



# Empowering Citizens to Promote Economic Growth through Partnership

## THE IMPORTANCE OF INFORMAL ECONOMY

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# Outline



- **INTRODUCTION**
- **UNDERSTANDING THE INFORMAL ECONOMY**
- **FOCUS AREAS**
- **GOING FORWARD**

# INTRODUCTION



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

# DEFINITION



- Informal Economy is defined as system of trade or economic exchange practiced outside state controlled or regulated areas or money based transactions.
- Practiced by most of the world's population, it includes both monetary and non-monetary trade such as barter of goods and services, mutual self-help, odd jobs, street trading, and other such direct sales activities.
- Income generated by the informal economy is usually not recorded for taxation purposes, and it is often unavailable for inclusion in Domestic Gross Product (GDP) computations.

# UNDERSTANDING INFORMAL ECONOMY



- The PNG economy (the ‘whole’ economy) consists of two unequal parts, the formal economy and the informal economy.
- Important differences- The formal economy generates more Kina, in money terms, but the informal economy supports more people, in human terms.
- The informal economy is also divided, between urban and rural components.
- While most attention focuses on the informal economy operating in towns, there are more rural people involved in the informal economy than there are urban people.

# FORMAL & INFORMAL

## THE FORMAL ECONOMY

Where people work for wages in government, or in private sector enterprises, or where they own enterprises.

Where individuals pay income taxes and where enterprises pay VAT.

Where what individuals or enterprises produce is counted in the gross national product (GDP).

Where individuals are counted in the workforce

Where workers' time is structured ('8 to 5,' 'Monday to Friday').

Where workers and enterprises have legal protections and rights.

## THE INFORMAL ECONOMY

Where people 'get by', earning money without having 'jobs.'

Where individuals do not pay income taxes and do not collect VAT on what they sell (however they often pay VAT on their inputs and are unable to claim it back).

Where what individuals or enterprises produce is not counted in national production (even though they put food on most of the tables in most households in PNG).

Where individuals are not counted in the workforce, because they are self-employed or engage in household-based activities.

Where workers' time is unstructured ('I work whenever I can' and 'I work as long as it takes').

Where workers and enterprises are without rights and protection, or their rights are ignored.

# INFORMAL & SME



- Micro-enterprises operate in the informal economy and lack defined organisation  
financed informally /rely on simple tools and techniques of production marketing/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 and have defined organisational structures.  
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.

# MAJOR PROVIDER FOR FAMILIES



- **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. 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 urban and rural areas.
- Many households have multiple sources of cash income; these may be earned and unearned, formal and informal, legal and illegal.
- Households engage in market exchange, selling labour in the formal economy and goods and services in the informal economy.
- In addition, many participate in subsistence production, in the form of gardening or fishing on traditional rural lands, or in forms of 'urban' subsistence. Urban households make food gardens, where they have access to suitable land and are motivated to use it.



# FOCUS AREAS



- Focus Area 1:

To facilitate sustained increases in the level of ‘financial inclusion’ in PNG

- Focus Area 2:

To facilitate provision of “public goods” and public services to support the development of the informal economy.

- Focus Area 3:

Institutional framework for the implementation of the Informal Economy Policy

# FINANCIAL INCLUSION & FINANCIAL STRATEGY



- The National Financial Inclusion and Financial Literacy Strategy has been developed in consultation with the diverse range of stakeholders including Government Agencies, the Private Sector and the community. This strategy is driving our efforts to achieve our financial inclusion aspirations.
- The strategy got two objectives;
- To reach an additional 1million unbanked adult Papua New Guineans who or 50% of those to be women. As of March 2016 financial institutions reported 659 thousand new adult accounts have been opened since the launch of PNG's National Financial Inclusion and Financial Literacy Strategy of which 29% were women.
- Additionally, 112 thousand new accounts were also opened with the support of the Bank of PNG's Young Mind Savings Campaign. Over 120 thousand adults have received financial literacy training and over 620 thousand adults have adopted micro insurance products.

# PUBLIC GOODS & SERVICES



- **PRIORITY AREAS OF ONIEL DION GOVERNMENT**

**FOCUS ON DISTRICT (DDA)**

**INFRASTRUCTURE (ROADS/BRIDGES/ETC ETC)**

**LAW AND ORDER**

**HEALTH**

**EDUCATION**

# CHALLENGES



- **NARROW RANGE OF GOODS & SERVICES**
- **FINDING MARKETS**
- **The informal economy is driven by market forces.**
- 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 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.

# DfCDR



- Chair Informal Economy Committee
- Creation of Informal Economy Section
- Identified issues with the National Informal Economy Policy and the *Informal Sector Development and Control Act 2004*
- Voice Mechanism
- APEC PPWE



THANK YOU  
AND  
GOD BLESS