Improving Skills Development in the Informal Sector
Strategies for Sub-Saharan Africa

Arvil Van Adams, Sara Johansson de Silva, and Setareh Razmara

The World Bank

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What?
- A study about how to improve skills development for the informal sector (IS) in Sub-Saharan Africa (SSA)?

Why?
- Improving productivity and viability of small and household enterprises in the informal sector is essential to reduce poverty and to further economic growth.

How?
- Analysis of household data sets and institutional analysis of skills in five countries: Ghana, Kenya, Nigeria, Rwanda, Tanzania.
Messages

• The non-farm informal sector is and will continue to be key to livelihoods in Sub-Saharan Africa

• Skills help workers access jobs off the farm and help increase their earnings
  – however, skill levels are currently low, particularly in the informal sector

• Small firms in the informal sector face different constraints to skills development from larger ones

• Strategies to improve earnings mobility and the productivity of the informal sector are broad based and all stakeholders have a role to play – government, employers, public and private training providers, and donors

• Apprenticeships are the most important form of skills development in the informal sector and efforts are needed to improve their efficiency
Diversification into non-farming is linked to higher earnings (and lower poverty)

Kenya

Ghana

Nigeria

Rwanda

Median Earnings in Informal Sector = 100

0 50 100 150 200 250 300 350 400

Farm
Non-farm informal
Non-farm formal
Skill levels are low in the IS

• A majority of IS workers can read and write, but literacy and numeracy are lower than in the formal sector

• Education levels in the IS exceed those in farming
  – but many in the IS have not completed basic education

• Skills acquisition is cumulative over the lifecycle
  – A good quality basic education is an important foundation for acquiring skills over the lifecycle
Skills Development in the Informal Sector

Apprenticeships are the key form of training in the informal sector.

Women, poor, and rural residents have less access to apprenticeships.
Constraints to skills development are different in the informal sector

- Low levels of education
- Multi-skilling needs (technical, finance, business, marketing)
- Low capacity to identify training needs
- Lack of information of benefits of training

- Limited supply catering to IS
- Lack of economies of scale means higher unit training costs

- High opportunity cost of training (need to work!)
- Limited cash flow to pay for training

Skills Development in the Informal Sector
Education and training matters for earning opportunities

– Education as well as training is linked with a higher probability of employment off the farm

– Apprenticeships are linked with off farm opportunities, especially in IS

– Higher levels of education are linked with formal sector employment
Education pays off more in terms of higher earnings in the formal sector than in the informal sector

• Returns increase with level of education

• Returns to education higher in the formal than the informal sector, at each level of education
  – Segmentation? Relevance to IS? Higher wages in large firms? Non-competitive public sector wages?

• Poor returns to apprenticeships
  – Helps access off farm employment but have little further impact on productivity of earnings
  – Poor education foundation, variable quality of skills attained, weak instruction and pedagogy, out-dated use of technology
Strategy to improve productivity of the informal sector

- Put skills development in the informal sector on the agenda
- Provide quality basic and secondary education
- Promote private investment in skills
- Create incentives for public providers of training to serve the IS
- Improve quality of training in traditional apprenticeships
- Promote results based policymaking (test, monitor, evaluate)
Improve quality of apprenticeships

- Second chance literacy and education programs for workers in IS
- Skills upgrading for master crafts persons (Kenya)
- Technology vouchers to access new production technologies (Kenya)
- Standards, testing, certification for skills in apprenticeships (Ghana)
- Information to potential apprentices about demand in sector