



MEDIA RELEASE

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A credit guarantee facility can promote customary land development

A major hurdle in the development of customary land in Papua New Guinea (PNG) is that commercial banks are hesitant to accept customary land leases as security to extend loans as a result of the risk associated with loan default.

The National Research Institute (NRI) Issues Paper No. 45 titled: **A credit guarantee facility is needed for sustainable development of customary land in Papua New Guinea: Prospects and challenges** by Research Fellow Logea Nao proposes a credit guarantee facility for customary land development in PNG. Major challenges associated with the credit guarantee facility and some ways that can be used to enhance the effectiveness of the facility are highlighted.

A credit guarantee facility is an intervention by a third party, in the form of funding to the interest groups such as small and medium-sized enterprises (SME), farmers and women groups. The proposed credit guarantee facility for customary land could be similar to the current Government-funded SME credit guarantee facility. The customary land credit guarantee facility would allow for leases on customary land to be accepted as collateral by banks by guaranteeing loans in the event of a default.

Some of the challenges associated with a credit guarantee facility are the following:

- Risk and liability around ownership of customary land;
- Competing objectives of the three agents (guarantor, borrower, lender);
- Identifying the most appropriate host of the facility;
- Sustainability of the facility; and
- Lack of or limited knowledge and skills.

Effectiveness of the credit facility can be enhanced by the following:

- Determine ownership of customary land;
- Develop appropriate legal and regulatory framework;
- Promote sound corporate governance;
- Develop an appropriate risk-sharing arrangement; and
- Provide training and assistance to bank officers and participating landowners.

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