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A CREDIT GUARANTEE FACILITY  
IS NEEDED FOR SUSTAINABLE  
DEVELOPMENT OF CUSTOMARY  
LAND IN PAPUA NEW GUINEA:  
PROSPECTS AND CHALLENGES

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## Abstract

- Customary land is critical for economic development in Papua New Guinea (PNG).
- With limited supply of State land, customary land has become more important for development in PNG.
- Despite the ongoing PNG land reforms, financial institutions, including banks do not recognise customary land lease titles as collateral to extend credit.
- A credit guarantee facility is needed to guarantee loans for customary land.
- Challenges such as moral hazard and sustainability of the facility should be considered in developing the proposed lending facility.
- Strategies to address challenges should include developing the appropriate legal, regulatory and operational framework and the appropriate risk-sharing arrangement.

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## A CREDIT GUARANTEE FACILITY IS NEEDED FOR SUSTAINABLE DEVELOPMENT OF CUSTOMARY LAND IN PAPUA NEW GUINEA: PROSPECTS AND CHALLENGES

By Logea Nao

### Introduction

Most land in PNG remains under customary tenure, often without formal title (Kwapena et al., 2021). This suggests that decisions over the access to, ownership and use of customary land are handled using traditional methods, principles and ways of doing things. Furthermore, the people of PNG as custodians of the land have a responsibility to bequeath to the next generation of Papua New Guineans, land, as an asset of cultural, social and economic value. This also presents the Government of PNG (GoPNG) at the national, provincial and local levels, and its agents (government agencies and statutory authorities) an incredible opportunity to capitalise on this important asset, which the country has in abundance. In an increasingly modern and cash-based economy, capital is required to transform the land from being just an asset of cultural and social value with no collateral value or “dead-capital” (De Soto, 2000) to one of economic value as well. This transformation can be facilitated by the financial sector through its policies and the products it offers. In order for this to be achieved, land requires formal title. In PNG, several attempts have been made to channel customary land as an asset through this transformation process (Duncan, 2018). For instance, in 2005, the inaugural National Land Summit was held in Lae, Morobe Province. At the 2005 Summit, landowners were asked if they were ready to release their customary land to the formal market for development. Participating landowners responded that they were willing to release their customary land into the formal market to be titled and for development but they need to retain the ownership of their land. This could be achieved through a lease-based system. This triggered the beginning of current reforms to the administration and management of customary land in PNG. As a result of the 2005 Summit, a National Land Development Taskforce (NLDT) was established in 2005 to look into improving customary land administration, improving dispute resolution over customary land, and developing a system for customary land development.

The work of the taskforce in the three mentioned areas resulted in 54 recommendations – 47 aimed at improving land administration, one focusing on improving dispute resolution, and six towards developing an effective customary land development system (National Land Development Taskforce Report, 2007).

In 2006, GoPNG established the National Land Development Program (NLDP) to implement the 54 NLDT recommendations. The NLDP is an inter-agency program with representation from lead agency, Department of Lands and Physical Planning (DLPP), and other government agencies including Magisterial Service, Department of Justice and Attorney General (DJAG), Department of National Planning and Monitoring (DNPM), Department of Treasury (DoT), the Constitutional and Law Reform Commission (CLRC), and PNG National Research Institute (PNG NRI). In 2007, the CLRC was issued a reference to review the Land Groups Incorporation Act 1974 and design a system of voluntary customary land registration, focusing on recommendations 49-54 of the NLDT Report, to empower customary landowners (CLRC, 2008). The review of the Land Groups Incorporation Act 1974 and the design of a system of customary land registration culminated in the 2009 amendments to Land Groups Incorporation Act 1974 and Land Registration Act 1981.

The Land Groups Incorporation (Amendment) Act 2009 and the Land Registration (Amendment) Act 2009 gave rise to the Voluntary Customary Land Registration (VCLR) system (Nao, 2022). The VCLR involves a two-phase process which includes incorporation of a land group in the first phase and registration of customary land in the second phase (Nao, 2021). At the point of registration, customary land receives a formal legal title which is not tradable. The system was designed to allow for tradable leases to be derived from the title and used by landowners or leaseholders to apply for a loan from banks in order to develop the land (Nao, 2021). The 2009 legislative amendments came into effect after the amendments were certified in 2012.

Despite the progress made in the implementation of the legislative amendments, a study by Chand et al. (2014) concluded that customary land cannot be used as collateral to access loans from banks and the rest of the commercial sector. This was the first study to look at the collateralability of customary land. The study finding proved a setback for the progress on customary land reforms in PNG. This issue and the increase in unscrupulous dealings on customary land in urban and peri-urban areas in PNG, amongst others, prompted the hosting of a National Land Summit in 2019. At the 2019 Summit, 17 resolutions were adopted as a guide to address challenges on customary land, including giving collateral value to customary land lease titles (PNG NRI, 2019). The 17 resolutions were endorsed by the National Executive Council (NEC) through NEC Decision No. NG70/2019 for implementation under NLDP Phase Two 2020-2024 (NLDP II). In a study of strategy to address customary land administration and governance, Kwapena et al. (2021) found that customary land lease titles are still not recognised by banks because their collateral value is non-existent due to risk and liability involved around ownership.

In 2022, under the auspices of the NLDP Phase Two 2020-2024 (NLDP II), the PNG NRI undertook a study to identify and examine factors contributing to risky customary land leases in PNG, and to identify a potential strategy for providing secure and bankable customary land leases in PNG. Consultative workshops were held in Mt. Hagen, Alotau, Kokopo and Lae with commercial banks, provincial administrations, targeted Incorporated Land Groups (ILGs) with registered customary land leases, and developers with investments on customary land. The study (Nao et al. forthcoming) concluded that bank employees are not fully aware of the processes involved in the VCLR system and landowners are not fully informed and not adequately resourced financially to participate fully in the process. To empower customary landowners to effectively participate in the process, the study put forward two options for the Government to consider – establish a National Customary Land Bank, and/or establish a credit guarantee facility similar to the one currently available to small and medium-sized enterprises (SMEs) in PNG. The proposed credit guarantee facility has the potential to provide collateral value to customary land lease titles by reducing the risk for lenders in the event of a default by the borrower, where the guarantor pays the loan at an agreed rate. This paper focuses on a credit guarantee facility for customary land in PNG.

The objectives of this paper, therefore, are:

- i. To examine how a credit guarantee facility for customary land can be established in PNG;

- ii. To identify challenges associated with the establishment and operation of a credit guarantee facility for customary land in PNG; and,
- iii. To identify strategies that can be used to ensure effective and efficient establishment and operation of a customary land credit guarantee facility.

Encouraging landowners to engage in a voluntary land registration process and subsequent development of customary land requires empowerment of customary landowners to enable them to fully engage and participate in the process. A credit guarantee facility for customary land in PNG has the potential to achieve this for landowners. It also has the potential to trigger growth of private sector and State investments on customary land as the increase in the supply of credit spurs increase in demand. For this reason, it is critical to understand what a credit guarantee facility is and what the prospects and challenges of establishing and operationalising one for customary land development in PNG are.

### A brief of the methods used to gather data

A review of literature was the research method applied for this paper. The goal of the literature review was to provide readers with familiarisation of the body of knowledge on credit guarantee facility to highlight the status of credit guarantee facilities, and to highlight what areas PNG needs to focus on in order to design an implementable credit guarantee facility for customary land in PNG, informed by practice in other countries. The publications used in the literature review were identified based on the following keywords: credit guarantee facility, credit guarantee scheme, “principles and practice” credit guarantees, and credit guarantee scheme for land. The publications used were scholarly articles sourced online from Google Scholar, Google and online journals including some journal articles obtained earlier for other land-related work. Various PNG National Research Institute (PNG NRI) publications on land and land reforms were also consulted as sources of information. These included PNG NRI Monograph 39, PNG NRI Discussion Paper No. 160 and No. 188, and PNG NRI Issues Paper 07.

### Credit guarantee facility

A credit guarantee facility, also referred to as a credit guarantee scheme, is a financial intervention by a third-party (often by government) to clientele interest groups such as SMEs, farmers and women, who often face challenges and constraints when accessing finance from banks and financial institutions (Meyer and Nagarajan, 1996). Credit guarantee schemes which first emerged in Europe in the 19th and

early 20th centuries, serve as a mechanism to cover part of a borrower's default risk and to lower a lender's risk by guaranteeing part or full secure repayment of a loan in the event of a default (Organisation for Economic Co-operation and Development (OECD), 2010).

Vogel and Adams (1997) highlighted that the primary assumption behind credit guarantee schemes is that disadvantaged groups are unable to obtain formal loans because of credit market imperfections, information asymmetry, lack of collateral, and hidden transaction costs. Further, credit guarantee schemes attempt to alter lenders' behaviour. These considerations need to be explored in the case of PNG. In the case of customary land in PNG, it has been established that customary land lease titles are not accepted as collateral (Chand et al., 2014; Kwapena et al., 2021).

There are different types or forms of credit guarantee schemes across the world. These include public guarantee schemes, corporate guarantee schemes, international guarantee schemes, and mutual guarantee schemes (OECD, 2010). A public guarantee scheme is established by public policy, usually involves subsidies and the guarantee is paid directly by government; a corporate guarantee scheme is funded and operated by the private sector and managed by experienced corporate leaders; an international guarantee scheme is funded through a bilateral or multilateral government arrangement or non-government organisation initiative and often includes technical assistance; a mutual guarantee scheme is a private and independent organisation established and funded through membership fees, and managed by borrowers with limited access to bank loans (OECD, 2010). In the case of customary land in PNG, a public guarantee scheme appears to be the practical option.

A public credit guarantee scheme or facility needs to be governed by a set of principles for its design, establishment, operation and evaluation. In the case of a public credit guarantee facility for SMEs, these set of internationally-recognised principles which are deemed critical for the success of a credit guarantee facility are in four broad areas: (i) legal and regulatory framework, (ii) corporate governance and risk management, (iii) operational framework, and (iv) monitoring and evaluation (Calice, 2016). These same principles can be applied in the context of other groups of people, including customary land groups and/or incorporated land groups in PNG.

Credit guarantee schemes have several potential impacts. According to OECD (2010), these impacts include the following: (i) promotes financial sustainability, (ii) creates

credit additionality, and (iii) generates economic additionality and spillover effects. If a credit guarantee scheme or facility is designed and implemented well, it would not just guarantee loans but raise revenue as well, generate extra loans that would not be possible without the credit guarantee scheme, and contribute to economy-wide impacts such as increase in profits and increase in employment. These considerations would have to be captured in the design of a credit guarantee facility for customary land in PNG.

## Brief review of literature on credit guarantee facilities

Most credit guarantee facilities or credit guarantee schemes focus on improving financial access for small enterprises (Levitsky and Prasad, 1987). However, some attention has also been given to other interest groups or disadvantaged groups who face difficulties accessing formal loans. Several papers which focus on the establishment and operationalisation of a credit guarantee facility have been consulted.

In a study of 60 credit guarantee schemes for SMEs in 54 countries, Calice (2016) found that there is a decent level of implementation of the four broad principles highlighted above in the previous section, especially in the areas of legal and regulatory framework, mandate and eligibility rules, and claim management process. The study also highlighted several areas requiring attention and action; namely, identification and accountability of funding sources, corporate governance and risk management, prudential regulatory recognition of guarantees, program/product calibration, and reporting and disclosure. Any credit guarantee facility should have a sound legal and regulatory framework, ensure good corporate governance, have an effective risk management plan, have an implementable operational plan, and have independent monitoring and evaluation done on it.

In Botswana, Machete (2020) found that a government-funded agricultural credit guarantee scheme established since 1986 to assist dry-land crop farmers who have taken loans to meet their obligations in case of crop failure due to drought, floods, frost or hailstorm, has placed an unsustainable financial burden on Government because it is not based on sound actuarial principles. The paper argues that the level of government subsidies should take into account gains made on crop yields by farmers during non-drought years, and goes on to recommend a quasi self-financing mechanism, as well as provides a novel subsidy and premium rate setting method. Sustainable financing for the establishment and ongoing operation of a credit guarantee facility should be a key consideration, especially for a government-funded credit guarantee facility. Loan access and loan financing should be



guided by clear and sound principles around risk, uncertainty and premiums. This information should be communicated clearly to the interested public.

A study reviewing credit guarantee schemes for SMEs in the Middle East and North Africa Region by Saadani et al. (2011) found that guarantee schemes in the Middle East and North Africa (MENA) Region are financially sound and most of them have room to expand. However, the growth of these guarantee schemes should be complemented by an improvement of some key design and management features, as well as the introduction of systematic impact evaluation reviews. All elements of a credit guarantee facility including the design, establishment, ongoing operation, and ongoing management of risks and other aspects must be given enough attention before such facility is established. Another key consideration should be regular monitoring of the credit facility and an impact evaluation at a defined time. This is to ensure that the credit scheme is achieving its intended objectives and in the case of a government-funded scheme, taxpayer funds are being put to its optimal use.

### Historical context of credit guarantee facilities in PNG

PNG has had some experience with credit guarantee schemes or facilities in recent times. In 2011, GoPNG signed an agreement with the International Finance Corporation (IFC) and the World Bank to establish a risk-sharing facility called Small Medium Enterprise Access to Finance Program, with funding of 150 million PNG Kina (International Finance Corporation, 2022). Furthermore, the program aims to increase the availability of credit, provide training and assistance to partner institutions that target SMEs (such as its first partner, Bank South Pacific), help small business owners scale up, and improve the business environment.

On 29 March 2022, Bank of Papua New Guinea (BPNG) launched the Credit Guarantee Corporation (CGC), a credit supplementing institution in the financial sector, owned and managed by BPNG under its own laws, and that acts as a guarantor to SME loans in PNG (<https://www.pngbusinessnews.com/articles/2022/4/credit-guarantee-corporation-launched>). The facility is available to SMEs, especially those that have made viable investments and have the potential to grow. The establishment of the credit guarantee facility was approved by the National Executive Council in November 2018 (Bank of Papua New Guinea, 2020).

At present in PNG, there is also a government-funded SME credit facility called SME Credit Enhancement Scheme Loan

(SME CESL). Funding of K200 million is available under this facility and managed by Bank South Pacific (BSP), National Development Bank (NDB) and the National Department of Commerce and Industry (DCI) (Chai, 2020). The funds are managed by BSP, NDB and DCI, based on their respective lending policies and procedures. For BSP, as at 15 December 2021, over 50 percent of the 2100 SMEs who had applied for loans had been successful with over K115 million funded (BSP, 2021). Although this is not specifically a credit guarantee facility, it is a credit facility that allows for businesses to grow and generate potential economy-wide benefits. This facility and the others outlined above provide insights that can inform the design of a credit guarantee facility for customary land in PNG.

### Credit guarantee facility for customary land in PNG

A credit guarantee facility for customary land in PNG has the potential to positively impact on customary landowners, investors, banks and other partner institutions, the Government and the people of PNG. Nao (2023) highlighted the potential benefits of a customary land credit guarantee facility as follows: (i) improve the livelihoods of customary landowners; (ii) encourage the mobilisation of customary land for development; (iii) serve as an incentive for investment by the private sector; (iv) encourage banks to lend; and, (v) increase revenue for government. If designed and implemented well, the customary land credit guarantee facility for PNG can increase the chances of accessing credit and engaging in business for landowners, and consequently, encouraging mobilisation of customary land. More lending by banks can encourage private sector investment on customary land, increase income, employment and tax revenue.

The design of a credit guarantee facility for customary land in PNG should be given a lot of thought. Given that most of the land in PNG still remains under the custody of the people, the customary landowners (Wangi and Ezebilo, 2017), the most practical option at this stage for a credit guarantee facility for customary land in PNG would be a public guarantee scheme or facility. This is a facility where GoPNG would put up the funding for the facility, at least for the first few years. The lifespan of the facility should be discussed at the design stage so that funding for subsequent years is planned for and budgeted by the National Government. A host institution(s) should be identified to partner with GoPNG to deliver the customary land credit guarantee facility.

The 2022 study done by NRI established that customary land titles from which customary land lease titles are derived are issued only after any disputes over ownership

and boundaries raised during the 90-day objection period have been addressed via mediation or local land court. These two papers can inform the determination of the risk-sharing arrangements in the design of the credit guarantee facility for customary land.

## Challenges associated with a credit guarantee facility for customary land in PNG

Levitsky (1997) identified moral hazard and need for establishment of guidelines for claims and debt recovery as key issues for consideration in the design of a credit guarantee facility while Meyer and Nagarajan (1996) highlighted the competing objectives of the guarantor, lender and borrower as a key issue for consideration in the design of a credit guarantee facility. Nao (2023) proposed identifying the most appropriate host of the facility and the sustainability of the fund as two key issues to be considered in the design of the credit guarantee facility for customary land in PNG. These and other factors should be considered by the GoPNG as potential guarantor, and partner institutions such as banks, when designing a potential credit guarantee facility for customary land:

- **Risk and liability around ownership of customary land.** Kwapena et al. (2021) found that customary land lease titles are not recognised by banks as collateral because of risk and liability around ownership of the land. Information on ownership of land, genealogies and family trees and their link to land ownership in PNG are passed down to generations through oral history. Because of this, determining ownership of customary land in PNG often requires involvement of a formal process such as mediation or the courts, between two or more parties. These processes require knowledge, money and time for landowners to participate in, and banks and other financial institutions to understand and engage in the process where appropriate. This specific challenge poses a major risk to the swift mobilisation and development of customary land and the success of the proposed credit guarantee facility.
- **Moral hazard.** Levitsky (1997) referred to moral hazard in two situations – (i) a situation in which borrowers become unwilling and not committed to repaying a guaranteed loan they have obtained because they are aware that the credit guarantee facility will repay the loan in the event of a default; and, (ii) a situation in which the lender or lenders exercise little to no incentive to effectively supervise a guaranteed loan because they are aware that the credit guarantee facility will repay the loan in the event of a default. There is no surety that

this will not happen in the case of customary landowners (borrowers) and partner institutions such as banks (lenders) in the case of a credit guarantee facility for customary land in PNG. This creates uncertainty and needs to be managed accordingly.

- **Establishment of guidelines.** A set of guidelines for a credit guarantee facility can be in the form of information on the steps and requirements to process guarantee claims and undertake debt recovery (Levitsky, 1997). Given that a government-funded customary land credit guarantee facility is being proposed, taxpayer monies will be involved, therefore, a clear set of guidelines is necessary to be established to guide the guarantor, borrower(s) and lender(s) in the operation and management of the facility and the funds. Guidelines can also serve as a fund governance mechanism, ensuring transparency and accountability in the management of the facility and the funds.
- **Competing objectives of the three agents.** The three agents or parties in any credit guarantee facility are the guarantor, the borrower, and the lender. For a credit guarantee facility for customary land in PNG, the guarantor would be the GoPNG, and their perceived interest in the facility would be to increase access to credit for landowners and to carry some of the risk for the investment. The borrower(s) would be customary landowners through their registered landowner land development company, with the perceived interest of obtaining loans to mobilise and invest on their customary land. The lender(s) would be a bank, a host of banks or any other partnering institutions. Their perceived interest as a business would be to ensure returns on the loans they extend. These competing objectives can pose a risk to the success of the customary land credit guarantee facility.
- **Identifying the most appropriate host of the facility.** The host institution of a credit guarantee facility can be determined based on three main considerations – (i) the appropriateness of the host institution to the nature of the facility; (ii) the business performance of the host institution over a number of years; and, (iii) the robustness of its corporate governance structure. For a credit guarantee facility on customary land, a bank or banking institution would be the most appropriate host of the facility. The host institution of the facility can be one bank or several banks. If one bank were to be the host, the facility can potentially be monopolised to the detriment of all parties – guarantor, lender, borrower, and the general public too (in terms of welfare gains).

Should the host be more than one bank, a potential challenge would be to determine what share of the fund each bank should obtain and manage.

- **Sustainability of the facility.** The sustainability of a credit guarantee facility is just as important as the establishment of the facility. The sustainability consideration is in terms of the funding aspect as well as the ongoing operation of the facility. If the lifespan of the facility and the funding arrangements for the facility are not discussed or determined at the design stage, the fund could potentially struggle to sustain itself over time. In terms of the ongoing operation of the facility, a sound corporate governance arrangement is critical. This involves ensuring that technically competent people are employed in the various roles at the board level to provide oversight and at the management level to manage the operations. Apart from this, the management of the facility, including funds, should be done independently from any undue influence.
- **Adverse selection.** Stiglitz and Weiss (1981) highlighted that adverse selection needs to be considered in determining the interest rate on loans for a credit guarantee facility because of the existence of asymmetric information, where borrowers are assumed to always know more about their willingness and ability to repay than lenders. Adverse selection occurs when there is an increase in interest rate or when the interest rate is too high, which results in some borrowers opting out of participating in the credit guarantee facility (Stiglitz and Weiss, 1981). It is often difficult for lenders to have full information about the ability and willingness of borrowers to repay guaranteed loans. This is a potential challenge for credit guarantee facility for customary land in PNG.
- **Lack of or limited knowledge and skills.** The 2022 study done by NRI found that most bank employees are either not aware of or have limited knowledge on the land group incorporation process, the customary land title registration process, and the customary land lease title derivation process. On the other hand, Nao (2022) highlighted that some customary landowners either do not have the basic literacy, business management and business development skills or have limited skills in the same areas. These two situations, if left unaddressed, have the potential to negatively impact on the success of the proposed customary land credit guarantee facility.

## Prospects of credit guarantee facility for customary land in PNG

To address the challenges highlighted above concerning a credit guarantee facility for customary land in PNG, the set of principles that govern the design, establishment, operation and evaluation of a public credit guarantee scheme can be a good starting point. The set of principles which are key ingredients of a successful credit guarantee facility cover four broad areas – (i) legal and regulatory framework; (ii) corporate governance and risk management; (iii) operational framework; and, (iv) monitoring and evaluation (Calice, 2016). Informed by the four broad areas and other considerations, the following strategies are recommended for the Government of PNG and other relevant authorities to consider:

- **Determine ownership of customary land.** To establish an effective credit guarantee facility for customary land in PNG, the foremost task to undertake is to ensure that the determination of ownership of customary land is done swiftly. Landowners should be continuously encouraged to resolve any disputes over ownership internally within their social unit, before engaging in the formal land registration process. For disputes over ownership of land that reach mediation or the courts through the formal land registration process, an established institution such as the Provincial Land Disputes Committee (PLDC) should be engaged to resolve such matters and have an outcome within a month of the registration of the dispute with PLDC. This can minimise the risk and liability around ownership of customary land and give confidence to the banks and guarantor.
- **Develop appropriate legal and regulatory framework.** To establish a credit guarantee facility for customary land in PNG, there is a need to develop the appropriate legal and regulatory framework. A separate legislation for the facility should be considered because this is the first credit facility for the development of customary land in PNG, and it also establishes the legal basis and mandate for the facility. For effective implementation of the law, a regulation can be developed. The regulation can capture any fees, forms, application guidelines, and other necessary documents. The legal and regulatory framework for the CGC that acts as a guarantor for SME loans in PNG can inform the development of the customary land credit guarantee facility.
- **Promote sound corporate governance.** Regardless of which bank or banks host the credit guarantee facility for customary land, sound corporate governance is a critical



area that needs to be upheld to give the credit guarantee facility the best possible chance of achieving its intended objectives and outcomes. There must be robust internal control and practical measures in place to deal with any challenges that arise. Sound corporate governance would ensure that the operation of the facility and the management of funds are done independently without any potential undue influence and interference. There are models in sound corporate governance in PNG that can be considered and emulated where appropriate.

- **Develop an appropriate risk-sharing arrangement.** As with loans of any nature, a share of the loans for development of customary land are likely to go into default. To manage the default risk better, an appropriate risk-sharing arrangement should be developed at the design stage of the facility. It might be that the guarantor (Government of PNG) carries all the risk of default in which case the loan guarantee would be 100 percent. However, this can create the moral hazard problem. A more appropriate risk-sharing arrangement would be one where the guarantor, the lender(s) and the borrower(s) share the default risk, for example, 80 percent guarantee provided by the Government and 20 percent risk shared between lender and borrower. Such risk-sharing arrangement creates the right set of incentives for the Government, the bank(s) and the borrower(s) to participate in the intervention.
- **Develop an effective operational framework.** As part of the design of a credit guarantee facility for customary land in PNG, an effective operational framework should be developed. An effective operational framework answers two questions – (i) what do we do; and, (ii) how do we do it effectively. It entails determining and spelling out clearly the roles and responsibilities of each party (guarantor, lender, borrower), workflows and processes that guide the operation of the facility, goals and deliverables. It should be a framework that focuses on continuous improvement of the facility. For example, on the part of the lender, it could include the risk assessment criteria and risk management strategy.
- **Promote timely monitoring and evaluation.** To promote a good working relationship between the Government, lender(s) and borrower(s) as well as maintain public confidence in the management of the facility, timely monitoring and evaluation of the facility is necessary. Provision of audited annual financial statements should be done. Apart from this, regular reporting of the performance of the credit guarantee facility should be done. This must also be accompanied

by a comprehensive evaluation of the facility periodically. If possible, at some point during the life of the facility, an impact evaluation should be undertaken. At the design stage or early stages, guidelines for the monitoring and evaluation of the credit guarantee facility should be developed.

- **Provide training and assistance to bank officers and participating landowners.** Aside from increasing access to finance for customary landowners, it is proposed that the credit guarantee facility also include a training and assistance component for bank officers and participating landowners. For bank officers, training should be provided on the land group incorporation process, the customary land title registration process, and the customary land lease title derivation process. Furthermore, training should be provided on developing the appropriate products targeted at customary landowners, processing of loan applications, loan monitoring, and debt collection, amongst others. For customary landowners, training should be provided on basic literacy and numeracy, business management and business development skills, and other areas deemed necessary. This aspect of the facility has the potential to significantly and positively impact on the sustainability and success of the credit guarantee facility on customary land.

## Conclusion

Available State land in PNG is limited in supply and therefore, in recent years, much attention has been given to access, release and mobilisation of customary land. An attempt was made in 2005 to introduce reforms on customary land by improving land administration, resolution of land disputes, and introducing a system of customary land development. Some progress has been made in terms of implementation, albeit slow. In 2019, another attempt at reforms was made. Despite this, customary land, through customary land title leases cannot serve as collateral for landowners to access credit to develop their titled customary land.

To address the lack of collateral value for customary land lease titles and therefore, increase access to finance for customary landowners, the establishment of a credit guarantee facility was proposed by a study done by NRI in 2022 with representatives from banks, some businesses and landowners, and provincial administrations. Credit guarantee facilities have been attempted in PNG. These include the CGC, a guarantee facility for SME loans; and the SME Access to Finance Program, a risk-sharing facility arrangement between the Government of PNG, IFC and World Bank. The design of the credit guarantee facility for customary land

can be informed by the experiences and lessons from the two SME facilities.

Government funding appears to be the most practical model for the credit guarantee facility for customary land in PNG. The proposed facility has the potential to improve customary landowners' livelihoods, encourage mobilisation of customary land, incentivise private sector investment, encourage more lending by banks, and increase government revenue. However, to realise these potential benefits, several challenges need to be addressed. These include risk and liability around ownership of customary land, moral hazard, establishment of guidelines, competing objectives of the three agents, identifying the most appropriate host of the facility, sustainability of the facility, adverse selection, and lack of or limited knowledge and skills. To ensure the success of the credit guarantee facility for customary land in PNG, swift determination of customary land ownership, the appropriate and effective legal and regulatory framework, risk-sharing arrangement, operational framework, and training and assistance are key elements for consideration in the design of the proposed facility. Another critical element is the timely monitoring and evaluation of the facility.

The proposed credit guarantee facility for customary land in PNG has the potential to unlock the economic value of customary land. Customary land is already an asset of high social and cultural value in PNG. When the economic value of customary land is unlocked, it has the potential to transform the economy of the country and contribute to improving the wellbeing of people.

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