

Are workers in the informal sector leaving formal sector workers behind in PNG?

by Kelly Samof

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Betelnut vendor, Papua New Guinea

Photo Credit: Kelly Samof

Most developing countries have a minority of workers in the formal sector (getting a regular pay cheque) and a majority in the informal sector (usually self-employed).

The assumption is typically that formal sector workers get paid more than informal ones. In the famous [Harris-Todaro model](#), for example, urban wages are higher than rural wages, so why doesn't everyone migrate to the cities? Because not everyone can get a lucrative formal sector job. Most migrants end up instead either unemployed or in the informal sector, where they earn very little.

This certainly used to be the case in PNG. In the 1980s, one [study of urban households](#) showed that those with a wage earner earned more than twice as much per person as those without a wage earner.

But since then, the urban minimum wage has fallen steeply. As we showed in an [earlier blog](#), adjusting for inflation, the minimum wage today is only about a quarter of what it was in the 1980s. The estimated weekly income of an individual on the minimum wage in PNG is K280, excluding any overtime or allowances. That's what a low-skilled worker – a security guard or cleaner – could expect to earn.

But the minimum wage of course applies only to the formal sector. How much can an informal sector worker expect to earn?

The informal sector is very diverse, and a proper survey would be needed to answer that question. But to make a start, let's look at a single case study.

The betelnut vendor I spoke to sells betelnut in a populated residential area of Port Moresby. Her peak trading hours are in the mornings and afternoons, when she gets a lot of traffic from employed residents, heading to work in the morning or returning home for the evening. She works long hours, about 18 hours a day, 7 days a week. She says she gets through 50 kg of betelnut in a week, which she

purchases for around K80-200 per 10 kg bag. From each bag, she says her profit is around K120. The selling price for a betelnut has increased from K1 to K2 in recent times so her income has also increased, more than keeping up with inflation. Given the habitual nature of betelnut chewing, demand seems to be stable.

In addition to this, her capital requirements are negligible. As is common practice, the vendor has a table set up outside a local trade store: the light from the store illuminates her market in the evenings for free. She lives within walking distance of a wholesale betelnut market, eliminating the need for expensive public transport when she needs to get new stock. Given these low costs, her profits from sales are her earnings. And all her earnings go to support her family.

According to this single case study, it is possible for an individual in the informal sector to earn about K600 per week. That's more than twice what an individual in the formal sector would be earning on the minimum wage.

It's important to note that this vendor might not be typical, given her favourable geographical location, long hours and high-demand merchandise. There is certainly a lot of [variation in informal sector earnings](#). That said, a [study from 2003](#) of 248 Port Moresby women traders found that their daily profit was equal to the weekly minimum wage – an even more extreme disparity than in our single case. And a [large survey from the mid-2000s](#) found that the income of women roadside sellers in Madang was more than three times the national minimum wage.

The finding that informal wages are higher than formal has several implications.

Why does anyone work in the formal sector if they can earn more in the informal sector? In fact, both informal and formal urban sector jobs may be limited in PNG. There are only so many betelnut or market sellers that the city can absorb. Entry is not actually free to the informal sector. Succeeding in the informal sector requires networks and courage – and often very long hours, as our example shows.

Also, when we think about migration decisions, workers may be as attracted by the informal sector options as by the prospect of a formal sector job. The idea that PNG (already one of the most rural countries in the world) is not going to experience more urban migration and that urban migration should be discouraged makes no sense. Rather, urban infrastructure needs to be expanded to keep pace with growing urban populations.

The situation in urban PNG is not in line with standard economic theory. It used to be the case that the formal sector workforce in PNG [comprised the privileged few](#), but no longer. With unskilled workers earning much less in the formal sector than they used to, and informal workforce opportunities having grown, self-employed

informal sector workers can today earn much more than the minimum wage.

Given how low the minimum wage is, that is a very good thing. It is also a positive for a country with so much gender inequality that women are so well represented in the informal sector, dominating the sales of fresh and cooked food, and of betelnut. Expanding opportunities for informal sector workers, in both urban and rural areas, is critical for the people of PNG.

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