some private technical and vocational education institutions. In Botswana, students have benefited from the requirement that they establish and operate a student enterprise. Cooperation between training institutions and private enterprises in curriculum development and training delivery was found to add value in the three countries Farstad studied.

Other options for engaging public education and training institutions in skills development for the informal sector are reviewed in the section below on employers and traditional apprenticeships. The low educational background of many people employed in the informal sector opens opportunities for public sector institutions to give greater attention to adult education and literacy programs and to offer what is called second-chance education tailored to the needs of those who have missed opportunities for early education (Adams 2007; World Bank 2007). Where found, these programs have provided low-cost education to open doors for employment. They have not yet been carefully evaluated for their effect on further training and earnings.

Nongovernment Provision

Although the public sector has been slow to respond to changes in demand for skills brought about by growth of the informal sector, private institutions have been more responsive to this demand (Brewer 2004). Private institutions are of two types, for profit and nonprofit. The for-profit institutions grew in numbers in the 1990s with the decreased capacity of public providers (Atchoarena and Esquieu 2002). Although many are registered trainers and follow official curricula and prepare trainees for government trade tests like their public counterparts, a large number are unregistered, small in scale, and part of the informal sector themselves. They appear as storefront operations that can be observed in any African city.

Tuition and training fees constitute their main sources of income, although registered institutions may receive government subsidies. Largely dependent on fees, for-profit institutions are concentrated in urban markets and found less frequently in rural areas. They are seen as responsive to demands for skills, adjusting quickly to changing needs. The programs offered often require limited investment in equipment and facilities and enable easy market entry and exit for the providers. Business courses are popular, as are information technology programs. Other courses cover tailoring, driving schools, food preparation, auto repair, cosmetology, and the like. Programs in the for-profit sector are often shorter in duration to fit the "just-in-time" learning needs of trainees.

Even though fees are kept low, they still may not be affordable for the poorest of the poor. Quality varies widely where standards are left to the provider (Johanson and Adams 2004). Private for-profit providers could play a larger role in providing training to those in the informal sector. Their programs are demand led, and their sometimes modular, short courses are well suited to a more flexible delivery of skills training for people who cannot afford long spells away from work. Expanding the role of these providers demands attention to the capital market constraints they face and the incentives needed to encourage more services in rural areas and for the poor. The promotion of private training associations could open opportunities for cooperation and reduction of costs while providing a framework for accreditation and quality assurance.

The term *NGO* generally refers to a range of nonprofit organizations that include providers of training (Haan 2006). Faith-based organizations (FBOs) and international agencies play an important role in this capacity along with national and local community-based organizations. NGOs include local branches of strong international and national NGOs with wide coverage and smaller community-based organizations. Training by larger NGOs is sometimes linked to other support services for small business, including microcredit. Small business incubators, operated by NGOs, offer entrepreneurs a package of business services, including training, but have not been carefully studied in Africa. Large church-based training NGOs like Don Bosco and secular NGOs like Opportunities Industrialization Centers are found in a number of African countries.

Many of the smaller faith-based and community-based organizations maintain a strong social emphasis in their training outreach to the rural poor, minorities, women, and people with disabilities. Their training activities tend to have social and cultural rather than economic objectives with the result that their training is of limited value in helping participants enter into self-employment (Haan 2006). Overall, quality is low: traditional trades are the focus with less attention to newer technologies; curricula are outdated; theoretical rather than practical training is offered. Most services are generally free of charge, but some are beginning to charge minimal fees. These NGOs do serve the poor, but they offer little that translates into preparation for self-employment.

What Haan (2006) calls "traditional training NGOs" are larger in size and specialize in skills training. The Jesuit schools are an example. They benefit from international assistance and tend to resemble training provided by the public sector with full-time, center-based training of long duration directed at wage employment in the formal sector. In many respects they look like modern, better-equipped versions of public technical and vocational education schools. The quality of training offered in these traditional training NGOs tends to be better than that found in public institutions, offering more practical experience, but still without a focus on self-employment. These institutions are more likely to reach into rural areas and serve the poor. Their financial base, however, is often limited and insecure.

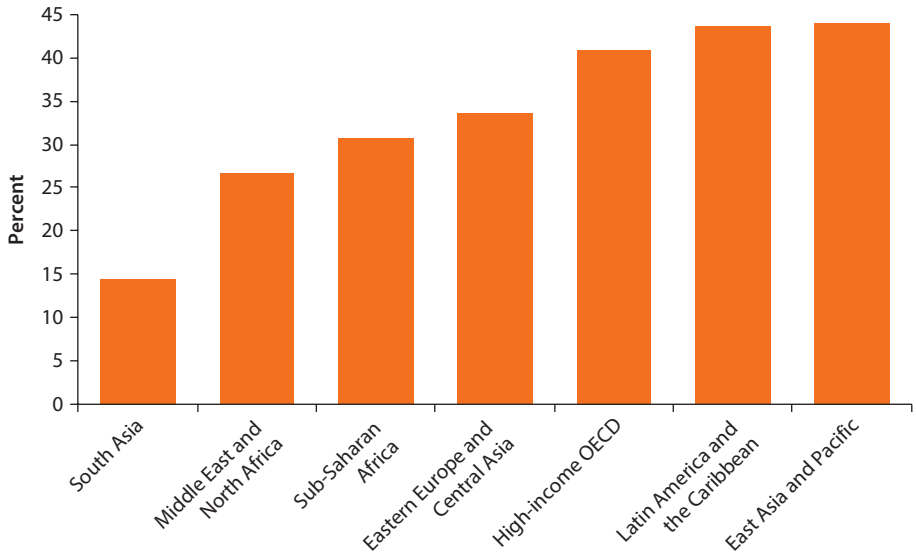
Enterprise Training

Enterprises employ skilled workers, and they train and provide needed skills and experience for employees to promote competiveness and profitability. The training offered by enterprises tends to be short term in nature and to use the firm's own skilled workers for delivery. In other cases, firms will engage external vendors for delivery. The training may be offered on site in the enterprise, such as an apprenticeship might be, or off site in an institutional setting. With time, some of the workers choose to create their own employment with the acquired skills.

Enterprises in Sub-Saharan Africa are active trainers. The World Bank provides a profile of enterprise training in more than 100 countries worldwide through its Enterprise Surveys. These show considerable variation in enterprise training across regions (see figure 1.4).

Earlier Enterprise Surveys showed that large and modern enterprises trained more, focusing on the educated workforce, whereas smaller firms relied largely on traditional apprenticeships. An earlier version of the Enterprise Surveys in Sub-Saharan Africa, the Regional Program for Enterprise Development, captured training by enterprises in the mid-1990s and the correlates of this training (Biggs, Shah, and Srivastava 1995). Enterprises that were active trainers were large in size measured by employment, active exporters, users of technology, and beneficiaries of foreign direct investment (Johanson and Adams 2004). Regional Program for Enterprise Development surveys in Kenya, Zambia, and Zimbabwe found that the training of workers was selective, with those having higher levels of education more likely to be chosen (Nielsen, Rosholm, and

Figure 1.4 Percentage of Firms Offering Formal Training Programs for Permanent, Full-Time Employees, Latest Year Available



Source: World Bank 2013.
Note: OECD = Organisation for Economic Co-operation and Development.

Dabalen 2007). Only 4.6 percent of firms in Kenya, Zambia, and Zimbabwe with 10 or fewer employees trained, in comparison with 81 percent of firms with 151 employees or more (Nielsen, Rosholm, and Dabalen 2007). The effect of this training was favorable on the output of enterprises and the wages of workers. A 1 percentage point increase in the workers trained from the sample average of 9 percent translated into a 60 percent increase in value added for all firms and a 99 percent increase for micro- and small enterprises. Training was estimated to increase wages on average by 15–21 percent (Biggs, Shah, and Srivastava 1995).

One of the possible solutions to training constraints for the informal sector comes in the form of support for industry associations (see Johanson and Adams 2004). The formation of industry associations and their engagement in training has offered solutions to a number of the problems smaller enterprises face. These associations promote a greater awareness of the benefits of training among small enterprises, help in defining training needs for members and the design of appropriate training programs, contribute to scale economies in the delivery of training and reduce the unit cost to the enterprise, and establish training standards for a sector and certify the skills acquired as a means to promote the quality of the training offered. This role is already played by construction associations and many others, and could be expanded. However, there has been little rigorous examination of the effect of these associations on skills development in the informal sector.

Traditional Apprenticeships

Traditional apprenticeships are by far the most frequent form of skills training in Africa for the informal sector, with a concentration in West and Central Africa. Filipiak (2007), Haan (2006), and Liimatainen (2002) estimate that up to 70 percent of urban informal sector workers in Africa have been trained through the traditional apprenticeship system. The Ghana Statistical Service, for example, found 207,000 youths registered as apprentices in 2002, while in this same period, a much smaller number, just over 50,000 youths, were enrolled by public and private providers (World Bank 2009a).

Traditional and formal apprenticeships have fundamentally different structures. Traditional apprenticeships in the informal sector consist of private contractual arrangements between a parent or apprentice and a master craftsperson who agrees to provide practical training in the workplace, ranging from several months to three or four years in duration, and subsequently to certify the training in return for a fee or reduced earnings for the apprentice while learning.[8] Formal apprenticeships are registered with a government agency, usually a ministry of labor, and administered by employers and worker organizations.

Traditional apprenticeships have both strengths and weaknesses. They are self-financing and self-regulating and provide practical, hands-on training with good prospects for employment after the training. At the same time, traditional apprenticeships suffer from weak education among the entrants, where literacy is an issue. Few participants pass beyond a lower-secondary education and many will not have completed a primary education. In addition, choices of trades follow gender biases. Master craftspersons, in turn, do not provide theoretical knowledge alongside practical experience and, more often than not, teach outdated technologies. Pedagogy varies, and few market standards are available to judge the quality of the training provided (Johanson and Adams 2004).

These apprenticeships are available in a wide range of trades, mostly in blue-collar occupations, and are a substitute for school-based instruction.[9] Most trades offered by public and private training institutions can be mastered through a traditional apprenticeship. The flexibility of apprenticeships in combining work and learning, their affordability and self-financing, their connection with future employment, and their generally lower entry standards make them attractive as a source of skills to disadvantaged youth. Haan (2006) reports apprenticeships are less evident in eastern and southern Africa than in West and Central Africa, with youth sometimes described in the former merely as helpers. Still, in countries such as Kenya, Tanzania, and Zimbabwe, he finds large numbers of youths who are acquiring skills in informal enterprises under the guidance of a master. In Kenya, available information indicates that some 40–60 percent of informal sector operators acquire their skills through apprenticeship.

In Ghana, the use of apprenticeships is increasing for youth 15–30 years of age, as measured by Ghana's Living Standards Surveys in 1991/92 and 2005/06 (World Bank 2009a). The share entering an apprenticeship has been rising for young men and women, reaching just over one-quarter of the population, but with a higher growth rate for young women. Apprenticeships are more evident

in urban than in rural areas. Education levels for youth are rising as a consequence of Ghana's efforts to provide basic education for all, and the share of those following their education with an apprenticeship is also rising at each level of education except postsecondary. Although individuals with a technical or vocational education are likely to acquire their skills in an institutional setting, those with a general education are more likely to pursue skills through an apprenticeship.

An apprenticeship opens opportunities for employment not only in the informal sector but also in other types of employment. In the Ghana surveys, 4 of 10 people working in the private informal sector as self-employed or wage workers in 2005 acquired their skills through an apprenticeship. Reflecting the growing importance of traditional apprenticeships, 51 percent of youth in nonfarm self-employment in 2005 acquired their skills in this manner, a rate twice that of the earlier period. With consumption levels used as a proxy for family income, apprenticeships in Ghana were accessible to all income groups but favored those who were better off. People in the lowest consumption quintile demonstrated much lower rates of participation in apprenticeships.

Should traditional apprenticeships form part of a strategy for skills development in Sub-Saharan Africa? Small, informal sector firms that acquire skilled workers through apprenticeships are unlikely to contribute in a significant way to the export-led development strategies of most countries. Moreover, the ability to leverage large numbers of apprentices is constrained by the number of skilled craftspersons available. These considerations aside, improving traditional apprenticeships can contribute in a positive way to employment and poverty reduction. Small firms with more productive workers have the potential to become suppliers of intermediate products in value chains leading to exports. People employed in the informal sector earn more than those in the farm sector, and improving their productivity through skills can further contribute to poverty reduction (Fox and Gaal 2008).

It is reasonable, however, to question whether emphasis on skills alone will improve the productivity and incomes of people who are employed in the informal sector. The improvement of financial services and access to credit are often listed as critical needs in surveys of small businesses, along with secure worksites and access to new technologies and business services (Liimatainen 2002; Riley and Steel 2000). NGOs play an important role in providing these services to micro-, small, and medium-size enterprises, often providing a menu of services alongside training. Working through informal sector employer associations, as noted earlier, can further assist in organizing services, particularly in skills training, by using their collective size to reduce the cost of training needs assessments, establish competency standards, develop curricula, and certify skills obtained in traditional apprenticeships.

Financing Mechanisms of Skills Development

Government policies that encourage enterprises to invest in skills subsidize the cost of this investment through various measures. The incentives vary in how

they affect the actual amount of training done. Twenty-one countries in Sub-Saharan Africa have introduced training funds financed by payroll taxes, and others, such as in Namibia, have been proposed (Ziderman 2003). These funds reimburse enterprises for the cost of qualified training undertaken. Governments and training funds also use training vouchers to subsidize the cost of training by enterprises and individuals (Patrinos 2002). Offered to master craftspersons and workers in the informal sector, vouchers can help pay for training selected by the worker. The cost of training is also subsidized by governments that allow enterprises to deduct eligible training costs from their income for tax purposes or that provide tax credits for qualified training expenses.

Training levies on payrolls are used globally to mobilize additional resources for skills development (Ziderman 2003). The fairness of the levy is judged on the taxation principle that those who benefit from the resources spent on training should be the ones to pay. Payroll levies have been used to finance the provision of training by national training organizations, as found in such Latin American countries as Brazil, Colombia, and República Bolivariana de Venezuela, as well as direct training by enterprises, where a levy-grant system is adopted and administered through a training fund. Enterprises are reimbursed in a levy-grant system for the cost of qualified training expenditures by these funds. This is the dominant model found in Sub-Saharan Africa.

The effect of these funds on training by the informal sector, however, is modest. Most funds exempt smaller enterprises (fewer than 50 employees) from the payment of a levy because of the higher administrative cost of enforcing compliance, effectively limiting their application to the small firms in the informal sector. Dar, Canagarajah, and Murphy (2003) in a review of international experience with training funds find that small employers do not benefit substantially from these schemes. The financial incentives offered are insufficient to offset the other factors mentioned earlier that deter training by small enterprises. As a result, training funds with levy-grant schemes tend to favor larger enterprises and the training of more highly educated and skilled workers in these enterprises.[10]

Tailored approaches are needed to involve the informal sector. Exceptions exist, nevertheless, as found in Malaysia and Singapore. Both countries recognized the low participation of small enterprises in their levy-grant funds and set out to address the problem. Among the solutions offered were subsidies for conducting training needs assessments, preapproved training courses not requiring costly application and justification, and the use of excess training capacity of large enterprises to provide training for smaller firms. Singapore offered training vouchers to enterprises with fewer than 50 employees that could be used to pay up-front training costs to ease cash flow problems. The vouchers helped Singapore's Skills Development Fund reach 65 percent of the enterprises with 10–49 workers and 14 percent of those with fewer than 10 workers (Hirosato 1997). Limited evidence is available in Sub-Saharan Africa on the initiatives of national training funds to reach small enterprises in the informal sector.

Other voucher programs have been introduced to encourage training in the informal sector (Johanson and Adams 2004). The Kenyan Jua Kali voucher

program, mentioned earlier, was successful in its pilot stage in expanding the supply of training to workers in the informal sector and lowering costs. Evidence showed its positive effect on the earnings of participants and the strengthening of the capacity of local Jua Kali associations responsible for distribution of the vouchers. In scaling up, problems were encountered with governance that led to high administration costs (Adams 2001; Riley and Steel 2000). Ghana offered a similar voucher program targeted at informal sector enterprises in the early 1990s that largely failed because of lack of attention in the design to the marketing and distribution of the vouchers (Johanson and Adams 2004).

In summary, how various financial incentives affect training is not well documented for enterprises in the informal sector. Worldwide, countries allow enterprises to deduct the cost of training from their income as a cost of business before taxes, but for the informal sector, where small enterprises may not earn sufficient income to pay taxes or may avoid taxes altogether by not being registered, these deductions provide a limited incentive for training. The same result applies to tax credits that are targeted to selected enterprises in return for agreed training and employment actions. Where the credit can be refunded to the enterprise in the absence of a tax liability, it may serve as an added incentive for training and even registration of the enterprise but once again may not be sufficient to prompt small enterprises in the informal sector to train. Yet, although evidence is scarce, the case of Uganda shows that the effect of removing credit constraints for training and business material can be significant (Blattman, Fiala, and Martinez 2011).

Objectives and Structure of This Book

This book uses the experience of five African countries to examine (a) the industrial features of the informal sector, (b) the size and effect of the sector on livelihoods, (c) the demographic profile of employment in the sector, (d) the effect of formal education and training on the likelihood of employment by sector and the earnings therein, and (e) the strengths and weakness of strategies for providing skills to people working in the informal sector. Ghana, Kenya, Nigeria, Rwanda, and Tanzania were selected because of the presence in each country of household surveys that enabled us to take a new, more quantitative look at the informal sector. These countries account for one-third of the 853 million people living in Sub-Saharan Africa. Ghana and Kenya in particular have formed the backbone of much of the research on the informal sector. The study combines the household analysis with institutional analysis of programs for skills development in each country.

The nonfarm informal sector has played an important role in all five countries over the past decade, a period of strong economic growth for all. Kenya's gross domestic product (GDP) growth, although disrupted in 2008 by postelection violence, has since recovered and is on an upward trajectory. Ghana's economy has continued its expansion from the 1990s, driven by exports, public investment, and domestic consumption. In recent years, Nigeria has seen important economic improvements with GDP growth exceeding 7 percent. Its nonoil,

farming, manufacturing, and telecommunication sectors have outpaced the growth of its oil-mining sector. Rwanda emerged from the 1990s and a national crisis and is now experiencing GDP growth over 4 percent, driven by the expansion of services. Tanzania, in turn, has managed to reverse its slow growth of the 1990s with GDP per capita growth currently close to 4 percent annually.

Part I of this book contains a synthesis of the findings from the five countries and recommendations for improving access to skills in the nonfarm informal sector. It highlights the critical role of formal education in shaping the flow of labor into the two sectors and their earnings. The importance of formal education is stressed as a foundation for access to further skills development in these sectors, and examples are offered of how constraints to skills development in small and household enterprises can be overcome. Part I has three chapters, beginning with chapter 2 that defines and describes employment in the formal and nonfarm informal sectors. Chapter 3 examines the effect of formal education and training on employment in the two sectors. Chapter 4 summarizes the institutional analysis of programs for skills development and offers recommendations to overcome constraints to skills development in small and household enterprises and to enhance the economic performance of the informal sector. Part II of this book contains the five country case studies whose evidence underpins the findings of part I.

The book aims to provide insights and messages for a wide audience concerned by 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.

Notes

1. The broader concept of informal employment is contained in the resolution adopted in December 2003 by the 17th Conference of International Labor Statisticians (Hussmanns 2004).
2. Noncompliance also may occur in a firm that produces a good or service that is illegal.
3. A study by Falco and others (2012) on subjective measures of job satisfaction in Ghana suggests job satisfaction for many people employed in the informal sector may be as high or higher than for formal sector workers.
4. Average fertility rates have declined from 6.7 births per woman in the 1970s and 1980s to just below 5 today; however, they remain almost twice as high as for other developing regions (World Bank 2012).
5. Aterido and Hallward-Driemeier (2010) show that in Sub-Saharan Africa, poor business environments are in fact associated with high employment growth, but that growth is in low productivity microenterprises.
6. In a study of the informal sector in seven African countries, Filipiak (2007) estimates that on-the-job training, self-training, and traditional apprenticeships account for

95 percent of training in the informal sector. Senegal, for example, has some 400,000 youth in apprenticeships compared with 7,000 in technical and vocational education and training. Monk, Sandefur, and Teal (2007), using a household survey, find that 80 percent of training in Ghana is acquired through on-the-job training and traditional apprenticeships.

7. Although curricula for entrepreneurship education are often locally developed, other packages have been developed and tested by donors, for example, ILO's Start and Improve Your Business program and GTZ's *Competency-Based Economies through Formation of Enterprises* (Haan 2006).
8. Haan and Serriere (2002) estimate that fees for traditional apprenticeships average about US$70 per year. The ILO in 2006 estimated fees to average US$160, ranging from US$22 to US$616. In 2005, Palmer (2007) estimated the average apprenticeship fee in the Ashanti Region of Ghana to be US$42 with a range from US$13 to US$173.
9. In South Africa, a new learnership scheme has been adopted to broaden the present apprenticeship system beyond traditional blue-collar trades to include white-collar occupations in the service sector as well as the informal sector (Gill, Fluitman, and Dar 2000).
10. Given the tendency noted earlier for large enterprises to train without subsidies, training funds are subject to criticism for their high deadweight effects. That is, the funds pay firms to train that would train without the subsidy. At the same time, these funds correct for a "free rider" problem that transfers the cost of training more evenly across firms of all sizes and types.

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