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# SPOTLIGHT

## WHY CREATING JOBS IN THE INFORMAL ECONOMY MATTERS FOR PAPUA NEW GUINEA

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### Key Points

- Job creation must be a top priority to achieve the Government's ambitious target of creating a million jobs by 2027.
- To reach the job creation target, it is essential that sufficient attention is paid to the informal economy.
- Creation of jobs is one of the best ways to improve livelihoods for people across Papua New Guinea as most people depend on the informal economy for survival.
- Providing targeted support to informal enterprises, especially women-led initiatives, is essential to enable these enterprises to be more productive, sustainable, and transition to small and medium enterprises.
- Increase Technical and Vocational Education and Training for young and unemployed people to improve and increase skilled labour supply.
- Investment in rural areas to improve service delivery can create employment as well as improve connectivity and enable access to markets. Improving rural livelihoods will provide better options for people to stay rural.

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By Elizabeth Kopel

This article sets out to demonstrate the rationale for prioritising job creation for 86 percent of the population who are dependent on the informal economy for livelihoods, whose productivity is not accounted for and does not contribute to the tax base (GoPNG, 2011). Job creation is important for both rural and urban dwellers. Achieving a noticeable increase in job creation requires a step change in the resourcing of more effective interventions and improving the quality and impact of investment for job creation for those in the informal economy with a sustained long-term focus.

Current economic pressures and the high cost of living make job creation more important than ever. Sustained employment creation is urgently needed to support and underpin the action necessary to address the structural barriers and growing inequalities that hinder progress and continue to leave millions of Papua New Guineans behind. This paper highlights fundamental reasons for the Government to ensure effective delivery of its commitment to create jobs. It offers several recommendations to support collective ambitions to achieve increased employment, improved livelihoods and alleviate poverty, leaving no one behind. The ideas presented in this paper are informed by a culmination of evidence from research on the informal economy and public policy analysis by Papua New Guinea National Research Institute (PNGNRI) over the last decade.

### PNG Government's ambitious target to create 1 million jobs by 2027

The recent National Employment Policy 2030 is PNG's first employment policy. Its main objective is to reduce poverty and improve livelihoods through fostering employment growth based on decent work which enhances social inclusion and sustainable development (DLIR, 2021). The policy focuses on promoting decent work and creating income-earning opportunities and emphasises the need for increased options for self-employment to improve living standards. Key themes of other related policies to address youth unemployment, women and the wider informal economy are also prominently featured in this policy as areas of focus for intervention.

Job creation is a key priority of the current Government. Critically, Medium Term Development Plan (MTDP) IV includes an ambitious target to create 1 million jobs over the next four years (DNPM, 2023). The office of the national Treasury has prioritised this, and it is welcomed that a Job Creation Strategy is being developed. As the Government sets out to hit its target of creating 1 million jobs by 2027, it is important that sufficient attention is paid to the informal economy.

### Why job creation in the informal economy matters?

- The last available National Census data from 2011 found that 87.5 percent of its 7.3 million population dwells in rural PNG and 12.5 percent in urban areas (NSO, 2011). Much of rural PNG depends on the informal economy for livelihoods which continues to be characterised by insufficient and deteriorating state of infrastructure and basic services. Aside from law and order issues, thousands of people are pushed out of their villages and districts by sheer absence or deteriorating services: health, education, employment, poverty, and deprivation. People move to towns in search of a better life for themselves and their families (Minnegal and Cox, 2023).
- Improved governance, service delivery and the creation of jobs in the provinces and districts will create incentives and provide the option for people to remain at home and engage in employment and entrepreneurial activities to sustain their livelihoods. Investment in labour intensive fields such as agriculture will create more jobs and opportunities for self-employment.

A good example of such a project is the European Union funded programme for Support to Rural Entrepreneurship, Investment and Trade in Papua New Guinea (EU-STREIT PNG), jointly implemented by Food and Agriculture Organisation (FAO) and other donor partners in the Sepik region. It aims to improve livelihoods and contribute to sustainable and inclusive rural development through investments in agriculture. Similar projects must be replicated at scale across the

country.

- The formal economy workforce was 360,732 (4.2% of population) which comprised of 261,682 men and 99,050 women (NSO, 2011). In the absence of a Census, NSO's current estimated population is 11.7 million comprising 5.6 million women and 6.1 million men which shows that women comprise just below half of the population. However, there remains a stark gender gap and they continue to be underrepresented in formal employment (Voigt-Graf and Cornford, 2018).

Most women engage in the informal economy for income generation and maintaining livelihoods. Women's creativity and entrepreneurship is key to their economic advancement and the Government's aim to grow the small and medium enterprises (SME) sector (Voigt-Graf and Cornford, 2018). Interventions that enable women to increase productivity and transition their enterprises to the formal economy will create sustainable sources of revenue and jobs.

- PNG has a youth bulge with 40 percent of the population aged below 15 years who will enter the labour market within the next decade (Deloitte and UNDP, 2017; NSO, 2011). This offers a great opportunity for the young generation to contribute to nation building, but at the same time, it will become a major source of internal safety and security challenge to manage a growing population of young people who are not educated, unemployed and disengaged with growing poverty and inequality.
- The Government must take the agenda of job creation seriously. The recent events of black Wednesday (10 January 2024) with widespread looting and burning down of business houses in Port Moresby and several towns provides a small glimpse of the magnitude of the challenge at hand and calls for the Government to act now. Interventions must address underlying factors and job creation is a vital part of this. As Deloitte and UNDP (2017) suggested, adding even a modest share of unskilled and semi-skilled jobs in the Government's current development priority areas of employment creation, improving service delivery and the SME sector would create considerable economic and social benefits.

### Recommendations for job creation

Creating jobs is of utmost importance. The Government's Job Creation Strategy should include provisions for how it will support job creation in the rural and informal economy. Some possible ways the Government can create more jobs include the following:

- Support industries that are labour intensive to create

jobs, especially agriculture. The new National Agriculture Sector Plan should set out specific interventions that support job creation.

- Establish more Technical and Vocational Education and Training (TVET) institutions at the provincial level through private sector, church and donor partnerships to provide training for the bulk of young people in areas of need. This will fill in skills gaps in formal and informal businesses. It can also enable the creation of self-employment.
- Build on the existing MSME credit schemes and continue to work with micro finance institutions to provide opportunity for informal rural businesses to access finance. Lessons can be learnt from the successes of the Women's Microbank.
- Support informal businesses to make the transition to formal MSMEs by providing tax incentives and facilitating financial and business skills training.
- Investments targeted at improving service delivery to rural and remote areas can create employment and at the same time improve connectivity and access to local markets.
- Support research and development of appropriate technology and equipment to improve productivity of informal and small businesses such as downstream processing of local produce, value adding to products such as animal feed, and preservation of local fresh fruits and vegetables.
- Youth and gender are cross cutting, therefore, the Government must ensure that young people and women are adequately represented and benefit from all job creation initiatives.
- To reach Government targets for job creation, it is key that sufficient attention is paid to creating financial inclusion and economic opportunities for those in the informal economy. Key interventions have been spearheaded by Center for Excellence in Financial Inclusion with leadership from the Central Bank and the SME Corp as well as provision of funding for SMEs through financial institutions. However, ongoing support is needed to expand the provision of financial services to rural and remote areas to facilitate job creation.

### Conclusion

Job creation is an area of priority for the Government. It is one of the best ways to improve livelihoods for people across PNG. To reach Government targets for job creation, it is key that sufficient attention is paid to the informal economy. The

measures set out in this article provide initial directions that can inform Government action to create more jobs.

PNGNRI is currently conducting a series of research that will investigate specific ways job creation can be supported and welcomes further engagement with Government and key stakeholders. Specific areas PNGNRI is working on include MSME access to finance schemes and TVET education.

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