

Economic and social impact of informal sector small business in residential areas of Madang town

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Abstract

This paper reports on a qualitative research into informal sector small businesses in residences of people formally employed in Madang town. The research was conducted as a dissertation requirement for the Master of Leadership in Business Administration study in Divine Word University that the author undertook and completed successfully in 2015.

The study investigated why small stall businesses were established in residential areas which are not designated commercial zones.

The study found that the vendors' main reason for setting the stalls was to support their families where one parent's income could no longer pay for all living expenses. The study also found a lack of uniformity of structures used as shelters for this kind of business, which detracted from the beauty of the town. The stallholder's main challenge was managing loan requests from family members and neighbours.

Key words: Madang, informal sector, informal economy, small businesses, social and economic impact

Introduction

Informal small businesses in urban residential areas is a phenomenon that has changed the landscape of Madang town in recent years. Towns are traditionally laid out in a way that residential areas are free from business activities because they are places where people have privacy and rest after a day's activities. This is not the case anymore in Madang town as observed by the author as a long term resident since 2000. Small informal businesses have been set up in all residential areas are attracting customers and operating any time of the day. In the past, roadside stalls were more commonly found in settlements on the fringes of town where migrants from other parts of PNG lived, making a hand to mouth living as best they could. Today, roadside stalls can be seen in front of formally employed people's houses and residential areas of Madang town.

The Tourism Promotion Authority of Papua New Guinea (PNG) promotes Madang as the prettiest town in the South Pacific. Madang's location is on a peninsula, surrounded by azure waters with many small beautiful islands. It retains much of its natural charm (Tourism Promotion Authority, 2020; DestinAsian, 2011; Expedia Group, 2020). However, in the last few years, growth of roadside stalls in makeshift shelters have changed the landscape of the town. The business owners of these small informal businesses are frequently owners or tenants of a house or their relatives. The business

activities include selling of all kinds of manufactured food, clothing, cooked food, smokes, betel nut, and fresh garden food.

Wang & Kusakabe (2012 as cited in Belden 2012, p. 14) noted:

In PNG, although the informal economy is not counted into the country's Gross Domestic Product (GDP), studies done by the Institute of National Affairs in 2001 showed that 60% of the respondents claimed to rely solely on the informal sector as a source of income and livelihood. Another study done in five urban centers (Lae, Madang, Mt Hagen, Port Moresby and Rabaul/Kokopo) revealed that 89% tend to embrace a positive attitude towards the informal economic activities.

Kavan (2013) identified Lae and Port Moresby as cities impacted by informal sector businesses. Kavan defined the informal sector as unrecognized, unregulated and unregistered businesses that were mainly carried out by an individual or a family. His study focused on the following activities; market vendors, small automotive mechanical repair shops, and small scale manufacturing, such as garments, shoes, or handcrafts. Kavan omitted activities regarded as socially undesirable and illegal such as prostitution and drug dealing and recommended future research to cover these activities and also suggested further research in other major cities on urban informal sector since he concentrated in Lae and Port Moresby only.

This study fills the gap identified by Kavan who suggested further research in other urban centres. Thus, this research focused on the Madang town residential areas to investigate the effect of stalls in the lives of the owners and the factors contributing to stalls mushrooming in the residential fronts or yards of formally employed people in Madang town.

PNG's Human Development Index

The economy of PNG is dominated by the mining and energy sectors (United Nations Development program, 2014). These sectors contribute 80 percent of the country's total export revenue. However, this has not translated well into enhancing the livelihoods of many including the majority of citizens who live in the rural areas of PNG. The report also noted that in the 2013 Global Human Development Index, PNG ranked 156 out of 187 countries who are members of the United Nations. In 2014, the Human Development Index improved from 156 to 157. The report states that almost 40 percent of the population lived on one dollar per day, the life expectancy is 61.6 years and 25 percent of children do not attend school. In 2011, the PNG's population was 7,254,442 and expected to double by 2030.

Madang town –Madang Province

The study was conducted in Madang town, Madang Province. Madang Province is one of 22 provinces of PNG including the Autonomous Region of

Bougainville and is located on the north coast of the mainland of the country. It has mixture of coastal areas, islands, and rugged inland terrain, covered with vast dense forests and is connected by road to Morobe province and the seven highlands provinces. The province has four major populated islands: Karkar, Manam, Bagbag and Long Island along with smaller islands near the coastline. Its total population is 493,906 with the growth rate of 2.7, the highest in the Momase region (National Statistical Office, 2014).

The province is made up of six districts, Bogia, Madang, Middle Ramu, Sumkar, Raikos, and Usino-Bundi. Madang District has three local level governments, Ambenob, Transgogol and Madang Urban where the study is located. Madang Province also has 162 indigenous languages (Madang Provincial Administration Division of Education, n. d). Madang Province has six tertiary educational institutions located within Madang district: Divine Word University, Madang Technical College, PNG Maritime College, Lutheran School of Nursing, Madang Teachers College and St Fidelis College.

The Madang district and provincial economy has the potential to grow because it has the RD Tuna factory, Globe Manufacturing tinned meat factory and the Ramu Agri Industries comprising sugar plantation and factory, oil palm plantation and processing and Ramu Beef cattle ranch. There are logging activities by companies as well as small-scale harvest by individuals and groups. The main cash crops are copra and cocoa. Fishing is common with the people living along the coastline and islands.

Study location

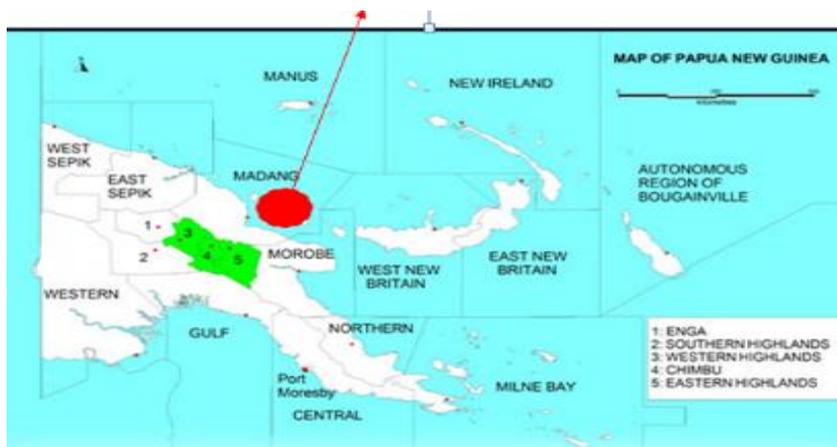


Figure 1: Map of Papua New Guinea- Study location

Source: Coffee Industry Corporation Ltd. Map of PNG. Retrieved from <http://www.coffecorp.org.pg/img/jpg/PNG-Map>

Literature

Definition

According to Web Finance Incorporation (2020), the “informal sector encompasses all jobs which are not recognized as formal income sources, and on which taxes are not paid” (par.1). Cling, et al (2012), define informal sector as all non-agricultural, unregistered, unincorporated enterprises that produce goods and services for sale, and noted that informal employment makes up the informal economy.

History

According to Bangasser (2000), there were three significant periods, (1970's, 1980's and 1990's), in history relating to the informal sector and International Labour Organisation (ILO). Bangasser noted that the 1970s were the incubation period for the informal sector. It developed as a concept through the World Employment Program, a research program on urban unemployment. The concept spread in the 1980's and various technical departments initiated informal sector work. It became an alternative for the poor, those who missed opportunities to progress. In the 1990's, the focus and vision was on helping the victims and 1990's became informal sector's officialisation years, where the informal sector was recognised and incorporated into the officialised international paradigm.

Informal sector concepts and definitions

Keith Hart was the first person to bring the term “informal sector” into academic literature (Gerxhani 2004, p.269). Hart (1973 as cited in Barber1993, p.3) recognized a part of the urban labor force that works outside the formal labor market as an “informal sector” of society. The pioneering research on the informal sector was contained in a report of the International Labor Organisation (ILO) in 1972 on employment in Kenya. The ILO defined the informal sector as very small scale businesses which people do as a means of survival. The household provided labor or a few workers are hired, and they avoid government regulations and taxes (Bangassar, 2000).

According to Verick (2006, as cited in Benjamin & Mbaye, 2012. p. 665), “there are a number of possible definitions of informality and estimates of the informality's magnitude vary greatly depending on the chosen definition”. Bernabe (2002) emphasised that the measurement and significance of an informal sector can be seen differently in different countries depending on social, economic and institutional support. Bernabe classified informal employment in transition countries as: Firstly, activities which are undertaken to meet basic needs but are underground activities, and are deliberately concealed from public authorities. Secondly, activities which are illegal but generate goods and services forbidden by the law. Thirdly, household activities, which produce goods and services for own consumption. Bernabe

also noted that informal labour market provided a social safety net in countries like Georgia.

In South East Europe, the informal economy relates more to the people in rural areas and in specific sectors, construction, garments and transport which are regarded as occupations but are unregulated (Hudson, et al., 2012, p.107).

Benjamin and Mbaye (2012, p.665-667: 2010, p.3-7) came up with six characteristics of informal sectors after a study in French- speaking parts of Africa:

- the size of the business activity can be small or big
- the characteristic particularly, registration of the businesses where some are unregistered; some do register their business name only but operated as informal
- the existence of honest financial statements, which many businesses in Africa did not have an evidence of, and if some had, they had one for the bank, one for them to keep and one for the tax authorities
- mobility of workplace was a feature of informal sector in Africa. These informal businesses were not steady, businesses make use of available land or facility and when the real owner of the land or facility wanted to develop it, the business moved to another available space
- limited or no access to bank credit facilities because they had no proper accounting system and sometimes were not able to provide the necessary information needed by the banks
- the sixth characteristic was that a company was classified as informal if it has one of the characteristics only and if a business had two or more of the six, it was almost formal, but it still refused to be formal and operated as informal.

Why people engage in informal sector and not formal sector.

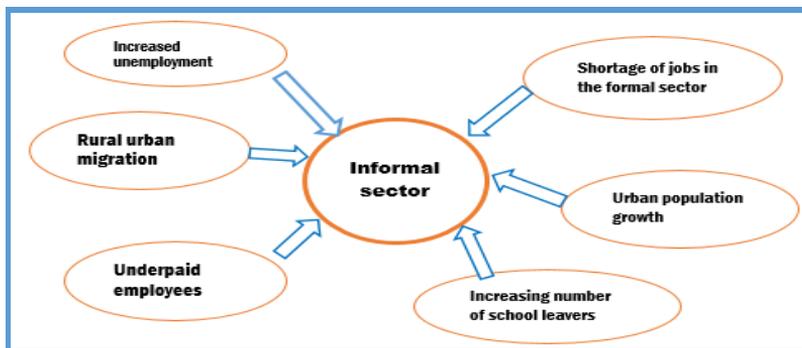


Figure: 3. Factors contributing to the high participation of informal sector

Source: The Consultative Implementation and Monitoring Council (2006, p. 20)

Figure three displays a number of factors associated with a high rate of participation in the urban informal sector. The Consultative Implementation and Monitoring Council (2006) emphasized that the informal sector plays a dominant role in the rural areas in PNG particularly with regard to employment and is becoming common in the towns and cities.

Kavan (2013) confirmed that the factors, which increase the informal sector activities in Lae and Port Moresby, were rural-urban migration and unemployment. He also observed that, the uneducated had lower participation rates in the informal sector than school leavers.

Informal sector in other settings is a widely discussed subject however, not much literature is available about the sector in Madang. Conroy (2010) notes that the informal economy is healthy for PNG's population at this stage. However, the PNG government's informal sector policy is available but with no enablers such as infrastructure, waste disposal kits and standard building or market designs for the informal traders to use. Anderson (2008) confirmed that earnings from selling were a driving force for women to continued selling along the roadsides in Madang. Anderson's results revealed that women were happy to sell goods as its weighted average income was of more than three times the national minimum wage.

A second cause for growth in informal sector activities, identified in the literature, was economic recession. It was one of the foremost causes of the development of the informal sector. It was noted that many people engage in informal sector activities in transition countries (Gerxhani, 2004). For example, during Georgian-Ossetians conflicts, Georgian citizens were involved in informal sector employment to recover from poverty (International Monetary Fund, 2005). In Russia, due to the 1990's recession and 2008 economic crises, citizens were involved in informal sector activities for survival (Gimpelson & Kapeliushnikov, 2011).

Thirdly, it was found that in developed countries, many informal sector participants choose informal sector activity for more autonomy, flexibility, and freedom than in the formal one. Whereas in the developing countries, the main reason for engaging in informal sector was for the purposes of survival (Gerxhani, 2004).

The fourth cause for participants to choose to be involved in informal sector activities was to avoid high transaction costs and all sorts of institutional costs for business operators. This is common in Indonesia where participants choose to participate in the informal sector (Gultom, 2014). This allows for people to need less money to start up a business and eventually earn extra.

Effects of informal economy

Kavan (2013) emphasized that the Informal Sector Act 2004 in PNG has been poorly implemented with no proper controls and regulations in place and hence has caused social problems. For example, sales of betel nut in front of shops in

Lae and Port Moresby had contributed to the filth and untidiness of the streets and shops and posed health risks with communicable diseases through the betel nut spittle on the embankments or walkways. However, Conroy (2011) argued that the informal economy in PNG is very small and is limited in scale, scope and contribution to national output. He noted that informal economy is a necessary step towards the emergence of a class of vigorous national entrepreneurs in the small and medium enterprise (SME) sector, which is underdeveloped.

Wang and Kusakabe (2012, as cited in Belden, 2012) noted that the informal economy is the employer of the majority of poor people in most developing countries and public opinion indicates that informal economy is the friend of people. The law enforcers and informal economy participants should be friends. Sikas (2005) confirmed that low average income earners at Divine Word University relied on informal sector income to supplement their budgets. The wives who had no formal education were fortunate to participate in the informal sector and that supported them to contribute to the cost of living.

According to (Hudson, et al., 2012) Globalization facilitates the growth of the informal sector. As such, individuals can export and import directly from the source. Which means greater profit for the individuals as they avoid unnecessary mark-up from middle people or traders and can gain maximum profit, which may not be good for formal business operators.

Methodology

This was a qualitative study that used three data gathering instruments and they semi-structured interviews, observation and document search. Data were gathered in Madang town from May to June 2015 after ethical clearance from Divine Word University Research Ethics Committee (UREC). The research involved six participants comprised of five stall owners and one participant from the Madang Urban Local Level Government (MULLG). Convenience sampling was used to select the participants. Face to face interviews were conducted with all participants using an interview guide. Observational checklist was used to record what was observed, and key documents were identified and analysed. The participants' responses to the interview questions were recorded, transcribed and analysed using content analysis to identify key statements. The key statements were categorized as codes and were assigned to themes. All participants were given code names to protect their identities. Themes were further analysed using thematic analysis to explain their relationship and interpret the patterns identified to answer the research question: *What is the economic and social impact of informal sector small business in Madang town? This question was supported by the four subsidiary questions.*

1. What is contributing to the mushrooming of the informal businesses, after hours trading in Madang residential areas?
2. What are the economic impacts of these businesses activities?
3. What are the social implications in terms of traffic hazards, hygiene, and noise pollution?

4. What regulatory and administrative oversight does MULLG have over the informal sector in the suburbs of Madang town?

The field samples.

Table 1: Code names for each of the participants and their sites

Study site	Code	Gender
Holy Spirit	P1	F
Nabasa	P2	F
New Town (Kuperu)	P3	F
Kalibobo	P4	F
Coronation Drive	P5	F
MULLG office	P6	M

Findings

The summary of the findings are presented under the following headings derived from the four subsidiary questions.

- i. Factors contributing to sales stalls in residences
- ii. Economic impact of the stall businesses
- iii. Social implications
- iv. Regulatory and administrative oversight

i. Factors contributing to sales stalls in residences

There were three factors that enabled the people to start up sales stalls in their residences, increase cost of living, too many people living in one house and an assistance program by the local Member of Parliament Nixon Duban at the local branch of the National Development Bank.

The cost of living in town was continuing to rise so the employed members of families in the household were unable to meet all the family living expenses. Participant “P5” noted that, extra money was needed to live in the second week after the fortnight pay week.

Participant “5” a woman in her late 20s, who lived along the Coronation Drive and operated her stall, said “*especially after a pay week, and to be able to buy protein*”. As such, there was no need for her to borrow money to live up to the next fortnight payday.

Secondly, it was observed that there were many people living in the same house, especially adults and children and they were helping out at the stall or hanging around outside stall support for the business.

The third reason why participants engaged in small stall businesses was because the local Member of Parliament, Nixon Duban introduced a loan scheme through the National Development Bank branch in Madang to support small informal businesses.

Participant “P4” was one of the beneficiaries of loan scheme:

All over Madang district, women groups were formed to access an NDB loan, an assistance set up by the member for Madang to set up their own businesses.

“P3” added:

I received a little assistance from the National Development Bank. The bank supported me to do this market. With the money borrowed from the bank, I do repay my loan and that’s how I am able to continue doing business.

ii. Economic impact of sales stalls

Two main influences that motivated the participants to engage in small stall businesses in their residential areas. Firstly, they were making money. The small stall business generated additional income to pay for living expenses that could not be met by the single formal employment income of a family member.

Participant “P3” noted:

My reason for taking part in such activity was due to the fact that the father’s salary was less than the family requirements.

Participant “P2”, a widow who lives with her formally employed daughter ran a stall to support the daughter’s income to meet family expenses:

The benefits of the stall markets includes, providing for my children. I am able to provide three meals, pay for school fees plus their daily needs. Not only that but I am also able to take care of my two grown up girls, all their needs are met by this market.

Participants “P4”, an elder woman who lives with her family at Kalibobo divided her savings after all sales to meet for needs namely church offerings, savings account, restocking the stall and for family’s needs.

I made this market inside my area. After all sales, the earnings are divided into four parts, a part for new stock,

a part for savings, a part for offerings and tithes, and a part to meet the household needs like water and food.

The second reason for setting up stall businesses was due to unemployment of both of the parents in a family. Participant “P1” was the only one affected by this phenomenon. Her husband was the son of a former soldier of the PNG Defence Force who died and he inherited the property and was unemployed.

Participant “P1” and her husband were both unemployed and lived along a street near Holy Spirit Cathedral, which is a high-class area. P1 revealed that the main reason for her to be involved in this business was that she and her husband were unemployed. P1” revealed that revenue from the stall business provided for their sustenance as residents in town

P1 noted the benefits of operating the stall:

The benefits from the stall are many. It enables me to support my family in terms of affording breakfast and dinner for the children. I pay the electricity bills and the lawn mower operator to cut the lawn.

All of the participants experienced high turnover goods.

iii. Social implications of stalls informal businesses

Several social features were observed in each of the stall areas as presented in tables two to six in this section. Firstly, the stalls created a conducive environment for informal social meeting places for residents of each neighbourhood to gather and catch up on news and events within the community, district and country as a whole.

Secondly, the stalls created a welcoming environment for youths to gather and listen to music on their mini ‘boom box’ music players.

Table 2: Interactions at the stall area

Category of phenomena	People talking	Listening to music	People laughing	Youths crowding around stalls
Coronation Drive P5	+	+	+	+
Kalibobo P4	+	-	+	-
Kuperu-New Town P3	+	-	+	-
Nabasa P2	+	+	+	+
Holy SP1	+	+	+	+

(+) refers to the inclusion of the criterion listed as present on the time of visit
 (-) refers to the exclusion of the criterion listed as not present at the time of visit

P5 at Coronation Drive stall had people talking and speaking in their local languages, sharing betel nut, listening to music, people were laughing, and youths were crowding around the stall. The stall at Kalibobo and Newtown for P 4 and P5 respectively had women and children talking and laughing but there was no loud music and no youths crowding around the stall area. However, at Nabasa there was music, people laughing and talking, youths from the same street crowding but they were a few metres away from the stall.

Table 3: Type of Customers

Category of phenomena

<i>Type of Customer</i>	<i>Women</i>	<i>Children</i>	<i>Men</i>	<i>Passing vehicles stop and buy</i>
Coronation Drive (P5)	+	+	+	+
Kalibobo (P4)	+	+	+	+
Kuperu–New town (P3)	+	+	+	+
Nabasa (P2)	+	+	+	+
Holy Spirit (P1)	+	+	+	+

(+) refers to the inclusion of the criterion listed as present on the time of visit

(-) refers to the exclusion of the criterion listed as not present at the time of visit

Thirdly, passing motorists, especially night shift workers of various companies and public services like the police, hospital and fire service came by to meet, have snacks and drinks and drive off.

None of the five participants reported facing any law and order problems up to the time of the fieldwork for the study.

Table 4: Who runs the stall?

Category of phenomena				
<i>Who runs the stall</i>	Boys	Girls	Men	Women
Coronation Drive (P5)	–	+	–	+
Kalibobo (P4)	+	+	–	+
Kuperu –New town (P3)	+	+	+	+
Nabasa (P2)	–	–	–	+
Holy spirit(P1)	+	+	+	+

(+) refers to the inclusion of the criterion listed as present on the time of visit

(-) refers to the exclusion of the criterion listed as not present at the time of visit

Interestingly, the stall at New Town for P2, the stall at Kalibobo for P4, and the stall at Holy Spirit for P1 were the only stalls that allowed every member of the family to assist in the stall's operations. They included boys, girls, men, and women. P5 at Coronation Drive had women and girls only assisting. P2 at Nabasa, had one woman assisting her.

**Table 5: Stall environment
Category of Phenomena**

<i>Environment</i>	<i>Appearance of Stall</i>	<i>Rubbish bin provided</i>	<i>Good lighting</i>	<i>Traffic hazard caused by customers and bystanders</i>	<i>Stall area tidy and clean</i>
Coronation Drive P5	Good, overhead shelter only and a table for selling	+	+ Dim torch light was used	-	+
Kalibobo P4	Good Permanent structure, well done	+	+ Main electricity	-	+
Kuperu – New town P3	Good, semi-permanent structure	+	+ Main electricity	-	+
Nabasa P2	Good, Made of local materials, well done, permanent structure	+	+ Main electricity	-	+
Holy Spirit P1	Good, Permanent structure, well done	+	+ Main electricity	-	+

(+) refers to the inclusion of the criterion listed as present on the time of visit
(-) refers to the exclusion of the criterion listed as not present at the time of visit

All five stalls were well-constructed despite the type of materials used. P2's stall at Nabasa was the only one made from traditional materials. All other stalls visited had buildings made from permanent materials. The surroundings were clean and tidy. All stalls visited had a rubbish bucket. There was no signs of traffic hazards caused by these stalls. All stalls sourced their lighting

from the main electricity except for P5 at Coronation Drive who was using a small battery operated lamp in the night.

Table 6: Business (Items sold)

Category of phenomena

Business

(items sold)

	Betel nut	mustard	Cigarettes	Lollipop	Biscuits	Assorted Drinks	Rice	Tinned fish/ meat	Noodles	Flex cards	Alcohol
Coronation Drive P5	+	+	+	+	+	-	-	-	+	+	-
Kalibobo P4	+	+	+	+	+	+	+	+	+	+	-
Kuperu-New town P3	+	+	+	+	+	-	+	+	+	+	-
Nabasa P2	+	+	+	+	+	-	+	+	+	+	-
Holy Spirit P1	+	+	+	+	+	+	-	-	+	+	+

(+) refers to the inclusion of the criterion listed as present on the time of visit

(-) refers to the exclusion of the criterion listed as not present at the time of visit

Common goods sold at the five stalls were betel nut, mustard, cigarettes, lollipops, biscuits, noodles and Digicel flexcards. The least common were alcohol and assorted drinks. P1 use to sell alcohol but during the time of interview, stocks were not available. P1 at Holy Spirit and P4 at Kalibobo were selling assorted can drinks.

iv. Regulatory and administrative oversight of MULLG

Selling in residential areas were allowed because the owners can take care of the rubbish and provide their own facilities for a stall operation. The Madang Urban Authority does not collect tax from informal businesses in residential areas in Madang and so they were losing in revenue collection but economically the stall owners gained.

Authorities allow informal businesses in residential areas

The MULLG representative P6, pointed out that the National Informal Sector Act 2004 is the legislation MULLG uses and noted that people involved in small stall businesses are doing it at their own will.

According to P6 MULLG expects stall holders to be responsible for their rubbish, their cleanliness and tidiness of their areas and stall holders are also expected to provide all the facilities needed for their businesses. He added that the current law needed to change to suit informal businesses like the stalls in residential areas. P6 also revealed that MULLG does not collect tax from stall owners or informal businesses in residential areas, which results in a loss of revenue for the council.

Participant P6 noted:

“By law the authority has to allocate, look for the land that will allow people to go and sit and sell their products. But, what you can see today, is that people are using their own residential area and at the same time they are using public area. So there is law, but people are not following what the law says.”

P6 said:

“What we did was, we do allow the small holders to use their own residential areas in order for them to sell whatever they want. They are responsible for cleanliness and the facilities they have in their own residential areas so they can have access to that. They must look after their own rubbish. So we ask them to stay where they are till we formulate something workable.”

P6 noted:

“From the residential area businesses, we are losing revenue as we are not getting any tax from them. They gain, we lose.

Conclusion

The aim of the study was fulfilled. The factors contributing to small stalls businesses were identified. One member of a family working was no longer able to provide for all needs of the family before the next payday due to increase in cost of living in towns. There were evidences of too many people living in each of homes visited for the study and the loan assistance provided by Member of Parliament, Nixon Duban was a factor contributing to the increase of stalls in residential areas in Madang town.

The economic benefits of these stalls were many, it provided employment for the unemployed, it assisted families to meet expenses, from three meals a day to bus fare, school fees and many more, even some were able to save up and pay off their bank loans.

All stall owners visited were positive and happy to do business in the comfort of their homes, the environment were clean and the residents of the neighbourhoods that visited each stall enjoyed the experiences, and were able to connect with each other well.

While the benefits of the stalls were many to the owners of the stalls, the rules and regulations of the town were not enforced and the MULLG was missing out on revenue. The MULLG representative P6 suggested that there needs to be a change in the law and policy to accommodate these kinds of business

activities in residential areas and to allow for participants to have a uniform infrastructures to operate in.

Recommendations

There were two recommendations in this study for authorities to consider. Firstly, the study recommended that the present legislation be amended to accommodate citizens engaged in informal sector small stall businesses in residential areas. There is also a need for authorities to take charge of informal stall businesses by introducing a policy for all to use the same kind of facility model that is of quality to attract tourists since Madang Province is also known as a tourist destination in PNG. The second recommendation is for authorities to have an office responsible for empowering women and youths in informal businesses in residential areas of urban centres. This office should also be responsible for disseminating the information about the kind of facility required and at the same time monitor the needs of informal businesses and nurture them for economic growth.

It is recommended that a mixed method study be done in the same context and another study can be done in the settlements at the edges of Madang town as this study was in the residences of formally employed people.

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