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PAPUA NEW GUINEA

NATIONAL INFORMAL ECONOMY POLICY (2011-2015)

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FOREWORD



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.

This Informal Economy Policy makes a compelling 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,' which 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 grassroots element in the private enterprise system that PNG needs to build.

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 to them higher cash incomes. It will supply a growing proportion of the consumption and investment needs of the low- and middle-income population, leading to the progressive 'nationalisation' 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. Only 8 per cent of its people are 'financially included' at present, making PNG one of the worst performing countries in 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 government provision 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 a political 'voice' or representation.

Honourable Dame Carol Kidu
Minister for Community Development

SECRETARY'S STATEMENT




Since independence, Papua New Guinea has experienced a jobless growth in the population without corresponding opportunities for formal employment and an increase in poverty levels. It is also striking to note that even now some 85% of the population has 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 pressing issues of national significance. Additionally, the policy provides strategies on the ground to alleviate challenges, such as poverty, financial exclusion, participation in illegal livelihood activities and other pressing social and economic needs affecting the bulk of our population who are marginalised or whose livelihood is based in the informal economy.

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, and 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, notably through the informal economy, and to provide a regulatory environment for its growth whilst minimizing its negative aspects.

The consultation process for the development of this policy has been exhaustive, with the participation of all relevant stakeholders, as well as being informed by the National Goals and Directive Principles of our Constitution, the Medium Term Development Strategy 2005-2010, and Papua New Guinea's international commitment to the Millennium Development Goals. It is consistent with the Vision 2050 and the Development Strategic Plan 2010-2030.

I acknowledge the role of the Institute of National Affairs and the CIMC Secretariat, in particular, Mr. Max Kep, Chairman of the CIMC Informal Sector Committee and the members of the Committee and the Technical Working Group for their commitment and dedication to guide the policy formulation process to its completion. In addition, I acknowledge the commitment shown by the development partners namely, ADB, IFC, AusAID and others through their financial and technical support. I also acknowledge the efforts of the late Mike Manning who commenced the task of drafting the Policy until his untimely passing in 2008, and then Dr. John Conroy for the passion and insights he brought in completing the task, drawing upon his extensive understanding and experience of the informal economy, both in PNG and internationally. Finally, I acknowledge the voluntary effort of Aubrey Charette for undertaking the final editing to make the Policy succinct.

The Department for Community Development recognizes the need for a collaborative and inter-departmental approach to the implementation of this policy, as directed by the National Executive Council Decision number 156/2006, owing to the cross cutting issues which the Policy is designed to address. In this context, relevant government departments and agencies, the private sector, non-governmental and civil society organisations which are concerned with addressing issues of livelihood, wealth creation and the desire to see improvement in the lives of the bulk of our population, should regard this policy as a starting point.



I am adamant that addressing the "stomach" and "pocket" problems of our citizens, by creating opportunities 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.

Joseph Klapat
Secretary
Department for Community Development

ABBREVIATIONS AND ACRONYMS

CSO	Civil society organisation
CIMC	Consultative Implementation and Monitoring Council
DfCD	Department for Community Development
EFTPOS	Electronic Funds Transfer Payment Operating System
EHP	Eastern Highlands Province
GDP	Gross Domestic Product
IEC	Informal Economy Committee
IT	Information Technology
INA	Institute of National Affairs
ICT	Information Communication Technology
ICCC	Independent Consumer and Competition Commission
LLG	Local Level Government
MFI	Micro-finance Institutions
NCCIE	National Consultative Committee on Informal Economy
NCD	National Capital District
NDAL	National Department of Livestock and Agriculture
NEC	National Executive Council
NGO	Non Governmental Organisation
PPP	Public Private Partnership
S&L	Savings and Loans
SME	Small and Medium Enterprises
SHP	Southern Highlands Province
TVET	Technical & Vocational Education & Training
TWG	Technical Working Group
VAT	Value Added Tax

EXECUTIVE SUMMARY

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

The PNG Constitution provides strong recognition and endorsement of 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 an 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 of this policy is to establish the position of the informal economy as the grassroots expression of private enterprise, and to see the informal economy acknowledged as the full and legitimate partner of the formal economy in the economic system of Papua New Guinea.

The mission of this policy is:

- To focus the attention of policy-makers, officials and the private sector on the need to achieve the maximum participation of citizens, both urban and rural, 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 and the 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 it produces, 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 to them increasing 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 'nationalisation' of the grass roots economy.

The policy development process for this document

The National Executive Council (NEC) recognised the need for and endorsed the development of a national policy on the informal sector on 9 August 2006 in its decision 156/2006 at meeting number 29/2006, based on a proposal by the Department for Community Development (DfCD) and the Consultative Implementation and Monitoring Council (CIMC). The NEC created a Ministerial Committee on Informal Economy and mandated it to develop the policy, which it did with a National Consultative Committee on Informal Economy at the bureaucratic level and largely through a Technical Working Group that has overseen the policy formulation process.

Extensive consultations have been held at the national, provincial and regional levels since 2006, and the results of consultations, with commissioned research conducted in 2001 and 2007 supported by (among others) the Government of PNG, the Asian Development Bank, International Finance Commission, Institute of National Affairs (INA) and the Consultative Implementation and Monitoring Commission (CIMC), form the basis of this policy.

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. In the informal economy, people 'get by' without formal employment, earning income however they can. The informal economy is based on the household rather than the individual worker, and households often have a number of sources of income that 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 require support and incentives to increase production of food and cash crops 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. The 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, the informal economy is driven by market forces. Three economic factors can be identified as having stimulated the informal economy: the reductions in statutory minimum wages occurring from the early 1990s, the devaluation and floating of the Kina from 1994 onwards, and the doubling of population to six million people within one 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 growth in the formal economy. In addition, the growth of the informal economy 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.

In addition, 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.

Starting points for the Informal Economy Policy

This policy starts from the understanding of the informal economy outlined above, in addition to the following, frequently unknown ideas:

- **Informal businesses saving and investing within the informal economy increases financial literacy and encourages responsible financial practices, and must precede initiatives to extend credit or increase lending;**
- 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 and can help to 'nationalise' the economy;
- 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;
- Separate policy frameworks will be necessary for the rural and urban informal economies, although many initiatives will benefit both sectors;
- The problems of the informal economy require solutions that go beyond economic policy, and involve coordinating policy across a range of agencies; Informal economy initiatives will serve the ends of macro-economic stimulation and growth, and thus should be understood to complement, and not detract from budget resources for the macro-economy; 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

First of all, because of the economic importance of informal livelihood activities for the majority of this nation's population and therefore the importance of the informal economy, this policy calls for the term 'informal economy' to replace the term 'informal sector'.

Secondly, 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' and complementary services** to households involved in informal economy activities.

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 poorly in providing widespread access to formal financial services for its people, with only about 8 per cent of its population '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 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 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 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, 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 across the country. This will require, among other things, massive efforts to increase the 'financial literacy' of the people.

The policy approach to financial inclusion will follow six 'roads' that are presently the focus of international attention because of their promise for bringing people within the reach of formal financial services. These initiatives commonly rely mostly on private investment from within the financial or telecommunications industries and call for relatively little government investment. The role of government will instead be to provide an enabling policy and regulatory environment for expanded financial inclusion. 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 user accounts, 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;

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 or a public road. It may be 'intangible,' a 'state of affairs' that is clearly of benefit to all citizens and that is achieved by government action. An example of particular relevance in this policy is the state of 'law and order.' The efficient provision of public goods is an important element in the quality of life for citizens, encompassing 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 are constrained; it cannot be expected that it will be able to deliver all public goods and services relevant to the informal economy. To be realistic, this policy identifies certain public goods and services of particular interest to households in the informal economy, which any government intent upon stimulating the informal economy should do what it can to provide:

Prioritised 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; and
- **Urban planning regulations** that permit the conduct of informal economy activities on residential housing allotments, subject to reasonable health and 'public nuisance' requirements.

Prioritised public services:

- **Transport, urban, and regional planning** with informal economy considerations explicitly incorporated;
- **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, and agricultural extension services** with an informal economy focus;
- **Consumer protection** that considers the position of the informal economy;
- **Financial literacy campaigns;**
- **A comprehensive national audit** and documentation of all identifiable informal economic activity in PNG, followed by a survey of international experience;
- **Consideration of micro-privatisation and government procurement policies** supportive of the informal economy; and
- **A sensible resolution of 'the betelnut problem.'**

Chapter 1

INTRODUCTION TO THE POLICY

1.0 Policy background and approach

This National Informal Economy Policy has been developed to underpin the *Informal Sector Development and Control Act 2004* (the Act), and to provide strategic direction for its implementation and for the constructive development of the informal 'sector' (hereafter called the 'informal economy'). The National Executive Council (NEC) mandated the development of this policy in August 2006, endorsing the submission of Department for Community Development (DfCD) and CIMC to establish a highly consultative policy development process that culminated in this policy.

The policy 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 also emphasises the informal economy as a tool for alleviating poverty and improving the distribution of income, as well as its potential for improving the economic well-being of women, who make up a majority of participants in some informal economic activities.

The policy is designed to provide a broad, almost 'whole-of-government' approach to developing and implementing regulations and programs to enable people to earn livelihoods by informal means. It 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 small and medium enterprise (SME) 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.

In the Preamble, for example, 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 language was intended to promote a model of development in which informal economic activities would play a leading role.

The Preamble also calls for '*the family unit to be recognised as the fundamental basis of our society.*' This implicitly recognises the household, which is at the centre of the informal economy. Finally, the support given to the informal economy is further reinforced under the heading of 'Papua New Guinean ways,' which appeals for '*particular emphasis in our economic development to be placed on small-scale artisan, service and business activity.*'

For reasons that are not clear, nothing further was done regarding the informal sector until the passing of the *Informal Sector Development and Control Act 2004*. Now, after more than a third of a century, it is time for the calls made in our Constitution to be answered by the adoption of a national informal economy policy.

1.2 The policy approach

The approach of this policy flows from a new understanding of the informal economy and of its importance. At the outset of this policy, it is necessary to define the informal economy as understood in this policy, 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. Important differences between the formal and informal economies are shown in Table 1 below. 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, 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.

Table 1. Differences between the formal and informal economies

The formal economy is	The informal economy is
Where people work for wages in government, or in private sector enterprises, or where they own enterprises.	Where people 'get by', earning money without having 'jobs.'
Where individuals pay income taxes and where enterprises pay VAT.	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 counted in the gross national product (GDP).	Where what individuals or enterprises produce is not counted in national production (even though they put food on most of the tables in Port Moresby and other towns and cities).
Where individuals are counted in the workforce.	Where individuals are not counted in the workforce, because they are self-employed or engage in household-based activities.
Where workers' time is structured ('8 to 5,' 'Monday to Friday').	Where workers' time is unstructured ('I work whenever I can' and 'I work as long as it takes').
Where workers and enterprises have legal protections and rights.	Where workers and enterprises are without rights 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, work there because the hours are flexible providing the opportunity to, for example, earn cash while the children are in school.

- **Three things have stimulated the informal economy, by forcing people to find cheaper local goods:** reductions in urban minimum wages in the early 1990s, the devaluation and float of the Kina from 1994 onwards and population growth and rising poverty levels since independence.
- **A clear majority of PNG households already receive at least some informal economy income** (see Box 1 for census data confirming this). Encouraging the informal economy to grow will increase the share going to low-income people.

Box 1. Census information regarding participation 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 (Eastern Highlands Province (EHP) and Southern Highlands Province (SHP)) and two coastal provinces (Morobe and 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 District (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 aggregate to more than 100 per cent. This figure is reported in the last row of the table.

The data appears to show that NCD has the lowest overall level of informal economic activity. 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*

- Informal economy businesses are quite different from SMEs. 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.
- 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', not informal 'sector'

The value of goods and services produced in the informal economy could be estimated, but the National Statistical Office has had no resources or mandate to do so. However, although we cannot put a kina value on the informal economy, it 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 (see Box 2 for a fuller elaboration of the economic benefits of supporting the informal economy).

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.

Box 2. Economic benefits from a growing informal economy

- 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 is also a major source of demand for the products of the formal economy.
- 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 'jobless growth' that has occurred in PNG for many years, informal economic activity has helped to distribute the increases in income. 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.
- 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.
- 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.
- As inflationary pressures are reduced, wage demands by formal sector workers (both government and private) will tend to be reduced or moderated.
- If wage increases for public servants can be slowed down, it will assist in balancing government budgets. Better control of government salaries will help to slow down the growth of government expenditures.
- If wage increases in the private sector can be slowed down, it 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.

1.3 Policy development process

Policy Development Process

The CIMC Informal Sector Committee (IEC) 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 of the characteristics of the informal sector in PNG, the Committee commissioned a couple of studies with the intention of using 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), the Asian Development Bank, the 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 14 May 2004.

Following the enactment of the Act, the IEC conducted nationwide awareness through printed publications, role play, radio, workshops and conferences with relevant stakeholder groups. These groups included the PNG Urban Local Level Government Association, town and city managers, 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 three universities, the University of Goroka, the University of Technology and the Divine Word University.

After wide 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 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 August 2006, the NEC endorsed 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 with developing the policy.

In 2007, the TWG put together a preliminary concept paper on informal economy policy. Members of the TWG identified the need for relevant facts and data to inform the formulation of a national policy on the Informal Economy, and a study was commissioned with financial support from the International Finance Corporation. As a result, a comprehensive baseline survey was conducted throughout Papua New Guinea between March and December 2007. The key findings of the survey were incorporated into the TWG concept paper.

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



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

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

The NCCIE met again on 19 May 2009 to endorse the draft policy with the 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 2010 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 the informal economy 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; and

To provide guidelines for creating an enabling policy and regulatory environment in which the informal economy can grow and flourish and the 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 it produces, 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 to them increasing cash incomes;

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

2.3 Starting points for the policy

This policy proceeds on the basis of the following, frequently little-understood points.

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 and 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

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. Household members are 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, and households must be viewed as 'microenterprises' in the informal economy. 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.

Household microenterprises straddle the subsistence economy and the cash (or market) economy. 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. In fact, the volume of urban food production has increased enormously in cities such as Port Moresby and Lae over the past 20 years.

2.3.3 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.

2.3.4 Microenterprise saving and investing within the informal economy increases financial literacy and encourages responsible financial practices, and must precede initiatives to extend credit or increase lending.

Access to financial services is essential for the informal economy to grow and diversify. Some would argue that such growth and diversification is best achieved through access to borrowing, and that financial institutions should focus on extending credit in the informal economy. Proponents of this idea suggest that PNG lacks a savings culture, and that cheap credit is the solution to the savings challenges in the informal economy.

Proposals to focus on lending and credit skip an important step in developing the capacity to be financially responsible, and ignore the fact that many microenterprises find it difficult to save not because of their culture, but in part because they do not have access to savings and depository services. Microenterprises must be given the opportunity to save and reinvest savings in their enterprises through the accumulation of resources through participation in the economy. The process of savings and investing is essential in developing financial discipline and responsibility.

Thus, the process of accumulating resources in the informal economy and making decisions regarding savings and investment is an important step in gaining financial literacy and responsibility. Such financial responsibility is essential for responsibility borrowing and repayment, and thus must precede lending and credit services. Borrowers must be able to demonstrate financial discipline and the ability to make sound financial decisions in order to be eligible for credits. Financial services designed for the informal economy must thus focus on savings and depository services, rather than the extension of credit, for the responsible and sustainable expansion of the informal economy.

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. The growth in the supply of manufactured goods appears to lag behind the growth in foodstuff supplied by the informal economy, 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 access and photocopying are appearing. 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 gaining 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, including 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 Chapter 1, 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 through isolation, and the principal constraint they face is related to infrastructure. Specifically, roads to carry produce to market are usually lacking.

Another significant group may produce a little produce for market, but their market participation does not indicate any real commitment to cash-cropping (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). 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, and 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, housing with more secure tenure 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 Informal economy initiatives will serve the ends of macro-economic stimulation and growth, and thus should be understood to complement, and not detract from budget resources for the macro-economy.

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, and rather also helps meet the needs of the formal economy.

2.3.10 The problems of the informal economy require solutions that go beyond economic policy, and involve coordinating policy across a range of agencies.

Some of the problems within the informal economy are social, legal or environmental in nature, and require a coordinated response. 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 a 'voice' in matters affecting their livelihoods. 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. 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. 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 differ substantially from SMEs, and require substantially different policies and support from that offered in a conventional 'business development' framework.

The *Informal Sector Development and Control 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 and 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.

POLICY STRATEGIES AND PRIORITY ACTION AREAS

This chapter provides a high-level overview of the policy approach to the informal economy, setting the stage for the specific measures outlined in the next chapter.

3.1 The two arms of a strategy to support the informal economy

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' and complementary government services** to households involved in informal economy activities.

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,' one must have access to formal financial institutions and services. Without that access, people are 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 the 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 2). Only about 8 per cent of its population are 'financially included' (or 92 per cent 'excluded'). This compares unfavourably with other Pacific countries, for example the Solomon Islands (15 per cent), Samoa (19 per cent) and Fiji (39 per cent). In Asia, levels of inclusion range from 98 per cent (Singapore) to 12 per cent (Pakistan). 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 the Asia Pacific

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

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

3.2.1 Microfinance as the tool to increase financial inclusion

PNG's poor performance in providing access to financial services suggests that progressively rising levels of financial inclusion should be 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 grassroots 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.

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 across the country.

3.2.2 Prioritisation of deposit, remittance and payments services

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.' However, there may be important differences between the financial services poor householders believe that they need, and what a careful analysis might suggest their needs actually are.

Credit is an attractive solution to struggling businesses, and is more appealing than accumulating capital through long-term savings. However, success in saving provides important benefits to culture, mentality and learning process of the micro-entrepreneur. Further, a successful track record of saving is often necessary for borrowing, and is always 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 irregular income flows, such as remittances, mining royalties or periodic crop receipts (for example, 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 through, for example, mobile phones, 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. In partnership with formal institutions, MFIs are able to arrange payments for school fees, government charges and other obligations for such households. Households may also be able 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 directly 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. However, credit is not the most important financial service need of poor and low-income households in the informal economy in PNG.

3.3 The second policy arm: the provision of public goods and services

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 or a public road. Alternatively, a public good may be 'intangible,' a 'state of affairs' that is achieved by government action and that is clearly of benefit to all citizens, for example, the state of 'law and order.'

The efficient provision of public goods is an important element in the quality of life for citizens, encompassing as it does 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. The poor will do without protection or have to rely on the goodwill of their neighbours.

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. Regarding physical public goods, it is obvious that public works such as transport infrastructure (road, sea, and 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 must 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.

Finally, 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.

3.3.1 Government provision of services necessary to the informal economy

The government should undertake an analysis of the transport and infrastructure needs and capacity of the country as a whole, including regional resource endowments and capacities, in order to effectively plan and prioritise infrastructure needs.

Education, training and skill acquisition are a 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 linked to the limited development, lack of diversity and poor performance of micro-enterprises. Education and training required for the success of 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 room for efforts to improve and diversify product and market development, to analyse skills and raw materials for informal production, and to investigate the potential for micro-privatisation of government services, as well as considering the effects of government procurement policies on the growth of informal business.

There is a need to give a 'voice' and enhanced representation to interest groups involved in, or affected by, the informal economy. Women, together with informal economy helpers and workers, are important groups in this category for whom there may be significant occupational health and safety concerns in working in the informal economy. Consumer protection is also 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 arise 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 Development and Control 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.



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 increased financial inclusion to strengthen the informal economy

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 are developed 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. This policy will build on successful practices in PNG and elsewhere to achieve greater financial inclusion in PNG, using the 'six roads to financial inclusion' outlined in Box 3 in the short and long term.

Box 3. Six roads to financial inclusion

- **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 terminals and PC interfaces to achieve near real-time transaction processing.
- **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.
- **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.
- **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.

- **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.
- **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

4.0.1 General economic policies to increase financial inclusion

To overcome the disadvantages faced by people who are financially excluded in PNG it will be necessary to build an appropriate economic policy framework, promoting good macroeconomic management, a competitive banking system, and 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 also 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. Regulatory measures are set out in Box 4.

Box 4. A general economic policy to increase financial inclusion in PNG

Overarching policy goals	Specific objectives	Specific policy measures for financial inclusion
Good macroeconomic management, a competitive banking system, and the progressive multiplication and diversification of financial service points	<ol style="list-style-type: none"> 1. Economic growth with low inflation, positive real interest rates on deposits and low 'spreads' between deposit and lending rates. 2. Improved access of rural households to financial services. 3. Avoidance of 	<ol style="list-style-type: none"> 1. Maintain a stable macroeconomic environment, avoid overvalued exchange rate and nurture an efficient and competitive financial system. 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

	<p>politicised lending.</p> <p>4. Creation of alternatives to conventional (land-based) collateral.</p> <p>5. Adequate consumer protection.</p>	<p>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> <p>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.</p>
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4.0.2 Policies for financial inclusion in rural 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.

Secondly, rural households will need to accumulate 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 small business owners 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 in Box 5.

Box 5. A rural policy framework for financial inclusion

Overarching policy goals	Specific objectives	Specific policy measures for financial inclusion
Transition from subsistence agriculture and fishing to participation in high-value market activities and the accumulation of savings	<p>1. Achieving the transition from subsistence agriculture by producing and monetising surpluses of traditional staple foods.</p> <p>2. Increased productivity of monetized household production, driven by capital accumulation (including borrowing) and investment, as well as by the capacity to access more land.</p>	<p>1. Increase financial literacy and discipline in households, building on successful savings experience and learning to mobilize household resources.</p> <p>2. Enhance the accumulation of capital from savings, borrowing and remittances, and promote the investment in further informal economy activities.</p>

	<p>3. Shifting to higher value crops, post-harvest processing and off-farm economic activities, specifically for market and requiring more capital.</p> <p>4. Incorporation of household enterprises into supply chains, involving relationships with larger and more formal enterprises; possible graduation from 'micro' to 'small' status and/or to the formal sector.</p>	<p>3. Generate rural household access to a wider range of financial services with access to credit assuming greater importance.</p> <p>4. Ensure formal and continuing relationships between rural microenterprises and banks, cooperatives, MFIs and other financial service providers, including suppliers and distributors.</p>
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4.0.3 Financial system innovations to increase financial inclusion

A number of the financial inclusion policies 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 contains some suggestions for innovative approaches to the problem of increasing access to financial services.

Box 6. A financial system policy framework for financial inclusion

Overarching policy goals	Specific objectives	Specific measures for financial inclusion
Continuation and expansion of financial inclusion policies	<p>1. Improved access to financial services.</p> <p>2. Lower-cost solutions to providing remittance and payment services.</p> <p>3. Linkages between rural financial service providers and formal financial institutions.</p>	<p>1. Establish widespread networks of service points (bank branches and agencies, bank agents, public/private ventures, voluntary and community agencies).</p> <p>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.</p> <p>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.</p>

4.0.4 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 innovation among MFIs by imposing a single 'model' of microfinance on the industry.

There is no strong argument for regulating 'lending-only' institutions so long as there is sufficient competition to ensure that interest rates are kept down to reasonable levels. Prudent regulation is certainly needed to ensure 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. The bank could consider allowing well-established MFIs without banking licenses to accept deposits equal to some fraction of the loans they have extended (a 'positive net balance' rule) to extend the range of deposit-taking.

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 of 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 (S&L co-ops) 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).

Box 7. Regulatory and governance measures to increase financial inclusion in PNG.

Overarching policy goals	Specific objectives	Suggestions for specific measures for financial inclusion
Increased presence and diversity of professional micro-finance providers.	<ol style="list-style-type: none">1. Avoid the 'rush to regulate' MFIs.2. Avoid unnecessary regulatory barriers to the engagement of commercial banks in micro-finance.	<ol style="list-style-type: none">1. Avoid comprehensive legislation for the microfinance sector, and embrace adequate depositor protection and balance international obligations (anti-money laundering) against the lower transaction costs of less conventional remittance providers. Allow well-performing MFIs to be able to mobilize savings on a 'positive net balance' basis.2. Ensure banking regulations for collateral and loan provisioning do not penalize

	<p>3. Encourage professionalism in operations of unregulated MFIs.</p> <p>4. Set up cost- and risk-sharing arrangements for public/private partnerships.</p> <p>5. Encourage credit unions and S&L co-ops to stabilise and modernise their operations and to learn from microfinance.</p>	<p>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.</p> <p>3. Support to MFI efforts to agree performance standards and self-regulation arrangements, and recognition of and consultation with MFI representative bodies.</p> <p>4. Example: give commercial bank staff access to government offices in remote areas and agree terms for use and security of operations.</p> <p>5. Ensure legislation and supervision for credit unions and S&L co-ops should not prevent them from operating on modern microfinance principles.</p>
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4.1 The enhanced delivery of public goods to strengthen the informal economy

The second key policy action area is 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 facilitating and enabling economic production and exchange. 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. The nature of public goods, and the important distinction between 'tangible' and 'intangible' public goods, was explained in chapter 3. 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.

Public goods are important for all citizens, and for both the formal and informal economies. The formal economy, in general, is better able to manage in situations where the provision of public goods is inadequate. If, for example, 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. As they tend to lack political 'voice,' they are not well placed to do anything about it.

4.1.1 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 affairs,' quite different from physical objects like roads or bridges.

In particular, the government must provide:

- Law and order, including freedom from the arbitrary misuse of official power: 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, law and order means freedom from the fear of illegal violence or robbery, or the arbitrary or unlawful actions of officials, including police.

- **Protection of property rights:** In order for people to conduct their informal businesses confidently, their rights as owners of property must be protected and land and possessions must not be subject to arbitrary seizure. Losses to illegal seizures reduce the incentives to produce in the informal economy and deter microentrepreneurs from producing.
- **Freedom to engage in advocacy or lawful political activity in defence of personal or group interests:** Informal economy operators should be free to organise, to protect their group interests and to influence public policy in order to be adequately represented in the social policy of PNG and to ensure their interests are attended to in the political process. All of these rights have to be protected by a framework of laws that are enforced efficiently and impartially.

4.1.2 Creation of an enabling regulatory environment for the economy

Regarding economic affairs, certain 'rules of the game' and the laws that create them - the enabling framework of the economy - 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: Competitive markets support efficient production and low prices for consumers. As an example of the benefits to market competition, 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.
- **An enabling regulatory and supervisory environment** supporting the growth of a competitive and efficient financial sector, with a diverse and sustainable microfinance sub-sector: 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.
- **A competitive telecommunications environment**, with encouragement for innovation and the rapid spread of mobile phone and internet coverage: PNG has already begun to reap the rewards of a degree of liberalisation in the telecommunications market, and 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. 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. Additionally, beyond the direct economic benefits, the social implications of efficient and competitive information and communications technology (ICT) are enormous.

If the government works to ensure these requirements are met, then the private sector will be freed to create 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, particularly as the numbers of people involved in the informal economy are so much greater than those employed in the formal private sector.

4.1.3 Provision of 'physical' public goods (infrastructure)

Infrastructure has great 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, and interact with deficiencies in the provision of intangible public goods, particularly law and order, to hold up economic development and growth. Both the informal and formal economy would benefit from infrastructure such as:

- Transport infrastructure (road, sea, and air): Inadequate roads and other transport facilities are often blamed for the failure to maximise smallholder income in cash-cropping. Inadequate transport infrastructure also combines with deficiencies in intangible public goods to further 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 do business with small growers outside the towns. Similarly, banks think carefully about collecting and transporting cash outside their branch offices.
- Urban markets and other 'spaces' for informal economic activities: 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 (for example, food processing machines, other equipment or tools) or from selling higher value items in 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.
- Education and health facilities: Education and training services designed to increase the productivity and diversity of the informal economy require facilities for formal and informal education, adult education, technical and vocational training and specific skills acquisition.
- Agricultural research stations and extension training centres: Deficiencies in agricultural extension are blamed for the inability of smallholders to improve quality, and hence increase the returns they receive from cash crops. Providing regional facilities for agricultural extension and marketing and research work is necessary to promote the transition of semi-subsistence farmers to commercial agriculture.

Governments may provide infrastructure directly from the national budget, or finance them in partnership with private interests in public-private partnerships (PPPs). The government may also license the private sector to provide them, as often occurs in PNG for mineral or forestry resource projects.

4.1.4 Provision of complementary government services

Planning services

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 essence, public goods require complementary government planning services in order to be delivered most effectively, including:

- 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).

These services are likely to be equally of concern for both the formal and informal economies. In rural areas close to 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 retaining 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.

Most importantly, it is vital that the government consider the informal economy in its planning processes. 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 includes 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.

Education services

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 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. Literacy and numeracy are the building blocks of financial literacy, an essential competency for successful self-employment. Financial literacy training can start in the primary schools, with teachers developing financial literacy by using examples from the world of money and finance. Young adults who are 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, preferably in English, and numeracy. They then have a better base for acquiring applied knowledge and skills in 'adult' or 'informal' education, or through 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, training should focus on those already active in informal economy activities. 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 or increase their 'financial literacy.'

As a general principle, informal economy training should be offered on the basis of the interest and aptitude of participants, and need not offer certification. The 'diploma disease,' in which school-leavers and the educated unemployed accept any and all training opportunities simply to increase their paper qualifications and without regard to the intended purpose of the training, is

already a problem. 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 learning the actual skills being taught in 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. The government could join financial institutions in mass communications campaigns to disseminate information about money management.

Business development

Business development services are more generally associated with 'small business' development, but do have a role in regard to the informal economy. Although such services are expensive and serve a small number of people relative to mass financial literacy campaigns, 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. There may be scope for some 'South-South' development cooperation with PNG's neighbours, although finding the right host institutions in those countries would be critical.

Micro-privatisation

Governments in a number of developing countries have decided to attack two problems simultaneously, tackling both unemployment and deficiencies in public services such as street cleaning, rubbish removal and the maintenance of public water supplies through 'micro-privatisation.' Public services are generally provided by public employees, but issues such as low pay, corruption and the power of public sector unions leave the work undone. Micro-privatisation contracts 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 and possibly 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.

Occupational health and safety

Workers in the informal economy often have legitimate concerns regarding occupational health and safety, 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 inspection roles where 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 exceed informal economy 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.

Consumer protection

Informal economy actors have a strong interest in consumer protection, which is legislated in PNG. The principal area of concern is likely to be food hygiene and safety, particularly regarding 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. However, there is a need for balance in the approach of local government and public health authorities regarding these problems. It is desirable to avoid unnecessarily high standards in this area, as in all areas of informal economic activity, due to 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.

Political representation

While not exactly a public service, ensuring political representation and a voice to informal economy actors is essential both to the growth of the informal economy, and to ensuring that the other public goods and services that benefit the informal economy consider the interests of the informal economy and are delivered in line with the needs of the informal economy. Interest groups which deserve to be heard 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. 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 political voice for informal enterprises is also necessary to balance the voice of formal businesses, where the interests of the two clash. Formal businesses are usually represented by private sector organisations, and know who to approach and what to say in defence of their own interests. They often regard the informal enterprises in their neighbourhoods competitors, and disregard them as untidy, insanitary, and as attractive to crime, perhaps deterring customers from entering their own shops or offices. These may be legitimate concerns, but as with concerns about

food safety, there is a need for balance and the application of realistic standards when judging such complaints. Authorities must make judgements concerning whether complaints are well-founded, or whether they simply represent anti-competitive action by vested interests, and giving informal economy actors a voice and legitimacy increase the awareness of the authorities and their ability to make balanced judgments.

4.1.5 Prioritised public goods and associated government services

It is clear from the arguments in this chapter that the provision of public goods will support the informal economy, and will often also help to grow and develop the formal economy. The public goods needs of the formal and informal economies overlap to a very large extent, which has the advantage of generating limited competition for budget resources between the formal and informal economies in terms of infrastructure. The informal economy benefits from successful outcomes of a wide range of already-existing departmental work programs.

However, despite the logic of these arguments, it is unrealistic to expect that the government will be able to deliver the full 'shopping list' of public goods to be provided for the informal and formal economy. In the interests of moving forward, certain public goods of special value to the informal economy have been identified and should be prioritised. These areas require concrete budget proposals and special attention to how government might catalyse the private provision of public goods and services. Because of the complementary nature of public goods and public services, these two categories are considered together in the priorities list below:

Prioritised 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; and
- **Urban planning regulations** that permit the conduct of informal economy activities on residential housing allotments, subject to reasonable health and 'public nuisance' requirements.

Prioritised public services:

- **Transport, urban, and regional planning** with informal economy considerations explicitly incorporated;
- **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, and agricultural extension** services with an informal economy focus;
- **Consumer protection** that considers the position of the informal economy;
- **Financial literacy campaigns**;
- **A comprehensive national audit** and documentation of all identifiable informal economic activity in PNG, followed by a survey of international experience;
- **Consideration of micro-privatisation and government procurement policies** supportive of the informal economy; and
- **A sensible resolution of 'the betelnut problem.'**

INFORMAL ECONOMY POLICY IMPLEMENTATION

5.0 Introduction

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

The implementation of this policy will require close collaboration and strong partnership between governments, private sector, NGOs, churches, and civil society organizations (CSOs). An overview of the roles and responsibilities of each stakeholder in implementing this policy is provided below:

- The National Government is responsible for coordinating policy implementation. 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 governments are responsible for translating national goals and strategies into plans, projects, and programs appropriate to the conditions and capabilities of each province. 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 special budget allocations for this policy.
- The local level governments (LLGs) are responsible for 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 special budget allocations for this policy.
- The private sector and in particular financial and telecommunications sector institutions and organizations will play a very important role in the implementation of the informal economy policy, in close collaboration with the 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. CSOs and individuals will aid the implementation of the Informal Economy Policy in terms of obtaining information, providing education and communications, and in assisting responsible decision-making at a personal and community level.

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

5.1 Department for Community Development

DfCD is the lead agency in the implementation of the Informal Economy Policy. The specific roles of the DfCD are to:

- Coordinate and monitor the implementation of policy, in collaboration with other agencies and development partners;
- Network with provinces and districts through memoranda of understanding to implement the Integrated Community Development (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 ICD Policy;
- Determine policy implications of significant changes in the socioeconomic conditions of 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 of and budget implications for the informal economy are fully considered and addressed. Its responsibilities 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;
- Ensuring that district finance officers are involved in financial literacy training and education;
- Ensuring that the District Treasury Roll Out program integrates banking services, including deposit taking and withdrawal;
- Providing competitive bidding prices to encourage commercial banks and microfinance institutions to service the rural districts; and
- Reviewing financial legislation to allow S&L 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 that the priorities of the Informal Economy Policy reflected in the Strategic Development Plan 2010-2030 and the Medium Term Development Plan 2011-2015 are appropriately budgeted in the respective annual budgets.. Its responsibilities will include:

- Ensuring respective annual budget submissions for projects or programs under this policy are considered favourably including 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 implications for the informal economy must appear on the 'check list' for evaluation of expenditure priorities.

5.4 Department of Agriculture & Livestock and the 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.

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

- Ensuring agriculture education and training requirements, including funding, program relevance and institutional capacity, for extension officers and farmers are adequately met; and
- Ensuring that NARI and other Agricultural research organisations are adequately resourced to undertake research requirements of the rural informal economy.

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

- Ensuring the needs of and opportunities available to farmers are properly researched, including both agronomic and market research for products with good market potential;
- Translating research information into easily communicable material for dissemination to farmers;
- Forming partnerships with extension agencies to ensure that research information is communicated accurately to farmers; and
- Assisting in finding markets for products with domestic and export market 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 using public-private partnerships to deliver agricultural extension services to the rural informal economy participants.

The models DPIs use 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. Its responsibilities will include:

- Training the health inspectors of town authorities on public health and hygiene standards with respect to the needs and position of the informal economy; and
- Any other initiatives or programs that will ensure the safety of the public from food poisoning, cholera, the spread of sickness and diseases, etc.

5.7 Department of Education

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

- Designing financial literacy programs in Technical and Vocational Education and Training (TVET) programs;
- Ensuring high-quality primary education that builds their literacy and numeracy skills, along with a sense of the wider world in which PNG is placed;
- Being attentive to the needs of rural and urban informal economy participants in TVET programs;
- Offering training to informal economy participants on the basis of the interest and aptitude of participants, not for certification, and with the objective of opening participants' eyes to new possibilities, equipping them with specific skills, and increasing their capacity to handle money; and
- Working in collaboration and partnership with other education service providers such as churches and other NGOs to address the needs of informal economy participants.

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 recognises that the majority of the informal economy participants will remain in the informal economy and that informal economy needs are "unique" and do not mimic SMEs, who are the focus of DCI's mandate, there are certain initiatives and experiences of DCI that can inform the implementation of the informal economy policy. Its responsibilities will include, integrating:

- 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 and Appropriate technology promotion in terms of transfer of skills, knowledge and experience
- Aligning informal economy to the private sector growth strategy as the grassroots expression of private enterprise.

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. Its responsibilities will include:

- Ensuring that informal economy interests are reflected in the National Decent Work Policy, which includes social protection;
- Teaching principles of entrepreneurship with special emphasis on the informal economy;
- Advocating, training and building awareness on human rights issues in the world of work, including in the informal economy; and
- Developing and implementing special programs 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 maintaining law and order in 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 intentions of this Policy are clearly communicated and understood by the Police Department and Police Personnel. Police Department responsibilities will include:

- Working through existing networks such as the Law & Justice Sector Committee to understand the needs and nature of the informal economy and the intentions of this policy;
- Participating in awareness workshops on the *Informal Economy Policy and the Informal Economy Development and Control Act*;
- Ensuring law and order regime presence within the vicinity of the informal economic activities areas; and
- Participating in other awareness-raising 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 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 Monitoring and the Development Partners to undertake the computation and valuation of informal economy production, including through engaging technical expertise in this area; and

- 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 LLGs, in collaboration with the PNG Urban Local Level Government Association Secretariat and town authorities, has a fundamental role to play in providing the enabling policy and regulatory environment in the provision of public goods and services, including opportunities and space for informal economy participants to engage in their informal activities. LLGs' responsibilities 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 and 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 explicitly incorporated;
- Profiling towns in PNG in partnership with development partners and other overseas sister towns and cities;
- Considering micro-privatization and government procurement policies supportive of the informal economy; and
- Sensibly resolving 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 informal economy activities. 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 initiating the planning of urban town areas. Rural LLG authorities also need to collaborate with urban town authorities to address the needs of their farming populations who commute to cities to sell their produce. Town authorities' responsibilities will include:

- Designating areas in the towns and cities and strategic locations in rural areas for informal economy activities;
- Equipping marketplaces with clean water, electricity and clean toilet facilities, provided on a 'user pays' basis, in urban centres and at strategic locations 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 marketplaces and other 'spaces' for the informal economy that supports orderly informal economic activity;
- Ensuring 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 Papua New Guinea

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 financial institutions to provide innovative financial products. Its responsibilities will include:

- Maintaining a stable macroeconomic environment, avoiding an over-valued exchange rate, and nurturing an efficient and competitive financial system which can expand its services to cover the whole population;
- Facilitating 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;
- Encouraging 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;
- Creating and supporting a lead 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;
- Supporting the lead body and the Micro Finance Competence Centre to assist industry-leading MFIs to achieve international best practice standards; and
- Supporting trials of 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 in facilitating 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. Its responsibilities will include:

- Accommodating regulatory concerns emerging at the interface of the telecommunications and financial services industries that arise due to the emergence of 'mobile phone banking;' and
- Regulating 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 the 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. Its responsibilities will include:

- Establishing a working mechanism for stakeholders involved in the implementation and monitoring of the financial arm of the policy;
- In collaboration with the Department for Community Development conduct awareness on the Informal Economy Policy;
- Undertaking a comprehensive national audit and documentation of all identifiable informal economic activity in PNG and considering a survey of international experience;
- Engaging with donors on potential informal economy projects which will advance this policy or help to create a 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, in particular the financial institutions and the ICT companies. Improving access to market information for 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 trainers in financial literacy,
- Piloting innovative financial products through PPPs which will involve government and donor partners,
- Assisting the Secretariat in monitoring and reporting on the implementation of the financial arm of this policy,
- Rolling out financial literacy training programs through microfinance stakeholders; and
- Developing and disseminating awareness materials on financial literacy and disseminating them in consultation with commercial banks.

5.18 Collaborating and supporting agencies

Other relevant agencies (including some of those mentioned above) will also be called upon to play a collaborating or supporting roles outside their main areas of responsibility and expertise.

6.0 APPENDICES

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG

Strategic Objective 1: To initiate the necessary **policy and regulatory measures** to secure greater financial inclusion of **all** households in PNG

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
1.1 To maintain a stable macro-economic environment, avoid an over-valued exchange rate and nurture an efficient and competitive financial system which can expand its services to cover the whole population.	Bank of PNG (BoPNG) and Department of Treasury (DoT)						<ul style="list-style-type: none"> • Low inflation rates; • Positive real interest rates on deposits; • Low 'spreads' between deposit and lending rates; and • A stable and competitive exchange rate. 	None.
1.2 To commit the government to progressive improvements in the aggregate level of financial inclusion over time as a key objective of financial sector policy.	BoPNG, DoT						<ul style="list-style-type: none"> • Progressive improvements in the aggregate level of 'financial inclusion' and the reduction of inter-regional differences in measures of inclusion; • Calculation and periodic publication of internationally-accepted measures of financial inclusion, both nationally and by region; and • Commitment by the Government of PNG (via the Treasury) to targeted annual improvements in the level of aggregate financial inclusion and to the participation of PNG in any PEC Finance Ministers' policy initiatives on financial inclusion. 	
1.3 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, by measures including cautious but progressive removal of barriers to the diversification of financial service providers (including new 'micro-banks') with an emphasis on rural deposit-mobilisation and remittance and payment services.	BoPNG, DoT, Department of Finance (DoF), Department of National Planning & Monitoring (DNPM), commercial banks, National Development Bank, MFIs, S&L co-ops. Stake-holders to be consulted on particular issues may include the ICCC, Department of State Enterprises (DSE), Telco operators						<ul style="list-style-type: none"> • CIMC convenes a 'Working Group on Financial Inclusion' to monitor the status of financial inclusion in PNG and to review relevant aspects of the policy and regulatory environment for financial services on an ongoing basis. Members of the Working Group would include DoT, BoPNG, DfCD, DNPM, representatives of regulated banks and micro-banks, MFIs and S&L co-ops. • After consultation with other relevant stakeholders, Working Group reporting to the CIMC Informal Economy Sectoral Committee periodically on progress made in improving the policy and regulatory environment for financial inclusion, with particular attention to the scope for the diversification of financial service providers, and the obstacles, including prudential concerns and the adequacy of supporting infrastructure and government services, to achieving this goal. 	

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG

Strategic Objective 1: To initiate the necessary **policy and regulatory measures** to secure greater financial inclusion of **all** households in PNG

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
<p>1.4 To facilitate financial transactions using mobile telephony, including:</p> <ul style="list-style-type: none"> • Provision of alternatives to conventional loan collateral requirements (see 2.4 below); • Removal of any remaining interest rate caps; • Avoidance of loan subsidies and credit guarantees for micro-enterprise lending; and • Adequate consumer protection for customers of financial institutions, especially at the household level. 	<p>Commercial banks and telecommunication companies</p>						<ul style="list-style-type: none"> • Scope for the increased provision of financial services using mobile telephony and removal of the obstacles to achieving this goal, whether regulatory, technical, commercial, or deriving from the structure of the industry; • Scope for creating and maintaining physical collateral registers and/or 'financial identity' records for individuals, designed to ease constraints on access to bank loans due to collateral requirements; • Whether any interest rate caps constrain the availability of credit to micro-enterprise and whether any government loan subsidies or credit guarantees operate to distort the provision of financial services for households and micro-enterprises; and • Whether existing consumer rights legislation and enforcement are adequate to the circumstances of a rapidly changing industry and whether amendments or improvements are required. 	
<p>1.5 To facilitate a competitive telecommunications environment, with encouragement for innovation and the rapid spread of mobile phone and internet coverage.</p>	<p>ICCC, DSE, BoPNG, Telco operators, commercial banks</p>						<ul style="list-style-type: none"> • Current policy-making processes for mobile telephony need to accommodate regulatory concerns emerging at the interface of the telecommunications and financial services industries. These arise due to the emergence of 'mobile phone banking.' The policy inputs of BoPNG (as the financial regulator) and the banks (as the providers of mobile banking services) will assist the regulatory process for telecommunications. For this purpose, CIMC should report to the National Consultative Committee on relevant outputs from the work program of the 'Working Group on Financial Inclusion,' the creation of which is recommended under 1.3, above. 	

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG

Strategic Objective 1: To initiate the necessary policy and regulatory measures to secure greater financial inclusion of all households in PNG

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
1.6 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. Consideration should be given to permitting a limited degree of deposit-taking by 'best practice' MFIs and facilitating operational linkages between MFIs and regulated financial institutions (see 2.5 below).	BoPNG, Microfinance Competence Centre (MCC), MFIs, S&L co-ops, commercial banks, donors						<ul style="list-style-type: none"> • Creation and maintenance of channels of communication between BoPNG, the MCC and the microfinance sub-sector; • The creation and institutional support of a representative body for MFIs, 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 representative body and the MCC to assist industry-leading MFIs to achieve international best practice standards; and • Initiation of pilot projects, permitting best-practice MFIs to engage in limited deposit-taking on a 'positive net balance' basis. 	
1.7 To set up cost- and risk-sharing protocols for public/private partnerships (PPPs) in financial services provision (see 2.1 below).	DoT, DoF, DNPM, commercial banks, MFIs, BoPNG, MCC, National Training Centre) (NTC), Department of Education (DoE), OHE, DfCD, CIMC, commercial banks, NGOs, CSOs, donors						<ul style="list-style-type: none"> • Consultation with regulated financial institutions concerning the objectives and modalities of operational linkages between banks and MFIs and with MFIs concerning their experience of such arrangements; • Encouragement of regulated institutions and MFIs to conduct pilot projects to trial such linkages; • Study of experience to date, including that of the DoF in providing private financial services via provincial cash offices; • Consultation with financial institutions concerning their views on the costs and benefits of PPPs in service provision; and • Collation of 'lessons learned' for the benefit of potential new stakeholders. 	



Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG								
Strategic Objective 1: To initiate the necessary policy and regulatory measures to secure greater financial inclusion of all households in PNG								
Goals	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
<i>Note: Items in bold lettering indicate a priority intervention</i>		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
1.8 To promote education and other services to increase the financial literacy of the general population.	DoT, DoF, DNPM, commercial banks, MFIs, BoPNG, MCC, NTC, DoE, OHE, DfCD, NGOs, CSOs, donors						<ul style="list-style-type: none"> • Agreement on the scope, target audiences, content, and responsibility for the conduct of, financial literacy awareness-raising and training, including: <ul style="list-style-type: none"> • Securing commitment of key actors to a national financial literacy campaign; • Agreeing on the segmentation of target audiences and the priority to be accorded to each segment (eg. urban wage-earners, rural cash-croppers, school children etc); • Agreeing on the goals and content of messages to be conveyed to each segment; and • Allocating responsibility for preparation and delivery of messages and/or training for each segment; and • Agreeing processes for evaluation and feedback and allocating responsibility for data collection and analysis. • Preparation of annual reports on the national financial literacy program with data, description and analysis as follows: <ul style="list-style-type: none"> • Strategic decisions made, including the identification of target population segments, the messages appropriate for each segment and the media to be used to convey these messages; and <p>Firm commitments of participation given by institutions and agencies, together with details of their responsibilities and accepted by these.</p> <ul style="list-style-type: none"> • Program data covering key variables such as curricula or manuals prepared, training courses (including training of trainers) conducted and numbers of participants, printed materials distributed and other 'messages' disseminated by non-print media. These should be related to the 'segments' to which they were targeted and the contributions of participating agencies. • Feedback received, evaluations done and any changes of strategy occurring on the basis of experience with the program 	

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG

Strategic Objective 2: To facilitate financial systems innovations required to secure greater financial inclusion of all households

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
2.1. To establish widespread networks of financial service points. These could involve bank and 'micro-bank' branches and agencies, bank agents, public-private initiatives, voluntary and community agencies and 'linkage' arrangements (see 2.5 below).	BoPNG, commercial banks, MCC, MFIs, DoF and CIMC						<ul style="list-style-type: none"> • Annual reports and analyses of the growth and diversification of services, in terms of the following variables: • Numbers of bank branches and agencies (including regulated micro-banks) and geographic coverage, by institution; and • Numbers and categories of entities appointed as banking agents and geographic coverage, by institution; • Incorporation of data concerning public-private partnerships for financial services (see 2.6 below); • Data concerning the operations and geographic coverage of MFIs and community-based microfinance service providers, provided in concert with the MCC and the peak body for MFIs (1.5 above); and • Data concerning linkage arrangements (2.5 below). 	
2.2 To facilitate lower-cost solutions for remittance and payment services, including international remittances.	BoPNG, commercial banks, MCC and donors						<ul style="list-style-type: none"> • Collection of data for 'household-sized transactions' and tracking of changes in remittance costs, by type of service and provider, for domestic and international transfers; • Reports on and analysis of new market entrants and products, including those offered by 'non-conventional' operators; and • Arrangement of financial literacy training for PNG citizens recruited by overseas labor schemes. 	
2.3 To encourage provision of financial services using mobile phones and to make households aware of consumer protection remedies governing financial services.	Commercial banks, Telco operators, Bank PNG, SED						<ul style="list-style-type: none"> • Provision of annual reports and analyses of: • Services or products available and costs, both Telco costs (including interconnect charges) and bank fees; • Mobile coverage in geographic regions and on numbers of mobile phones in use by region; • New mobile banking products and providers as they are introduced; and • Obstacles to the growth in diversity and volume of banking transactions and on the entry of new providers to the market. 	

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG								
Strategic Objective 2: To facilitate financial systems innovations required to secure greater financial inclusion of all households								
Goals	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
<i>Note: Items in bold lettering indicate a priority intervention</i>		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
2.4 To assist in overcoming collateral problems by, among other methods, facilitating the acquisition of 'financial identity' credentials by growing numbers of citizens.	Commercial banks, donors, CGAP and DfCD.						<ul style="list-style-type: none"> Provision of the following reports and analyses and annual updates: Analyses of current bank requirements with regard to collateral for household-level loans, information requirements for appraisal of such loans, formal credit records maintained by financial institutions and information exchange between institutions; Analysis of innovations in credit appraisal for household-level customers, including new technologies for client identification and authentication; Research on the specifications and costs of financial identity systems appropriate for household-level customers of PNG banks and reporting on bank policies with respect to such innovation; and Identification and discussion of relevant technical innovations potentially applicable in PNG 	
2.5 To facilitate linkages between rural and community financial service providers and regulated financial institutions.	Commercial banks, DoF, CIMC, BoPNG, S&Ls						<ul style="list-style-type: none"> Provision of the following reports and analyses annually: Descriptions and analysis of any formal financial service linkage arrangements entered into by regulated financial institutions with MFIs, S&Ls or community-based organisations; and Where such arrangements exist, reports on data concerning their growth over time, in terms of services involved, numbers of clients and estimates of value. 	
2.6 To initiate and expand public/private partnerships in financial service provision, especially in rural areas.	Commercial banks, DoF, BoPNG, S&Ls, MFIs, DoF, DoT, DNPM						<ul style="list-style-type: none"> Provision of annual data on and analysis of the following: Public/private partnerships for the provision of financial services, classified by types of partnership, services provided, locations served and numbers of clients; Cost and revenue-sharing arrangements; and Responsibility for risks attached to the provision of services outside conventional bank premises and by non-bank staff and for handling and transporting cash beyond bank premises. 	

Focus Area 1: To facilitate sustained increases in the level of 'financial inclusion' in PNG

Strategic Objective 2: To facilitate financial systems innovations required to secure greater financial inclusion of all households

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
2.7 To encourage S&L cooperatives to stabilise and modernise their operations by learning from the innovations of successful micro-banks and MFIs.	BoPNG, MCC, MFIs, NGOs, DoE, NTC, DfCD, OHE, vocational centres, donors						Reports on the progress by S&Ls in increasing financial inclusion as supplements to BoPNG reports concerning the financial operations of S&L cooperatives with qualitative information concerning improvements and innovations in S&L operations and any expansion of coverage to non-salaried members and non-urban communities.	
2.8 To assist in overcoming barriers to opening bank accounts by using birth certificates, among other documents, as a form of identity.	Commercial banks, MFIs and DfCD						<ul style="list-style-type: none"> • Increased numbers of accounts opened using birth certificates as a form of identity; and • Increased numbers of birth registrations and other civil registrations. 	



Focus Area 2: To facilitate the provision of "public goods" and complementary public services to support the development of the informal								
Strategic Objective 1: To facilitate the provision of public goods, both tangible and intangible, to support the development of the informal economy								
Goals	Responsible agencies / organisations	2	2	2	2	2		
<i>Note: Items in bold lettering indicate a priority intervention</i>		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
		Performance indicators					Estimated resource needs¹	
1.1 To facilitate provision of intangible public goods, including: law and order, freedom from arbitrary misuse of power, protection of property rights, and freedom to engage in advocacy.	Police Department, CIMC, Urban Town Authorities, Secretariat, DfCD, DNPM, Chamber of Commerce, NGOs, donors						<p>Activities involving consultation and awareness-raising, including:</p> <ul style="list-style-type: none"> • Representation and presentation at the Annual Governors and Provincial Administrations Conference; • Representation and presentation at the Annual LLG Presidents Meeting • Representation and presentation at the Annual Urban Town Authorities Conference; • Meetings with CIMC Law and Order Sectoral Committee; • Consideration of necessary amendments to the Informal Economy Development and Control Act 2004; • An analysis of current police training and culture, and improvements to create a more disciplined and responsible Police Force; and • An analysis of the security industry, including establishing an industry body representing security firms, developing a code of conduct for security firms and security personnel, and training institutions to educate security personnel on the code of conduct. 	
1.2 To facilitate, in the commercial sphere, the provision of intangible public goods including:	CCC, CIMC, SED, BPNG, Banks, Treasury, DNPM, Chamber of Commerce						<p>A program of consultations and awareness-raising activities, stressing that the informal economy is an integral part of the private enterprise system suffering from similar challenges as those threatening the development and prosperity of formal economic enterprise, including:</p> <ul style="list-style-type: none"> • Representation and presentation at the Annual Governors and Provincial Administrations Conference; • Representation and presentation at the Annual LLG Presidents Meeting; • Representation and presentation at the Annual Urban Town Authorities Conference; and • An analysis of case studies, including public-private partnership initiatives, that show the rapidly developing potential of telecommunications technology for financial inclusion and the stimulation of both the formal and informal economies. 	
<ul style="list-style-type: none"> • A competitive market environment supportive of private enterprise; • A regulatory and supervisory environment supporting a competitive and efficient financial system and microfinance sub-system; and • A competitive telecommunications system that is open to innovation 								

Focus Area 2: To facilitate the provision of "public goods" and complementary public services to support the development of the informal

Strategic Objective 1: To facilitate the provision of public goods, both tangible and intangible, to support the development of the informal economy

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs ¹
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
<p>1.3 To facilitate the provision of physical public infrastructure, such as:</p> <ul style="list-style-type: none"> • Transport infrastructure (road, sea, and air); • Urban markets and other 'spaces' for the informal economy; • Education (both formal and informal) and health facilities; and • Agricultural research stations and extension facilities 	<p>DoT, DAL, DoE, NDoH, DNPM, DfCD, DoW, Urban Town Authorities, Urban LLG Secretariat, Regional Secretariats, Chamber of Commerce, CIMC, Unifem, Donors</p>						<ul style="list-style-type: none"> • Criteria for budget screening in the national and sub-national budget processes for any transport infrastructure budget submissions include the impact on the informal economy; • Consultations at the Governors and Provincial Administrators Conferences and the Annual LLG Presidents & Urban Town Authorities Conferences include the consideration of urban markets and other 'spaces'; • An analysis of existing physical market facilities, with a view to preparing template design(s) for new facilities; • Financial modeling for the management of sustainable market facilities (including calculations of any subsidies required and their phase-out over time); • A study of PPP arrangements as a model for improving and managing market infrastructure facilities; • A feasibility study for locating informal markets at or near particular airports, with travelers as the target market; • Discussions concerning a national campaign for financial literacy take into account the needs of education for the informal economy; and • Discussion of the research and training needs of agriculturalists making the transition from subsistence to commercial agriculture take into account the needs of agricultural research and training. 	



Focus Area 2: To facilitate provision of public goods and complementary public services to support the development of the informal economy

Strategic Objective 2: To facilitate provision of public services at all levels of government to support the development of the informal economy

Goals	Responsible agencies / organisations	2	2	2	2	2	Performance indicators
<i>Note: Items in bold lettering indicate a priority intervention</i>		0	0	0	0	0	
		1	1	1	1	1	
		1	2	3	4	5	
2.1 To facilitate the provision of public services.	DfCD, DNPM, CIMC, Urban Town Authorities and DAL						<p>Studies and consultations to identify the service needs of the informal economy and opportunities for its growth and diversification, including:</p> <ul style="list-style-type: none"> • An audit of informal economy activities currently being undertaken in PNG, with an analysis of the implications for government service provision; • A study of informal economic activities in selected countries of the Asia Pacific region to identify opportunities applicable in PNG; • A pilot study analysing regional capacities and resource endowments, including identifying regional growth centres; • Meetings with Urban LLG Secretariat and Urban Councils on urban management and spatial planning issues relevant to the informal economy; • Specific skills training workshops; • A study of the feasibility of 'micro-privatisation' of public service functions to stimulate the informal economy; • Setting up of an Apex body as the voice for the informal economy participants; • Revision of the Informal Sector Development and Control Act 2004 to reflect the Informal Economy Policy; • Follow-up to the nationwide 'audit' of informal economy activities, including the production of simple videos with Tok Pisin voiceover showing informal productive activities for broadcast on Government TV channel in what is now 'dead time' (the 'rolling loop'); • Study on the establishment of a charcoal-production industry, with attention to economic and social benefits and potential environmental costs; and • A pilot program incorporating training for the rural informal economy into efforts at provincial level to revive agricultural extension activity.

Focus Area 3: Institutional framework for the implementation of the National Informal Economy Policy (2011-2015)

Strategic Objective 1: To strengthen the organisational structure and the capacity of the Department for Community Development and the CIMC Secretariat to coordinate the implementation of the National Informal Economy Policy.

Goals <i>Note: Items in bold lettering indicate a priority intervention</i>	Responsible agencies / organisations	2	2	2	2	2	Performance indicators	Estimated resource needs ¹
		0	0	0	0	0		
		1	1	1	1	1		
		1	2	3	4	5		
1.1 Enhance the capacity of the CIMC Secretariat to coordinate the implementation of the financial inclusion policy strand.	CIMC Secretariat/ Members of TWG / Informal Sector Committees						<ul style="list-style-type: none"> • Formation of a Financial Inclusion Working Group to provide oversight and guide the implementation of the financial inclusion policy strand; • Workshop / training on PNGs financial system, including microfinance sub-sector; • Workshop / training on BPNG Legislation and regulations governing commercial banks and microfinance institutions; • Meetings / workshop with PNG Institute of Microfinance; • Meetings with State Enterprises Department on ICT Policy; and • Awareness meetings or workshops on Informal Economy Policy. 	
1.2 Enhance the capacity of DfCD to coordinate implementation of the public goods and services policy strand of the IE Policy.	DfCD, CIMC Secretariat, Members of TWG / Informal Sector Committees and agencies implementing the policy.						<ul style="list-style-type: none"> • Awareness workshops conducted on the Informal Economy Policy for staff and management of the DfCD; • Secretariat set up within DfCD to facilitate the implementation of the policy; and • Budget appropriation for the implementation of the policy 	
1.3 Greater awareness of the National Informal Economy Policy among government, private sector and civil society partners at national and provincial levels							<ul style="list-style-type: none"> • Regional and provincial awareness workshops; and • Significant number of participants in regional awareness workshops on the National Informal Economy Policy. 	

