Civil Service Reform in Africa

Mixed Results After 10 Years

Although many African countries have taken important steps toward restructuring their civil services by downsizing them, less progress has been made in revamping pay and promotion policies. Cost-cutting measures need to be accompanied by bold reforms to improve quality.

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BEFORE 1985, many countries in sub-Saharan Africa had seen their nominal wage bills expand. This was due, in large part, to a rapid increase in civil service employment—in some countries, the number of civil servants rose by as much as 10 percent a year. This expansion reflected the high degree of government intervention in the economy as well as the need to educate and provide health care to burgeoning populations. Additionally, the state often guaranteed civil service jobs for graduates of institutions of higher education. Civil service employment was also a reward for political patronage.

The rapid expansion of employment had been facilitated by reducing salaries, especially those at the higher end of the pay scale. For example, by 1985 an average civil servant's real salary in Tanzania had dropped to less than one-fourth of what it had been a decade earlier. Management-level salaries eroded considerably during this period: in Zambia, for example, in 1971 an assistant director's salary was 17 times the salary of the lowest-paid employee; by 1986, it was only 4 times as much. Overstaffing and low salaries had adverse consequences, including poor staff morale and a decline in work effort; difficulties in recruiting and retaining technical and professional staff; nontransparent forms of remuneration, especially nonwage benefits in cash or in kind; and strong incentives to accept bribes. Additionally, the nominal wage bill increasingly contributed to growing fiscal deficits in many African countries. Its increase relative to nonwage expenditures also had unfortunate results—teachers and health workers often lacked the materials they needed to do their jobs; roads were no longer maintained; law enforcement officers did not have vehicles; and so forth.

Reform goals and strategies

In implementing reforms, governments sought to (1) downsize the civil service to make it more affordable and to bring it into line with a new, scaled-down role for government in economic activities; (2) provide civil servants with appropriate incentives, skills, and motivation; and (3) enhance management and accountability.

Initially, governments concentrated on "first-generation" reforms—those contributing primarily to macroeconomic stabilization. These focused on *quantitative* adjustments to the wage bill, particularly by reducing staff or redeploying them to priority sectors. A first, relatively painless step was to remove "ghost" workers from the payroll. Governments also sought alternatives for delivery of public services, such as subcontracting them to the private sector. Given the high level of government expenditures relative to tax revenues, many countries opted to reduce real wages further.

Although cutting costs by squeezing real wages contributes to macroeconomic stability, beyond a certain point it becomes counterproductive. If public sector wages continue to be eroded vis-à-vis private sector salaries, skilled staff members leave the civil service; those who remain become demoralized; and absenteeism, moonlighting, and corruption increase. To address these problems, countries are now attempting to attain a more appropriate balance between *quantitative* and *qualitative* adjustments. "Second-generation" reforms include the following:

- Restructuring remuneration so as to narrow differentials with the private sector.
- Changing promotion and personnel management policies so that merit and initiative are rewarded.
- Reassessing the mix of wage and nonwage spending, particularly in priority sectors.
- Providing training to upgrade skills.

The multiple objectives of first- and second-generation reforms can give rise to conflicts. For example, when it comes to restructuring salaries, governments that have large fiscal deficits and lack the political will to bite the bullet (which usually means laying off staff) often have no alternative but to reduce real wages further. However, this runs counter to the need to increase real salaries in order to stem the outflow of skilled civil servants to better-paid nongovernment jobs. Hence, there is a need for bold and comprehensive reforms, with prioritized goals.

Achievements of the past decade

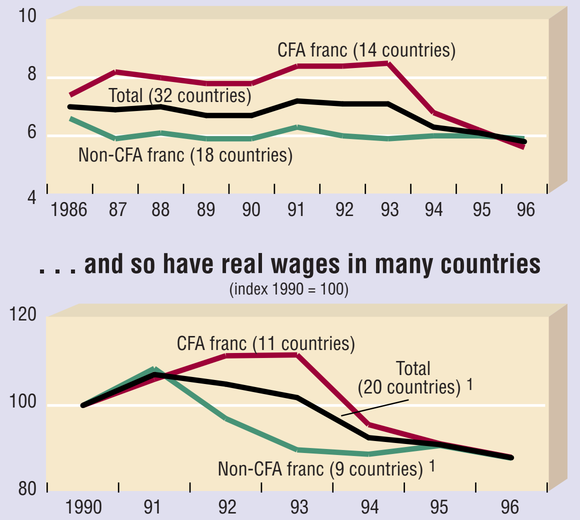
Nominal wage bills have declined. In 32 countries in sub-Saharan Africa, the average nominal wage bill was reduced modestly, from 7 percent of GDP in 1986 to just under 6 percent of GDP in 1996 (Chart 1, upper panel). This level is still high compared with other developing regions—for example, in both Asia and Latin America, the ratio is around 5 percent of GDP. In sub-Saharan Africa, however, there have been very large fluctuations around these averages. At one extreme is Uganda, whose wage bill rose from 1 percent of GDP in 1987 to 3 percent in 1996, the result of extremely rapid increases in real wages (at the same time as the number of civil servants was cut in half). At the other extreme is Lesotho, whose wage bill stood at 15 percent of GDP in 1996.

Most of the adjustment in the nominal wage bill has taken place since 1993 and has been concentrated in the CFA franc zone countries. However, before the early 1990s, some countries (notably The Gambia, Guinea-Bissau, Madagascar, Mozambique, Sierra Leone, Tanzania, and Uganda) lowered their average wage bills by more than 1 percentage point of

Chart 1

The government wage bill in sub-Saharan Africa has decreased

(percent of GDP)



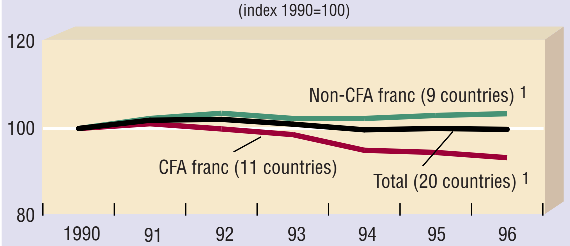
Source: Ian Lienert and Jitendra Modi, 1997, "A Decade of Civil Service Reform in Sub-Saharan Africa," IMF Working Paper 97/179 (Washington).

[1] Excluding Uganda, whose 1996 index stood at 958.

Chart 2

Some sub-Saharan African countries have also reduced the number of civil servants

(index 1990=100)



Source: Ian Lienert and Jitendra Modi, 1997, "A Decade of Civil Service Reform in Sub-Saharan Africa," IMF Working Paper 97/179 (Washington).

[1] Excluding Uganda, whose civil service employment fell by 50 percent during 1990–96.

GDP. In contrast, during 1986–93, the wage bills of the CFA franc countries rose rapidly, mainly as a result of wage drift (automatic promotions irrespective of age and "within grade" salary increases) and the automatic recruitment of graduates from institutions of higher learning. However, following the devaluation of the CFA franc in early 1994, the wage bill in the 14 CFA franc countries fell, on average, by nearly 3 percentage points of GDP. As discussed below, this was due mainly to a large drop in the purchasing power of individual salaries; employment declines also contributed (Charts 1, lower panel, and 2).

Real wages declined in some countries, but increased in persistent reformers. Although reforms aimed at improving both the level of real wages and the salary structure, very few countries achieved these objectives. On the contrary, real wages have continued to decline, by 2 percent a year on average during 1990–96. The CFA franc countries, whose wage bills fell sharply after 1993, have accounted for most of this reduction. Following the 1994 devaluation, nominal wage increases were typically limited to about 10 percent, whereas inflation had accelerated to 40–50 percent. In Cameroon, there was no nominal increase at all, and this followed a decline in nominal salaries of some 40 percent in late 1993. The Republic of Congo also took draconian measures: following a wage freeze in 1994, nominal wages were reduced by 15 percent in 1995. In the countries experiencing strong declines in real wages, the evidence suggests that there was a further compression of upper-grade salaries. For example, in Cameroon, the highest civil service salary in 1994 was 6 times as large as the lowest salary; during 1984–92, it was 10 times as large.

In contrast, some countries—Uganda being the most prominent example—made a conscious effort to increase real wages from low levels and improve incentives for higher-paid staff (it is excluded from Chart 1, lower panel). In countries such as Ethiopia and Mozambique, which had socialist "wage equalization" policies, the salary structure was extremely compressed, and decompression was included in initial reforms. Other early reformers (for example, The Gambia, Ghana, and Guinea) also set targets for decompressing the salary structure and, in general, met their targets. Although real wages per employee increased significantly in these countries throughout the decade, in 1996 their wage bills as a percentage of GDP either had not risen significantly or had risen to levels still well below the sub-Saharan African average. This was usually because salary increases were accompanied by significant declines in civil service employment. On the other hand, in some non-CFA franc countries, especially in southern Africa (for example, Lesotho, Malawi, and Zimbabwe), governments were unable to resist large real wage increases and made little headway in restructuring salaries and employment.

Progress in reducing differentials between civil service and private sector salaries was also limited. Caution is required in making comparisons between government and private sector salaries, since civil servants' remuneration includes both cash and in-kind benefits, and government employees enjoy greater job security and better pensions. Evidence for seven CFA franc countries shows that *average* civil service remuneration at the beginning of the 1990s, inclusive of both cash and in-kind benefits, was higher than *average* private sector remuneration; this salary gap was due mainly to the higher skill levels of civil servants. Since the devaluation-induced sharp decline in civil service real wages in CFA franc countries, however, anecdotal evidence suggests that civil service salaries have fallen behind private (or parastatal) salaries for staff, especially those in the upper grades, performing similar tasks. In contrast, in some non-CFA franc countries, civil servants' salaries appear to be broadly on a par with those of equally skilled workers in the private sector. In fact, in Malawi, Zambia, and Zimbabwe, surveys have shown that salaries at the lower end of the salary scale of the civil service were higher than those paid for comparable jobs in the private sector.

Employment has decreased. Many countries have downsized their civil services, in some cases markedly. Although both the quality and coverage of employment data are weak, the evidence suggests that in six countries (Benin, the Central African Republic, Guinea, Madagascar, Mali, and Uganda), the number of civil servants dropped by more than 10 percent between 1986 and 1996. Downsizing became more widespread in the early 1990s, with most CFA franc countries also witnessing significant declines (Burkina Faso and Chad are exceptions). Outside the CFA franc zone, despite some countries' plans to reduce total employment, only in Guinea, Sierra Leone, Tanzania, and, especially, Uganda were there sizable downsizings during 1990–96.

Much of the initial reduction of employment was achieved by removing "ghost" and temporary workers. More recently, downsizing has also been achieved through early retirements and voluntary retrenchments with generous severance payments (see box). Several countries conducted ministry-by-

Severance packages for departing workers

Many countries encouraged voluntary retirement from the civil service by offering attractive severance packages based on length of service and, in some cases, the retiree's age. The service-related amount received has varied considerably: from 1.2 months for each year of service in The Gambia to 4 months (with a limit of 40 months total severance payment) in Tanzania. In many countries, the financial component alone accounted for 3–5 years salary; in Zambia, where up to two-thirds of pension entitlements could be taken up front as a lump-sum payment, a tenured employee with 20 years service was eligible for 13 years salary. In addition to service-related payments, other benefits such as "golden handshakes," transportation allowances, loans for establishing small businesses, employment counseling, and training were often available.

During 1985–90, governments generally bore the cost of severance packages from their own budgets. However, in the 1990s, donors increasingly financed severance packages. Although donors imposed heavy administrative requirements, severance payments were generally paid on time (previously, payment arrears had sometimes been experienced). To the extent that donors finance expensive departure packages, governments have little incentive to reduce their cost. In some cases, however, severance packages became too expensive and donors refused to finance them until costs were trimmed.

Another problem was that eligibility for severance packages was not conditional on performance. Thus, several countries' civil services lost highly skilled workers. A challenge for countries is to reduce the cost of severance packages and change their design so that poor performers are provided with an incentive to depart.

ministry audits of civil service positions, although only in a few cases were these linked with bold initiatives, such as merging or eliminating a significant number of ministries.

When viewed against the continuing rapid population growth in almost all sub-Saharan countries, the ratio of civil service employment to population has fallen; by 1996, only 1 percent of sub-Saharan Africa's population worked in the civil service, compared with around 3 percent in other developing regions. (It would be preferable to examine the share of civil servants in total employment, rather than in the population, because the demographic structure in sub-Saharan Africa is heavily biased in favor of children. However, reliable data on total employment in the 32 countries are not available.)

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Directions for future policies

Employment. Since there is no ideal size for a country's civil service, its actual size is likely to continue to be dictated by macroeconomic realities, such as the need for fiscal adjustment, the amount of tax revenue available to pay civil servants, and the balance between wage and nonwage government spending. Although the number of civil servants has already been reduced in many countries, there is probably still scope for further downsizing. Additional functional reviews could be carried out to provide guidance for the ministries or agencies that could be downsized or eliminated. It would also be helpful to have sectoral, performance-based indicators, such as pupil/teacher and patient/health worker ratios. Further retrenchment should focus on staff whose contribution to the delivery of public services is limited. Countries could achieve this by taking certain steps:

- *Ensuring that all ghosts are eliminated.* Censuses of employees have proven to be useful tools for verifying that all staff on the payroll are actually working.
- *Being bolder in restructuring government ministries.* In many countries, much of the downsizing so far has been achieved either by removing ghosts or by laying off temporary workers.
- *Continuing "voluntary" retrenchments, early retirement, and recruitment freezes.*
- *Closing ministries or agencies* whose functions could be performed more efficiently by the private sector.
- *Reconsidering the policy of excluding education and health from recruitment freezes.* The scope for private sector provision in these two social sectors could be examined.
- *Retrenching nonperforming civil servants.* This would require mechanisms for objective assessment of employee performance.
- *Reducing the cost of severance packages* (see box).

Remuneration. Salaries still need to be restructured comprehensively to enhance transparency and improve governments' ability to recruit and retain skilled staff. In restructuring salaries, although a number of changes are needed, fiscal realities will dictate the pace of progress. Further reforms include the following:

- *Replacing automatic "in-grade" salary increases and promotions* that are based solely on seniority by policies that reward the most competent staff members (whatever their ages) and penalize poor performers.
- *Systematically monitoring public/private salary differentials* for jobs that require the same skills and experience, and reducing and eventually eliminating wage gaps for comparable jobs.
- *Completing the monetization of in-kind nonwage benefits* and integrating most cash allowances into the base salary structure.

Achieving a balance. Most progress to date has been in quantitative adjustment, often to the detriment of civil service quality. The need for further fiscal adjustment could be one guideline to use in deciding whether or not to make further cuts in the nominal wage bill. If, for example, a country's wage bill still exceeds, say, 40 percent of budgetary revenue, the focus on containing costs will probably need to continue, although attention should also be paid to improving the structure of remuneration. However, if a country has a relatively low wage bill/revenue ratio, the focus might be on increasing salaries for skilled professionals, especially if these salaries are much lower than those for comparable positions in the private sector.

Indeed, in many countries, there is an urgent need to increase remuneration for professional, technical, and managerial positions. This would not only stem the outflow of good performers but also reduce corruption, since low salaries are highly correlated with civil service corruption. Reforms also need to address nonwage factors that encourage corruption, such as the lack of explicit performance standards, highly subjective recruitment and promotion procedures, and failure to apply administrative sanctions (for example, in instances where workers are not present in the workplace for the required number of hours). More generally, reforms are needed to improve civil service management. Although there is merit in decentralizing management of line ministries, there are dangers in doing this before establishing firm control of recruitment and the payroll at the central government level.

Assistance from donors will continue to be essential for designing and financing comprehensive reform strategies. This includes advice on merit-based compensation and promotion policies, modified civil service regulations, and reforms of civil service pension systems. The ultimate success of further civil service reforms will depend, however, on political willingness to implement wide-ranging reform policies. F&D

This article is based on Ian Lienert and Jitendra Modi, 1997, "A Decade of Civil Service Reform in Sub-Saharan Africa," IMF Working Paper 97/179 (Washington).