

Benny B M Popoitai: The National Informal Economy Policy

Speech by Mr Benny B M Popoitai, Acting Governor of the Bank of Papua New Guinea, at the launch of the National Informal Economy Policy, Port Moresby, 24 February 2011.

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Mr. Paul Barker, Director of Institute of National Affairs, and your staff
The Consultative, Implementation and Monitoring Council
Distinguished Guests
Ladies and Gentlemen

Introduction

The Bank of PNG as the Central Bank of the country is pleased to have been invited to participate in this occasion - the launching of the National Informal Economic Policy. The Governor, Mr. Loi Bakani, has to attend to an obligatory engagement with one of our international partners so he passes his sincere apology. The Acting Governor, Mr. Benny Popoitai, has fallen ill and is not able to make it for the launching, and he also passes his sincere apology. I stand in to present this speech on his behalf.

What the occasion is for and the role of the central bank

The informal economy has the vast majority of the population, who does not have access to many normal services and therefore are hindered from taking part in economic activities. Greater participation by the mass of the country's population in the development process is long recognized through the National Constitution with: the Preamble to the Constitution calling for "development to take place primarily through the use of PNG forms of social and political organization" and for economic development to give special emphasis to "small-scale artisan, service and business activity"; and also through one of the Eight Point Plan Aims adopted upon the attainment of independence calling for "greater and equal participation of the people" and for "equal distribution of wealth". It is further recognized in the Government's 2050 Vision launched in 2009, specifically in the wealth creation pillar that states "a concerted effort is required to empower citizens to create wealth from our vast renewable natural resources and through the development of entrepreneurial skills to ensure that the nation's wealth is fairly distributed to the majority of the people."

This occasion - the launching of the Informal Economy Policy formalizes a necessary and a pre-requisite step - of having a policy statement that supports the Informal Sector Development and Control Act (2004) and guides the Government in its administration of the Act, and in all matters concerning development of the informal economy.

The Bank of PNG recognizes and accepts the need for greater participation of our people in meaningful activities for their benefit and thereby contributing to the development process. The Bank has and will do what it can within its domain of responsibilities to engage in the development process, especially with respect to financial services. The Bank of PNG and all the intermediaries in the financial sector can do more to get financial services to the vast majority (about 92 percent) of our population who do not have access to formal financial services. There is definitely the need to progressively increase the level of financial inclusion (defined as to have access to formal financial services) of our people.

Of interest to the Bank is the growth of the current financial service providers to complement each other in provision of financial services to a large unbanked population of PNG. The Bank has undertaken a few initiatives aimed at getting services to the people. I will give two examples of the work that the Bank did or is doing in the area of financial inclusion and financial literacy.

In the area of microfinance, it has provided the oversight in the establishment of Wau Microbank in 2004 as part of the PNG-ADB Microfinance and Employment project and operated under a conditional license from BPNG. In 2008, approval was granted by the Bank for Wau Microbank to change its name to "Nationwide Microbank Ltd" under a full license and with branches in other centres, including Lae, Bulolo, Madang, Kainantu and Wewak. Its assets and the number of depositors have grown, many of whom are small savers and entrepreneurs. Over the years to 31st of December 2010:

- Total assets of the Nationwide Micro increased from K4.3m to 43.8m
- Total deposits increased from K2.8m to 39.1m
- Total number of depositors was at 57,991
- Total loans was at K13.9m
- Branches in Wau, Bulolo, Lae, Madang, Kainantu, Wewak, Mt. Hagen, Kimbe, Kundiawa and Port Moresby.

This illustrates what can happen if opportunities are created for our people. In this regard, I note that in the detailed policy strategies and priority action areas in the policy document to be launched today, microfinance is identified as the appropriate instrument for the objective of improving financial inclusion in the country.

In the last 10 years or so, there has been a strong interest in the area of financial literacy and there have been initiatives taken in government and private sectors to improve it in many countries, particularly high income countries. Currently, the Bank is overseeing a World Bank led research project to measure financial capability in selected communities in the country. PNG is one of the 8 countries participating in the project. The project will identify the levels and deficiencies of financial capability in PNG, out of which authorities such as the Bank of PNG can come up with policy measures to address and improve financial literacy of the people to in turn improve their financial capability. Similar research is being done in Fiji and Solomon Islands. This research initiative and the country's participation together with the Institute of National Affairs (INA) as the local consultant fits in well with the initiatives undertaken in the South Pacific region, specifically the Coombs Declaration (2008) made by the Pacific Finance, Central Bank Governors and Senior Officials from the Pacific and Timor-Leste,

that proposes a regional umbrella - MoneyPacific and the related Pacific Financial Inclusion Program - that will address the issue of financial inclusion and capability across Pacific communities.

Measures must be taken to encourage and harness the potential that the informal sector has in saving and investment to increase the inclusion of the people and improve their financial literacy and encourage responsible financial practices, and discourage the practice of informal sector lending. Increased savings and investments in the informal economy will contribute positively to economic activity and growth of the whole economy. Indeed there are evidences and experiences of high income countries having a positive correlation between the level of financial inclusion, literacy and (capability of people in handling and managing money) and economic activity and growth, and income. So we have to keep on striving hard to improve financial inclusion and financial literacy in PNG. In the literature on the subject of financial capability and financial literacy, providing financial education is seen as the key intervention that reduces ignorance and improves outcomes.

Beside the initiatives mentioned above, the Bank is looking at the regulatory environment for mobile phone banking and has carried out a review of the national payments system with a view to reform the current payments system, with enabling legislation, to improve efficiency with respect to timely clearing of transactions, reduction in costs and risks, within PNG and with the rest of the world.

Distinguished guests, ladies and gentlemen I have focused on the area of financial service and financial inclusion as a vehicle to empower our people in the informal economy to participate in the development process as this area concerns the Bank. But as we all know there are other areas of services - education, transport infrastructure, health, etc - that needs to be improved as well for our rural population. This is the responsibility of other agents in the country. Indeed, the Vision 2050 calls for a better service delivery model in the country. Improvement in these areas together with improvement in financial inclusion and literacy will go a long way in empowering the people in the informal economy and the whole economy to realize their potentials in contributing to the development of the country as aspired in the National Constitution, and now the Vision 2050.

While the informal economy is being recognized through the Act of 2004 and now the launching of the policy, there are others who can pick on some negatives, as in many initiatives. In particular, some may view the urban squatter settlements as the source for those who participate in informal activities. Port Moresby for instance has seen an increase in the number of settlements and expansion of existing ones. Many of the informal sector street vendors, for instance, come from settlements. The informal activities occur outside shops and at bus stops and provide an avenue for opportunists to steal/pick pocket from people of both formal and informal economies/sectors. Mothers and school children have fallen victims. These negative aspects must be minimized as stated in the mission statement.

On the whole, there should be more positives that would outweigh the negatives if done and enforced properly. Other agents such as the law enforcement bodies must play

their part in controlling the daily negative aspects of informal activities on the streets and weed out those who resort to petty crimes to earn a living, while also not unreasonably chasing mothers and stealing their items (like betelnuts) for sale.

The launching of the Informal Economy Policy will provide the necessary step for the development of the informal economy towards the realization of that dream - of greater participation of the mass of our population in economic activities that will improve their income and life style, and contribute to the growth and development of the economy.

Thank you.