



**DEPARTMENT OF TREASURY
Office of the Secretary**

Telephone: (675) 312 8812
Facsimile: (675) 312 8804

Vulupindi Haus
PO Box 542, WAIGANI, NCD

14th September 2009

Mr. Thomas Abe

Commissioner

Independent Consumer Competition Commission

P. O. Box 6394

Boroko, NCD

1st Floor, Garden City, Angau Drive

Dear Mr. Abe

**SUBJECT: REVIEW OF HOUSING INDUSTRY IN PNG – TREASURY'S COMMENTS ON
THE ISSUES PAPER**

I acknowledge receipt of your brief dated 10th August 2009, notifying me on the completion of the Issues Paper including the updates on the timeframe and the process in which the Commission will undertake the Housing Review.

The Department of Treasury supports the Housing Industry Review as it looks at a wide range of issues relating to the overall structure and operation of the industry. The Review is with a view to considering competition and general market practices, and role and place of regulation in order to identify any impediments hindering growth in the housing industry. Treasury would also like to see that the review be conducted in an open and transparent manner so that the objectives of the review can be achieved.

Most of the issues affecting the Housing Industry have been covered in the Issues Paper, however, Treasury's comments are only on specific issues which are considered important and are put forward for your considerations

Find attached Treasury's comments on the Issues Paper on the PNG Housing Industry Review which was released on the 12th of August 2009.

I thank you for taking the lead in reviewing the Housing Industry and look forward to working closely with you to progress this very important review.

Yours sincerely,

SIMON TOSALI

Acting Secretary for Treasury

The PNG Housing Industry Review Issues Paper – Department of Treasury Comments

General Comments

Generally, Treasury concurs with the issues and concerns raised in the Issues Paper and we would like to commend the Commission for its efforts in drafting this very profound and informative piece of document. As the Commission is requesting comments from stakeholders and industry participants on the issues paper, the following are The Department of Treasury's general observations.

1. Scope

The scope and the Terms of Reference (TOR) of this review is detailed. It is Treasury's view that it covers all the issues that needs to be addressed. Treasury, therefore has no further comments on that the scope of the issues paper.

2. National Housing Corporation (NHC) Issues

Currently, the NHC is the only institution mandated by the government to provide affordable public housing to Papua New Guineans, especially to public servants, however, it also provides housing to those in the Private Sector. The NHC is also mandated to effectively manage the governments housing properties.

The current situation in the housing industry is that the demand for housing in PNG is enormous and far outweighs supply. Public housing which traditionally was solely provided by the NHC is now being provided by incorporated entities in most urban centers. This has brought in very good competition against the NHC. It is evident, that the NHC can not put up with this level of Competition by the Private Sector, regardless of the sizable market power it has.

The NHC is a major player in the housing industry and has a larger share of the market in the supply of houses in the different parts of the country. The majority of these houses are for residential purposes. It is Treasury's view that the NHC has not been proactive in using this market advantage to further develop the industry for the benefit of the government and the people. It is also Treasury's view, that this *simply means that the NHC is not capable of carrying out its mandated functions which is to provide affordable housing for all through the development of land and the constructions of houses for sale.*

Treasury therefore recommends that;

- *This function be transferred to another body which can effectively deliver affordable housing to all citizens of Papua New Guinea,*
- *If possible, the NHC as well as its operations and management needs to be urgently reviewed for its poor performance,*
- *The man-power and capacity of NHC be strengthened to deliver its mandated functions, especially providing affordable Housing for all.*

3. Public-Private Partnership (PPP)

As is rightly pointed out, there currently is a boom in the building and supplies industry. This is increasing the number of properties, both commercial and residential especially in the urban areas of the country. This boom is purely being driven by private sector investment.

The government should therefore be encouraged to partner with the private sector to introduce policies that will enhance and pave the way in the expansion and growth of the industry.

Treasury, therefore recommends that;

The Public Private Partnership (PPP) framework and policy that is currently being developed by government is an option that should be utilised in the industry in areas where it offers greater value for money in the provision of affordable housing. It is Treasury's view that PPP's have the potential to address some of the issues currently being faced by the housing industry.

4. Department of Lands & Physical Planning

The Department of Lands & Physical planning plays a very important role as without land, any form of development can not take place. It seems that the Department of Lands & Physical Planning is not effectively or is very slow in addressing a lot issues relating to land. Only when this department realizes its core functions, new investment initiatives and broader development will continue to be restrained.

Treasury, therefore, recommends that the capacity of the Department of lands & Physical Planning be strengthened so that it can perform effectively and transparently by,

- *Making more land accessible through negotiations*
- *Providing basic infrastructure and utilities such as electricity, roads etc...*
- *Having Monitoring systems in place to monitor UDLs and any pockets of vacant land that can be made available if and when need be*

The Land Development Technical Working Group Committee headed by the Department of National Planning is currently looking at how best land can be made accessible for development purposes. It is Treasury's view that the ICCC consult this committee during the course of this review on how land can be efficiently made accessible to the industry.

5. Degree of Competition

As pointed out in the issues paper, with some degree of competition in the market, people will have choices on the types of products they buy. However, in the housing market, it appears that people have little to no choices. This is primarily because competition is limited.

To some extent, workers including professionals have been forced to live in squatter settlements. These settlements often lack basic services like water, sewerage, electricity and good road networks. While the government is looking at ways and options to address this problem, an alternative would be to improve basic services to the settlements, such as

the provision of water, electricity, sewage services and roads. This is because the bulk of the formal tax-paying workforce is living in the settlement including public servants.

6. Regulations and Guidelines

The absence of any formal regulation of the industry in PNG contributes to some extent an uneven playing field amongst the real estate companies and no checks and balance on the operations of all industry stakeholders. Importantly it does not provide consumer protection over the level of service that they receive. Treasury understands the fact that the prices of housing can not effectively be regulated as it is determined by market forces. However, it is important to note that the consumers have to be protected one way or another from unreasonable players within the industry. This will also help improve their confidence of the government of the day.

In terms of legislations, there currently is no one piece of legislation that regulates the whole industry. The different players in the market are regulated under different legislation. *There should be a legislation that governs the whole industry. While trying to encourage competition and private sector growth, consumer protection issues also need to be highlighted in such governing legislation.*

Treasury therefore recommends that there should be clear and workable guidelines put in place as to how the housing industry is going to be regulated and operated. Without such guidelines/regulations, it can be expected that this problem will escalate in future.

The provision of essential services to new housing developments are important to ensure that the development meet urban planning standard and other appropriate standards. However, the cumbersome process of certifying and delivering services to new connections can be a bottleneck to the progress and completion of any new housing development.

Though these processes may be beneficial in the long run, Treasury agrees that some of these processes of acquiring utilities should be relaxed so that intended results are achieved. .

7. Financial Sector

As indicated by the issues paper, there are only four commercial banks operating in the country. These are; Bank South Pacific Limited (BSP), Australian and New Zealand Banking Group (PNG) Ltd, Westpac Bank (PNG) Limited and Maybank (PNG) Limited. Because of this small number of operators, there may be a possibility of some level of collusion between them, especially in terms of setting their interest rates on borrowing.

As such, *additional players should be encouraged to enter the financial market. This will create more competition in the sector hence more capital will be made accessible.*

One way forward may be for the government to provide subsidies through the Microfinance facilities and banks so that people can access finance specifically for housing purposes. It is noted that the current requirements by the four commercial banks to access capital is still very high in terms of security and equity.