

Total Rewards for Civil Servants*

During the 1970s and 1980s, many governments' wage bills had ballooned as developing country governments rapidly expanded, thus multiplying ministries, departments and state owned enterprises. Newly independent nations, with little private sector capacity, attempted to build their social and economic infrastructures. In delivering education and health to much larger numbers than before, government workforces grew. Political philosophies also allocated activities to the public or private sector.

Several countries found little left over for government's investment programs after paying the public employees' wage bill. Resources had been spread so thinly that service delivery by the public sector was poor. As countries approached multilateral lending institutions, they were under pressure to reduce the public wage bill, while simultaneously improving services and developing capacity to formulate policy. The issue of civil service pay and, more generally, the incentives for performance, remained high on the civil service reform agenda since that time.

This note outlines some key issues for consideration: How are civil servants' pay levels set? What constitutes total pay and non-pay rewards of civil servants? How do civil servants' pay and rewards compare with other options before them? Do the some of the incentives stemming from civil service pay change with official's career progression?

Determination of civil service pay

The pay assigned to a particular position is determined by government – often on the advice of an independent pay commission that takes into account the content, experience and skills necessary for each job, and market comparators. The process often involves extensive collective bargaining by employees' unions. Government plays two roles in this process: that of employer and manager of the economy; and must strike the balance between fair remuneration for employees and public accountability for expenditure on civil service pay.

Civil service salaries are revised annually or biennially in many industrialized market economies. In contrast, they are adjusted infrequently in many developing countries (ILO, 1989).

The pay determination process also reflects changing priorities of a government. At times this has entailed deliberately offering high salaries. After attaining independence, many developing country governments set out to be 'model' employers during the 1960s and 1970s, but few governments in developing countries seek this objective now (Chew 1993). More recently, governmental priorities have replaced equity with performance as a key value. In the U.K., the Next Steps report of 1988 led to separation of the executive functions of government from core policy making functions and the setting up of discrete, semi-independent agencies with sufficient flexibility. Consequently, subsequent civil service pay determination exercises in the U.K. reflect this changing priority of government via the introduction of civil service pay flexibility as a managerial tool (Kessler, 1998).

Often 'spikes' are superimposed on the underlying remuneration scheme as the result of ad-hoc grants given by government when acceding to the demands of a group or class of employees, or following the judgment of an administrative tribunal.

Incentive to be a civil servant

The purpose of pay is to compensate the employee for work done, to motivate the employee to perform well and to retain the employee avoiding the need for expensive recruitment and training

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for replacements. Government pay determination is widely supposed to be transparent (as public money is being used) and fair (by paying equally for jobs of equal value – such as not giving different pay for the same work to male and female employees).

Civil servants' compensation and rewards has several components. As the chart below shows, the total compensation package is a combination of current rewards and future expectations, contractual and intangible rewards:

		<i>contractually-provided</i>		<i>non-contractual/ intangible</i>
		<i>monetary</i>	<i>in-kind</i>	
<i>current rewards</i>	<i>base rewards</i>	1. <i>base wage/salary</i>	2. <i>health insurance</i>	3. <i>job security, prestige, social privileges</i>
	<i>allowances</i>	4. <i>transportation, housing, meals, telephone, travel, cost-of-living</i>	5. <i>transportation, housing, meals, travel</i>	6. <i>trips abroad, training</i>
<i>future expectations</i>		7. <i>pension</i>	8. <i>housing, land, etc.</i>	9. <i>reputation, re- employment after retirement</i>

The Administrative & Civil Service Reform website uses the following conventions:

- *personal emoluments* = cells 1 and 4 (current monetary rewards and allowances)
- *personal disposable income* = *personal emoluments* minus employer deductions for income tax withholding, provident fund/pension contributions, etc.
- *total compensation* = cells 1, 2, 4 and 5 (contractually provided current rewards and allowances)
- *total rewards* = cells 1 to 9 inclusive (contractual and non-contractual, current and expected rewards and allowances)

Base pay. This is something that the every civil servant receives regularly (usually fortnightly or monthly) from the government by virtue of being on its payroll. This base wage (cell 1) is often cited to compare wage differences in public and private sectors and to illustrate inadequate compensation for civil servants. It is, however, only one component of civil servants' total reward.

Base pay is usually linked to the employee's position and is uniform across similar positions. For example, the base pay could be 1000 currency units for the post of Agricultural Extension Officer, and 1500 currency units for the post of Deputy Permanent Secretary in Agriculture Ministry. In another ministry, the base pay would be something very close to 1000 currency units for a Literacy Extension Officer and 1500 currency units for the Deputy Permanent Secretary in the Department of Non-Formal Education. However, while being employed in the same grade in two different ministries, two officials might receive the same base pay enjoy entirely different amounts of allowances.

Allowances. In addition to base pay, civil servants receive allowances. The purpose of these allowances (e.g. transport, housing, telephone, travel) is to enable the employee to be live in remote areas (housing), to arrive in office in time (transport), and to be accessible for emergencies (telephone). When these allowances are paid in cash (see cell 4), they are often

part of civil servants' taxable income. When they are provided in kind, e.g. a free telephone at the residence, or rent-free accommodation (see cell 5) – they remain outside the tax liability. In-kind rewards could also be something provided across the board to all civil servants – such as premium for subscription to government employees' group health or life insurance (cell 2).

The proportion of allowances to base pay varies widely across countries, but it is not uncommon for them to equal, if not, exceed the base pay. In India, civil servants' cost of living allowance is linked to the index of inflation, and within a few years of every pay review by an independent Pay Commission, the cost of living allowance rises automatically until it exceeds base pay across the entire civil service. In Jordan, where civil service wages have essentially been frozen since 1988, a variety of allowances (such as hardship, responsibility amount to 70% or more of the basic salary (World Bank, 1999). Total allowances as percentage of total salaries were between 12 and

107 percent in eight African countries during the 1980s.

Country	1980	1985
Algeria	N. A	12
Ethiopia	13	27
Gambia	N. A	16
Kenya	22	6
Morocco	54	45
Sudan	25	29
Tunisia	33	106
Zimbabwe	30	13

Source: Robinson, 1990

In the OECD, the basic wage component averages nearly 90% of the total pay and rewards of civil servants, ranging from being 100% of total in Switzerland and Iceland, 65% to 90% in Finland, to 20% in Greece (OECD, 1997).

Retirement Benefits. Apart from these current receipts, civil servants can count on pension (cell 7) and a lump-sum gratuity among retirement benefits. Pension is calculated on the basis of the last base pay drawn by the civil servant and depends on the number of years worked. In addition many retirees receive land or a house either free or at very subsidized prices (cell 8).

The difference between civil servants' pension and any other occupational scheme established with the state as employer stems from the fact that benefits are usually paid from general revenues of the state, thus increasing the level of government consumption (<http://www1.worldbank.org/publicsector/civilservice/pension.htm#2>).

Intangible benefits. Beyond these current and future benefits, civil servants enjoy some more benefits to which it is difficult to attach price tags (cells 3, 6 and 9). These include job security, social privileges such as preferential access to government services, and hard currency savings from trips abroad. When private sectors are inadequately developed and private sector jobs hard to obtain, job security in government is an attractive feature. Also, when governments provide health-care or higher education at subsidized prices, civil servants' access to these services for themselves and their families brings substantial financial gains. Intangible benefits continue even after retirement: officials of the civil service take high level positions in public corporations and private industry upon retirement, and the Japanese *amakudari* system ('*descent from heaven* – Inoki 1993) is well-known.

Comparison of civil servants' incentives with private sector options

A general perception, and one held by most civil servants and government employees' unions, is that civil servants are paid less than private sector counterparts. In many countries, civil servants' remuneration has declined in real terms. In Tanzania, the real average civil service pay in 1998 was 70% of what it was in 1969, rising from only 27% in 1985 (Valentine 2001).

However, comparing levels of pay for the same occupation in public and private sectors is difficult because information on job requirements in both public and private sectors is often unavailable, and fair comparisons need to take into account all aspects of reward. In Indonesia, allowances (many of them discretionary) can currently represent up to 92% of pay (Manning, 2000). In spite of declining real average government salaries, evidence from seven CFA franc countries shows that average civil service remuneration at the beginning of 1990s, inclusive of both cash and in-kind benefits was higher than the average private sector remuneration. In Malawi, Zambia and Zimbabwe, surveys have shown that salaries at the lower end of the salary scale of civil service were higher than those paid for comparable jobs in the private sector (Lienert, 1998). In Korea, average pay in the civil service in the early 1990s was two-third that of the private sector, with the pay differential rising in higher civil service grades. However, civil service salaries in Hong Kong and Singapore ran ahead of the private sector during the same time. (Chew 1993).

Incentives change with civil servants' career progression.

A new entrant to the labor market compares the starting basic salary of the civil service with the recruitment wage of other potential employers. The level of starting salary thus plays an important role in governments' ability to recruit individuals with the necessary skills and abilities. Many developing countries pay higher-than-private sector wages at the lower end of the grade spectrum, and therefore attract talent which they may subsequently lose or retain.

If the employee continues in the civil service, the gains, and therefore motivation from promotion to a higher grade and salary scale will depend on whether civil service pay is too vertically compressed to provide incentives, or too stretched apart to be equitable, and to understand the incentives it is necessary to compare pay scales across the civil service.

The civil service pyramid is organized in layers of hierarchical grades. Grades differentiate people and positions according to *the level of* the skills and knowledge required for the group of jobs in that grade, and are important to civil service pay because they determine the basic salary of civil servants in that grade. Additionally, the whole civil service can be disaggregated vertically into narrower pyramids representing services, cadres or corps of the civil service which are occupational groupings depending on the basis of the *type of* skill required. For example, the medical cadre could comprise doctors and paramedics employed by government and the police service could comprise officials dealing with maintenance of law and public order. Different cadres often have their own range of grades as each cadre has different skill requirements which are difficult to compare across cadres.

The combinations of grades and cadres provide a series of horizontal and vertical classification. The figure below shows how the Ethiopian civil service was organized into cadres and grades in the 1990s, with each grade corresponding to a salary scale.

Salary Scale	Cadres					
	Professional & Scientific	Administrative	Sub-Professional	Clerical and Financial	Trades and Crafts	Custodian and Manual
I						
II						grade 1
III					grade 1	grade 2
IV			grade 1	grade 1	grade 2	grade 3
V			grade 2	grade 2	grade 3	grade 4
VI			grade 3	grade 3	grade 4	grade 5
VII			grade 4	grade 4	grade 5	grade 6
VIII			grade 5	grade 5	grade 6	
IX			grade 6	grade 6	grade 7	
X		grade 1	grade 7	grade 7	grade 8	
XI		grade 2	grade 8	grade 8	grade 9	
XII		grade 3	grade 9	grade 9	grade 10	
XIII		grade 4	grade 10	grade 10		
XIV	grade 1	grade 5				
XV	grade 2	grade 6				
XVI	grade 3	grade 7				
XVII	grade 4	grade 8				
XVIII	grade 5					
XIX	grade 6					

Source: Robinson, 1990.

Individuals are assigned to a cadre on the type of skills, and within the cadre to a grade according to the level of skill. Posts are graded according to a set of job descriptions laying out the duties and functions associated with a post.

As shown in the example above, each grade is assigned a salary scale. The salary scale has a minimum salary and some incremental steps leading to the maximum of that grade. Salary scales often overlap. Each Roman numeral in the example shown represents a whole scale. The top end of any scale could be higher than the lower end of the next higher scale.

Scales reward length of service and the accumulation of experience over the years. Increments reward seniority and provide for regular, but modest, adjustments to salary. They cease once the individual reaches the maximum of the salary scale. Increments are usually regular in the lower end of a salary scale, and contingent upon getting a certificate of satisfactory performance beyond the 'efficiency bar'. In small cadres, individuals are promoted to a higher grade before they reach the maximum of the scale, but in large cadres as the top of the pyramid gets narrower, individuals stagnate at the maximum of their salary scales with very few posts in the next higher grade to which they might be promoted. The employees start pressurizing for improving the salary scale as a whole, for additional increments by lengthening the scale.

Connection of rewards and civil servants' performance

An approach being followed in some OECD countries is to link civil servants' pay to the person and their performance as well as to the position. Over and above the base pay and any extras, a civil servant is sometimes paid performance bonus depending on the degree to which performance goals are achieved. It is important to note that in OECD countries, such performance pay is only a small part (up to 10%) of the civil servant's total pay.

In Singapore, employees receive an annual bonus – depending on the national economic growth. Chinese civil servants receive an annual bonus, but because of difficulty in assessing individual

performances accurately, virtually the same amount has been paid to every person. In Thailand, 15% of officials in each grade can be awarded one extra increment for exceptional performance each year; but there is some skepticism about the reliability of how staff performances are evaluated (Chew 1993). Rewards to encourage good performance are not common in developing country civil services. In a recent World Bank survey, public officials in sixteen countries were asked whether they knew of any employee in their organizations who had been rewarded for good performance in the preceding twelve months. In all countries surveyed, the majority of civil servants reported not knowing any rewards for good performance (Mukherjee and Gokcekus, 2001).

Conclusion

To decide whether the civil service is affordable or whether officials are being paid too much or too little compared with private sector counterparts, it is first necessary to exactly know the total rewards of civil servants. For this purpose, it is essential to assess the monetary worth of all in-kind allowances and to include the net present value of future pensions within total rewards.

Then, with a clearer picture of 'how much' for each type and level of skill, it is possible to work out what incentives pay and rewards are providing and how these affect performance. In some situations, government administrators are paid more than their private sector counterparts, but doctors and accountants much less. Job security can be an important issue in setting overall incentives. Governments wanting to move towards new public management style of contractual appointments, might have to reckon with lower perceived total reward from reduced job security and have to budget for higher base pay to retain skilled employees.

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