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An Assessment on Employment and Skills Development in the Transition from Informal to Formal Economy ;

—An Econometric Analysis and Case Study of Workers and
Firms' Conversion in Zambia—

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Informality is seen as a reservoir for untapped potential held back by government regulations. The informal economy is crucial for sustainable inclusive development as it encompasses larger percentages of the workforce in most developing countries. In Africa, it has defined the landscapes of millions of people across the continent. Needless to say, the informal economy is inscribed with challenges of tax burdens, intensity of regulations and insufficient government support. These challenges among others exacerbate the trends of informality in developing countries. In terms of its features, the informal economy is characterized by low levels of skills, small firm size and low productivity. For any country to be productive however, its human capital development is cardinal.

The study in this regard is intended to measure the impact of investment in human capital on the size of informality by conducting cross country data analysis of 53 developing countries including Zambia with the multiple causes, multiple indicators (MIMIC) model, a confirmatory structural equation model. It examines the dynamics of employment and skills including other variables such as the trade openness or the size of the agricultural sector that cause informality. The formal economy although limited in size, poses concerns of enhancing its employment capacity and tackling matters of unemployment. For most African economies the unemployment rate is still high and the informal economy absorbs this workforce. With its features in mind, the problem is worsened by the mismatch between the skill demands required in an economy and what formal education offers. Therefore, at a micro level, skills development and training of workers is examined in 52 manufacturing companies in Zambia to assess on-the-job and off-the-job training and its impact in growing businesses. Ultimately, this study seeks to understand and evaluate the incentives that influence businesses to remain informal or transition to formality.