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## THE STRATEGIC ROLE OF THE GOVERNMENT IN A SUSTAINABLE NATIONAL HOUSING POLICY IN PAPUA NEW GUINEA

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### Key Points

- The review of the National Housing Policy (1994) provides an opportunity to clearly demarcate the roles of the public and private sector.
- A holistic policy framework that incorporates and embrace the demand, supply and regulatory components of the housing sector is sustainable for the growth of the sector.
- Government's strategic role as a regulator is critical to address the structural impediments that have constrained the housing sector.
- Key structural impediments in housing market include the following: inadequate land for housing, lack of trunk infrastructure, high cost of building materials, and outdatedness and inefficiencies of the regulatory and administrative processes.
- As a regulator, the government must focus on providing an enabling environment that will sustainably develop the housing market to ensure all Papua New Guineans are properly sheltered.

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## THE STRATEGIC ROLE OF THE GOVERNMENT IN A SUSTAINABLE NATIONAL HOUSING POLICY IN PAPUA NEW GUINEA

By **Lindsay P. Kutan**

### Introduction

The government's role in addressing the shortage of affordable housing is important in the urban areas of Papua New Guinea (PNG). Lae and Port Moresby has experienced a rapid growth of population in the last decade as a result of urbanisation and high urban population growth rate. Compounded with the acute shortage of secured titled land and inefficiencies of a regulatory environment has constrained the development of the housing sector. These has created an excess demand for housing which has outstripped the supply of houses experienced in these two metropolitan cities of PNG. Consequently, due to exorbitant house rent and house sale prices, informal squatter settlements have provided an alternative for more than half of these urban populations and has overtaken the growth of formal residential suburbs. However, lack of basic amenities including piped water system, electricity, sewerage and garbage collection, no proper land titles has continued to encourage a sub-standard urban lifestyle in these informal settlements. Sadly, these are recurring issues that have been discussed within the policy arena for the last three decades and even now the solutions seem to be still afar off. This paper is based on a study that was recently undertaken by Kutan et al. in 2021 on the roles of the public and private sector in the provision of affordable housing. This study compares the experiences of the private developers in Lae and Port Moresby in light of the public sector's role in the development of residential properties. The lack of understanding on the roles and activities of players in these respective sectors was noted as a gap within the policy arena that needed closer attention. In essence, this study intended to identify the fundamental premise regarding the overarching mandates of the public and private sector in the housing industry. If not addressed, duplication of roles, the crowding out effect of the private sector, misallocation of public resources and no clear policy direction from the government will continue to plague the housing sector in PNG. Furthermore, the National Housing Policy (1994) is currently under review so this is an opportunity to adopt a sustainable policy framework that will clearly demarcate the roles of the private and public sector. This article draws from the findings of the aforementioned study with regards to the challenges experienced by the private developers in Lae and Port Moresby, however, focuses on the strategic role of the government for a sustainable National Housing Policy.

### Sustainable Housing Sector Conceptual Framework

Following the conceptual framework adapted from successive studies undertaken by PNG NRI in the recent past, particularly

Webster et al. (2016) and Kutan (2021), the housing sector is divided into three categories which include the demand, supply and regulatory components. The private sector's role is in the supply side, whilst the government's role is exclusively within the regulatory aspect of the housing sector. In this regard, it plays a facilitative role in ensuring the demand and supply components of the housing market are operating efficiently. In other words, it should play the role of a facilitator.

### Key structural impediments to housing market

This role of the government as a facilitator is important as the housing market in PNG is distorted with fundamental structural issues. These include the following:

- **Inadequate land for housing**

The land tenure systems in PNG possess a unique challenge. For instance, 97 percent of land is held under customary tenureship characterised by communal ownership by clans and tribes where there are no proper titles. On the other hand, 3 percent is alienated and falls within the State and freehold leases. Consequently in Port Moresby and Lae, the pressure on the non-availability of secured titled land for development has reached a critical point in which the expansion of the urban development has now include the customary land. However, the private developers are reserved to invest in housing developments on customary land. The lack of land for development has constrained the supply and demand resulting in high prices of the existing stock of houses.

- **Inadequate trunk infrastructures**

High cost of houses borne by the homebuyers and tenants reflect the high input costs of construction. A major component of these costs includes the lack of construction of essential infrastructures. These include roads, reticulated water, electricity, and sewerage. In the recent past, the private developers involved in large-scale residential developments in Lae and Port Moresby have privately installed these infrastructures. However, these excessive costs have been factored in the selling prices of the houses (Ezebilo and Hamago, 2017).

- **High costs of building materials**

Most of the building materials used for construction of residential are imported. This has made the housing market susceptible to foreign exchange volatilities. For instance, with the country facing the inconsistent supply of foreign exchange has placed a lot of pressure on the

private residential developers. Furthermore, excessive tariffs applied to imported building materials increases the inputs costs of the developers.

- **Outdated and inconsistent regulatory structures and administrative procedures**

The long turn-around time required for approvals from relevant State agencies involved in the land and housing sector adds on to the frustrations and costs of the developments. Residential developments involve substantial financing arrangements that require strict adherence to project timeframes. Any form of delays results in additional costs to the developers and ultimately to the homebuyers. In addition, the administrative roles of various stakeholders involve in the housing industry need to be efficient. These include the various agencies for instance, the Department of Lands and Physical Planning, the National Housing Corporation, the municipal authorities and utility providers.

- **Contestability of property rights**

The principles of property rights are fundamental to a capitalistic market. In a broad economic sense, property rights imply to the recognition of ownership and the use of the resource, in this instance land and housing. The issues of duplication of titles, forceful evictions due to no proper land titling, land-grabbing without following proper processes have compromised the confidence in the land administration and management mechanisms in the country. This in essence derails investments from the private sector regarding the risks involve in these uncertainties on the ownership of land.

- **Monitoring the activities of the private sector in the interest of the consumers**

The lack of a regulatory system to identify genuine property developers in the country leaves the consumers prone to abuse. For instance, given the substantial financial investment needed to purchase a property, the consumers largely will rely on the banks to finance the purchase. There are instances of homebuyers securing mortgages from the bank and then made an initial payment to developers, however, have been waiting for years for the developers to build the houses.

### Government - needed interventions

In light of the above structural impediments that constrains the housing market, the government's role as a facilitator should be towards alleviating these constraints. This will enable the market forces of supply and demand to influence the efficiency of the housing market.

- **Identify and release land for housing**

The government must take the lead to identify and allocate land for large-scale residential developments. This would

require the various input from State agencies involved in the allocation of land, town planning and provision of essential infrastructures. The Department of Lands and Physical Planning, municipal authorities and utility providers are critical stakeholders that the government need to facilitate in the housing sector.

- **Provision of essential trunk infrastructure**

The government must take carriage in the provision of trunk infrastructure. These include transport (roads, pathways, and bus stops), storm water management systems (including proper drains and wastewater catchments), water supply (pipe water system), public parks, and land for community facilities. These infrastructures are important for the well-being and social welfare of the communities living in the residential areas. The above will require adherence to proper urban development plans.

- **Ensuring appropriate regulatory structures are adapted and administrative processes are efficient**

The regulatory structure and administrative processes with regards to critical factors of production for the housing sector are important. The government needs to ensure the land administration and management processes involved in the identification of undeveloped land to granting of Urban Development Leases for which residential development should occur must be all coordinated in a synchronised and efficient manner. In addition, the approvals from the utility providers for the establishment of needed infrastructures are also important as there are instances that these processes can take two to three years.

- **Increase the supply of building materials**

Most of the building materials are imported, however, it is noted from the study that the private developers involved in large-scale developments in Lae and Port Moresby have also diversified into manufacturing their building materials. The government should encourage these private initiatives in providing concessions and grants to encourage the development of these manufacturing sector which are vital in the construction of houses. In addition, the government should review the import duties for projects that requires materials from abroad. This, in the long run will reduce the cost of the houses to the market.

- **Securing property rights**

The National Land Development Program (NLDP I) instituted by successive PNG Governments since 2005 and currently in the second phase (NLDP II) provides an opportunity for review of legislations and regulations regarding land administration and management. The implication of these reforms is far reaching as it has direct implications on the challenges faced in the housing sector. With regards to property rights, the expansion of urban development encroaching the customary land on the peri-urban areas are possible triggers of disputes

and disharmony. It is imperative for the government as a facilitator to create an enabling environment for all stakeholders, particularly the landowners to be engaged. The reforms on customary land are a classic example of the facilitative role of the government.

- **Public-private partnership**

The role of the government in strengthening its partnership with the private sector as a facilitator in the development of the housing market is paramount. Public-private partnership model has been adopted by successful countries like Malaysia in the course of transforming their housing sector from a developing to a developed status. Critically, the effectiveness of such partnership is largely dependent on managing the expectations of both parties through an instituted mechanism governed by good policies and regulations. It is important for the government to draw from such experiences and extract the lessons that are applicable to the realities of our housing sector.

## Conclusion

The current review of the National Housing Policy (1994) provides an opportunity to strategically embrace the role of the government as a regulator. This is critical as the structural impediments highlighted earlier have constrained the growth and development of the sector. As a regulator, the government plays a facilitative role to address these challenges in ensuring

the public and private sector discharge their responsibilities in an effective and efficient manner. This provides an enabling environment that will sustainably develop the housing market to ensure all Papua New Guineans are properly sheltered.

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