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FACTORS DRIVING GROWTH OF THE URBAN INFORMAL ECONOMY IN PAPUA NEW GUINEA

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Volume 15, Issue 17
www.pngnri.org

Key Points

- Migrants move from rural to urban centres in search of employment and income-earning opportunities in urban areas, searching for a better life, to improve their socio-economic conditions.
- Improving governance, provision of services, and creating employment and income-earning opportunities in rural areas will encourage people to remain in the villages and engage in informal enterprises.
- The urban unemployed make a living in the informal economy, but those in regular employment also engage in informality to supplement existing incomes.
- Major challenges affect informal economy participants in both urban and rural areas.
- Investment should be focused on removing barriers for informal businesses so that the businesses can transition to formal small and medium-sized enterprises (SMEs).

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November 2022



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By Philip Kavan and Elizabeth Kopel

Papua New Guinea's (PNG) population comprises mainly of rural inhabitants living on subsistence and semi-subsistence sources of livelihood (Kopel, 2017). Formal employment accounts for only a small portion of total labour force participation with the bulk of the population depending on the informal economy for income (NSO, 2011). The growth of the informal economy is attributed to a diverse set of complex intertwining social and economic factors which interact to drive its growth. This paper is informed by the findings from Kavan (2010) on informal economic activities in urban Port Moresby and Lae, which may seem outdated, but many of the issues remain relevant. It analyses the key factors contributing to the growth of the urban informal economy, and the major challenges facing it and ends with recommendations for addressing the identified issues. While the focus here is on the urban, it must be noted that drawing urban and rural divisions is arbitrary as many activities transcend physical boundaries and people move between these with many mobile activities.

Factors driving the growth of the urban informal economy

Major factors contributing to the growth of the informal economy have been consistently highlighted in the literature over the years (Kavan, 2010; Sowe et al., 2010; Eugenio, 2001).

Rural to urban migration: Rural-urban migration is a consequence of the absence of employment and income-earning opportunities in rural areas, stemming from the desire of migrants to improve their socio-economic conditions (Connel, 2008). Kavan (2010) found that most of the vendors who migrated to Port Moresby and Lae did so, for a better chance to earn an income or secure a job in an urban centre. Education, medical and health facilities are better in urban centres than in rural areas and these also attract people to migrate for improved access to these services in the hope to provide a better future for their families. Yet, others migrate to escape from trouble and fighting or land pressures at home to distant urban areas like Port Moresby where it is safe to live in peace. When migrants find themselves not

being able to secure a reliable source of income through formal employment, they resort to engaging in informal income-earning activities.

Increasing costs of living: Unlike in rural villages where people live off the land, urban residents depend almost entirely on food bought from fresh food markets and shops. With increasing costs of living, the informal economy has become a viable source of income for households without regular income as well as those on a low income. Informal income mitigates the effects of increasing costs by enabling people to afford goods and services and sustain their livelihoods (Eugenio, 2001; Sowe et al., 2010). An increase in the cost of living reduces the purchasing power of earned income. This combined with large household sizes make it difficult for even decently paid wage earners to make it through a two-week fortnight cycle without running short of money. This makes it necessary for many urban residents to increasingly engage in informal income generation activities to supplement existing sources of income.

Unemployment: The inability of formal employment to keep pace with the increasing population and labour force continues to exert increasing economic pressure on many people and households, especially urban dwellers. This has contributed to making them highly dependent on income from informal economic activities for survival (Kopel, 2017).

Lack of education and skills: Low levels of education, high illiteracy rates, and lack of skills are major concerns. This leaves them without many options for formal employment except for unskilled and semi-skilled opportunities which are difficult to find. Many of these people end up in informal employment or are self-employed in informal income-earning activities.

Informal economy as a choice of employment: While most people engage in informal economic activities do so as they have no other option, there is a small, but growing segment of the population in urban areas who are better educated, skilled, and formally employed in the public or private sector who choose to go down the route of informality. This happens for different reasons. Most people, particularly women choose to go informal for the benefit of the flexible working hours it offers, which enables them to conduct household

chores and take care of family welfare needs such as raising children and other vulnerable family members. However, some people find this as a profitable source of income and choose to go informal and work for themselves. Yet others maintain their formal jobs and informally employ related or unrelated people to work for them.

Tax Avoidance: There is also an argument that many enterprises can potentially be formalised but remain informal as the owners are reluctant to formalise their businesses to avoid being regulated and taxed. While this is a valid argument, not much research has been done in PNG to support this view. However, Wang (2014) showed that people are not aware of the benefits of registration and continue to operate informally. Also, the formalisation of informal businesses is not promoted and there are no incentives for registration. The recent Internal Revenue Commission move to introduce a one-off annual tax for SMEs at the lower end of the income bracket is a step in the right direction.

Challenges of the urban informal economy

Challenges and barriers that impact the chances of informal entrepreneurs to sustain and expand their businesses are many and deeply entrenched. Major challenges have been consistently highlighted in the literature (Kopel, 2017; Sowe et al., 2010; Eugenio, 2001). Some of these factors relate to the disabling environment constraining the development and conduct of informal economic activities. Some of these relate to intangible factors that come under the roles and responsibility of national or municipal authorities to provide regulation and policy, infrastructure, transportation, facilities, and services as well as lack of good governance.

Other challenges relate to characteristics of the populations that limit their options such as poor levels of education, literacy, and lack of skills, especially business skills training and access to support services as well as high levels of financial exclusion. These factors limit opportunities and the ability of people to venture into establishing diverse, innovative and profitable enterprises. Socio-cultural factors also impact the access and control of economic resources and influence the set-up and operation of informal economic enterprises.

Current government policy interventions to facilitate the growth of the informal economy

The government has recognised the importance of the informal economy to people's survival and livelihoods and took an enlightened approach to adopt a policy and legislation to facilitate the growth of the informal economy. This is commendable, however, the revised legislation to

facilitate the growth of informal enterprises while at the same time protecting consumers by maintaining public health and safety remains to be endorsed for application. Further, the revised informal economy policy needs to be translated into implementation programs and projects. This requires interventions to address underlying barriers to accelerate growth in diversified, profitable, and sustainable informal businesses which can support livelihoods of which some can transition to formal businesses.

Recommendations

- **Provide and improve basic services in rural areas:** To reduce the flow of people from rural to urban areas, there needs to be some change in the push factor which creates migration. Provide better health and education services in rural areas. Improved services combined with the creation of employment opportunities will make villages attractive for people to remain in their communities.
- **Review of minimum wages:** Review and adjust the minimum wage so that there are reasonable salaries between the urban and rural minimum wages. This will encourage rural migrants to remain in rural areas and not seek higher-paying jobs in urban centres.
- **Provide incentives for informal businesses to transition to formal SMEs:** The provision of incentives for informal businesses that are ready to transition will encourage them to formalise. Facilitation of access to business management skills training, skill building to conduct digital business, or access to affordable credit for registered SMEs will be good incentives for informal enterprises to benefit from.
- **Improve connectivity for easy access between rural and urban markets:** Providing and improving infrastructure for connectivity: roads, bridges, jetties, and transport facilitates easy access of goods, services, and people between rural and urban areas. For instance, fresh food can be easily transported to urban markets but also manufactured goods can easily reach rural outlying areas. Also, improved infrastructure should encourage competition between transport providers leading to a reduction in prices and benefit public transport users.
- **Increase provision and improve urban fresh food and specialised markets:** Fresh food sales markets remain the most common type of informal economic activity. Setting up new suburban fresh

food and other specialised markets and improving existing ones will provide a conducive environment for informal business activities to flourish. Safe and better-serviced markets can enable enterprises to become sustainable and provide incomes for both urban and rural households.

- **Investments in agriculture and income generation opportunities:** Investment in rural, high-impact, and labour - intensive agriculture activities will create employment for unskilled or semi-skilled youth who comprise most of the unemployed population. Such interventions will make the districts attractive for people. The government needs to form partnerships with the private sector or donor partners and support businesses that are interested in establishing manufacturing or downstream processing ventures to produce cheaper locally made products such as animal (feed, fertilisers) or technology and equipment in rural areas that benefit informal enterprises.

Conclusion

Many factors contribute to the growth of the urban informal economy in PNG. Finding innovative interventions to address many of the deeply entrenched challenges and barriers that constrain the growth and expansion of informal economic activities will contribute to finding lasting solutions to grow the informal economy and improve livelihoods.

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