

## 1.2. Strategies for Transformation

### Skills Development in the Informal Sector

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In 2018, the International Labour Organization (ILO) estimated that 61% of the global employed population (two billion people) earn their living in the informal economy (ILO 2018a). Informality exists in countries at all levels of socio-economic development and encompasses a wide range of jobs and economic activities with no work-based social protection: from street vending, home-based work in global and domestic value chains, waste-picking and domestic work to short-term contract work. It is a widely researched topic from economic, productivity, employment or poverty perspectives in different country contexts, but precisely because of its diversity and heterogeneity observed in different contexts, the approach to informality remains ambiguous, if not controversial.

This paper looks at informality from the human capital development perspective. The first section starts with an overview of the informality concept, with a brief discussion of the terminology and definitions used to capture informality in different contexts. For the purposes of this paper, three related terms and definitions adopted by the ILO are used for informality:

- **Informal sector:** unincorporated enterprises that may also be unregistered and/or small (ILO 1993);
- **Informal employment:** employment without social protection through work both inside and outside the informal sector (ILO 2003);
- **Informal economy:** brings both terms together and refers to all units, activities, and workers that are not covered or insufficiently covered by formal arrangements (ILO 2015a).

The literature review in first section also identifies the main characteristics and patterns of informality. The paper continues discussing policy responses towards informality in the second section, where the need for a balanced mix of policy actions addressing both supply and demand side issues is clearly recognised. As many studies highlight the role of skills in improving productivity and increasing

earnings, this section specifically focuses on the two inter-related issues: understanding and analysing the specific characteristics/patterns of informal economy in every country context, and offering skills development actions for the informal economy actors to improve their productivity and job quality, thus increasing their chances to move from the informal to the formal economy. For this to happen, a good understanding of skills deficits and dynamics in the informal economy is crucial.

In reality, employers and workers in the informal economy have neither the necessary time nor income to afford schooling and training, which reduces their potential productive capacity. Thus, the third and last section is devoted to measures related to human capital and good practices for developing skills in the informal economy. Skills development in the informal economy needs to be tackled holistically and be an integral part of overall education and employment policies, in particular through targeting specific economic sectors, designing and implementing targeted training schemes, upgrading traditional apprenticeships, supporting the growth of micro-/small enterprises, ensuring the validation and recognition of skills, building on heterogeneous groups of actors, also involving regional/local actors and supporting bottom-up initiatives.

## Overview of Informality

### Terminology and Definitions of Informality

The term “informality” means different things to different people, but it usually comes with a negative connotation, e.g. referring to unprotected workers, non-compliance with law, underpayment or non-payment of taxes, excessive regulation, low productivity, unfair competition, something in the shadows or underground. The concept suffers not only from the use of different names to define similar phenomena, but also from the use of different definitions for the same terms. The multiplicity of names and definitions might indicate a classic “blind person and the elephant problem”—everybody touches a part of the animal, but understands only the particular part that they touch. Each of these views is probably part of the truth about informality.

Consciously or unconsciously, the terms have also remained vague due to the need to accommodate for the huge diversity of informality within and across the

countries. Despite blurry lines, sometimes informal production/firms are distinguished from informal jobs/labour. The terms referring to the former may include informal economy, grey economy, non-observed or undocumented economy, shadow economy, black economy or lack economy, cash economy, underground economy, illegal economy, or household economy. The terms referring to the latter can be informal employment, unreported employment, undeclared work, under-declared work, shadow labour market, “envelope wages” or “cash-in-hand”, unreported “own-account” or self-employed work. Still, the problem remains with the exact definitions of these terms, as the emphasis is different in each term.<sup>1</sup>

The origin of the term “informal sector” is attributed to the economic development model developed by W. Arthur Lewis in his Nobel-winning essay in 1954 where he described employment or livelihood generation in traditional (low-income) economies as something outside of the modern economy (WIEGO 2012). Seeing this a sign of under-development, he expected it to be a temporary phenomenon.<sup>2</sup> Later in 1971, the British anthropologist Keith Hart coined the term “informal sector” during his study of low-income activities among rural migrants, who could not find wage employment in the capital city of Ghana (ibid.). After sending a series of employment missions to observe the “traditional sector” in developing countries, the first to Kenya in 1972, the ILO picked up and used the term “informal sector” more systematically to highlight employment problems in developing countries.

In the context of developing countries, informality is viewed both in positive and negative terms for different reasons. Underlying these varying views are four schools of thought regarding the informal economy (Box 1):

- The dualists focus on those engaged in traditional and survival activities;

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<sup>1</sup> For example, Medina and Schneider (2017) define “shadow economy” as all economic activities and income earned that circumvent government regulation, taxation or observation, but exclude illegal underground activities. However, the EU includes criminal and illegal activities within the definition of “shadow economy”.

<sup>2</sup> He predicted that with the right mix of economic policies and resources, low-income traditional economies could be transformed into dynamic modern economies. In the process, the “traditional sector” comprised of petty trade, small-scale production, and a range of casual jobs would be absorbed into the modern capitalist – or formal – economy and, thereby, disappear (WIEGO 2012).

- The structuralists highlight the role of petty traders and producers as well as sub-contracted workers;
- Both the legalists and voluntarists concentrate on informal enterprises and entrepreneurs;
- The debates between these schools of thought proved to be more divisive than consensual – in large part because each focused on a “slice of the (informal economy) pie”, not the whole (ibid.). Given the heterogeneity of informality, there is merit to each of these perspectives that reflect one aspect of informality.

### **Box 1: Four schools of thought regarding the informal economy in developing countries**

1. **Dualist school:** the informal economy is comprised of marginal activities that are distinct from and not related to the formal sector and that provide income for the poor and a safety net in times of crisis;
2. **Structuralist school:** the informal and formal economies are intrinsically linked, with the former as subordinated economic units (micro-enterprises) and workers that serve to reduce input and labour costs of large capitalist firms so as to increase their competitiveness;
3. **Legalist school:** the informal economy is comprised of courageous (daring) micro-entrepreneurs who choose to operate informally in order to avoid the unnecessary and burdensome costs, time and effort of formal registration in a “hostile legal system” and who need legal rights to convert their assets into formal property;
4. **Voluntarist school:** the informal economy is comprised of entrepreneurs who voluntarily choose to operate informally in order to avoid taxation, commercial regulations, and other costs of operating formally that creates unfair competition for formal enterprises.

Source: WIEGO (2012: 4-6).

The ILO has long played a leading role in placing this topic on the international policy agenda and debate. In particular, it prioritised improvement of working conditions in informal sector as part of its “decent work” agenda (ILO 2013a). The first internationally agreed definition came in 1993, when the ILO “Resolution concerning statistics of employment in the informal sector” was adopted by the 15<sup>th</sup> International Conference of Labour Statisticians. The informal sector was defined as a group of production units comprised of unincorporated enterprises owned by households, including informal own-

account enterprises and enterprises of informal employers (typically small and non-registered enterprises) (ILO 1993). This definition limited the definition of informality to enterprises.

Later, the ILO “Guidelines concerning a statistical definition of informal employment” adopted in 2003 by the 17<sup>th</sup> International Conference of Labour Statisticians examined informality from a different perspective, that of jobs. By doing so, they defined the concept of informal employment as all remunerative work (i.e. both self-employment and wage employment) that is not registered, regulated or protected by existing legal or regulatory frameworks, as well as non-remunerative work undertaken in an income-producing enterprise (ILO 2003). The definition is very broad, encompassing all parts and levels of the whole economy.

Thus, “employees are considered to have informal jobs if their employment relationship is, in law or in practice, not subject to national labour legislation, income taxation, social protection or entitlement to certain employment benefits (advance notice of dismissal, severance pay, paid annual or sick leave, etc.). The reasons may be the non-declaration of the jobs or the employees; casual jobs or jobs of a short duration; jobs with hours of work or wages below a specified threshold (e.g. for social security contributions); employment by unincorporated enterprises or by persons in households; jobs where the employee’s place of work is outside the premises of the employer’s enterprise (e.g. outworkers without employment contract); or jobs for which labour regulations are not applied, not enforced, or not complied with for any other reason” (ILO 2003: 2).

Therefore, the ILO distinguished the concepts of “informal sector” and “informal employment” in a complementary way, mostly in relation to the developing world. Later, the term “informal economy” is used to cover both concepts together. The ILO Recommendation No. 204 on “Transition from the Informal to the Formal Economy”, which was adopted in 2015, defines informal economy as “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (ILO 2015a). This definition also includes workers who are sometimes not covered by labour legislation (e.g. unpaid, domestic or agricultural workers). Finally, the definition does not encompass illicit activities, in particular the provision of services or the production, sale, possession or use of goods forbidden by law.

It must be emphasised that the developed or transition countries often saw informality as the complete opposite of (“good”) formal economy, including all activities beyond legally regulated enterprises. This was always negative, so inclusive and vague that it could even include illegal or criminal activities. Non-compliance of workers and employers with the rules meant that job security and taxation were considered the key aspects (European Commission 2014a). Indeed, the term “informal economy” is often not used by advanced economies. Instead, terms like “non-standard” or “atypical work” are used to refer to employment arrangements that would be similar to informal employment. At EU level, the term “undeclared work” is used to define “any paid activities that are lawful as regards their nature, but not declared to public authorities, taking into account differences in the regulatory systems of the Member States”.<sup>3</sup> The EU Member States have adopted a variety of different definitions focusing upon non-compliance with either labour, tax and/or social security legislation or regulations.<sup>4</sup>

Today, growth and diversification of non-standard forms of employment increase the tendency for informality. Non-standard work can be: own account self-employed workers without employees; temporary (or fixed-term) workers, including temporary help agency and on-call or contract company workers; some part-time workers; and more recently gig workers. The evolution of employment due to the emergence of new business models in the digital economy (e.g. crowd-work and work-on-demand in gig or platform economy) is particularly exposed to the risk of informality (ILO 2018b). There is increasing literature on the negative impact of digitalisation such as casualisation and disguising of work, erosion of the traditional employer-employee relationship and social security benefits, enhanced risks by lack of clarity regarding employment status and regulation loopholes (see ETUI 2016, EESC 2017, Eurofound and ILO 2017, Eurofound 2018).

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<sup>3</sup> See the “European Platform Tackling Undeclared Work” intending to enhance the co-operation between the EU Member States’ relevant authorities and other actors fighting undeclared work. It seeks to make their activities more effective and efficient while fully respecting national competences and procedures (European Commission 2014b).

<sup>4</sup> If there are additional forms of non-compliance, it is no longer considered as undeclared work, but more like shadow or criminal economy. If there is no monetary payment, it is part of the unpaid sphere (European Commission 2014a, 2014b).

In conclusion, informality has proven to be persistent and even increasing in the face of economic growth all over the world, contrary to the past expectation of its decrease in the course of economic development (OECD 2009, World Bank 2011). According to the OECD (2009), informality has become normal as the informalisation of employment relations has been a feature of contemporary economic growth. It is seen as a result of mistrust in public institutions and the negative perception of the state, a sign of a broken social contract (OECD 2009). In developing countries, it is also the result of demographic pressures on job creation and sustaining livelihoods (World Bank 2013). Friedrich Schneider (2011) found a strong positive correlation between increased informality and increased burdens of tax and social security contributions, low quality of state institutions, increased labour market regulations, weak public sector services, and low tax morale.

### Main Characteristics of Informality

Workers in informal economy differ widely in terms of income level, age, education level, employment status, sector, type and size of enterprise, location of workplace (rural-urban, private-public), degree of coverage of social and employment protection. Economic units in informal economy also demonstrate a vast diversity of characteristics with regard to size, sectors of concentration, degree of compliance with laws and regulations, or level of productivity, among others. This heterogeneous, divergent and complex nature of informality as well as the reasons for its persistence are highly country-specific and need to be taken account in policy-making.

A holistic model proposed by the World Bank (2007) for capturing the main actors engaged in informality and the reasons for its existence is summarised and adapted in Box 2. Originally, three economic actors (labour, micro-firms and firms) were included by the World Bank, but two other actors (households and digital platforms) are added in the box here due to their role in expanding personal services (domestic work) and digitalised (online) work. In terms of reasons, informality may develop as a voluntary action out of choice, or as an involuntary action out of necessity. As seen in Box 2, the World Bank classified these reasons under the theory of “exit” (with three types of exit) and theory of “exclusion” (with three types of exclusion).

## Box 2: Informality by actors and by reasons (adapted from the World Bank 2007 model)

### Economic actors of informality:

- **Labour:**
  - Those with insufficient human capital to get formal job;
  - those who quit their formal job in order to be their own boss, make more money, avoid taxes and/or enjoy flexibility;
- **Micro-firms:**
  - Those with no intention or potential for growth, hence no intention of engaging with state;
  - Those who are hindered by high barriers to entry;
- **Firms:**
  - Those who are avoiding taxation and other regulations;
  - Those who are partially registering their workers and sales;
- **Households:**
  - Those who use unpaid labour from family members;
  - Those who focus on personal services/ domestic work;
- **Digital platforms:**
  - Those with regulation loopholes or lack of regulation;
  - Those who focus on crowd-work and work-on-demand in gig economy.

**Reason 1: Informality by choice (voluntary informality):** see below the three types of “EXIT”:

- **Opportunistic evasion:** tax-evasion, illegal activities, avoidance of labour codes (unprotected workforce, subcontracted production);
- **Defensive evasion:** response to burdensome state, captured state, weak state;
- **Passive evasion and state irrelevance:** pre-modern or bazaar economy, informal or non-state institution.

**Reason 2: Informality by necessity (involuntary informality):** see below three types of “EXCLUSION”:

- **Labour market segmentation:** prevents workers from getting formal jobs;
- **Burdensome entry regulations:** prevents enterprises from formalising;
- **Hiring practices of firms:** in response to excessive tax and regulatory burdens.

Source: Bardak and Rosso (2019); adapted from the table in WIEGO (2012: 10), developed based on World Bank (2007).

Despite this diversity, there is a broad consensus concerning the main characteristics and patterns of informality that usually exist parallel in every country, so that it is still possible to identify its basic characteristics based on the existing literature. Hence, this section gives an overview of the most likely



situations observed within the informal economy and employment across countries.

**Socio-economic development level:** informality is related to the lower level of economic and social development, and there is a correlation between lower level of Human Development Index and higher informality (ILO 2018a). In terms of GDP, informality is highest in countries with the lowest levels of income. The share of informal employment is 90% in developing (low-income) countries, 67% in emerging (lower-middle and upper-middle) countries and 18% in developed (high income) countries (WIEGO 2019). If agriculture is excluded, the share of informal employment falls in all income groups, but remains at one half of global employment. Also in this case, there are significant differences across countries depending on their level of economic development: informal employment constitutes 73% of non-agricultural employment in developing countries, 59% in emerging countries and 17% in developed countries (ibid.). Moreover, informal employment tends to expand during economic crises or downturns, suggesting that necessity (maybe more than choice) drives informality.

**Rural-urban and regions:** most of existing research shows that 80% of rural employment is informal compared to 44% of urban employment at global level (ILO 2018a). Rural employment is closely linked to the agricultural sector, where the majority of agricultural workers everywhere are informal: 98% in developing countries, 93% in emerging and 59% in developed countries (WIEGO 2019). If the agricultural sector is excluded, 61% of non-agricultural workers in rural areas and 44% of them in urban areas are informal (ibid). Within every country, less developed regions also tend to include more informal employment compared to more developed regions.

**Age:** young workers (15-29 years of age) as well as older workers (65 years or older) are more likely to be informally employed, compared to lower informality among adult workers aged 30-64 (WIEGO 2019). Among the employed, over three quarters of both young and older persons are informally employed — 77% of both groups (ILO 2018a). Moreover, informal employment is more likely for young people in emerging and developing countries (ILO 2014a). The shares among both the young and older workers are lowest in developed countries and very high in developing countries where 92% of young women and 87% of young men as well as 98% of older women and 95% of older men are informally employed (ILO 2018a). Other vulnerable groups such as people with disabilities,

migrant workers, ethnic minority and indigenous groups are also amongst those who are often trapped in informal jobs.

**Gender:** informal employment is a greater source of employment for men than for women at the world level (63% vs. 58%) (ILO 2018a). While slightly more men than women are informally employed in developed countries (19% vs. 18%) and in emerging countries (69% vs 64%), in developing countries the share of informally employed women (92%) is substantially higher than that of men (87%) (WIEGO 2019). Further, in a majority of countries (56%), the percentage of women in informal employment exceeds the percentage of men. This does not result in higher global averages due to low female labour force participation rates. Out of the two billion workers in informal employment, just more than 740 million are women, although proportionally more women than men are informally employed (ILO 2018a). Moreover, women in informal employment tend to be in the most vulnerable situations, e.g. domestic workers, home-based workers or contributing family workers.

**Education level:** while education is not a guarantee for access to formal and more productive employment, there is a clear link between an increase in the education level of workers and a decrease in the share of informal employment in all regions and globally (ILO 2018a, World Bank 2011). Higher levels of education increase the chance of formal employment, and the rate of informal employment decreases with levels of education: from 94% of those with no education, to 85% among workers with primary education, to 52% for those with secondary education, to 24% for those with tertiary education (WIEGO 2019). Indeed, half of the world population in informal employment has either no education or a primary level. By contrast, just above 7% of workers in informal employment worldwide have tertiary education (ILO 2018a). The differences in the rates of informal employment by level of formal education are higher in developing and emerging countries than in developed countries.

**Poverty:** there is a significant overlap between being informally employed and being poor (WIEGO 2019) – though this does not mean that all informal workers are from poor households and all formal workers are from non-poor households. According to the analysis of WIEGO, higher percentages of informal workers are from poor households in developed, emerging and developing countries. The close relationship between poverty and informality is also seen when comparing the percentage of workers from poor and non-poor households who are

informally employed. In all of the developing and emerging countries, between 50% and 98% of workers from poor households are informally employed. In developed countries, between 14% and 62% of workers from poor households are informally employed, compared to 4%-34% of workers from non-poor households (ibid.). Moreover, more women than men in informal employment live in households, which are below the poverty line (ILO 2018a).

**Employment status:** among all types of employment, self-employment predominates in informal employment with 64% of informal employment (79% in developing countries, 63% in emerging countries and 49% in developed countries) (WIEGO 2019).<sup>5</sup> By contrast, only 40% of wage employees are informal globally (63% in developing, 49% in emerging and 10% in developed countries). The predominance of self-employment in agriculture contributes to this pattern. If agriculture is excluded, self-employment represents 45% of global informal employment. However, in developing countries, self-employment dominates also in non-agricultural informal employment with 71% (ibid.). In formal employment, wage employment predominates across the country income groups and in both total and non-agricultural employment.

**Self-employment types:** self-employment is further disaggregated into employers, own-account workers and contributing family workers. Globally, employers represent just 3% of total employment (4% of formal employment and 3% of informal employment). Own-account and contributing family workers are the most vulnerable. All contributing family workers are considered as informal by statistical definition, while own-account workers have the highest percentage of informality.<sup>6</sup> Globally, 86% of own-account workers are informal and the share ranges from 93% in developing countries to 86% in emerging and

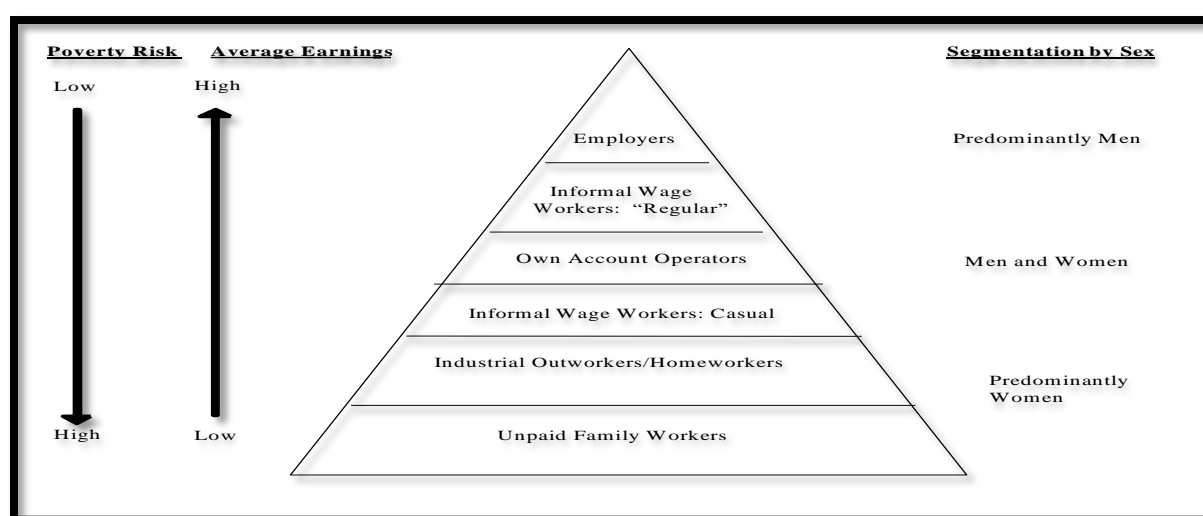
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<sup>5</sup> For comparison, 56% of all workers are employees/wage workers and 44% are self-employed in total world employment. However, there are significant differences across the country groupings. In developing countries, an overwhelming 72% of all workers are self-employed. The reverse is true in developed countries where 86% of all workers are wage employed. In emerging countries, just over half (51%) are wage employed (WIEGO 2019).

<sup>6</sup> Recent changes in labour market structures have made it harder to draw a clear distinction between wage work and self-employment, because it is often difficult to verify whether a worker is economically independent or dependent. For example, a self-employed worker may have only one customer and may even work on the customer's work site. Such self-employed workers are similar to dependent wage workers and their activities are sometimes called "false self-employment".

to 69% in developed countries. WIEGO (2012) developed a hierarchy of earnings, poverty risk and gender segmentation by employment status (Figure 1), including six categories: informal employers, informal employees, own account operators, casual wage workers, industrial outworkers or subcontracted workers, and unpaid but contributing family workers.

**Figure 1: Hierarchy of earnings and poverty risk by (informal) employment statuses and sex**



Source: WIEGO (2012: 9).

**Working conditions:** Typically, informal workers are not covered by labour laws and regulations, social security, other employment benefits such as annual paid leave or paid sick leave. The percentage of employees in informal employment increases among part-time employees and employees in temporary employment (ILO 2018a). Workers in informal employment (employees as well as the self-employed) often work outside normal hours of work. They are relatively more exposed than workers in formal employment to very short hours of work, but also to excessive hours of work. Both situations have negative consequences: under-employment and higher risk of working poverty in case of short working hours, and exposure to higher health and safety risks and work-life balance issues without due financial compensation in case of excessive hours (ILO 2018a). Some occupations are more likely to be informal as well, e.g. service workers and clerks, sales workers, crafts, elementary occupations as well as personal and household services.

**Firm size:** informality is largely a small and micro-firm phenomenon. These firms are most likely to have less than five workers, engaged in low productivity activities. Sometimes they are not even required to register by law. Globally, the vast majority of economic units (firms) are small-size and informal (81%) (ILO 2018a). Sometimes these firms are divided into two main segments: the upper tier and the lower tier (OECD 2009). The upper tier comprises the competitive part, i.e. those who voluntarily choose to be informal and have potential for innovation and growth; while the lower tier consists of individual entrepreneurs who cannot afford to be unemployed but do not have access to more productive employment in formal economy. However, this division is only relative, as formal and informal economic activities are often mixed with direct transactions or sub-contracting arrangements.

**Economic sector:** despite the existence of informality across all sectors, economic sectors with high seasonality and lower skills requirement tend to have higher informality. Agriculture is the sector with the highest level of informal employment (almost 94%) around the world (ILO 2018a). Although informal employment statistics are sometimes restricted to non-agricultural activities, this is not correct as lack of social protection and vulnerability characterises much of the agricultural sector. Informal employment outside agriculture is dominated by service activities, such as trade, crafts, retail, transportation, hospitality (catering, accommodation, leisure), personal care and private and household services. Trade is perhaps the single most important branch of economic activity of all non-agricultural informal employment, followed by personal care and hospitality services (WIEGO 2014). Beside service activities, construction and manufacturing are other important branches of informal activity.

## Policy Responses Towards Informality

The complexity and heterogeneity of the informal economy make it difficult for policy-makers to address the issue. Policy responses towards informality vary widely from sanctions to ignorance and even support. Largely, it depends on the perceived motivation of informal actors (voluntary versus involuntary), which can vary from “deliberate avoidance of regulation and taxation” to “cushion during economic crises” or “source of livelihood for the excluded poor”.

Whatever the motivation, informality poses a problem to state budgets and social security institutions through foregone revenues, it leaves a number of workers out of the protection of labour law and undermines work standards, which is against the four pillars of decent work (ILO 2013a). Economically, informality generates unfair competition between firms and undermines productivity and economic performance. Although some see it as a temporary engine of growth in times of crisis through its flexibility, many researchers tend to agree that a high degree of informality reduces the competitiveness of an economy since informal firms tend to stay small, have less access to inputs and cannot engage in formal business relationships – factors which consequently reduce their productivity (OECD 2009).

Therefore, there is a broad consensus among policy-makers for the need to facilitate transition from the informal to formal economy. The objective of transition is clear, but the question of “how” still remains debated and widely varies from one context to another. In most cases, the essence of transition is primarily about the improvement of existing jobs and their working conditions through company growth and increase in productivity. The 2030 Agenda for Sustainable Development recognised that transition from informal to formal economy is essential to achieving inclusive development and to realising decent work for all, particularly through the fulfilment of Target 8.3.<sup>7</sup> The monitoring system of the sustainable development goals (SDG) includes a new indicator 8.3.1 (share of informal employment in non-agriculture employment, by sex) to monitor the progress for Target 8.3.

The 2015 ILO Recommendation No. 204 concerning the transition from the informal to formal economy encourages all members to draw up a roadmap for the transition to formality. The recommendation clearly recognises the need for a balanced approach combining incentives with compliance measures and for coherence and co-ordination across a broad range of policy areas in facilitating the transition to formal economy. Measures that were included in the Recommendation are kept broad in order to address different reasons of informality (voluntary/by choice vs. involuntary/by necessity), combining preventive measures, law enforcement and effective sanctions. Among the list

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<sup>7</sup> This target aims to promote development-oriented policies that support productive activities and creation of decent jobs, and to encourage the formalisation and growth of micro-, small- and medium-sized enterprises, including through access to financial services.

of actions mentioned are the definition and measurement of informality, review of legislative acts (e.g. labour law, tax law, social security law), policy actions for skills development, employment, entrepreneurship and social security coverage (ILO 2015).

Improving the productivity of informal economy is essential for employment, income growth, and poverty reduction in developing countries. Many factors affect this productivity, spanning from access to finance, infrastructure and a business-friendly environment to the level of human capital, including skills relevant to the labour market (World Bank 2013). As explained before, studies point to the limited skill levels available in informal economy, lower education of informal workers, and the strong link between education and different labour market outcomes. This shows the importance of skills development in the informal sector to increased productivity and earnings. Access to basic education and literacy may open the door to post-basic education and provides an incentive to acquire higher levels of skills and productivity through training from different sources (ibid.).

Dealing with informality obviously requires many different yet parallel policy measures, but the focus of this paper is on human capital development. For this to happen, two inter-related steps are crucial. The first one is understanding and measuring informal employment in every country context. Countries need to analyse well the employment characteristics of informal economy, skills dynamics, its impact on poverty, and the profile of education and training in formal and informal spheres and the links with employment and earnings. The results of this analysis would then feed into the second policy area, which is addressed in the last section: skills development both for employers and workers in informal economy. Access to skills development opportunities in a lifelong perspective (e.g. second chance for vulnerable groups) could increase skilled labour, lead to higher labour productivity and facilitate the transformation of informal into formal economy.

### Understanding and Measuring Informal Employment

A good understanding and measuring of informality in a given country context is the first step in facilitating the transition from informal to formal economy, in particular for any human capital development-related policy measures. In 2013, the ILO developed a statistical manual for measuring informality, which covers

both the informal sector and informal employment (ILO 2013b). It is important to emphasise that the measurement methods of informal production/firms are generally different from that of informal jobs/labour.<sup>8</sup> For the purposes of this paper, only the measurement of informal employment is briefly discussed here.

Any measurement of informal employment requires a clear definition of informality in every country context – as the definition determines its size and scope. As summarised in the first section, the definitions provided by the ILO 2003 Guidelines as well as the 2015 ILO Recommendation No. 204 are applied by many emerging and developing economies to measure the informal sector and employment. However, there are still variations of definitions across the countries – as explicitly recognised in the 2003 ILO Guidelines: “The operational criteria for defining informal jobs of employees are to be determined in accordance with national circumstances and data availability” (ILO 2003: 2).

In practice, the flexible definition of the informal sector to accommodate the specific needs of every country has led to a collection of national statistics on employment in the informal sector, with countries reporting on their preferred variation of the criteria laid out in the ILO resolution. Some countries apply the criterion of non-registered enterprises, but registration requirements can vary from country to country. Others apply the employment size criterion only (which may vary from country to country) and other countries still apply a combination of the two. Some countries even exclude agricultural activities from the scope of their informal sector statistics, although the ILO strongly recommends developing suitable definitions of informal jobs in agriculture. As a result of the national differences in definitions and coverage, international comparability of employment in the informal sector remains limited.

Problems with data comparability for the measurement of informal employment result especially from the following factors: differences in data sources; differences in geographic coverage; differences in the branches of economic activity covered; differences in the criteria used to define the informal sector (e.g. size of the enterprise or establishment versus non-registration of the enterprise or the worker); different cut-offs used for enterprise size; inclusion or

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<sup>8</sup> For the former, generally the term “shadow economy” is used. See Medina and Schneider (2017) and Schneider (2011), where they explain the direct procedures, indirect procedures that make use of macroeconomic indicators, and statistical models for measuring it.



exclusion of paid domestic workers; and inclusion or exclusion of persons who have a secondary job in the informal sector, but whose main job is outside the informal sector, e.g. in agriculture or public service (ILO 2013b). Notwithstanding with international comparability issues, it is more important to understand the country-specific conditions of informal employment rather than having a common definition for all.

For measuring informal employment, many countries tend to use labour force surveys (LFS) and other household surveys, establishment surveys and censuses as well as mixed surveys combining features of both household and establishment surveys. Growing experience with the measurement of the informal sector and of informal employment using the various survey approaches has yielded valuable information about their relative strengths, limitations and potential synergies. No one single approach can be recommended as being the most appropriate for all countries. The various methods of data collection are not mutually exclusive, and a combination of methods can be used for collecting comprehensive data on both informal sector and informal employment statistics (ILO 2013b).

For the purpose of this paper, LFS are particularly suited as a source of information on informal employment, because they are designed to measure participation in labour market. But to serve this purpose, these surveys should include questions specifically designed to capture information on informal employment (see ILO 2013b for suitable questions). Such surveys are designed to cover virtually the entire non-institutional population of a given country, all branches of economic activity, all sectors of the economy and all categories of workers, including the self-employed, contributing family workers, casual workers and multiple jobholders. In addition, such surveys generally provide an opportunity for the simultaneous measurement of the employed, the unemployed and persons outside the labour force (and thus, the working-age population) in a coherent framework.

Other more general household surveys can also be used when they include a labour force module or component. Household income and expenditure surveys, in particular, are a potential source of statistics on the demand for goods and services produced in the informal sector, as they identify informal points of purchase separately from formal points (ILO 2013b). Household surveys are the only source that can produce statistics on all forms of informal employment,

including domestic workers and producers of goods exclusively for own final use or volunteer workers, if relevant questions to identify those activities are included in the questionnaire (ibid.). Most household-based surveys are carried out frequently and can thus be used to capture seasonal and business variations.

What is really important is to understand and categorise the employment patterns and characteristics of informal economy, the education and training profiles of informal workers and the links with their employment and earnings. A clear understanding of employment conditions in different sub-sectors, workers' profiles and motivations in informal economy is key for developing any action. For example, an analysis of agricultural employment (e.g. skills profile, working conditions, earnings) would probably yield different results from a study of gig economy. A systematic analysis of LFS raw data (time series) can provide the first important assessments of the size and scope of informality, while more qualitative research with target groups (in-depth interviews, focus groups in sectors with suspected high informality) can provide the life stories of informal workers with their socio-economic profiles.

### Analysing Skills Dynamics of the Informal Economy

An analysis of skills dynamics in informal economy must look both at the type of skills that individuals have at the entry to informal economic activity and at subsequent skills development in these jobs. Education and training is an important asset for both formal and informal employment, as individuals with high level of education have a higher propensity to invest in skills and get higher earnings. As already mentioned in the previous section, half of informal workers in the world have either no education or primary level education. Low education level is the very first disadvantage at the start, which exacerbates further with very limited or no formal training available to informal workers. Given the typically unstructured SMEs, no understanding of continuous learning exists, while outdated and/or low quality production methods are usually another barrier to further learning.

It is known that the ability to absorb and benefit from education and training starts with a good foundation of formal basic education. Learning cognitive and non-cognitive skills in primary and lower secondary education is prerequisite for acquiring technical skills that prepare individuals for employment requiring secondary and postsecondary education. This foundation is also important to the

subsequent reskilling and upgrading of workers later in the life cycle since skills acquisition is a cumulative process (World Bank 2013). Although expanding basic education is necessary to provide the underpinnings for further skills development, complementary measures must deal with the existing large stocks of people already in the informal economy.

Thus, any strategy to improve productivity and incomes in small businesses and household enterprises must keep in mind the key factors behind the skills deficits. These factors include:

- Low education levels, as well as poor investment in basic education and high illiteracy rates keep many in the informal economy excluded from the mainstream economy;
- Unequal access to training;
- Underdeveloped markets;
- Lack of attention from public training providers to the needs of the informal economy;
- Market constraints to training for the small and household enterprises of the informal economy (World Bank 2013).

Only recognising and dealing with these constraints could lead to adopting policies that can engage small enterprises and workers of informal economy in building a skills base for improving productivity and incomes.

There is a growing awareness that vocational education and training (VET) can be an important transition channel between the education system and the labour market. However, in many developing countries governments play only a marginal role in skills development beyond basic education, favouring general education that is often preferred by parents and children. VET is still seen as a second-best option, suitable for low-achievers and dropouts, rather than as a secure pathway towards the labour market. Moreover, conventional school-based VET continues to serve the needs of formal economy and is of very limited relevance to (prospective) workers in informal economy. The following factors contribute to this result:

- The range of available VET is limited. Taking part in VET at upper secondary level or above requires significant prior education including a good level of literacy and numeracy. Many young people drop out of school early and therefore fail to meet these requirements. These vulnerable young people are particularly likely to end up working in informal economy;

- VET providers are not flexible and diverse enough in their delivery. Courses tend to be of a longer duration, and thereby unresponsive to the needs of the poor who need to continually earn an income. Shorter, intensive courses with post-training follow-up, linking practical with theoretical training are often in limited supply;
- Curricula and teaching methods in VET institutions within the formal education system are not responsive enough to labour market demands or cost effective enough to meet the needs of diverse groups of informal economy workers. Hence, they are broadly unsuitable to the diverse skills needs of informal workers.

Lack of skills development opportunities in formal education means that the informal sector paradoxically has to step in and provide young people with skills and jobs training. Indeed, many young people (including some upper secondary and tertiary education graduates) enter the labour market by acquiring on-the-job experience or doing an apprenticeship first in the informal sector (Walther 2011). Therefore, most workers in the informal economy, who often do not have access to formal education and training, accumulate knowledge and skills through other means no matter where or how they were acquired: at the workplace, in the community, at home, through informal apprenticeships or learning by doing. In fact, numerous private training providers, including unlicensed, informal operators play their part in skills development and fill the skills gap.

In many developing countries (in particular African countries), the skills development processes that take place in informal economy are mostly based on the very limited resources of actors involved. According to the ILO, in West Africa up to 60% of workers in micro enterprises acquired their technical and generic skills on their job only (Liimatainen 2002). A survey on Morocco's informal sector, which accounts for 40% of jobs in urban areas, revealed that that 80.4% of employers or employees in production or service units did not have any forms of skills other than those acquired on the job (Walther 2011). Moreover, informal or traditional apprenticeships remain important sources of skills acquisition for many people although their prevalence, popularity, and gender balance largely differ among countries. In Africa and South Asia, they are considered by far the most important source of skills development (ILO 2011). The ILO estimated that 70% of the urban informal sector workers in Africa have been trained through traditional apprenticeship (World Bank 2013).

Skills are transferred across generations through informal apprenticeship systems in micro- or small enterprises in many developing countries. Contrary to formal apprenticeships based on training policies and legislation, informal apprenticeships are embedded in local culture and traditions, with the incentives to participate on both sides rooted in the society's norms and customs (ILO 2011). Apprentices in micro- and small businesses learn technical skills from master crafts persons and practitioners at the workplace and are inducted into a business culture and networks, which make it easier for them to find jobs or start businesses afterwards. However, they can only be as good as their teachers. Although it has often been stigmatised as a "primitive practice" or "exploitation of young people", its rules are still enforced by social sanctions, reputation or reciprocity (ILO 2012).

Informal/traditional apprenticeships have both strengths and weaknesses. On one hand, they are less costly than other training options and provide the opportunity to acquire marketable skills for those who do not have the resources to go for several years without an income in order to participate in full-time formal education courses. They also enable apprentices to build up social and business networks and may encourage the subsequent transition to self-employment. On the other hand, apprenticeships may have significant flaws. Working conditions may be harsh, with poor remuneration, long hours and a risk of exploitation by master crafts persons. Due to the traditional gender division of labour, fewer informal and traditional apprenticeship opportunities are available for women (Liimatainen 2002). They also have serious weaknesses that limit their ability to deliver good quality training: the low education levels and literacy of those who pursue their skills through this means, the low quality of the training offer as master crafts persons lack theoretical knowledge and up-to-date skills, and the outdated technology and production methods used (World Bank 2013).

Another serious barrier to those who wish to transit from informal to formal employment or access formal further training is a lack of recognition of skills acquired in informal economy. As many people acquire knowledge through informal/traditional apprenticeships, informal jobs and other life experiences without access to formal training they have no formal recognition for what they can do. This is a challenge if they need documentation of their skills, for example to prove their competency to a new employer or enrol in a training programme.

## Measures and Good Practices for Developing Skills in Informal Economy

Many studies point to the role of skills in improving productivity and increasing earnings for informal workers, particularly the importance of good quality basic education (World Bank 2013, ILO 2012). This is linked to the fact that skills development can have a double-sided impact: firstly, on enterprises by increasing their outputs, improving process and enhancing efficiency and, secondly, on individuals by raising their level of knowledge and competences, their self-consciousness, their revenues and their ability to move from job to job. Research confirms that returns to investments in human capital in the informal sector are very similar to returns in the formal sector: human capital investments are rewarded in the form of higher earnings (Liimatainen 2002). At a macro level, skills development can fuel innovation, technological change, enterprises' development and competitiveness, therefore supporting the creation of not only more jobs, but also more productive jobs. In the longer run, skills development can also ultimately support the transition from informal to formal economies.

However, both employers and workers in the informal economy are those who have the highest difficulty to access training opportunities, due to a series of factors such as limited time or funds for training or lack of awareness about opportunities for or possible advantages of training. In most cases, adult training offers are – although in principle open to everyone – not designed for the concrete conditions of informal workers and employers. Above all, they are typically inflexible and fragmented and often do not take into account the specific needs of informal workers.

But what type of skills development initiatives are needed in the informal economy and for informal workers? A straightforward answer to this question does not exist, due to the heterogeneous nature of informality, the different potential of companies in informal economy, the different skills levels of informal workers and also because of the blurred lines between formal and informal economic activities. Nevertheless, it is still essential to know who the informal sector workers and the owners of micro-enterprises are, what they do and what their specific needs are in each specific (local) context in order design and plan training measures for the informal sector. Moreover, training should not be provided in isolation from the general socio-economic conditions of the region in question in order to ensure the relevance of skills learnt.

In this light, many authors acknowledge that it is important not only on the needs of informal workers and companies, but also to develop programmes according to the needs of local entrepreneurs and workers. Furthermore, they recommend using established structures and means of skills transmission (e.g. master-apprentice system) and to give attention to both the “micro” and “macro” levels (Liimatainen 2002). At micro level, this would involve assessing the training needs, addressing the gap between the perceived and real training needs, motivating workers to participate, financing training programmes to ensure that participants have access to training which is actually delivered. As the opportunity cost of leaving job/business for training is a major barrier for attending a training, the content of learning should have a strong practical and productive component, bridging theoretical and practical knowledge and allowing the participants to earn some money and also to apply what they have learnt immediately. At macro-level, this would involve strengthening the institutional framework, sensitising local and national governments to the training needs of the informal economy, and encouraging collaboration between NGOs as well as private and public training providers.

Furthermore, the international experience showed that skills development policies in the informal economy are more effective if they are treated holistically. This entails that they are in line with national poverty reduction and growth strategies, that they are included within the national education and training policies and that they are integrated in the wider national objectives of creating decent employment opportunities for all (Box 3).

### **Box 3: National skills development policy document in India**

In 2009, **the Indian government** adopted a national skills development policy document which included also a specific chapter targeting skills development for informal workers. As the informal economy accounts for about 60% of India’s GDP and 93% of the country’s workforce, the strategy set an ambitious target of skilling 500 million people by 2022 (the share of skilled workers was anticipated to raise from 2% in 2007 to 50% in 2022). The strategy foresaw several specific measures for skilling informal workers, including the following:

- Training provision by various public and private training institutes, NGOs and civil society institutes, characterised by flexibility (i.e. on full time or part time basis, on site/off site, etc.) and mostly short-term. Trainings were to target literacy, basic education and soft skills, as well as skill development for self-employment;

- More autonomy for public training institutes to provide training according to the needs of the local labour market and of specific target groups, rather than to meet centrally set targets;
- Setting up special arrangements for the testing and certification of skills developed in non-formal and informal settings, and certificates to be integrated in the National Vocational Qualification Framework;
- Training of trainers in modern techniques, technologies and pedagogy to improve the quality of informal learning;
- Exploring the possibility of dual-type apprenticeships and setting up a social protection mechanism for apprentices;
- Developing mechanisms for vocational counselling and career guidance and collecting and making available information about employment trends and training opportunities.

The policy allowed to implement several cases of successful though small-scale efforts across the country. These showed the potential of the new approaches as well as the challenges involved in ensuring access to basic skills as well as to continuous skills upgrade for informal workers. Since its first formulation in 2009, the National Policy on Skill Development provided the framework for skill development activities in the country. Over the years, changes in the macro environment and the experience gained through implementation of various skill development programmes in the country have necessitated changes in the policy. Accordingly, a new National Skill Development Policy was formulated in 2015, putting a special focus on entrepreneurship support, also fostering innovation and social entrepreneurship to address the needs of the more disadvantaged population.

Source: Bardak and Rosso (2019) based on ETF (2015).

Different countries in the world have tried to set up measures and practices to develop and improve skills of informal workers. The following sections present some of these successful practices and brings some concrete examples of their implementation around the world.

### Targeting Specific Economic Sectors

As a mean to prioritise actions and move toward a demand-led skills development system, many countries have chosen to work at sectoral level and target skills development programmes in the economic sectors traditionally dominated by informality, such as agriculture, commerce, transport, tourism, construction, and personal and household services. When addressing these sectors, so far attention has been devoted either to specific types of companies (micro and small enterprises) or specific categories of workers, such as women



and youth. In most cases, countries have decided to provide a minimum level of basic education to all workers, for instance with specific reference to agricultural producers. In other cases, however, a decision was taken to focus on the most educated and qualified informal workers operating in some specific sectors and holding the highest potential for growth.

Independently from the concrete measures applied, it is important to note that national decisions depend on a number of factors, including the economic structure of the country, its development perspectives and the possibility to attract investments. Strategic analysis of promising market niches and emerging occupations with the potential to access international markets and help informal enterprises to develop more dynamically would also affect the decision to put a focus on one or another specific group of workers.

In terms of economic sectors, training schemes for agricultural producers have shown particularly good results, especially when providing both skills development opportunities and financial incentives (Box 4). Business and skills training for rural households active in subsistence farming, crafts and rural tourism also proved to be effective, especially when coupled with technical assistance to facilitate the establishment of associations that later developed into co-operatives and businesses (ETF 2015).

#### **Box 4: Examples for targeting specific economic sectors**

**Training schemes for agricultural producers in Bosnia and Herzegovina (ETF 2015):** A specific skills development programme was developed for a large number of agricultural producers (mainly subsistence farmers) in Bosnia and Herzegovina between 2010 and 2012. In order to qualify for this technical support and funding, farmers were required first to register as agricultural producers and to formalise the status of their employees, including their own status and that of their family members. Before introducing the mandatory registration through the programme, the number of registered agricultural producers was marginal. After the measure was implemented, the number of self-employed and employed persons regularly registered in the agriculture sector significantly increased in the country (from less than 20,000 in 2010 to 114,700 in 2012). The co-ordination between the ministries of agriculture and labour resulted in legislative changes, establishing the register of agricultural producers and resulting in the significant formalisation of previously informal agricultural activities.

**Jobs for Youth Strategy for Africa (AfDB 2016):** Under this strategy (2016-2025), the African Development Bank (AfDB) has developed programmes to support growth across sectors

and to create a more competitive business environment in Africa. The programmes select priority sectors to develop new enterprises and provide human capital for these sectors. This includes engagement with the informal economy, which offers the majority of job opportunities for youth in Africa. The programmes support skills development efforts of young workers to facilitate the transition to formal employment and enhance their incomes. An initial set of programmes have been built and focused on three sectors with high potential for youth inclusion: agriculture, manufacturing and ICT. These are the sectors with higher job opportunities across a variety of country contexts and demographic segments, creating a menu of project options. Over the next decade, additional programmes will be designed and implemented as the needs of new sectors such as retail, hospitality and renewable energy evolve.

**ILO STED programme and its implementation in Myanmar (ILO 2017c):** The ILO's Skills for Trade and Economic Diversification (STED) programme was developed to identify sectors that offer the best opportunities for trade development, and then support them through improving sector-related skills. Once the sectors are selected, a process of extensive collaboration and research begins with the relevant worker, business and government bodies as well as other institutions and experts in the sector. This collaboration develops concrete recommendations for policy and training. In Myanmar's case, the ILO began employing the STED methodology in 2015 to survey and facilitate co-operation among all stakeholders involved in the tourism sector and develop training resources for tour guides. The collaboration resulted in a three-tiered competency standard for guides, with a new course curriculum for each tier (local, regional and national guides).

Source: Bardak and Rosso (2019) based on ETF (2015), AfDB (2016) and ILO (2017c).

## Supporting Small Companies on Enterprise Development

Small- and medium-sized enterprises (SMEs) represent the backbone of most economies in developing and emerging countries. Their inability to create sufficient quality jobs to absorb the new entrants in the labour market constitutes one of the root causes of the informal economy. It is a well-documented fact that informality is the most widespread among the micro- and small-sized companies. Moreover, they face particular challenges in terms of skills development, due to the lack of financial resources or reluctance to invest in workers' training. Thus, putting emphasis on supporting micro- and small-sized enterprises can play a particularly vital role in job creation, and in raising productivity and improving working conditions in the informal economy (European Commission 2014c).

Specific and targeted policies are therefore needed to retrain and upgrade the skills of small company owners (employers) as well as their workers, since it is unlikely that entrepreneurs in the informal sector will enable their workers to take time off for training, unless they themselves are also offered a relevant training for their business (e.g. management training, product design, business skills such as market research and marketing for new products, legal and financial regulations, internationalisation of business). Moreover, skilled workers may appear threatening for the informal entrepreneurs since they may demand higher pay, leave to work for competitors or establish enterprises themselves (Liimatainen 2002). Therefore, support to small companies should combine training of business with the training of workers through integrating local micro-, small- and medium-sized enterprises into regional/national supply chains (especially in the agriculture and agro-food sectors) as well as through transfer of technology including eco-innovations or renewable energy solutions.

Enterprise development support to small companies can be provided through existing business intermediaries and service providers, but it needs to focus on easier access to markets, finance, infrastructure and social services. One useful way to deliver support is through training and capacity strengthening of informal support organisations, such as producer associations and member-owned self-help organisations. Co-operatives, social enterprises and other forms of people-centred businesses are often leading the way in providing decent jobs, sustainable livelihoods and inclusive solutions to social problems (European Commission 2014c).

Many countries have supported SMEs through various entrepreneurship development packages aiming at upgrading small-sized companies – including those operating in the informal economy – through policy, institutional and enterprise-level interventions. Several programmes have focused on the needs of specific groups (e.g. youth, women entrepreneurs and socially excluded groups) and/or addressed skills development in certain sub-sectors or clusters (Box 5). In most cases, most successful programmes have been the ones providing comprehensive packages of measures, such as entrepreneurial training, coaching and mentoring, access to credit and/or guarantee funds, as well as the opportunity to network with other new entrepreneurs (ETF 2015). However, further work needs to be done to support small enterprises in

expressing their training needs, so that suitable training programmes can be designed.

## Box 5: Examples for supporting small companies in enterprise development

**Entrepreneurship development schemes in Armenia (ETF 2015):** A programme was developed to deliver specific assistance to small entrepreneurs in Armenia, including access to some microcredit (up to USD 2500), together with specific assistance and training. In particular, the programme included business consultation, training, development of business-plans, and risk assessment of future business. Assistance was provided as a priority to small firms implementing innovative ideas.

**Social entrepreneurship promotion and training in Egypt (ILO 2017a):** A consortium of United Nations agencies worked with government stakeholders, international and local non-governmental organisations to address stark economic and community insecurity in two districts in the Upper Egyptian Governorate of Minya. The “Human Security Through Inclusive Socioeconomic Development in Upper Egypt – Hayat” project was designed to strengthen economic security through job creation and increased skills within the local labour force. The Hayat sought to create new opportunities for decent work for young women and men through a combination of vocational and entrepreneurial skills training with activities designed to waken their engagement in community-building, thereby creating an enabling environment for nurturing potential social entrepreneurs.

**Training programmes for very small retailers in Latin America:** SABMiller is a large brewing company selling its products across the continent through a value chain of very small retailers called “tenderos” from low-income communities, holding local grocery stores. By supporting these entrepreneurs with business skills, mentoring, life skills and networking, the company has accelerated their growth and social development whilst benefitting from increasing sales and improving livelihoods across its value chain. The training programme included courses on:

- Basic business skills such as displaying products, sales, customer service in order to raise income;
- Sustaining long term resistant businesses, cost and expenses structures, inventory rotation, and making a life plan;
- Ethics and recycling, responsible beverage sales and diversification of products and services;
- Developing the micro entrepreneurs as community leaders and converting the shops into a meeting place for neighbourhood development.

In 2013, the company launched a large-scale enterprise development programme called “4e Camino al Progreso” (Path to Progress).

Source: Bardak and Rosso (2019) based on ETF (2015) and ILO (2017a).

## Designing and Implementing Targeted Training Schemes

Given the heterogeneous nature of the informal economy, skills development within it requires an in-depth understanding and acknowledgement of this diversity. Data on the informal economy (local context, particular opportunities and constraints of the sector, etc.), on the skills level of informal employers and workers and on the skills developed by them on the job are key starting points to elaborate targeted training programmes. In particular, a specific analysis of skills needs of informal employers and workers (i.e. what they need to improve in their work and productivity) is critical for the success of skills policies and programmes in the informal economy. This will help to overcome the core issue of providing relevant training.

The existence of heterogeneous groups within the informal economy has therefore demonstrated that any intervention has to be designed around its target group, taking into account that group's specificities and socio-economic context. Targeted assistance, both with respect to sub-groups of workers and their particular skills level and development needs, has proved to be the one providing better results in terms of improved employability (Box 6). However, it is difficult to identify the "real" training needs and the gap between the real and perceived training needs remains persistent. Many informal employers do not think that they need training, or at best, they are hesitant to admit their needs.

### Box 6: Examples for targeted training schemes

**Training for taverners in South Africa (Walther 2006):** Vocational training was used in South Africa to help the most skilled informal sector workers adapt to the constraints and standards of an increasingly competitive market in the hospitality and trade sector. The Taverners Training Programme was launched in 2003 to improve the quality of service in taverns selling the firm's products. It also aimed at providing taverners with the skills needed to comply with occupational quality standards. The training included modules on management, customer service, business law, stock management, bookkeeping, and credit management. The training was run throughout the country and was recognised by the Department of Education. It was also accredited by the Tourism and Hospitality Education and Training Authority, which provided learning materials for the course. The Taverners who completed the training usually took steps to obtain a formal license for their businesses.

**Training of women in Kenya for Sustainable Aloe Farming:** An initiative called "Enhancing Grassroots Women Economic and Social Empowerment in Kitui County" (Kenya) focused on

women in rural areas and provided training on aloe farming, processing, utilisation and marketing to empower them. Targeted women are also taught how to manufacture value-added products from the aloe that can then be sold on local and national markets. The initiative was led by a community-based non-governmental organisation collaborating with a local university and the Ministry of Agriculture. It provided rural income and facilitated the rehabilitation of wasteland by producing aloe-based skin care products for the local market. The plan for the future is to conduct train the trainer seminars, teaching 100 women how to farm, process and post-harvest aloe; to create 200 direct and 600 indirect jobs in rural communities; to identify new species of aloe to expand the market for specialised aloe products; and establish a semi-automated factory for production, packaging and quality control of various aloe products.

Source: Bardak and Rosso (2019) based on Walther (2006).

Consequently, training has to be available at different levels, address different subjects and may vary from basic literacy and numeracy training, basic or advanced vocational skills, as well as skill development for self-employment and entrepreneurial learning (see Table 1 below for a non-exhaustive summary of measures proposed for the main target groups in the informal economy). Start-up support and business guidance programmes proved to be important for educated entrepreneurial workers. More basic courses, including adult learning programmes and second chance education programmes proved to be better suited to the needs of workers with lower skills levels to unlock them from their low-productivity activities, enable them to be more productive and provide them with opportunities for climbing the social ladder.

**Table 1: Different measures proposed for main target groups in the informal economy**

Type of measures	Informality by necessity	Informality by choice
<b>Education measures</b>		
Provide basic education for all, including functional literacy and numeracy	✓	
Provide basic skills and technical skills	✓	
Provide specific second chance education programmes for workers in the informal economy (evening schools, distance learning opportunities, specific VET study places, etc.)	✓	
<b>Vocational training measures</b>		
Provide vocational training, including access to core knowledge and skills	✓	
Organise management training (accounting rules and tools, taxation, social security regulations, etc.)	✓	✓
Provide training to improve pedagogical techniques and training/skills development practices for apprentices and employees		✓
Provide schemes for soft skills development, including empowerment skills such as confidence building, negotiation, organisational skills, etc.	✓	✓
Organise skill development schemes for self-employment and entrepreneurial learning	✓	✓
Provide training on business start-up including basic knowledge on subjects such as book keeping, business plans, management, etc.	✓	
Organise business guidance programmes and provide specific support for business growth, including business training and personalised coaching		✓



Organize gender sensitive vocational trainings	✓	✓
Expand the offer and quality of informal/traditional apprenticeships	✓	✓
<b>Employment measures</b>		
Provide first work opportunities (first chance programmes)	✓	
Provide dedicated occupational guidance, one-to-one analysis of workers' potential, interests, aspirations	✓	✓
Monitoring measures		
Monitor the impact of training on trainees and use results to adapt and improve skills development programmes	✓	✓
<b>Support and advice measures</b>		
Provide information and training opportunities for expanding/consolidating business activities	✓	
Provide access to information tools and analysis on opportunities for developing the profession and sector of activity (in local and national markets)		✓
Organise support and advice activities to help people develop business plans and well-supported funding applications		✓
Set up a permanent system for upgrading and developing innovation regarding technology and organisation		✓
If necessary, help refocus business activity on production and services that are better tailored to economic and social demand	✓	✓

Source: ETF (2015).

### Developing Flexible Training Content and Delivery Methods

The international experience showed that successful programmes in the informal economy have to go beyond technical skills training and combine general and specific vocational skills, community-based training, on-the-job

training (including peer education and mentoring). Furthermore, the programmes need to take into account the concrete socio-economic context of each country and build on specific sectoral analyses. In particular, they need to address basic life skills, such as numeracy, literacy, problem-solving, management, communication and negotiation skills, improve confidence and facilitate the capacity to explore and try new income-earning opportunities (Liimatainen 2002). Soft skills training also proved to be particularly important in the informal economy, due to the needs of informal workers – and women in particular – to acquire skills that empower them, such as self-confidence, negotiation and organisational skills.

In relation to training delivery, the implemented programmes were more effective when they were flexible, given the different backgrounds of potential trainees and their abilities to enrol in the training in terms of both time and financial resources (Box 7). Attention to duration (better if in short and competency-based modules) and to logistics (convenient hours and locations) have also proved to be essential to raise trainees' and employers' interest. Outreach of training was expanded where innovative approaches like community-based training, distance learning, mobile training and entrepreneurship skills training were used. One innovative training approach implemented in Haiti in 1998 was the use of mobile teams, which provided training in immediate work contexts and assisted individuals and small groups on-site at the workplace (Liimatainen 2002). The mobile team reached the working poor who were unable to attend training because of the timing of the courses, the cost of leaving their job for training, or because they were reluctant to participate in structured classes.

### **Box 7: Examples for flexible training content and delivery methods**

**Modular training schemes framework in India (ETF 2015):** An example of a training scheme for the informal economy is the Modular Employable Skills Framework, developed in India by the Indian Directorate General of Employment and Training. The scheme consists of almost 1,500 short courses of varying length, designed to support lifelong learning and horizontal mobility in a flexible way, and allows for the recognition of prior learning. Training is offered at different levels, the duration varies from 40 hours to 20 weeks, and the delivery is very flexible, i.e. the training is offered at different hours of the day and both on part-time and full time basis. Target groups are workers seeking certification of informally acquired skills, workers and VET graduates who want to upgrade their skills, school dropouts,

unemployed as well as victims of child labour and their families. Training fees are to be reimbursed fully by the national government upon successful completion of the training, and a percentage of the places is reserved for disadvantaged groups (certain castes and tribes) and for women.

**Farmer field school approach in Southeast Asia (FAO 2019):** The farmer field school approach was developed by the Food and Agriculture Organization (FAO) and partners at the beginning of the 1990s in Southeast Asia as an alternative to the prevailing top-down extension method which failed to work in situations where more complex and counter-intuitive problems existed, such as pesticide-induced pest outbreaks. The method is intended as an information-sharing exercise encouraging knowledge exchange that can result in changes in behaviour and thus promote more sustainable agricultural practices. In a typical farmer field school, a group of 20-25 farmers meets once a week in a local field setting and under the guidance of a trained facilitator. In groups of five they observe and compare two plots over the course of an entire cropping season. One plot follows local conventional methods while the other is used to experiment with what could be considered “best practices”. The learning-by-doing approach promotes farm-based experimentation, group organisation and decision-making; thereby increasing the likelihood that farmers will eventually “own” and adopt improved practices. In this field-based setting, farmers are able to investigate a wide range of topics and to develop a different set of skills, including business development, financing, post-harvest processing and marketing. At the end of the season, farmers hold a field day to show local politicians, government agriculture workers and other farmers what they are doing.

**Training for Rural Economic Empowerment in Mozambique (ILO 2017b):** In a remote area of northern Mozambique, rural populations face daunting challenges on the way out of extreme poverty and vulnerability. With the support of the Korean International Cooperation Agency, the ILO is implementing its Training for Rural Economic Empowerment (TREE programme) aimed at promoting decent work and inclusive growth. Key steps in the process involve identifying local employment and income-generating potential as well as delivering practical skills and training. Training in such skills as carpentry, fisheries, photovoltaic energy and crafts is provided to some 1,100 young women and men. A key feature of the approach is the use of local professionals/crafts persons as trainers. The programme relies heavily on these experienced trainers to deliver the modules. Moreover, “local masters” receive technical and pedagogical training before they begin teaching. They speak the local languages and tailor the curricula to match the cultural context in which the trainees live and learn, which increases the effectiveness of the training.

Source: Bardak and Rosso (2019) based on ETF (2015), FAO (2019), ILO (2017b).

Informal sector workers can acquire their skills through formal, non-formal and informal training. Expanding access to basic education is crucial since the

occupational success of individuals as well as upgrading of technical skills are closely linked to the possession of basic formal education. In a training programme of informal entrepreneurs in Kenya, for example, combined formal and informal training seemed to deliver the best firm performance whereas neither formal nor informal training alone led to good performance (Liimatainen 2002). Others emphasised that non-formal and informal training seem to respond best to the needs of informal workers as formal training is often too general and theoretical.

Overall, no single model or form of training can alone overcome problems associated with training in the informal sector, but certain principles are common such as work-based learning (ETF 2014) and person-centred learning where the interests of learners and their opportunities for active acquisition of a particular set of skills is at centre stage. Most effective training programmes reflect the plans and desires of the clients and stay close to the levels of skills and knowledge in the community – resulting in simple, low-cost and participatory programmes (Liimatainen 2002).

#### Upgrading Informal/Traditional Apprenticeships

It was already mentioned that informal/traditional apprenticeships are one of the most important source of skills acquisition in the informal economy, e.g. up to 70% of urban informal economy workers in Africa (World Bank 2013). 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 development, especially for the disadvantaged youth (World Bank 2013).

A number of countries have recognised that improving the quality of informal/traditional apprenticeships and increasing access have a direct impact on productivity and companies' growth (Walther 2006). Across countries, different models have been experimented with (i.e. by establishing inter-firm apprenticeship centres, as in the case of Morocco), but the common denominator is that improving the quality of apprenticeships entails raising the level of training and improving at the same time the instructional skills of its master crafts persons. This involves different actions such as upgrading the skills of the master crafts persons, providing supplementary training for apprentices,

monitoring workplace quality and exploring ways to include the poorest and the most vulnerable.

The ILO has given a lot of attention to the topic of upgrading and expanding informal apprenticeships and had implemented technical cooperation projects in a number of African and Asian countries (e.g. Bangladesh, Benin, Burkina Faso, Niger, Tanzania, Zimbabwe and others). These projects provided several lessons that are important for improving the quality of apprenticeships also in other contexts (ILO 2011, 2012) (Box 8 presents one example of its implementation).

### **Box 8: Upgrading informal apprenticeships in Jordan**

The ILO in collaboration with the International Youth Foundation promoted a pilot initiative to upgrade informal apprenticeships in Jordan in 31 garages (as of 2012). The initiative aimed at:

- Developing the apprenticeship model and process;
- Linking apprentices with employers for on-the-job training;
- Improving the occupational health and safety conditions at the workplace;
- Improving the work organisation and workplace management;
- Organising the testing for occupational licenses of the apprentice.

The programme included a period of basic training followed by on-the-job training. The basic training phase included a combined package of technical and workplace core skills training include life skills, basic business English, and IT courses. Participants also received occupational safety and health training. During their on-the-job training, apprentices received transportation allowance, insurance against work-related injuries, and a work uniform. They were also invited to take free of charge the test for an occupational license at the end of the programme and competed with other apprentices for awards. The pilot showed that upgrading informal apprenticeships has a great potential as a poverty reduction method as it directly targets the main skills training to which the poor have access. It is a step by step process, based on constant negotiations with the employers. It also showed positive results in terms of employment of graduates, and shortened school to work transition. However, some issues remained unsolved, preventing to reach full potential. These are limited absorption capacity of trainees by small enterprises that requires a flexible approach, and limited improvement of Occupational Safety and Health situation at work that requires to be embedded in a comprehensive national strategy.

Source: Bardak and Rosso (2019) based on ILO (2015b).

According to the ILO (2011, 2012), upgrading interventions are more likely to be successful if they:

- Build on a thorough, local and trade-specific assessment of why and how informal apprenticeship systems work;
- Capitalise on existing practices;
- Put existing business associations in the driver's seat and strengthen their capacity;
- Involve workers' organisations, parents' associations, youth groups and/or other community groups;
- Combine different measures and include elements addressing aspects of the decent work deficits, such as hazardous working conditions;
- Take a step-by-step approach, and always keep monitoring and evaluation;
- Improve training quality by providing new skills to both master crafts persons and apprentices;
- Enhance recognition of acquired skills through credible organisations such as business associations;
- Address gender imbalance and make informal apprenticeship attractive to both men and women;
- Create links with the formal training system and the formal labour market;
- Improve the reputation and public perception of informal apprenticeship, e.g. by considering it part of the national training system.

Additionally, the international experience showed that, to be effective, measures need to be context- and sector-specific and in line with the specific group of apprentices targeted. Specific actions may also include: offering apprentices the chance to take short training courses during their apprenticeship; introducing skill tests at the end of the apprenticeship; using skill standards to create logbooks or check-lists that can be used to monitor training progress; conducting information campaigns and awards to raise the reputation and public perception of informal apprenticeships; and broadening access to informal apprenticeship for groups that are often excluded, such as women and girls, and individuals with a disability.

### Ensuring the Validation and Recognition of Acquired Skills

The international experience showed the key importance of including arrangements for the identification, documentation, assessment, and certification of skills developed in non-formal and informal contexts within national skills development policies. The validation of non-formal and informal learning (VNFIL) has been high on the agenda of most developed countries for a

long time, and includes the need to put in place systems where peoples' knowledge, skills and competences can be validated regardless of the modalities of their acquisition, be it through formal non-formal or informal channels, including informal/traditional apprenticeships. This is based on the assumption that validation can foster gradual opening of qualifications systems to all forms of learning, and provide the population with the opportunity to make their experience from diverse work settings visible, including in experience in small enterprises and informal economy.

VNFIL has been implemented worldwide in a number of different ways and with the involvement of different actors. In some contexts, it was led by business associations, while in others it was driven by public institutions. In all cases, it proved to be very useful for a variety of purposes, for example an individual's standing in a profession, trades qualifications, academic achievement, recruitment, performance management, career and succession planning, including for informal workers (Box 9).

### **Box 9: Examples for the validation and recognition of skills**

**Recognition of prior learning in the EU:** Validation of non-formal and informal learning has gained a more visible space in the context of policies to increase qualification levels of the population, employability and social inclusion. The implementation of the Council's Recommendation on Validation of Non-formal and Informal Learning (2012) is supported by the new Guidelines for VNFIL (2015), the European Inventory of Non-formal and Informal Learning in all EU countries (every two years) and by projects/funding from Erasmus+ to develop better methods and instruments. The 2016 Inventory shows that most involved countries have progressed in establishing validation arrangements, in using skills audits and relating VNFIL to NQFs. Noticeably, the migration and refugee challenge in the EU is contributing to unprecedented development of validation mechanisms and instruments in a large number of EU countries, as it is recognised that validating the skills from professional and livelihood experiences of migrants/refugees is one of the fundamental approaches to supporting their integration in the labour market and society, as well as supporting their lifelong learning.

**Recognition of prior learning in North Macedonia (ETF 2015):** When energy efficiency in the construction sector became an important objective in North Macedonia, the Faculty of Electrical Engineering in Skopje, in partnership with the Economic Chamber and other institutions, piloted an innovative approach to stimulate skills development to support construction companies in improving their energy efficiency techniques and practises. The project approach combined the validation of relevant skills from non-formal learning and

work experience – with additional targeted training to complement the identified skills gaps. The initiative not only developed an impressive methodological base, occupational standards and trained assessors and counsellors, but also validated the skills of approximately 1,000 workers. The awarded certificates are widely accepted in the construction sector, as many companies participated and encouraged workers to validate their skills.

**Validation of non-formal and informal learning in Morocco:** Morocco has piloted procedures to recognise learning gained through work experience in different sectors. Since 2008, VNFIL has been adopted in the construction sector and has permitted to open up training opportunities for both formal and informal workers, also contributing to an overall improvement of businesses in the sector. Since 2011, the system has been open also to other sectors, such as hospitality, with the co-operation of the relevant sectoral federations at national level.

Source: Bardak and Rosso based on ETF (2015).

While the benefits of VNFIL for the individuals and the society are increasingly recognised, several countries have promoted initiatives to certify professional qualifications and competences, especially in relation to young workers, and to recognise the professional skills of master crafts persons. However, it is clear that a paradigm shift in existing TVET systems needs to be accomplished to adopt such an approach, also in view of opening up opportunities for further learning and for enhancing employability and labour mobility.

### Building on Heterogeneous Groups of Actors at National and Local Level

Given the horizontal nature of skills policies and their interrelation with a number of different policy areas, collaboration among different stakeholders becomes a crucial necessity to ensure that actions are coherent with each other and mutually reinforcing. Improved co-ordination needs to be promoted at multiple levels both to develop and deliver training schemes for informal workers and enterprises. From a policy development perspective, co-operation is essential both horizontally (between ministries and relevant actors) but also vertically (among the different levels of government) (Box 10). Coordination mechanisms that were found effective in a number of countries showed the importance of bottom-up approaches and included national inter-ministerial coordination bodies, committees of experts, multi-stakeholder advisory boards



as well as sector-based bodies including business associations and workers' representatives.

### **Box 10: National Skills Development Council in Bangladesh**

In Bangladesh, where as many as twenty-two ministries and agencies are involved in skills development, a National Skills Development Council was set up in 2008 to bring them all under the leadership of the Prime Minister. It is a forum where representatives of government, industry, workers and civil society work together to provide leadership and clear direction to skills development in Bangladesh. The Council has an Executive Committee that is co-chaired by a private sector representative, the Secretary of the Ministry of Education and the Secretary of the Ministry of Labour and Employment. It also has a Secretariat, which supports the Council's operations, including the review and monitoring of the National Skills Development Policy and Action Plan.

Source. Bardak and Rosso (2019) based on ILO (2013c).

From a training delivery perspective, a variety of actors (formally established government training institutions, private training institutions, NGOs, civil society organisations, etc.) proved to be in the most favourable position to implement training schemes for informal workers, especially when enjoying larger autonomy to respond to local needs and targeting specific target groups. In this case, the challenge for the governments was to put in place a quality assurance system, thus ensuring the highest possible efficiency and effectiveness.

In some contexts, local associations and actors were best placed to deliver training to informal workers and enterprises due to their stronger ties to local communities, their capacity to gain their trust and their greater flexibility in the delivery of the training compared to public providers. In many regions (Latin America, Africa, ASEAN countries) social co-operatives played a key role in enhancing the skills of informal workers, particularly in some economic sectors. In other cases, Informal Sector Associations played an important role by putting similar enterprises together to generate an informal net of mutual support and also representing different informal enterprises in the policy dialogue with governments (Box 11).

### **Box 11: Examples for informal sector associations**

**Social co-operatives in waste management in Serbia (ILO 2014b):** In 2004, Eko servis was established in Serbia as the first co-operative of collectors of secondary material in Europe. The founders were part of the Democratic Association of Roma people and had long-standing experience in projects related to sustainable development and support for the Roma population. At the peak of its activities, Eko servis involved more than 300 collectors in Belgrade. Within its activities, the Eko servis co-operative provided training and education in various fields (occupational safety and health, sorting of secondary material, etc.) for more than 1,200 collectors, on top of a programme of social support to members and associates (provision of personal documents, assistance in achieving social rights, information on job openings, etc.)

**Farmers' associations and cooperatives in Thailand (USAID 2013a, 2013b):** Farmers' associations and co-operatives in Thailand are considered an important mechanism for otherwise small, informal players to work collectively in the market. They support the entry of new businesses into the agriculture sector in a variety of ways:

- Acting as buyers to provide equipment and resources such as fertilisers, seeds, and tractors for farmers at a better price;
- Acting as middlemen in securing investors or buyers for the farmers;
- Providing start-up capital or loans more easily than commercial banks and at lower interest rates (but also lower values);
- Providing education and consulting on farming, planning, financing, and managing.

Source: Bardak and Rosso (2019) based on ILO (2014b) and USAID (2013a, 2013b).

These associations provided support to informal entrepreneurs by identifying the skills needs of their workers, offered meaningful insights for elaborating the training curricula, selected participants to the training and contributed to its delivery, monitored the quality of apprenticeships and undertook in some cases the testing and certification of the developed skills. Finally, Community Learning Centres were also very popular in some countries (especially in Asian and Pacific countries) where they were very successful in providing education, training, and skills development; community information and resource services; community development activities; and coordination and networking at local level.

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<https://ec.europa.eu/social/main.jsp?catId=1299&langId=en>

SABMiller's 4e Camino al Progreso training programme:  
[https://www.skillsforemployment.org/KSP/en/Details/?dn=WCMSTEST4\\_168260](https://www.skillsforemployment.org/KSP/en/Details/?dn=WCMSTEST4_168260)

Enhancing Grassroots Women Economic and Social Empowerment in Kitui County:  
<http://innovafrica.org/en/project/aloe-farming-in-kenya/>

La Validation des Acquis de l'Expérience Professionnelle (VAEP):  
<https://dfp.gov.ma/vaep.html>