



CLOSING ADDRESS

THE NATIONAL LAND SUMMIT “LAND, ECONOMIC GROWTH AND DEVELOPMENT”

**MINISTER FOR FINANCE AND TREASURY
HON. BART PHILEMON, MP**

23-25TH AUGUST 2005

Minister for Lands and Physical Planning, Hon. Dr Puka Temu, Dr. Thomas Webster and Members of the Land Symposium Coordinating Committee, Distinguished Invited Guests, Ladies and Gentlemen.

I am pleased to be able to address the National Land Summit and I take this opportunity to thank the Committee for their kind invitation to deliver the closing address.

The Committee has asked me to speak today on the theme of land, economic growth and development.

As we have seen during this summit, the issue of land is difficult to deal with, but very important in terms of our capacity to grow the economy and improve people's wellbeing.

Business people will tell you that they need land, labour and capital to grow. Economic growth and development requires us to use these resources productively.

We have land in Papua New Guinea, but much of it is not being used productively. It sits idle, while investors talk about land shortages and the difficulty and cost of securing land for their businesses. Employment has been foregone and incomes are lower because of our inefficient land management systems. We need to be able to manage our land more efficiently, if we expected stronger economic growth.

As we have heard, most of the land in Papua New Guinea – around 97 per cent – is held under customary ownership. The remainder, ‘alienated land’, which is land owned by the Government or freehold, accounts for around 3 per cent.

This land tenure regime poses a number of serious problems for investors who want to invest.

First, the small amount of freehold land makes it difficult for investors to secure land on which to operate their business. With supply limited, freehold land also commands a high price. Transaction costs are high.

The shortage is compounded even further by the National Housing Corporation, which controls a substantial part of state land, and which manages this critical asset very poorly.

In practice, for many investors, the only way they can secure land is through leasehold tenure. This has some major problems:

Consider the case of an investor who has identified some idle land that he wishes to use in his business:

First, securing leasehold tenure is a long process. It is often difficult to identify customary owners. Boundaries are often not clearly mapped or documented. Ownership is often not formally registered. It is often not even clear who has the right to negotiate the lease on behalf of the landowners.

The problem is exacerbated by slow and bureaucratic processes with the Department of Lands, which is required to perform a range of checks under the

Lands Act. Some of the processes are discretionary, increasing uncertainty of outcomes and providing opportunities for abuse.

Thus, the process of securing a lease is a long, difficult process, which sometimes can take several years and with uncertain outcomes. Business opportunities rarely stay open this long.

And, of course, the formal signing of the lease does not necessarily signal the end of the process. Customary land owners may be unaware of their rights and responsibilities under the lease arrangement, and what it means for the use of the land. It is often unclear what has been agreed to, or the fact that once agreed, the bargain must be honoured. Disputes may arise, with access denied through physical force or intimidation, or labour withdrawn, to force investors to re-open negotiations.

This problem is compounded by weaknesses elsewhere in the system. Court orders may not be enforceable because of administrative problems, lack of support from law authorities, or because of social considerations. These same problems also mean that most lending agencies do not accept leased land as collateral for a loan, making it difficult for investors to raise finance, even when they have secured a lease.

Of course, many of these problems exist whether the land leased is freehold or customary.

All of this makes it very difficult for an investor to know with some certainty that he will be able to obtain the required land in reasonable time, at a reasonable cost and with some certainty.

As a result, business owners (foreign and national) will take their money elsewhere. Investors can choose to put their money into Papua New Guinea, or they can go to China, or India, or our South East Asian neighbours. They can invest their money into Australia or New Zealand. They can invest in the United States or Europe. Or they can invest in over a 150 other countries in the world.

In some of these countries it takes only a matter of days to set up a business. Costs are lower. Contract rights are enforceable.

Many of these countries do not have customary land ownership.

Indeed, many people point to the poor growth in Pacific Island countries as partly a reflection of our land tenure systems. We are trading off the prospect of stronger growth to maintain our traditional customary land tenure systems.

Having said that, our customary land ownership traditions are at the heart of our culture and are entrenched into our way of life. They will be with us for many many years.

This then is our challenge: how do we maintain the traditional rights of customary land owners while providing a system of land management that facilitates timely, low-cost and secure access to land by investors?

This is a very difficult challenge, but we need to make a start.

I suspect that the first step should be a close look at the systems and processes within the Department of Lands, to see if we can reduce the red tape and introduce more certainty into what appears to be overly-bureaucratic and overly-discretionary land acquisition/leasing processes.

Similarly, we need to look at the system of transferring title of alienated land. This is also inefficient and costly, and often too difficult to work through for all but the most persistent and well-resourced investor.

Better mapping of land boundaries and registration of land ownership would also help streamline these processes, but they are not an answer by themselves.

We will also need to look more closely at law and justice agencies – such as the Local Land Courts, and the local police – and hold them accountable for ensuring that the rights of land leaseholders are properly enforced. As usual, PNG has a

fairly good legal framework surrounding land issues, but it is rarely used or enforced.

More generally, we need to educate land owners on the advantages to them of supporting an improved land tenure regime. Communities often ask ‘why can’t I get development in my area?’ The answer, in part, often relates to the extent to which, and the conditions under which, they make land available to investors. If the conditions that are imposed are too harsh, the costs are too high, or the risks too great, investors will take their money somewhere else.

Properly managed, a more streamlined land management/acquisition system will help bring in new investors and help the economy grow. It will create more jobs and higher incomes and long-term tangible benefits for local communities.

I am hopeful that this summit is the start of a process to improve our land tenure and management systems. We have identified the problem, we can see a tentative way forward, and now we need to move to get the job done.

Thank You.