



International
Labour
Organization

► Improving skills and lifelong learning for workers in the informal economy to promote decent work and enhance transitions to formality

Background paper prepared for the 2nd meeting of the Employment Working Group under South African presidency

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► Executive Summary

On average, around 61.9% of workers in the in the BRICS are in informal employment, ranging from 21% in Russia to almost 90% in India. Workers in the informal economy tend to have lower levels of education, and often face substantial barriers to participating in quality training. These include cost and opportunity cost, challenges in finding suitable and inclusive provision, and poor recognition by training providers of the skills they have already acquired through informal on-the-job learning. Informal economy employers tend to invest less in workforce training than their formal sector counterparts.

Closing the skills gap in the informal economy is essential for reducing decent work deficits and strengthening the ability of individuals and enterprises to enter into the formal economy as a means to achieve decent work. Governments and other actors can tackle the skills gap through:

- Developing basic skills programmes that help workers achieve the functional literacy and numeracy that are foundational for other learning, decent work, and civic participation
- Upgrading informal apprenticeship systems
- Developing mechanisms for the recognition of prior learning undertaken by workers
- Improving access to education, skills, and lifelong learning through expanding the finance available to workers and MSMEs for skills training, and encouraging training providers to make their provision more flexible and accessible
- Ensuring training is well-aligned to labour market demand, and that programme design is sensitive to the wider needs and constraints of informal economy workers
- Working to achieve better alignment and linkages between skills policy and other areas of policy to help avoid mismatches of supply and demand of skilled labour
- Making skills system governance more representative of the economy

▶ 1. Introduction

This background paper summarises current policy approaches to improving skills and lifelong learning for workers in the informal economy to promote decent work and enhance transitions to formality. Section 2 of the note presents the current profile of informality in the BRICS countries. Section 3 looks at how skills development is linked to formalization and economic development. Section 4 explores the skills-related challenges of informal economy workers, whilst Section 5 profiles potential solutions, and current examples of good practice.

▶ 2. Profile of informality in BRICS and what formalization processes entail

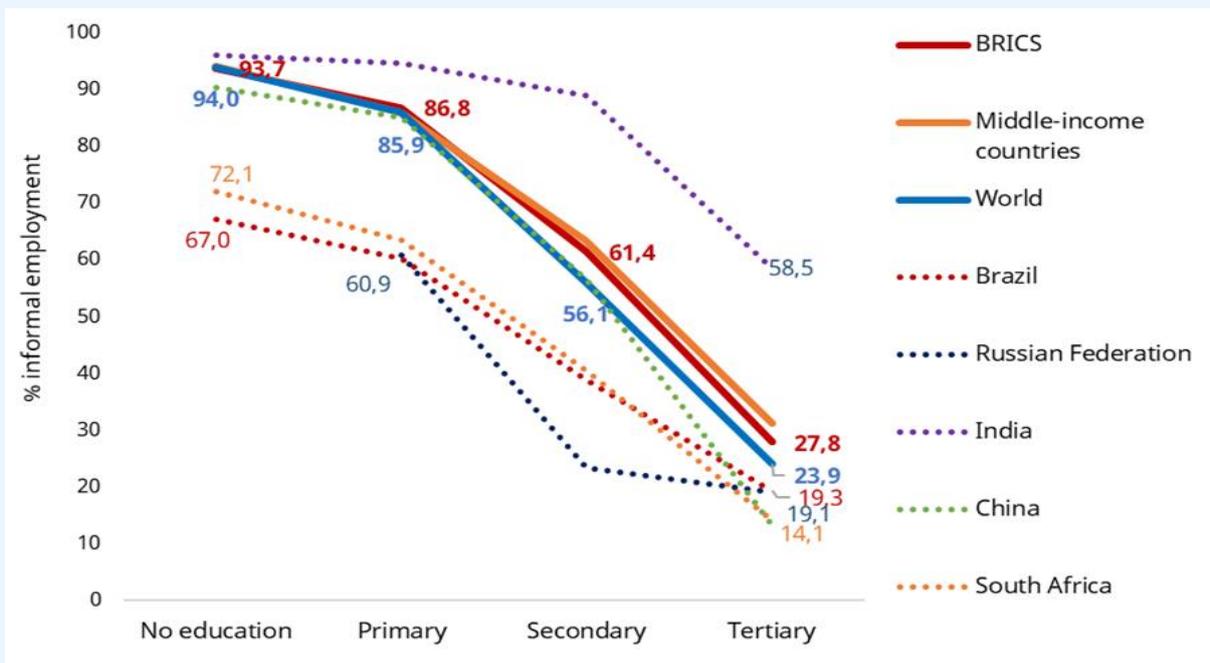
2.1 Informality profiles in BRICS

Extent of informality: In 2019, workers in informal employment in the BRICS made up 45% of the 2 billion workers in informal employment worldwide. While globally close to 6 in 10 workers (58.2%) are in informal employment, the proportion is about 61.9% on average in the BRICS. Informal employment ranges from 21% in the Russian Federation to around 40% in Brazil and South Africa, just above 50% in China, and nearly 90% in India. More than half of informal workers in the BRICS are own-account workers (up to 67% in India) and less than one-third are employees. Employees represent from 17.2% of all informal workers in India to 65-66% in the Russian Federation and South Africa.¹

Educational profiles and forms of informality: Low level of education and training at the outset (lack of basic skills, admission criteria). A low level of education translates into fewer opportunities to access formal employment (figure 1, panel A). Being employed in the informal economy in turn contributes to the limited opportunities for further training. The informal economy tends to absorb workers with lower levels of education, at least in low- and most middle-income countries. In the BRICS, one-third of informal workers have at best a primary level of education, compared to 6% of workers in formal employment. By contrast, just above 6% of workers in informal employment reach a tertiary level, compared to almost 28% of workers in formal employment (figure 1, panel B). The Russian Federation is the only country where the educational profiles do not differ significantly according to the formal or informal nature of employment.

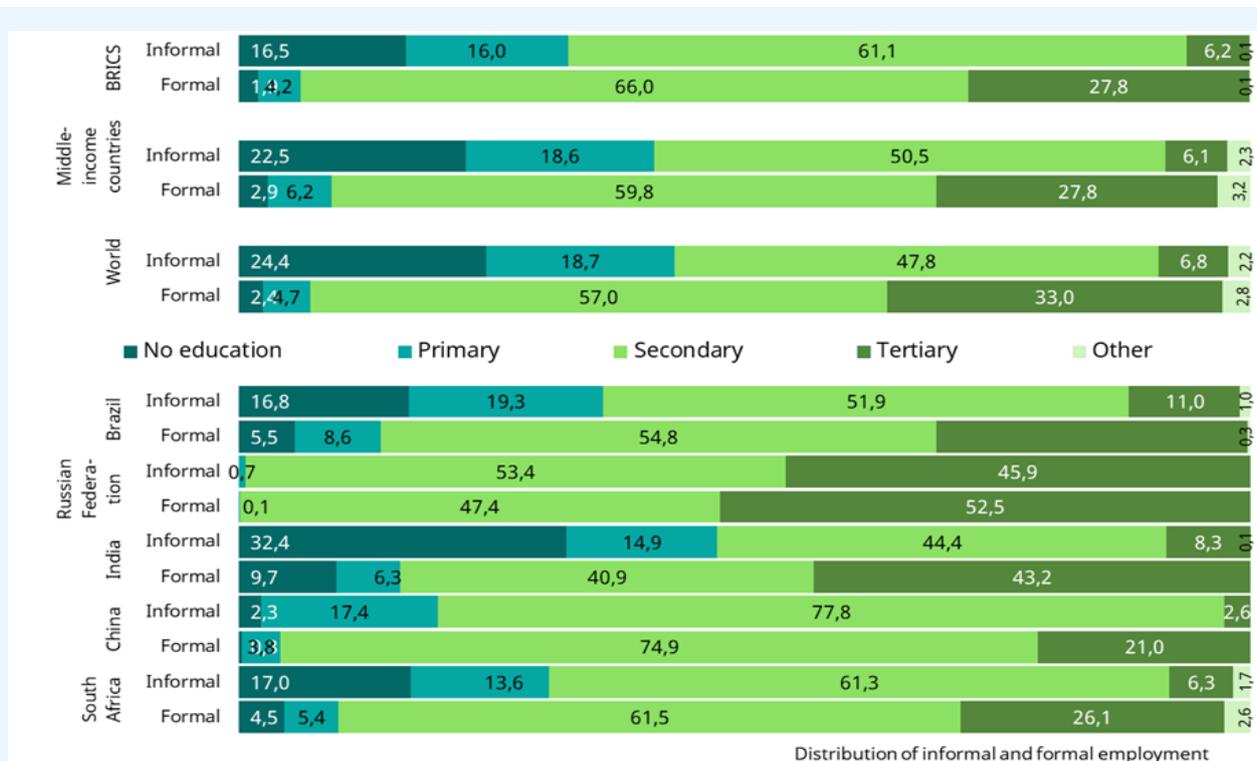
¹ ILO, 2018, [Women and men in the informal economy: A statistical update](#)

Figure 1A. Informal employment and level of education (% , 2019) - Share of informal employment by highest level of education



Source: ILO calculations, based on national household survey micro datasets from 144 countries representing 92 per cent of global employment.

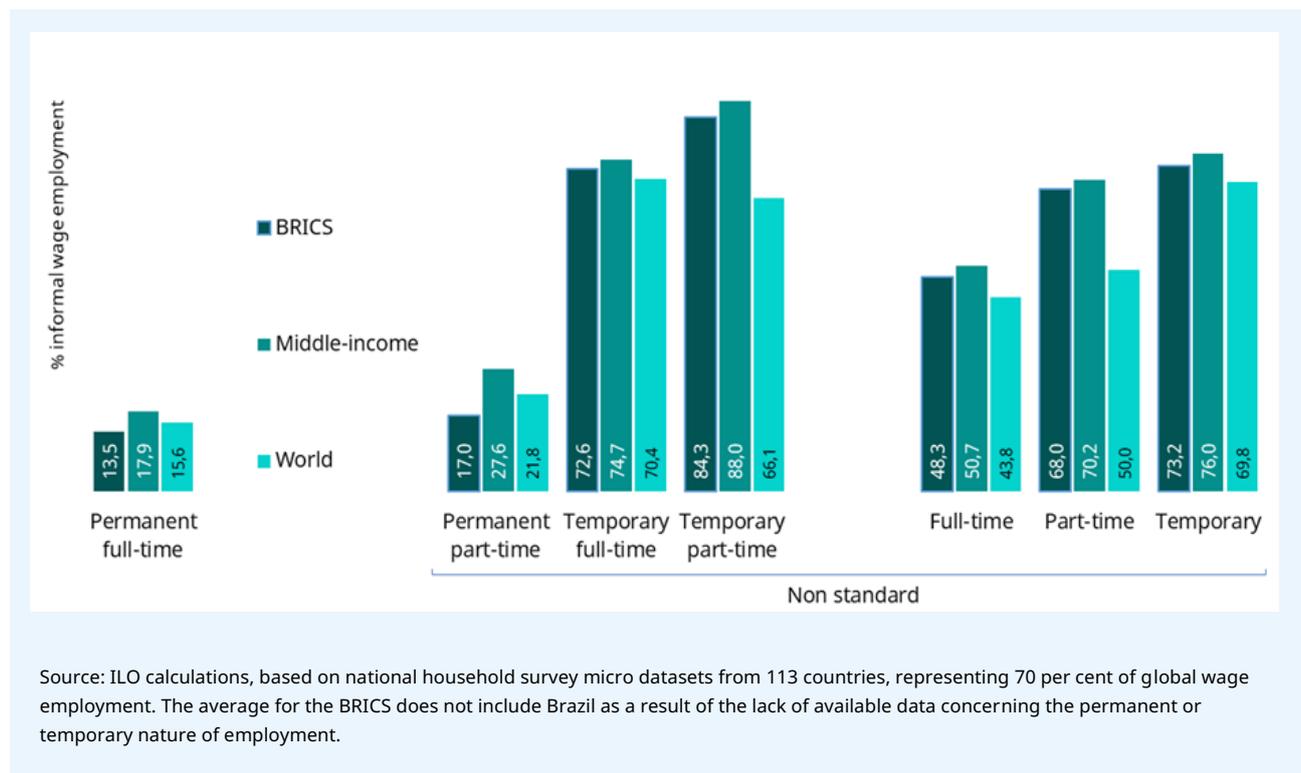
Figure 1B. Informal employment and level of education (% , 2019) - Distribution of formal and informal employment by highest level of education



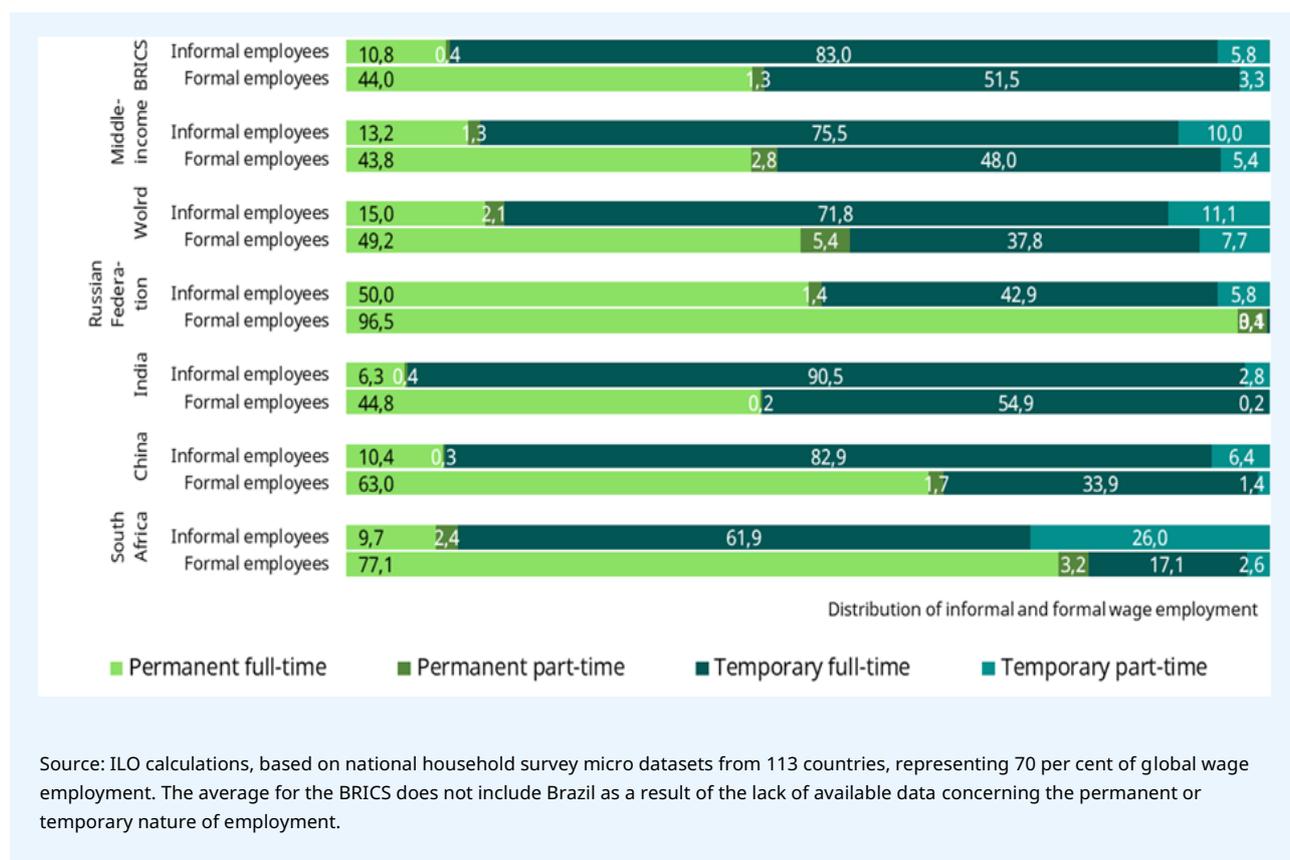
Source: ILO calculations, based on national household survey micro datasets from 144 countries representing 92 per cent of global employment.

Informality and non-standard forms of work. Compared to workers in open-ended, full-time employment, employees in non-standard forms of employment in the BRICS are 1.3 to more than six times more likely to be in informal employment. On average in the BRICS, only 13.5% of employees in permanent full-time employment have informal jobs. The risk of informality increases significantly for part-time workers (68%), reaches 73% among workers in temporary employment, and is the highest for temporary part-time workers (84.3%) (figure 2, panel A). The use of temporary wage employment is higher in the BRICS compared to other countries and is significantly higher among workers in informal wage employment (89% of wage workers in the BRICS) than among formal wage workers (55%) (figure 2, panel B).

► **Figure 2A. Informality and non-standard forms of work (% , 2019) – Share of informal employment among employees, by type of employment arrangement**



► **Figure 2B. Informality and non-standard forms of work (% , 2019) – Distribution of informal and formal wage employment, by type of employment arrangement**



2.2 The ILO approach to facilitate transitions to formality (R204)

Formalization is not an objective in itself but a necessary condition to reach very important objectives: access to decent work, poverty reduction, and greater equality among people; increased productivity, better market access, enhanced sustainability, and fairer competition for enterprises; and enhanced government scope of action through increased public revenues and strengthened rule of law. Importantly, formalization and more generally, formalization processes, contribute to enhance the capacity of people to benefit from but also contribute to economic and social development.²

Integrated strategies aiming at addressing the multiple drivers of informality work best. Decades of country experience, including that of BRICS member states,³ has shown that multiple strategies can facilitate transitions to formality. These include policies and measures that affect the environment and context, influence the transversal drivers of informality, target specific sectors, technology choices, categories of enterprises or groups of workers, and types of informality. Effective formalization strategies usually combine interventions to increase the ability of the formal economy to create decent work opportunities to absorb workers and economic units currently in the informal economy, and interventions to strengthen incentives as well as the ability of people and enterprises to enter the formal economy, including by increasing skills and employability. This two-way logic presupposes actions at two levels: the level of workers and enterprises in the informal economy, and the level of the political,

² ILO, 2021, *Transition from the informal to the formal economy - Theory of change*

³ Anoop S., *BRICS and the World of Work: Formalization of Labour Market*, NLI Research Studies Series No. 145/2021, Issue Paper Prepared for the BRICS Employment Working Group under the Indian Presidency, 2021.

policy, and institutional environment. Actions at the two levels should be designed with the consultation and participation of informal economy actors (through organisation-building, voice, and representation).

Reducing decent work deficits in the informal economy, through improved skills and lifelong learning, is not only an outcome but an enabling factor for transitions to formality. As such, it should be considered an integral part of the formalization process. Some workers have the potential to formalize in the short run while, for others, this is not yet a realistic possibility. Addressing decent work deficits progressively reduces vulnerabilities and increases the capacity of workers and enterprises to enter into the formal economy in a sustainable way.

► 3. The role of skills in transitions to formality

The ILO's Recommendation 204,⁴ agreed by governments', workers' and employers' representatives in 2015, recognizes that it is important to preserve and expand the entrepreneurial potential, creativity, dynamism, skills, and innovative capacities of workers and economic units in the informal economy.

3.1 Effective skills training has benefits for individuals, enterprises, and wider society

Investment in skilling provides private benefits to individuals and enterprises, as well as wider social benefits. For individuals, investment in effective skills training can boost employability and career development (by demonstrating to prospective employers that the individual has the required skills) and provide economic returns in the form of higher wages. For workers currently in the informal economy, skills development also creates opportunities to obtain more stable and better-remunerated work in the formal economy. For enterprises, a more skilled workforce is likely to have a positive impact on productivity and competitiveness, with workers better equipped to innovate, solve business challenges, and adopt new technologies or ways of working. For societies, improving the level of skills of the population can boost economic development by reducing labour shortages, encouraging investment, and generating new employment. Investment in skills supports the development of capabilities within the population to take advantage of the opportunities created by technological advancement and other megatrends such as globalisation, demographic change, or the green transition, and can also help build resilience through boosting the ability of the workforce to adapt to changes in the labour market that will require citizens to change jobs, occupations, or sectors.⁵

3.2 Skill acquisition in the informal economy

Whilst the sheer scale of the informal economy makes it difficult to generalise, the most significant route for skills acquisition among workers in the informal economy is through informal on-the-job learning. This may be unstructured, taking the form of a worker learning through doing, or through informal learning from friends, family, or community members. Workers also undertake informal apprenticeships, a system through which a worker learns a trade or craft through working alongside a skilled worker or master craftsman in a micro or small enterprise. These generally involve apprentices and master craftsmen entering into a written or verbal training agreement and sharing the costs of

⁴ Recommendation 204, clause 7(j)

⁵ ILO, 2021, [Shaping skills and lifelong learning for the future of work](#)

training.⁶ Informal apprenticeships are most common in manufacturing, construction, craft trades, and some service industries (including for example, hairdressing and mobile phone repair).⁷

Workers may have also participated in learning programmes prior to, or during, their employment in the informal economy. This may include participation in the formal education system (including schooling/basic education, or TVET training), participation in second chance education programmes, participation in short-term courses on subjects such as entrepreneurship and business skills, or participation in training programmes offered by their current or previous employers, including continuous professional development.⁸

► 4. Skills-related challenges of informal economy workers and of workers in non-standard forms of employment

Despite the benefits of skilling to individuals, enterprises and wider society, workers in the informal economy often face substantial barriers to participating in quality training.

4.1 Costs and opportunity costs

Costs (which include tuition and examination fees, materials, and travel to training locations) can be a significant barrier to participating in training for informal economy workers. However, for many workers, the opportunity cost of participation in training (i.e., the income foregone by a worker spending time on training rather than working) is even greater. This can be exacerbated by precarious financial circumstances, long durations of both formal training programmes and informal apprenticeships, and the uncertainty surrounding whether investing time and money will yield a financial return through an improved livelihood.⁹

4.2 Availability of training opportunities for workers in the informal economy and non-standard forms of employment

Available evidence shows that participation in job-related professional training in the last 12 months, financed by the enterprise or a partner, concerns at most 5% of workers in informal employment in 8 of the 11 Western African countries with comparable information.¹⁰ This proportion is 3 to 15 times lower than that of workers in formal employment. The situation of women is the most critical. They face more limited access to vocational training regardless of the formal or informal nature of their employment. Moreover, the gap in access to employer-sponsored training between workers in informal and formal employment is greater among women than among their male counterparts. Regarding the

⁶ ILO, 2012, *Upgrading informal apprenticeship: a resource guide for Africa*; Hofmann, C., Zelenka, M., Savadogo, B., Akinyi Okolo, W. [How to strengthen informal apprenticeship systems for a better future of work?: Lessons learned from comparative analysis of country cases](#), ILO Working Paper (Geneva, ILO).

⁷ Palmer, R., 2020, *Lifelong Learning in the Informal Economy: A Literature Review*, ILO.

⁸ Palmer, R., 2020, *Lifelong Learning in the Informal Economy: A Literature Review*, ILO.

⁹ Palmer, R., 2020, *Lifelong Learning in the Informal Economy: A Literature Review*, ILO.

¹⁰ Authors' calculations based on national household survey data: Burkina Faso, Ivory Coast, Niger, Togo (Enquête régionale intégrée sur l'emploi et le secteur informel, 2017-2018); Benin (Enquête Modulaire Intégrée sur les Conditions de Vie, 2011); Burundi (Enquête sur les conditions de vie des ménages, 2014) ; Congo Democratic Republic (Enquête nationale sur l'emploi et le secteur informel, 2012) ; Congo (Enquête nationale sur l'emploi et le secteur informel, 2009); Madagascar (Enquête nationale sur l'emploi et le secteur informel, 2015); Mali (Enquête modulaire et permanente auprès des ménages, 2018); Mauritania (Enquête nationale sur l'emploi et le secteur informel, 2017).

potential of skills development and upgrading, only a small percentage of informally employed workers (0.2% in Niger and 1.0% in Togo and Ivory Coast) benefitted from such opportunities. The corresponding proportions among their formally employed counterparts reached 6.6% in Niger to 18.0% in Togo. Moreover, on-the-job retraining and retraining in institutions are more likely to benefit workers with formal employment conditions. In India in 2019, up to 82% of workers in informal employment and 75% of those in formal employment did not benefit from any vocational technical training. Among the minority who received such training, the proportions of those benefiting from formal training was 4 times higher among formal workers (40%) compared to informally employed workers (11%). Non-formal training ('hereditary') (25%), self-learning (26%), and on-the-job training (31%) were the main training modalities for informally employed workers.¹¹

4.3 Low investment in workforce training by informal economy employers

Several comparative studies have found employers in the informal economy are less likely to invest in workforce training than their formal economy counterparts. In addition to the findings referred to in section 4.2, ILO research found that employers who make intense use of workers in temporary and other non-standard forms of employment (i.e., those who employ more than half of their workforce on non-standard contracts), which would include many MSMEs in the informal economy, invested less on skills training for temporary workers than other firms.¹²

For MSMEs in the informal economy, the business incentive for investment in training may not be apparent, particularly where the business uses methods of production that require only workers with lower levels of skill. Business owners may be content with their current production methods or may be concerned that workers who have been trained may seek other employment opportunities elsewhere.¹³ Costs and opportunity costs (for firms these include the production foregone that would otherwise be undertaken by the worker who is training) can also be barriers at company level —especially in micro and small firms. Other factors contributing to the participation gap include disparities in access to training between formal economy and informal economy firms, underdeveloped markets for the provision of training to informal economy firms, and a lack of awareness among firms of the training opportunities that do exist.¹⁴

4.4 Suitability of training provision

A further disincentive to participating in training is a concern among both employers and workers that the training available may not be relevant to their needs. Formal TVET institutions are frequently criticised for delivering programmes that are insufficiently responsive to the needs of local labour markets. The curriculum in formal courses is sometimes overly focused on formal employment opportunities that will only be obtained by a minority of those completing the course, at the expense of content of wider relevance. In MSMEs, workers may have a more general role, undertaking a variety of tasks, rather than being a specialist in one functional area, which may mean that the content of the training that does exist is too specialist for their needs.¹⁵ A further challenge can be the learning design used for training: courses may be overly long (increasing the opportunity cost of workers), use inflexible

¹¹ Authors' calculations based on India PLFS 2019

¹² Aleksynska, M. & Berg, J., 2016, *Firms' demand for temporary labour in developing countries: necessity or strategy?*, ILO.

¹³ ILO, 2016, *Non-standard employment around the world: Understanding challenges, shaping prospects*

¹⁴ Adams, A., de Silva, S. & Razmara, S., 2013, *Improving skills development in the informal sector: Strategies for Sub-Saharan Africa*, World Bank.

¹⁵ Palmer, R., 2020, *Lifelong Learning in the Informal Economy: A Literature Review*, ILO.

delivery models, or use inappropriate pedagogy, ill-suited to adult learners. Quality of training provision can also be heterogeneous in both formal and non-formal provision,¹⁶ with a key factor for the quality of training being the skills and practice of the teacher or master trainer.¹⁷

4.5 Learning environment safety and inclusiveness

Access to training in the informal economy varies across demographic groups, with women, migrants, and people with disabilities less likely to be able to secure opportunities. This is often driven by cultural and social norms or stereotypes (for example, a master craftsman being reluctant to take on a woman as an apprentice in a male-dominated trade, or a woman choosing not to seek training in that trade).¹⁸ Women may also face additional barriers in accessing and utilising training, including lack of access to childcare, an expectation that they will take on substantial domestic responsibilities, geographic immobility, weaker networks, and concerns around personal safety and sexual harassment.¹⁹

The predominantly on-the-job modality of informal economy training may have an impact on the awareness of safe working practices among workers. Previous ILO research suggests that off-the-job training can be an effective means of ensuring that workers receive instruction on occupational health and safety and are made aware of decent work requirements and their rights and responsibilities as a worker.²⁰

4.6 Poor recognition of acquired skills

The skills which workers acquire informally are usually not certified. This can be a hurdle to workers looking to secure a new job, particularly in the formal economy, as workers are not able to easily signal or prove to employers that they already have the pre-requisite skills. A similar lack of recognition of these skills by education and training providers can be a hurdle for experienced informal economy workers who have not completed secondary education but wish to continue their formal education and training, as they cannot demonstrate they meet the minimum entry requirements.

► 5. Solutions and country examples

For governments looking to improve the accessibility, quality, relevance, and inclusiveness of skills training for workers in the informal economy, there are several potential areas for focus. This section presents potential solutions, and examples from BRICS countries of policies or programmes already being implemented.

5.1 Improving access to education, skills, and lifelong learning

To increase the uptake of training by informal economy workers, policymakers should consider expanding the finance for skills training available to workers and MSMEs. For disadvantaged workers

¹⁶ Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) [The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability](#), World Bank.

¹⁷ ILO, 2021, [Shaping skills and lifelong learning for the future of work](#)

¹⁸ Hofmann, C., Zelenka, M., Savadogo, B., & Akinyi Okolo, W., 2022, [How to strengthen informal apprenticeship systems for a better future of work?: Lessons learned from comparative analysis of country cases](#), ILO Working Paper (Geneva, ILO).

¹⁹ Laterite, 2019, [Background Paper on Preparing Youth for the Transition to Work](#), Mastercard Foundation; ILO, 2013, [The informal economy and decent work: A policy resource guide supporting transitions to formality](#)

²⁰ Stedman, H., 2015, [Promoting safe work and quality apprenticeships in small and medium-sized enterprises: Challenges for developed and developing economies](#), ILO.

in the informal economy, targeted grants, subsidies, allowances, or training vouchers are likely the most effective financing instruments for improving access to, and uptake of, skills training. Instruments that require co-financing risk continuing to exclude those unable or unwilling to contribute to the cost, either because of their financial position or because they are uncertain of the returns that they may get from participation in training. More detail on potential approaches to financing follows in section 5.6 below.

Another complementary approach is encouraging or incentivising training providers to make their provision more flexible and accessible. Lack of flexibility in training delivery models can lead to reduced worker attendance at courses, and consequently limit the acquisition of skills.²¹ This can be particularly challenging when the worker is combining the course with work and wider commitments. The geographic location of where the training is delivered can also be a barrier, particularly for workers in rural areas (where public transport may be infrequent) and for women and girls (who may have well-founded concerns about the safety of the transport options available to travel to the training site). Providers and other stakeholders also need to be conscious of course length—given that longer courses increase the opportunity cost of participation for workers. Attention should also be paid to language of instruction, as workers find it more difficult to progress their skill acquisition in a language or dialect they do not routinely use.

5.2 Improving returns from skills training

Careful attention needs to be paid to the design and content of skills training to maximise the potential returns to investment. To realise the benefits of training, workers need to have opportunities for skill utilisation, through using the skills they have developed to transition to employment in the formal economy, or to improve their livelihood within the informal economy. It is therefore essential that training is well-aligned to labour market demand. Programme design should also pay close attention to the wider needs and constraints of intended beneficiaries that might impact their ability to realise the intended employment outcomes, such as poor access to finance, less-developed networks, or geographic immobility.²² In China, for example, the Dew Drop Programme, implemented in the 2000s, integrated skills training with support for citizens to relocate to urban areas that had skills shortages.²³ More recently, the Rural Migrant Skills Development and Employment Project, supported by the World Bank and implemented in three provinces, has combined skills training with employment support and job brokerage to help migrant workers to transition into employment.²⁴ A major meta-analysis of 55 skills training interventions delivered as part of youth employment programmes found that skills training had positive impacts on both employment outcomes and earnings for young people. Whilst interventions that combined training with other support, such as entrepreneurship promotion, were prevalent, there remains uncertainty about the relative effectiveness of combining different types of intervention.²⁵

²¹ Palmer, R., 2020, *Lifelong Learning in the Informal Economy: A Literature Review*, ILO.

²² Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) *The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability*. World Bank.

²³ ILO, 2018, *Skills for Improved Productivity and Employment Growth and Development*

²⁴ World Bank, 2014, *New Skills and Job Opportunities for China's Rural Migrants*

²⁵ Kluge, J. et al., 2017, *Interventions to improve the labour market outcomes of youth: A systematic review of training, entrepreneurship promotion, employment services and subsidized employment interventions*. *Campbell Systematic Reviews*, 13(1), 1-288.

5.3 Improving basic skills

Lack of basic skills (such as functional literacy and numeracy) will often leave workers without the foundation that enables them to undertake other learning, secure decent work, and participate in other key aspects of society. Efforts to improve the level of basic skills in the population should include upstream interventions to reduce the rate of school drop-out and improve attainment levels within the schooling system. For those already in the workplace, second-chance education programmes focused on foundational skills, or the integration of functional literacy components into vocational education programmes have had some modest success.²⁶ Key design features seen in successful implementations of second-chance education programmes include the use of practical curricula and less formal instruction methods, flexible modes of delivery (including short-run programmes and use of technology), and reduce or eliminate the costs to participants.²⁷ Successful basic skills interventions include South Africa's *Kha Ri Gude* (Let Us Learn) mass literacy campaign, which aimed to cut the national illiteracy rate in half. The programme reached almost 4 million illiterate adults in its first 7 years of operation, with a high completion rate.²⁸ In India, the *Saakshar Bharat* mission established a network of adult education centres focused on women and adolescents, particularly those living in rural areas. The mission provides functional literacy and numeracy training, the opportunity to gain a qualification equivalent to formal schooling, vocational education and training, and continuing education opportunities.²⁹

5.4 Improving policy coherence

Demand for, and supply of skills, is significantly impacted by wider government policies (including employment policy, industrial policy, trade policy, environmental policy, and enterprise development policy). Governments should work to achieve better alignment and linkages between skills policy and other areas of policy to help avoid mismatches of supply and demand of skilled labour. Skills policies cannot be developed and implemented in isolation: a 'whole of government' approach that looks holistically across a range of policy areas is needed.³⁰ It is also important that national skills development strategies and policies do not focus exclusively on the formal economy. Whilst formalization may be the long-term direction of travel for many countries, informal economies will persist as a significant source of livelihood for citizens for the foreseeable future. There is an ongoing need to support informal economy workers to improve their livelihoods, productivity, and address decent work deficits through skills development and other interventions in the short-to-medium term.

²⁶ Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) [The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability](#). World Bank.

²⁷ Palmer, R., 2020, [Lifelong Learning in the Informal Economy: A Literature Review](#), ILO; Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) [The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability](#). World Bank.

²⁸ South African Government, [Kha ri Gude Mass Literacy Campaign](#); Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) [The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability](#). World Bank.

²⁹ UNESCO Institute for Lifelong Learning, 2016, [Saakshar Bharat Mission, India](#)

³⁰ OECD, 2017, [OECD Skills Outlook 2017: Skills and Global Value Chains](#)

5.5 Making skills system governance more representative of the economy

Given the scale of the informal economy in many countries, it is important to find mechanisms to ensure that the voice of the informal economy workers is represented in key decision-making fora. This is often challenging as there tend to be fewer developed mechanisms for aggregating voices in comparison to the formal economy, which can translate into reduced voice in social dialogue processes. For example, a recent UNESCO analysis found that only five of the 75 training funds it analysed reported that workers from the informal economy were represented on the fund's board of directors.³¹ Yet, increasingly mechanisms are being established to overcome this. In India, a sector skills council has been established for domestic workers, one of the sectors of the economy with high levels of informality. In Ghana, informal economy associations are part both of the Trade Union Congress and the National Employers' Federation. The engagement and other work undertaken by institutions and associations like these can increase the understanding of skills needs in the informal economy among providers and other stakeholders, which can translate into more relevant training being available to workers.

5.6 Reviewing the design and availability of financing

Providing financing for skills training for informal economy workers can help to reduce the cost barriers to participation, but financing initiatives need to be designed carefully to ensure the intended policy outcomes are achieved, and large deadweight costs are avoided. Deadweight costs can be reduced, and inclusivity of training increased, through targeting public financial support, specifically at occupations with high levels of informality and low uptake of training. Policymakers should consider their current targeting of public investment in skills training, and whether the balance of provision between that targeted at the informal economy and that targeted at the formal economy, is appropriate and optimal.³² One approach could be ringfencing allocated funds for skills training, aimed at informal economy workers and microenterprises. Financing can also be provided to enterprises in the informal economy (most often through intermediary organisations such as trade associations, NGOs, or training providers) in order to boost the overall uptake of training.³³ This can also help to reduce the unit cost of training through creating economies of scale by aggregating demand for training across MSMEs.

For most countries, the full cost of skills training for workers is likely to be too large to be met solely by the government. Some co-financing is likely to be required from workers and employers (which also recognizes the private benefits gained through participation in skills training). More than 75 countries have introduced training levy funds, often targeted at larger companies, as a mechanism for ensuring that employers contribute to the costs of training. A recent review of levy funds found that in sub-Saharan Africa, half of the levy-financed training funds identified could be used to support the training of workers in the informal economy.³⁴

In South Africa, 20% of the payroll levy paid by large employers is transferred to the National Skills Fund, which is used to fund national priority skills initiatives, as well as the training needs of unemployed people, vulnerable groups, NGOs, cooperatives, and community groups.³⁵ In Brazil, a 1% payroll levy on private formal sector employers is used to fund SENAC (Serviço Nacional de Aprendizagem Comercial

³¹ UNESCO, 2022, [Global Review of training funds: Spotlight on levy-schemes in 75 countries](#)

³² Palmer, R., 2020, [Lifelong Learning in the Informal Economy: A Literature Review](#), ILO.

³³ ILO, 2023, [Global literature review on financing mechanisms for improving social inclusion in skills and lifelong learning systems](#), forthcoming.

³⁴ UNESCO, 2022, [Global Review of training funds: Spotlight on levy-schemes in 75 countries](#)

³⁵ Palmer, R., 2020, [Lifelong Learning in the Informal Economy: A Literature Review](#), ILO.

/ National Commercial Apprenticeship Service). The courses offered through SENAC include free courses targeted at disadvantaged and low-income groups, company training, apprenticeships, and TVET provision for the commerce sector.³⁶

Design of financing can also be a way to improve the relevance and utilisation of skills training. Results-based funding models can be used to incentivise providers to target workers in the informal economy, encourage a focus on course completion, and improve employment and progression outcomes for learners.³⁷ In Ghana, for example, the National Apprenticeship Programme has trialled an incentive scheme that pays a bonus to master craftsmen if their apprentices perform well in an assessment at the end of their informal apprenticeship.³⁸ Several countries are also trialling the use of Social Impact Bonds as a mechanism for financing skills provision more widely. These are outcome-based contracts, where programme partners are financially incentivised to support participants to secure improved employment outcomes. In India, the Skill India Impact Bond will see young people be provided with training and access to employment in COVID-19 recovery sectors. In South Africa, the Payment 4 Performance initiative is working to support excluded South African youth into employment in growth sectors through “skilling programs that are quicker, cheaper and more demand driven than traditional programs.”³⁹

5.7 Recognizing prior learning

Through developing mechanisms for the recognition of prior learning (RPL), governments and other stakeholders can support informal economy workers to evidence the skills they have developed through apprenticeships, on-the-job, and non-formal learning. This may boost their employability and mobility, enabling them to signal the skills they have to potential employers (including employers in the formal sector). RPL mechanisms can include direct assessment of skills (through testing and observations against agreed standards) or be based on documentary evidence such as portfolios of previous work, CVs, and recommendations. Strong buy-in from employers is required to realise the intended benefits of RPL and to make the development and administration of mechanisms worthwhile. Experience to date suggests that RPL has had particular traction in sectors with more substantial skills or regulatory requirements, such as construction, IT, manufacturing, finance, healthcare, and education. Recognition of skills appears to be less valued in the wider service sectors.⁴⁰

In India, certification of skills through RPL is identified by the government as a ‘key instrument’ to understand and increase levels of skilling. The RPL process is integrated with skills training provision, with learners undertaking ‘pre-assessment, skill gap training and final assessment’ meaning that workers build their skills rather than simply accrediting existing skills.⁴¹

5.8 Upgrading informal apprenticeship

Unlike any on-the-job learning, informal apprenticeship is intentional, follows a certain structure, and aims for mastery of all skills relevant for an occupation. It constitutes a system that can more easily be

³⁶ UNESCO, 2022, [Global Review of Training Funds Country Briefs: Brazil](#)

³⁷ OECD, 2023, *Education and Skills Challenges in the Context of Informality*, forthcoming

³⁸ Ngatia, M. & Rigolini, J., ‘Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa’ in Arias, O, Evans, D, & Santos, I (eds.) *The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability*. World Bank.

³⁹ Government Outcomes Lab, 2023, [Impact Bond Dataset](#)

⁴⁰ Branka, J., 2016, [Understanding the potential impact of skills recognition systems on labour markets: research report](#), ILO

⁴¹ Government of India, 2015, [National Policy for Skill Development and Entrepreneurship](#); Mullan, J & Rolleston, C, 2021, [Barriers to skills development in India's informal economy](#), *International Journal of Training Research*.

included within national skills systems than any informal on-the-job learning. Despite their ubiquity across LMICs, there are several decent work risks associated with informal apprenticeship systems. There is potential for exploitation of apprentices if they are required to undertake an overly long apprenticeship at a low level of pay, or if they start the apprenticeship below working age. The quality and relevance of the training delivered through the apprenticeship is dependent on the skills of the master craftsperson, who is unlikely to have specific expertise in pedagogy, and may not be aware of technological innovations in the field. Lack of recognition of the skills gained during apprenticeship can also limit the mobility and progression of former apprentices.⁴²

Potential ways to tackle these shortcomings through policy and practice include:⁴³

- *Setting standards for informal apprenticeships.* Standards should cover the minimum and maximum apprenticeship duration for a particular occupation, the maximum fee chargeable by the master craftsperson, and the minimum remuneration to be provided to the apprentice. Minimum quality standards can also be developed, covering the experience required for a master craftsperson and working conditions for apprentices. Standards should be developed in close partnership and driven by relevant organisations such as trade associations, co-operatives, unions, and sector skills councils.
- *Upskilling master craftspersons* through offering opportunities for them to develop pedagogical skills and update their technical and occupational knowledge to reflect technological and other developments. Training needs to be made available on a flexible basis, potentially using distance or digital learning modalities.
- *Establishing systems for assessing, recognizing, and certifying the skills gained at the end of the apprenticeship.* Certification enhances workers' ability to progress and find other employment opportunities following the completion of the apprenticeship and can also incentivise workers to complete the apprenticeship programme. Certifications should be designed to have enduring value and ideally should be recognized nationally.
- *Offering off-the-job training* to apprentices to complement their learning from the informal apprenticeship.
- *Promoting informal apprenticeships to women and other underrepresented groups* through careers guidance and community sensitization campaigns to avoid the system recreating existing occupational gender segregation.

These components can be bundled together into wider reform packages. In Kaduna state in Nigeria, for example, a partnership to support the formalization of apprenticeships in 38 trades has been established between the National Board of Technical Education, the Kaduna Polytechnic, and the Kaduna Old Panteka Market Development Association (an association of artisans and stallholders). The partnership will see apprentices spend 20% of their time receiving classroom instruction, development of qualifications aligned to the National Skills Qualification Framework, and training of both polytechnic lecturers and master artisans as assessors.⁴⁴ Elsewhere in Nigeria, a partnership between the federal government and the World Bank will see the development of “structured apprenticeship training” in a

⁴² Hofmann, C. et al., 2022, [How to strengthen informal apprenticeship systems for a better future of work?: Lessons learned from comparative analysis of country cases](#)

⁴³ Hofmann, C. et al., 2022, [How to strengthen informal apprenticeship systems for a better future of work?: Lessons learned from comparative analysis of country cases](#)

⁴⁴ National Board for Technical Education, [NSQF: Kaduna Polytechnic Issues Certificates to 33 Quality Assurance Assessors](#)

selection of clusters of informal economy master craftspersons across six states. The programme includes upskilling of master craftspersons, development of assessment and certification mechanisms, and financial incentives to enable women and vulnerable groups to participate.⁴⁵

5.9 Promoting skills development through supply chain linkages

The globalisation of production and integration of informal economy companies into global supply chains creates new opportunities and imperatives for skills development. However, it also bears risks of creating and sustaining business models that are based upon decent work deficits⁴⁶. The requirements set out by companies at the top of supply chains, through stipulations in contracts offered for the supply of goods have the potential to drive up demand for skills training among MSMEs further down the supply chain. Supply chains may also drive the adoption of new technology, which itself will require workers to upskill, regardless of any contractual requirement, and improve firm-level productivity.⁴⁷

⁴⁵ Ideas Project, [Informal Sector](#)

⁴⁶ Abramo, L., 2022, [Policies to address the challenges of existing and new forms of informality in Latin America](#), UN Economic Commission for Latin America and the Caribbean.

⁴⁷ Ngatia, M. & Rigolini, J., 'Addressing Skills Gaps: Continuing and Remedial Education and Training for Adults and Out-of-School Youths in Sub-Saharan Africa' in Arias, O, Evans, D, & Santos, I (eds.) [The skills balancing act in Sub-Saharan Africa: Investing in skills for productivity, inclusivity, and adaptability](#). World Bank.

▶ 6. Conclusions and key messages

1. Closing the skills gap in the informal economy is essential for reducing decent work deficits in the informal economy and strengthening the ability of individuals and enterprises to enter into the formal economy as a means to achieve decent work.
2. Skills development systems need to evolve to improve access to relevant and quality skills and lifelong learning for learners and workers in the informal economy and to workers in non-standard forms of employment.
3. To make skills development systems more relevant and inclusive, governments should consider upgrading informal apprenticeship systems, developing basic skills programmes, creating mechanisms for recognition of prior learning, and incentivising providers to make training more flexible and accessible.
4. Integrated policy solutions are needed to achieve transitions; skills policies alone are unlikely to be sufficient. This includes achieving horizontal alignment with other policy areas to reduce skills mismatch, and action to reduce other barriers to the utilisation of skills. Combining skills interventions with social protection policies at different levels through integration, coordination, and cooperation, including to cover income replacement during training, can also support transitions.⁴⁸
5. Informal economy workers, and those in non-standard forms of employment, should be included in skills development systems at every level—including in system governance. Skills development strategies, policies, and funding must not focus exclusively on the formal economy and should give due attention to skills needs in the informal economy.

⁴⁸ ILO, 2023, *Aligning Skills Development and National Social Protection Systems*, forthcoming.