

A national policy for the informal economy in Papua New Guinea

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The informal economy is important in Papua New Guinea because a majority of households are involved in it as producers and consumers. The livelihoods of householders could be improved by greater access to informal income-generating opportunities. This article rejects widely held negative perceptions of the informal economy, although it cautions against undue optimism concerning its potential. It points to the limits of government action in support of the informal economy and suggests that providing a supportive policy and regulatory environment for the sector is the best course of action. It asserts the need to increase the national level of 'financial inclusion' as a central economic policy goal, with microfinance as the primary policy instrument for that goal. It emphasises the importance of providing public goods and services whose absence or inadequacy has retarded the informal economy. Suggestions are made for public goods and associated government services of particular utility for the growth and development of the informal economy.

The informal economy in the context of national economic policy

The informal economy has been discussed in Papua New Guinea since the early 1970s, but it has taken 40 years of rapid population growth to drive the general standard of living down to the point at which a critical mass of people is looking for new ways to 'get by'. Perhaps now is the time to incorporate informal economic activities explicitly into the national economic policy framework.

Why has the informal economy been slow to develop and why do conditions now seem favourable to it? Elements in an explanation include Papua New Guinea's historically limited experience of micro-enterprise-level activity in the cash economy. Population—which has more than doubled since the 'informal sector' was first debated in the late colonial period—and the long-term stagnation of formal employment also play parts in the story. Other factors include minimum-wage reductions in the early 1990s, followed by the float and devaluation of the kina. This is not the place, however, to tie these elements together; instead, this article focuses on the present situation and policies for its improvement.

Policy dialogue

Everyone in Papua New Guinea has an opinion about the informal sector. Some see it as a solution to problems of poverty and unemployment. Others—particularly urban, educated Papua New Guineans—view it with embarrassment. Supporters of the informal economy tend to exaggerate its potential. Opponents seem to think that people should wait patiently for well-paid employment rather than try to jump the queue by coming to town.

Some rural–urban migrants are disappointed and choose to return home. Some stay so long that they no longer have that option. Others prove resourceful, lucky or ruthless and find ways of earning an informal-economy living that is better than they could have had at home—maybe even better than that of most urban wage earners. Most of the ‘unemployed’ people in urban areas, however, just manage to ‘get by’, earning some money through self-employment in various activities (some legal, some not) and by taking part in exchanges (of money, food and other forms of help) with other people. These informal production and exchange activities are an important, and primarily economic, phenomenon. They deserve to be considered explicitly in the national economic policy framework.

What’s in a name? Informal ‘sector’ or informal ‘economy’

The economic development literature of the 1960s discussed interactions between two ‘sectors’—one rural and agricultural and the other urban and ‘modern’. ‘Development’ involved the transfer of labour from the rural to the urban sector, with people migrating to fill wage jobs. People living in towns without formal jobs were seen as unemployed. Careful observers, however, saw that the ‘unemployed’ were indeed economically active. To survive in towns, they found a variety of gainful activities outside formal wage employment. A third

sector—the ‘urban informal sector’—was therefore added to the economists’ set of categories. Early discussions of informal economic activity tended to overlook the existence of a *rural* informal sector. Despite its importance, not least in Papua New Guinea, this phenomenon is still relatively neglected.

More recently, the term ‘informal sector’ has been replaced to a great extent with the expression ‘informal economy’. This newer name has different meanings, according to context. For example, in higher-income countries, it can be used to describe an ‘underground’, ‘shadow’ or ‘black’ economy, whose activities are illegal or are undertaken ‘quietly’ to evade tax. Negative connotations attaching to informality in that context tend to be loaded unfairly onto informal economic activities in developing countries. This poses a barrier to objective analysis of the phenomenon.

In Papua New Guinea, it is valid to use either of the terms—sector or economy—to describe the complex of informal economic activities that contribute to the livelihoods of a majority of the population. ‘Informal sector’ is the name used in the legislation of 2004.¹ This article, however, adopts the term ‘informal economy’ for two reasons: first, because it emphasises the economic significance of the activities described (as distinct from their social and/or cultural significance); and second, because it underlines the responsibility of central economic policy agencies to support the growth and diversification of informal economic activities.

Households in the informal economy of Papua New Guinea

The importance of the household in the informal economy

Households are at the centre of the informal economy, which should be analysed

Policy dialogue

in terms of household production and consumption and economic exchanges between households. This is different from the situation in industrialised market economies, where the firm and the household are not usually coextensive and economic exchanges based on social relationships tend to be vestigial, occurring largely within nuclear families.

Household productive activity occurs in the subsistence economy and the cash (or market) economy. Subsistence production can take the form of gardening on traditional rural lands or fishing, or it can take the form of urban subsistence. Urban households therefore can make food gardens if they have access to land and motive to use it. They are also responsible for much capital formation—for example, by building and improving their dwellings. Subsistence

output increases the real incomes of many urban households. While urban garden produce might not enter into market exchange, it is often given in non-market exchanges. Market transactions occur when householders sell commodities (or their labour).

Non-market transfers of cash and commodities are significant in the budgets of many households—rural and urban. They occur in rural communities on the basis of traditional relationships. They occur also among households in urban communities. In addition, significant transfers of cash and commodities flow both ways between urban and rural areas.

A household's cash income can be earned or received as a cash transfer, such as a remittance from an absent household member or an exchange payment from

Table 1 Differences between formal and informal economies in urban areas

The formal economy is

Where people work for wages in government, or in private sector firms, or where they own such firms

Where they pay income taxes and where firms pay value-added tax

Where what they produce is counted in national production (GDP)

Where they are counted in the workforce

Where their time is structured

Where they have legal protection and rights

The informal economy is

Where people 'get by', earning money or producing for their own consumption, without having 'jobs'

Where they do not pay income taxes and do not collect value-added tax on what they sell

Where what they produce is not counted in national production (although they put food on most urban tables)

Where they are not counted in the workforce, because they work in self-employment and/or household-based activities

Where their time is unstructured: 'I work whenever I can', 'I work as long as it takes'

Where they are without rights and protection, or their rights are ignored

another household. Cash incomes can be earned from formal sector employment or by formal market exchange. Cash incomes can also be earned from informal employment arrangements or informal market exchange. There are distinctions between the urban formal and informal economies (Table 1).

Households in the rural economy

This section deals with households in the rural economy. Concepts introduced above are used to describe productive activity within households and how households obtain cash and other resources for survival. Importantly, it distinguishes subsistence activity as a kind of 'pre-informal' household production (while accepting that subsistence production persists in many households engaged in formal economic activities).

We can categorise rural households by how they produce and obtain cash. They occupy places on a continuum from pure subsistence to fully commercialised agriculture.

- a. **Pure subsistence:** Households engaged in cultivation, hunter-gathering, fishing, production of traditional valuables, with no access to cash. They do not engage in market exchange, labour migration or receive cash transfers based on traditional relationships. There are relatively few households like this anymore; how many is an empirical question to which the population census gives no clear answer.
- b. **Subsistence:** Engaged in cultivation, hunter-gathering, fishing, production of traditional valuables and receiving non-market cash transfers (including traditional exchanges, remittances, compensation, royalties).
- c. **Mixed subsistence:** Households are close to crossing over from 'subsistence' to the 'informal' economy. They engage

in traditional economic activities together with earned income (cash cropping, wage labour, trade stores) and cash transfers. Cash cropping is, however, still conducted on customary land, using traditional modes of labour input with very limited use of introduced technologies and commercial inputs, and minimal post-harvest processing. Although some households might operate trade stores and other enterprises, their operations are severely constrained by traditional obligations.

- d. **Mixed subsistence, together with 'off-farm' income:** Households show a more commercial approach to agriculture and engage in some post-harvest processing; they might earn cash from handcrafts, retail trade, small-scale forestry or mining, or services such as produce dealing and transport. These households, together with those in the next category, should be categorised as operating in the informal economy and may be described as 'micro-enterprises'.
- e. **Commercial smallholder households:** Cash cropping or fishing is conducted using a range of purchased inputs and introduced technologies. Activities and management have become increasingly 'non-traditional'. Households might also earn 'service' income (produce dealing, transport). Usually, they continue to engage in exchange, together with some subsistence.
- f. **'Pure' commercial agriculture:** This has crossed the line from 'informality' to 'formality' and from 'micro-enterprise' to small and medium enterprise (SME) status. SMEs may range in scale from household-based smallholders and commercial plantations with paid labour forces to agro-industrial enterprises with post-harvest processing and other value-adding activities. Distributive

services for retailing and agriculture, and transport and construction services, are often conducted alongside commercial agriculture.

Household enterprises that have made the transition to 'formality' are distinguished from smallholders in category (e) above by the scale of production, by the use of commercial inputs, paid workforces, modern technologies and capital equipment, and a greater degree of post-harvest processing. Land tenure arrangements range from smallholders using customary land and smallholder tenure of settlement blocks to informal use of customary land for 'community' plantations and various forms of leasehold for incorporated entities, as well as outright ownership of alienated land.

How households 'get by' in the rural economy

The rural informal economy is found among households in category (d), 'mixed subsistence', and (e) 'commercial smallholders', both groups with additional earnings from post-harvest processing and other activities including 'artisanal' forestry or mining and handcrafts. Some are involved in service industries such as food preparation, transport, vehicle repairs and fuel supply, construction and road maintenance and distributive services (buying and reselling produce, restocking trade stores). These are the groups that have the most to gain from additional skills, from improved infrastructure, from agricultural extension and business development services and from access to financial services.

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. Realisation of 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.

Households in the urban economy

It is useful to distinguish between urban residents on the basis of their land tenure and to relate this to their economic activities.

- a. **Traditional landowner households:** In urban and peri-urban locations, engaged in urban subsistence production, supplemented by earned income (formal and informal) and remittances. They engage in non-market transfers, reflecting traditional relationships (and including social relationships with migrant groups).
- b. **'Settlement' or migrant households:** Occupying customary land (whether or not by arrangement with traditional owners) or other unoccupied land without security of tenure. They engage in urban subsistence production, receive earned cash income (formal and informal) and remittances, and engage in cash and produce transfers based on traditional and social relationships.
- c. **Urban households:** Occupying land with secure tenure, supported by urban subsistence, earned cash income and remittances. They often engage in cash and produce transfers based on traditional and social relationships. Some households could be involved in informal economy activities. Others might operate SMEs in the formal economy.
- d. **Urban households:** Occupying land with 'high covenant' housing and secure tenure. One or more household members will have wage or salary incomes. Traditional exchange relationships are usually maintained, but such households

Policy dialogue

are likely to be net providers of cash transfers and net recipients of produce transfers. Some members of (or visitors to) these households could be involved in informal economy activities, but others might operate SMEs in the formal economy.

No category of households—not even the ‘high covenant’ households—can be ruled out as the site of at least some informal economic activity. Also, any urban house might accommodate visitors from rural areas, some of whom move back and forth for informal trade. The higher the standard of housing, however, the more likely it is householders will be involved in the formal economy.

It is time to deal with a common misconception, expressed in statements such as ‘almost 90 per cent of the population of Papua New Guinea live in the informal economy’. This is a considerable overstatement. If the ‘informals’ are so large a majority, they must include groups living in widely differing circumstances. Aggregating them makes the informal economy an almost meaningless concept. Policy should be tailored to the particular circumstances of groups—whether pre-informal, informal or formal—in terms of their economic activities.

Policies for the informal economy: can we ‘formalise’ the informal?

In the discussion that follows, policies to stimulate the informal economy are proposed. First, however, is a possible objection: if the informal economy arises from the individual behaviours of poor people, is there not a serious contradiction in the idea of governments attempting to ‘formalise the informal’? Would a formalised informal economy retain its dynamism or might bureaucracy stifle it?

No government can ‘take over’ the informal economy. Governments need to understand the limits of their influence. The informal economy is essentially a spontaneous phenomenon; authorities can do little to stimulate it unless the conditions for its growth exist. Equally, they find it difficult to suppress informal economic activity, despite frequent reports of their efforts to do so.

The informal economy is an organism powered by market forces, showing its character through its very informality. Officials have their proper responsibilities, but they should as far as possible resist the temptation to interfere in legitimate informal economy activities. Where definitions of ‘illegal behaviour’ are such as to prevent socially useful economic activity, perhaps laws should be changed. Governments should be thinking about how to facilitate beneficial informal economic activity. Beyond putting in place a supportive policy and regulatory environment, however, there are dangers in their attempting to ‘develop’ it by bureaucratic action. Heavy-handed interventions are unlikely to succeed. If the government is unable to stop the informal economy by repression, why should anyone imagine governments can start it by fiat?

Governments need also to guard against unrealistic expectations of what can be achieved. In urban areas it is probably unrealistic to expect the informal economy to provide significant stimulus to economic growth.² The lengthy and bitter experience of ‘jobless growth’ in Papua New Guinea, however, suggests there is merit in attempting to stimulate informal economic activity. This is because it enables people without prospects of formal employment to participate in and benefit from economic growth occurring for other reasons. It can give them dignity and increase social cohesion. The informal economy offers a training ground for some proportion of participants to make the transition to formal business. How

many will depend on the broader economic environment and on the effectiveness of government efforts to nurture the talents of such people and to create opportunities for them.

In rural areas, the transition from subsistence agriculture to mixed subsistence with increasing value adding and economic activities is a necessary development. In an economy where injections of export income and tax revenues occur due to 'enclave' mineral projects, the parallel development of a smallholder rural economy offers a means for the broader participation of the population in the benefits of economic growth, as well as for the growth of a more self-reliant, productive base.

Financial sector policies supporting the informal economy

'Financial inclusion' and the informal economy

Papua New Guinea suffers from an extremely low level of 'financial inclusion'. For a country aiming to build a vibrant economy, this is a severe handicap. To be 'financially included' means having access to formal financial services. Households can be excluded from services by geography, by an inability to satisfy the collateral or documentary requirements of banks or by their high fees or service policies. Papua New Guinea is at the bottom of the league table of financial inclusion among countries in the Asia Pacific region, with only about 8 per cent of its population financially included. This compares with Solomon Islands (15 per cent), Samoa (19 per cent) and Fiji (39 per cent). In Asia, levels of inclusion range from 98 per cent in Singapore to 12 per cent in Pakistan (World Bank 2008).

Papua New Guinea's poor performance suggests the need for progressively

rising levels of financial inclusion to be adopted as an economic policy goal, with microfinance selected as the appropriate policy instrument. Many kinds of institution provide sustainable microfinance services. Almost any financial institution can provide microfinance if it is prepared to learn how. Regulated financial institutions—banks and non-banks—provide services. Services are offered by private, for-profit entities, by public entities and public-private partnerships, and by voluntary 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 across the country. This will also require efforts to increase the financial literacy of the mass of the people.

Microfinance institutions (MFIs) provide access to the financial services needed by poor households. These are deposit services, remittances, payments and micro-insurance, in addition to credit. Micro-entrepreneurs must learn to mobilise their own household resources before they can trust themselves to borrow.³ The poor need access to convenient, liquid and safe deposit services, protected against inflation by positive real rates of interest. With savings, the poor are able to smooth consumption expenditures in the face of variable income streams. Access to deposit services assists the recipients of 'lumpy' income flows, such as remittances, royalties and periodic crop receipts, to manage their money. Remote households would benefit from receiving payments for pensions, crop receipts, lease rentals and royalties credited directly to bank accounts. Poor households also need access to safe and inexpensive remittance services. Similarly, households in remote locations can benefit from payment services that reduce the transaction costs of meeting a range of financial obligations. Some households will benefit from access to credit to increase the productivity of their

Policy dialogue

informal economy activities. Credit becomes more significant as micro-enterprises approach the threshold of 'formality'. Access to credit from alternative sources can also free poor households from exploitative financial relationships with moneylenders.

A policy framework for financial inclusion to assist households

What follows is a brief sketch of a policy framework (Table 2) to encompass the urban and rural informal economies and achieve sustained increases in financial inclusion.⁴ Necessary elements include maintaining good macroeconomic management and building modern and competitive banking and telecommunications systems. Papua New Guinea will benefit from multiplying and diversifying financial service points, especially for savings mobilisation, from maintaining a liberalised interest rate regime and removing anomalies, while avoiding subsidies and credit guarantees. Alternatives to conventional collateral requirements will be necessary; registers of physical assets should be established and financial institutions will need to collaborate to verify the financial identity and standing of clients. The regulatory regime should facilitate this. Linkages between financial institutions (larger and smaller, urban and rural, formal and informal, public and private) can assist in extending services to remote and underserved populations. With appropriate regulatory changes, a range of banking services delivered via mobile phones and the Internet will enable greatly expanded inclusion.

In rural areas, these and other measures to extend the reach of formal financial services will be crucial. The framework recognises the potential for access to services to assist in the transition of households from subsistence. Building financial literacy and encouraging household savings as a preparation for investment and borrowing

are emphasised. Deeper involvement in the market economy—implying a shift to higher-value crops, value adding and off-farm economic activities—will require a wider range of financial services and more frequent and formal relationships with financial institutions.

In terms of regulation and governance, the 'rush to regulate' MFIs other than regulated financial institutions should be resisted before the industry has taken shape and is better understood. Authorities should conduct dialogue with these MFIs and encourage peak bodies to articulate industry concerns and to agree to common standards for self-regulation. It will also be important to avoid unnecessary regulatory barriers to the engagement of commercial banks in microfinance. Lessons already learned in Papua New Guinea from regulatory experiments with small microfinance banks should be applied more widely. Legislation and supervision for savings and loans cooperatives should not prevent them from operating on modern microfinance principles.

Other (non-financial) policies to stimulate the informal economy

The provision of public goods

Governments can promote the informal economy through legislation, regulation and public expenditure. Legislation that is permissive and supportive (as in the case of the 2004 *Informal Sector Act*) can be a positive force for change. Legislation that is unduly directive, imposing unrealistic obligations on state agencies and the private sector, is unlikely to be effective. Among other means available to the government, the most important is its role in providing public goods for the benefit of citizens. A number of these are of particular value to people in the informal economy.

Policy dialogue

Table 2 A general policy framework to increase financial inclusion

Conditions supportive of growing financial inclusion	Elements in the policy framework
1. A growing economy with low inflation, positive real interest rates on deposits and low 'spreads' between deposit and lending rates	1. Maintaining good macroeconomic management, nurturing an efficient and competitive financial system (including modernised savings and loans cooperatives freed to operate according to sound microfinance principles)
2. Progressive improvement in access of households to financial services, with improved intermediation capacity and greater financial depth	2. Cautious but progressive removal of regulatory barriers to the diversification of financial service providers, to encourage small regulated banks, branchless and agent banking, mobile phone and Internet banking, with emphasis on rural deposit mobilisation. Continued liberalisation of the telecommunications sector to lower costs, expand coverage and use information and communication technology for mass financial services
3. Avoid financial repression and other market distortions	3. Maintain liberalised lending and deposit interest rates, eliminate credit subsidies and credit guarantees
4. Create alternatives to conventional collateral	4. Create physical collateral registers and 'financial identity' records
5. Provide adequate consumer protection	5. Enforce and/or enact appropriate legislation, but avoid interest rate caps. Ensure security of deposits in qualified MFIs. Promote education for financial literacy

Intangible public goods (supportive environments or 'institutions')

Here we refer to institutions or 'rules of the game' that guide the conduct of social and economic affairs (North 1990). These include law and order, the protection of property rights and freedom to engage in advocacy or lawful political activity in defence of personal or group interests. In the case of the informal economy, such institutions provide benefits including freedom from the fear of violence, robbery or extortion and from arbitrary or unlawful actions of officials,

including police and *sekuriti*. Property rights must be protected and possessions are not to be subject to arbitrary seizure or destruction. Unfortunately, none of these freedoms can be guaranteed to the informal economy in contemporary Papua New Guinea.

As an example, crime and disorder in urban areas constrain the ability of informal operators to bring equipment (say, food-processing machines or tools) or high-value items for sale into public places where they might be looted or vandalised. This acts as a damper on the diversity of products and services available. Similarly, in rural

Policy dialogue

areas, crime constrains the operations of intermediaries such as coffee buyers and reduces returns to smallholders. The threat of robbery constrains MFIs from following international practice by providing mobile deposit and repayment services in marketplaces. In consequence, money that might have been saved, or used to repay loans, might be diverted to consumption. The assurance of regular and convenient access to deposit services would increase the participation of vendors, especially women.

Informal economy operators should be free to organise to protect their group interests and to influence public policy. If the benefits of institutional public goods are to be available to all citizens, they must be consulted and their legal rights protected by an appropriate framework of laws. These laws, in turn, must be enforced efficiently and impartially.

‘Rules of the game’ in economic affairs

‘Rules of the game’ that support a competitive market environment, including the informal economy, are another important form of intangible public goods. Indeed, the needs of informal economic activity must be considered in any program of private sector development. Competitive markets support efficient production and lower prices. Efficiency in the informal economy will be increased by the emergence of intermediaries in supply chains, as is occurring, for example, in the distribution of market produce. Intervention, however, could be necessary to avoid the growth of gangsterism and anti-competitive behaviour.

As mentioned above, it is important to have a regulatory and supervisory environment supporting the growth of a competitive and efficient financial sector, with a diverse and sustainable microfinance sub-sector. A well-functioning financial system serves

retail and business customers and mobilises capital for the growth of private (including informal) enterprise. In addition, there is the need for a competitive telecommunications environment. If these requirements are met, the private sector, including its informal component, will be freed to go about creating income and employment.

Papua New Guinea has 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 driven down. International experience suggests that growing access to these technologies will have transformative value for the informal economy.

Provision of ‘physical’ public goods

Whether tangible public goods are available and how well they are maintained depend on the quality of governance. Deficiencies in their provision handicap the growth of informal economic activity. Public goods of particular concern to the informal economy include

- transport infrastructure (road, sea, air)
- urban markets and other ‘spaces’ in which informal economic activities can occur, with access to clean water (especially where food is, or might be, prepared for sale) and toilets
- education (formal and informal) and health facilities
- agricultural research stations and extension training centres.

Enormous gaps are acknowledged as existing in Papua New Guinea’s stock of infrastructure. For example, inadequate transport facilities are often blamed for the failure to maximise smallholder income. Again, deficiencies in agricultural extension

are blamed for the inability of smallholders to improve quality and hence increase the returns they receive from cash crops.

Bad outcomes: deficient infrastructure interacting with poorly enforced institutions

Deficiencies in physical and intangible public goods interact to penalise the poor. For example, handicaps are imposed on local-level economic activity by the combination of poor roads and law and order problems. Unmet needs for urban infrastructure interact with deficiencies in the regulatory or competitive environments to stifle informal activity. As an example, the absence of electrical connections and secure lockup facilities in and around town markets could explain why there are no photocopying, binding, laminating or key-cutting services offered by informal operators, despite such services being in the informal domain in many countries. Or do town-planning requirements or other regulatory barriers prevent such services (and others, such as Internet access) being offered out of private houses?

Perhaps competitive barriers prevent the emergence of service trades. Could the wholesalers of equipment and supplies be convinced that it is in their own longer-term interest to relinquish lower-end functions to informal operators? Considering the growth potential for sales of, say, copy paper and machines, and other equipment and supplies, they might be persuaded to offer training to informal service providers and technicians. Could people in the informal economy learn how to recharge toner cartridges? Might informal mechanics learn how to repair and resell discarded mobile phones (a growth industry in Africa and elsewhere)?

Priorities for provision of public goods for the informal economy

Most of the public goods mentioned above have much broader significance than their particular value to the informal economy. Public goods underpin the whole economy. If the State is unable to provide these for the formal economy, it is unlikely that any revelation of their importance for the informal economy will galvanise governments into more effective action. Despite this, policymakers should consider which particular public goods and services are of special value to the informal economy. If such can be identified, it is essential to ensure that they are not neglected in the allocation of budgetary resources.

Provision of public services for the informal economy

Planning processes: the informal economy must not be forgotten

Certain government services are closely related to choices about the provision of infrastructure. 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
- identifying possibilities for specialisation (regional, local, ethnic).

Maximising the impact of public goods depends on the capacity to prioritise expenditure and to identify the key deficiencies or connections that can catalyse economic activity. The allocation of government resources is, however, an intensely political process. Supporters of the informal economy

Policy dialogue

in government and politics must ensure that the criteria for public resource allocation require an assessment of any implications for the informal economy. If the needs of the informal economy are explicitly considered in government decision-making processes, there is a better chance that outcomes will support its growth and development.

Political issues: representation and 'voice' for the informal economy

To mention the political element in planning suggests a need for the informal economy to have 'voice'. Other interest groups also deserve to be heard. The stakeholders include

- informal economy operators (or micro-entrepreneurs), who have rights and obligations under legislation and local government ordinances
- workers in the informal economy, including unpaid family helpers
- consumers, who are entitled to protection when dealing with micro-entrepreneurs
- formal enterprises, which have legitimate interests in relation to informal economic activities.

Micro-entrepreneurs are, in general, a low-income group, while some (for example, female-headed households) will be among the poorest. In urban areas, many are relatively recent arrivals. Others are highly mobile, moving back and forth between rural and urban areas. For these reasons, micro-entrepreneurs are not an easy group to mobilise. Governments should acknowledge interest groups in the informal economy and include their leaders in negotiations on matters touching their interests. Official recognition of the embryonic associations of micro-entrepreneurs could lead in time to their more effective organisation.

A separate area of concern is the occupational health and safety of informal workers, especially in extractive industries such as logging and mining, where 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 also important for environmental reasons.

In contrast, the State has no business to interfere in pay rates of entities that qualify as 'informal' under the legislation. Should these grow to employ non-household labour, and also exceed the size limits, the wages and conditions of their workers are a matter for the Department of Labour. If formal businesses are found to be exploiting informal or casual workers, this again is a matter for the department. Such situations are not the legitimate concern of authorities responsible for informal economy affairs. Attempts to regulate wages and conditions of workers in genuine informal enterprises are likely to constrain their capacity to generate incomes for the poor.

For the informal economy, the principal consumer protection concerns are likely to be food hygiene and safety. Real problems exist with contaminated water supplies and outbreaks of food poisoning, hepatitis and typhoid. Food preparation and handling practices often leave much to be desired, while the range of cooked foods is small and often unhealthy. There is, however, a need for balance in the approach taken and to avoid unnecessarily high standards—as in all areas of informal economic activity. Enforcement of unrealistic standards could become a pretext to get rid of micro-enterprise activity altogether. In the case of food, education and access to clean water and toilets, with frequent inspection (but

not harassment), should be used to improve standards.

Formal enterprises have legitimate interests in relation to the informal economy. Sometimes informal competitors are quite literally 'on their doorsteps'. They might regard them as untidy, insanitary and crime attracting. As with concerns about food safety, here there is a need for balance and the application of realistic standards. Papua New Guinea should aspire to achieve the highest standards found in the developing world, but local government ordinances and standards must reflect PNG conditions. Authorities will have to judge whether complaints are well founded or whether they represent anti-competitive action by vested interests. More positively, formal and informal enterprises could benefit from a symbiotic relationship when they are co-located, as in many urban shopping centres. Part of the solution to street rubbish and vandalism could lie within the informal economy itself. Municipal authorities could consider the 'micro-privatisation' of some of their service functions—a subject discussed below.

Education, training and skill acquisition

Lack of education, information or understanding is the key to the limited development, lack of diversity and poor performance of micro-enterprise. Relevant aspects of education and training include

- formal and informal education
- adult and school-based education, technical and vocational training
- general education (literacy, numeracy) and specific skill acquisition
- financial literacy
- agricultural extension.

Children are best served by quality primary education that builds their literacy and numeracy skills, along with a sense of

the wider world. This is more important than applied vocational or agricultural knowledge at the level of elementary or early secondary education. Young adults unable to go on to post-primary education will be better equipped to make their way in the informal economy if they have achieved literacy and numeracy. They will then have a base for acquiring applied knowledge and skills in 'adult' or 'informal' education, or specific-purpose training experiences.

Training should open eyes to new possibilities, equip people with specific skills and increase their capacity to handle money (their 'financial literacy'). Training opportunities for 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 artisanal and commercial skills. Many adults have had limited opportunities for formal education. Adult education targeting these people is also necessary, perhaps especially in the rural sector where agricultural extension services need to be revived.

Lack of financial literacy is a community-wide weakness. The government could join financial institutions in campaigns to disseminate information about money management. Financial literacy training can start in primary schools. Literacy and numeracy are the building blocks of financial literacy, which is an essential competency for successful self-employment.

Business development services

Business development services do not receive particular emphasis in the policy framework, because the main thrust is towards indirect measures and facilitation designed to release latent energy. Relevant issues, however, in a business development context, include

Policy dialogue

- product and market development
- skills analysis for informal economy operations
- micro-privatisation and/or government procurement policies.

Authorities should begin by acquainting themselves with the full range of products and services found in the informal economy. A comprehensive national audit of the informal economy (not a census, but a qualitative assessment with documentation of all identifiable activities) would provide baseline information on the sector. After this, consideration could be given to surveying international experience, with particular reference to neighbouring countries—in Asia and the Pacific. Surveys of products and services, with analyses of the skills and materials required and the potential for transplanting them to Papua New Guinea, might be conducted in nearby countries. Perhaps there is scope for some useful ‘South–South’ development cooperation.

Governments in a number of developing countries have decided to deal with two problems simultaneously: first, low standards in public services (such as street cleaning, rubbish removal and the maintenance of water standpipes); and second, unemployment or underemployment. Governments have conducted successful ‘micro-privatisations’ of some of these public functions. They have contracted the work out 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. Papua New Guinea might benefit from an examination of these experiences to determine their applicability to local conditions.

Governmental issues

There is a cluster of issues around the problem of where informal economy matters should ‘sit’ in government. These include

- choosing the ‘key’ department or agency to have responsibility for steering the development of government policies and activities to encourage the informal economy; the thrust of this article is that the informal economy should be the responsibility of one or other of the central economic policy agencies
- how best to achieve inter-agency cooperation and coordination, given that a number of departments and agencies should have responsibilities in the field
- how to build necessary links between national agencies and lower tiers of government, given that so much of the activity will occur in local areas
- how the informal economy can be ‘built in’ to urban management priorities and processes and to regional planning
- how to identify and remove unintended regulatory barriers to informal economic activity
- how to identify and end government practices inconsistent with the *Informal Economy Act*, and with policies for the informal economy as they emerge
- what World Bank studies of the ‘ease of doing business’ tell us about the difficulties of households attempting the transition from informal status.

Conclusion

This article points to the limits of government action in support of the informal economy, which is essentially a market-driven organism. It stresses the need to increase

the level of financial inclusion in Papua New Guinea and emphasises the importance of providing public goods and services whose absence or inadequacy retards the development of a healthy informal economy. A package of public goods and associated services of particular utility for the development of the informal economy would include the following.

Public goods

- Marketplaces with water, electricity and 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 the informal economy an explicit focus.
- Other 'spaces' and structures in urban areas that are available for informal economy activities.
- A law and order regime in the environment of marketplaces and other 'spaces' for the informal economy, supportive of orderly informal economic activity.
- Urban planning regulations permitting the conduct of informal economy activities on residential housing allotments (with reasonable health and public nuisance requirements).
- Examining how to catalyse private provision of public goods and services of particular value to the informal economy.

Public services

- Transport, urban and regional planning with informal economy considerations explicitly incorporated.
- Active policing of marketplaces and active supervision by local government officers—all designed to support informal economic activity.

- Facilitation of political representation and a 'voice' for informal economy operators with particular concern for the needs of women.
- Education and training, business development services and agricultural extension services—all with an informal economy focus.
- Mass financial literacy campaigns and consumer protection.
- A comprehensive national audit and documentation of all identifiable informal economic activity, followed by reviews of international experience.
- Consideration of micro-privatisation and government procurement policies supportive of the informal economy.
- A sensible resolution of 'the betel-nut problem'.

Notes

- ¹ The *Informal Sector Development and Control Act 2004*.
- ² The informal economy is not, however, simply redistributive. A dynamic informal economy can assist in improving competitiveness by providing low-cost goods and services that fit the consumption patterns of urban wage workers. Exploring this and related issues is beyond the scope of this article.
- ³ In fact, the track record of microfinance institutions—from the now-vanished Liklik Dinau to the present-day PNG Microfinance Ltd—suggests many more people want savings accounts than want loans.
- ⁴ For a fuller discussion, see the PNG Consultative Implementation and Monitoring Council (CIMC) Discussion Paper, 2009 *On a national policy for the informal economy*, Port Moresby.

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