

Pay and Grading for Better Public Sector Performance: World Bank Experience



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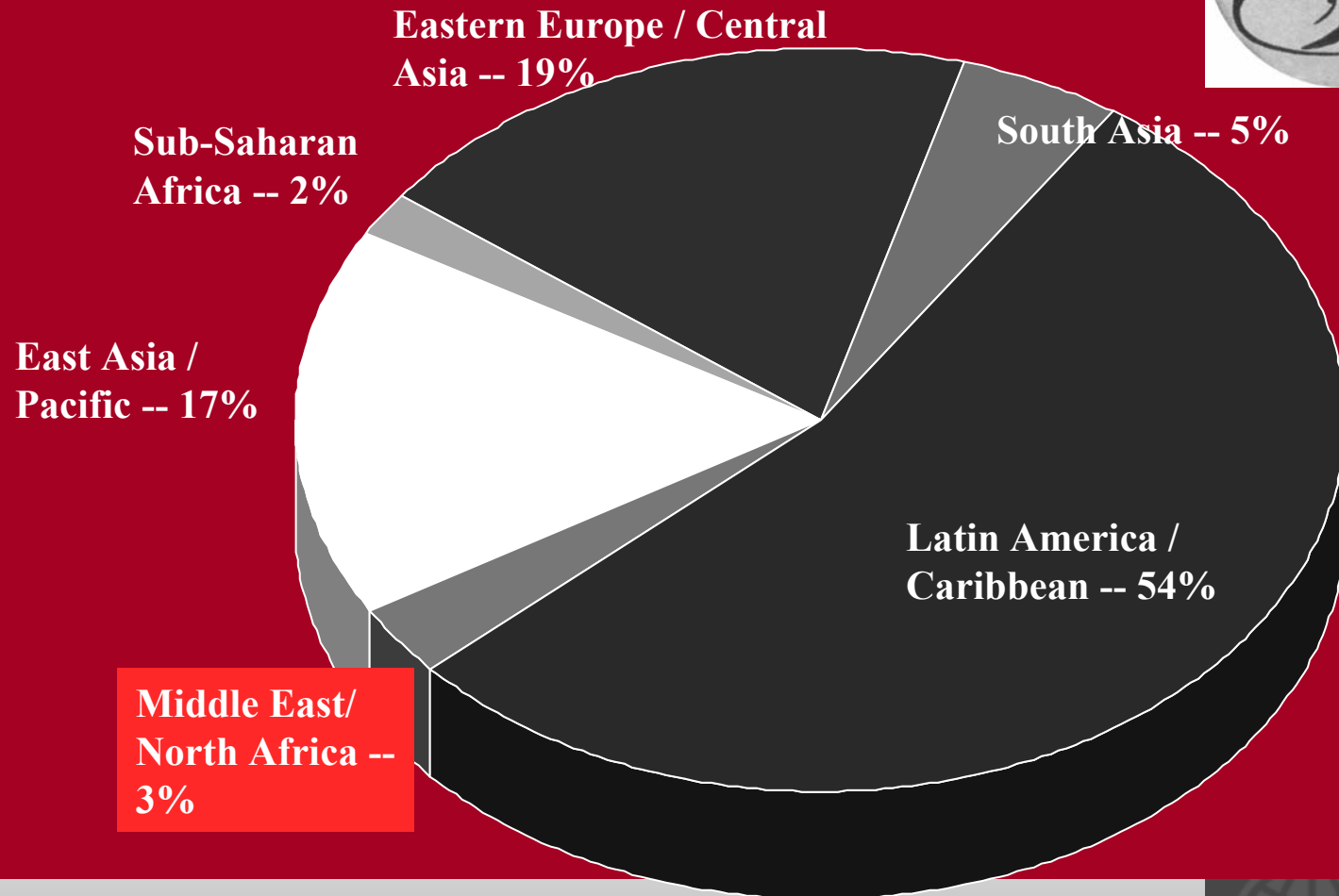
Global Governance Trends from 1989 on...



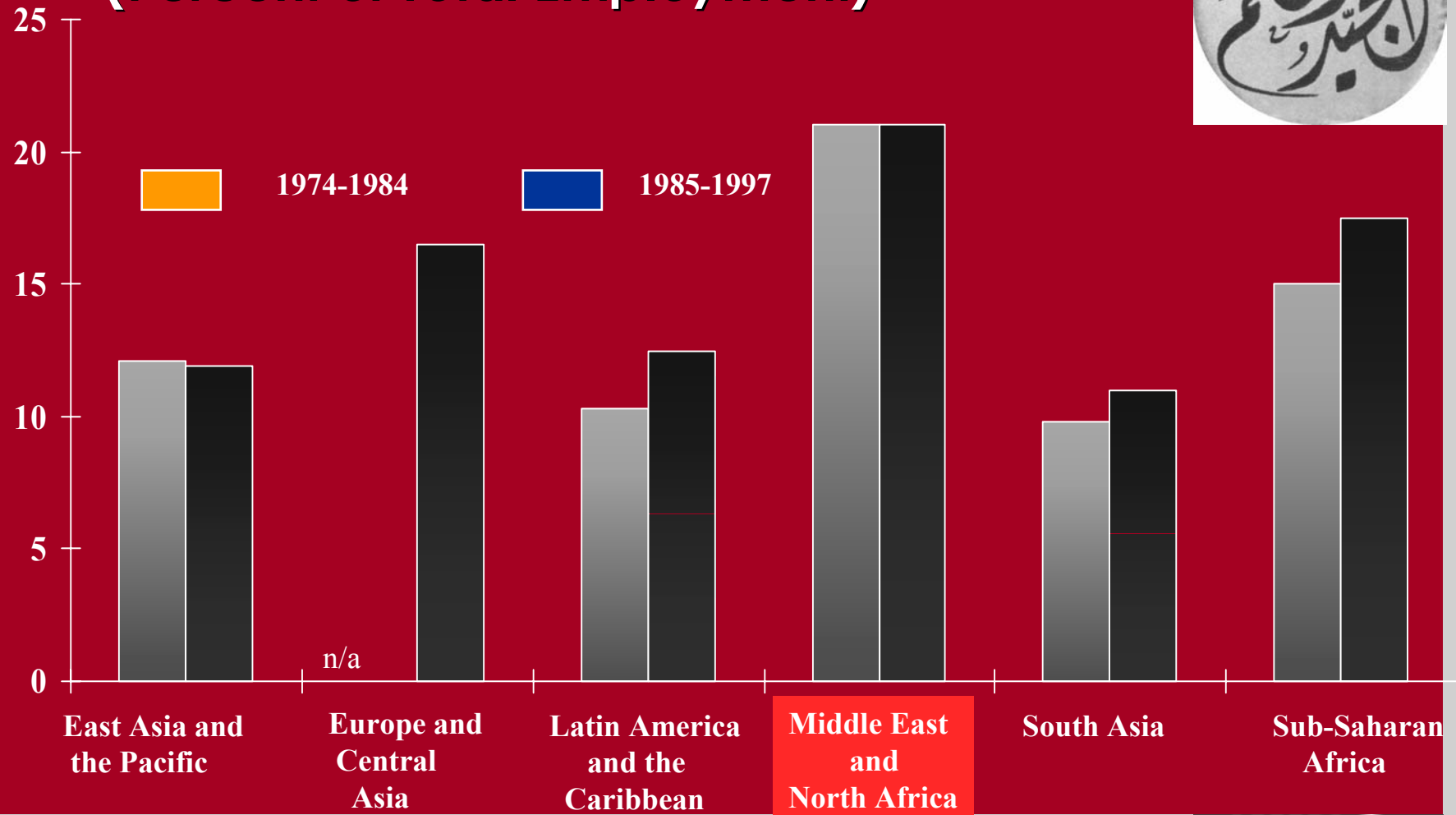
- Breakup of Empires & Rise of New States
- Expansion of Democratic Regimes
- Reduction in the Role and Size of the State
- Decentralization
- Rise of the Anticorruption Agenda
- Growth in E-Governance
- Rise of “New Public Management”



Global Reduction in the Role and Size of the State (Privatization Proceeds through 1996)



Size of Government in the MENA Region (Percent of Total Employment)



Source: MENA Social Protection Strategy, 2001.



Significant Global Turn Towards Decentralization...

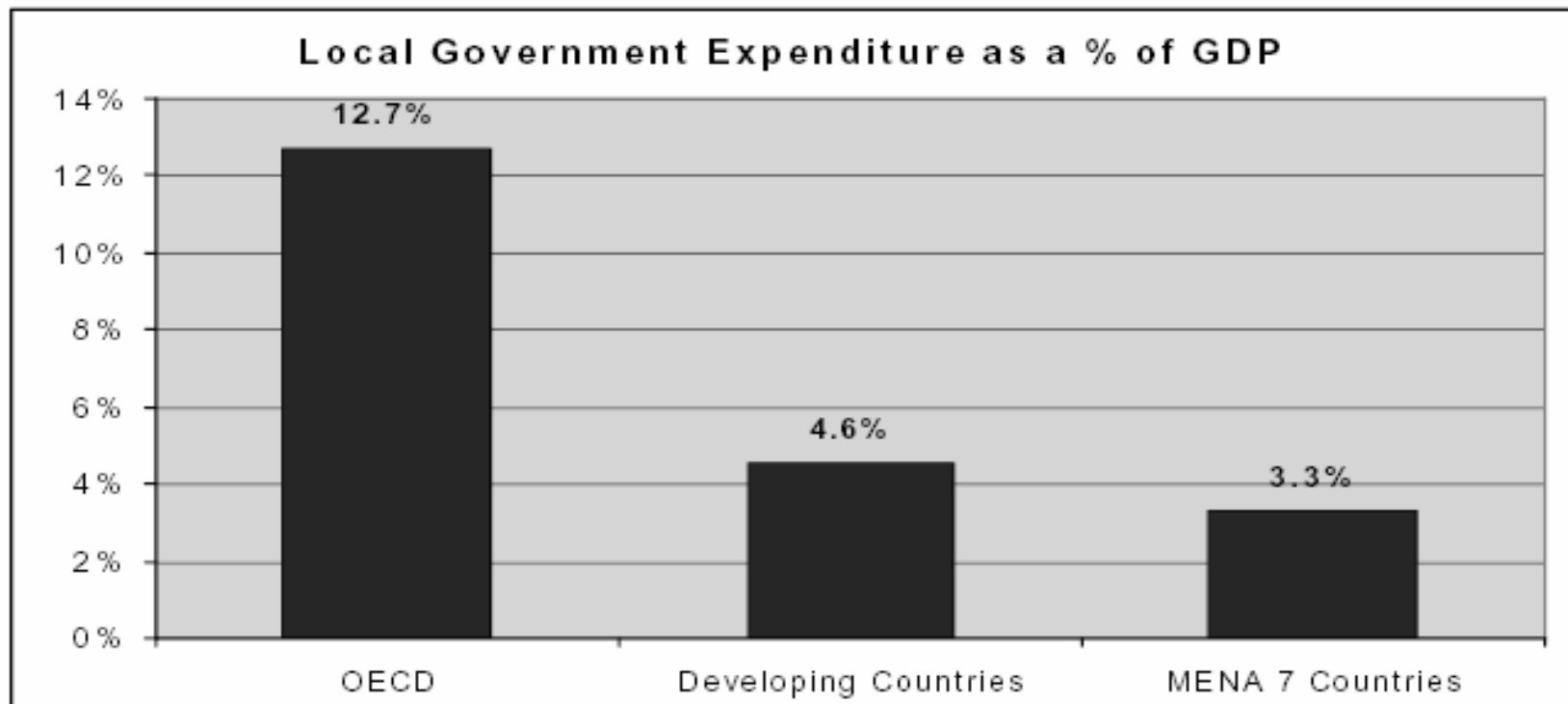


**“As a political phenomenon,
decentralization is widespread.
Out of the 75 developing and transition
countries
with populations greater than 5 million,
all but 12 claim to be embarked
on some form of transfer of political power
to local units of government.”**

Source: William Dillinger, *Decentralization and Its Implications
for Urban Service Delivery*, 1994



...with Limited Impact in MENA



In Summary...



- Many of the global trends in governance in the 1990s were felt only distantly in MENA
- In comparison with other regions, MENA fairs well in terms of political stability and e-governance and fair in terms of facilitating private sector development, service delivery and anticorruption, with wide variation between countries
- The region fairs worse than global comparators on issues of decentralization and on public voice, accountability and participation
- Overall size of the public sector is an issue



How Do We Measure Civil Service Size?



- **Assessment of the Number of Civil Servants**
 - Number of Civil Servants per Capita
 - Gov. Employment as % of Total Employment
- **Assessment of the Wage Levels in Relative Terms**
 - Wage bill as % of GDP
 - Wage bill as % of Revenue or Own Source Revenue
 - Wage bill as % of Recurrent Expenditure

Aggregate Numbers Tells Us Relatively Little and Should be Viewed in Context of Individual Country Experiences



How Do We Measure Wage Adequacy?

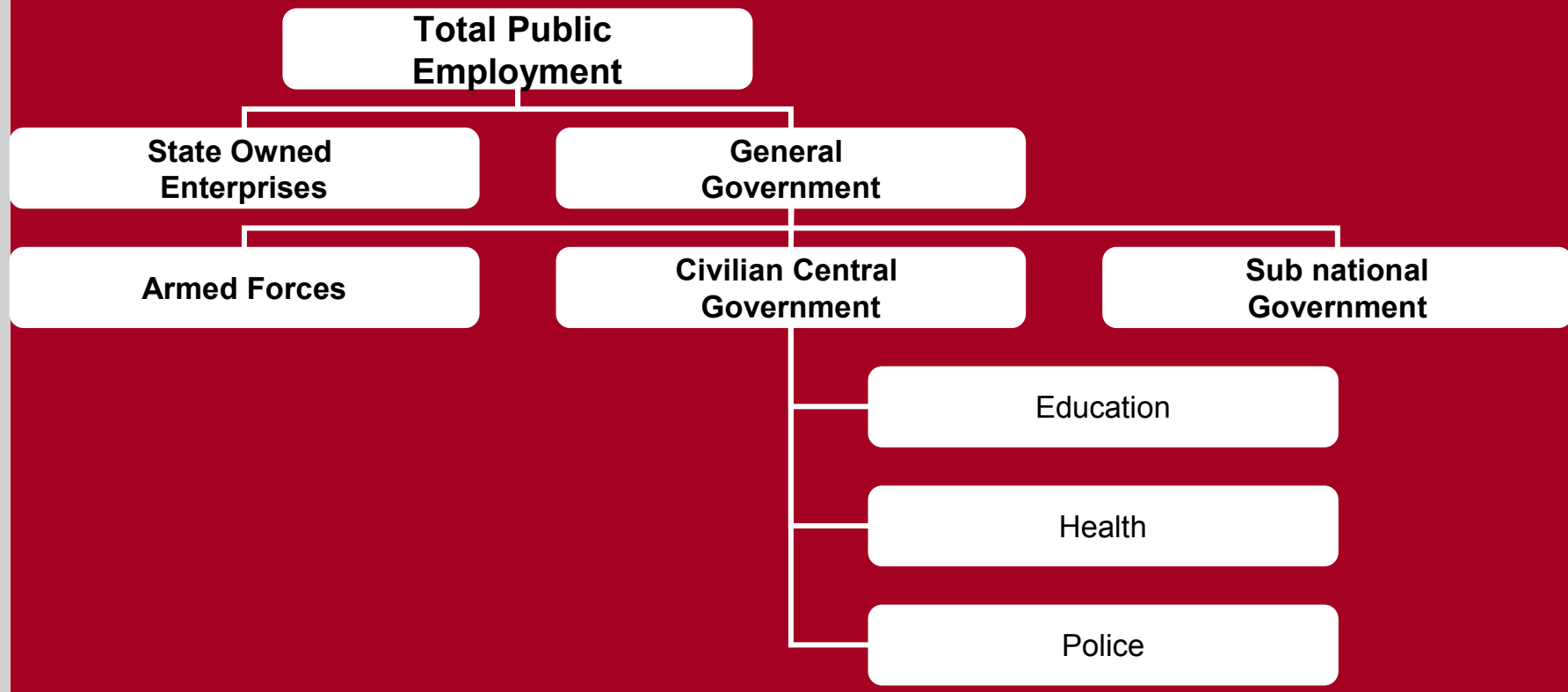


- Average Central Government Wage (ACGW) as multiple of per capita GDP
- Private Sector Comparators
- Econometric Labor Market Analysis using National Statistical Data

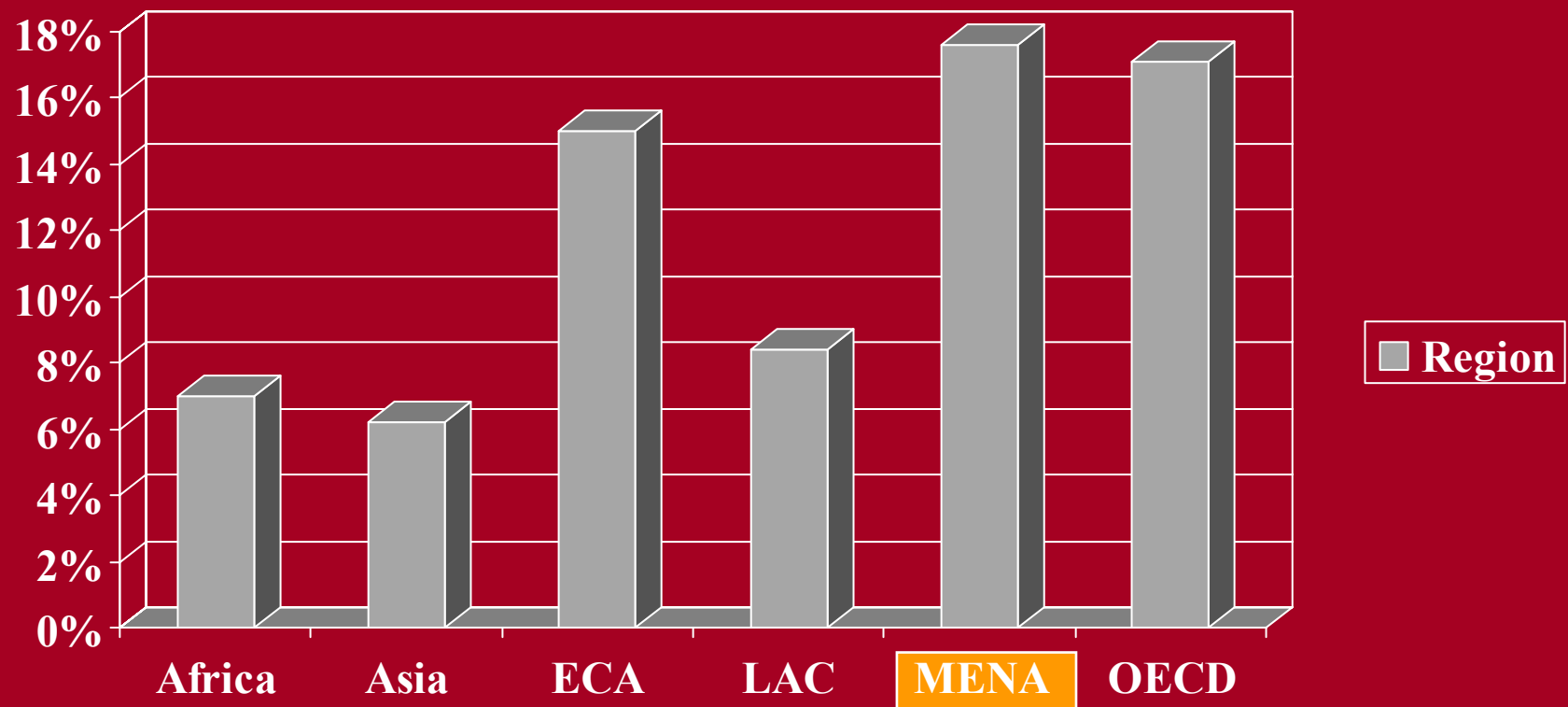
Challenge: widespread use of discretionary allowances



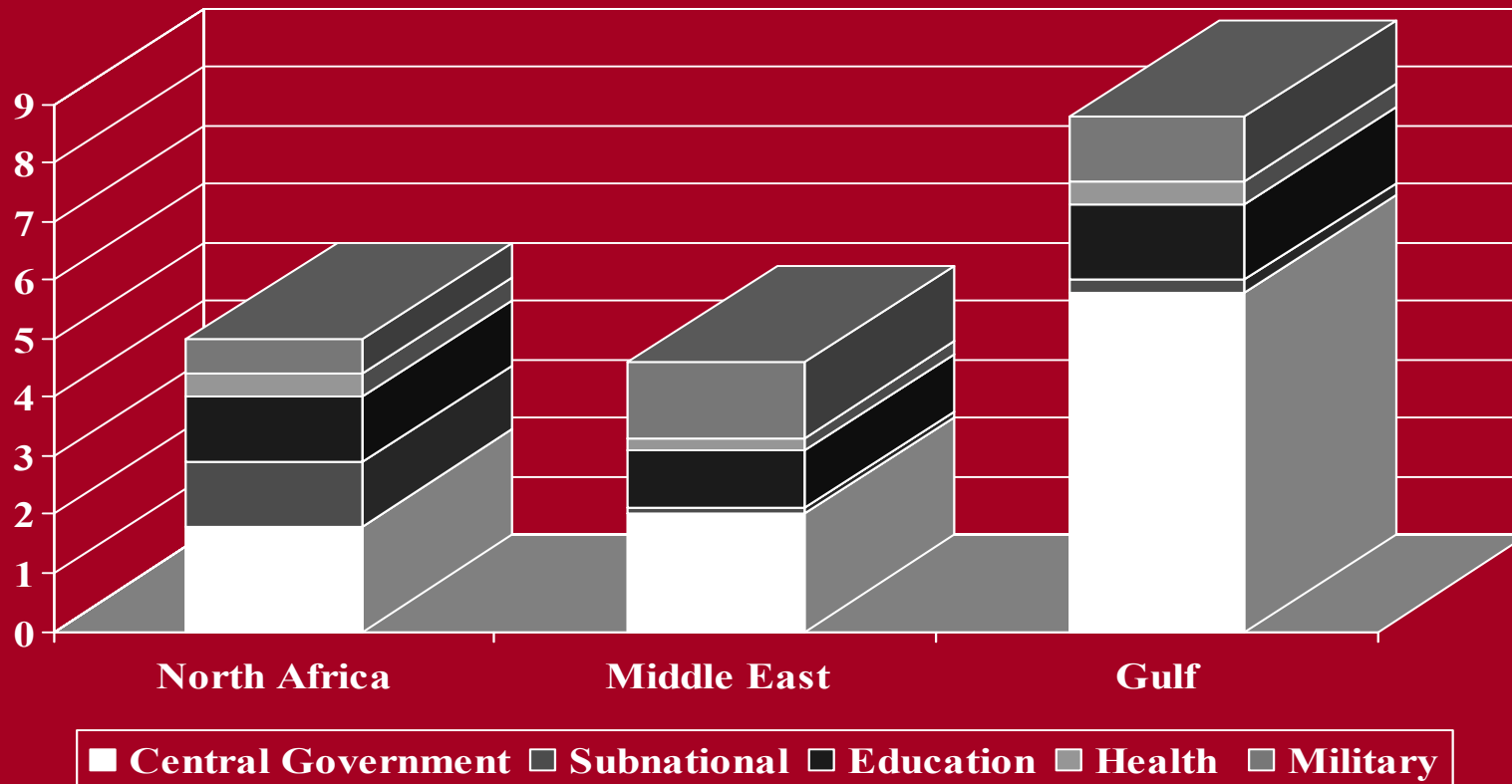
Which Employees Are Being Measured?



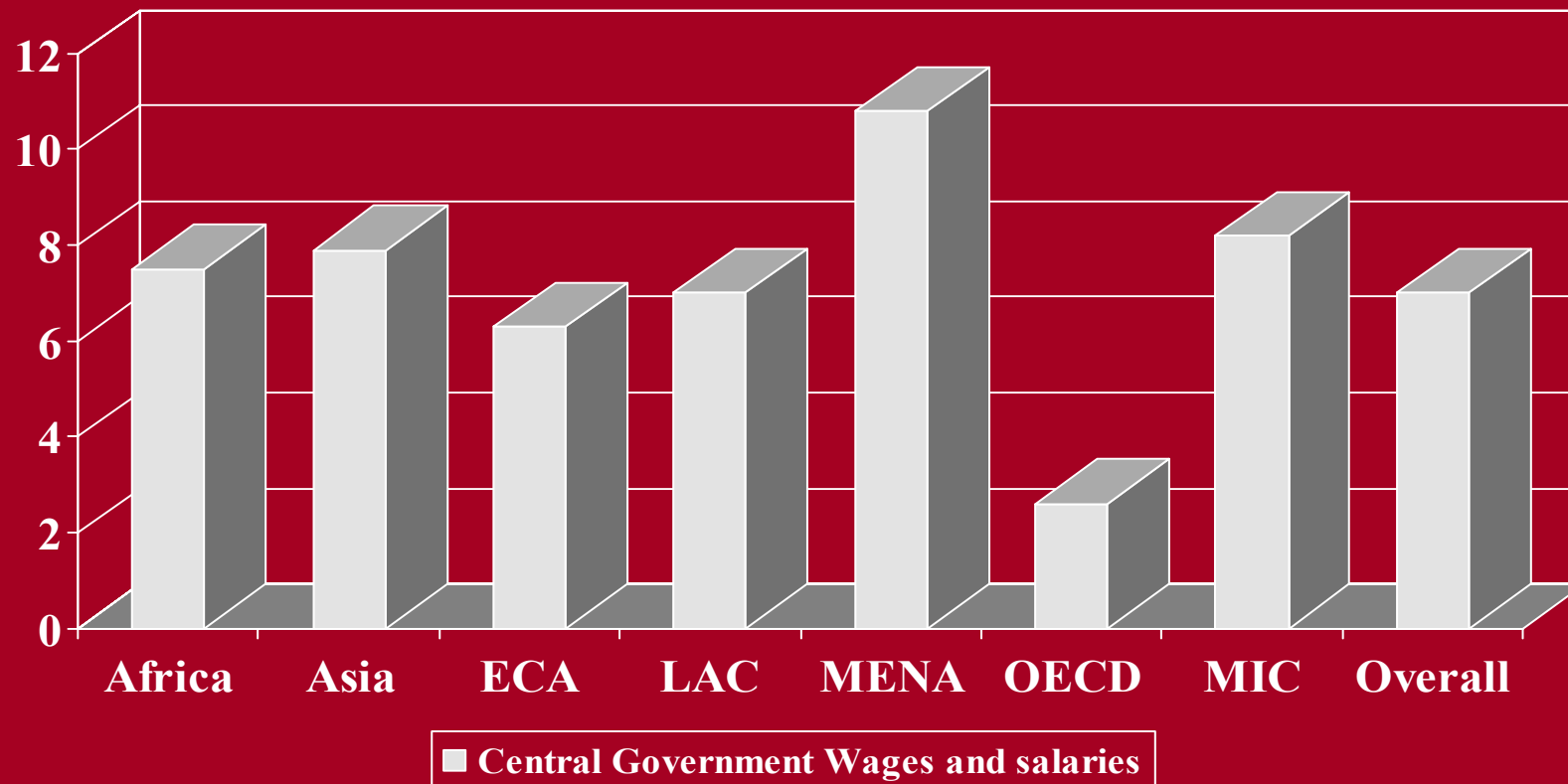
General Civilian Government as % of Total Employment



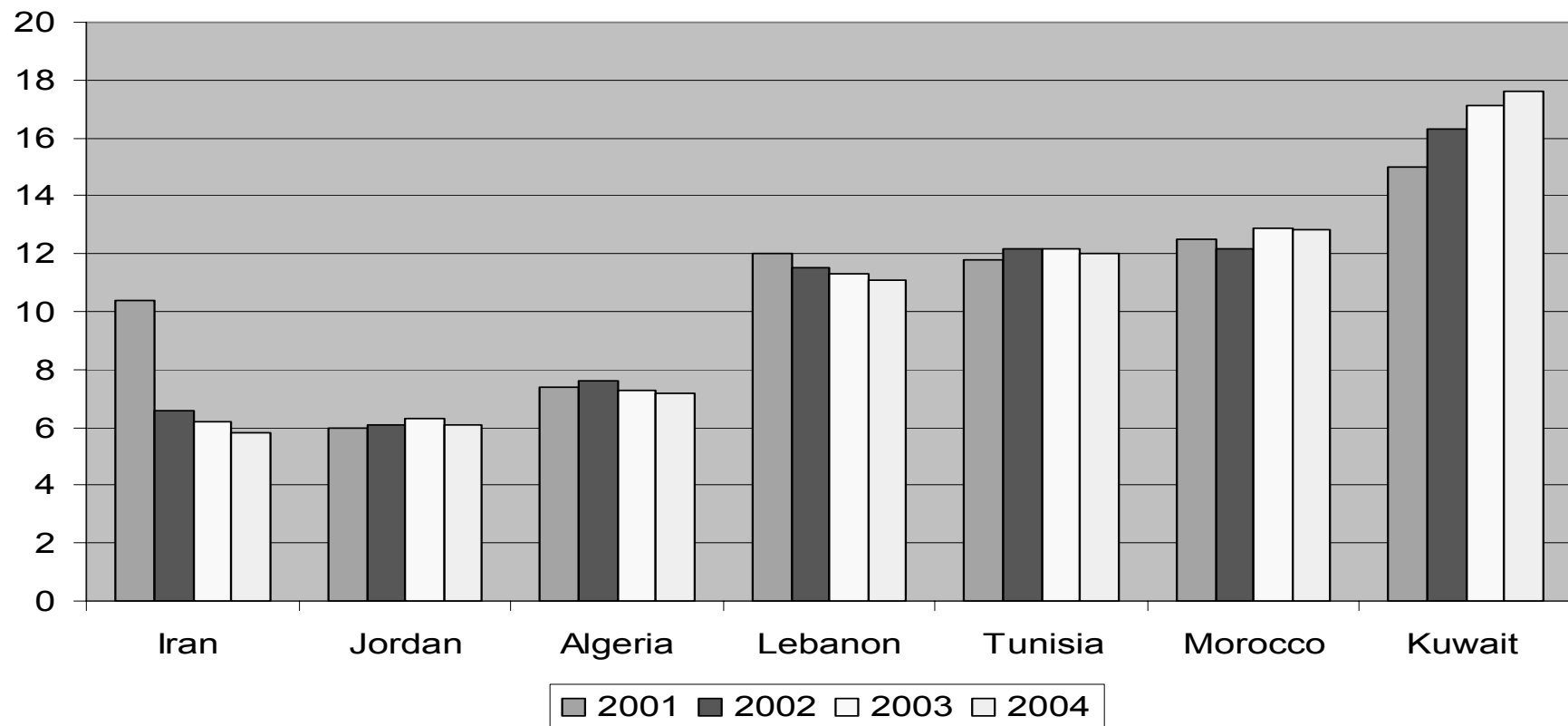
Government Employment as % of Total Population



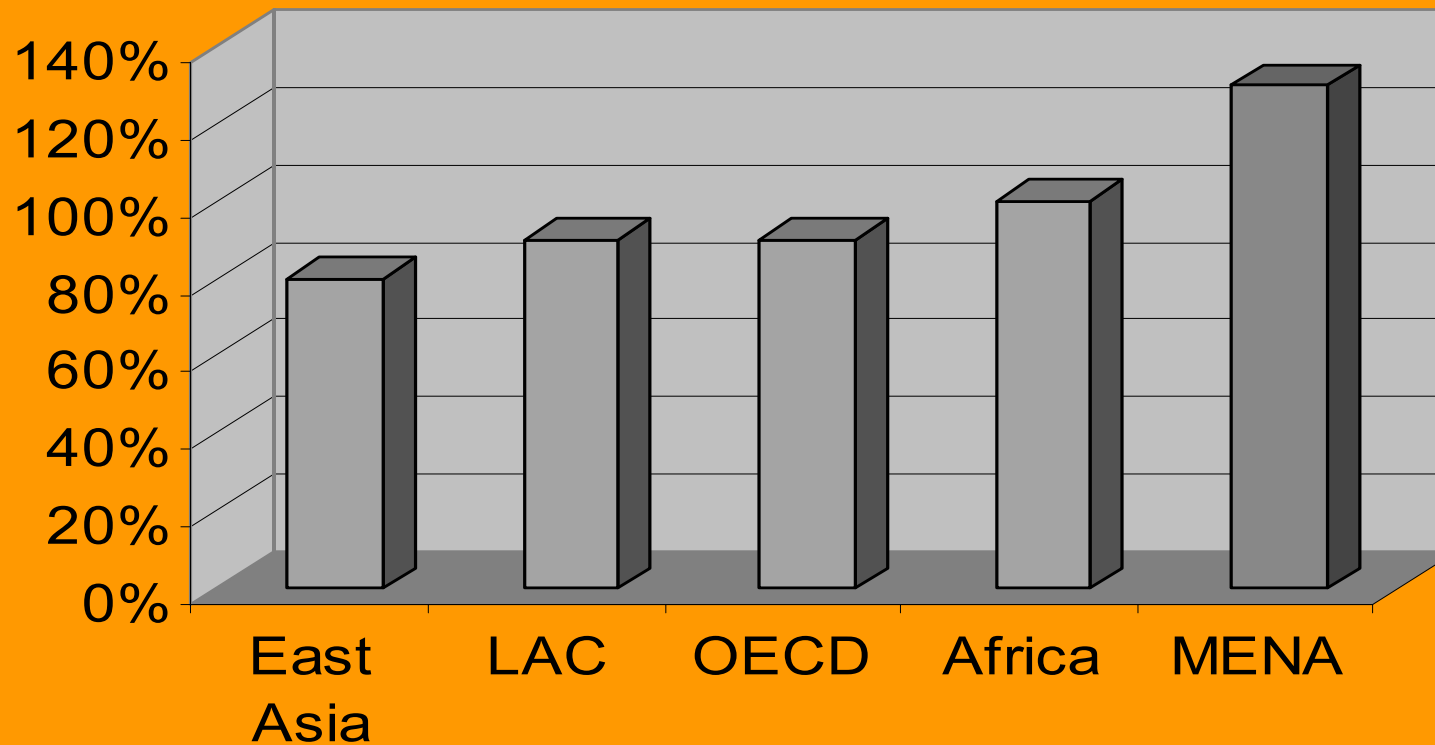
Central Civilian Government Wages as % of GDP



Government Wage Evolution for MENA Countries, as % of GDP, 2000-2004



Public-Private Wage Ratios



What Is To Be Done?



“In war, everything is simple. But the simple is always complex.”

-- Karl von Clausewitz--



CSR Projects by Region FY1999-2001



| REGION | TOTAL NEW LOANS | CORRECTING FISCAL IMBALANCES | ADJUSTING PAY AND GRADING STRUCTURES | IMPROVING ACCOUNTABILITY AND SERVICE DELIVERY |
|---------------------------------|-----------------|------------------------------|--------------------------------------|---|
| East Asia and Pacific | 5 | 1 | 1 | 5 |
| Europe and Central Asia | 9 | 0 | 5 | 9 |
| Latin America and the Caribbean | 10 | 6 | 7 | 7 |
| Middle East and North Africa | 7 | 2 | 5 | 7 |
| South Asia | 8 | 3 | 1 | 8 |
| Sub-Saharan Africa | 23 | 8 | 8 | 19 |
| Total | 62 | 20 | 27 | 55 |

Source: PREM Notes Public Sector 71, July 2005

Note: Many projects have more than one objective



Evolving History of Bank Support for Pay & Grading Reform



- Historically derived from broader measures at wage containment in the late 1980s and early 1990s (approximately 60% involved downsizing)
- Heavily linked to adjustment lending (61%)
- Early efforts were not particularly successful (around 50%; less for efforts at decompression)
- Not particularly oriented towards broader, sustainable reforms or reducing the loss of talent to the private sector
- Criticized for being largely technocratic fixes that ignored broader political economy challenges



Lessons Learned?



- Be more humble and realistic in expectations
- Can't ignore politics & local labor market conditions
- Get the basics right, and focus on upstream preconditions for success



Bank Support in MENA: Yes



- **Do No Harm (avoid top-ups; SASE in Tanzania)**
- **Provide Empirical Underpinning for Reform**
 - Pay and Employment Modeling (WBG, Jordan, Yemen)
 - Public-Private Pay Comparisons (WBG)
- **Basic Steps in HR Management**
 - Strengthen establishment control, and eliminate ghosts and double-dippers (Yemen)
 - Reform payroll systems (WBG, Iraq)
 - Developing job descriptions and classifications
 - Pay Reform/Decompression (but be wary of politics)
 - Consolidate allowances
- **Recognize Links with Pension Reform**



Bank Support in MENA: No



- **Performance Related Pay (but we are eager to support improved HR performance evaluation and monitoring)**
- **Flexible pay and grading arrangements (are the preconditions in place?)**



Bank Support: Maybe



- **Sorting out HR Roles and Responsibilities (In theory, easy, but in practice Clausewitz was right...)**
- **Large centrally driven position grading exercises...**
 - Hard to manage
 - Questions of political, line ministry and union buy in
 - Possible to roll out in a phased manner?
- **Rationalization & Rightsizing**



In Conclusion...



“After we have thought out everything carefully in advance and have sought and found without prejudice the most plausible plan, we must not be ready to abandon it at the slightest provocation. Should this certainty be lacking, we must tell ourselves that nothing is accomplished in warfare without daring; that the nature of war certainly does not let us see at all times where we are going; that what is probable will always be probable though at the moment it may not seem so; and finally, that we cannot be readily ruined by a single error, if we have made reasonable preparations.”

