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## POTENTIAL PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENTS FOR BOOSTING AFFORDABLE HOUSING DELIVERY IN PAPUA NEW GUINEA

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### Key Points

- Public-Private Partnership (PPP) is the current paradigm used for housing delivery in most countries.
- PPP arrangements for boosting housing delivery in Papua New Guinea (PNG) were explored.
- Two PPP arrangements, the direct relationship ownership housing arrangement and the direct relationship rental housing arrangement, are more suitable for PNG.
- For a PPP project to succeed in PNG, transparency must be promoted in the project, risks associated with the project must be distributed fairly, and the project must be supported by the government at all levels.

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## POTENTIAL PUBLIC-PRIVATE PARTNERSHIP ARRANGEMENTS FOR BOOSTING AFFORDABLE HOUSING DELIVERY IN PAPUA NEW GUINEA

By Eugene E. Ezebilo

This article focuses on one of the findings from a recent paper by Savadogo and Ezebilo (2018) regarding potential public-private partnership (PPP) strategy that promotes effective housing delivery in Papua New Guinea (PNG). The paper stated that although there are several PPP arrangements associated with housing delivery, identifying the PPP arrangements that might be suitable for a country is often problematic. This article focuses on two PPP arrangements: the direct relationship ownership housing arrangement and the direct relationship rental housing arrangement, which are suitable for the delivery of affordable housing in PNG. However, for these arrangements to be effective, transparency must be promoted in all stages of the PPP project and political support for PPP enhanced. It is also necessary for private developers to establish a strong private consortium and risks associated with the PPP allocated fairly.

### PPP is the current paradigm for delivering affordable housing

Providing adequate, quality and affordable housing has long been an issue for governments of most developing countries. This is as a result of bureaucracy, inefficiency and budget constraints associated with the public sector. As the private sector is often more efficient and effective in housing delivery than the public sector, governments have introduced several initiatives to attract private investments into the housing sector (Tang et al., 2010). However, the private sector's goal for constructing houses is to maximise profit. This indicates that it might be difficult for the private sector to provide affordable housing. In order to stimulate the private sector to supply houses at affordable prices, a paradigm known as the PPP emerged (Osei-Kyei and Chan, 2015). The PPP is a range of institutional

arrangements between the public and private sectors in sharing responsibilities associated with housing delivery. It has the potential of improving productivity in the public sector and the resolution of problems associated with resource utilisation in housing delivery. The PPP arrangement also has the potential of boosting the supply of houses at affordable prices.

### PPP arrangements suitable for effective housing delivery in PNG

There are several PPP arrangements used for providing houses for different income groups (Ministry of Housing and Urban Affairs, 2017). However, in choosing PPP arrangements for housing delivery in PNG, it is necessary to consider the socio-economic characteristics of PNG residents. The risks and complexities associated with each of the PPP arrangements and the housing policy should also be considered. In terms of income groups, culture, aspiration and value, PNG is heterogeneous. For a PPP arrangement to be effective in housing delivery in the country, it must reflect the heterogeneity. Based on the review of several PPP arrangements in housing delivery, suitable arrangements for PNG include the following:

- *Direct relationship ownership housing (DROH) arrangement* – This involves agencies such as the National Housing Corporation (NHC) providing land for free to large-scale private developers that have been selected through a competitive tendering process. Under the DROH arrangement, the NHC is responsible for the construction of trunk infrastructure and the development of a checklist for monitoring the quality of houses constructed by private developers. Also, the NHC in collaboration with the developers will develop a criteria for selecting potential beneficiaries of the housing scheme.

The private developer is responsible for designing, constructing and financing the housing stock, which must meet the minimum standard set by the NHC at a pre-determined cost and time. The developer is also responsible for the maintenance of the housing units, selling completed units to potential buyers, sourcing buyers, and ensuring that buyers make payments on time.

Beneficiaries are required to pay for the housing units directly to the developer either in lump sum at the time of handing over of the housing units, or when monthly payments are due.

The DROH arrangement is similar to the PPP arrangement being implemented at the Duran Farm Housing Project (DFHP). The key differences are that for the DFHP, land is provided to the private developer at a subsidised price, however, it is not clear whose responsibility it is to conduct maintenance work on the housing units. The land price contributes to the house construction cost, which adds to the final house sales price. The sales price of houses constructed using the DROH arrangement should be far lower than that of the DFHP PPP arrangement.

- *Direct relationship rental housing (DRH) arrangement* – This PPP arrangement is targeted towards making house rent prices affordable to low-income and middle-income groups. Similar to the DROH arrangement, NHC provides land for free to selected large-scale private developers while also providing trunk infrastructure and determining house rent prices in collaboration with the private developers. The NHC also develops a criteria for selecting potential beneficiaries of the housing units under the DRH arrangement.

The private developer is responsible for constructing houses, maintenance of the housing units, and the collection of house rents from the tenants. Unlike the DROH arrangement, the developers will continue to own the housing units and tenants will pay house rent directly to the developers weekly. In order to maximise the use of land and to benefit

from economies of scale, multi-family high-rise apartment blocks are the most suitable for the DRH arrangement.

This PPP arrangement has the potential of assisting low-income and middle-income groups that do not have enough money to buy their house, to have access to housing at affordable rent, until such a time when they have enough money to buy their own houses.

### Factors that contribute to the success of PPP housing projects

It is necessary for the NHC and private developers intending to engage in a PPP project to understand key factors that promote successful implementation of the project. These include:

- *Political support* – This is needed for expenditures associated with a PPP project to be approved. If political will is weak, potential private developers might be discouraged from participating in a PPP project.
- *Support of the general public* – This has the potential of avoiding delays in the process of acquiring land. It can reduce transaction costs associated with negotiations between PPP parties and landowners. In order to boost public support, it is necessary to promote public awareness and assure the public that good quality services will be provided by the PPP project.
- *Transparency must be promoted in all stages of the PPP arrangement* – This is necessary for building trust between the parties involved in the PPP project. This could be achieved by frequent consultations between the private developers and the NHC.
- *Risks associated with the PPP project* – This must be identified and shared between the parties involved in the PPP arrangement. The distribution of the risks must be negotiated properly and the higher level of risks allocated to the party that has the capacity to mitigate and manage those risks.

- *For a PPP project to work well, a well-structured private sector firm is required* – The complexities associated with a PPP project often make it difficult for one private firm to implement the project. Several private firms must come together to establish a consortium in order for the PPP project to succeed.

### Concluding remarks

The PPP arrangement is the current paradigm used in the delivery of affordable housing in most countries. In order for PPP to be effective in housing delivery, the correct arrangement must be implemented. Drawing lessons from some housing projects that have been implemented in PNG, the most suitable PPP arrangement for PNG are the DROH and the DRH arrangements. However, to realise the full potential of these PPP arrangements, transparency must be promoted at all stages of the project, and the risks associated with the project must be identified and distributed fairly. It is necessary to have strong political support for the project and the property developers must establish a strong consortium. Hopefully, this paper will assist planners, policymakers and urban development managers make informed decisions on housing delivery by considering the most suitable PPP arrangements for PNG.

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