

PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE

Enabling the private sector to drive sustainable economic growth and lift Pacific people out of poverty

CREATING JOBS IN SAMOA THROUGH PUBLIC-PRIVATE PARTNERSHIPS



The reform contributed to the creation of more than
2,000 new jobs.

CASE STUDY

Samoa's achievement in contracting out to the private sector the functions of its Public Works Department (PWD) is one of the most successful reforms to upgrade infrastructure; improve the effectiveness of public expenditure; and increase the overall employment, productivity, and capacity in a Pacific island economy in the past 20 years.

The reform has resulted in the establishment of nearly 30 new Samoan road construction and maintenance companies. Directly and indirectly, the reform has led to the creation of more than 2,000 new jobs, making this a prime example of the power of public-private partnerships to promote economic development and increase employment.¹

Prior to the reform, much of this work was undertaken inefficiently by the PWD, or by foreign companies under contract. All construction and maintenance in Samoa is now outsourced to Samoan companies, which are sufficiently productive and cost-effective that foreign firms now struggle to compete.

¹ PWD employed 600 staff in the 1990s.

PSDI is a regional technical assistance facility cofinanced by ADB, the Government of Australia, and the Government of New Zealand.



CHALLENGES

The Public Works Department Prior to the Reform

In the 1980s, PWD's efficiency in building and maintaining roads was low, due in part to its outdated equipment. At the same time, the private sector was investing in construction equipment, so that by the end of the decade, there was more functioning equipment in the private sector than in the PWD. Nevertheless, the number of private sector operators was relatively small, with only three major road construction contractors and two building and construction companies. Large foreign construction companies undertook much of the privately contracted work, either directly or through joint ventures with local firms.

Growth in private sector road construction and maintenance activity had been boosted by the need to repair the damage done by two major cyclones in the early 1990s, which had severely damaged the nation's infrastructure.

The scale of rebuilding and repair that was required overwhelmed the PWD. Fortunately, private companies were available to undertake

work that the PWD could not do. They expanded their capacity, purchased modern equipment, and played a major role in the rehabilitation of roads and other physical infrastructure. The demand generated by this work led to a sharp increase in the number of contractors and consulting engineers.



Following two major cyclones in the early 1990s, private sector road construction companies rebuilt and repaired the damage caused to the nation's vital infrastructure.

SOLUTION

A Far-Reaching Reform

As the 1990s progressed, PWD's inefficiency became increasingly apparent to government officials. Moreover, the lack of competition between the small number of private sector maintenance and construction companies meant that efficiency was low even in the private sector.

This realization spurred radical reform. The majority of work was contracted out to the private sector, which at the time encouraged competition. The reform also ensured that displaced PWD employees were offered either redundancy, guaranteed employment, or the possibility of participating in the new arrangements.

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How the Reform was Structured

In 2001, the cabinet approved an Institutional Reform Strategy and Implementation Plan, reorganizing the PWD into a contract manager, to manage the road construction and maintenance activities contracted out to the private sector. Legislation was required to effect the changes.

To ensure support, the PWD consulted with staff and other stakeholders, and a human resources plan was developed. PWD's 600 employees were given four options to consider.

OPTION

1 PWD staff could establish their own contracting firms, with an assurance that, for the first 3 years, the PWD would contract out all of the government's maintenance work to these firms. After the 3-year period, contracts would be openly tendered.² Three companies were created through this process: Samoa Works and Engineering Limited (SWEL), Samoa Building and Maintenance Contractors, and Mataia Electrical Limited. SWEL was in the construction business, while Samoa Building and Maintenance Contractors was created from PWD's building division, and Mataia Electrical Limited was created to take over the electrical wiring and electrical maintenance for all government residences.

Approximately 41% of employees from PWD's civil division joined SWEL. Cabinet approved the sale of all PWD heavy plant, trucks, and equipment to the new enterprises at a 50% discount on the market value. The government also paid the legal costs to form SWEL, provided business skills training for the new owners, and encouraged local banks to supply lines of credit.

Employees electing to join Samoa Building and Maintenance Contractors or Mataia Electrical Limited were provided with similar benefits to those joining SWEL—guaranteed maintenance contracts for 3 years, business training, free legal costs for the firms' establishment, and discounts for PWD assets purchased. About a quarter of PWD employees joined one of these two companies.

OPTION

2 PWD staff could elect to be transferred either to private contractors that agreed to guarantee employment for 2–3 years, or other government departments. Contractors were guaranteed a maintenance contract for the same period, so long as they retained the transferred staff. Only 1% of PWD employees chose this option.

OPTION

3 & 4 Staff could also take redundancy or elect to be reemployed within the restructured PWD. Of those not joining the newly formed employee-owned companies, 58% of staff elected to take redundancy, with payments ranging from 3 months to 18 months of salary, depending on their lengths of service.³

Sale of Remaining Assets

PWD assets that were not needed by the new firms were sold to the private sector through an open tender process. PWD's one operating quarry was not outsourced to avoid creating a private monopoly. The government retained this operation as a business unit available for use by all contractors. The government also retained control of the sole asphalt concrete plant for the same reason.

Government Contracts with the Private Sector for All Services

In 2003, the Ministry of Works, Transport and Infrastructure was created through the amalgamation of the restructured PWD and the Ministry of Transport. In January 2009, the Ministry of Works, Transport and Infrastructure was further restructured through the establishment of the Land Transport Authority (LTA),⁴ which took over its road management functions.

The LTA is responsible for road construction and maintenance, and the regulation of road transport. The government also imposed a petrol levy to ensure funding for road construction and maintenance, although in practice, the levy has been appropriated into the government's consolidated fund. Additional funding for major road reconstruction and new capital works is provided through donor funding or through a separate budget appropriation.

The LTA prepared a road plan specifying future road construction, maintenance, and upgrading requirements. A comprehensive contracting manual developed by the LTA governs all outsourcing and contracting activities related to dealings with private sector contractors.

² The exclusive 3-year period was mandated in the establishing legislation.

³ Subsequently, a number of staff were reemployed in other parts of the public sector.

⁴ Established under the Land Transport Authority Act 2007, the LTA is a public trading body as defined by the Public Bodies (Performance and Accountability) Act 2001.

OUTCOMES

Upgraded Infrastructure

The reform significantly improved the quality of road building and maintenance in Samoa. Over 95% of all roads are now paved, and the quality of road surfacing is high.

More Effective Use of Public Funds

Productivity improved as a direct result of the effective use of public funds. More can be accomplished at a lower cost to the budget.

Increased Productivity

The LTA estimates that, as a result of the reform, productivity has risen fourfold. Although precise estimates are not available, the cost per kilometer of road building and maintenance has fallen sharply compared with the pre-reform era.

Significant Increase in Employment

The PWD employed 600 staff in road building and maintenance prior to the reform. The LTA estimates that, in 2014, there were over 2,000 Samoans employed by local, privately owned contracting firms undertaking road building, maintenance, and construction; or indirectly by other companies supplying or purchasing from the sector.

The number of large, privately owned building and construction companies providing employment increased from five in 2002, to 14 in 2014. Work was also generated for smaller firms involved in contracting, which totaled 55 by 2014.

For countries considering employment-creating strategies by developing the public sector, Samoa provides a compelling example of how public-private cooperation through contracting out leads not only to improved efficiency but also job creation.⁵

Improved Expertise

Contracting expertise within the LTA has developed, and parties have moved from simple performance-based contracts to measure- and value-based contracts. Contractors are now paid based on quality measures and the value they can add to the process through cost and time savings, further enhancing efficiency.⁶

Local expertise in road building and maintenance has increased, and the pool of available contractors has grown substantially. The level of local expertise and competitiveness has risen to the point where foreign firms have difficulty competing with Samoan companies.

Expanded Infrastructure Sector

The number of quarries has increased significantly. The government-owned quarry was eventually sold by the LTA, as it could not be operated profitably. Since then, a number of privately owned quarries have opened, each offering different qualities of road and building material, as well as ensuring competition in the quarry sector. All major contractors have crushing plants, and are therefore able to source road material from a variety of quarries. The private sector has also invested in asphalt plants, with two located on Upolu and one on Savai'i, Samoa's two main islands.

PUBLIC-PRIVATE PARTNERSHIP MODEL

This landmark reform demonstrates that contracting out to the private sector improves productivity and results in significant gains in employment. Partnerships between the public and private sectors bring benefits to both, without compromising employment, costs, or quality.

This reform provides an example for other ministries and state-owned enterprises in the Pacific region. As with many landmark reforms, patience in designing and undertaking the reform, as well as extensive and lengthy implementation were the keys to success.

The PWD reform took nearly a decade to implement fully, and required the commitment and support of the Prime Minister, cabinet, and civil service. Careful planning and extensive consultation were crucial to obtaining support for such radical reform.

⁵ Recent research on the extent to which public sector employment crowds out private sector employment indicates the dubiousness of these public sector-focused strategies. See A. Behar and J. Mok. 2013. Does Public Sector Employment Fully Crowd Out Private Sector Employment? *IMF Working Paper WP/13/146*. Washington, DC, which examines a large cross-section of developing and advanced countries that simultaneously display high unemployment rates, low private sector employment rates, and a high proportion of government sector employment. Behar and Mok conclude that "high rates of public employment, which occur substantial fiscal costs, have a large negative impact on private employment rates and do not reduce overall unemployment rates."

⁶ Initially, the quality of the construction work completed by the newly created companies was uneven. Some of the building work has held up well, but some has deteriorated over time.

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