

Strategies for Financial Sector Development

9

Financial sector development is both a function and a determinant of economic development. Promotion of economic development through creation of an enabling environment for the private sector, public enterprise reform, and efficient and effective fulfillment of the core functions of government (including the maintenance of macroeconomic stability) will also promote financial sector development. At the same time, economic development depends, among other things, on creating efficient, competitive, and responsive financial systems, capable of mobilizing savings for the funding of investment projects. Direct means of facilitating financial sector development in PDMCs are the focus of this final chapter. The key recommendations emerging from the analysis of PDMC financial sectors and of best practice are presented for each of the areas covered in chapters 3 to 7.

The recommendations have three general themes:

- 1. Place much more emphasis on managing risk.** Governments should pursue financial and economic policies that reduce country risk. They should promote sound and efficient financial systems through strengthened supervision, and improve their corporate governance environments. Governments can also help to reduce the credit risks to lenders by reforming land tenure systems. Creating an appropriate environment for NBFIs and capital market development will also help to reduce risks by diversifying investment products.

Governments should not cover the market risks for the private sector, however. Procedures for improving risk assessment also need to be put into place, perhaps by establishing a regional center of excellence that could provide training and undertake specific risk assessments or reviews of risk assessments. A small venture capital fund could also help by assessing risk and putting up funds, thus reducing the risks for financial institutions providing debt finance.

- 2. Impart a regional orientation to upgrading of skills bases in most PDMCs.** Countries have much to gain from cooperating on a regional basis, particularly in the legal, regulatory, and supervisory areas, but also in terms of developing capital markets to trade securities across national borders. The Pacific Islands Prudential Regulation and Supervision Initiative (see below) has already been established to further strengthen PDMCs' domestic regulatory environment and supervision, and includes a commitment to the establishment of more formal and extensive arrangements for closer cooperation and coordination among the members of the Initiative.
- 3. Develop MFIs and integrate them more effectively into formal financial systems.** Small MFIs are clearly an appropriate means of facilitating a greater involvement of rural and outer island populations in the monetized economy. They can provide a savings mechanism for small savers, who then can borrow against their savings; and they can also be a means of transferring marketing, management, and accounting skills. However, there will ultimately be a need for successful enterprises to move from microfinance to development finance institutions and commercial banks.

BANKING SYSTEMS

Promote more effective competition for foreign banks.

To promote more effective competition for foreign commercial banks, governments of PDMCs should encourage the development of nonbank financial intermediaries—finance companies, development finance institutions, investment banks,

mutual funds, unit trusts, leasing and factoring companies, insurance companies and pension funds—by ensuring a level playing field. Governments should also enhance competition in financial sectors by allowing NPFs to invest more of their money offshore, and perhaps by requiring them to invest a minimum amount overseas. This would allow for mopping up some of the excess liquidity in financial systems, encourage competition by commercial banks for deposits, and reduce the costs to central banks of issuing instruments to mop up liquidity. This policy would also encourage the development of interbank markets.

Competition would be enhanced if central banks would adopt effective monetary policies. To do this would require the following measures:

- (i) the solution of central bank funding problems, so that the interest costs of monetary policy do not prevent effective open market operations;
- (ii) the establishment of open market operations based on government securities or central bank bills; and
- (iii) close cooperation between monetary and fiscal authorities for liquidity projection purposes.

Pricing of securities by central banks should be market oriented and consistent with deposit and lending rates, so that they do not distort interest rates and hamper the development of secondary markets. In PDMCs where it is not possible to develop an active secondary market, the central bank should consider conducting open market-type operations through repos and reverse repos,¹³ rather than through outright purchases and sales. It might be possible to develop an active repo and collateralized interbank market at a lower cost than that of secondary markets.

¹³ "Repo" is short for repurchase agreement. The holder of a security sells the security and agrees to buy it back from that party at an agreed future date at an agreed price. In theory, it can be used for any securities; in practice it is mainly used in government bond markets by banks needing cash to manage their accounts at the central bank. The repo could be for one day, i.e., sell today and buy back tomorrow. Reverse repos are used when a bank has excess cash and buys government paper from a bank with too little and agrees to sell it back at an agreed price on an agreed date. For every repo there is a reverse repo.

Allowing citizens of PDMCs to utilize financial services through the Internet could also lead to more competition in financial sectors. For example, in PDMCs such as Kiribati, which uses the Australian dollar, citizens could use Australian banks through the Internet. One or two offices could be set up in the PDMC and citizens could go to the Internet office to bank, or could use their own Internet connection. They would have several foreign banks to choose from, creating much more competition than they could have in their small domestic market.

The development of capital markets to provide new opportunities and more alternatives to savers and investors would also bring competition to commercial banks, as savers would have an opportunity to invest in equity products as well as bank deposits (see below).

It has been suggested that where financial sectors are imperfectly competitive, "regulations can be designed and implemented to simulate competitive conditions, as in the case of setting minimum deposit rates of interest" (Fry 1994). However, such price regulation would go against the general financial liberalization actions taken in the 1990s, and assumes there would no problem of government failure, when in fact such regulation would place additional demands on already scarce administrative capacity. It also would reduce the operational flexibility of banks, which is important to financial system soundness. The preferred option is to encourage contestability of markets through the maintenance of existing open entry policies, to ensure that banks provide standardized information on their loan and deposit rates, and to strengthen prudential regulation (see also Chand 2001 and Rosales 2001).

Strengthen supervisory systems and develop financial sector infrastructure.

These measures would promote development of sound and efficient financial systems. Central banks in PDMCs must have more autonomy, both for monetary operations and for effective supervision. Where this has not been done already, acts must be strengthened so that DFIs, NPFs, and other NBFIs can also come under the purview of central banks' supervisory systems. PDMCs are too small to allow fragmented systems of supervision of

financial institutions in which ministries of finance supervise government-owned enterprises. NBFIs should be subject to the same disclosure requirements as banks as to entry and exit requirements. In the long term, banking supervisors might consider the APRA model,¹⁴ the United Kingdom Financial Services Authority, or a variant as a means of fulfilling the prudential supervision function, including the regulation of more complex financial institutions.

On a longer-term perspective, it is recommended that PDMCs continue to enhance and strengthen the process of regional cooperation and consultation in regulatory and supervisory matters. A key initiative already taken is the recent regional Declaration on Cooperation to establish PIPRSI. Related to this is the need for a formal analysis of the regulatory systems and supervisory practices of PDMCs for their compatibility with internationally accepted norms (Basle Core Principles), in order to lay the foundation for the timely harmonization of financial sector regulation and supervision on a regional basis. On- and off-site supervision capacities should be strengthened through long-term training organized regionally.

It is recommended that PDMCs work on a regional basis with a view to enforcing internationally accepted accounting and audit standards for all financial institutions and for public sector accounting systems. This would make on-site and off-site supervision more evenly applicable, and errors and weaknesses more easily identifiable.

It is also recommended that PDMCs strengthen their judicial systems so that supervisory decisions are promptly adjudicated, and the ability of banks to enforce the contractual obligations of their customers is enhanced. This will require more training for the judiciary, possibly organized regionally.

¹⁴ The Australian Prudential Regulation Authority (APRA) was established in 1998 to take over the prudential supervision roles of the Insurance and Superannuation Commission and the Reserve Bank, which covered life and general insurers, superannuation funds, and banks. In July 1999, APRA also took over responsibility for the State-regulated building societies, credit unions, and friendly societies. More than 85 percent of the assets in Australia's financial system are now APRA's direct responsibility.

NONBANK FINANCIAL INSTITUTIONS

Increase DFIs' commercial orientation and independence from government.

Efforts should be made to improve DFIs' performance by increasing both their commercial orientation and their independence from government. Where necessary, the acts governing DFIs should be strengthened to provide greater independence for boards, and, in particular, curtailment of the power of ministers to intervene on any grounds other than performance. The provisions regarding appointment and dismissal of directors should be strengthened to reduce volatility. Provisions for nonattendance should also be reinforced to allow for stronger sanctions in the event of blatant nonattendance by board members. The composition of the boards should also be reviewed to increase the level of private sector representation, and consideration should be given to capping directors' fees. Government ownership could continue subject to the latter changes, but the following options could also be considered: merging with another institution, contracting out the DFI's management, and developing alliances with other organizations, such as credit unions and provincial cooperatives.

DFIs need to ensure that they operate in a way that minimizes the likelihood of continuing losses from poor practices and procedures. This means taking risk into account when pricing, developing the capacity for strategic planning based on adequate management information systems, and committing additional resources to training. Common regional policies based on best practices should be established for DFIs.

These policies could include

- (i) setting standards for disclosure;
- (ii) setting minimum capital adequacy requirements;
- (iii) setting levels of provisioning;
- (iv) advising on strengthening of legislation;
- (v) harmonizing training requirements throughout the region; and
- (vi) establishing loan systems.

DFIs should move towards self-funding through bonds and promissory notes, while any subsidies from governments should be allocated on a transparent and targeted basis. DFIs should formally report to their respective central banks, providing the following information:

- (i) loan classification by sector and type;
- (ii) connected lending and concentration of loans to individuals and corporations;
- (iii) level of provisioning by types of loans;
- (iv) capital adequacy to reflect the risk of DFIs;
- (v) policies on interest accrual, suspension of interest on outstanding loans, and the moving of interest rates to market levels;
- (vi) policies on DFI officers, especially those dealing with conflicts of interest as a result of lending to board members;
- (vii) policies on common minimum standards for disclosure, including information on all loans above a certain size; and
- (viii) policies on disclosure of relevant information on directors.

Give NPFs greater autonomy and procedural safeguards.

National Provident Funds (NPFs) should operate independently of governments and should set up rules concerning the nature of permitted investments, as well as procedural safeguards to ensure that monies are not diverted from their intended use. Greater allowance for overseas investment of funds should be made. Consideration should be given to developing a model investment strategy that could be adopted (or adapted) by all the provident funds in the region. In countries with a stock exchange, these rules are likely to involve stock exchange-listed securities. In PDMCs without a domestic stock exchange, the model rules may refer to recognized local investments or recognized overseas stock exchanges. In these cases, it will be necessary to ensure that such investments can be made in accordance with the relevant exchange control regulations. NPFs must have an adequate system for recording members' assets, which includes facilities for recording members' loans and direct investments. Where model rules for withdrawals and loans are not in place, they should also be developed.

CAPITAL MARKETS

Develop effective, efficient infrastructure for company registration and monitoring.

Development of the capital market in PDMCs can potentially provide an alternative to the commercial banks. Given the small size of the PDMCs, this can be best achieved on a regional level. In order to facilitate capital market development, there is a need to ensure that sound companies acts are in place, along with efficient mechanisms for registering companies and monitoring compliance with ongoing filing obligations. Where required, the infrastructure for the registration process should also be improved, with training for staff and companies as to their ongoing responsibilities. Harmonization of the relevant laws is not a prerequisite for the development of a regional stock exchange, but it would be of considerable assistance.

Create an appropriate investment environment.

PDMC governments should consider passing simple securities acts, or appropriately amending companies acts, so that persons who offer investment services in the domestic market are required to obtain a license. The law should differentiate between organizations that are already licensed in recognized overseas countries and those that wish to obtain a license in the PDMC concerned without any overseas backing.¹⁵ In the former case, a simple registration procedure should suffice. In the latter

¹⁵ Regulators simply determine which countries to "recognize". In general terms, the members of the International Organization of Securities Commissions are automatically recognized, and other regulators are recognized on a case-by-case basis. Often the domestic regulator will attempt to obtain a Memorandum of Understanding (MOU) with the other regulator. This MOU would enable the two regulators to share information. Bonds are defined as instruments with an initial maturity of more than one year. Money market instruments (central bank bills and treasury bills) may have a maturity that ranges from one day to one year. Money market instruments are generally issued on a discount basis, whereas bonds are normally issued at par value, with interest paid annually, semiannually, or quarterly.

case, more detailed regulations would be needed. A list of licensed persons should be kept, and the regulator should advise the public to only deal with registered services, thus providing a degree of protection. It is recommended that the regulator of persons offering investment services should be the relevant central bank.

Establish a regional capital market.

To promote capital markets on a regional basis in PDMCs, it is recommended that a distributed, networked regional facility be established that uses Internet technology to link the existing exchanges (SSE and POMSoX) to companies and investors in all the PDMCs. This facility could make provision for other domestic exchanges to be added to the network as they are developed. There are several advantages to this proposal:

- (i) The facility can be recognized by governments, but no government has to enact extensive legal changes before the system can be brought into operation.
- (ii) Joining the facility does not prevent any of the PDMCs from enacting legislation to govern public issues, or the offering of investment services to the public (indeed this would be encouraged in terms of developing the domestic industry and investor protection).
- (iii) Joining the facility does not prevent any of the PDMCs, when the time is right, from developing a domestic stock exchange, which could form another "node" on the network.
- (iv) Companies that list will make themselves subject to the listing rules and disclosure requirements of the chosen exchange, thus providing a degree of investor protection.
- (v) Development of the trading mechanism should be relatively inexpensive, which is important, given the low level of awareness of capital markets in all the PDMCs and the fact that the service cannot be expected to produce significant income in the short term.

Privatize state-owned enterprises through a public share offering.

It is further recommended that the various privatization bodies in the PDMCs should, where possible, identify and privatize profitable state-owned companies through the mechanism of a public offer of a significant proportion of the shares. In addition, they should ensure that sufficient shares are offered to the public to enable the creation of a liquid secondary market (which would provide the public with experience in using a market), and support the privatization by a significant publicity campaign that would encourage the public to buy shares and also to create public awareness of the stock exchange.

An Internet-based trading mechanism would allow the service to be offered through licensed intermediaries in the countries that have enacted the relevant legislation, and directly to investors in the others. Services can be offered without the need for a physical presence in that location. An Internet-based trading facility would also be attractive to young professionals, who are probably the target audience of the future, and the front end of the Internet service could be customized and presented as a regional facility to potential investors.

Set up a regional settlement facility.

Because a facility to settle trades by book entry transfer will be essential when volumes increase (currently both SSE and POMSoX settle in physical form), it is recommended that the following implications for setting up a regional clearing and settlement facility such as "PacifiClear" be considered:

- (i) the necessary legal changes;
- (ii) the ownership of such a facility;
- (iii) the functionality required of such a facility, bearing in mind both current and future regional and national developments; and
- (iv) the potential cost of development and operation.

It is also recommended that SSE investigate the options for implementing an automated trading system, including reviewing the feasibility, costs, benefits, and risks of SSE's using the same trading system as POMSoX.

Organize a regional venture capital fund.

The establishment of a new regionally organized venture capital fund should be considered. This fund would make finance available to development enterprises in the PDMCs through local private sector entities (fund managers). These managers would be organizations that are willing to commit themselves to managing the funds for an annual fee and have an interest in the outcome through a profit bonus. They should be entirely from the private sector, with no government affiliations or board appointments. In addition, they should be well established and experienced in the local market. Examples of suitable local organizations would be commercial banks, accountants, lawyers, management consultants, and portfolio managers. Where relevant, these managers should have licences or recognition from domestic regulators and/or international professional bodies. It might be possible for the local administrator to consist of a consortium, for example, a firm of accountants plus the local chamber of commerce as advisors. The basic investment criteria for the fund should be set regionally and a regional administrator hired who would perform due diligence on the potential private sector managers to ensure that they have both local standing and experience. However, investment decisions should be left with the local manager, with a reporting line to the regional administrator.

It is also recommended that any new venture capital fund aim for a specified return, and that any excess earned over and above the specified annual return accrue to the fund manager until the maturity date of the fund. That way the local manager would have a significant financial incentive in the outcome of the investments. Such a manager should be asked to provide, either from his own or his clients' resources, a matching investment. If this is not possible, it is recommended that the domestic provider suffer at least risk of reputation if the investments go wrong, possibly by widely publicizing the

existence of the fund together with the identity of the approved domestic manager.

An exit strategy should be part of the investment strategy of the venture capital fund. A venture capital fund normally has a time horizon of around five to seven years and is not intended to be a source of long-term finance for companies. Within this time frame, the fund should have been able to realize its capital and have made a profit for use in other developing companies. The development of a regionally based stock exchange would assist by providing at least one exit strategy in those PDMCs that cannot support a domestic market.

MICROFINANCE

The major challenge of microfinance in the PDMCs is how to provide financial services efficiently, effectively, and on a sustainable basis to those who do not have access to the formal financial system. The review of MFIs in the seven PDMCs studied has shown that not one has yet achieved operational self-sufficiency; and indicative timetables for achieving self-sufficiency in the Guiding Principles agreed on by donor agencies (three years for operational self-sufficiency, five to ten years for financial self-sufficiency) appear unrealistically short.

The feasibility of microfinance in PDMCs hinges on the following:

- (i) the strong commitment of MFIs to outreach and sustainability;
- (ii) achievement of a critical mass to achieve profitability, which itself depends on building markets and opportunities for cash incomes in rural areas;
- (iii) the strong commitment of governments to establishing a conducive policy and legislative environment for microfinance;
- (iv) the long-term commitment of government and development agencies to provide technical assistance to MFIs for capacity building and institutional strengthening; and

- (v) provision of support services, especially in microenterprise development, management, public education, and social mobilization.

Perhaps the most important feasibility feature of an MFI is that it clearly emphasize savings mobilization before considering providing credit.

Given the differences between PDMCs, a single model for microfinance is unlikely to be applicable. The existing modalities—Grameen Bank replication, individual lending by development banks, savings and loan associations/credit unions, revolving funds, and village banks—have their own strengths and weaknesses and must be assessed in each specific context. However, some general recommendations can be made.

Create a policy and legislative environment to encourage the development of sound and efficient microfinance systems.

Actions toward such an environment would include

- (i) enacting specific policies that will allow MFIs (especially NGOs) to function as legal financial intermediaries;
- (ii) setting standards for MFIs, and for the protection of clients;
- (iii) providing appropriate regulation and supervision; and
- (iv) providing an environment where institution building and training can occur, among other means by establishing linkages with other programs and projects that have similar objectives.

MFIs need to expand their outreach, to adopt best organizational and management practices and innovative delivery approaches, to form and empower groups, and to mobilize resources in order to reduce dependency on grants and subsidies.

Support capacity building for MFIs, including capacity building on a regional basis.

Such capacity building for MFIs should focus on

- (i) building institutional capacity (policies, structures, procedures);

- (ii) developing human resources to enhance technical competence of MFI staff;
- (iii) building technical, financial, managerial, product development, and marketing skills;
- (iv) developing information and education strategies to build awareness and share best practices; and
- (v) developing participatory and consultative processes.

PDMCs should consider setting up a regional institution that can provide support services to MFIs in the Pacific and provide linkage/networking with donor agencies, governments, NGOs and other related institutions for capability building programs. An initial consultation has been based on UNDP's document regarding an MFI regional association. Ten countries in the Pacific have already expressed interest: Fiji Islands, Samoa, Solomon Islands, Papua New Guinea, Vanuatu, Palau, Kiribati, Cook Islands, Niue, and Tuvalu.

Direct donor aid to support financial viability for MFIs.

Strategic interventions by external agencies should support only those MFIs with the potential for financial viability and effectiveness in delivering microfinance services to target groups. Interventions could include

- (i) spearheading consultations and dialogue regarding microfinance development;
- (ii) mobilizing technical resources, including cost sharing in programs and division of tasks/areas in technical assistance;
- (iii) negotiating with governments to facilitate the implementation of key areas of policy, legal, and institutional regulation of MFIs;
- (iv) strengthening the institutional and local capacity of MFIs;
- (v) initiating pilot studies and qualitative and quantitative research that can assess the viability of different modalities of microfinance, as well as the impact of microfinance on people's lives;
- (vi) assisting with development of information, education, and communication modules for information campaigns

- and grassroots development, so that local leaders/managers have tools to promote policies on best practices; and
- (vii) assisting with establishment of a regional secretariat for an MFI support structure that could provide technical and program services.

LAND TENURE AND USE OF LAND FOR COLLATERAL

Enact or amend legislation to permit mortgaging and leasing of customary land.

PDMC governments should review the possibility of amending their relevant land acts to permit customary lands to be mortgaged or leased for business and commercial purposes, or to enact legislation authorizing the conversion of customary land to a form of freehold land that can be mortgaged or leased. In addition, it is recommended that some PDMCs take steps to remedy uncertainty about the ownership and boundaries of customary lands, which hampers the mortgaging and leasing of such lands. Action in these areas should emerge from a process of consultation with all stakeholders that involves an open and public discussion of problems and possible solutions.

PDMCs governments should also set up a nonpolitical public agency, such as a land trust board, land use commission, or customary land development authority, to manage, or supervise and facilitate the management of, customary land. The administrative costs of these nonpolitical public agencies would need to be kept as low as possible, so that as much of the benefits as possible go to the owners of the land. Systems for processing applications for land tenure conversion and compensation for compulsory acquisition need to be improved. These recommendations are elaborated below.

Mortgages of Customary Lands. In the Fiji Islands and Vanuatu, provision should be made for an independent review of decisions made by the NLTB and the Minister of Lands, respectively, as to the granting or withholding of consents to mortgages of customary land.

In Kiribati, the purposes for which customary land may be mortgaged should be expanded to include business or commercial purposes.

In PNG, Samoa, and Solomon Islands, consideration should be given to allowing custom landowners to mortgage their land, but mortgages should be subject to certain limitations, that is, they should be only to certain approved institutions, for certain approved purposes, and enforceable only by entry into possession.

In the Fiji Islands, Kiribati, PNG, Samoa, Solomon Islands, and Vanuatu, there should be some established mechanism for an independent review of decisions made by state agencies as to whether customary land should be leased.

Mortgages of Leasehold Interests in Customary Land.

In the Fiji Islands and Vanuatu, there should be an established mechanism for independent review of decisions made by the NLTB and Minister of Lands, respectively, with regard to the approval of mortgages of leasehold interests in customary land.

In Kiribati, the purposes for which leasehold interests in customary land can be mortgaged should be extended to include business or commercial purposes.

In Samoa, the prohibition against the mortgage of leasehold interest in customary land should be lifted; but it is contained in an article of the Constitution, which cannot be amended without a two-thirds majority in the Legislative Assembly and in a national referendum, so it is impracticable to attempt to change it under the present Constitution.

Enforcement of Mortgages on, and Mortgages of Leasehold Interests in, Customary Land. In the Fiji Islands, there should be an independent review of decisions by the Native Land Trust Board to grant or refuse consent to the enforcement of mortgages on customary land.

In Kiribati, it should be possible to sell the leasehold interest in customary land to persons other than i-Kiribati, the State, the Housing Corporation, and the National Loan Board.

In Solomon Islands, it should be permitted to sell mortgages of leasehold interests in customary land to persons other than Solomon Islanders. Custom owners wishing to mortgage customary lands should be required to be sponsored

by family members and neighbors, in order to demonstrate their understanding that if the owners default on their payments under the mortgage, the mortgagee is entitled to enforce the mortgage by entry into possession. Lessees of customary land wishing to mortgage their leasehold interest should be required to be sponsored by members of the customary owners' family and their neighbors, in order to demonstrate their understanding that if the lessee defaults on payment under the mortgage, the mortgagee is entitled to enforce the mortgage by entering into possession.

Management and Use of Customary Land. In the Fiji Islands, Samoa, and Vanuatu, there should be provision for some independent review of decisions made by the NLTB or the Minister of Lands with regard to the use of customary land.

In PNG and Solomon Islands, a careful review should be undertaken of the incorporated land groups and of the registered custom owners, to determine whether the way in which they manage and use customary land should be subject to some legislative regulation.

In Kiribati and Vanuatu (where land ownership is not under dispute), a careful review should be undertaken of the operation of the land committees and trustees to determine whether the way in which they manage and use customary land should be subject to some legislative regulation.

Other Customary Land Tenure Problems. In PNG, additional funding and staffing should be provided to the Land Titles Commission to enable it to deal more promptly with applications made to it for land tenure conversions.

In Solomon Islands, a review should be undertaken of the legislative provisions enabling conversion of customary lands to perpetual estates, to see why custom owners are reluctant to avail themselves of tenure conversion.

In the Fiji Islands, Kiribati, Samoa, and Vanuatu, discussions should be held with governments to explore the possibility of providing for custom owners to convert their land into a form of limited freehold or perpetual estate.

In the Fiji Islands, Kiribati, PNG, Samoa, Solomon Islands, and Vanuatu, there should be provision for the automatic

cancellation of the participation rights of absentee landowners after a certain period of absence, say two years; and automatic cancellation of all rights of owners after a period of, say, five years or 10 years.

In PNG, Samoa, Solomon Islands, and Vanuatu, systematic registration of customary land should be attempted in selected areas, where this would contribute to the development of customary land.

In Kiribati, PNG, Solomon Islands, and Vanuatu, legislation should be enacted to authorize the lands tribunals to adjudicate disputes about customary titles.

In Vanuatu, the Island Courts and Supreme Court should be replaced as the bodies to adjudicate disputes about customary land.

In the Fiji Islands, Kiribati, PNG, Samoa, and Vanuatu, with regard to the bodies authorized to determine disputes about customary land, the government should ensure that

- (i) delays in the hearings of proceedings are reduced;
- (ii) expenses of such proceedings are reduced;
- (iii) members of the bodies making decisions about customary land have an adequate knowledge of the customs relating to the land in dispute;
- (iv) decisions of such bodies are accurately recorded and publicized;
- (v) decisions of such bodies are permanently recorded on the ground; and
- (vi) such bodies have jurisdiction to determine entitlement to customary title as well as to customary land.

Simplify and rationalize the mortgaging of individually owned land.

In Kiribati, local legislation should be enacted to provide for and regulate the mortgaging of freehold land.

In Samoa, guidelines should be drawn up and published as to the basis upon which the Head of State should consent to a mortgage to a person not a resident citizen or to an overseas corporation.

In Tonga, mortgages of hereditary estates and allotments should be allowed for business or commercial purposes, as well as for the improvement of the estate or allotment.

In PNG, the term of a lease of converted customary land that does not require the permission of the Land Board or the minister should be extended from 25 to 50 or 75 years.

In PNG, Samoa, Solomon Islands, and Tonga, guidelines should be drawn up and published as to the basis upon which approval will be given to the granting of a lease that is otherwise prohibited.

In Kiribati, local legislation should be enacted to provide for and regulate the mortgaging of leasehold interests in individually owned land.

In Samoa and Tonga, guidelines should be drawn up and published as to the basis upon which consent would be granted by the Head of State and Minister of Lands, respectively, for the granting of approval to mortgages of leasehold interests in freehold land and hereditary states and allotments.

In Kiribati, local legislation should be enacted to empower and regulate the mortgaging of freehold land, and of leasehold interests in freehold land.

In PNG, guidelines should be drawn up and published for Land Board approval of the enforcement of a mortgage of freehold by sale of the freehold, and for the Minister of Lands' agreement to a mortgage of more than 25 years.

In Samoa, guidelines should be drawn up and published for the Head of State's consent to the enforcement of a mortgage by the sale of freehold land to a person not a resident citizen or to an overseas corporation.

In Solomon Islands, the restriction against non-Solomon Islanders' application to the High Court for an order to enforce a mortgage should be removed.

In Tonga, a mortgagee wishing to enforce a mortgage by entry into possession should be required to obtain an order from the Land Court sanctioning that remedy, to ensure that there is no resistance by the mortgagor.

In PNG and Solomon Islands, individual landowners and lessees of individually owned lands should be required, when applying for a mortgage, to be sponsored by family members and neighbors, in order to demonstrate their understanding that if there is a default under the mortgage, the mortgagee will be entitled to sell or enter into possession.

Simplify and rationalize the leasing and mortgaging of government-owned land.

In Kiribati and Vanuatu, legislation should be enacted to facilitate and regulate the leasing of Government-owned land.

In Samoa, the terms of Public Land leases should be longer than 20 years.

In Solomon Islands, it should be possible to lease land owned by the national Government for a fixed term, rather than only as a periodic tenancy.

In Tonga, it should be possible to lease land within the Royal Estates and Royal Family estates for agricultural, pastoral, or commercial purposes, and not only for projects of general public interest and benefit.

In Kiribati and Vanuatu, legislation should be enacted to facilitate and regulate the mortgaging of leasehold interests in Government-owned land.

In Kiribati, legislation should be enacted that provides expressly for the granting and enforcement of mortgages of leasehold interests in Government-owned land.

In Solomon Islands, non-Solomon Islanders should be permitted to enforce mortgages of leasehold interests in Government-owned land.

In the Fiji Islands and PNG, legislation relating to the mortgaging of crops and livestock should be reviewed and revised where necessary. Public awareness of the existence of such mortgage facilities should also be raised.

In Solomon Islands, Tonga, and Vanuatu, legislation should be enacted to authorize the mortgaging of crops and livestock, and public awareness of the existence of such mortgage facilities should be raised.

Implementation of the above recommendations on land tenure systems would ease a major constraint to financial sector development in PDMCs. An effective leasehold title system with full transferability would permit the use of land as security for a loan from a commercial bank or NBFIs, and thus stimulate the private investment needed for sustained economic growth.