



**Independent State of Papua New Guinea**

# **NATIONAL INFORMAL ECONOMY POLICY 2011-2015**



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**DEPARTMENT OF COMMUNITY DEVELOPMENT**

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## FOREWORD



The foreword provides the background to the National Informal Economy Policy 2010-2014. It sets out the reasons for it, telling why a policy is needed, what the policy will set out to achieve, and how the policy will work.

This document makes the case for Government to recognise the importance and monetary value of informal economic activities. Government should acknowledge the importance of informal production by adopting the name '**the informal economy**'. This new name should replace the inadequate term 'informal sector' in all Government statements and documents. By using the name 'informal economy', Government will also acknowledge its importance to the broader macro-economy, of which it is an essential part. The informal economy is the grass roots element in the private enterprise system that PNG needs to build.

Since 1975, the *Preamble* to our national Constitution has acknowledged informal economic activity as being one of the 'Papua New Guinean ways' of achieving development. However, until the passing of the *Informal Sector Development and Control Act 2004* there was no further legislative expression of this basic principle. In addition, the 2004 legislation has until now lacked a concrete policy framework and clear guidelines for action. This document is designed to fill that gap and is the product of an extensive process of consultation and research.

The policy will set out to achieve the maximum participation of citizens, rural and urban, male and female, in the economic opportunities offered by a dynamic and diversified informal economy. It will do so by creating an enabling policy and regulatory environment where the informal economy can grow and flourish, while negative aspects of informality are minimised.

The policy aims to have the informal economy grow in size, and in the diversity and quality of the goods and services it produces. It will embrace an increasing proportion of the population as producers, and yield them higher cash incomes. It will supply a growing proportion of the marketed consumption and investment needs of the low- and middle-income population, leading to the progressive 'nationalization' of production in the PNG economy.

The policy nominates two 'arms' for action to achieve these goals. **The first is Financial Inclusion**, or giving people access to formal financial services. With only eight per cent of its people 'financially included' at present, PNG is among the worst performing countries, in terms of this important indicator of development. The policy identifies six 'roads to financial inclusion' for PNG. Most of these rely on private sector investment in the financial and telecommunications systems. This investment will be forthcoming over time if government can provide the enabling policy and regulatory environment for it to occur.

**The second arm** of policy for the informal economy is the provision by government of appropriate **public goods and services**. Government needs to provide certain facilities and services in order to increase productivity in the informal economy. Necessary public goods include physical facilities for the operations and training needs of the informal economy, both rural and urban. Also important is a 'regime' emphasising law and order, respect for property rights and competitive market practices in sectors of concern to the informal economy. A wide range of public services also needs to be provided, or revived, including education, training and agricultural extension, all with an informal economy focus. Consumer protection and financial literacy are needed for people in the informal economy, as well as giving them 'voice'.

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**Honourable Dame Carol Kidu**  
**Minister for Community Development**

## SECRETARY'S STATEMENT



Since independence Papua New Guinea has experienced a jobless growth in the population with limited opportunities for formal employment and an increase in poverty levels. It is also striking to note that more than 90% of the population have had limited or no access to formal financial services. These are critical challenges that pose an obstacle to tangible improvement in the quality of life for Papua New Guineans who exist outside the formal economy. The Informal Economy Policy is therefore a timely response to the above pressing issues of national significance. More so, the policy provides strategies on the ground to alleviate the problems associated with earning a livelihood, financial inclusion, poverty, illegal livelihood activities and other pressing social and economic needs of the bulk of our population who are marginalized or are absorbed in the informal economy for livelihood.

The Informal Economy Policy recognizes informal economy as the “grassroots expression” of the private sector and a partner in the formal economic system of Papua New Guinea and provided space for informal economy to grow and flourish alongside the formal economy. The policy is aimed to ensuring maximum participation of our citizens in the economic opportunities existing in the informal economy and to provide regulatory environment for its growth whilst minimizing its negative aspects.

The policy draws from the National Goals and Directive Principle of our Constitution, Medium Term Development Strategy, and Papua New Guinea’s international commitment to Millennium Development Goals. The Informal Economy Policy is a government document that sets a bench mark in the Pacific.

The Department for Community Development recognizes the need for collaborative and inter departmental approach to the implementation of this policy as directed by the National Executive Council decision number 156/2006 due to the cross cutting issues which the informal economy policy is designed to address. In this context, relevant government departments and agencies, private sector, Non Government and civil society organizations who are interested in addressing issues of livelihood, wealth creation and the desire to see improvement in the lives of the bulk of our population will find this policy as a starting point.

I am adamant that addressing the “stomach” and “pocket” problem of our citizen by creating opportunity for them to place foods into their stomach and money into their pocket is fundamental to the long term development of Papua New Guinea. Accordingly, the Informal Economy Policy provides the way forward.

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**Mr. Joseph Klapat**  
**Secretary**  
**Department for Community Development**

## ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
APEC	Asia Pacific Economic Corporation
BoPNG	Bank of Papua New Guinea
CSO	Community Service Organization
CIMC	Consultative Implementation and Monitoring Council
Coopts	Cooperatives
DAL	Department of Livestock and Agriculture
DoE	Department of Education
DfCD	Department for Community Development
DoT	Department of Treasury
DoF	Department of Finance
DNPM	Department of National Planning and Monitoring
DSE	Department of State Enterprise
DoW	Department of Works
EFTPOS	Electronic Funds Transfer Payment Operating System
EHP	Eastern Highlands Province
GDP	Gross Domestic Product
IEC	Informal Economy Committee
IT	Information Technology
IFC	International Finance Corporation
INA	Institute of National Affairs
ICT	Information Communication Technology
ICCC	Independent Consumer and Competition Commission
L&J	Law and Justice
LLG	Local Level Government
MCC	Microfinance Competence Centre
MFIs	Micro Finance Institutions
NCCIE	National Consultative Committee on Informal Economy
NTC	National Training Council
NGO	Non Government Organization
NDOH	National Department of Health
NDB	National Development Bank
NCD	National Capital District
NEC	National Executive Council
OHE	Office of Higher Education
POS	Point of Sale
PC	Personal Computer
PPP	Public Private Partnership
S&L	Savings and Loans
SED	Small Enterprise Development
SME	Small Medium Enterprise
SHP	Southern Highlands Province
Telco	Telecommunication Companies
TVET	Technical & Vocational Education & Training
TWG	Technical Working Group
USA	United States of America
VAT	Value Added Tax

## EXECUTIVE SUMMARY

This policy statement will put flesh on the bones of the *Informal Sector Development and Control Act 2004*, which was enacted in advance of a supporting policy statement. The policy will guide Government in its administration of the Act, and in all matters concerning development of the informal economy.

**The policy will call for the term ‘informal economy’ to replace the term ‘informal sector’, because of the economic importance of informal livelihood activities.**

The PNG Constitution provides strong endorsement for the informal economy. The *Preamble* to the Constitution calls for ‘*development to take place primarily through the use of Papua New Guinean forms of social and political organization*’ and for economic development to give special emphasis to ‘*small-scale artisan, service and business activity*’. It is clear that the framers of the Constitution intended the State to provide a central place for the ‘informal sector’ (as it was then known) in the social and economic system of independent PNG.

### **Policy vision and mission**

The approach to policy outlined here flows from a new understanding of the informal economy and its importance. It will realise the aspirations for the informal economy expressed in the *Preamble* to the Constitution.

**The vision** underlying this policy is:

- to establish the position of the informal economy as the grassroots expression of private enterprise, and
- to have the informal economy acknowledged as the full and legitimate partner of the formal economy in the economic system of Papua New Guinea.

**The mission** that this policy supports is:

- to achieve the maximum participation of citizens in the economic opportunities offered by a dynamic and diversified informal economy, and
- to provide guidelines for creating an enabling policy and regulatory environment in which the informal economy can grow and flourish, while negative aspects of informality are minimised.

**The policy objectives** that the policy aims to achieve are:

- to enable the informal economy to grow in size, and in the diversity and quality of the goods and services produced by it, in accordance with the tastes and needs of the people of Papua New Guinea.
- to enable the informal economy to embrace a growing proportion of the population as producers, and to yield them growing cash incomes, and
- to enable the informal economy to supply a growing proportion of the marketed consumption and investment needs of the low- and middle-income population, leading to a progressive ‘nationalization’ of the grass roots economy.



## **The policy development process for this document**

The need to develop a National Policy on Informal Economy was recognized and endorsed by the National Executive Council on 9 August 2006 in its decision 156/2006 at meeting number 29/2006. The policy development framework includes a Ministerial Committee on Informal Economy, with a National Consultative Committee on Informal Economy at the bureaucratic level. A Technical Working Group has met frequently since 2006 to oversee the policy formulation process. Consultations have been held at various levels, national, provincial and regional, on numerous occasions since 2006. The Informal Economy Policy is thus based on wide consultation, as well as on commissioned research conducted in 2001 and 2007, supported by (among others) the Government of PNG, ADB, IFC, INA and CIMC.

## **Understanding the informal economy**

The informal economy is often misunderstood, because it is very different from the formal economy. In the formal economy, people have jobs, pay taxes and are counted in the workforce. But in the informal economy, people ‘get by’ without formal employment, earning income however they can. The informal economy is based on the household, and households often have a number of sources of income, which may be both formal and informal. Informal economy workers do not pay income tax (although they often pay VAT), are not counted in the workforce, do not work regular hours and are often denied the rights and protections of workers in the formal economy.

The informal economy is frequently judged to be a negative element in society. This is unfortunate, as well as inaccurate. Most informal economy workers are in the rural sector, where they need help and encouragement to increase production of food and cash crops, to help the rural sector to reach its productive potential. The informal economy in urban areas plays an increasingly important role. For example, the urban informal markets of Port Moresby put food on the table of almost every household in the city. A new policy for the informal economy will recognise these benefits and provide a framework for them to be increased.

**Some important facts** about the informal economy must be recognised and accepted. First, the informal economy is here to stay and no democratic government can suppress it. Secondly, it is driven by market forces. Three economic factors can be identified as having stimulated the informal economy. These are the reductions in statutory minimum wages occurring from the early 1990s, the devaluation and floating of the Kina from 1994 and the doubling of population to six million people in the last generation. Each of these factors has put people under economic pressure and required them to find new ways of earning a living. Now, according to the 2000 census, a clear majority of households in PNG earn at least some income from informal economic activities.

## **Macro-economic benefits of the informal economy**

The informal economy brings significant macro-economic benefits: for example, growth in the informal economy stimulates further growth in the formal economy. In addition, it improves the distribution of income by increasing the share of output originating from, and income flowing to, low-income households in the informal economy. It improves the balance of payments by encouraging the substitution of locally-produced food and other goods for imported commodities.

Thus a flourishing informal economy supports the ‘nationalisation’ of the overall economy. Also, by increasing the supply of low-cost goods and services to the formal economy, informal economic activity tends to reduce the rate of consumer price inflation. As inflationary pressures are reduced, wage-demands in both the formal private and government sectors have tended to be moderated. Wage moderation supports fiscal discipline and the balancing of government budgets, as well as reducing the



international wage-cost disadvantage suffered by the private sector. This in turn increases international competitiveness, both for potential exports and for locally-produced import substitutes.

**Principles that have guided the drafting of this policy** include:

- that the informal economy has the potential to produce a larger share of the ‘basket’ of goods and services consumed by low- and middle-income citizens; this is what is meant by ‘nationalising’ the economy.
- that households will progress in the informal economy, initially, by accumulating their own resources. Through the process of saving and investing they will learn to manage those resources and acquire a degree of financial literacy that no other educational process can achieve.
- that the informal economy offers a means to link the economies of rural and urban areas and to reduce inter-regional, as well as inter-personal, income inequalities.
- that separate policy frameworks will be necessary for the rural and urban informal economies, although many initiatives will benefit both sectors.
- that the problems of the informal economy are not all economic; some are social, legal or environmental. Dealing with these involves going beyond economic policy and must involve coordination of policy across a range of agencies.
- that growth of the informal economy, along with ‘nationalising’ the consumption patterns of low- and middle-income people, will bring substantial macro-economic benefits, and
- that micro-enterprises in the informal economy have characteristics and needs for assistance that are quite different from those of ‘small’ business. Their needs cannot be addressed in the conventional ‘business development’ framework.

### **Policy strategies and priority action areas**

A national program of action for the informal economy should focus on two policy ‘arms’, each of which is a priority action area. The first ‘arm’ involves measures to increase the **‘financial inclusion’** of the population. This is an effort that will focus primarily on the formal financial sector while also having implications for telecommunications policy. The second arm involves broad-based efforts to increase the provision of certain **‘public goods’** to households involved in informal economy activities, together with complementary **government services**.

#### **The first policy ‘arm’: financial inclusion of all households**

To be ‘financially included’ means having access to formal financial institutions and services. Without that access, people are said to be financially ‘excluded’. PNG has performed very badly in providing access to formal financial services for its people. Only about 8 per cent of its population are ‘financially included’ (or **92 per cent ‘excluded’**). This suggests the need for progressively rising levels of financial inclusion as a major economic policy objective.

No single area of public policy is more important for the support of viable informal economic activity in PNG, quite apart from the more general macro-economic benefits that would be generated.

**Microfinance** is the appropriate policy instrument for achieving greater financial inclusion in PNG. Microfinance institutions (MFIs) in many countries have developed the capacity to provide access to the financial services needed by households in the informal economy. These services include deposit (or savings) services, remittances, payments and micro-insurance, in addition to credit. Access to

savings services is the most important of these, and is the service most valued by low-income people in PNG.

Around the world, microfinance services are being provided by regulated financial institutions, both banks and non-banks. Services are offered by private, for profit, entities. They are offered by public entities and public-private partnerships, and by voluntary sector agencies and informal entities. Papua New Guinea needs to diversify and multiply the ‘service points’ at which financial services can be obtained, and to spread them right across the country. This will require, among other things, massive efforts to increase the ‘financial literacy’ of the people.

### **The second policy ‘arm’: public goods and services**

Households in the informal economy need access to public goods and services in order to generate income for themselves. A ‘public good’ is something that is provided for the benefit of all, usually by government. A public good may be tangible, or ‘physical’, such as a bridge over a river, on the public road and open to all. Or it may be ‘intangible’, a ‘state of affairs’ that is achieved by government action. An example is the state of ‘law and order’, an intangible public good that is clearly of benefit to all citizens. The efficient provision of public goods is an important element in the quality of life for citizens, as for example access to safe drinking water, sanitation, transport, medical care, and schools.

Most public goods and services are of value to both the formal and informal economies, and it is important to remember that their absence penalises the informal economy as well as the formal economy. Governments do what they can to provide such goods and services. But, to be realistic, the fact that the informal economy also relies on their provision is unlikely to make much difference to the priority that governments can give to such goods and services. Where governments can provide them, people in the informal economy will benefit along with everyone else. But aside from public goods and services of value to all citizens, **certain public goods and services are of particular interest to households in the informal economy.** Any government intent upon stimulating the informal economy should do what it can to provide them. This policy specifies public goods and services of particular value to the informal economy which Government should aim to provide.

### **Policy strategy and action**

Two ‘arms’ of informal economy policy (financial inclusion and the provision of appropriate public goods and services) will be brought to bear upon the problems.

### **The first arm of policy: financial inclusion**

The approach to financial inclusion will follow six ‘roads’ that are presently the focus of international attention because of the promise they hold for bringing people within the reach of formal financial services. These initiatives have in common that they mostly rely on private investment from within the financial or telecommunications industries and that **relatively little government investment will be called for.** The role of government will instead consist in providing an enabling policy and regulatory environment for financial inclusion to be expanded. The central bank, the Bank of PNG, will have major responsibilities in this area. Some of the recommended measures can be implemented fairly easily (and indeed some of them are already underway). Others will take much longer to implement.

## Six roads to financial inclusion in PNG

- **Agent banking:** This policy solution refers to policies and regulations governing non-bank agents partnering with banks and others to provide distribution outlets for payments and other financial services. Typical agents include retail commercial outlets such as lottery kiosks, pharmacies and post offices.
- **Mobile phone banking:** With the explosive growth of mobile phone usage around the world, a range of operations can be facilitated, including cash deposits and withdrawals, third-party deposits into a user account, retail purchases, over-the-air prepaid top-ups using cash in the user's account, transfer of cash or airtime credits between user accounts, and bill payments.
- **Diversifying providers:** This solution deals with policies that lower the regulatory barriers for start-up institutions and offer savings and insurance products geared to low-income clients.
- **Reforming public banks:** This solution requires innovative policies that improve the governance and management of these institutions to help them provide more effective, commercially sustainable financial services.
- **Financial identification:** This innovative policy solution helps to build inclusive financial identities that will lead to an increase in access to formal financial services. Furthermore, it helps to transform a client's transaction history into a financial asset, which can be used to gain access to a greater variety of financial services.
- **Consumer protection:** This solution covers policies that address fair treatment, data privacy and security, predatory lending, clear and transparent disclosure of information, efficient and accessible dispute settlement, and comparability of rates and terms.

Financial sector policy should be to encourage the phased and cautious introduction of these measures, some of them in the short-term and others over an extended period. The role of government is to provide an enabling policy and regulatory environment while assuring consumer protection and the safety of deposits in financial institutions.

## The second arm of policy: provision of public goods and services

The second 'arm' of the policy framework is concerned with the provision of public goods and services, and especially those of particular relevance to the informal economy. Specific recommendations are as follows:

### Public goods to be provided;

- Market-places with clean water, electricity and clean toilet facilities, provided on a 'user pays' basis, in urban centres and at strategic 'nodes' in rural areas.
- agricultural extension, research and marketing facilities, with an explicit focus on informal economy issues.
- other 'spaces' and structures in urban areas that are available for informal economy activities.
- a law and order regime in the immediate environment of market places, and other 'spaces' for the informal economy, that supports orderly informal economic activity.
- urban planning regulations that permit the conduct of informal economy activities on residential housing allotments (subject to reasonable health and 'public nuisance' requirements).
- an examination of how to catalyse private provision of public goods & services for the informal economy.

### Public services that are needed;

- education and training, business development services, agricultural extension services, all with an informal economy focus.

- transport, urban, and regional planning with informal economy considerations incorporated explicitly.
- active policing of market places and active supervision by local government officers, all designed to support informal economic activity.
- political representation and ‘voice’ for informal economy operators with particular concern for the needs of women.
- consumer protection.
- financial literacy campaigns.
- a comprehensive national audit and documentation of all identifiable informal economic activity in PNG.
- after the national audit has been conducted, consideration could be given to surveying international experience.
- consideration of micro-privatisation and government procurement policies supportive of the informal economy.
- a sensible resolution of ‘the betelnut problem’. While recognising the importance of betelnut in social life and the considerable economic value generated by its production and distribution, a ‘sensible solution’ to the problem must be found to overcome problems associated with the consumption of betelnut in public places.



## Chapter 1

### INTRODUCTION TO THE POLICY

#### 1.0 The policy relates to existing legislation and is designed to underpin it

The *Informal Sector Development and Control Act 2004* was prepared in advance of an overarching informal economy policy. Such a policy is now essential to underpin the implementation of the Act.

Following the passing of the Act, the National Executive Council (NEC) made the decision in August 2006 to develop a National Policy on Informal Economy. This was felt to be necessary to provide strategic direction for the implementation of the Act and for the constructive development of the informal 'sector' (hereafter called the 'informal economy'). NEC endorsed the submission of Department for Community Development and Consultative Implementation and Monitoring Council (CIMC) to establish a policy development process for this purpose. Guided by a Ministerial Committee and a National Consultative Committee on Informal Economy at the bureaucratic level, a Technical Working Group has carried out the task of developing the policy. The CIMC Informal Economy Committee was appointed as the secretariat for the process. This document is an outcome of the policy development process. It has been subject to an extensive consultation process.

The policy framework focuses the attention of government on the positive contribution the informal economy makes to the growth and development of the formal economy. For this reason, policy for the informal economy should be seen as an arm of overall economic policy. The policy framework also emphasises the informal economy as a tool for alleviating poverty and improving the distribution of income, as well as its potential to improve the economic well-being of women, who make up a majority of participants in some informal economic activities.

The policy framework is designed to provide a broad, almost 'whole-of-government' approach to developing and implementing policies and programs to enable people to earn livelihoods by informal means. The framework thus aims to promote informal enterprises (or 'micro-enterprises'). It will assist some Papua New Guineans to make the transition from informal to formal business in the SME (small and medium enterprise) sector. However the policy acknowledges that most informal economy operators will never make that transition. Therefore they must be enabled to increase their productivity and earning power within the informal economy. This is vital, given that formal wage employment has been growing very slowly, while the numbers of school leavers and other job-seekers continue to grow rapidly.

#### 1.1 Constitutional grounds for supporting the informal economy

In the *Constitution of the Independent State of Papua New Guinea*, several clauses point to the need for the State to support and encourage the informal economy.

For example, in the Preamble, among the *National goals and directive principles*, and in relation to 'Integral human development', there is the call for '*development to take place primarily through the use of Papua New Guinean forms of social and political organization*'. Recalling constitutional debates of the early 1970s, and the public discussion of 'informal sector' economic activities which occurred at that time, there can be little doubt that this form of words was intended to promote a model of development in which informal economic activities would play a leading role.

But for reasons that are not clear, nothing further was done until the passing of the *Informal Sector Act 2004*. Further, the Preamble calls for ‘*the family unit to be recognised as the fundamental basis of our society*’. In this, it is implicitly recognising the household, which is at the centre of the informal economy. Finally, the support given to the informal economy in the Preamble to the Constitution is confirmed by a further call, made under the heading of ‘Papua New Guinean ways’. It is an appeal for ‘*particular emphasis in our economic development to be placed on small-scale artisan, service and business activity*’.

Perhaps now, after more than a third of a century, it is time for these calls to be answered by the adoption of a national informal economy policy.

## 1.2 The policy approach

The policy approach flows from a new understanding of the informal economy and of its importance. It is necessary to define the informal economy and to explain why it is more accurate and appropriate to use the term ‘informal economy’ rather than to call it the ‘informal sector’.

The PNG economy (the ‘whole’ economy) consists of two unequal parts, the formal economy and the informal economy. The formal economy generates more Kina, in money terms, but the informal economy supports more people, in human terms.

The informal economy can also be seen as having two parts: the **urban** informal economy and the **rural** informal economy. While most attention focuses on the informal economy operating in towns, in fact there are more rural people involved in the informal economy than there are urban people. In addition, some of the people operating in the urban informal economy at any time are likely to be temporary rural visitors (circular migrants) to the towns.

### A new name is needed: informal ‘economy’, not informal ‘sector’

Because informal economic activities are part of Papua New Guinea’s total economic system, it is more accurate to speak of the ‘informal economy’, not the ‘informal sector’. The informal economy should be recognised as a full partner in PNG’s economic growth and development. Important differences between the formal and informal economies are shown in the table overleaf.

**Table: 1. Differences between the Formal and Informal Economies**

<b>The Formal Economy is</b>	<b>The Informal Economy is</b>
Where <b>people work for wages</b> in government, or in private sector firms, or where they own such firms	Where people ‘get by’, <b>earning money without having ‘jobs’</b>
Where they <b>pay income taxes</b> and where firms pay VAT	Where they <b>do not pay income taxes and do not collect VAT</b> on what they sell. (However <b>they often pay VAT</b> on their inputs and then are unable to claim it back)
Where <b>what they produce is counted</b> in national production (GDP)	Where what they produce is <b>not counted</b> in national production (even though they put food on most of the tables in Port Moresby and other towns and cities)
Where they are <b>counted in the workforce</b>	Where they are <b>not counted</b> in the workforce, because they work in self-employment or in household-based activities
Where their <b>time is structured</b> (‘8 to 5’, ‘Monday to Friday’) <sup>i</sup>	Where their time is <b>unstructured</b> (‘I work whenever I can’ and ‘I work as long as it takes’)
Where they <b>have legal protections and rights</b>	Where they are <b>without rights</b> and protection, or their rights are ignored



**A new policy approach is needed because some important facts about the informal economy have not been well understood.** For example:

- **There are no ‘jobs’ in the informal economy.** Instead, there are ‘income opportunities’. People often enter the informal economy because they cannot find jobs in the formal economy. Others, including many women, like it because it gives them the opportunity to spend a few hours from time to time earning some money, while children are in school.
- **Three things have stimulated the informal economy, by forcing people to find cheaper local goods.** These are the reductions in urban minimum wages in the early 1990s, the devaluation and float of the Kina from 1994 and population growth and rising poverty levels since Independence.
- The value of goods and services produced in the informal economy could be estimated, but so far the National Statistical Office has had no resources or mandate for the purpose. So we cannot put a kina value on the informal economy. **This does not mean that the informal economy is not important.**
- **Important economic benefits will flow from a stronger informal economy.** These will make PNG a more equitable society, and will begin to convert it from a ‘high cost’ to a ‘low cost’ economy (Box 1).

**Box 1 Economic Benefits come from a Growing and Diversifying Informal Economy**

1. **Growth in the informal economy stimulates growth in the formal economy.** This is because the informal economy is an important producer of low-cost goods and services for the formal economy and also a major source of demand for the products of the formal economy.
2. **The informal economy improves the distribution of income.** The informal economy enables low-income people to share in the benefits of growth occurring elsewhere, for example, in the mining and forestry sectors. In the situation of ‘jobless growth’ that has occurred in PNG for many years, informal economic activity has helped to spread the increases in income around. In Port Moresby, it is said that about K2 million changes hands every day in the urban informal economy. That is about K750 million a year, and if true, *I no liklik samting*.
3. **The informal economy helps to improve the balance of payments.** As the urban informal economy has grown, it has supplied an increasing share of the food and other goods consumed by low-income and middle-income wage earners in the towns. It has replaced imports in the process and improved the balance of payments.
4. **The informal economy helps to control inflation.** By increasing the supply of low-cost goods and services available in the formal economy and increasing their relative share in household budgets, the informal economy tends to reduce the rate of consumer price inflation.
5. **As inflationary pressures are reduced, wage demands by formal sector workers (both government and private) will tend to be reduced or moderated.**
6. **If wage increases for public servants can be slowed down, this will assist in balancing government budgets.** Better control of government salaries will help to slow down the growth of government expenditures.
7. **If wage increases in the private sector can be slowed down, this will have a positive effect on the international competitiveness of the PNG economy.** This will happen if wage and salary levels rise more slowly in PNG than in other countries. PNG will continue to be handicapped in

exporting manufactured goods (and in replacing imported goods) until wage levels in this country can be brought down to a more internationally-competitive level. This will not necessarily make formal workers worse off, if at the same time they have access to lower-cost goods and services from the informal economy. This benefit will take a long time to show up, but PNG has to start now to make the necessary adjustments.

- **A clear majority of PNG households already receive at least some informal economy income.** (See Box 2 for census data confirming this). Encouraging the informal economy to grow will increase the share going to low-income people.

**Box 2. What the Census tells us about People in the Informal Economy**

Data describing the ‘income-generating’ activities of households are available from the 2000 National Population Census. To give a national snapshot, two Highlands provinces (EHP, SHP) and two coastal provinces (Morobe, Central) which surround the major urban centres of Lae and Port Moresby, respectively, are reported in this box. Also reported are data from the national capital (NCD) and the national aggregate data (PNG). The data show the percentages of households reporting various economic activities. They provide an estimate of the extent of the informal economy, without telling us how intensively households were engaged in particular activities. As noted above, a clear majority of households appear to have at least **some** informal income. Since households could report more than one activity, most totals sum to more than 100 per cent. This figure is reported in the last row of the table. It appears to show that the national capital has the lowest overall level of informal economic activity. But this may be misleading because of a) the large concentration of high-wage employment in the city, b) a high intensity of engagement in informal business by the city’s informal economy households, and c) the failure of the census to capture much informal activity by circular migrants to the city. Levels of engagement are much higher in Central province, which forms the hinterland for the capital.

Activities	EHP %	SHP %	Morobe %	Central %	NCD %	PNG %
Sell food crops/cooked food	64.1	62.5	39.5	35.7	15.5	49.7
Sell meat at market or roadside	19.0	43.6	12.6	17.0	3.0	19.0
Sell things they made	13.3	29.0	9.7	7.0	4.1	13.3
Sell fish	.....	.....	5.5	24.8	4.9	9.7
Betelnut, mustard	18.3	9.3	46.7	50.0	21.4	32.8
Run PMV	1.6	1.0	1.2	1.5	1.7	1.5
Have trade store	3.3	3.2	4.4	3.0	3.1	3.8
Total	121.2	151.3	121.1	140.8	54.7	112.0

Source: National Statistical Office, *PNG Census 2000*

- **The informal economy is here to stay.** It will not go away and no democratic Government has the power to suppress or stop it.
- **However, it is important not to have unrealistic expectations about what the informal economy can achieve.** Only a small proportion of the ‘micro-entrepreneurs’ in the informal economy will ever graduate to ‘formal’ status. Despite this, the informal economy has an important contribution to make to the overall economic system.
- **Informal economy businesses are quite different from SMEs (small and medium-sized businesses).** They need a completely different set of policy measures to prosper. They should not be treated as if they were just smaller versions (or a ‘little brother’) of small business. They are different in terms of their ‘culture’, structure and operational methods. Governments should administer micro-enterprises quite separately from small businesses.

## **1.3 Policy Development Process**

### **Policy Development Process**

The CIMC Informal Sector Committee was established in 1998 with the primary objective of formulating a National Informal Economy Policy including accompanying Legislation which would both clearly articulate the development path of the sector and facilitate its growth and development.

In light of the limited knowledge on the characteristics of the Informal Sector in PNG, the Committee commissioned couple of studies with the intention to use the findings to inform policy formulation including wider dialogue and consultations with the stakeholders. In 2001/2002 a study was undertaken to “Review Constraints to the Development of Informal Economy in PNG. The study was conducted by Ms Ofelia Eugenio, an informal economy specialist with wide experience in the Asia Pacific Region. Funding for the study came from the Government of Papua New Guinea (PNG), Asian Development Bank, Institute of National Affairs and CIMC. The findings from the study formed the basis for major policy advocacy over the years by the CIMC Sectoral Committee resulting in the drafting and enactment by Parliament of the Informal Sector Development and Control Act on May 14, 2004.

Following the enactment of the Informal Sector Act, the IEC conducted nationwide awareness through printed publications, role play, radio, workshops and conferences to relevant stakeholder groups. These groups included PNG Urban Local Level Government Association, Town and City Managers, Lord Mayors, Municipal Authorities, Village Courts, National Capital District Police, Provincial and Town Police Station Commanders, Town Planners, Commerce Advisors, Community Development Officers, Deputy Governors and Civil Society Representatives. Regional and Provincial awareness forums were held for the stakeholder groups, including public forums held at the three Universities; University of Goroka, University of Technology and the Divine Word University.

As a result of wider consultations through workshops, conference and public forums between the years 2004 and 2005, it was strongly felt and recommended that a national policy on informal economy was necessary to underpin the Informal Sector Act. In 2006, the Department for Community Development in collaboration with the CIMC IEC made a policy submission to the National Executive Council . On 19 of August 2006, the NEC endorsed for the establishment of a framework to develop a National Policy on Informal Economy. The NEC decision led to the establishment of a Ministerial Committee, a National Consultative Committee on Informal Economy (NCCIE) at the bureaucratic level and a Technical Working Group (TWG) with CIMC IEC as the secretariat. The Committee was tasked to develop the policy through the established process. In 2007, the TWG put together a concept paper on Informal Economy policy. Members of the TWG identified the need for relevant facts and data’s to inform the formulation of a national policy on the Informal Economy. A study was commissioned with financial support from the International Finance Corporation (IFC). As a result, a comprehensive base line survey was conducted throughout Papua New Guinea between March and December 2007. The key findings of the survey were incorporated into the Concept Paper.

In June 2008, late Mike Manning was engaged to translate the concept paper into a policy on informal economy. Further consultations were conducted with government ministers, heads of government department and civil society organizations. On July 28 2008, late Mike Manning presented the draft policy to members of the TWG and got the draft policy endorsed for further consultation. Unfortunately, Mike Manning only had one consultation workshop with heads of relevant government agencies before his untimely passing away. A second scheduled National Consultation workshop proceeded in his absence on the 26<sup>th</sup> August 2008.

In March 2009, Dr John Conroy was engaged to complete the policy write up on Informal Economy. Further consultations were organized; the Momase Regional Consultation conducted in Lae (26 – 29 April), and the Highlands regional consultation held in Goroka at the National Sports Institute (31 April – 1 May). The workshops targeted urban local level government authorities, commerce advisors, community development advisors, skills training providers, micro finance institutions and other stakeholders. With endorsement of the draft policy on Informal Economy from the TWG, the members of the NCCIE met a day later, discussed and endorsed the draft Informal Economy Policy at Hideaway Hotel on May 5<sup>th</sup> 2009.

The final consultation was held on 18 May 2009 at Ela Beach Hotel in Port Moresby. The relevant stakeholders who participated include representatives from AusAID, University of Papua New Guinea, Bank of Papua New Guinea, PNG Microfinance, National Agricultural Research Institute, National Research Institute, PNG Red Cross, Catholic Diocese, Department of Livestock and Agriculture, Department of Labour and Industrial Relations, Department for Community Development, Department of Commerce and Industry, Department of Finance, Department of Treasury, Department of National Planning and Monitoring, PNG Tourism Promotion Authority, Department of Education, Department of Provincial and Local Level Government Affairs, Department of Health, Small Business Development Corporation, Small Industry training Centre, National Training Council, National Capital District Commission, Central Papua Conference, Office of Urbanization, Investment Promotion Authority, International Finance Corporation, Institute of National Affairs, Consultative Implementation and Monitoring Council and Bank South Pacific and Minister for Community Development.

The NCCIE met again on 19 May 2009 to endorse the draft policy with appropriate format to be presented to cabinet.

The final National Informal Economy Policy 2010-2014 was completed and presented to the Minister for Community Development in September for presentation to NEC.

## Chapter 2

### **POLICY VISION, MISSION STATEMENT, OBJECTIVES AND GUIDING PRINCIPLES**

#### **2.0 Policy vision**

To establish the position of the informal economy as the grassroots expression of private enterprise, and to see it acknowledged as the full and legitimate partner of the formal economy in the economic system of Papua New Guinea.

#### **2.1 Policy mission statement**

To focus the attention of policy-makers, officials and the private sector on the need to achieve the maximum participation of citizens, both rural and urban, in the economic opportunities offered by a dynamic and diversified informal economy.

To provide guidelines for creating an enabling policy and regulatory environment in which the informal economy can grow and flourish, while negative aspects of informality are minimised.

#### **2.2 Policy objectives**

To enable the informal economy to grow in size, and in the diversity and quality of the goods and services produced by it, in accordance with the tastes and needs of the people of Papua New Guinea.

To enable the informal economy to embrace a growing proportion of the population as producers, and to yield them growing cash incomes.

To enable it to supply a growing proportion of the marketed consumption and investment needs of the low and middle-income population, leading to a progressive 'nationalization' of the grassroots economy.

#### **2.3 Policy guiding principles**

Principles that should guide policy for the informal economy are the following:

##### **2.3.1 The informal economy exists because people will not wait; dealing with it is therefore a political and economic imperative.**

Everyone knows about the informal 'sector' and almost everyone has opinions on it. Some see it as a solution to problems of poverty and unemployment in Papua New Guinea. Others (particularly in urban areas) see it simply as evidence of the country's poverty, and are ashamed. When a Head of State from another country comes to PNG, informal vendors are cleared off the streets because they betray the impression of 'modernity' we would like to give to our visitors. Port Moresby has broad freeways and tall buildings which are modern enough, but the truth is that most of the country's people are not living in a 'modern' society or economy. They continue to exist in a transitional state, between tradition and modernity. The informal economy is evidence of that fact, and PNG will not become 'modern' simply by suppressing it.

Critics, or opponents, of the informal economy seem to think that ‘development’ should occur in a more ‘tidy’ and ‘organised’ fashion. People should wait in the queue to have well-paid employment in ‘modern’ jobs. ‘Development’ is something that will somehow spread out from the urban centres. Everybody will have their turn, in time, if only people are prepared to wait. But people will not wait. That is why they try to ‘jump the queue’ by coming to towns. The informal economy is here to stay. Only sustained and equitable economic growth, together with the development of human capacities, will cause it to diminish, and then only over an extended period. In the meantime, a national policy on the informal economy will assist Papua New Guinea to improve the lives of the majority of its citizens, rural and urban, who find their livelihoods outside the formal economy.

### **2.3.2 The household is at the centre of the informal economy.**

Households are the primary social unit and the centre of economic activity for most Papua New Guineans. The household is at the centre of the informal economy. Household members are also involved in traditional relationships with other households, but their primary responsibility is to their own household. For these reasons the informal economy in PNG must be understood in terms of household production. This is one of the most important differences between the PNG economy and ‘Western’ market economies, which are more individualistic. Another important point is the need to look at both urban and rural households, because the informal economy exists in both the urban and rural areas.

Household productive activity occurs in both the subsistence economy and the cash (or market) economy. Subsistence production may take the form of gardening or fishing on traditional rural lands, or it may take the form of ‘urban’ subsistence. Urban households make food gardens, where they have access to suitable land and are motivated to use it. In fact, the volume of urban food production has increased enormously in cities such as Port Moresby and Lae over the past 20 years. Households engage in market exchange, selling labour in the formal economy and goods and services in the informal economy. Many households have multiple sources of cash income; these may be earned and unearned, formal and informal, legal and illegal. Where households engage in informal economic activity, they can also be described as ‘micro-enterprises’.

### **2.3.3 The informal economy is driven by market forces.**

People, even those with access to agricultural land for subsistence production, operate in the informal economy because they need cash. In rural areas they need cash for periodic expenses such as school fees and for acquired tastes such as footwear and ‘western’ clothing, processed foods, and manufactured (‘permanent’) building materials. People living in urban areas who are unable to find wage-employment or engage in formal business are even more dependent on cash earnings to satisfy their needs. Even households with one or more waged employees may still need to find supplementary income, especially since reductions on urban minimum wages and the devaluation of the Kina have reduced the real value of urban wages in recent years. Household businesses can be regarded as ‘micro-enterprises’, both because they are very small and because they have different characteristics from those of ‘small’ businesses in the formal economy.

The engagement of households in the informal economy is driven by market forces. Informal economy earnings are determined by market demand for goods and services produced in the informal economy and by the skills and productivity of informal ‘micro-entrepreneurs’. A crucial factor, as in any market situation, is the ingenuity displayed by informal businesses in finding new products and services to

offer for sale and the techniques and materials to produce them cheaply. A notable weakness of the informal economy in PNG, at least by comparison with some other countries in the region, has been the narrow range of goods and services offered for sale. Despite this, there is evidence that micro-entrepreneurs in PNG are reacting to market forces by producing a greater variety and volume of goods and services than in the past. Efforts to make them aware of a broader range of market opportunities and production techniques will be rewarded by increases in output and income generated within the informal economy.

**2.3.4 Households will progress in the informal economy, initially, by accumulating their own resources. Through the process of saving and investing they will learn to manage those resources and acquire a degree of financial literacy that no other educational process can achieve.**

Access to financial services is essential for the informal economy to grow and diversify. But there is a contradiction between the ideas of those who criticise their own people because (they say) ‘PNG lacks a savings culture’ and then call for ‘micro-credit’, or ‘cheap credit’ to be made available to the people. They are, in effect, saying that the people should learn to run before they can walk. They should skip the step of learning how to save and go straight on to borrowing. Learning to walk is relatively hard, but it is the necessary pre-condition for running. At the ‘micro’ level of the household enterprise, learning to save should be the pre-condition for borrowing. How can a lender be sure that a borrower will ever repay, if that borrower has not demonstrated the financial discipline of saving? How will borrowers learn to make wise decisions about investing **other** people’s money if they have never invested their **own** money?

**2.3.5 The informal economy has the potential to produce a larger share of the ‘basket’ of goods and services consumed by low- and middle-income citizens.**

There is already abundant evidence that the informal economy, both rural and urban, is supplying a growing proportion of the ‘basket’ of consumer goods and services and other needs of households in urban PNG. Informal markets are now providing a large share of the foodstuffs consumed in low-income urban households. Manufactures appear to lag although some forms of garment manufacture and jewellery are well established. The second-hand clothing market allows some value added to be captured by local vendors. Petty retailers proliferate, transport has long been an activity with many informal operators, and informal building contractors have contributed greatly to the urban fabric of Port Moresby and other towns. A growing range of other services is being offered, from shoe and tyre repairs to auto mechanical repairs, while services such as internet and photocopy are appearing where urban authorities turn a blind eye to the use of higher-covenant housing for the purpose. There are signs of some degree of ‘nationalisation’ of retailing and services, although there is clearly a long way to go.

**2.3.6 The informal economy offers a means to link the economies of rural and urban areas and to reduce inter-regional, as well as inter-personal, income inequalities.**

In rural areas within range of urban centres there is scope for productive rural-urban ‘linkages’, especially for informal entrepreneurs investing in transport and distributive trades. They can assist in integrating regional economies and in trapping within them a greater proportion of the wealth that is produced there. However, whether a rural area is ‘within range’ is enormously dependent on the quality of infrastructure: rural roads, airstrips and telecommunications, as well as on the availability of government services, the quality of governance and the maintenance of law and order.



### **2.3.7 Growth of the informal economy, along with ‘nationalising’ the consumption patterns of low- and middle-income people, will bring substantial macro-economic benefits.**

As explained in Box 1, above, growth in the informal economy will stimulate further growth in the formal economy. It will improve the distribution of income by increasing the share of output originating from, and income flowing to, the informal economy. It will improve the balance of payments by encouraging the substitution of locally-produced food and other goods for imported commodities. Also, by increasing the supply of low-cost goods and services to the formal economy, informal economic activity will tend to reduce the rate of consumer price inflation. As inflationary pressures are reduced, wage-demands in both the formal private and government sectors will tend to be moderated. This will support fiscal discipline and the balancing of government budgets, as well as reducing the international wage-cost disadvantage suffered by the private sector. This will increase international competitiveness for both exports and locally-produced import substitutes.

### **2.3.8 Separate policy frameworks will be necessary for the rural and urban informal economies, although many initiatives will benefit both sectors.**

**In the rural economy**, developing the informal economy means getting subsistence agriculturalists and fishers to produce a surplus for market exchange, as well as engaging in post-harvest processing and branching into a range of service and ancillary activities. A significant proportion of the rural population is still in a ‘pre-market’ situation, in the sense that they either have no cash income at all, or they do not produce for market. These people are usually prevented from participating in the market economy by isolation and the principal constraint they face is infrastructural. Specifically, roads to carry produce to market are usually lacking.

Another significant group may produce a little marketed produce, but their market participation (for example, selling the occasional bucket of coffee ‘cherry’ at the height of the flush, or taking enough *kaukau* to market to pay the cost of transport to town) does not indicate any real commitment to cash-cropping. These households need to be brought into the informal economy on a sustained basis. Doing so requires analysis of the constraints they face (infrastructural, financial, informational, societal) together with corrective action.

There is a substantial group of rural people who are attempting to produce a marketable surplus on a semi-commercial basis, often with inadequate capital and limited technical assistance, and with varying degrees of value-adding and ancillary activities. They have suffered from the decline of agricultural extension services and (often) from a law and order environment that inhibits trade and transport. Such rural populations seek genuine engagement with the rural informal economy, but the returns they receive are sub-optimal. They are positioned to benefit from policy initiatives that would enable them to capitalise on their resources of land and labour. In addition, with appropriate assistance, some proportion of these people could be assisted to enter the formal economy as commercial smallholders.

**In the urban economy**, informal economic activity is forced upon many households by the absence or inadequacy of formal economy income. Such households often have multiple sources of income, formal and informal, legal and illegal. The pressure to seek informal income is most likely to be felt in traditional landowner communities which are poorly represented in formal employment, or among ‘settler’ communities occupying traditional or ‘waste’ land without secure tenure. Neither of these groups can be guaranteed access to agricultural land as urban populations increase. Some participants in urban informal markets are temporary visitors or ‘circular’ migrants who take advantage of traditional relationships with urban dwellers to bring trade commodities to town. However medium and

high covenant housing also contains pockets of informal economic activity, including services such as transport, trades and personal services. Many urban households are constrained in their attempts to diversify and increase their incomes by financial, informational and regulatory barriers. Policy must aim to remove such obstacles.

**2.3.9 Many of the policy initiatives recommended here to support the development of the informal economy are measures which will also benefit the *whole* economy. In that sense, there is limited competition for budgetary resources between the informal economy and the broader macro-economy. Other investments called for here will come from private sources.**

An effective policy framework to facilitate the informal economy will be based on two main policy ‘arms’. The first of these is designed to increase the ‘**financial inclusion**’ of the population, while the second involves the provision of particular **public goods and public services** of strategic value. Public goods proposed as necessary to stimulate the informal economy include ‘physical’ public goods, and ‘intangible’ public goods (‘rules of the game’) whose absence or inadequacy presents a severe obstacle to the progress of the informal economy.

While these two policy approaches are of particular importance to the informal economy, they will also provide stimulus to the broader macro-economy. In fact, it is common for them to be proposed on that basis alone. As a result, it is fair to say that pursuing such policies for the informal economy does not involve any serious diversion of resources from the needs of the formal sector. On the other hand, if the state is already unable to provide such resources, it is hard to see the ‘informal economy’ argument making much difference to the outcome.

**2.3.10 The problems of the informal economy are not all economic; some are social, legal or environmental. Dealing with these involves going beyond economic policy and must involve coordination of policy across a range of agencies.**

Much discussion of the informal economy, particularly in urban areas where it is more visible, focuses on problems of the access of women to economic opportunity, problems of law and order, and of public health, sanitation and consumer protection. It is also true that local level government bears the brunt of the problems though it is not adequately resourced to deal with them.

While women are over-represented in at least some branches of informal economic activity, they are frequently left without ‘voice’ in matters affecting their livelihood. Mechanisms to allow them to express their views and influence policy are necessary. With regard to law and order issues, the expansion and diversification of informal economic activity may well reduce the incentive to engage in illegal or extra-legal ways of making a living. And in the case of some activities that are technically illegal (or extra-legal) there may be a case for examining whether existing regulations are appropriate for the conditions of a developing country. Perhaps some laws and regulations should be modified to give more latitude to activities that, while technically illegal, are not anti-social.

Issues of public health, sanitation and consumer protection may be serious, in which case the relevant authorities should be equipped, both financially and in human resource terms, to enforce the law, while vendors need to be educated. In some cases, however, disputes arise due to attempts by authorities to enforce inappropriate standards. And, in one particularly difficult case, disproportionate amounts of time, effort and emotion are being taken up by public controversy concerning ‘*the betelnut problem*’. PNG needs to solve problems connected with the sale and public consumption of betelnut in urban areas, and to do so without tangling up the rest of the informal economy in the problem.

**2.3.11 Micro-enterprises in the informal economy have characteristics and needs for assistance that are quite different from those of ‘small’ business. Their needs cannot be addressed in the conventional ‘business development’ framework.**

The *Informal Sector Act 2004* adopts a realistic definition of informal business and provides a generally good basis for its regulation and protection. It was intended to distinguish clearly between informal economic activities and those conducted in the SME sector of small and medium-sized business. This is important because of the marked differences that exist between micro-enterprises and SMEs in terms of structure, culture and operations.

Micro-enterprises operate in the informal economy and lack defined organisation. They are financed informally and rely on simple tools and techniques of production and marketing. They do not usually have paid employees, have no formal systems of accounting or planning and generally avoid contact with regulators or other authorities. By contrast, SMEs operate mostly in the formal economy, have defined organisational structures. They seek formal financing, acquire capital equipment and employ more advanced technology, while developing accounting, inventory control and planning systems, and learning to deal with regulators and other authorities. The differences between micro-enterprises and SMEs carry through to the kinds of assistance that these two levels of enterprise need. International experience suggests that it is a mistake to administer them under the same authority. It appears almost inevitable that the micro-enterprise level will not be adequately served unless it is given specialised attention.

## Chapter 3

### POLICY STRATEGIES AND PRIORITY ACTION AREAS

#### 3.1 The two arms of a strategy to support the informal economy: Financial Inclusion and the Provision of Public Goods and Services

A national program of action for the informal economy should focus on two policy ‘arms’, each of which is a priority action area. Both of these are crucial to the success of a strategy to support a vibrant informal economy. They differ in that, while one is relatively concentrated in sectoral terms, the other requires a broad, almost ‘whole-of-government’ approach to the problems.

The first ‘arm’ (or priority action area) involves measures to increase the **‘financial inclusion’** of the population, an effort that will be focussed primarily on the formal financial sector while also having implications for telecommunications policy. The second arm involves broad-based efforts to increase the provision of certain **‘public goods’** to households involved in informal economy activities, together with complementary **government services**.

These two policy ‘arms’ must be brought to bear on the problems of the informal economy in the two primary geographic zones, the urban and the rural. The different characteristics of the urban and rural economies will dictate some differences of approach to achieving financial inclusion and providing public goods and services.

#### 3.2 The first policy arm: Financial Inclusion

To be ‘financially included’ means having access to formal financial institutions and services. Without that access, people are said to be financially ‘excluded’. Households may be excluded by geography, that is, by remoteness from facilities. They may be excluded by their inability to satisfy the collateral or documentary requirements of banks, or by high fees charged by the banks. The service policies of financial institutions (for example, minimum account balances, minimum initial deposits and long queues) may also make access difficult for many of the poor, including the urban poor.

Some degree of financial exclusion exists in all countries, even wealthy ones. But PNG is at the bottom of the league table among countries in the Asia-Pacific region. Even allowing for the relatively low population densities and rugged topography that make the provision of *any* services difficult in PNG, the country has performed very poorly in providing access to formal financial services for its people (see table 1). Only about 8 per cent of its population are ‘financially included’ (or **92 per cent ‘excluded’**). This compares with Solomon Islands (15 per cent), Samoa (19 per cent) and Fiji (39 per cent). In Asia, levels of inclusion range from Singapore (at 98 per cent) to Pakistan (12 per cent). PNG’s level of financial inclusion was actually higher in the 1980s (when there were many more bank branches and agencies) than it is today.

**Table 2, Financial Inclusion in some Asian and Pacific countries  
A Summary Measure of Access to Formal Financial Services**

Countries	%	Countries	%	Countries	%	Countries	%
Canada	96	Korea	63	Russia	69	Cambodia	20
Chile	60	Malaysia	60	<b>Samoa</b>	<b>19</b>	Mongolia	25
China,	42	Mexico	25	Singapore	98	Myanmar	19
Fiji	39	N Zealand	n/a	<b>Solomon Is</b>	<b>15</b>	Nepal	20
Indonesia	40	<b>PNG</b>	<b>8</b>	Thailand	59	Sri Lanka	59
<b>Fiji</b>	<b>39</b>	Peru	26	USA	91	India	48
Indonesia	40	Philippines	26	Vietnam	29	Pakistan	12

**Source:** World Bank Research Department (2008) *Finance for all*

### **3.3 PNG needs higher levels of financial inclusion; *Microfinance* is the policy tool needed to achieve this.**

PNG's poor performance in providing access to financial services suggests the need for progressively rising levels of financial inclusion as a major economic policy objective. No single area of public policy is more important for the support of viable informal economic activity in PNG.

Microfinance should be selected as the appropriate policy instrument for that objective. The financial services needed by poor households should be provided by an approach to grass roots financial sector development centred on sustainable microfinance. Microfinance institutions (MFIs) in many countries have developed the capacity to provide access to the financial services needed by households in the informal economy. These services include deposit (or savings) services, remittances, payments and micro-insurance, in addition to credit. In this list, deposits (savings) are given top priority, for reasons explained above (Guiding principle 2.4).

### **3.4 What financial services informal economy households need And who can provide them?**

In answer to the question 'who can provide services', many kinds of institutions provide sustainable microfinance services around the world. Almost any financial institution can 'do' microfinance if it is prepared to learn how, and is willing to make the necessary investments. Microfinance services are being provided by regulated financial institutions, both banks and non-banks. Services are offered by private, for profit, entities. They are offered by public entities and public-private partnerships, and by voluntary sector agencies and informal entities. Papua New Guinea needs to diversify and multiply the 'service points' at which financial services can be obtained, and to spread them right across the country. This will require, among other things, massive efforts to increase **financial literacy**.

There may be important differences between the financial services poor householders *think* they need, and what a careful analysis might suggest their needs actually are. Surveys of the informal economy in PNG report that micro-entrepreneurs feel lack of access to credit prevents them from succeeding. This idea is picked up by community leaders and government officials and is now part of the 'conventional wisdom'. But that does not make it true.

People may think that credit would solve their problems. The idea of borrowing is more attractive than the hard work of accumulating capital by saving. But success in saving influences the culture and

mentality of the micro-entrepreneur. What's more, a successful track record of saving is the best recommendation that a micro-entrepreneur can present to a lender. Micro-entrepreneurs must learn to mobilise their own household resources before they can trust themselves to borrow. In fact, the track record of microfinance institutions in PNG, from the now-vanished *Liklik Dinau* to the present-day PNG Microfinance Ltd, suggests that many more people want savings accounts than want loans.

The poor need access to convenient, liquid and safe deposit services which are protected against inflation by positive real rates of interest. With savings in reserve the poor are able to smooth their consumption expenditures in the face of variable income streams. Access to deposit services assists the recipients of 'lumpy' income flows, such as remittances, or mining royalties or periodic crop receipts (say, during the 'coffee flush') to manage their money more efficiently and prudently. Poor households also need access to safe and inexpensive remittance services. This applies both within PNG, where internal migration is significant, and internationally, as larger numbers of PNG citizens travel to work overseas. In either case, access to efficient and reasonably-priced remittance services can provide considerable welfare benefits to the households that receive them.

Households in remote locations can benefit from payments services that greatly reduce the transaction costs, in time and money, of meeting a range of financial obligations. Microfinance institutions (MFIs) are often able to reach into areas too remote for formal financial institutions and government agencies. However in partnership with such agencies they are able to arrange payments for school fees, government charges and other obligations for such households. There is also scope for households to receive payments from governments, or mining and forestry companies, such as pensions, crop receipts, lease rentals and royalties. For example, royalties could be credited direct to bank accounts, increasing transparency and reducing the chance that they will be wasted by impulsive spending or the demands of *wantok*. Mobile phone banking may offer additional benefits, in both rural and urban communities.

It is true that some households and their micro-enterprises may benefit from access to credit, which can increase the productivity of their labour in informal economy activities. Access to credit from alternative sources can also free poor households from exploitative financial relationships with moneylenders (*dinau mani*). Further welfare benefits may occur if micro-credit is not restricted to financing narrowly-defined 'productive' activities. Recognizing the fungibility of money, which makes it difficult for lenders to know exactly how borrowers use the funds they receive, many microfinance service providers are prepared to lend for a wider range of welfare-enhancing purposes. These may include family needs, including school fees, and the purchase of consumer durables. But credit is not the most important financial service need of poor and low-income households in the informal economy in PNG.

### **3.5 The second policy arm: Public Goods**

A '**public good**' is something that is provided for the benefit of all, usually by government. A public good may be tangible, or 'physical', such as a bridge over a river, on the public road and open to all. Or it may be 'intangible', a 'state of affairs' that is achieved by government action. An example is the state of 'law and order', an intangible public good that is clearly of benefit to all citizens. The efficient provision of public goods is an important element in the quality of life for citizens, as for example access to safe drinking water, sanitation, transport, medical care, and schools. Where the provision of public goods is inadequate, the rich may be able to provide such goods for themselves but the poor will probably have to do without. For example, 'law and order' is a public good essential to the quality of life and the orderly running of the economic system. If governments cannot guarantee law and order,

hotels and banks will employ security guards and the rich will pay for fences and dogs. But the poor will do without protection or have to rely on the goodwill of their neighbours.

### **3.6 Inadequate access to public goods holds the informal economy back.**

In the case of the informal economy in Papua New Guinea, inadequate access to particular public goods is a severe constraint on the capacity of households to make livelihoods for themselves. Taking the case of physical public goods first, it is obvious that public works such as transport infrastructure (road, sea, air) as well as urban and regional marketplaces and other facilities for the informal economy, are crucial requirements for the conduct of informal production and trade in both urban and rural areas. Similarly, physical facilities for education and training and for agricultural research and extension must be provided, together with training, research and extension services. Deficiencies in these public facilities and services are often blamed for the inability of producers and traders to exploit the resources at their disposal.

Equally important are the intangible public goods that provide ‘rules of the game’ by which informal economic activities are to be conducted. The provision of law and order by governments has already been mentioned. To this should be added the protection of property rights and the freedom of informal economy operators to engage in advocacy or lawful political activity in defence of personal or group interests. These public goods are the products of good governance and should be available to all.

In terms of economic activity, certain other ‘rules of the game’ are crucial. These include a competitive market environment in which private enterprise is encouraged. This requirement is as important for the informal economy as it is for the formal economy. *A woman sitting in Koki market with some vegetables for sale is in ‘private enterprise’ just as much as Kina Securities or Brian Bell.*

A well-functioning macro-economy, including the informal economy within it, depends on a regulatory and supervisory framework for the financial system that supports the growth of a competitive and efficient financial system, with a diverse and sustainable micro-finance sub-sector. An efficient economic system (and an efficient informal economy within it) is supported by a competitive telecommunications environment which encourages innovation and the rapid spread of mobile phone and internet coverage.

### **3.7 Government services for the informal economy.**

A set of **planning services** should be provided, concerned with transport and other infrastructure, and the analysis of regional capacities and resource endowments. It will aim to identify potential regional growth centres and the scope for rural-urban linkages, in which the informal economy will play a significant role.

**Education, training and skill acquisition** make up another cluster of concerns shared by the formal and informal economies. In the case of the informal economy, a lack of education, information and understanding is the key to the limited development, lack of diversity and poor performance of micro-enterprises. Relevant aspects of education and training for the informal economy include:

- Formal and informal education
- Adult and school-based education, technical and vocational training
- General education (literacy, numeracy) and specific skill acquisition
- Agricultural extension, and
- Financial literacy



**Business development services** also have a potential role in nurturing the informal economy, although these services are more usually associated with small business development. However in the informal domain there is scope for efforts at product and market development, the analysis of skills and raw materials for informal production, and investigating the potential for micro-privatisation of government services, as well as considering the effects of government procurement policies on the growth of informal business.

**Political issues:** including the need for ‘voice’ and representation of interest groups in, or affected by, the informal economy. Women are an important group in this category, together with informal economy helpers and workers, for whom there may have significant occupational health and safety concerns. Consumer protection is a major issue, especially in regard to food handling. Finally, formal enterprises whose activities are impacted by the operations of the informal economy may have legitimate concerns requiring mediation or other forms of resolution.

A host of **governmental issues** arises in relation to the regulation of informal business and the administration of efforts to nurture it. These include concerns of inter-agency coordination and cooperation, the vertical links between tiers of government and how to build the informal economy into urban and regional management priorities and processes. It is important to identify and remove unintended regulatory barriers to informal business, as well as to recognise and end government practices inconsistent with the letter and spirit of the *Informal Sector Act 2004*. In terms of the process of ‘graduating’ successful informal businesses into the formal economy, there are many regulatory barriers identified in the World Bank’s periodic ‘Ease of doing business’ surveys for PNG.

## Chapter 4

### POLICY STRATEGY AND ACTION ON KEY POLICY AREAS

The policy strategy will pursue a ‘two-armed’ approach to the stimulation of the informal economy. The two arms (or key priority areas) are;

- to achieve the financial inclusion of the people, giving them access to financial services, and
- to provide certain public goods and public services needed for the growth and diversification of the informal economy.

#### 4.0 Achieving the financial inclusion of the people

More than 90 per cent of the people of Papua New Guinea are excluded from access to formal financial services. However increases in levels of inclusion are occurring around the world as new ways of extending financial services to the excluded are found, and old approaches are revived. Some of these techniques are being applied in PNG already and there is scope for their expanded use in both rural and urban areas. Other innovations may be premature for PNG at this stage of its development, but will become more relevant in a few years. Box 3 gives a description of ‘six roads to financial inclusion’ that are being implemented or trialled now in a number of developing countries. Some of these are of direct current relevance to Papua New Guinea and others will become relevant before long.

#### Box 3. Six roads to Financial Inclusion in PNG

1. **Agent banking:** Also known as correspondent banking in some economies, this solution refers to policies and regulations governing non-bank agents partnering with banks and others to provide distribution outlets for payments and other financial services. Typical agents include retail commercial outlets such as lottery kiosks, pharmacies and post offices. Innovative features include lower cost delivery channels, lower barriers to account opening using simplified, risk-adjusted procedures and new avenues to distribute social transfers and bring unbanked customers into the formal financial sector. Technology helps reduce costs and risks by linking agents with banks using devices such as point-of-sale (POS) terminals and PC interfaces to achieve near real-time transaction processing.
2. **Mobile banking:** This solution involves policies that facilitate lower transaction costs and increase access to financial services through mobile technologies and services. With the explosive growth of mobile phone usage around the world, a range of operations can be facilitated, including cash deposits and withdrawals, third-party deposits into a user account, retail purchases, over-the-air prepaid top-ups using cash in the user’s account, transfer of cash or airtime credits between user accounts, and bill payments. However, mobile phone banking presents challenges to regulatory capacity and coordination as it crosses various regulatory domains including banking, telecommunications, payments systems and anti-money laundering.
3. **Diversifying providers:** This solution deals with policies that lower the regulatory barriers for start-up institutions and offer savings and insurance products geared to low-income clients. Innovative frameworks expand access by accommodating specialized institutions and activities in a risk-sensitive way, as with rural banks in Indonesia and micro-insurance mutuals in the Philippines.
4. **Reforming public banks:** This solution requires innovative policies that improve the governance and management of these institutions to help them provide more effective, commercially sustainable financial services. Leveraging the retail infrastructure of state banks, incorporating state-of-the-art technologies and establishing public/private partnerships all help to increase financial access.
5. **Financial identification:** This innovative policy solution helps to build inclusive financial identities that

will lead to an increase in access to formal financial services. Furthermore, it helps to transform a client's transaction history into a financial asset, which can be used to gain access to a greater variety of financial services. Regulatory frameworks need a flexible approach to support the generation of financial identity using IT innovations and statistical analysis, facilitating information sharing in the initial stages of development, and introducing measures that effectively protect personal information.

6. **Consumer protection:** This solution covers policies that address fair treatment, data privacy and security, predatory lending, clear and transparent disclosure of information, efficient and accessible dispute settlement, and comparability of rates and terms. Innovative consumer protection policies are tailored to the realities of inexperienced, low literacy consumers and to unique domestic contexts. Effective frameworks are supported by financial capability and industry-led initiatives as well as market research to identify consumers' needs and vulnerabilities.

Source: The Alliance for Financial Inclusion, at [www.afi-global.org](http://www.afi-global.org)

#### 4.1 A general policy framework to increase financial inclusion in PNG.

To overcome the disability of people who are financially excluded in PNG it will be necessary to build an appropriate financial sector policy framework. This must include good macroeconomic management and a competitive banking system, the progressive multiplication and diversification of financial service points, especially for savings mobilisation. It will be necessary to maintain liberalised interest rates, to eliminate any interest rate subsidies and to avoid credit guarantees and politicised lending for the micro-enterprise sector. It will be necessary to find alternatives to conventional collateral requirements (given the inability of most borrowers in PNG to pledge land). For this purpose, registers of physical assets should be established. Financial institutions need to collaborate to verify the financial identity and standing of clients as a means of commencing a system of 'financial identity', and the regulatory regime should facilitate this. These measures are set out in Box 4.

##### Box 4. A General Policy Framework to increase Financial Inclusion in PNG

SPECIFIC POLICY MEASURES	Household enterprise (or micro-enterprise) development needs	Financial inclusion: Specific policy measures for benefit of all households
<p><b>Necessary policy and regulatory initiatives to secure greater financial inclusion of all households.</b></p>	<p>1. A growing economy with low inflation, positive real interest rates on deposits and low 'spreads' between deposit and lending rates.</p> <p>2. Improved access of rural households to financial services.</p> <p>3. Avoid politicised lending.</p> <p>4. Alternatives to conventional (land-based) collateral.</p>	<p>1. Maintain a stable macroeconomic environment, avoid overvalued exchange rate and nurture an efficient and competitive financial system.</p> <p>2. Cautious but progressive removal of regulatory barriers to the diversification of financial service providers, including small regulated banks, agent banking and mobile phone banking, with emphasis on rural deposit mobilisation. Assure a competitive telecoms market, to lower costs (including interconnect charges) and harness ICT for financial services, including in rural areas.</p> <p>3. Liberalize lending and deposit interest rates, avoid credit subsidies and credit guarantees for micro-enterprise loans.</p> <p>4. Create physical collateral registers and 'financial identity' records.</p>

	5. Adequate consumer protection.	5. Pass appropriate legislation, but avoid interest rate caps. Avoid deposit guarantees but ensure security of deposits in MFIs. Provide services and education to increase financial literacy.
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## 4.2 A rural policy framework for Financial Inclusion in PNG

In rural areas households need access to financial services to assist them, firstly, to make the transition from subsistence agriculture and fishing to the production and sale of surpluses of traditional food crops. This will require them to become more ‘financially literate’ and to build on the experience of saving to learn how to mobilise and conserve their financial resources (Box 5).

### Box 5. A Rural policy framework for Financial Inclusion in PNG

ISSUES for RURAL HOUSEHOLDS	Household enterprise (or micro-enterprise) development needs	Financial inclusion: Issues for rural households
<b>Priorities for rural household enterprise (or micro-enterprise) development.</b>	<ol style="list-style-type: none"> <li>1. Achieving the transition from subsistence agriculture by producing and monetising surpluses of traditional staple foods.</li> <li>2. Increased productivity of monetized household production, driven by capital accumulation (including borrowing) and investment, as well as by capacity to access more land.</li> <li>3. Shifting to higher value crops, post-harvest processing and off-farm economic activities, specifically for market and requiring more capital.</li> <li>4. Household enterprises become incorporated into supply chains, involving relationships with larger and more formal enterprises. They may graduate from ‘micro’ to ‘small’ status and/or to the formal sector.</li> </ol>	<ol style="list-style-type: none"> <li>1. Must increase financial literacy and discipline in households, from a very low base. Households must build on successful savings experience and learn to mobilize household resources; experience prepares households for access to a range of financial services.</li> <li>2. greater financial literacy and discipline, including increased efficiency of consumption spending and capacity to accumulate capital from a variety of sources (including borrowing and remittances), also to plan investment and to accept responsibility for debt and repayment.</li> <li>3. Households require access to a wider range of financial services with access to credit assuming greater importance.</li> <li>4. Formal and continuing relationships are developed with banks, cooperatives, MFIs and other financial service providers, including suppliers and distributors.</li> </ol>

Secondly, rural households will need to accumulate some capital (from savings, remittances and borrowing) to shift to higher value cash crops, such as coffee, vanilla and cocoa. This requires greater financial literacy and discipline and the capacity to plan for investment and to accept responsibility for debt and its repayment.

As rural households progress further in the market economy, they should aim to shift to higher value crops, post-harvest processing and off-farm economic activities, including services such as transport and produce-dealing, food-preparation and retail trade. A proportion of successful cash crop farmers will ‘graduate’ to the status of smallholders and commercial farmers in the formal economy. They will have regular relationships with commercial lenders (including the suppliers of inputs) become involved

in supply chains and form relationships with larger enterprises. A policy framework for the rural economy, focussing on the role of access to financial services, is sketched out above, in box 5.

### 4.3 Financial system innovations needed to increase financial inclusion in PNG

A number of the ‘six roads to financial inclusion’ (box 3) are already being followed in Papua New Guinea. For example the Bank of PNG (the central bank) has already permitted the creation of smaller banks specialising in microfinance services, such as PNG Microfinance Ltd and Wau Microbank (now Nationwide). There are some early attempts at offering financial services through mobile phones and by using commercial agents and EFTPOS facilities in towns where there are no longer bank branches. The government has experimented with offering commercial financial services through remote ‘cash offices’ operated by the Department of Finance. These and other service methods need to be expanded and spread more widely through all provinces and population centres. Box 6, below, contains some suggestions for innovative approaches to the problem of increasing access to financial services.

#### Box 6. Financial System *Innovations* to achieve Financial Inclusion in PNG

	<b>Household enterprise (or micro-enterprise) development needs</b>	<b>Financial inclusion: Innovations required for benefit of all households</b>
<b>Financial system innovations required to secure greater inclusion of all households.</b>	<ol style="list-style-type: none"> <li>1. Improved access to financial services.</li> <li>2. Lower-cost solutions to providing remittance and payment services.</li> <li>3. Linkages between rural financial service providers and formal financial institutions.</li> </ol>	<ol style="list-style-type: none"> <li>1. Establish widespread networks of service points (bank branches and agencies, bank agents, public/private ventures, voluntary and community agencies).</li> <li>2. Facilitate availability of a broader range of services at all financial service points. Find e-banking and mobile telephony solutions and linkage arrangements between financial institutions to make remittance services cheaper, safer and quicker. Introduce recipients of remittances to a wider range of financial services to avoid ‘leakage’ of funds to immediate consumption.</li> <li>3. Establish formal financial linkages between financial institutions (urban and rural, larger and smaller, formal and less formal) to extend the reach of the financial system and diversify services.</li> </ol>

### 4.4 Regulatory and governance issues affecting financial inclusion.

While this document gives a lot of attention to regulatory issues affecting financial inclusion, it does not argue for a special or elaborate regulatory regime for microfinance. In many countries, when governments decide to support microfinance as a means of improving the lives of the poor, their impulse is to set out a comprehensive system of regulation for the industry. This is usually a mistake, because the premature imposition of regulation for microfinance carries the risk that it will stifle inventiveness and innovation among microfinance institutions (MFIs) by imposing a single ‘model’ of microfinance on the industry.

There are no strong arguments for regulating ‘lending-only’ institutions so long as there is sufficient competition to ensure that interest rates are kept down to reasonable levels. Prudential regulation is certainly needed to assure the safety of money that people have placed in deposit-taking institutions and the central bank is alive to this responsibility. It has pioneered the design of licensing requirements for small, specialised ‘micro-banks’ which are attracting large numbers of depositors with typically

small savings balances. One concession that could be granted to extend the range of deposit-taking would allow well-established MFIs (those without banking licenses) to accept deposits equal to some fraction of the loans they have extended (a ‘positive net balance’ rule).

**Box 7. Regulatory and Governance Issues relevant to Financial Inclusion in PNG.**

<b>REGULATORY &amp; GOVERNANCE ISSUES</b>	<b>Action to encourage financial inclusion of households</b>	<b>Financial inclusion: Suggestions for regulation and governance</b>
<p><b>Governance and supervision arrangements for development of inclusive financial systems in all areas, urban as well as Rural.</b></p>	<ol style="list-style-type: none"> <li>1. Avoid the ‘rush to regulate’ MFIs .</li> <li>2. Avoid unnecessary regulatory barriers to the engagement of commercial banks in microfinance.</li> <li>3. Encourage professionalism in operations of unregulated MFIs.</li> <li>4. Set up cost- and risk-sharing arrangements for public/private partnerships.</li> <li>5. Encourage Credit Unions and Savings and Loans Cooperatives to stabilise and modernise their operations and to learn from microfinance.</li> </ol>	<ol style="list-style-type: none"> <li>1. Comprehensive legislation for the microfinance sector is problematic. Premature imposition of regulation runs the risk of inhibiting innovation. It’s enough to provide adequate depositor protection and balance international obligations (anti-money laundering) against the lower transaction costs of less conventional remittance providers. Well-performing MFIs should be able to mobilize savings on a ‘positive net balance’ basis.</li> <li>2. Banking regulations for collateral and loan provisioning should not penalize commercial banks offering microfinance loan products. Banking legislation should facilitate the establishment of small, locally-based financial institutions focused on micro-enterprise lending and lower-end retail banking.</li> <li>3. Regulators should support efforts by MFIs to agree performance standards and self-regulation arrangements. They should recognise and consult with MFI representative bodies.</li> <li>4. Example: give commercial bank staff access to government offices in remote areas and agree terms for use and security of operations.</li> <li>5. Legislation and supervision for Credit Unions and S&amp;L co-ops should not prevent them from operating on modern microfinance principles.</li> </ol>

It is also desirable to administer ‘anti-money laundering’ rules sensitively, so as not to hinder the small remittances of absentee workers, and to allow some cautious tolerance to low-cost remittance services that may emerge in response to the typically high transaction costs of services provided by regulated institutions. Similarly, it is necessary to ensure that capital adequacy provisions imposed on banks do not unduly penalise them for engaging in micro-lending. Authorities should encourage public-private partnerships in the provision of financial services in ‘unbanked’ regions and should welcome the introduction of modern microfinance principles to Savings and Loans cooperatives along with their efforts to stabilise and revive this sector.

In the voluntary sector of community-based MFIs, authorities should encourage efforts at self-regulation by those institutions and support them in efforts to agree upon performance and reporting standards. Through such means authorities will gain knowledge of the industry and be able to accredit strong performers with the privilege of ‘positive net balance’ deposit-taking, referred to above. It will also be a stimulus to good performance in the sector for the central bank to set out a roadmap to be followed by voluntary institutions aspiring to the status of regulated micro-banks (Box 7, above).

#### **4.5 Provision of public goods to support the informal economy.**

Turning to the second ‘key policy area’, we consider the provision of public goods. While it is not reasonable to believe that governments can ‘create’ an informal economy, government does have an important role in liberating the energies of people and facilitating the operation of market forces to work towards that goal. One of the most important areas of government action, and one that is of particular importance for the informal economy, is the provision of public goods. Whether public goods are available, what goods are available, and how well they are maintained, depends on the quality of governance as well as the fiscal resources available to authorities. The nature of public goods, and the important distinction between ‘tangible’ and ‘intangible’ public goods, was explained above, in section 3.5.

Public goods are important for all citizens, and for both the formal and informal economies. But there is a crucial difference between the two, which is based on the relative power of the two groups, formal and informal. The formal economy, in general, is better able to manage in situations where the provision of public goods is inadequate. If, for example, the electricity or water supplies are unreliable or the law and order situation is fragile, many formal businesses will ‘buy’ privately provided alternatives. They will attempt to pass on these costs to their customers, so that everyone pays in the end. Households in the informal economy are, by contrast, generally much more vulnerable to the inadequacies of public goods, both tangible and intangible. And because they tend to lack political ‘voice’, they are not well placed to do anything about it.

#### **4.6 Provision of intangible public goods (‘regimes’ or ‘supportive environments’)**

Intangible public goods should be the product of good governance, available to all citizens. In this first group we refer to intangible ‘states of mind’, quite different from physical objects like roads or bridges. Some examples are;

- Law and order, including freedom from the arbitrary misuse of official power,
- Protection of property rights and
- Freedom to engage in advocacy or lawful political activity in defence of personal or group interests

Governments must ‘take charge’ to ensure that a state of law and order exists, in which honest people can go about their business without interference. In the case of the informal economy, this includes freedom from the fear of violence or robbery, or the arbitrary or unlawful actions of officials, including police. PNG’s international reputation for lawlessness makes tourists fear to visit the country. If there were more law and order, and more tourists, the market for art and handcrafts in the informal economy would boom, while the provision of food, guide services and budget accommodation for ‘trekkers’ and other ‘adventure travellers’ could become a significant rural informal economic activity.

The rights of the owners of property must be protected and land and possessions are not to be subject to arbitrary seizure. Informal economy operators should be free to organise, to protect their group interests

and to influence public policy. All of these rights have to be protected by a framework of laws, and those laws must be enforced efficiently and impartially, if these intangible public goods are to be available to all citizens.

#### **4.7 ‘Rules of the game’ as public goods**

Turning to economic affairs, certain ‘rules of the game’ and the laws that back them up are essential for the rapid and equitable development of the PNG economy, including the informal economy. They include:

- A competitive market environment in which private enterprise is encouraged,
- A regulatory and supervisory environment supporting the growth of a competitive and efficient financial sector, with a diverse and sustainable microfinance sub-sector and
- A competitive telecommunications environment, with encouragement for innovation and the rapid spread of mobile phone and internet coverage.

If these requirements are met, then the private sector will be freed to go about creating income and employment. Informal economic activity is conducted on a private-for-profit basis and must be considered in any strategy for private sector development in PNG. This is all the more so because the numbers of people involved in the informal economy are so much greater than those employed in the formal private sector.

Competitive markets support efficient production and low prices for consumers. Maintaining competitive markets is an important objective of government policy. As an example, consider the increasing number of informal economy vendors selling imported manufactures, such as batteries, ballpoint pens and sunglasses. To assure they receive fair returns and that retail prices are low, it is desirable to have competition among the wholesalers or distributors of such goods. Another example concerns the returns received by producers, which can be low because of anti-competitive practices by intermediaries, whether rural coffee buyers or an urban market who use cohesion or force to gain control of a particular market, products or location undermining entry competition through the use of unfair trading practices.

A competitive and well-functioning financial system serves retail and business customers and mobilises capital for the growth of private enterprise and for public investment. A dynamic and competitive microfinance sub-sector will cater to the financial service needs of many people who are still financially excluded.

PNG has already begun to reap the rewards of a degree of liberalisation in the telecommunications market. It must continue to move towards a regulatory and competitive environment in which the benefits of access to mobile telephony and the internet are maximised and prices are kept low. The reduction of prohibitive ‘interconnect’ charges should be the next step. The benefits of mobile telephony in the financial sector, both for regulated institutions and MFIs, are potentially enormous. But the implications spread far wider in the economy, as has been documented in many developing countries. For example, ‘real-time’ information about market supplies and prices can be disseminated cheaply by mobile phone and can contribute to increased competition and efficiency. And beyond the direct economic benefits, the social implications of efficient and competitive information and communications technology (ICT) are enormous.



## **4.8 Provision of ‘physical’ public goods (infrastructure)**

These are ‘tangible’ public goods. Governments may provide them directly from the national budget, or finance them in partnership with private interests (PPPs). The government may also license the private sector to provide them (as often occurs in PNG for mineral or forestry resource projects). These public goods include:

- Transport infrastructure (road, sea, air),
- Urban markets and other ‘spaces’ for informal economic activities,
- Education (formal, informal) and health facilities and
- Agricultural research stations and extension training centres.

The examples above are suggestions for needed infrastructural works that have the potential to support economic growth, including in the informal economy, both urban and rural. Enormous gaps are acknowledged as existing in Papua New Guinea’s stock of infrastructure. For example, inadequate roads and other transport facilities are often blamed for the failure to maximise smallholder income in cash-cropping. Deficiencies in agricultural extension are blamed for the inability of smallholders to improve quality, and hence increase the returns they receive, from cash crops. Deficiencies in physical and ‘intangible’ infrastructure interact to penalise the poor. A well-known example is the case where poor roads and the absence of law and order are said to explain why intermediaries such as coffee buyers are unwilling to service small growers outside the towns. Similarly, banks think carefully about collecting and transporting cash outside their branch offices.

Insecurity in urban markets prevents microfinance institutions from serving their urban informal clients by accepting small daily deposits and repayments in the places where they trade. Crime and disorder in urban areas also tend to prevent informal operators from bringing equipment, (say, food processing machines, other equipment or tools) or higher value items for sale, into insecure public places where they might be looted or vandalised. The absence of amenities, including clean water and power, is another factor that reduces the range of activities conducted in markets. The absence of toilets, or their insanitary condition, poses health and food-handling hazards and is of particular concern to women who are often a majority among vendors.

Other infrastructural requirements include education and training facilities for formal and informal education, training centres for adult education, technical and vocational training and specific skills acquisition and information units for mass campaigns in financial literacy and consumer education. Regional facilities for agricultural extension, marketing and research are necessary to promote the transition of semi-subsistence farmers to commercial agriculture.

## **4.9 Policy for specific infrastructure needs of the informal economy.**

Arguments above (4.6 to 4.9, inclusive) make the case for providing public goods to support the informal economy. Also, as has already been pointed out, the public goods needs of the formal and informal economies overlap to a very large extent. This has the advantage that there is limited competition for budget resources between the formal and informal economies. One purpose of this document is to point out, to responsible ministers and officials, the informal economy benefits hanging on the successful outcomes of a wide range of departmental work programs.

However, such information is unlikely to make more than a marginal difference to the overall environment in which public goods are created and maintained, at least in the short term. Government

will do what it can, and while Ministers may accept the logic of this document, it is probably unrealistic to expect the full ‘shopping list’ of public goods to be provided for the informal economy, if they cannot be provided for the formal economy. In that case, it is necessary to select certain public goods, of special value to the informal economy, for which concrete budget proposals must be made. Since expenditure on providing public goods specific to the informal economy also implies expenditure on a range of complementary public services, these two categories will be considered together (in section 4.12, below) after a discussion of those complementary services. Attention should also be given to how government might catalyse the private provision of public goods and services, without incurring unaffordable recurrent costs.

#### **4.10 Services for the informal economy**

**Planning** is an area of government activity related to infrastructure and includes a number of related services. They include:

- Transport and other infrastructure planning,
- Analysis of regional capacities and resource endowments,
- Identification of regional growth centres,
- Urban management and spatial planning issues and
- Identifying possibilities for specialisation (regional, local, ethnic).

The case for the importance of economic infrastructure is not hard to make. However its impact depends on having the capacity to prioritise expenditures and to identify the key deficiencies or connections that can catalyse economic activity most effectively. In principle, this process depends on techniques such as the analysis of regional resource endowments and capacities and the identification of regional growth centres, to guide the allocation of government spending.

These services are likely to be equally of concern for the formal and informal economies. In rural areas within range of urban centres there is scope for profitable rural-urban ‘interactions’, especially for informal entrepreneurs investing in transport and distributive trades. They can assist in integrating regional economies and in trapping within them a greater proportion of the wealth that is produced there. However, this potential is enormously dependent on the quality of infrastructure: rural roads, ports, airstrips and telecommunications, as well as on the availability of government services, the quality of governance and the maintenance of law and order.

In practice, the allocation of government resources is an intensely political process. Supporters of the informal economy in government and politics must make sure that the objective criteria for resource allocation include an assessment of any implications for the informal economy. If the needs of the informal economy are explicitly considered in government decision processes, there is a better chance that outcomes will support its growth and development. The informal economy must appear on the ‘check list’ for evaluation of expenditure priorities.

**With regard to the role of formal education** there is a long-standing debate about what kind of formal, school-based, education is most needed in circumstances where only a small proportion of school-leavers can ever hope to achieve formal wage employment, whether in the private sector or in government service. Often there are calls for primary education to be oriented towards the needs of agriculture or the rural community, or to be given a ‘community’ or ‘practical’ bias.

Such calls should be resisted. Children will be best served by a high-quality primary education that builds their literacy and numeracy skills, along with a sense of the wider world in which PNG is placed.

Capacities in basic literacy and numeracy are more important than applied vocational or agricultural knowledge at the level of elementary or early secondary education. Young adults who were unable to go on to post-primary education (the majority) will be better equipped to make their way in the informal economy if they have achieved literacy (preferably in English) and numeracy. They then have a better base for acquiring applied knowledge and skills in ‘adult’ or ‘informal’ education, or specific-purpose training experiences.

Specific training opportunities, given to young people who are functionally literate and numerate, make more sense if they occur in an adult context, closer to ‘the world of work’. This applies to agricultural training as well as to artisan skills. Given the likely shortage of resources for any training to increase informal economy skills, it will be desirable to select people who have been identified as already active and showing promise. The objective of training should be to open their eyes to new possibilities, to equip them with specific skills, and to increase their capacity to handle money (their ‘financial literacy’).

As a general principle, training for participation in the informal economy should be offered on the basis of the interest and aptitude of participants, and not for certification. The ‘diploma disease’ is a phenomenon occurring when school-leavers and the educated unemployed will accept training opportunities, any training opportunities, simply to increase their paper qualifications and without regard to the intended purpose of the training. As a means of filling pre-identified skill gaps, such training is often a waste of money, though it may have indirect benefits. For this reason, the certification of training for the informal economy is not recommended; the market itself will award the ‘pass’ or ‘fail’ grade. Any applicant who needs a certificate is not serious about the course.

Further, it is important not to ignore the needs of the many adults in the informal economy whose opportunities for formal education were limited. Adult education targeting these people is also necessary, perhaps especially in the rural sector where agricultural extension services need to be revived to enable the more efficient cultivation and processing of cash crops. Lack of financial literacy, as mentioned above, is also a community-wide weakness in Papua New Guinea. Government could join financial institutions in campaigns to disseminate information about money management, along with other forms of mass communication to that end. Financial literacy training can start in the primary schools. For despite remarks, above, on the need to emphasise basic literacy and numeracy in the schools, there is abundant opportunity for teachers to build these capacities in children using examples from the world of money and finance. Literacy and numeracy are the building blocks of financial literacy, an essential competency for successful self-employment.

**Business development services** are more generally associated with ‘small business’ development, but do have a role in regard to the informal economy. There is always a choice to be made between ‘broadcasting’ a few simple messages to the bulk of the people (as for example in mass campaigns for financial literacy) and giving more specialised training which, besides being expensive can only benefit small numbers of people. Nonetheless there is scope for useful work in a number of fields, including:

- Product and market development,
- Skills analysis for informal economy operations and
- Micro-privatisation and/or government procurement policies.

Authorities given responsibility for encouraging the informal economy in PNG might benefit from acquainting themselves with the products and services offered by informal business in neighbouring countries, both in Asia and the Pacific. Surveys of products and analyses of the skills and materials required to produce them might be conducted in nearby countries. Perhaps there is scope for some ‘South-South’ development cooperation with PNG’s neighbours, although finding the right host

institutions in those countries would be critical. It would be difficult, for example, to persuade SME Agency officials in Thailand and Indonesia of the need to go right down to the lowest levels of their economies to find examples of what PNG needs. They would probably prefer to keep such ‘backward’ things hidden.

**Micro-privatisation:** governments in a number of developing countries have decided to attack two problems simultaneously. These are, first, low standards in public services such as street cleaning, rubbish removal and the maintenance of public water supplies (pipes and taps). Second, is the problem of unemployment. The public services are supposed to be provided by public employees, but for various reasons, including low pay, corruption and the power of public sector unions, the work is not done. A number of governments, including local governments, have conducted ‘micro-privatisations’ of some of these public service functions. They have contracted out the work to informal economy operators, whose task it is, for example, to keep a single stretch of roadway clean or to maintain the water standpipes in a single settlement in good working order. These services might be paid for from the revenue of local government, supplemented by levies on informal traders and formal businesses. PNG might benefit from an examination of these experiences to determine their applicability to local conditions.

Mentioning the political element in planning and resource allocation suggests a need for the informal economy to have **representation and ‘voice’**. There are other interest groups which deserve to be heard as well. The groups and their interests include:

- Informal economy operators (or micro-entrepreneurs), who have rights and obligations under legislation and LLG ordinances,
- Workers in the informal economy, including unpaid family helpers, who may be entitled to occupational health and safety protection,
- Consumers, who are entitled to protection when they deal with micro-entrepreneurs and
- Formal enterprises, which have legitimate interests in relation to informal economic activities.

In this context, ‘voice’ means the ability to be heard (and listened to, which is not quite the same thing). Micro-entrepreneurs in the informal economy are, almost by definition, a low-income group. Some (for example, female-headed households) will be among the poorest. In urban areas many are relatively recent arrivals, while some are likely to be quite mobile, moving back and forth between rural and urban areas. For these reasons micro-entrepreneurs are not an easy group to mobilise politically, even for the protection of their own interests. Nonetheless they deserve to be heard. Governments should, where possible, identify and acknowledge interest groups in the informal economy, and their leaders. These should be included in consultations and negotiations on matters touching their interests. Recognition of the embryonic associations of micro-entrepreneurs may lead in time to their better and more effective organisation.

A separate area of concern is the occupational health and safety of workers in the informal economy. These may be legitimate concerns, especially in extractive industries such as logging and mining where informal operators are using dangerous machinery and chemicals. Most of the danger is likely to arise from simple ignorance of proper procedures and safety standards. The State has educational and inspectorial roles here and informal operators need training in health and safety matters. This is important not simply for the welfare of the individuals concerned but also for broader environmental reasons.

On the other hand, the State has no business to interfere in rates of pay or compensation paid by informal entities which satisfy the definition of an ‘informal business’ under the Act. Should such

businesses grow to the point of employing non-household labour, and also exceed the size limits, then the wages and conditions of employment of their workers are a matter for the Department of Labour. If formal businesses are found to be exploiting 'informal' or casual workers by not observing minimum wages and conditions, this is again a matter for the Department of Labour. It is not the concern of authorities responsible for informal economy affairs.

The interests of consumers are protected in PNG by legislation. So far as the products of the informal economy are concerned, the principal area of concern is likely to be food hygiene and safety. Real concerns exist about contaminated water supplies and outbreaks of typhoid, among other food- and drink-related health issues. The food preparation and handling practices of informal operators no doubt leave much to be desired, while the range of cooked foods on offer is small and not always healthy. This is a cause for concern because of the rise of 'lifestyle' diseases such as diabetes. However there is a need for balance in the approach to these problems taken by local government and public health authorities. It is desirable to avoid unnecessarily high standards in this area, as in all areas of informal economic activity. The danger is that the enforcement of unrealistic standards could become an excuse to get rid of micro-enterprise activity altogether. In the case of food, education and access to clean water, with frequent inspection (but not harassment) should be used to improve standards.

Formal enterprises may have legitimate interests in relation to the informal economy. They may find informal businesses, some of which may be their direct competitors, operating in their neighbourhoods. Sometimes micro-entrepreneurs are quite literally 'on their doorsteps'. However, we need not be concerned about the ability of formal business-people to find 'voice'. They are usually represented by private sector organisations and in any case know who to approach and what to say in defence of their own interests. They often regard the informal enterprises in their neighbourhoods as untidy, even insanitary. They may feel that such activities attract undesirables and lead to crime, perhaps deterring customers from entering their own shops or offices. These may be legitimate concerns. However, as with concerns about food safety, there is a need for balance and the application of realistic standards when judging such complaints. Authorities will have to make judgements concerning whether complaints are well-founded, or whether they simply represent anti-competitive action by vested interests.

#### **4.11 A package of public goods and associated government services specific to the informal economy for which concrete budget proposals could be made** (based on the discussion above, and presented without further comment)

##### **Public goods**

- Market-places with clean water, electricity and clean toilet facilities, provided on a 'user pays' basis, in urban centres and at strategic 'nodes' in rural areas. Since the informal economy is usually very astute at identifying the right locations for nodes (both urban and rural) it should be accommodated so far as feasible.
- agricultural extension, research and marketing facilities, with an explicit focus on the informal economy
- other 'spaces' and structures in urban areas that are available for informal economy activities.
- a law and order regime in the immediate environment of market places, and other 'spaces' for the informal economy, that supports orderly informal economic activity
- urban planning regulations that permit the conduct of informal economy activities on residential housing allotments (subject to reasonable health and 'public nuisance' requirements)
- an examination of how to catalyse private provision of public goods & services)

**Public services**

- transport, urban, and regional planning with informal economy considerations incorporated explicitly
- active policing of market places and active supervision by local government officers, all designed to support informal economic activity
- political representation and ‘voice’ for informal economy operators with particular concern for the needs of women
- education and training, business development services, agricultural extension services, all with an informal economy focus
- consumer protection
- financial literacy campaigns
- a comprehensive national audit and documentation of all identifiable informal economic activity in PNG (not a census)
- only after the national audit has been conducted, consideration could be given to surveying international experience
- consideration of micro-privatisation and government procurement policies supportive of the informal economy
- a sensible resolution of ‘the betelnut problem’

## Chapter 5

### INFORMAL ECONOMY POLICY IMPLEMENTATION

#### 5.0 Introduction

In PNG a large proportion of the country's population, both rural and urban are engaged in the informal economy to earn an income. The range of activities in the rural and urban areas are at present narrow, but have the potential to be diverse given the development of the right enabling environment; legal, regulatory, policy and business.

The implementation of the policy will require close collaboration and strong partnership between governments, private sector, NGOs, Churches, civil society organizations. The roles and responsibilities of each of the stakeholders are clearly identified within the framework of their regular functions. These are summarized below as follows:

- The National Government is responsible for coordinating the implementation of the policy. Its role includes formulating supporting policies and legislation, guiding, monitoring and evaluating the implementation of programs, mobilizing resources and technical assistance, and financing the provision of services.
- Provincial Administrations will play a crucial role in translating national goals and strategies into plans, projects, and programs appropriate to the conditions and capabilities of each province. These provincial level plans will require close collaboration with both National Ministries and Provincial Departments with responsibilities for executing national policies. In some policy areas, provinces will need to make allocations in their budgets.
- The Local Level Governments will play a crucial role in translating national and provincial goals and strategies into plans, projects, and programs appropriate to the conditions and capabilities of each LLG and their respective town authorities. The LLG plans will require close collaboration with the Provincial Plans and Departments. In some policy areas, LLGs will need to make allocations in their budgets.
- The private sector and in particular the financial and telecommunications sector institutions and organizations will play a very important role in the implementation of the Informal economy policy. There will need to be a close collaboration with National Government and the respective Provincial Governments to ensure the necessary enabling environment is created for the efficient and effective operation of the private sector players.
- The regulatory arms of government will play an important role in the implementation of the informal economy policy in providing an enabling environment that will encourage competitive market behaviour in the financial and telecommunication sectors.
- The role of NGOs, including Churches is to complement government through close collaboration and partnership. NGOs will be expected to support government in shaping policies and designing and implementing programs and projects. CSO's and individuals will aid the implementation of the Informal Economy Policy in terms of generating informed inter-personal information, education and communication, and their involvement in making responsible personal and community-based decisions and choices.

The principal roles and responsibilities of the lead agencies in the implementation of the National Informal Economy Policy are specified in Appendix. A summary of the main roles of these agencies follows.

### **5.1 Department for Community Development**

The Department for Community Development (DfCD) is the lead agency in the implementation of the Informal Economy Policy. The specific roles of the DfCD are:

- Coordinate and monitor the implementation of policy, in collaboration with other agencies, and development partners,
- Networking with provinces and districts through MOA's to implement the ICD Policy and using these networks to coordinate and monitor implementation of the Policy,
- Promote the integration of informal economy concerns into development planning through conducting awareness on the informal economy policy including through influencing provincial and district policies in the implementation of the Intergrated Community Development (ICD)Policy,
- Determine policy implications of significant changes in the socioeconomic conditions in the country,
- Mobilize financial and technical assistance for various informal economic projects in collaboration with the respective implementing agencies including the administration cost of the Secretariat through Public Investment Program and Donor Program support and
- Facilitate studies, legislation, policies, strategies and projects aimed at raising the social, economic and political importance and status of the Informal Economy.

### **5.2 Department of Treasury and Finance**

The Department of Treasury and Finance will be instrumental in ensuring the budget needs and implications on the informal economy are fully considered and addressed. This will include:

- Ensuring recurrent budget submissions by the lead implementing agency and other responsible agencies accommodate the activities of the informal economy,
- Ensuring that all budget submissions by Government Departments and Agencies including provincial level governments justify or assess implications on the informal economy,
- Promoting investments (foreign and domestic) and regulations that will result in a competitive environment in the telecommunications and banking sectors,
- Ensure that District Finance Officers are involved in financial literacy training and education,



- Ensure District Treasury Roll Out program integrate banking services including deposit taking and withdrawal,
- To provide competitive bidding prices to encourage commercial banks and microfinance institutions to service the rural districts and
- Reviewing Financial Acts to allow Savings and Loan Societies to act as agent of commercial banks.

### **5.3 Department of National Planning and Monitoring**

The Department of National Planning and Monitoring will be instrumental in ensuring Medium Term Development Strategy and the Long Term Development Plan accommodate and reflect the needs of the Informal Economy Policy including ensuring the budget needs and implications on the informal economy are fully considered and addressed. This will include:

- Accommodating the needs of the Informal Economy in the Medium Term Development Strategy and the Long Term Development Plan,
- Ensuring budget submissions for projects or programs by the lead implementing agency or any other implementing agencies is considered favourably,
- Advocating for Donor Funding to implement Informal Economy Projects and Programs and
- Ensuring that the objective criteria for resource allocation include an assessment of any implications for the informal economy. If the needs of the informal economy are explicitly considered in government decision processes, there is a better chance that outcomes will support its growth and development. The implication informal economy must appear on the ‘check list’ for evaluation of expenditure priorities.

### **5.4 Department of Agriculture & Livestock & National Agriculture Research Institute**

The National Department of Agriculture and Livestock (NDAL), and the National Agriculture Research Institute (NARI) will play an important role in the implementation of the Informal Economy Policy given that the majority of the informal economy participants are rural based.

The NDAL will be instrumental in ensuring the implementation of the Informal Economy Policy in its resource allocation decisions of the National Agriculture Development Plan Funding mechanism. This will include;

- Ensuring agriculture education and training requirements for the extension officers and the farmers are adequately catered for in terms of funding, program relevance and institutional capacity,
- Ensuring that NARI and other Agricultural Research Organizations are adequately resourced to undertake research requirements of the rural informal economy.

NARI will play an important role in both demand driven research and in disseminating the research findings to the farmers. This will include:

- Ensuring the needs and opportunities available to farmers are properly researched both agronomic and market research for products with good market potential,
- Translating the research information into easily communicable material for dissemination to farmers,
- Forming partnerships with extension agencies to ensure the research information is communicated accurately to farmers and
- Assisting with finding markets for products with market (domestic and export) potential including through collaborating with private investors in setting up market infrastructure or facilities for these products.

### **5.5 Provincial Departments of Primary Industries**

The Provincial Departments of Primary Industries (DPIs) will be influential in designing innovative agricultural extension programs including through the use of the public private partnership in delivering agricultural extension services to the rural informal economy participants.

The models used here could also be used to deliver other education and training services including business development services with an explicit focus on the informal economy.

### **5.6 Department of Health**

The Department of Health (DOH) will be instrumental in ensuring that health and hygiene standards in public places are set and maintained to protect consumers and more generally public health and hygiene. This will include:

- Training of Health Inspectors of respective town authorities on public health and hygiene standards with respect to informal economic needs.
- Any other initiatives or programs that will ensure the safety of the public from food poisoning, the spread of sickness and diseases, etc.

### **5.7 Department of Education**

The Department of Education (DOE) through the Technical and Vocational Division and in collaboration with NGOs and private education providers will be instrumental in ensuring that the majority of the informal economy participants who are illiterate are given the opportunity to attain functional literacy levels. This will include:

- Designing financial literacy programs in the TVET programs.
- Children will be best served by a high-quality primary education that builds their literacy and numeracy skills, along with a sense of the wider world in which PNG is placed.

Capacities in basic literacy and numeracy are more important than applied vocational or agricultural knowledge at the level of elementary or early secondary education

- Designing TVET programs that accommodate the needs of the rural and urban informal economy participants.
- The objective of training should be to open their eyes to new possibilities, to equip them with specific skills, and to increase their capacity to handle money (their ‘financial literacy’).
- As a general principle, training for participation in the informal economy should be offered on the basis of the interest and aptitude of participants, and not for certification.
- Working in collaboration and partnership with other education service providers such as Churches and other NGOs
- Financial literacy training can start in the primary schools. For despite remarks, above, on the need to emphasise basic literacy and numeracy in the schools, there is abundant opportunity for teachers to build these capacities in children using examples from the world of money and finance. Literacy and numeracy are the building blocks of financial literacy, an essential competency for successful self-employment.

## **5.8 Department of Commerce and Industry**

The Department of Commerce and Industry (DCI) have an essential role to play in the implementation of the Informal Economy Policy. Although the policy identifies that majority of the informal economy participants will remain in the informal economy and that informal economy needs are “unique” and in no way a miniature version of SMEs which is the mandate of the DCI, there are certain initiatives and experiences of DCI that can inform the implementation of the informal economy policy. This will include:

- The Corporative Model and the setting up of cooperatives which is a popular approach being adopted by farmers in rural areas at this point in time.
- Small Scale Industries (sandals) in terms of transfer of skills, knowledge and experience
- Women textile training program
- Appropriate technology promotion
- Align informal economy to the private sector growth strategy as the grass roots expression of private enterprise.
- Start your own business ( basic book keeping for informal economy participants)

## **5.9 Department of Labour and Industrial Relations**

The Department of Labour and Industrial Relations will play an important role in the implementation of the Policy by providing support services and technical assistance and programs for workers in the informal economy. This will include:

- Ensuring that informal economy interests are captured in the National Decent Work Policy which includes social protection,
- Teaching principles of entrepreneurship with special emphasis on informal economy,
- Advocating, training and awareness on human rights issues in the world of work and
- Developing and implementing special program to curb the issue of worst form of child labour in the informal economy.

## **5.10 Police Department**

The Police Department will be a key department in the implementation of the Informal Economy Policy in light of the role they play in keeping law and order in the towns and rural areas. There will need to be close collaboration between the Department for Community Development, the respective town authorities and the CIMC Informal Economy and Law and Order Committees to ensure that the intents of the Policy are clearly communicated and understood by the Police Department and Police Personnel. This will include:

- Working through other existing networks such as the Law & Justice Sector Committee,
- Conducting awareness workshops on the Informal Economy Policy and the Informal Economy Act,
- Ensure law and order regime presence within the vicinity of the informal economic activities areas and
- Other awareness measures including being involved in the Policy Implementation sub-committees.

## **5.11 National Statistical Office**

The National Statistical Office will play an important role in attempting to quantify the value of the Informal Economy production, to raise awareness of the importance and the role of the Informal Economy in the National Economy. This will include:

- Working in collaboration with the Department of National Planning and the Development Partners to undertake the computation and valuation of informal economy production including through sourcing and engaging technical expertise in this area.
- Working in collaboration with other domestic, regional and international socio-economic research organisations in an effort to understand how to account for the informal production in the computation of the domestic Gross Domestic Product.

## **5.12 Local Level Governments**

The respective urban and rural local level government in collaboration with the PNG Urban Local Level Government Association Secretariat has a fundamental role to play in providing the enabling policy and regulatory environment for their respective town or rural town authorities in the provision of public goods and services including opportunities and space for the informal economy participants to engage in their informal activities. This will include:

- Ensuring urban planning regulations that permit the conduct of informal economy activities on residential housing allotments (subject to reasonable health and ‘public nuisance’ requirements),
- An examination of how to catalyse private provision of public goods & services for the informal economy in consultation with other stakeholders,
- Ensuring political representation and ‘voice’ for informal economy operators with particular concern for the needs of women,
- Transport, urban, and regional planning with informal economy considerations incorporated explicitly,
- Profiling towns in PNG in partnership with development partners and other overseas sister towns and cities,
- Consideration of micro-privatization and government procurement policies supportive of the informal economy and
- Sensible resolution to overcome problems associated with the consumption of betelnut in public places.

## **5.13 Town Authorities**

Urban and Rural town authorities play a crucial role in providing the public goods and services including space for the informal economy activities to be undertaken. There is an important need for the town authorities in collaboration with the PNG Urban Local Level Government Association Secretariat to be proactive and consultative in the initiating the planning of the respective urban town areas. The rural LLG authorities also need to collaborate with the urban town authorities to cater for the needs of their farming population who commute to cities to sell their produce. This will include:

- Designating of areas for informal economy activities in the towns and cities and strategic locations in the rural areas,
- Equipping market-places with clean water, electricity and clean toilet facilities, provided on a ‘user pays’ basis, in urban centres and at strategic ‘nodes’ in rural areas,
- Providing other ‘spaces’ and structures in urban areas that are available for informal economy activities,

- Ensuring a law and order regime in the immediate environment of market places, and other ‘spaces’ for the informal economy, that supports orderly informal economic activity,
- Ensure consumer protection in the interest of public health, sanitation and safety,
- Active policing of market places and active supervision by local government officers, all designed to support informal economic activity and
- Profiling towns in PNG in partnership with development partners and other overseas sister towns and cities.

#### **5.14 Bank of PNG**

The Bank of PNG plays an important regulatory and oversight role in the financial sector and will therefore be instrumental in providing the environment that is conducive for the financial institutions to provide innovative financial products. This will include:

- Through maintaining a stable macroeconomic environment, avoiding over-valued exchange rate and nurturing an efficient and competitive financial system which can expand its services to cover the whole population,
- To facilitate a policy, regulatory and supervisory environment supporting the growth of a competitive, efficient and inclusive financial sector, with a diverse and sustainable micro-finance sub-sector,
- To encourage improvements in the professionalism and governance of micro-finance institutions by maintaining close communication with MFIs and encouraging them to agree upon appropriate performance standards and self-regulatory mechanisms,
- The creation and institutional support of a peak representative body for MFIs (PNG Association of Microfinance Institutions) to lead the industry to agree standards for best-practice operations, reporting and governance, and to raise those standards progressively over time as appropriate,
- Support for the peak body and the Micro Finance Competence Centre to assist industry-leading MFIs to achieve international best practice standards and
- Support for trialling pilot projects on Financial Inclusion in collaboration and partnership with regional and international organisations including multi-lateral and bi-lateral donors.

#### **5.15 Independent Consumer & Competition Commission (ICCC)**

The ICCC has an important role to play to facilitate a competitive telecommunications environment, with encouragement for innovation and the rapid spread of mobile phone and internet coverage and for the provision of financial services using mobile telephony and the internet. This will include:

- Accommodating regulatory concerns emerging at the interface of the telecommunications and financial services industries. These arise due to the emergence of ‘mobile phone banking’ and
- Regulate consumer protection issues in the use of mobile telephony

### **5.16 Consultative Implementation and Monitoring Council**

The CIMC Informal Economy Committee will play a critical role in initial implementation of this Policy, in particular, in the establishment of a mechanism for the implementation of the financial arm of the policy and in assessing the opportunities for diversifying the range of informal economic activities. This will include:

- Establishing a working mechanism for the stakeholders involved in the implementation and monitoring of the financial arm of the Policy,
- A comprehensive national audit and documentation of all identifiable informal economic activity in PNG,
- After the national audit has been conducted, consideration could be given to surveying international experience and
- Engaging with donors on possible Informal Economy Projects which will have an impact on Policy or general enabling environment for the Informal Economy.

### **5.17 Private Sector**

The financial arm of the Informal Economy Policy will largely be implemented and coordinated by the private sector and in particular the financial institutions and the ICT companies. Improving access to market information for the rural farmers is a significant step in agribusiness in the country. In addition, diversifying financial services for the rural population is a catalyst for significant progress in the agriculture sector as well as the non-farm informal economy activity participants. The role of the private sector will include:

- Preparing and conducting awareness on Financial Literacy Materials,
- Training of the Trainers in Financial Literacy,
- Piloting innovative financial products through Public Private Partnership Models which will involve Government and Donor Partners,
- Assisting the Secretariat in the monitoring and reporting on the implementation of the financial arm of the informal economy policy,
- Rolling out financial literacy training program through Microfinance Institution stakeholders and

- Developing and disseminating awareness materials on financial literacy and disseminating them in consultation with commercial banks

### **5.18 Collaborating and supporting agencies**

Agencies (including some of those mentioned above) will also be called upon to play collaborating or supporting roles outside their main areas of responsibility and expertise. Appendix C provides a detailed list of these supporting agencies along with the relevant policy goal and actions.



## **6.0 APPENDICES**

### **6.1 Implementation & Performance Framework**

- 6.2 Focus Area 1: To facilitate sustained increases in the level of ‘Financial Inclusion’ in PNG
  - 6.3 Focus Area 2: To facilitate provision of “public goods” and public services to support the development of the Informal Economy
  - 6.4 Focus Area 3: Institutional Framework for the Implementation of the Informal Economy
-