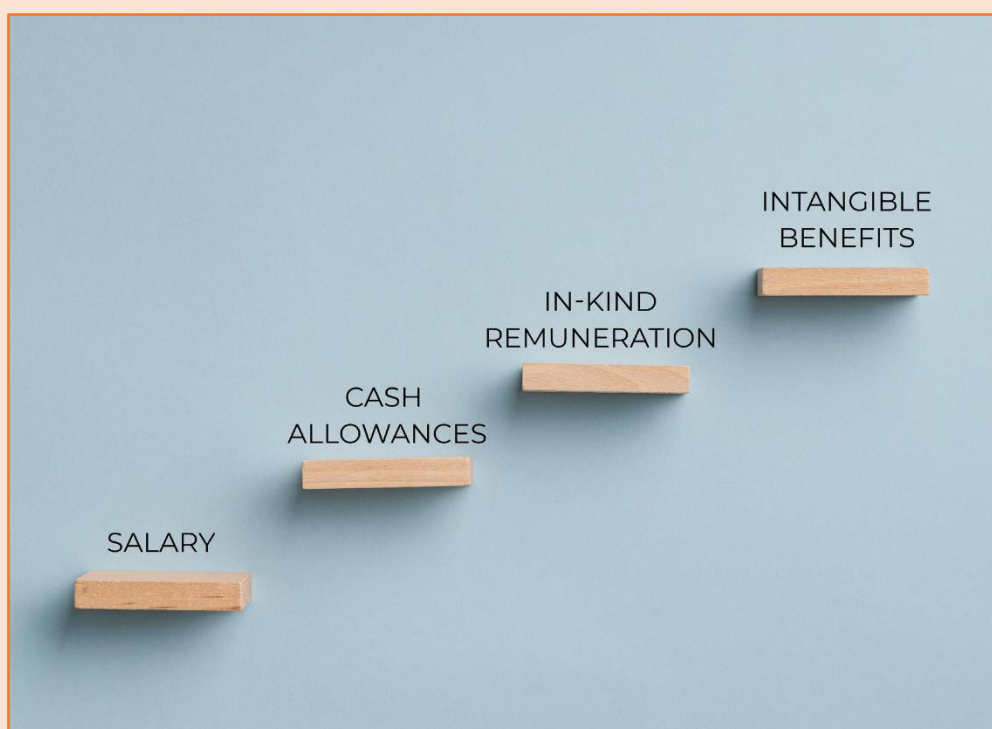


CASH POOR, PERK RICH!

CIVIL SERVICE COMPENSATION: INCENTIVES, DISSATISFACTION, AND COSTS



PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS

CASH POOR, PERK RICH!

CIVIL SERVICE COMPENSATION: INCENTIVES, DISSATISFACTION, AND COSTS

NADEEM UL HAQUE
(Vice-Chancellor, PIDE)

DURR-E-NAYAB
(Joint Director, PIDE)

OMER SIDDIQUE
(Senior Research Economist)

NASEEM FARAZ
(Senior Research Economist)

With inputs from

MAHMOOD KHALID

NASIR IQBAL

KARIM KHAN

PAKISTAN INSTITUTE OF DEVELOPMENT ECONOMICS
ISLAMABAD

FOREWORD

The question of reforming the colonial civil service, and its linked institutions, has been on the agenda since independence. Numerous commissions and efforts have been thwarted. The popular perception remains that there has been a secular decline in civil service efficiency.

Most reform efforts focus on grades, performance reviews, and structures of the civil service. The incentive structure which economists think is central to human behaviour is often left out of the reform process. Civil service payment remains mired in its colonial foundations consisting of cash compensation that has not kept pace with inflation and several allowances and physical perks such as houses and cars. The perks are non-transparently given and have set up several individual and group dynamics that may not be conducive to the objectives of the public service.

This report is the first attempt to develop some clarity on the cost of the civil service, quantifying all aspects of compensation. It also develops a strategy for monetisation of all perks and setting in place a compensation system that is in line with modern economics and HRM practices. It also points to the huge gain from monetisation in terms of the release of city centre land for commercial development through a public-private partnership.

This is an important document that requires a lot of debate and further research for us to improve our public sector management.

I would also like to acknowledge Mrs. Nargis Sethi, Chairperson, Pay and Pension Committee, Mr. Shahid Hafiz Kardar, Vice-Chancellor, Beaconhouse National University, Lahore, and Mr. Jamil Nasir, Collector of Customs, for their valuable comments and suggestions on this report.

Dr Nadeem Ul Haque
Vice-Chancellor
Pakistan Institute of Development Economics
Islamabad

CONTENTS

	EXECUTIVE SUMMARY	vii
One	PAY SCALE AND STRUCTURE	1
1	A Brief History	1
2	Reform Efforts and Success	4
3	The Evolution of Wages	5
4	The Current Wage System	6
5	Issues with the Unified Pay Scale	7
6	Dissatisfaction and False Debate	11
Two	FRAGMENTED STRUCTURE AND CAREER PROGRESSION	12
1	Career Progression	12
2	Fragmentation	14
3	Perks Adding to Inequalities	16
4	Pay, Incentives, and Performance	17
Three	VALUING BENEFITS	21
1	Uneven Distribution	21
2	Valuing Houses	21
3	Car Valuation	25
4	Valuing Job Security	26
5	Other Benefits	27
6	Medical Facility	27
7	Paid Leave	28
8	Future Benefits	29
Four	TOTAL COMPENSATION	31
1	The Structure of Cash Payments	31
2	Estimation of Cash Payments	33
3	Total Cost	34
4	Key Takeaways	36
Five	COMPARATORS: WAGE PREMIUM IN THE PUBLIC SECTOR	37
1	Comparison with Compensation of Donors and International Organisations	37
2	Local Market-Based UN Salaries in Pakistan	38
3	Comparison with the Compensation in the Private Sector	41
4	Public Sector Wage Premiums – An International Comparison	44
5	Comparison of Pension Security with the Private Sector	45

Six	INSIGHTS FROM INTERNATIONAL PRACTICES	46
1	International Experience	46
2	New Public Management (NPM)	49
3	Lessons for Pakistan	50
Seven	CONCLUSIONS & SUGGESTED COURSE OF ACTION	52
1	Unproductive Assets	52
2	Monetisation	53
3	Sustainable Pension with Monetisation	56
4	Release Assets, Boost Growth	58
5	Reduce the Staff in Lower Grades	60
	REFERENCES	61
Appendix	THE SUSTAINABILITY OF PENSIONS	64

TABLES

Table 1	Ministries by the Number of Account Heads under which Payments are Made	9
Table 2	Salary Structure of Higher Judiciary in Pakistan at a Glance	16
Table 3	Government Housing in Pakistan	22
Table 4	Federal Government Houses Market Rental Value	24
Table 5	Valuing the Government-owned House	24
Table 6	Valuing the Official Car	25
Table 7	Estimating the Value of Government Car Asset	26
Table 8	Foreign Training	27
Table 9	Cost of Civil Servants' Health Care	28
Table 10	The Number of Paid Holidays Per Year in Selected Countries	28
Table 11	Total Cash Payments: Wage and Cash Allowances (Rs.)	33
Table 12	Quantified Total Cost (Rs.)	35
Table 13	Compensation of Locally Hired UN-D Level Officer with Islamabad as Duty Station	39
Table 14	Comparing a UN Locally Hired Officer at the Islamabad Office and Government BPS 21-22 Civil Servants	39
Table 15	Public-Sector Salary Structure in South Korea	48

FIGURES

Figure 1	Nominal and Real Wages Across Years	6
Figure 2	Wage and Reward Structure	7
Figure 3	Maximum Grade that Can be Achieved in Each Cadre	12
Figure 4	Distribution of Employees in BPS by Grades and Cadres	13
Figure 5	The Proportion of Each Cadre in BPS 21 and 22 (%)	14
Figure 6	Number of Employees in BPS-20 to 22 and Management Pay Scales (MPS)	15
Figure 7	Public Sector Wage Compression Ratio	19
Figure 8	Distribution of Houses in Islamabad by Sectors	22
Figure 9	Average Monthly Wage and Allowances Received by BPS 17 to 22, and the Proportion of Allowances in the Total Pay (%) (Wage and Allowances in Rs. '000s)	34
Figure 10	Average Monthly Pay and Perks Received by BPS 17 to 22, and the Proportion of Perks in the Total Pay (%) (Pay and Perks in Rs. '000s)	36
Figure 11	Comparison of Islamabad-Based UN Employees and Civil Servants in BPS	40

Figure 12	Normalized Wage Differential Across Different Education Levels	41
Figure 13	Normalized Mean Cash Salary Difference Between Public and Private Sectors	42
Figure 14	Number of Non-Monetary Benefits Available to the Public and Private-Sector Employees	42
Figure 15	Proportion of Monetary and Non-Monetary Component in the Total Wage across Public and Private Sectors (%)	43
Figure 16	Wage Premium Ratio for Public Sector Employees in Selected Countries	45
Figure 17	Provision of Pension in Public and Private Sectors (%)	45
Figure 18	Public Service Grade System in South Korea	48
Figure 19	Monetising Car Facility	55
Figure 20	Scenarios for Defined Contribution (Civilian Pensions as % of Current Expenditure)	58

APPENDIX FIGURES

Figure A1	Nominal and Real Pensions: 2011-2020 (Rs. Billion)	65
Figure A2	Pension's as a Percentage of Salary Expenditure (%)	66

BOXES

Box 1	Chronology of Commissions for the Civil Service	4
Box 2	Expenditures on Civil Servants (Budget 2018-19)	10
Box 3	The Problem with Perks	10
Box 4	UPS and its Hierarchical Equivalence in MP and SP Scales	13
Box 5	Special Pay Scales (SPS)	15
Box 6	Fragmented Salary Structure	17
Box 7	Disparity in Distribution	21
Box 8	Official Residence in Punjab	23
Box 9	Invisible Payments	26
Box 10	Pensioners Drawing Pension from AGPR	29
Box 11	Methodology of Estimating Wage Plus Allowances	31
Box 12	Selected Allowances Received by Various Civil Servants (with codes)	32
Box 13	IMF, World Bank and UN Compensation Systems	38
Box 14	UN, D-Level Compensation Determination	39
Box 15	International Experience: Policy Takeaways for Pakistan	51
Box 16	Gains from Monetisation of Housing	59

ACRONYMS & ABBREVIATIONS

AGPR	Auditor General of Pakistan Revenues
BOI	Board of Investment
BPS	Basic Pay Scale
CSP	Civil Service of Pakistan
DB	Defined Benefit
DC	Defined Contribution
DCO	District Coordination Officers
DMG	District Management Group
FBR	Federal Board of Revenue
FGEHA	Federal Government Employees Housing Authority
GOP	Government of Pakistan
HC	High Court
HEC	Higher Education Commission
ICS	Indian Civil Services
IMF	International Monetary Fund
KPI	Key Performance Indicators
LFS	Labour Force Survey
MAMPU	Malaysian Administrative Modernisation & Planning Unit
MOF	Ministry of Finance
MPhil	Master of Philosophy
MPM	Ministry of Public Management (Republic of Korea)
MPS	Management Pay Scale
NCGR	National Commission for Government Reforms
NGO	Non-Governmental Organisation
NPM	New Public Management
NSS	National Saving Scheme
PAS	Pakistan Administrative Services
PAYG	Pay-As-You-Go
PhD	Doctor of Philosophy
RBM	Result-Based Management
SCP	Supreme Court of Pakistan
SCS	Senior Civil Service
SPS	Special Pay Scale
UN	United Nations
UPS	Unified Pay Scale
WWBI	Worldwide Bureaucracy Indicators

EXECUTIVE SUMMARY

Background and a Brief History

- Not all payments and rewards in the Pakistan civil service are on the payslip. However, a common belief among civil servants is that they are at a disadvantage compared to their private sector counterparts. The present study quantifies the total pay package for each BPS grade of the civil servant by consolidating pay, allowances, non-monetary benefits, and rewards.
- Pakistan's administrative machinery, in particular its bureaucracy, is profoundly influenced by its colonial legacy. The ruling British Raj created an authoritative and exceedingly centralised bureaucratic institution to rule the empire. These institutions later hindered the effective functioning of the newly formed state.
- During the country's history of more than seventy years, 29 commissions and/or committees have been formulated to chalk out a roadmap for civil services reforms, though not a single one can be attributed to significant outcomes. Most of the reform deliberations merely tinkered with organisational restructuring, minor adjustment of pay scales, creation, merger, or disbanding of occupational groups, and changes in functions and powers.
- While all the reform efforts have failed to improve the performance of the civil service, it has set up a system for "perk-maximisation" and political quid pro quo for perks. The urge or daring for reforms in real essence has always taken a back-seat.
- The 1973 unified pay scale (UPS) was introduced to create a fair and transparent payment method, but it led to its inefficiencies and anomalies. With time other scales were instituted to overcome the issues in UPS, like the Management Pay scales (MPS) and Special Pay Scales (SPS) – each again having its peculiar issues. The unified pay scale structure is very fragmented now.

Civil Servants' Compensation and Incentive Structure

- As part of its overarching civil services reforms' efforts, PIDE unpacks the compensation package of the civil service and recommends the needed reforms. The study looks into some key issues within the civil services that include: cash payments, non-cash rewards, inequality in the distribution of perks, waste of precious land for housing, pay and performance disconnect, a bias between cadre and non-cadre officials, and marginalised specialised groups.
- The remuneration of a civil servant is a collection of cash payment, in-kind rewards and intangible benefits. Quantifying these, the study finds that:
 - The total reward of a civil servant is much higher than the base reward (cash salary) in the contract, more so for the higher grades.

- A senior civil servant's cost to the government is much higher than the benefits received by the official.
- Allowances pervade the pay structure of the civil servants. Instead of indexing salaries and revamping the pay structure, the pay and pension committees' approach has been to provide arbitrary allowances. The system causes disparities when the more powerful cadres get more allowances and perks than the others. The provision of perks instead of cash has long been recognised to distort employees' incentives, such as the civil servants.

Unequal opportunities for career progression

- Not all service groups have equal opportunities for career progression. Each civil service cadre is organised vertically into a pyramid, but on top of each, we usually see an officer from only two cadres – the Public Administrative Services (PAS) and the Secretariat Group. The technical and professional staff are restricted both vertically and horizontally.

Pay and performance disconnect

- A major problem identified in the pay structure is the disconnect between pay and performance. The promotion and placement policy are not aimed at rewarding those who perform well and capable of taking higher responsibilities. Wage overlaps accentuate this disconnect when people in a lower grade get the same pay as those above.

Highest grade versus lowest grade salary

- In Pakistan's public sector, the ratio of the highest grade's salary to the lowest grade's salary (wage compression ratio) is under 10 if we only consider the average basic pay for the lowest and the highest BPS grades. The ratio increases to 17 when we consider all the monetary remunerations and 24 if we include all the non-monetary benefits. The higher remuneration of the upper grades is, thus, camouflaged by the compressed basic pay scales.

Valuing in-kind benefits

- Valuing the in-kind benefits received by the civil servants show:
 - Public-owned houses have a minimum market value of Rs 1.45 trillion and can generate an annual rental income of Rs 10.75 billion.
 - Monetisation notwithstanding, the cost of using an official car exceeds the basic salary of employees in BPS 20-22.
 - Job security in civil service has an added value of 0.5% to 17% on the compensation.
 - Apart from the medical allowance, which is a part of the salary slip, approximately Rs 2.3 billion monthly are incurred on civil servants' medical bills.

Total compensation

- Estimates of the total compensation of the civil servants, including monetary wage plus allowances, and quantified in-kind and intangible rewards, show that civil servants are not underpaid since a large chunk is not declared on the salary slip.

- As we go up the grade ladder, the proportion of cash allowances in total pay increases, and so does the proportion of quantified perks in the total cost.
- Government housing facility, given as an in-kind benefit, is never accounted for in the total cost of the civil servants – something that has a huge opportunity cost to the government.
- Perks and different allowances add to the total cost of civil servants substantially, and if monetised, would break the myth of low salaries in the public sector.

Pakistan's Public Sector Pension System

- The public sector pension system in Pakistan is rather generous. Although the pension is calculated as 70% of the last drawn basic salary at the time of retirement, if the raises granted by successive governments are included, it raises the pension to 122%-140% of their last drawn basic salary in some cases.
- On average, a person who serves in government for 25 years or more draws a pension until they turn 80. After their death, at least 13 heirs can claim family pension, including wife, unmarried daughter, underage children, widowed daughter, divorced daughter, disabled child, and other dependents.
- Pakistan's public sector pension system is also generous when compared to the pensions in the private sector. In the private sector, only those employees receive after-retirement benefits who work in the formal sector. The informal sector employees do not have any such system for their security in old age. Moreover, the blue-collar workers in the formal private sector only get meagre social security payments after retirement.

Public Sector versus Private Sector Compensation

- Civil servants are not at a salary disadvantage when compared to their counterparts in the private sector. In the absence of private-sector salaries' data, the Labour Force Survey 2017-18 dataset and the pay structure used for the local hiring by the UN is used for comparison. The UN local recruitments are done on a market survey of the salaries. Thus, it provides a perfect yardstick to judge public sector pays.
 - The total cost of a grade 21 officer is estimated to be 12% higher than an equivalent locally hired UN officer.
 - Non-monetary benefits are much higher in the public sector than in the private sector, with 80% of the private sector workers having no non-monetary benefits. In contrast, almost 80% of public sector employees have more than three non-salary benefits.
 - Except for an MPhil/PhD degree, there is a wage premium in the public sector at all education levels.
 - Perks are an inefficient form of compensation as they are not linked to performance and efficiency.
- The World Bureaucracy Indicators of the World Bank estimates that the public sector wages in Pakistan are 53% higher when compared to the private-sector wages.

Lessons from International Evidence

- A look into some of the successful civil service reform initiatives in the region, including those in Singapore, Malaysia, and Korea, tells us that to make the service efficient, we should:
 - Monetise as many perks and benefits as possible.
 - Link total compensation with performance.
 - Reduce the number of grades and the number of employees.
 - Keep the option of lateral entry for experts open.
 - Give competitive salaries to civil servants in comparison to the private sector for quality intake.

The Future Course of Action

- The study suggests the following measures for any future civil service reform effort in Pakistan.
 - Competitive compensation*
 - The reform should begin by adequately compensating all civil servants so that their welfare is not compromised. Previous pay commissions' recommendations failed because they recommended only an increase in pay and allowances while sticking to the existing system.
 - The salaries of the civil servants must be on par with the comparable private-sector salaries. The annual adjustment in the civil servants' salaries must be based on an annual survey. The second component of the adjustment must be performance-based, with only those getting a raise who cross a mutually agreed-upon and predetermined efficiency bar.
 - Monetisation*
 - The monetisation of all the perks should be a priority as it would give not only a more accurate picture of the remunerations but also reduce the disparities that exist within the structure.
 - Government housing must be monetised. The monetisation of the housing facility can be started sequentially by grades within specified time limits, starting from grade 19-22 employees.
 - Government housing assets have a market value of approximately Rs 1.45 trillion. The government can receive this value after releasing the government housing assets in Islamabad to the private sector.
 - The monetisation of government housing has the potential to boost the construction industry. However, instead of horizontal expansion, the scheme should aim at vertical expansion whilst doing away with government-imposed limitations.
 - The investment can be made through public-private partnerships for commercial activities, social infrastructure (libraries, recreation, community spaces) and low-cost housing. By releasing the government land for market activities involving the private sector, substantial financial gains can be had.

The reform has the potential to increase the accommodation capacity of the land by more than ten times.

- The use of official cars by top-tier civil servants must be abolished, and the civil servants should be given cars on leasing arrangements involving banks. It would ensure that the officials will have a fully maintained car from the very first day of the contract. The advantage of this model is that the bank would do the monitoring of the asset.
- Based on an inventory, some of the freed-up official vehicles would be auctioned off, and some would be put in a shared pool. Officials can use these common pool vehicles a fixed number of times per month. After they have used up their vouchers, the private use of official vehicles would be charged per the existing government rules.

New Public Management

- The New Public Management (NPM) literature and international practices clearly show that the monetisation of benefits and perks makes the compensation system transparent. Since Pakistan also seems to be moving towards NPM, the monetisation of different perks must be on the reform agenda.

Health insurance system

- The private-sector labour market survey indicates that the private sector has successfully shifted to the health insurance system. If the government also shifts to the insurance system, it can save Rs 2.3 billion per month on medical expenses.

From defined benefit to the defined contribution pension system

- The pension system must be changed from the defined benefit system to the defined contribution system. The reform would make pension payouts to be sustainable in the long run.

Reduce the lower grade staff

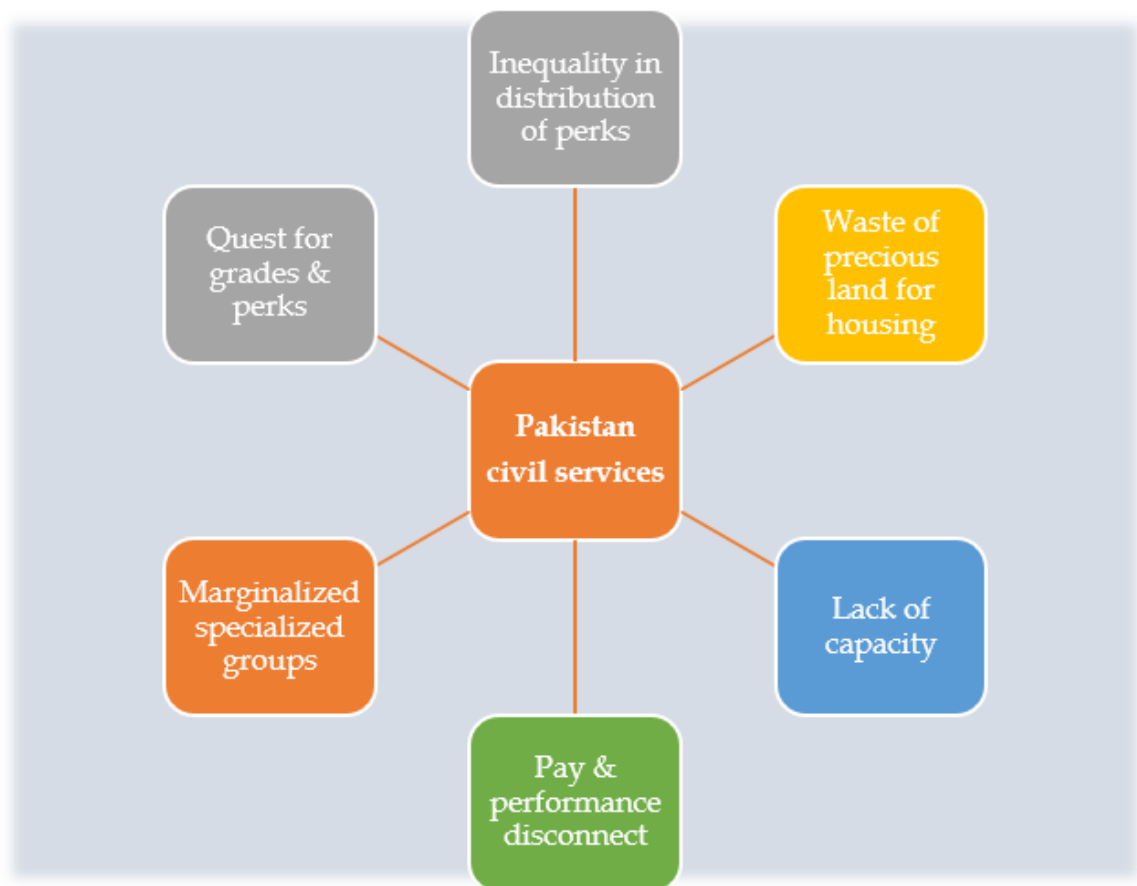
- There is a need to reduce the number of employees working in lower grades, who account for 85% of civil servants' total wage bill. Most of these jobs have become redundant. The existing sanctioned posts that are not occupied should be abolished, and there should not be further hiring in these grades. It will release sources to finance any revisions in salaries.

Reform or Perish

- It is time for serious reforms, or else we would not be able to cope with the contemporary requirements for governance and few years down the lane, the bureaucratic apparatus would be gearing faster towards dysfunctionality.

The civil servants should be paid well, in fact, very well-paid, but the remunerations should be more transparent.

Increased cash payment in the pay-pocket, instead of perks, allowances and other non-monetary benefits, would work for both the government and the civil servants.



PAY SCALE AND STRUCTURE

1 A Brief History

Pakistan's institutions, especially bureaucratic institutions, are heavily influenced by its colonial heritage. During the nineteenth and twentieth centuries, the British created powerful and highly centralised bureaucratic institutions, administered by the famed Indian Civil Service (ICS), to rule the empire. After the partition, continuity and a ready-made post-colonial state made the transition to an independent state in India easy (Jalal, 1995). On the other hand, Pakistan had a small share of colonial administrative resources and structure than India. Moreover, the British-built strong governance institutions were tailored to the needs of an extractive empire, and their suitability to the needs of the independent state has been questioned (see Alavi, 1972 and Tharoor, 2016). Furthermore, to make matters worse, due to internal splits in the ruling party, "party careers increasingly depended on bureaucratic patronage rather than organisational promotion" (Waseem, 1989, quoted in Husain, 2018). The instability of the political atmosphere after Liaqat Ali Khan strengthened the bureaucrats' hold on all the facets of running the state.

The Indian Civil Service (ICS), which was created in 1886, had two distinct cadres. The first was the *covenanted cadre*, which was the formally contracted regular service, led mainly by the English. The second cadre involved the Provincial Services, in which mostly *uncovenanted* Indians were employed. This system was made to ensure that the administrative leadership was institutionally disconnected from the indigenous population and served the interests of the Crown. After independence, ICS was renamed the Civil Services of Pakistan (CSP). Since then, more than 30 reform initiatives have been undertaken to improve Pakistan's civil service. Some of these reforms brought about structural changes, while others introduced only cosmetic changes. Despite going through different incarnations, the civil service continues to influence the governance institutions of Pakistan significantly. As noted by Husain (2018), "changes in nomenclature and designations were also periodically introduced, and the up-gradation of a post from one grade to another has become a constant feature continuing to date, but the spirit behind the original rigid class structure has remained intact" (p. 214).

Various reform efforts over various decades can be summarised as under:

The 1950s

Nine commissions were constituted to reform the civil service during the 1950s. In this period, reform initiatives focused on purging the civil services to create new civil service pools.

- The multiple layers in the secretariat hierarchy were collapsed into one Section Officer system.

- An economic pool was created to fill senior positions in the ministries. The pool, however, has never taken root.
- The first phase of Pakistan's governance history, i.e. from 1947 to the 1950s, can be characterised as one of bureaucratic dominance (Husain, 2018).

The 1960s

- A network of new training institutions was established, including Administrative Staff College in Lahore and three national institutes of public administration in Lahore, Karachi, and Dhaka. Civil awards were introduced to recognise excellence in public service delivery.
- The Chief Justice A. R. Cornelius Commission recommended an entirely new seven-tier salary structure with three to four grades under each service group. It was suggested that the Pakistan Administrative Service (PAS) should replace CSP with admission open to technical services. However, this proposal was rejected, and only the revised pay scales were implemented.
- In March 1969, an ad hoc relief was sanctioned to all non-gazetted employees at 10%, 15%, and 20% of pay (Ashraf, 2007).

The 1970s

Major reforms initiatives were undertaken in 1973 that brought structural changes to the unified pay scales (UPS), giving it a new shape. The bureaucracy was combined into a hierarchical framework of 22 pay scales. The service cadres were unified with a uniform pay scale, recruitment, and training (Husain, 2018; p. 216). The Zia regime continued with the same structures and kept the changes introduced by the previous government. Although a civil service commission was formed, it left the 1973 reforms intact (Husain, 2018; p. 218).

Overall, during the decade, the structural changes to the civil service implemented were:

- Abolition of the service cadre.
- Replacement of the functional placement by "occupational groups".
- Adjustment of four classes and some 622 pay scales into 22 UPS in both federal and provincial employees. Any major addition, subtraction, or alteration to the unified scales was banned.
- Selection grades, special pay, and technical pays were also abolished.
- The formulae for determining pay scales for officers in BPS 16 to BPS 18 and BPS 19 to BPS 20 were amended.
- The "move-over" facility was introduced that allowed default entry into the next grade when the scale maximum was reached.
- Opportunities for vertical and horizontal mobility and advancement across the services were introduced.
- The grading of each post was to be determined by job analysis and performance evaluation.

The 1973's reform restructured the major pillars of the civil service. The three main results were:

1. A reduction in the number of pay scales.
2. Increased centralisation and national uniformity in the administration by adopting standardised national pay scales that brought all public service—civil, military, judicial, and others into a UPS across the country.
3. The simplification of the pay scales by scrapping some complicated rules and regulations.

The 2000s

The government in the early 2000s was again active in taking reform initiatives. During the 2000s, some structural changes were introduced.

- The Executive Magistracy and the office of the Deputy Commissioner were abolished, and their powers were transferred to district and sessions judges, district *nazims* (mayors elected by district councils), and the District Coordination Officers (DCO).
- Judges were given more powers, a separate pay scale, and better pensions for higher judiciary.
- Nazims were authorised to initiate annual performance reports of DCOs.
- For the first time, revenue collection was relegated to one of the several other local public services provided by the district administration.
- Sectoral line functions and responsibilities (most notably, health and education) were devolved from the central and provincial governments to the district governments.
- During the decade, a National Commission for Government Reforms (NCGR) was also formed. The Commission took a holistic view of the public service, covering recruitment, induction and post-induction, training, career path planning, performance, management training and development, compensation and benefits, discipline and code of ethics, and severance retirement and benefits.

Through most of this discussion on reform, it can be seen that there has been little effort in reforming the civil service compensation system. Commissions were set up to revise pay and allowances without addressing the structural issues. As shown below, incentive and payment systems are fragmented and dependent on arbitrary allowances, honoraria, and significant benefits in the form of un-costed, unaudited, and untaxed perquisites, which can include cars, official housing, servants, bills paid and even gifts of public land.

Interestingly, despite these several commissions, there has been no real analysis of civil servants' total cost, including not just the pay but all the monetary and non-monetary perks. Not surprisingly, these reform efforts have failed to improve the performance of the civil service. On the contrary, it may have set up a system for “perk-maximisation” and political quid pro quo for perks.

Box 1

Chronology of Commissions for the Civil Service

Commission	Chair
1948 Pakistan Pay Commission	Muhammad Munir CJP
1950 Pakistan Pay Commission	Muhammad Munir CJP
1951 House Committee	Ghulam Bhik Nairang
1952 Commissioned Paper	K. S. Jeffries
1953 Administrative Enquiry Committee	T.B. Creagh-Coen
1953 Improvement of Public Administration in Pakistan	Rowland Egger
1955 Council for Administration of West Pakistan	M.A. Gurmani
1955 The reorganisation of Pakistan Government for National Development	Bernard Gladieux
1958 Administrative Reorganization Committee	G. Ahmad
1959 Administrative Reorganization Committee	G. Ahmad
1960 Provincial Administrative Commission	Akhtar Husain
1961 Provincial Reorganization Committee	N.A. Faruqi
1962 Pay and Services Commission	A.R. Cornelius
1962 The reorganisation of the Functions and Structure of the Central Government	M. Shoaib
1969 The reorganisation of the Service Structure in Pakistan	D.K. Power
1973 Administrative Reforms	Establishment Division
1979 Civil Services Commission	S. Anwar-ul-Haq
1983 Pay Committee	A.G.N. Kazi
1991 Administrative Reforms Commission	Justice Dorab Patel
1996 National Commission to suggest measures to improve the efficiency of the Federal Government of Pakistan	Hamid Nasir Chattha
1997 A Framework for Civil Services Reforms in Pakistan	World Bank
1998 Committee on Downsizing of the Federal Government	Hafiz Pasha
1999 Commission on Administrative Restructuring	Fakhar Imam
2001 Restructuring and Rightsizing of the Federal Ministries	Shahid Amjad Chaudhry
2001 Pay and Pension Committee	Moeen Afzal
2002 Explaining the vision, concept, and functioning of local government	National Reconstruction Bureau
2006 Commonwealth Secretariat Local	National Reconstruction Bureau
2008 National Commission for Government Reforms	Ishrat Husain
2010 Pay and Pension Commission	
2015 Governance Forum Planning Commission	

2 Reform Efforts and Success

The civil service performance can be judged from the World Bank's regulatory quality index¹, on which Pakistan's score is consistently low. In 2018, Pakistan's score on the index was -0.64, which is lower than the South Asian median score. Other indicators, such as the government effectiveness index, also tell a similar story.

¹Perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. The value of the index ranges from -2.5 to 2.5.

This brief review of reform efforts in Pakistan shows how incomplete and ineffective these efforts have been. Despite all the reform efforts, there is a consensus that the civil service continues to fail to perform its roles and responsibilities. A popular view is that civil service inefficiencies have increased while the civil service's earlier research and policymaking capacity has declined.

Most of the reform efforts in Pakistan merely tinkered with organisational restructuring, minor adjustment of pay scales, creation, merger, or disbanding of occupational groups, and changes in functions and powers. Even when some good recommendations were made, they were ignored. For instance, the A.R. Cornelius Commission recommended abolishing the sharp demarcation between federal and provincial civil service while including more specialists and professionals at all levels. These recommendations, which never got implemented, were to integrate the civil servants with their specialisation field, making a more efficient civil service. The reforms have failed to address critical issues of accountability, meritocracy, and competence.

The following points are worth mentioning:

- While the nomenclature has been changed, the old colonial configuration of *covenanted* and *uncovenanted* has been maintained. Based on one entrance exam, the Pakistan Administrative Service (formerly District Management Group (DMG)) and before that, the CSP continues to control all key positions.
- Most of the reforms of the early 2000s were reversed to maintain centralised administration.
- Technical and professional positions are referred to as *non-cadre* (*uncovenanted*) and by design relegated to non-critical decision-making and confined to lower segments of the UPS.
- Although reforms have mentioned performance management, they have made little progress toward measuring performance in various dimensions or new ways of rewarding it (Khawaja et al., 2019).

The bureaucracy, specifically the top layer of Central Superior Services is well entrenched and considered as a major force resisting any structural reform which may involve lowering its status, power or prestige. Any reform initiative which comes as a shock therapy that is not owned by the bureaucracy is either bound to fail or get modified and diffused (Jadoon and Jabeen, 2013).

3 The Evolution of Wages

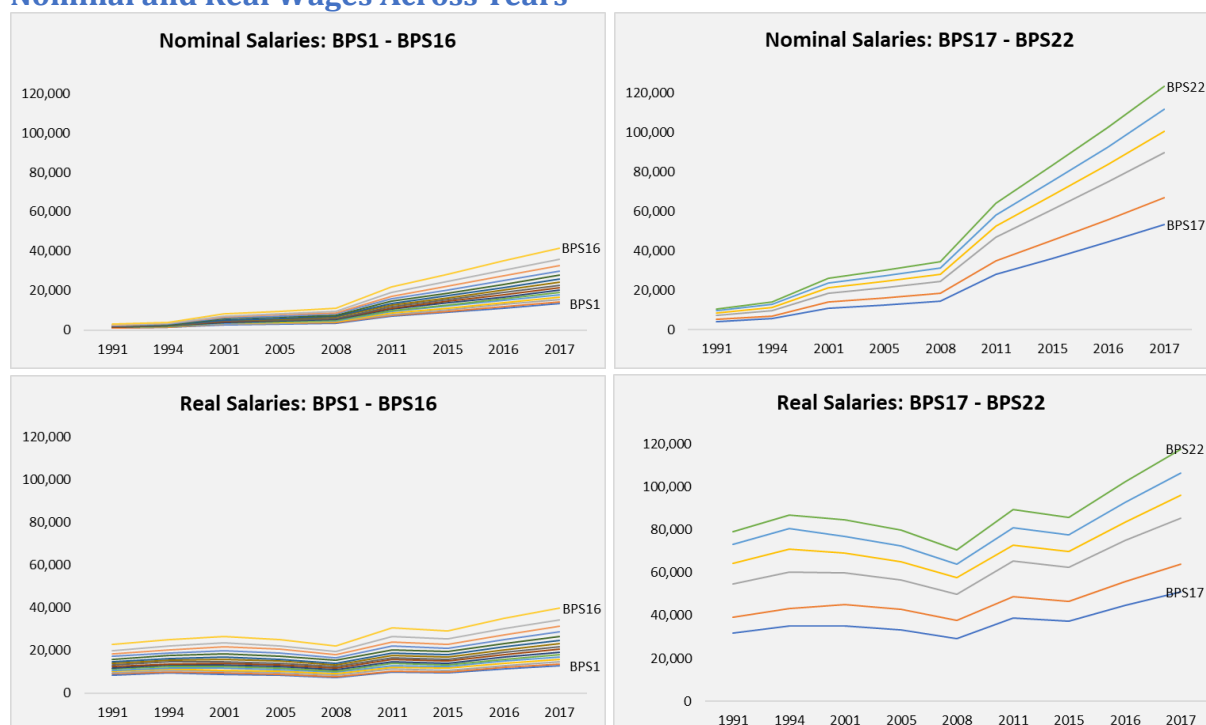
From 1991 to 2017, the civil servants' basic salaries increased by about 11%, while in real terms (in 2015-16 prices), the basic salaries increased by about 2% per annum. The evolution of salaries (Figure 1) shows that the nominal basic salaries increased marginally from 2001 to 2008, resulting in a decline in real basic salaries during the period. However, the basic pay increased rather sharply, both in nominal and real terms, after 2008. The top two panels of Figure 1 show nominal basic salaries for grades 1 to 16 and grades 17 to 22, respectively. The bottom two panels, on the other hand, show real basic salaries.

Figure 1 shows that the difference between real and nominal basic salaries is not significant for grades 1 to 16. On the other hand, for grades 17 and above, there is a significant difference between nominal and real basic pays. However, for grades 17 and above, the gap between nominal and real basic salaries narrowed starting in 2011. One implication that can be drawn from the evolution of basic wages is that the compression ratio (ratio of grade 22 basic pay to grade 1 basic pay) has hovered around 9 since 1991, which was 25 in the 1970s (Ashraf, 2007).

Based on the trends in the evolution of basic pay, nominal and real, the following conclusions can be drawn:

- A flatter trend in real basic pays shows that the salaries have not been indexed to inflation. Rather, the increases in basic pay have been arbitrary.
- The secular increases in basic salaries have not sought to decompress the basic salaries. Resultantly, monetary and in-kind benefits have proliferated over the years to reward the top tier civil servants (discussed in detail in the following chapters).
- The gap between the top tier and the lower-tier civil servants' basic salaries has remained constant.

Figure 1
Nominal and Real Wages Across Years



Source: Authors' calculations

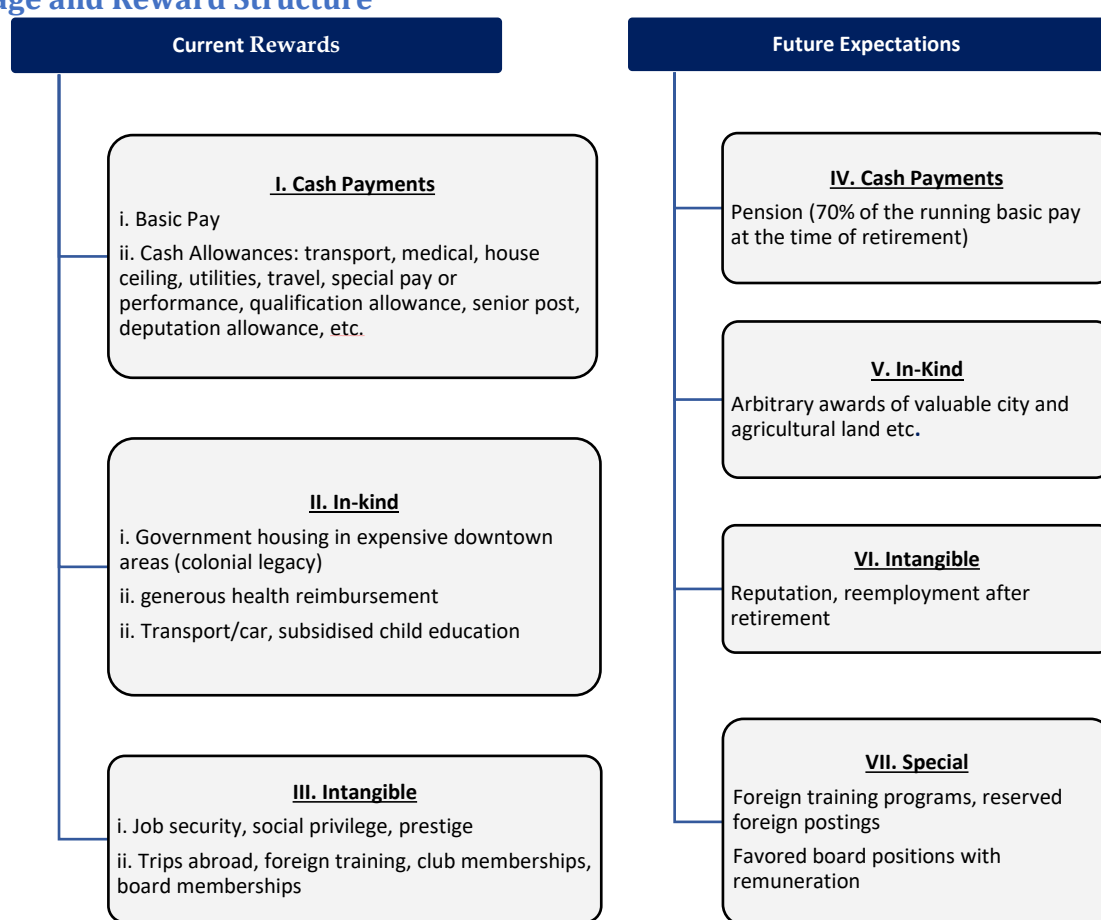
4 The Current Wage System

Figure 2 shows that the existing compensation package is a combination of current rewards and future expectations, along with various contractual and intangible rewards. With many of the allowances paid in-kind, the current compensation structure leaves the civil servants cash poor. The present study quantifies the value of the current rewards in the contract by valuing all tangible and intangible rewards. We find that this valuation shows:

- The total reward of a civil servant in the higher grades in some cases is several times higher than the base reward (cash salary) in the contract.
- A senior civil servant's cost to the government is much higher than the benefits received by the official.
- As in colonial times, the *covenanted* continue to be valued higher than the *uncovenanted* in terms of benefits conveyed and costs incurred.

The results of these estimations are discussed in Chapter 4.

Figure 2
Wage and Reward Structure



Source: Authors' illustration

However, the actual cost of a civil servant goes way beyond the contract and includes both contractual and non-contractual, current, and expected rewards and allowances (the sum of all the cells in Figure 2). This total reward reflects the actual cost of a civil servant to the government. However, the earner may not receive either the full amount or value it as much as the government spends.

5 Issues with the Unified Pay Scale

The major reforms in 1973 structured all services, including civil, military, judicial, provincial, local, technical, and education, into a hierarchal UPS. Although the UPS was introduced to

create a fair and transparent payment method, there were anomalies in the UPS. Autonomous and semi-autonomous bodies were excluded from the scheme and given powers to determine their pay scales per their charters. Despite this, the autonomous agencies were to report to the centralised civil servants in the *covenanted* group. This paved the way for different compensation packages for their employees, incompatible with the spirit of the UPS.

Instead of addressing built-in defects of the scheme, the government started tampering with the scheme. For example, five advance increments were sanctioned for engineers, doctors, and lecturers. Similarly, dearness allowances were sanctioned in 1973, 1974, and 1975 to supplement public employees' income. Sanctioning successive allowances made the first 7 to 8 scale redundant.

Incentive Theory

Behaviour is motivated by a desire for reinforcement or incentives. At workplace, people are pulled toward behaviours that lead to rewards and pushed away from actions that might lead to negative consequences.

Steps that were later taken to redress the problems created by the 1973 restructuring further accentuated the problems. For instance, after 1972, many pay commissions or committees authorised selection grades, and special pays. Technical pays were also revived. Even though the number of scales remained intact, nominal rates of scale increased substantially. Moreover, management grades were introduced through an executive order. Many existing and newly established organisations allowed special pay packages and perquisites equalling almost 100% of the salaries without any pay commission or committee's approval.

Public employees, with reference to their incomes, can be divided into the following groups:

- Civil servants receiving pay and allowances at normal rates.
- Civil servants receiving pay and allowance on special/enhanced rates.
- Civil servants having special perquisites.
- Civil servants deployed on projects.
- Civil servants working in Management/MP Grades.
- Civil servants working in public sector corporations, regulatory bodies, and other autonomous bodies.
- Government servants working public sector entities on scales other than the national pay scales.

As a result, civil servants' compensation has become increasingly intangible, unrecorded, and complex. As we observe in Figure 2, the total compensation package of a civil servant is a combination of current rewards and future expectations.

Allowances Pervade

Apart from wages, the government provides several allowances and rewards to federal civil servants to achieve the desired outcomes. According to the information provided by the Auditor General of Pakistan Revenues (AGPR), in some instances, a single government entity gets payments under 140 different accounting heads (Table 1).

Table 1**Ministries by the Number of Account Heads under which Payments are Made**

Ministry/Department/Division	Number of Heads
Cabinet Secretariat	140
Interior	130
Law & Justice	109
Finance, Revenue, & Economic Affairs	108
Federal & Professional Education	108
National Health Services	101
Communications	95
Information & Broadcasting	90
Planning, Development, & Special Initiatives	84
Narcotics Control	80
National Assembly & the Senate	80
Overseas Pakistanis & Human Resource Development	77
Postal Services	77
Defence	74
Human Rights	74
Religious Affairs & Interfaith Harmony	71
Climate Change	71
Capital Administration & Development	71
National Food Security & Research	70
Commerce & Textile	67
Industries & Production	67
Pakistan Bureau of Statistics	65
Information Technology & Telecom	63
Interprovincial Coordination	63
Kashmir Affairs & Gilgit-Baltistan	59
Science & Technology	54
States & Frontier Region	54
Housing & Works	53
Wafaqi Mohtasib Secretariat	52
Defence Production	50
Water Resources	50
Parliamentary Affairs	48
Privatisation	48
Federal Tax Ombudsman Secretariat	40
Maritime Affairs	40

Source: Based on the data obtained from the AGPR (2018)

Instead of indexing salaries and developing a proper payment system, the pay and pension committees' approach has been to provide arbitrary allowances. These allowances, such as housing and conveyance allowances, are often unrelated to the market conditions. The system causes further disparities when the more powerful service groups can get more plush housing than their counterparts in the occupational groups.

Arbitrary Increments

The compensation system is driven purely by narrow accounting and budgeting perspective. The compensation policy looks only at the cash component of compensation which is reflected in the budget. Other costs are excluded.

With inflation, arbitrary increments are given across the board, ignoring performance and relative skill factors. Calculating affordable increments from static salary budget lines ignores erosion in real terms over the decades. Hence, dozens of such scale revisions have proved ineffectual.

Box 2

Expenditures on Civil Servants

(Budget 2018-19)

Number of Employees	581,755
Salary Expenditures (Rs Billion)	242
Non-salary Expenditure (Rs Billion)	226
Pension Expenditure (Rs Billion)	82

Box 3

Problem with Perks

The provision of perks instead of cash has long been recognised to distort incentives of employees such as civil servants. Application of those principles to Pakistan would point to the following:

- Workers who wish to save cash cannot and are forced to utilise housing or cars, which they may not need.
- The cost to the government of providing the perks will always be higher than the valuation desired by the receiver as the latter can always reallocate the cash to save some money.
- The cost of administration of the perks makes it more costly for the government to provide the perk.
- Given that at the time of retirement, all perks are lost, and retirement is only based on cash salary, there is a huge loss of welfare at retirement. This affects civil servant behaviour and career choices severely.
- Given the expense of perks, they are always in short supply and need to be rationed. As is well-known, rationing means many inefficiencies, including perk-seeking behaviour, perk coalitions, and perks being used for political and other reasons.
- The gifting of public land in cities distorts incentives for managing land zoning and building regulations.
- The gifting of farmland contributes to policies favouring agriculture.

Different governments have never looked beyond the most direct financial costs when determining pay levels for their employees. **Box 2 shows that the non-salary payment and pension expenditure together are higher than the salary bill.** The ever-increasing pension (discussed in chapters 4 and 7, and Appendix), both in amount and proportion, is a source of alarm for the sustenance of the existing system.

6 Dissatisfaction and False Debate

Pakistan's civil servants routinely express dissatisfaction with the compensation they receive. The refrain is that they are underpaid compared to their counterparts in the private sector. Interestingly, despite the supposed low salaries, most are satisfied with their civil service job, but the complaints about the compensation remain. As a result, most of the reform efforts have dealt with the pay and pension of the civil servants. The more important aspects of the reform, such as decentralisation, professionalisation, and autonomisation, have been put on the back burner.

The civil servants and their lobbies want an increase in the cash salary keeping the perks intact, possibly even increasing them. Recently judges increased their salaries and pensions by large amounts while keeping all perks intact. Facts about civil service remunerations, however, tell us a different story. The civil servants, especially in grades 20-22, enjoy wage premiums over the private sector's wages (discussed in Chapter 4). Along with the basic pay, they enjoy perks, both in cash and in-kind (see Figure 2). Perhaps, for this reason, most civil servants continue to favour seniority-based promotions and reject attempts to monetise in-kind perks (Haque & Din, 2006) despite claiming to support meritocracy and monetisation (Haque & Khawaja, 2007).

Creating this false debate is for the benefit of the stakeholders. When perks constitute a significant part of the compensation package, gaming the reform effort and protecting the perks/rent-seeking game becomes a priority for the officers (Haque & Din, 2006). That explains why, despite all the complaints about low wages, most civil servants prefer to remain in the civil service.

FRAGMENTED STRUCTURE AND CAREER PROGRESSION

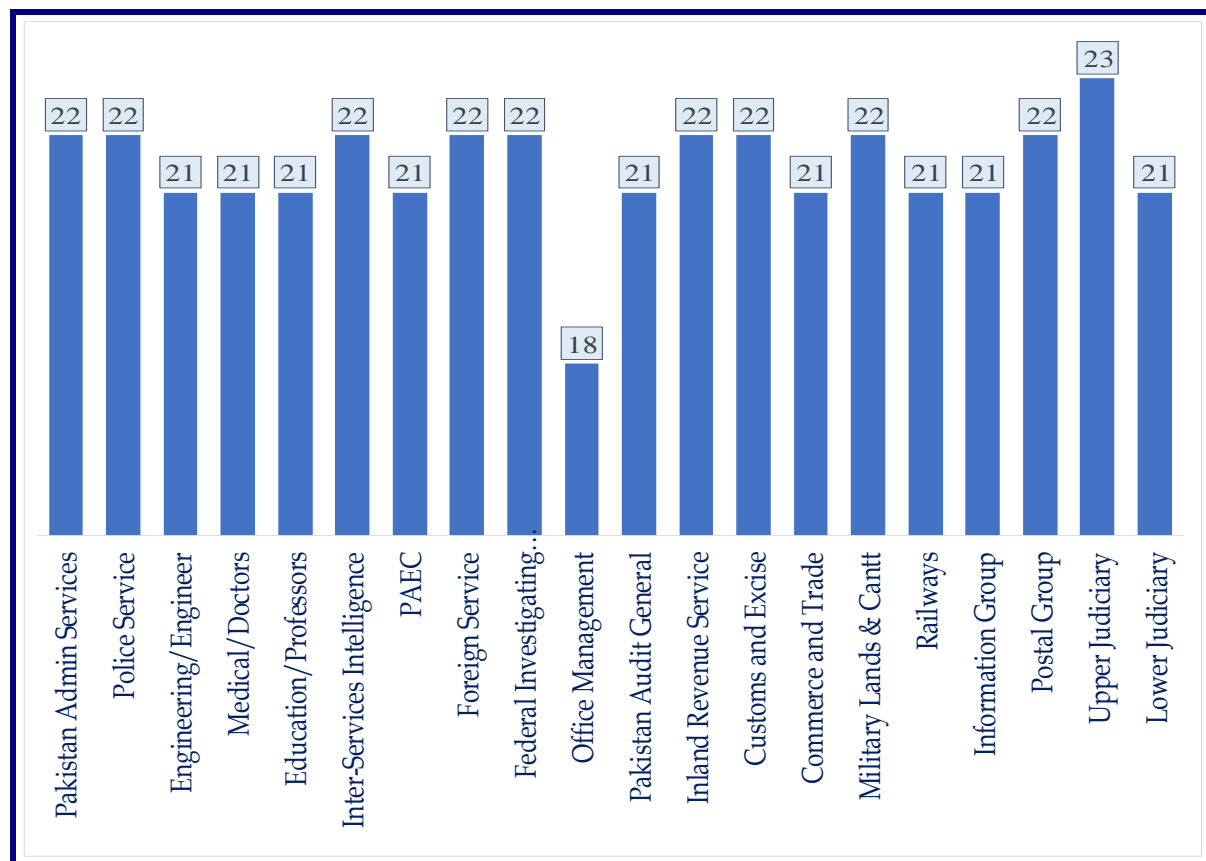
1 Career Progression

In principle, any civil servant can progress to BPS 22. However, in reality, the employees of some service groups/cadres do not progress to the highest grade and retire in lower grades. Figure 3 presents the maximum grade to which each service cadre can progress. With a few exceptions, we can see that most can go up to grade 22, but a little more analysis shows that it does not happen in reality.

The technical judgement of mature and well-qualified technical personnel was generally subjected to modification by junior secretariat officers of very limited maturity and experience (Professor Paul Beckett, quoted in Husain, 2018).

Figure 3

Maximum Grade that Can be Achieved in Each Cadre

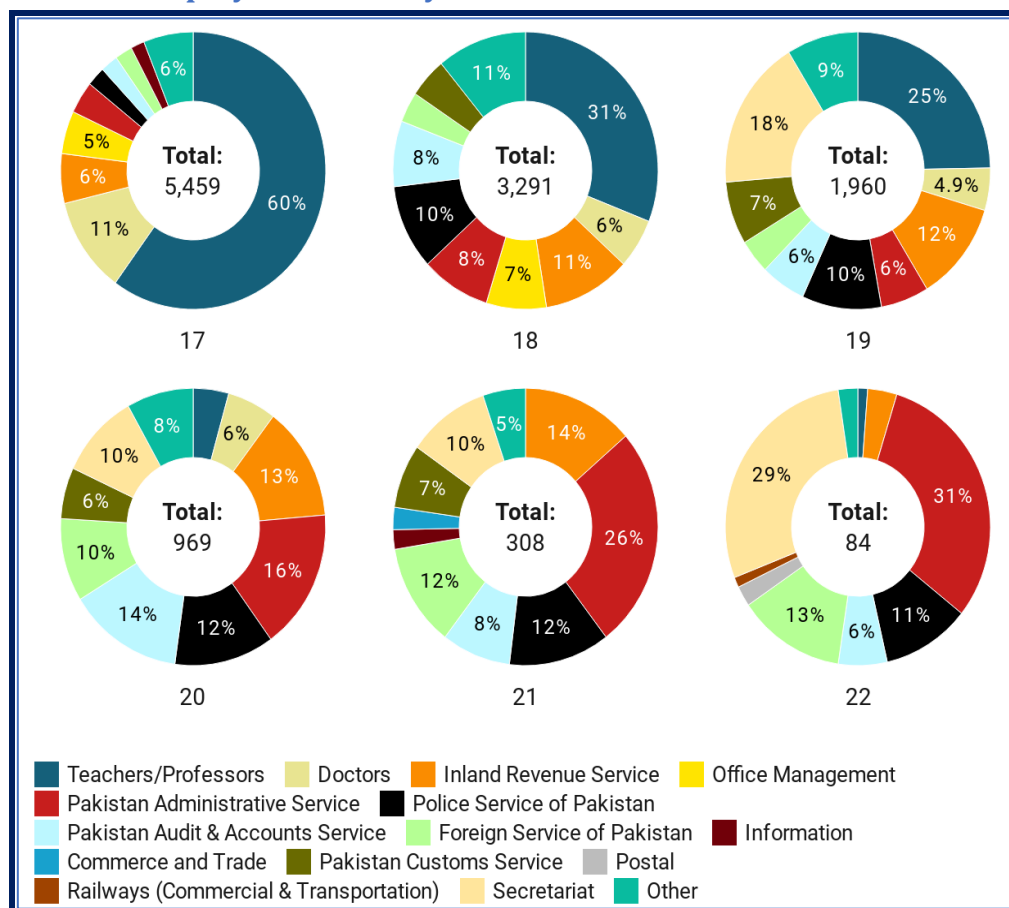


Source: Calculations based on the Established Division Annual Report 2019

Each civil service cadre is organised vertically into a pyramid. However, on top of each, we usually see an officer from only two cadres – PAS, formerly known as the District Management Group (DMG), and the Secretariat Group. Figure 4 presents the distribution of employees in BPS by grades and cadres. We can see that the PAS and the Secretariat group

hold most of the grade 21 and 22 positions, followed by the Foreign Service Group. In contrast, the technical and professional staff are restricted both vertically and horizontally. Composed of engineers, doctors, professors, economists, and scientists, the technical and professional staff's progress generally halts at BPS 20, with very few exceptions reaching grades 21 and 22 and a majority retiring at grade 19.

Figure 4
Distribution of Employees in BPS by Grades and Cadres



Source: Calculations based on the Establishment Division Annual Report 2019

The lack of career progression for most cadres is visible in Figure 3, where many cadres, which have a heavy presence in the lower grades, are not found in the senior grades. If we take a closer look at the top two grades, i.e. BPS 21 and BPS 22 (see Figure 5), it becomes evident that some cadres dominate the upper tier of the civil service.

The role of specialists, i.e. engineers, doctors, lawyers, accountants, agricultural experts, economists, scientists, and others, is a contentious issue that is hitherto unresolved.

Box 4

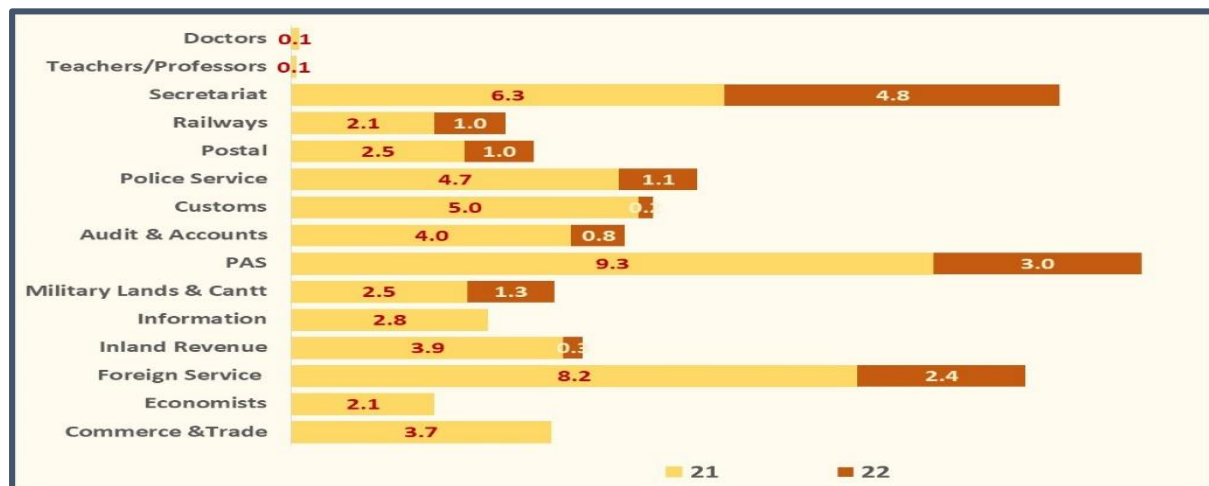
UPS and its Hierarchical Equivalence in MPS and SPS

BPS	MPS	SPS
BPS 17	-	SPS-8
BPS 18	-	SPS-9
BPS 19	-	SPS-10
BPS 20	MP-III	SPS-11
BPS 21	MP-II	SPS-12
BPS 22	MP-I	SPS-13
BPS Special	MP-Special	SPS-14/SSPS

The specialists feel like second class citizens in the government hierarchy. Career development opportunities for specialists are always limited, and they feel demoralised, demotivated, and lose interest in their work (Husain, 2018; p. 221).

Figure 5

The Proportion of Each Cadre in BPS 21 and 22 (%)



Source: Calculations are based on the Establishment Division Annual Report 2019

2 Fragmentation

The current UPS system is broken and fragmented, and the skills required for performing official activities are scarce. A broken pay structure is given as the primary reason for this lack of attraction for more capable people, so whenever and wherever needed, new scales are introduced. The BPS system's grades 20 and above and 17 and above have their hierarchical equivalence in MPS and SPS, respectively, but the remunerations are very different (Box 4). For instance, BPS 21 is the same as MPS-II and SPS-12 in terms of job requirements, but the latter two get paid much more than a BPS 21 officer.

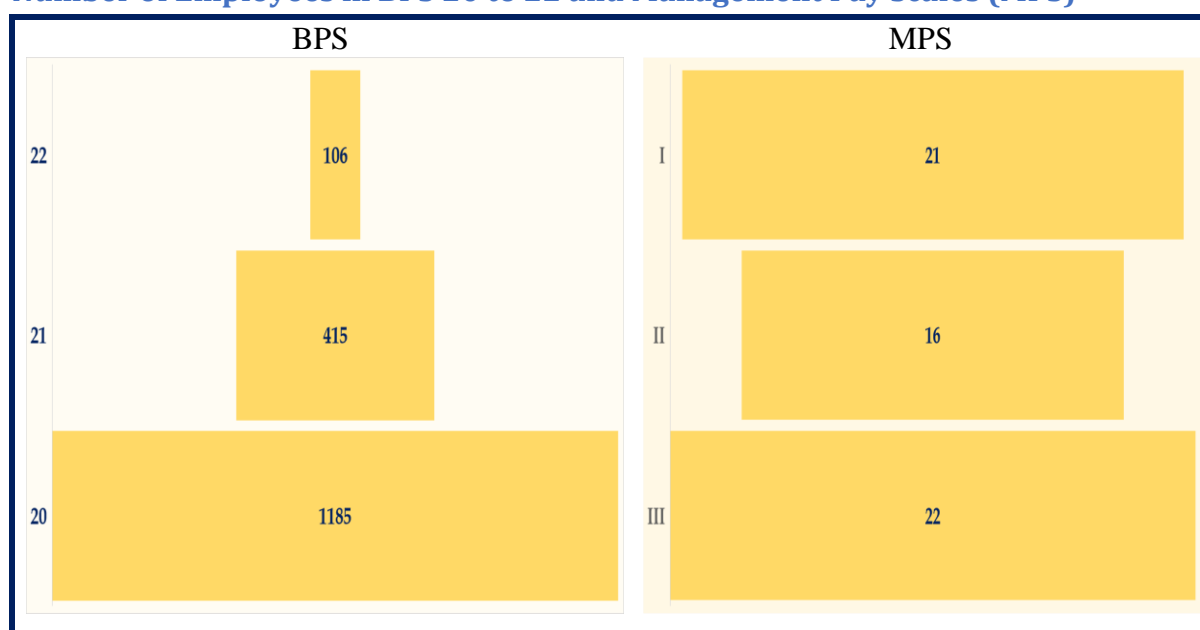
The MPS are only for higher-end appointments, while the SPS goes across the entire range. Instead of the 23 grades in the BPS, the SPS has 14 grades with a higher income than the BPS.

The BPS and MPS do not just differ in the pay packages, but since the motive behind their hiring is different, their structures also differ. Figure 6 presents the number of employees hired in the upper three grades of the BPS structure (BPS 20-22) and those in the MPS. We can see that the numbers in the BPS structure form a pyramid in the hierarchy, whereas in the MPS, the numbers show no trend.

In terms of compensation, the MPS offer special salary packages to the officers working in public departments on a contract basis or special assignments. Officers in each of these scales are entitled to medical and hospitalisation facilities for self, spouse, and children. They are also entitled to gratuity in the form of one month's basic pay for each completed year of service. Since every component is not monetised, the cash salary is again considered low and equivalent to the upper tiers of the BPS. The MPS and SPS are appointed for a fixed term and are extended based on performance evaluations by the BPS grade 22 secretaries, thus making them subject to approval by the *covenanted*.

Figure 6

Number of Employees in BPS 20 to 22 and Management Pay Scales (MPS)



Source: Calculations are based on the Establishment Division Annual Report 2019

Box 5

Special Pay Scales (SPS)

Special Pay Scales (SPS) aim at offering a special salary package and perquisites to the officers working in several research and development organisations, especially those working in strategic organisations like PAEC, PIEAS, KRL, NDC, SPD SUPARCO, NESCOM etc.

- Special Pay Scales (SPS) has fourteen tiers, ranging from SPS-1 to SPS-14.
- The scales of the Gazetted Officers range from SPS-8 to SPS-14.
- Officers in each of these scales are entitled to medical and hospitalisation facilities for self, spouse, and children at government and government recognised institutes in Pakistan.
- Officers in each of these scales are entitled to after-retirement benefits per rules of the Federal Government of Pakistan.
- The difference between the SPS and BPS ranges from around 20% to 40% for equivalent grades.

Also, there are 15 judges and the chief justice of the Supreme Court of Pakistan (SCP), along with around 130 judges in the provincial high courts, getting special pay packages. Their remunerations range from Rs 1 million to Rs 1.17 million. In addition to the monetary salary, numerous perks and privileges are also offered to the higher judiciary in Pakistan, such as cars, contingent staff, and unlimited utilities. Table 2 gives a summary of the salary structure of the higher judiciary in Pakistan.

Table 2**Salary Structure of Higher Judiciary in Pakistan at a Glance**

Category	Salary (Rs)	Special Judicial Allowance (Rs)	Hiring Allowance if No Official Accommodation ¹ . (Rs)	Other Benefits
Chief Justice (SCP)	846,549	370,597	68,000	Medical allowance (15%) + two chauffer driven cars + contingent staff (Rs 25,000) + garden charges (Rs 25,000) + unlimited utility bills + generator
SC Judges	799,699	370,597	65,000	Medical allowance (15%) + two chauffer driven cars + contingent staff (Rs 25,000) + garden charges (Rs 25,000) + unlimited utility bills + generator
Chief Justice (HC)	784,608	296,477	65,000	Medical allowance (15%) + one chauffer driven car + contingent staff (Rs 25,000) + garden charges (Rs 25,000) + unlimited utility bills + generator
HC Judges	754,432	296,477	65,000	Medical allowance (15%) + one chauffer driven car + contingent staff (Rs 25,000) + garden charges (Rs 25,000) + unlimited utility bills + generator

Source: Lahore High Court. Accessed at: <https://www.lhc.gov.pk/system/files/Pay-HCI-J.pdf>

Note: It is rare that a judge is not provided with accommodation and has to rely on this paltry house allowance.

3 Perks Adding to Inequalities

Perks and privileges create significant inequalities across different civil service grades and cadres. For instance, in the BPS, the perks and privileges of the officers from grade 17 to grade 19 are significantly lower compared to those in the upper grades. Not just that, the perks and privileges available to different cadres within the BPS and in the same grade could be different.

Perks are considered a symbol of power and status. Monetary pay can serve all the purposes that the perks provide, except perhaps the status and power.

In addition to perks, there are special salary packages in some departments, which are significantly higher than those of other government servants. For instance, the salaries of the judiciary and FBR employees are higher than other departments. Moreover, some departments offer special annual bonuses to their employees, such as the ministries of Finance, Planning, Development, and Special Initiatives, the Secretariat, and the FBR. The salaries and allowances for the staff of these departments are 50%-300% higher than the employees of other departments. **The point to note is that these differences are not based on some measure of performance but merely “across the board” in powerful ministries.**

Furthermore, certain federal government departments, over the years, have been increasing the salaries and perks and privileges of their employees, while others (scientists, professionals, university teachers) continue to remain neglected with only nominal pay increases. Some perks such as housing, board memberships, and foreign postings go with certain designated ministries, which are reserved for the core civil service, especially the PAS, accentuating the inequalities inherent in the system.

4 Pay, Incentives, and Performance

The motivation, or lack thereof, for upgrading skills or career advancement is one of the main weaknesses of the current civil service system that limits the efficiency of public service delivery. Once the officers join the civil service, there is no compulsion to upgrade their skills or knowledge. **The promotion and placement policy are not aimed at rewarding those who perform well and capable of taking higher responsibilities.** According to the NCGR Report (2008), a fair and equitable compensation system cannot work well unless accompanied by an objective performance appraisal system.

The performance of bureaucracy is critical to achieving economic growth, but there is a growing inability to objectively evaluate the bureaucracy’s performance in Pakistan. The

Box 6

Fragmented Salary Structure

Following are examples of entities that are a source of complexity and unease among federal government employees who get salaries at normal BPS rates.

Atomic Energy Commission

- Special pay scales (SPS; SPS-1 to SPS-14) and additional allowances include:
- Scientific Technical Allowance: 30% of initial basic
- Additional Scientific Technical Allowance: 20% of initial basic
- National Command Authority (NCA) Allowance: 30% of running basic
- Personal Staff Subsidy (SPS-8 to SPS-14)
- PhD Allowance
- Personal Qualification Allowance: 30% of Initial Basic

National School of Public Policy (NSPP)

- NSPP Allowance: 100% of basic pay for faculty and 20% of basic pay for the rest of the staff

National Accountability Bureau (NAB)

- Monthly Investigation Allowance: 60% of running basic
- Fixed 20 daily allowances (DA) per month.

present Pakistani system fails in establishing objective criteria for assessment but emphasises aspects that are completely unrelated to bureaucratic performance. The present system has been established not to optimise bureaucratic performance but rather to sustain the present system of patronage and power. There is a significant disconnect between the present performance evaluation system and the actual performance of civil servants. This, in turn, has led to significantly negative perceptions of the present performance evaluation system (Tanwir & Chaudhry, 2015).

Performance Assessment Reports

At present, Pakistan does not have a performance management system but only has a performance evaluation report, i.e. the Annual Confidential Report (ACR). The performance assessment reports, such as the ACR, do not play any role in promotion and placement. It is an inoperable document, which is collected at the end of the year but has no worth for reward and punishment to improve performance. Recent research focusing on Pakistan's civil service shows that one of the critical issues is the lack of objective performance assessing standards for the officers (Tanwir & Chaudhry, 2016). Regarding the inadequacy of the ACR in gauging performance, Cheema & Sayeed (2006) note that the ACR emphasises the officer's personal qualities rather than setting objective and measurable targets against which performance can be assessed. It appears that performance and ACR have little correlation.

ACR is subjective and must be replaced by a new performance evaluation policy. **The ACR system currently places 80% of the civil servants as outstanding even when the performance is average or satisfactory.**

- An increment should be earned by crossing some efficiency bar, which was in practice until 1981. However, after revisions in the scales in 1981, civil servants became eligible to receive regular annual increments. Increments are supposed to be incentives for improving productivity, but they are only linked to the years spent in service in the current form.
- This policy's drawback is that it raises inefficiency due to unhindered payment of increments to all irrespective of their work effort and put all workers, efficient and non-efficient, in the same category.

Wage Overlaps

Overlapping in salary means when the maximum of one scale is higher than the minimum of the next higher scale(s). One of the anomalies created by the 1973 reforms was wage overlap. Overlapping generates equal pay for different posts and grades, which is against the principle of wages according to responsibilities (Ashraf, 2007). Higher wage overlaps decrease the productivity and incentives to work hard to achieve the next grade. Research has indicated that the civil service salary should not overlap by more than two to the higher scales. **In Pakistan, grades 10 to 15 overlap three stages, while grades 3 to 10 overlap twice. Overlapping of salary weakens the linkage between work performance and pay and can become inequitable.**

Human Resources (HR) professional practice suggest that pay differentials are important for motivation and performance. HR professionals tend to focus on pay differentials between adjacent salary grades. One way of motivating civil servants is to arrange pay differentials so that every grade is more attractive financially than the one below. In that way, many workers will be motivated to improve their performance to make themselves eligible for promotion to a higher grade. Similarly, HR people want to prevent the worker's supervisor from growing discouraged because, in turn, they have ended up earning less than the worker that they supervise (McCourt & Horscroft, 2004).

Wage Compression

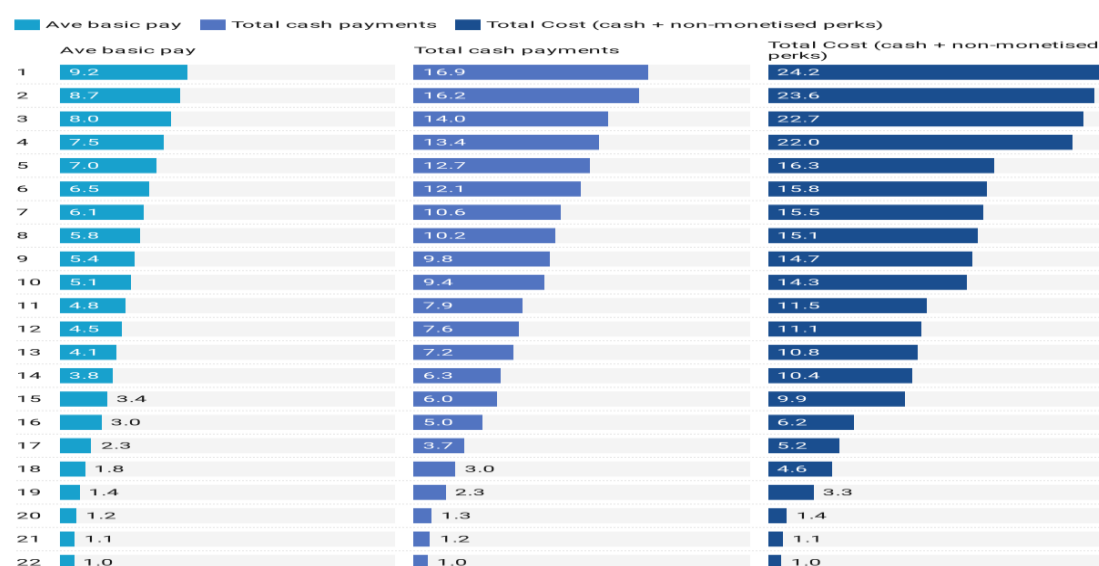
Wage compression refers to a situation when there is little difference in pay between employees regardless of differences in their level of abilities, knowledge, skills, or experience. Governments worldwide have used wage compression as a tool for civil service reform, some by increasing it and others by decreasing.

Wage compression is the differential between the wages of the highest and lowest paid employees.

One of the most cited examples of successful civil service reform—Singapore—involved a significant decompression of wages. Generally speaking, wage compression ratios should be in line with the market.

A cursory look gives an impression that governments in Pakistan have sought egalitarian goals and have consistently reduced the compression ratios over time for the public sector salaries. This has mainly been done by raising the minimum wage levels and keeping top salary levels constant or decreasing. Most studies (e.g., Bilquees, 2006 & Ashraf, 2007) show that the **wage compression ratio in Pakistan's public sector has declined from 25 in the 1970s to under 10 in more recent years. The issue with these estimations is that they**

Figure 7
Public Sector Wage Compression Ratio



Source: Authors' calculations using AGPR data for the year 2018.

Note: For monetised value assigned to perks see Table 11.

consider only the basic pay. The compression ratio goes up if we consider all the cash payments and not just the basic pay. A further increase is observed if we include the monetary value of all the available perks. Figure 7 presents these estimations with a monetised value of perks being on the conservative side, as not all perks are included. As Figure 7 shows, wage compression in Pakistan's public sector is under 10 if we only consider the average basic pay for the lowest and the highest BPS grades. The ratio increases to 17 when we consider all the monetary remunerations and 24 if we also include all the non-monetary benefits. **The higher grades are most definitely getting much more than the lower grades, but it is something that is camouflaged by the compressed basic pay scales.**

Wages in the public sector in Pakistan are determined mainly under a political rationale instead of productivity and efficiency. The decompressed BPS wages give a pro-lower strata image, while the perks to the upper grades help keep them satisfied.

Lengthy Pay scales

The number of stages/increments in each grade of the civil servants' salary structure illustrate how long they can stay in the same grade with an increasing monetary benefit before reaching the maximum stage of the scale. The distribution of the stages between the cadre and non-cadre scales is biased in favour of the higher grades. The higher-level grades require relatively fewer years to stay in the same grade.

Compared to the civil service rules applicable in the 1990s, the number of stages in 2001 was doubled from 15 to 30 for grades 1 to 16. It also increased from 12 to 20 stages for grades 17 to 19 and from 10 to 14 for grades 20 to 22 (Bilquees, 2006). The increase in the number of stages in each grade can be linked to the lack of promotion prospects to the next grade.

Lengthy pay scales are undesirable because they are both inefficient and uneconomic. The inefficiency arises due to the unhindered payment of increments to all irrespective of their work input, which removes incentives to perform. Similarly, lengthy pay scales are uneconomical because inefficient employees continue to receive increments until they reach the scale's maximum. Lengthy pay scales are indeed a very regressive feature of the civil service salary structure. An employee stuck in the same job for 15 to 30 years earning annual increments only, with no prospects of improvement in his living in sight, is bound to lose all motivation to work over the coming years (Bilquees, 2006).

VALUING BENEFITS

1 Uneven Distribution

The motivation for joining the civil service is not just money; power, prestige, and status are also important considerations in joining the service. However, not all groups are equal, and there is an uneven distribution of power and perks across the groups. For instance, the PAS, the secretariat, police, and foreign service groups have more influence and power and are more likely to monopolise the perks.

There are huge disparities between the take-home salaries, perks, and incentives of the employees working in the federal government, not just because of various scales (BPS, MPS, and SPS) but also because of intra-BPS status differentials. This uneven distribution of benefits has implications for the performance of civil servants. Despite being in the same pay structure, some departments' salaries and allowances are 50%-300% higher than others.

Owing to attractive packages, officers in other departments make every effort to switch cadres. Officers with strong connections manage to get deputed in attractive positions, but on the whole, it affects the performance of the staff working in the less-privileged services.

2 Valuing Houses

According to the Estate Office record, the federal government owns approximately 28,454 houses across Pakistan, out of which the majority (61.4%) are located in Islamabad (see Table 3). To have an insight into how these government-owned assets are managed, we take the case of Islamabad in this study. **It must be noted that the 28,454 houses that we use for analysis in this report do not present a complete picture. Many other federal government entities manage their official residences. The examples include Pakistan Railways, the Presidency, Customs, Police, and others.**

Following the colonial privilege of providing housing to public servants, now many agencies use development funds to build housing. Most notable are the various uniformed groups but not far behind are universities that have generous state land grants. However, the required information is available neither on the respective departments' websites nor is there any centralised place from which such information can be gleaned. **There is a need for**

Box 7

Disparity in Distribution

- Salaries and allowances in some departments are 50%-300% higher than in other departments.
- Judges receive 300% higher than similarly ranked employees in the Federal Secretariat.
- President Secretariat and Prime Minister Secretariat receive 115% higher salaries than the Federal Secretariat employees.
- Regulatory bodies employees receive 150% more pay.

the Federal Government to adopt asset accounting, which is available according to an AGPR official, but it is not done because the government entities do not share the data even with other government entities.

Table 3
Government Housing in Pakistan

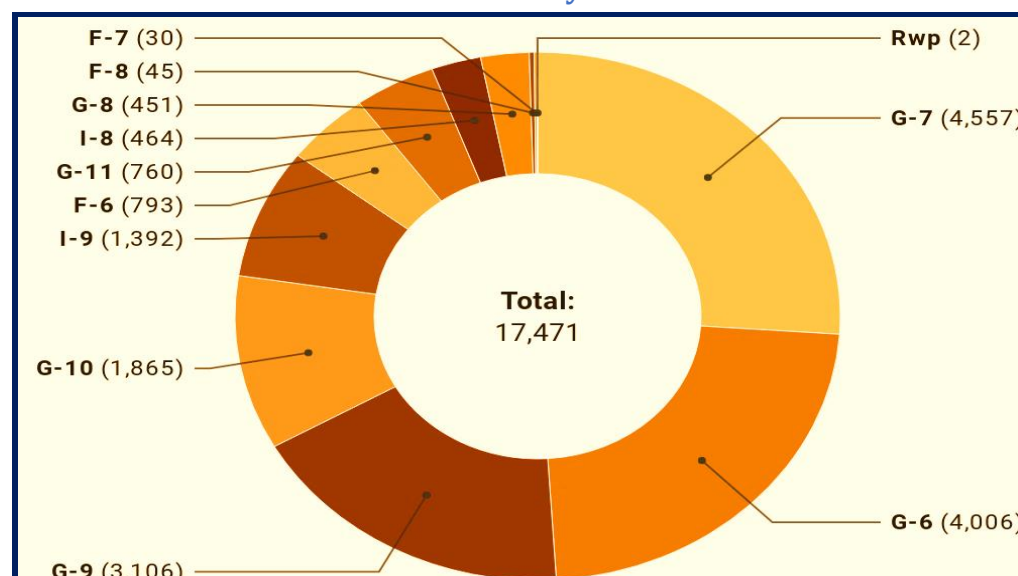
Station	Houses
Islamabad	17,471
Karachi	7,882
Lahore	1,934
Peshawar	669
Quetta	498
Grade-Wise Allocation (Islamabad)	
BPS 1 – BPS 10	12,821
BPS 11 – BPS 15	2,325
BPS 16 – BPS 18	1,723
BPS 19	416
BPS 20 – BPS 22	186

Source: Estate Office, Islamabad

Out of the 17,471 houses in Islamabad, 73.4% are allocated to grade 1 to 10 employees (see Table 3). The majority of these houses are old and dilapidated but located on probably the most valuable land in the country. As we go up the grade ladder, the number of allotted houses reduces, but their quality improves. The very stratified Islamabad housing structure can be gauged from the sectors in which these houses are located. In a Planning Commission study, the value of Islamabad housing, if marketed with appropriate commercial building permissions, was calculated to be over a trillion rupees.

Figure 8 gives us information on the sector-wise distribution of houses in Islamabad. This distribution is extremely important for imputing a monetary value.

Figure 8
Distribution of Houses in Islamabad by Sectors



Source: Estate Office, Islamabad

About 75% of the employees in the main ministries get houses, while less than 10% of the overall federal employees enjoy the facility. Based on the distribution (Table 3) and the location of the government houses (Figure 8), we used *zameen.com* and a telephonic survey to get the approximate rental values of these houses.

Box 8

Official Residence in Punjab

- Government residences spread over the land on 8,975 kanals worth more than Rs 403 billion in Punjab only.
- The size of these residences range between 10 to 104 kanals.
 - These residences' repair and renovation annually cost approximately 10.5 billion. On average, a 5 to 25 kanal official residence renovation and repair cost 0.5 to 1.5 million rupees a year.
 - Most of the residences have servants ranging between 10 to 52. Around 19,278 servants are serving at the official residences in Punjab who are being paid around 5.12 billion rupees as salaries and allowances.

Camp Offices:

- In their residences, chief secretaries, IGs, commissioners, and deputy commissioners have set up their camp offices as well. The expenses of these camp offices are usually either being paid by the relevant departments or by the department of welfare.
- The government official residences in other districts of Punjab:
 - Commissioner Sargodha: 104 kanals
 - SSP Sahiwal: 98 kanals
 - Deputy Commissioner Sahiwal: 95 kanals
 - Deputy Commissioner Faisalabad: 92 kanal
 - Deputy Commissioner Pakpattan: 64 kanals
 - DIG Gujranwala: 70 kanals
 - DIG Multan: 18 kanals
 - DIG Sargodha: 40 kanals
 - DIG Rawalpindi and Faisalabad: 20 kanals each
 - DIG Lahore: 15 kanals
 - SSP Mianwali: 70 kanals
 - SSP Rajanpur: 37 kanals
 - SSP Sheikhpura and Bahawalnagar: 32 kanals each
 - SSP Attock: 29 kanals
 - SSP Gujranwala: 25 kanals
 - SSP Rahim Yar Khan: 22 kanals
 - SSP Qasoor and Vihari: 20 kanals each
 - SSP of other districts are given the residences of sizes ranging between 5 to 15 kanals.

Dunya News, September 18, 2018.

Table 4 provides an estimated market rental value of government houses located in Islamabad, which comes to approximately Rs 11 billion per annum (an average rental value of 50,000 per month per individual house). This figure is not what the federal government pays but the opportunity cost of the benefit given to the chosen employees. It is worth re-

emphasising that even though the government is forgoing this income, it is not clear that the recipient actually gets the value Rs 50,000 of benefit on average.

If not occupied by government employees, these assets can be a source of generating income. To have an idea about the worth of these houses, we establish a framework to estimate their market value, in addition to their market rental value. Again, using the web portal *zameen.com*, we estimated the value of the government-owned houses. Since we have the location of the houses, we can at least have an approximate market value of the houses.

Table 4
Federal Government Houses Market Rental Value

Grades	Monetized Housing Facility (Rs)	Number of Federal Employees	Monetized Housing Cost (Rs Billion)	Current Expenditures (Rs Billion)	Additional Cost (Rs Billion)
1 to 4	10,000	156,805	1.57	3.60	2.79
5 to 10	16,000	307,159	4.91		
11 to 16	30,000	90,874	2.73		
17 to 19	110,000	25,212	2.77		
20	250,000	1,184	0.30	0.75	1.05
21	450,000	415	0.19		
22	500,000	106	0.05		
Monthly Expenditures on Housing Facility			12.52	6.29	6.23
Annual Expenditures on Housing Facility			150.21	75.48	74.71

Source: Author's calculation based on data from *zameen.com* and Estate Office, Islamabad

For the federal houses in Islamabad, our estimates show that the government's housing assets have a market value of approximately Rs 1.45 trillion (see Table 5). This is the residential value of the assets, and if used for commercial purposes, the value would be significantly higher.

Table 5
Valuing the Government-owned Houses

Category	Built Area (in sq. ft)	No of Houses	Estimates (Rs Billion)
I	3,000	184	71
II	2,500	622	205
III	1,500	2,808	618
IV	1,000	6,992	461
V	567	6,865	91
		17,471	1,446

Public-owned houses have a minimum market value of Rs 1.45 trillion and can generate an annual rental income of Rs 10.75 billion.

Source: Author's calculations.

Note: Values estimated using *zameen.com*, and should be considered close approximations.

3 Car Valuation

Cost of Using Official Car

Despite the transport monetisation policy, official cars are still being used for personal chores. In any case, in provinces and many government organisations, cars continue to be a part of the compensation package. To estimate the monthly value of the official cars used by BPS 20 to BPS 22, we determined the cost of running 1,000 cc, 1,300cc, and 1,800cc cars, fully indexed 300 litres of fuel (petrol) per month, complete maintenance, a driver, and discounted value of cars. Terms offered by commercial banks were used to estimate the cost of buying a car. The estimates are presented in Table 6.

Table 6
Valuing the Official Car

	Grade-20	Grade-21	Grade-22
Car Capacity	1,000 CC	1,300CC	1,600CC
Vehicle price*	1,800,000	2,500,000	3,300,000
Term months (5-years)	60	60	60
Mark-up	9%	9%	9%
Monthly Instalment (Rs)	37,087	51,510	67,993
Monthly insurance (Annual@2 %)	3,000	4,167	5,500
Monthly Maintenance (Annual@1%)	1,500	3,000	6,000
Monthly Payment (Rs)	41,587	58,676	79,493
Fuel Charges @300Ltr (Rs)	20,000	25,000	30,000
Driver Cost (Rs)	20,000	20,000	20,000
Monthly Instalment (Total) (Rs)	81,587	103,676	129,493
Current Monetized Cost (Rs)	65,960	77,430	95,910
Total Transport Expenses (Rs)	130,706	142,176	160,656
Number of Employees	1,150	386	96
Total Benefit (Rs Million)	56.5	14.9	3.0
Total Cost (Rs Million)		74.3	

Source: Authors' calculations. * On zero per cent down payment

Value of Government Owned Cars

Further, we estimate the notional total market value of government-owned cars. We do not have the data on the number of cars but using the information on the number of federal civil servants in grades 20-22, we assume the number of cars in use to be equal to the number of civil servants in grades 20-22. The data is only for vehicles in use of various ministries and divisions. It does not include numbers of official vehicles being used by officers of other various government entities, including autonomous bodies, such as the FBR, Board of Investment (BOI) and the Higher Education Commission (HEC), divisions, attached departments. The data is also not available for official vehicles being used in provinces. Again, there is a need to keep accounts of assets owned by the government.

Using the minimum market values of a 1,000 cc car to a 1,600 cc car, we estimate the approximate value of government cars (Table 7). The estimates suggest that the value of the

government cars used by federal civil servants amounts to Rs 1.5 billion. **This value can be released for more productive uses if the government stringently follows the monetisation rule.**

Table 7

Estimating the Value of Government Car Asset

Grades	Expected Number of Cars	Notional Estimates-I (Rs Million)	Notional Estimate-II (Rs Million)
20	829	828.8	828.8
21	291	435.75	435.75
22	106	212	265
Total Market Value of Cars (Rs Million)		1,476.55	1,529.55

Source: Authors' calculations based on information on grades and discussion with banks.

Note: We consider the car used by federal civil servants working in Islamabad.

4 Valuing Job Security

Job security enjoyed by government employees acts as an insurance policy against losing their job. This insurance costs the government because it restricts the government's ability to terminate poor performers and replace them with workers with a better skill set.

Measuring job security, however, requires extensive data both for public and private sector jobs. The required data includes probabilities of being laid off from work for the two sectors. It also needs to be distinguished whether the separation from the job was voluntary or involuntary (Biggs & Richwine, 2011). Given the absence of the required data for Pakistan, we have to rely on estimates available in the literature. According to Chassamboulli & Gomes (2019), the public sector job security premium in the US, UK, Spain, and France ranges between 1.5% and 7% for unskilled workers and between 0.5% and 4% for skilled workers. Some estimates suggest that the public sector job security premium is as high as 17% (Biggs & Richwine, 2011).

In Pakistan, federal government employees receive a significant salary and benefit premium over similar private-sector employees. This is where job security becomes particularly valuable because it protects not only against lost income during uncertainty but also against being forced into a lower-paying job after losing one. When this factor is accounted for, the value of job security is between 0.5% and 17% of the compensation.

Job security in civil service has an added value of 0.5% - 17% on the compensation.

Box 9

Invisible Payments

- Board memberships
- Club memberships at 20% of the actual fee
- Foreign trainings
- Honorariums
- Reduced rate of property tax for land/house
- Assisting staff

5 Other Benefits

There are many perks and benefits available to civil servants but are not considered a part of their pay package. Some of these are enlisted in Box 9. Since not all of these are available across grades, they also become a source of dissatisfaction within the civil service.

Foreign Training

It must be clarified that civil servants in BPS 18 and BPS 19 also get training. Furthermore, not all training is funded by the Government of Pakistan, and a substantial number of training courses are donor-funded. Moreover, as is the case with many other benefits, cash and in-kind, not all officers get the opportunity to train in premier institutes worldwide, but only the officers from influential service groups and departments get this opportunity.

In the case of Foreign Services, soon after the civil servants in BPS 17 graduate from the Foreign Service Academy, they are nominated for language courses in Arabic, Chinese, French, German, Italian, Japanese, Portuguese, Russian, and Spanish at premier language institutes in the countries where these languages are spoken.

It is not easy to calculate the monetary value of all foreign training, but just to have an approximate idea of how much cost is incurred on foreign training, we assume that the majority of grade 20 to 22 officers receive foreign training. The calculations are presented in Table 8.

Table 8
Foreign Training

BPS	No. of employees	Per training average cost (Rs million)	Cost of foreign training (Rs million)
20	1,184	0.5	148
21	415	0.5	207.5
22	106	0.5	53
Annual cost on one training per employee (Rs Million)			408

Source: Author's calculations

6 Medical Facility

The biggest benefit, however, that goes almost unnoticed is that of the medical facility. Roughly Rs 2.3 billion monthly medical bills are paid by the government. Other than medical allowances, hospital cost is not accounted for in the civil servants' total remuneration. We can see from Table 9 that the monthly medical cost of the civil servants goes up to Rs 3.4 billion. Medical allowance, being part of the monthly pay, is part of the monthly wages and allowances, but the free health care received at health services remains unrecognised.

Table 9**Cost of Civil Servants' Health Care**

Grades	No. of Employees	Grade-wise Medical Allowance (Per Month)	Medical Allowance (Rs Million)	Medical Cost (Rs Million)	Medical Insurance (Rs Million)
15	520,575	1,500	780.9	1,561.7	1,041.2
16	34,263	1,451.475	49.7	265.8	102.8
17	14,800	8,005.5	118.5	219.5	74.0
18	7,406	10,057.5	74.5	125.0	37.0
19	3,006	13,456.5	40.5	61.0	21.0
20	1,184	15,099	17.9	26.0	9.5
21	415	16,758	7.0	9.8	3.3
22	106	18,520.5	2.0	2.7	0.8
Monthly cost (Rs Billion)			1.1	2.3	1.2
Monthly Financial Benefit (Rs Billion)				3.4	

Source: Author's calculation based on data from AGPR

7 Paid Leave

A benefit of being a public sector employee, which goes essentially unnoticed or unacknowledged, is the number of paid leaves. The annual number of paid leaves is astonishingly high compared to the private sector in Pakistan and other countries (see Table 10 below). The public sector employees are entitled to 48 annual paid leaves. In addition to annual paid leaves, they are also allowed 20 casual leaves² per year. If public holidays (14 in 2021) are also included in annual paid and casual leaves, a public sector employee can remain off work for 82 days in a year. Assuming there are 260 working days (5-day work week times 52) in a year, excluding the weekends (Saturdays and Sundays), technically, the public sector employees can remain off work for almost a third of a year (31%).

Table 10**The Number of Paid Holidays Per Year in Selected Countries**

	Statutory Minimum [❖]	Civil service Maximum	Casual Leaves	Public Holidays	Total
Australia	20	40		8	68
Bangladesh	21	21	20	22	84
Belgium	20	33		10	63
Denmark	25	25		11	61
France	25	25		11	61
Germany	25	30		10-13	65-67
India	15-20	30	8	19	72-77
Pakistan	14	48	20	14	96
United Kindgdom	28	25-30	1.5*		54.5-59.5
United States	0	26		10	36

Source: Various websites. [❖]In the private sector. ^{*}In the United Kingdom, employees are given 1.5 days of paid leave, known as "privilege days," in addition to annual paid leave.

² As far as we know, the concept of casual leaves is peculiar to South Asia. In some Western countries, the concept of casual leave is different, where the casual leave is of limited duration, such as a couple of hours, during the work day.

Assuming all the countries in Table 10 have a 40-hour workweek, Pakistani public servants can remain off work for 3,280 hours per year. Compared to the public sector employees in other countries, Pakistani public servants can enjoy 1,000 hours (compared to India) to 1,840 hours (compared to Denmark, France, the United States) worth more leisure than their counterparts in other countries. To reiterate, this comparison is for paid time off.

The private sector employees in Pakistan can have only 1,120 hours of paid absence from work per year, which means that the public sector employees can have a whopping advantage of 2,160 hours over compared to their private sector counterparts.

Pakistan's public sector paid leave policy is very generous even compared to the same policies in certain European countries, such as Denmark. In Denmark, as can be seen from the table above, civil servants are entitled to 25 days of annual paid leave, in addition to 11 public holidays.

The number of paid leaves enjoyed by the Pakistani public sector employees compared to the Pakistani private sector and the public sector of other countries has important implications for the public sector's efficiency and productivity. As discussed in the present report, the Pakistani public sector is considered inefficient compared to other countries³, and paid leave policy is perhaps one factor responsible for this inefficiency. Moreover, the generous paid leave policy is an added benefit enjoyed by the public sector employees that is not included in calculating the total cost of public sector employees in Pakistan. If this benefit is also accounted for, the total cost of the public sector employees would further increase.

8 Future Benefits

Pensions

Public sector employment remains an attraction for two important reasons: job security and a guaranteed pension (Dixit, 2002). However, pensions have never been counted in employees' total cost because it is non-contributory in nature.

The public sector pension system in Pakistan is rather generous. According to the rules, the pension is 70% of the last drawn basic salary at the time of retirement. However, when raises granted by successive governments for years before a

person retires are included, the pension can be as much as 122-140% of their last drawn basic salary. Moreover, on average, a person who serves in government for 25 years or more draws a

Box 10

Pensioners Drawing Pensions from AGPR

Currently, 55,490 civil servants who retired in grades 1 to 23, or their families are drawing pensions. The total amount of pensions handed out by the AGPR is approximately Rs 109 billion per annum.

Grades	Self	Family
BPS-1 to BPS-5	10,544	7,908
BPS-6 to BPS-10	4,818	2,808
BPS-11 to BPS-16	9,032	4,439
BPS-17 to BPS-19	8,177	3,344
BPS-20 to BPS-23	3,396	1,024
<i>Sub-Total</i>	<i>35,967</i>	<i>19,523</i>
Total (Self+ Family)	55,490	

³ See Section 2, Chapter 1.

pension until they turn 80. After their death, at least 13 heirs can claim family pension, including wife, unmarried daughter, underage children, widowed daughter, divorcee daughter, disabled child, etc. In some instances, the pension exceeds an employee's last drawn salary (Subohi, 2020).

Pakistan's public sector pension system is also generous when compared to the pensions in the private sector. In the private sector, only those employees are covered that work in the formal sector. The informal sector employees do not have any such system for their security in old age. Moreover, the blue-collar workers in the formal private sector only get meagre social security payments after retirement.

The total cost of civil servants increases when we include the expected value of pensions they receive after retirement in the wage bill. There is no information available that tells us how many retired public sector employees are drawing how much in each grade. However, based on the data available of PIDE employees, the minimum pension of a BPS 1 employee is approximately Rs 9,000, and the maximum is approximately Rs 205,000 for a BPS 21 employee. A grade BPS 22 employee, who retired in the last stage of their grade, would be drawing at least Rs 225,000 or more.

According to an AGPR official, pensions in Pakistan, in some cases, are essentially perpetuities. The pension rules are such that when a retired official dies, their spouse is eligible to draw the pension. However, this is not where it stops. When the spouse dies, their widowed daughter is also eligible to draw the pension (Box 10). **However, the total number of pensioners is more than the number given in the box because not all government entities manage their pensions through AGPR.**

Real Estate

Another important factor that makes public sector employment, particularly the civil service, attractive is real estate. At the time of retirement or a few years before, the civil servants are allotted plots not only in different sectors of Islamabad but in other cities as well. The majority prefer plots in Islamabad, but due to the paucity of available land in Islamabad, other cities also have such facilities for civil servants.

According to the information extracted from the Federal Government Employees Housing Authority (FGEHA) website, the preference in this case as well is given to cadre employees. The other employees of the Federal Government, for example, those in attached and autonomous departments, are down on the waiting list. Moreover, the prime locations (such as the F-Sector in Islamabad) are reserved for employees in grades 20 and above, whereas lower grade employees are either given plots in relatively remote areas or are given apartments.

The crucial thing to note is that the plots are handed out at considerably lower rates than the market rates. Because of the high demand for CDA-managed housing localities, the price of the plots shoots up immediately after they are allotted to the officers, and they can potentially make a handsome profit by selling the plots. Similarly, the officers only pay the land cost (or only a nominal mark up on that cost) that the government incurs at the time of land procurement. The development charges are borne by the government, which increases the cost of a civil servant manifold at the time of retirement.

TOTAL COMPENSATION

Are civil servants underpaid in Pakistan? This issue has been widely debated but has never been thoroughly investigated. It is not a straightforward exercise because the current reward system is a cobweb of cash remunerations, in-kind payments, and intangible rewards.

Taking the discussion from the previous chapter forward, we quantify the civil servants' total cost by collating information on grade-wise cash payments and the market value of perks and privileges in this chapter. **We may stress here that this is a lower bound estimation for various cadres/ministries as we include only those allowances that are available to everyone.** Perhaps, adding the cadre/ministry specific allowances would make the estimates higher and, invariably, look inequitable.

Relying on government documents and various data sets, we estimate the total cost using the following specification:

$$\text{Actual Total Cost (TC)} = \text{Wage plus allowances (WB)} + \text{In-kind (IK)} + \text{Intangible Costs (IC)}$$

1 The Structure of Cash Payments

Box 11

Methodology of Estimating Wage Plus Allowances

$$\text{Cash Payment} = \text{Total Wage Bill}_g = \sum (\text{MW}_g, \text{RC}_g, \text{MA}_g, \text{CA}_g, \text{MON}_g, \text{OA}_g)$$

Where:

MW_g = Monetary wage of each grade g where g represents the grade

RC_g = Rental ceiling of each grade

MA_g = Medical allowance (% of MW) of each grade

CA_g = Conveyance allowance

MON_g = Monetized transport facility (grades 20-22)

OA_g = Other allowances

Wage plus allowances constitute the take-home salary of civil servants, i.e. the salary that appears on the salary slip. We include five components in this estimation, presented in Box 11.

In Other allowances (OA), we consider only the more general allowances on which information is readily available across all the ministries. These allowances include, for

example, special pay allowance (20% of the basic pay), ad hoc allowance, senior post allowance, orderly allowance, and qualification allowance.

Allowances Galore

Instead of indexing salaries and developing a proper payment system, the approach of pay and pension committees has been to provide arbitrary allowances to compensate for inflation. These allowances make up a large portion of the cash received by the civil servants. In addition, the employees of powerful ministries, such as the MOF and the FBR, are given special honoraria ranging from a one-month salary to a one-year salary.

Box 12

Selected Allowances Received by Various Civil Servants (with codes)

A01109-Command	A0122g-Fixed Medical Risk
A01152-Personal	A0122l-Mobile Phone
A01153-Special	A0122n-Special Conveyance to Disabled
A01154-Good Conduct	A0122w-Residential Telephone
A01155-Qualification	A01230-Dusting
A01201-Senior Post	A01232-Performance Evaluation
A01202-House Rent	A01233-Unattractive Area
A01203-Conveyance	A01234-Training
A01204-Sumptuary	A01236-Deputation
A01205-Dearness	A01237-Design
A01206-Local Compensatory	A01238-Charge
A01207-Washing	A01239-Special
A01208-Dress	A01240-Utility For Gas
A01209-Special Additional	A01241-Utility For Electricity
A0120b-Servant	A01242-Consolidation Travelling
A0120c-Club	A01243-Special Travelling
A0120d-Integrated	A01250-Incentive
A0120f-Mobility	A01251-Mess
A0120h-Hair Cutting	A01252-Non Practicing
A0120i-Remote Area	A01253-Science Teaching
A0120l-Hard Area	A01254-Anesthesia Allowance
A0120r-Prison	A01255-Hostel Superintendent
A0120t-Education	A01259-Fuel
A0120z-Vehicle Maintenance	A01260-Ration
A01210-Risk	A01263-Research
A01211-Hill	A01264-Technical
A01212-Telecommunication	A01276-Outfit
A01216-Qualification	A01277-Contingent Paid Staff
A01217-Medical	A01278-Leave Salary
A0121j-Transport Monetisation	A01279-Extra Duty
A0121n-Personal	A01225-Instructional
A01222-Hardship	A01284-Firewood
A01224-Entertainment	A01289-Teaching
A01225-Instructional	A01292-Screener
A01226-Computer	A01293-Diet Charges
A01227-Project	A012ac-Servant
A01228-Orderly	A03805-Travelling

Although the estimation of total cash payments in this study is made based on the allowances mentioned above, it is of interest to see some of the allowances the government

servants receive. Box 12 shows some of these allowances. The list is not exhaustive and shows only selected allowances.

Most of the allowances can be easily merged to consolidate the pay structure. Examples in this regard can be the allowances titled:

- Remote area
- Hard area
- Hilly area
- Unattractive area.

2 Estimation of Cash Payments

Table 11 presents the estimation of the cash payments made to all civil servants from BPS 1 to BPS 22. Various allowances increase the cash payments by varying margins of the basic pay:

- House allowance increases the salary by 45% to 55%.
- Ad hoc allowances by 10%.
- Medical allowance adds 15%.
- Special pay allowance adds 20%.

Table 11

Total Cash Payments: Wage and Cash Allowances (Rs)

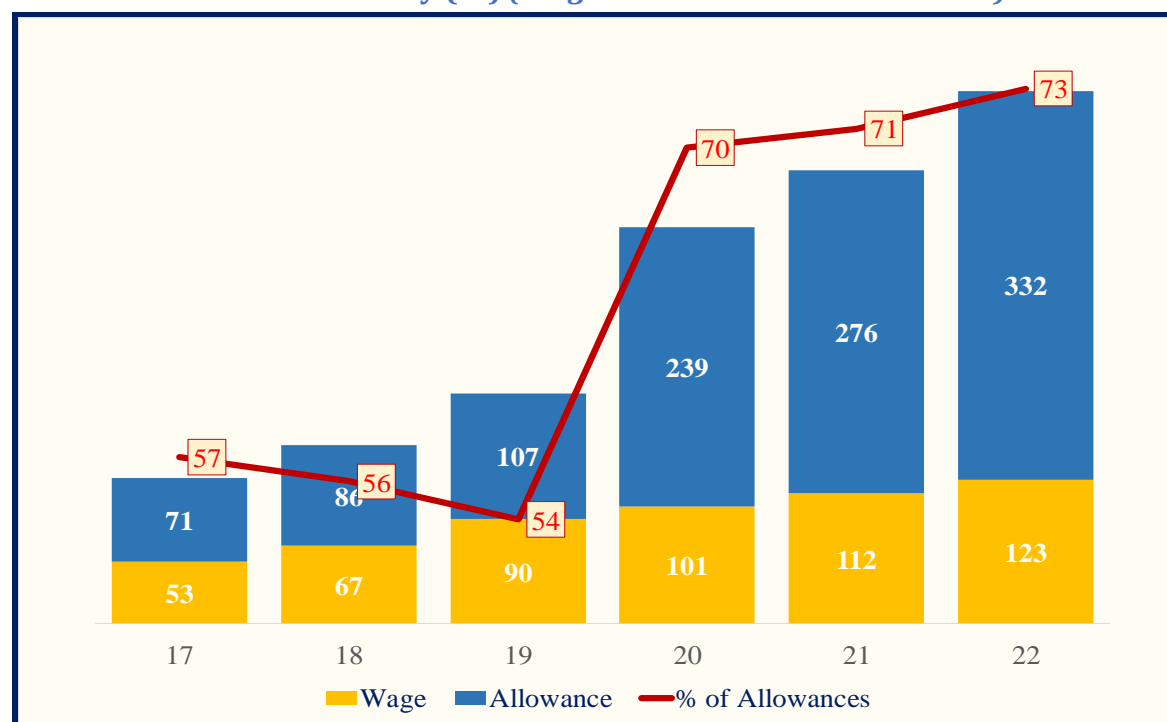
BPS	Average Wage	Max Wage	Car Allowance (as per rule)	Rental Ceiling	Medical Allowance (as per rule)	Other cash allowances	Wage plus allowances (WB)/ Cash Payments
	A	B	C	D	E	F	A+C+D+E+F
1	13,480	17,830	1,785	4,881	1,500	5,392	27,038
2	14,260	19,210	1,785	4,881	1,500	5,704	28,130
3	15,460	21,310	1,785	7,625	1,500	6,184	32,554
4	16,500	23,100	1,785	7,625	1,500	6,600	34,010
5	17,760	25,260	1,932	7,625	1,500	7,104	35,921
6	19,020	27,420	1,932	7,625	1,500	7,608	37,685
7	20,140	29,290	1,932	11,391	1,500	8,056	43,019
8	21,430	31,480	1,932	11,391	1,500	8,572	44,825
9	22,720	33,670	1,932	11,391	1,500	9,088	46,631
10	24,160	36,160	1,932	11,391	1,500	9,664	48,647
11	25,770	38,970	2,856	17,183	1,500	10,308	57,617
12	27,720	42,120	2,856	17,183	1,500	11,088	60,347
13	30,010	45,760	2,856	17,183	1,500	12,004	63,553
14	32,730	50,280	2,856	21,587	1,500	13,092	71,765
15	36,070	56,020	2,856	21,587	1,500	14,428	76,441
16	41,710	64,510	5,000	21,587	6,256	16,684	91,237
17	53,370	76,370	5,000	28,754	8,005	29,348	124,477
18	67,050	95,750	5,000	28,754	10,057	41,820	152,681
19	89,710	120,210	5,000	37,989	13,456	50,884	197,039
20	100,660	132,230	65,960	47,709	15,099	110,264	339,692
21	111,720	146,720	77,430	57,126	16,758	124,688	387,722
22	123,470	164,560	95,910	68,364	18,520	149,388	455,652

Source: Authors' calculations based on data received from the AGPR

Figure 9 clearly shows that the sum of cash allowances is a large portion of the civil servants' salary. The proportion of allowances increases as we go up the grade ladder. For BPS 22, the allowances provide three times more cash than basic pay.

Figure 9

Average Monthly Wage & Allowances Received by BPS 17-22, and the Proportion of Allowance in the Total Pay (%) (Wage and Allowances in Rs '000s)



Source: Authors' calculations

3 Total Cost

Actual Total Cost (TC) = Monetary Wage (MW) + Perks' Cost

The Cost of Perks

Other than cash allowances that are tangible, civil servants also enjoy in-kind allowances – perks – that add to a civil servant's total cost. These perks are the following.

- Medical cost (MC). It includes indoor patient charges, which are reimbursed upon submission of invoices.
- Shadow cost of the use of an official vehicle (VC).
- The market rental value of government housing.
- The cost of all other allowances (as discussed in Chapter 3)
- The cost of other allowances such as the use of servants provided by the government and paid utility bills. These are hidden costs because they are not included on the salary slip.

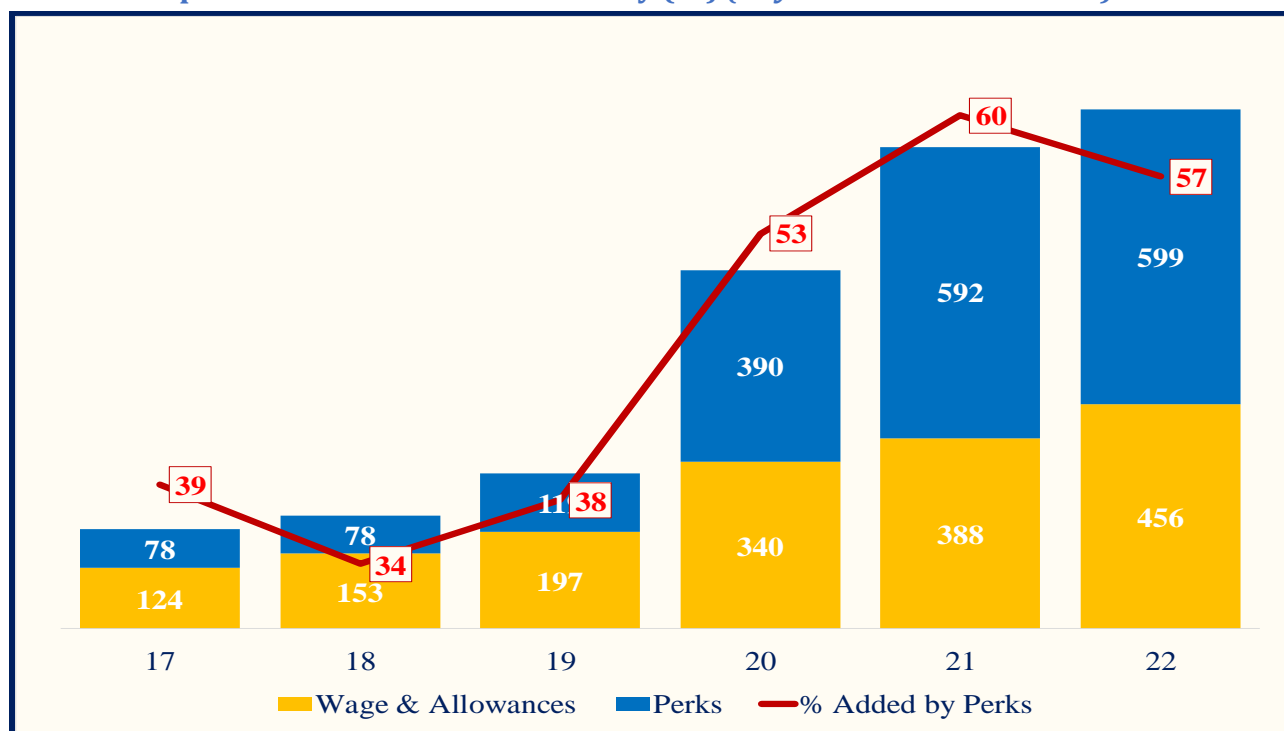
Table 12 presents the total cost estimated for the civil servants from BPS 1 to BPS 22, including all cash and non-cash costs. It is worth repeating here that the cost estimated here is on a conservative side as we have only included allowances available to everyone.

Table 12: Quantified Total Cost (Rs)

Figure 10 presents the composition of the total quantified pay received by the civil servants in BPS 17 to BPS 22. As we saw in Figure 9, the proportion of cash allowance to basic pay increases with increasing grades. Likewise, in Figure 10, we observe the proportion of quantified perks spiking with BPS 20.

Figure 10

**Average Monthly Pay & Perks Received by BPS 17-22,
and the Proportion of Perks in the Total Pay (%) (Pay and Perks in Rs '000s)**



Source: Authors' calculations

4 Key Takeaways

- With higher grades, the proportion of cash allowances in pay and quantified perks in the total cost increases.
- Government housing facility, given as an in-kind benefit, has never been accounted for in the total cost of the civil servants, nor its opportunity cost to the government has ever been calculated.
- The use of official vehicles for personal use by grade 20-22 officers increases the total cost by more than 1.2 times the basic pay.
- Medical allowances and medical bills reimbursement add over Rs 2.5 to Rs 3 billion to the medical bills.
- Perks and different allowances add to the total cost of civil servants substantially, and if monetised, would break the myth of low salaries in the public sector.

COMPARATORS: WAGE PREMIUM IN THE PUBLIC SECTOR

Salary structures in most organizations are set in relation to the comparators. The private sector and international agencies (for instance, the UN, the IMF, and the World Bank) all set their salaries based on market surveys. Comparators are defined through research to see the market for human resources that the concerned agency is competing in.

As noted in earlier chapters, the civil servants contend that they are cash poor. This is often done without acknowledging that they are perk-rich while being relatively cash poor. Many of these non-monetised perks have a much higher market value than what is availed by the civil servants.

The government's opportunity cost of the perks is much higher than the value that the recipient receives.

Two markets employ civil servants who leave the service (see Haque 2007)⁴. The preferred option is to migrate out of the country. Those who, for personal reasons, do not exercise that option often seek employment in some international donor office, a donor-funded NGO, or the private sector. This is often the preferred order as Pakistan's private sector has not grown to large corporates capable of supporting good professionals.

With this in mind, we will look at comparators to the civil service in Pakistan to get an idea of how their total salary package compares to them. While we will leave the opportunity cost of their perks aside, let us see how the civil servants' total emoluments, as shown in Table 11, compared to possible comparators in Pakistan.

1 Comparison with Compensation of Donors and International Organisations

The international organisations operating in multiple countries do not offer many in-kind, intangible, or cash allowances to their staff. Rather, they compensate their staff with very transparent and competitive salaries. For instance, the IMF and the World Bank do not provide rental allowances, while the UN pays a minimum amount for housing (see Box 13). In contrast, in Pakistan, the government offers three kinds of housing facilities and more than 100 allowances and intangible benefits, making the pay structure complicated.

⁴ Human capital flight or the brain drain has been recognised in Pakistan throughout its history. See Haque (2007) for details at: <https://www.pide.org.pk/pdf/Lecture-Series/BrainDrain-or-Human-Capital-Flight-Nadeem-UI-Haque.pdf>

Box 13

The IMF, the World Bank, and the UN Compensation Systems

Rental Subsidy: The World Bank and the IMF do not provide rental subsidy to their employees. Although the UN offers rental support, either there is a cap or provided on a sharing basis.

Dependent Allowance: All three organizations provide the dependent allowance with few variations across the three organizations.

Disability Allowance: The UN provides insurance against disability while the World Bank offers a limited amount for a short-term period. The IMF does not give any disability allowance.

Pension: The staff in all three organizations are given comprehensive pension plans. The staff and the organizations contribute toward the pension that is used upon retirement. In general, allowances are provided in cash. Few very clear allowances are provided to facilitate or for the welfare of the staff. Only take-home salary, without any intangible or in-kind allowances, determines the compensation of the employees.

2 Local Market-Based UN Salaries in Pakistan

The UN determines competitive salaries based on the Noblemaire Principle for the staff serving in member countries. The Noblemaire Principle is practised in every member country where the UN places international civil servants to work. In Pakistan also, the UN determines the competitive salary for upper-level professional staff to general staff (the methodology is explained in Box 14). It may be clarified here that the UN staff and their salaries are of two types:

1. The international staff that is on an international pay scale, and
2. The UN staff that is locally hired, on a local market-based pay scale (see point iii in Box 14).

It is the latter category that we are using in this study as an indicator of private-sector pay.

The UN conducts a survey of industries in Pakistan to determine the best salary for a particular position. Considering education, working responsibilities, and experience, the UN's D-level grades are comparable with civil services' grades 20-22. Using D-level UN scales for high professional scales, we get a competitive comparison group to compare the differential between the UN's and the public sector's pays.

The UN pay packages can vary with the location, so for the sake of comparison, we take the case of Islamabad as most federal government employees reside in Islamabad.

Table 13 shows the compensation that the UN officers in the 'D' category receive at the Islamabad duty station, including salaries and all the perks given to the international civil servants. Their total compensation is in cash, including a housing allowance, child support, and a transport allowance.

Table 13**Compensation of Locally Hired UN-D Level Officers with Islamabad as Duty Station**

	Wage (Average Basic)	Housing Allowance	Transport	Medical	Total Cost
UN D-Level (at senior stage 3)	Rs 711,245.5	The average of reasonable maximum rent level (RMRL) is US\$ 1,045; the maximum is US\$ 2,090	Officially available for office duties. However, if private transport is used, the employees are compensated for the amount equivalent to the taxi fare.	Monthly premiums are co-shared by the employee and the Organisation.	Rs 910,000 (approximately).

Source: The United Nations, Islamabad Office

We use the information from Table 13 and calculate the difference in the cost between the BPS 22 servants and the UN's D-level grade. Table 14 presents this comparison.

Box 14**UN, D-Level Compensation Determination**

The level of salaries for the staff serving in a member country is determined based on the Noblemaire Principle. According to the Principle:

- The international civil service should be able to recruit staff, including the highest-paid officials, from its member states.
- The salaries of the professional category are determined based on the highest applicable pay levels of the civil service of the member country.
- The International Civil Service Commission (ICSC) conducts a job market survey to determine the competitive salary of a national officer.
- The salary scales for the professional and higher categories are based on two director levels (D-1 and D-2). D-level grades are comparable to the Pakistan Civil Service grades 20-22.

Table 14**Comparing a UN Locally Hired Officer at the Islamabad Office and Government BPS 21-22 Civil Servants**

	UN D-level Locally Hired Officer in Islamabad (Rs '000)	Civil Servants BPS 21-22 (Rs '000)	Difference between UN and PAK Civil Servant Compensation
Base Salary	711	146 to 165	UN 4X > PAK
Wage with Cash Allowance	910	381 to 400	UN 2X > PAK
Total Cost	910	1,021	PAK 12% > UN
The difference in wage plus allowances and total cost (%)	0	106	-

Note: Cost for Civil Servants in BPS 21-22 are based on estimates given in Table 10 (Chapter 4).

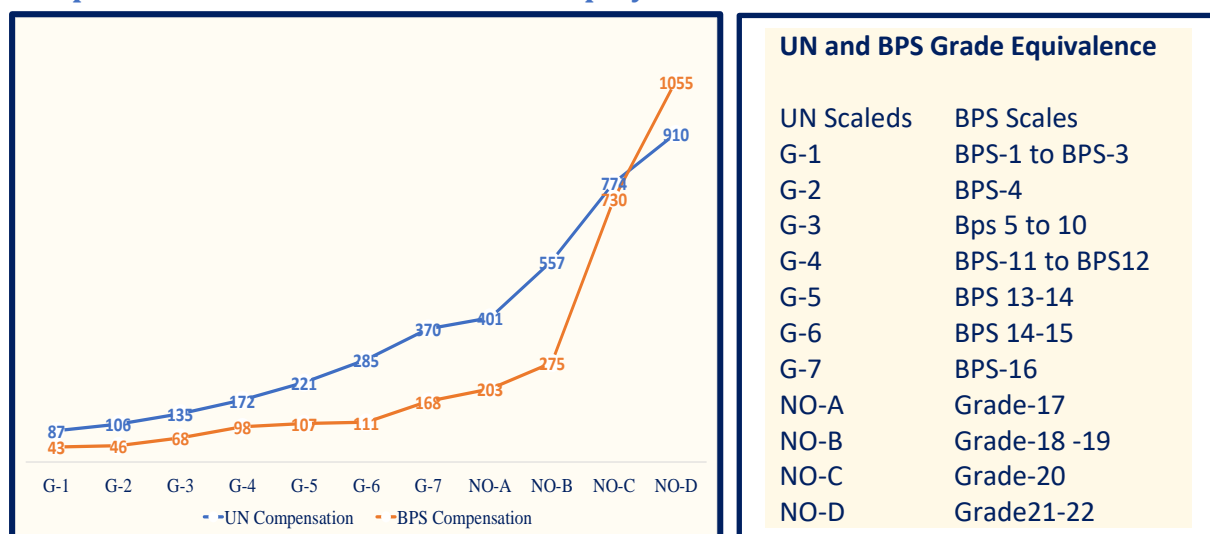
Table 14 shows that a BPS 22 civil servant’s cash salary – basic pay and allowances – is two times lower than the UN’s locally hired staff based at the Islamabad office. However, the picture changes when we add in-kind benefits (indoor medical charges and the market value of government accommodation) and other intangible costs (personal use of an official car) in the wage plus allowances of a civil servant. **The total cost of a grade 21 officer becomes 12% higher than the UN’s locally hired officer’s cost.**

This comparison refutes the claim that civil servants are underpaid. They receive highly competitive compensation, which is 10% to 15% higher than a UN locally hired officer’s compensation. It may be reiterated here that a civil servant’s total cost in Table 12 is significantly lower-bound because we could not include the cost of all the possible intangible benefits.

Going a step ahead, we also made the same comparison for the lower grades. Figure 11 presents the comparisons of all grades, starting from the bottom to the top of the ladder. In this case, the UN lower grade employees are compensated relatively better than lower grade public sector employees. The trend, however, reverses for the upper BPS grades, i.e., BPS 21 and BPS 22.

Figure 11

Comparison of Islamabad-based UN Employees & Civil Servants in BPS



Source: Authors’ calculations based on data obtained from the UN.

Looking at Figure 11, we can conclude that:

- **Because of the backloading of perks, the gains in civil service accrue mainly at grades 21 and 22.**
- Since the top, more lucrative grades are reserved mainly for certain cadres (see Figure 5), it is hard to recruit competent professionals (e.g., doctors, engineers, and researchers) at lower grades who would rather prefer employers like the UN or other international organisations.
- Young, competent officers, at junior grades, may leave (and they do leave) to join the donor grades, which are close to the UN system shown above, as they get better remunerations there than the public sector.

3 Comparison with the Compensation in the Private Sector

From large corporations to individual/small-scale enterprises, the 'private sector' includes running for-profit and is not controlled by the state. Considering the variance in its size and nature, the 'private sector' cannot be treated as a homogenous group, and its pay structure reflects that.

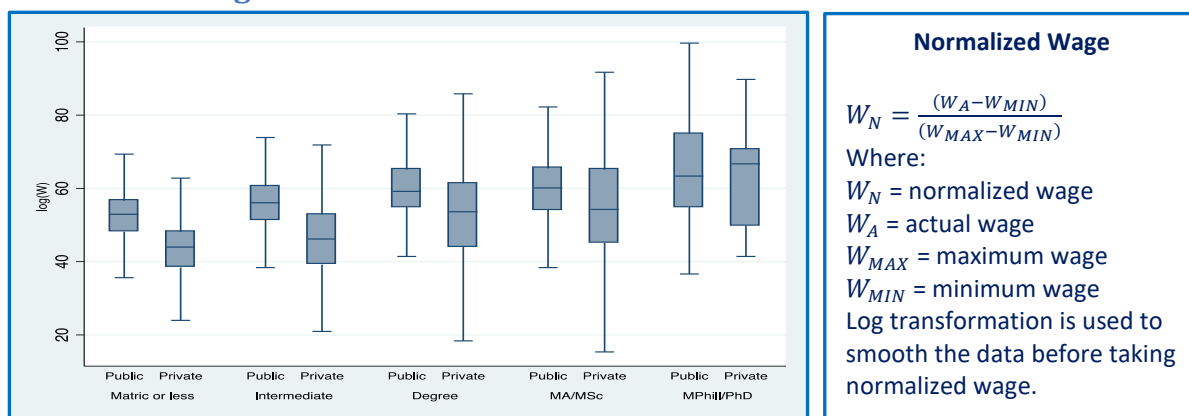
The Monetary Wage Differential Between the Public and Private Sectors

Using the Labour Force Survey (LFS) 2017-2018, the study estimates the normalised wages in the public and private sectors by education in Pakistan. The analysis, presented in Figure 12, shows that public sector employees reported higher mean monetary income than the private sector, apart from the professionals having MPhil and PhD degrees.

The wage pattern further reveals that public sector wages have a relatively small range, showing less deviation from the median wage. Relatively large variations are observed in the private sector (Figure 12). It would not be wrong to infer that the process of wage determination is different across the public and private sectors. Wages are predefined in the public sector, while the private sector uses a market-based mechanism to attract and retain required employees. **This analysis is in contrast to the general perception that the private sector pays higher wages than the public sector to attract qualified personals.**

Figure 12

Normalized Wage Differential Across Different Education Levels

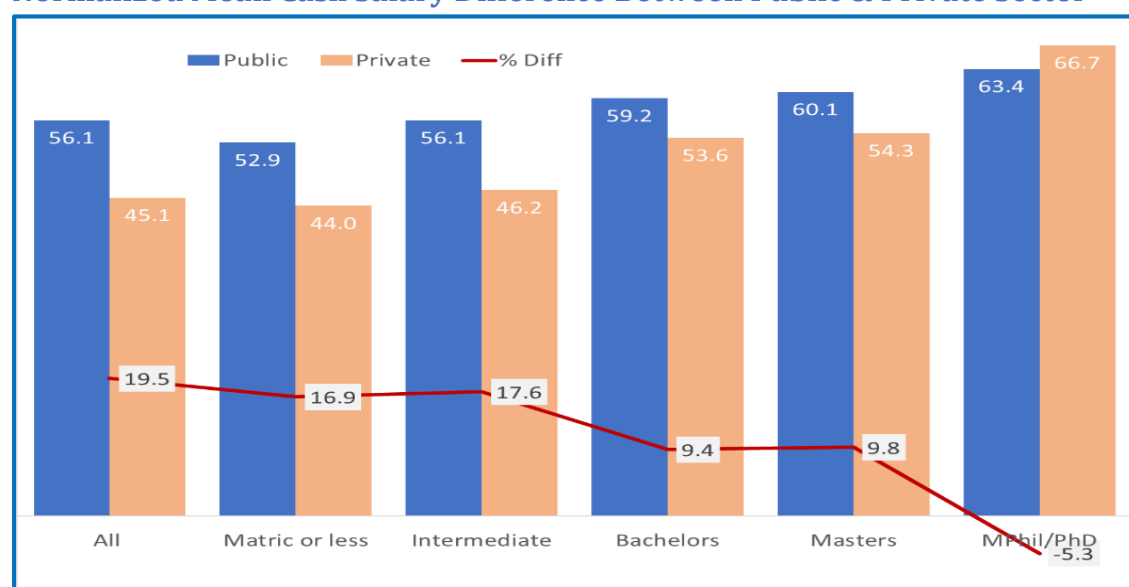


Source: Authors' estimation using the Labor Force Survey (2017-18)

Figure 13 shows that public sector employment, on average, takes 19.5% more salary than their counterparts in the private sector. Civil servants, who have a minimum of a bachelor's degree, have an income (cash) advantage of 9.4% over the private sector employees with a similar educational level. It is only after having a degree of MPhil/PhD that private-sector employment becomes more lucrative than public-sector employment.

Figure 13

Normalized Mean Cash Salary Difference Between Public & Private Sector



Source: Authors' estimation using the Labor Force Survey (2017-18)

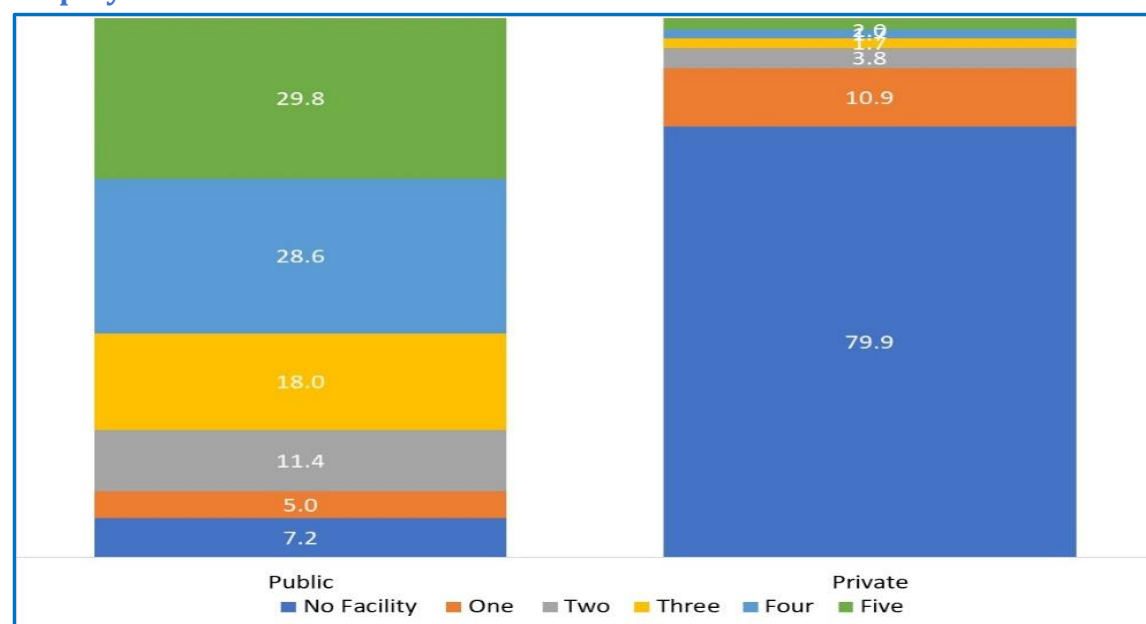
Non-Monetary Wage Differential Between Public and Private Sectors

Public sector employees enjoy many non-monetary benefits that are not available in the private sector. Figure 14 shows that around 80% of those in the private sector do not have any non-monetary facility, whereas this ratio is only 7% in the public sector. **Over 76% of public sector employees avail more than three facilities.**

Non-monetary benefits are much higher in the public sector than the private sector.

Figure 14

Number of Non-Monetary Benefits Available to the Public- & Private-Sector Employees



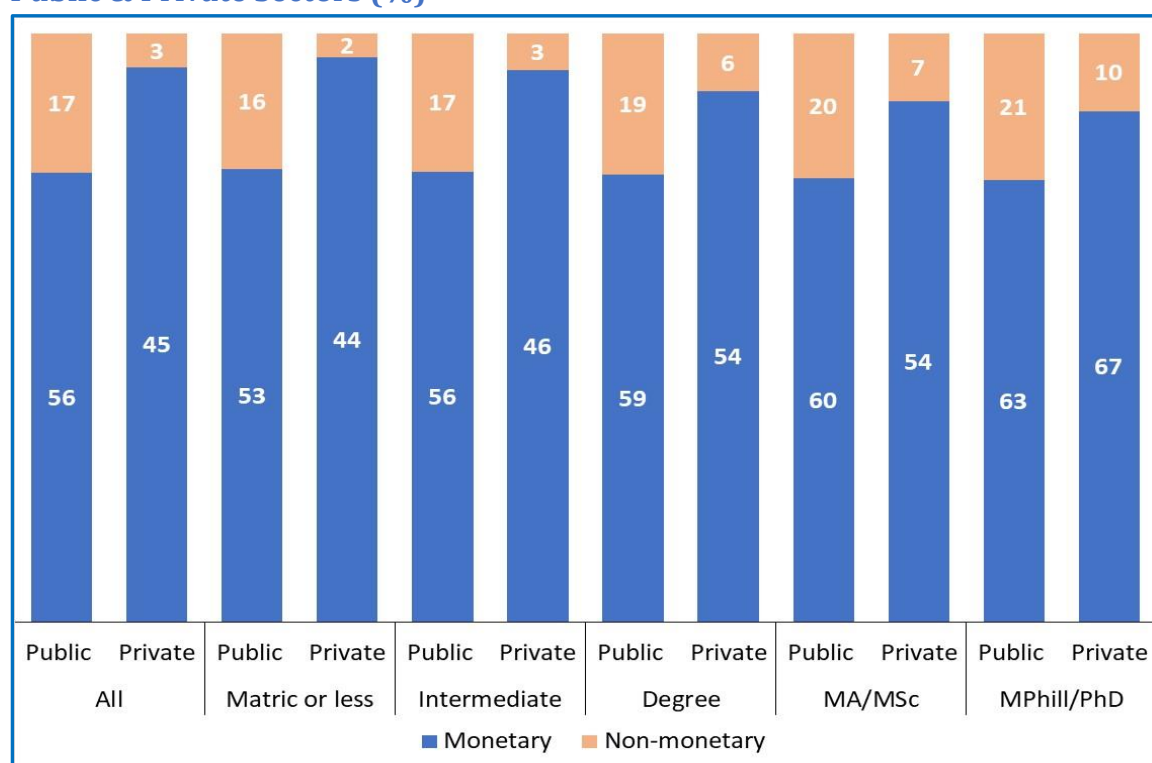
Source: Authors' estimation using the Labour Force Survey (2017-18)

Monetary and Non-Monetary Components in the Pay Package in the Public and Private Sectors

Figure 15 shows that non-monetary benefits are much more prevalent in the public sector than in the private sector. For the public sector, the non-monetary benefits range between 17% to 21% across BPS 17 to BPS 22. On the contrary, similar benefits remain very low for private-sector employees (2% to 7%). The non-monetary benefits in the private sector get into double digits only for those who have an MPhil degree or higher (see Figure 15).

Figure 15

Proportion of Monetary and Non-Monetary Component in the Total Wage Across Public & Private Sectors (%)



Source: Authors' estimation using the Labour Force Survey (2017-18)

Findings from the Labour Force Survey on the public sector wage premium conform to the trends shown by the World Worldwide Bureaucracy Indicators (WWBI). The following important points should be noted:

- Except for an MPhil/PhD degree, there is a wage premium in the public sector at all education levels.
- The wage premium is negatively correlated with the level of education. In other words, the lower the level of education, the higher the wage sector premium in the public sector.
- Almost 80% of the private sector workers are offered no non-monetary benefits. By contrast, almost 80% of public sector employees have more than three non-salary benefits.
- Non-monetary benefits form a much bigger proportion of the pay package in the public sector.

The above presented empirical findings confirm the commonly held hypothesis that government employment is often politically motivated in rewarding the less educated. The professionals and the technically skilled appear to be taxed. Moreover, once again, we see an inefficient form of compensation –

perks. Inefficient because these perks are generally available and not linked to performance and efficiency.

The federal services have a huge tail where 85 percent payload goes to the civil servants in BPS 1-16, and 15 percent to those in BPS 17-22. Over the years, the state has been the major employer but can no longer afford a vast bureaucracy. Theoretically, that can be managed by reducing the numbers of support staff among others through recourse to digitization (Ishrat Hussain; PIDE Webinar, October 8, 2020).

According to the Establishment Division Annual Report (2019), only 5% of the federal government employees fall in BPS 17 to BPS 22, with a massive 95% in the lower or supporting grades (BPS 1 to BPS 16). Wage premiums are the highest in these grades, and the numbers show inefficiency in the system, both administrative and financial. Reducing these numbers is unavoidable in any effort that is made to reform the civil services.

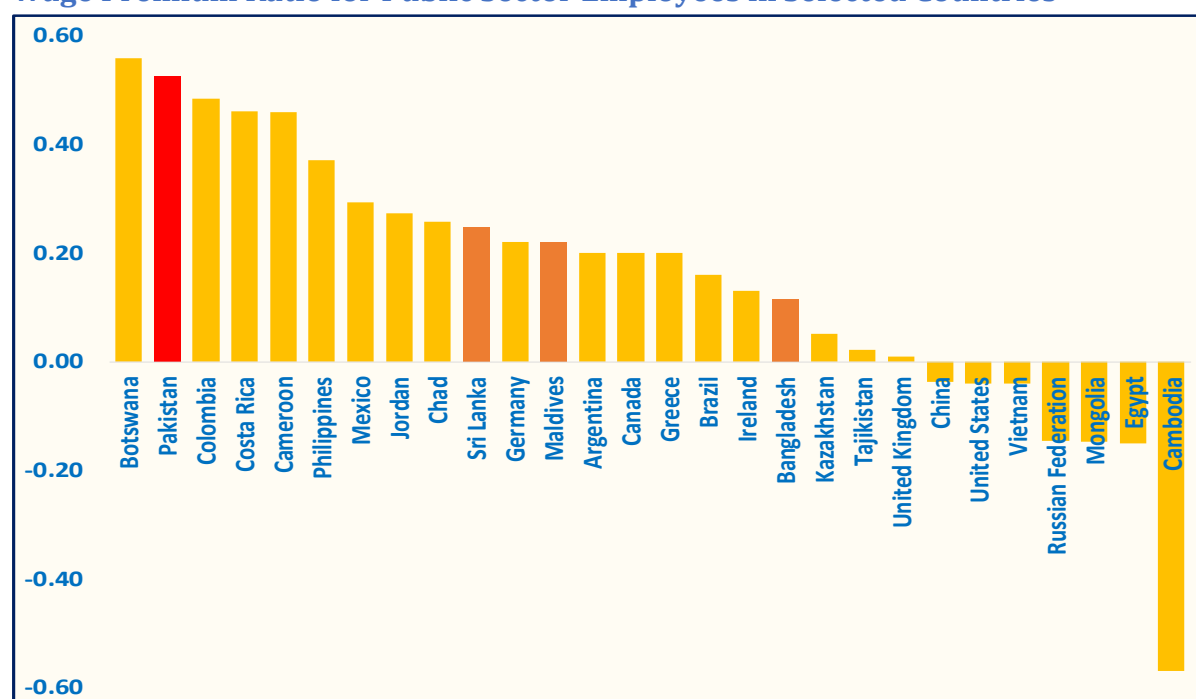
4 Public Sector Wage Premiums – An International Comparison

Using the WWBI of the World Bank, we estimate percentage differences in public sector wages compared to private-sector wages in each country's local currency units, controlling for education, age, gender, and location (Figure 16). The public sector wage premium ratio compares the wages of the public sector employees to similar private-sector workers. A higher ratio suggests a higher premium to public-sector employees than the private-sector employees working in the same occupation, in both formal and informal sectors.

Comparing public-sector wage premiums in different countries would help us figure out where Pakistan stands in the comparison between public and private sector wages. As shown in Figure 16, the employees in the public sector of Pakistan earn 53% more than their counterparts in the private sector (the red bar in Figure 16). The public-private wage differential is biased towards the former in other South Asian countries as well (see the rust coloured bars in Figure 16 for Bangladesh, Sri Lanka, and the Maldives), but the ratio is much lower than that for Pakistan. In many countries, the trend is the opposite, and the private sector employees get more than their public sector counterparts.

Figure 16

Wage Premium Ratio for Public Sector Employees in Selected Countries



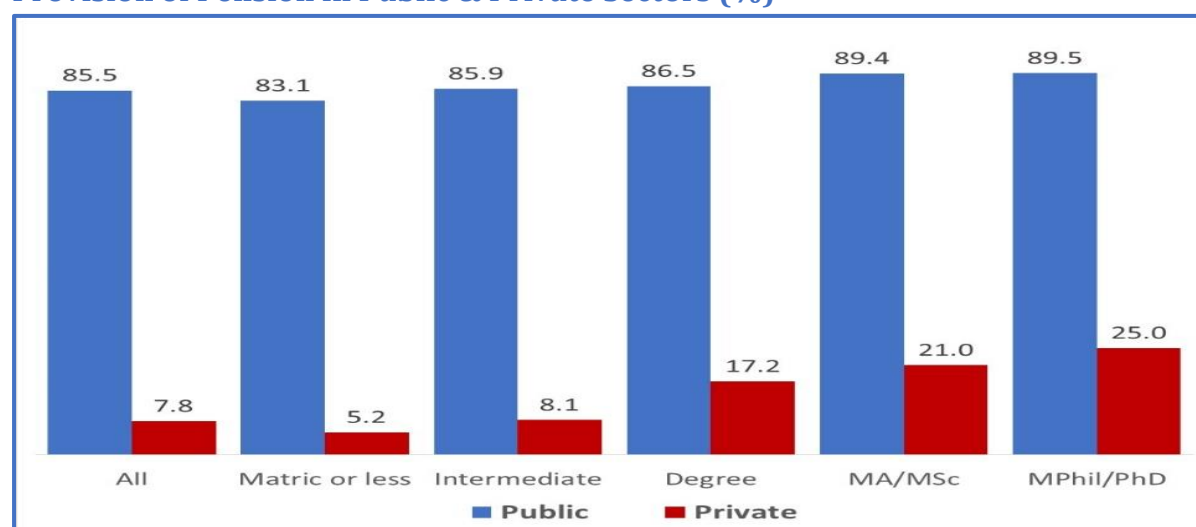
Source: Worldwide Bureaucracy Indicators, the World Bank

5 Comparison of Pension Security with the Private Sector

Job and financial security, not just while working but post-retirement, is the biggest attraction for the public sector. Using the Labour Force Survey data again, we compare how many of those in public and private sectors get pension benefits (see Figure 17). As we can see, while pension is guaranteed to a significant majority in the public sector (85.5%), it is just a small proportion enjoying the benefit in the private sector (7.8%). The proportion tends to increase with increasing educational level. However, even among those in the private sector who have an MPhil or a PhD degree, only a quarter has pension benefits.

Figure 17

Provision of Pension in Public & Private Sectors (%)



Source: Authors' estimation using the Labour Force Survey (2017-18)

INSIGHTS FROM INTERNATIONAL PRACTICES

Comparing the compensation structure in Pakistan with that in other countries can help put the discussion in perspective. In this section, we look into the practices adopted by a few Asian countries that successfully reformed their civil services structure, namely Singapore, South Korea, and Malaysia. Their experiences and models hold critical insights for Pakistan.

1 International Experience

Singapore

Over the past several decades, Singapore has successfully reformed its public sector and the civil service in particular. Singapore's civil service is well-paid, efficient, and plays a vital role in its economic development. Its civil service structure mirrors the country's geographical size, i.e. small, with just one central level of the state.

Over the period 1986–92, the number of public officers in the lowest-skilled grades was reduced by 40%, and the number of daily paid manual workers was halved. The State's approach to the civil service shifted with the proportion of professional and administrative officers rising from 8% to 20% of state employment over 1977-92. The wage policy was also adjusted to pay public officials 10–20% more than their private-sector counterparts.

Increasing efficiency in the public sector by:

- Reducing staff in lower grades.
- 10%-20% higher pay than the private sector.
- Decompressing pay structure.
- Bonuses linked to the overall performance of the economy.

Substantial seniority differentials and an annual variable bonus of up to 20% of their total pay were linked to the economy's performance. All this implicitly puts a very high premium on the importance of achieving an effective and efficient public service.

Singapore's policies on public-sector pay can be seen as atypical on many counts. Whereas countries under budgetary pressure tend to reduce the real value of civil service salaries, Singapore raises them. There was a time in the post-independence years when the civil servants' compensation was less than the private-sector employees' compensation. However, since the 1970s and the emergence of Singapore as a robust emerging economy, civil servants' salaries have consistently increased and are now very competitive (Saxena, 2011).

Similarly, a policy of decompressing differentials between salaries at the top and bottom of the service—which in the 1970s were already large by standards elsewhere—was further pursued. The motivation for raising civil service salaries over the years has been to facilitate

the move towards a skilled, productivity-focused production structure, competing with the private sector for talented staff and, of course, combating corruption.

In Singapore, the successful reform of the civil service's compensation system and making it conducive to a well-functioning public service delivery system based on meritocracy and result-based accountability is marked by the following strategic interventions.

Performance-Driven Pay

The civil servants' compensation system is set up to reward civil servants through periodic appraisals of their performance. This system is not too dissimilar to the system of performance-related bonuses in private companies. The "bonus system" was first introduced for senior civil servants in 1989, but since 2000 it has been extended to cover all officers within the civil service. This system has reinforced a strong meritocracy within the civil service in Singapore (Saxena, 2011).

Monetizing Benefits – Paying Clean Wages

The civil service salary packages in Singapore are such that they translate as many benefits into cash as possible. Monetisation reduces the number of hidden perks, frees up government maintenance and administrative resources, and increases transparency within the system.

Paying Flexible Wages

The basic monetized salary packages that the civil services receive have both a base and a variable component. The variable component is designed to increase in times of prosperous economic and budgetary times and could be adjusted in times of economic distress.

Central Provident Fund

Except for the Administrative Service within the larger civil service, the Singaporean system does not hire civil servants on pensionable terms and has not done so since 1986. The civil servants instead contribute to a Central Provident Fund. Much like in most provident funds, the government contributes to it, as does the employer. Interest rates earned on savings in this fund are often greater than those offered by other "market instruments such as fixed deposits" (Saxena, 2011).

South Korea

The South Korean civil service approach is similar to the Singaporean model: a small but efficient civil service. Over the past few decades, the South Korean system has undergone changes principled on the NPM paradigm. Through a mixture of deregulation, privatisation, and liberalisation, the private sector's involvement in state development has increased and has led to increased dividends regarding efficiency and public service delivery (Kim, 2003; 2012).

The basic wages of public servants are lower than their counterparts in the private sector. However, after the mid-1980s, the total pay (including allowances) of public servants

increased substantially. The Korean civil service shifted to a performance-based pay system in 1999. The incentives and benefits were simplified in 2011 from over 30 to 26.

The principles of determination of the compensation of civil servants are based on the following considerations:

- The complexity of duties and the degree of responsibility vary by grade.
- Price levels and the cost of living of the general public.
- Balance with private enterprise wages.
- A balance between career and non-career services and internal balance within the service.
- A typical South Korean civil official's monthly salary consists of base pay (65% of total pay) and allowances (35% of total pay).

Table 15

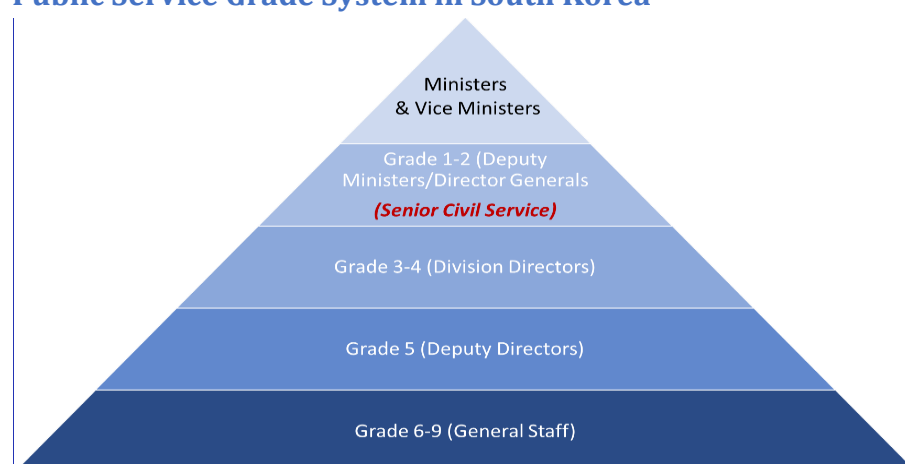
Public-Sector Salary Structure in South Korea

1.	Base Pay:	Base compensation paid according to pay schedule & service years
2.	Allowances:	Additional compensation paid according to working & living conditions (of 26 types)
a.	Bonus (3):	Preferential allowance, attendance allowance, performance bonus
b.	Family Support (4):	Family allowance, children school support allowance, childcare leave allowance, house allowance
c.	Special Allowance (15):	Special area, hazard work, special job duty
d.	Overtime Work etc. (4):	Allowances for overtime work, night shift, holiday duty, management work, etc.
3.	Actual expenses (4):	Meal, job position support, traditional holidays, compensation on unused leaves

The figure below shows the hierarchal order of public service in South Korea. Each tier has a different mechanism of evaluation and rating.

Figure 18

Public Service Grade System in South Korea



Effective Performance-Based Evaluation and Remuneration

All public officials above Grade 4, including the elite civil service group of Senior Civil Service (SCS), receive annual evaluations regarding both individual and departmental performance. Based on this performance evaluation, their salary is adjusted for the upcoming year. The

performance pay is distributed among four ratings (S, A, B and C) (MPM, 2020). The evaluation process starts with grade 4 and above, with public officials signing performance contracts in liaison with evaluators. Their annual performance is rated based on these performance contracts.

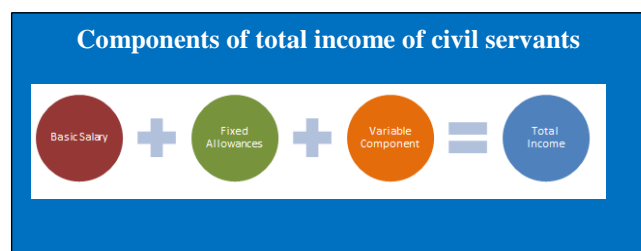
For public servants at Grade 5, bi-annual evaluation is conducted, and their work performance is rated. Performance contracts are not signed with Grade 5 public servants; instead, their performance is rated through a 360-degree evaluation and rating system (MPM, 2020). Lower grades (6-9) of public servants also receive performance ratings to determine their year-end bonus. The rating system for these public servants is decided at the discretion of the respective ministries within which they operate (MPM, 2020).

Malaysia

During the past fifty years, the Malaysian civil service has undergone wholesale changes, and significant strides have been made towards ensuring effective public service delivery. The process of change started in the 1970s and intensified from the 1980s onwards under the direction of the Malaysian Administrative Modernization and Planning Unit (MAMPU) (Tjiptoherijanto, 2012).

The compensation system is linked with a performance-based appraisal system based on regular tracking of key performance indicators (KPIs), staying true to the NPM. Furthermore, much like Singapore and South Korea, the

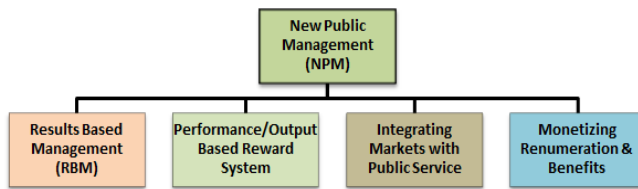
compensation system tries to monetise as many of the benefits into cash allowances as possible. The total income is a combination of basic salary, fixed allowances, and a variable component based on performance.



The compensation system by grade is broken down into eleven basic grades with the uppermost grade (the 54+ grade) called the super scale/grade and is instituted only on an ad hoc basis. The take-home income across grades is very compressed, with the compression ratio of less than four between the mean income at the highest and lowest levels. The no cap income at the super grade appears to be instituted to hire personnel who cannot be accommodated in the regular grades.

2 New Public Management (NPM)

One approach that has driven civil service reform in numerous countries is the 'New Public Management' (NPM). The fundamental features of the NPM include making civil service more efficient at public service delivery through integrating the public sector with private markets (public-private partnerships), employing results-based management (RBM) techniques within public service, downsizing to make public service more efficient, and using performance/output-based appraisal systems to rank and remunerate public servants (Ferlie, 2017).



Key Message of NPM

Monetise perks and benefits as it brings clarity within the system by freeing up institutional resources that are used to sustain and administer these benefits.

3 Lessons for Pakistan

Modern civil service is increasingly built around the NPM paradigm. A review of the selected countries also shows that these countries have reformed their public sector around the principles of the NPM. Pakistan can also learn from the lessons of the NPM and reform its civil service accordingly.

In Pakistan, base wages are a small percentage of the overall wage plus allowances, while additional heads of housing and transport make up the bulk of the remainder. Furthermore, base wages depend on the time spent in service instead of performance. Salary increases are a function of available fiscal space and political priorities.

In the countries where the civil service is considered efficient, salary is composed mainly of the basic wage, while bonuses and allowances account for a small share. For example, in South Korea, the base wage is 65% of the total compensation, as discussed above.

Based on a review of countries that have implemented successful reforms, the following lessons are useful for Pakistan.

The Monetisation of Cash and In-kind Benefits

International evidence suggests that civil servants' total compensation consists primarily of base wage. As a part of civil service reform, different countries monetised the majority of cash allowance and nonwage benefits because such incentives are complicated to calculate and administer. Thus, the first and perhaps the most important lesson for Pakistan drawn from international evidence is the monetisation of allowances and non-wage benefits.

Survey of Comparable Private Sector Compensation

The purpose of monetisation is to make the civil servants' salary structure transparent and competitive with the private sector at all levels of employment, taking into account the job security in the public sector. Such comparison with the private sector can only be undertaken with clarity when as many as possible benefits and perks are monetised. Figure 16 shows that Pakistan's public sector employees already enjoy a premium over their private-sector counterparts.

Decompression of Wages

If we consider only the basic salary, the compression ratio is not very high in Pakistan (see Figure 7). However, if both cash and in-kind benefits are included, the ratio is very high. The policy of decompression must be continued, as did by Singapore, to attract highly skilled people. Although there is no magic ratio number, "the "compression ratio" between the highest and the lowest salary ranges from 3:1 to 20:1, with a norm of about 7:1" (Schiavo-

Campo, 1996; p. 12; emphasis in original). Monetisation would make the decompression hidden in the current salary structure more visible in Pakistan.

Number of Grades and Rightsizing

One aspect of civil service reform in different countries

has been to make the structure simpler by reducing the number of grades (see discussion on Malaysia) and reduce the number of low-skilled workers (see the case of Singapore). In Pakistan, most federal public sector employment is in grades 1 to 16 (85%), which needs to be reduced. Low-skilled workers have low productivity and add to the cost to the government.

Successful reformers and countries with efficient civil service tend to keep the size of the service slim. Evidence suggests that reducing the size of the public sector in successful reformer countries such as Singapore was carefully managed. Rather than being a product of recruitment freezes or ‘blanket’ redundancy policies, a highly selective approach was employed.

The reduction in the number of grades from 22 to 11 is already on the cards, suggested by Hussain (2020, October 17) in a recent PIDE Webinar on Civil Service Reform. This decision must be taken to its logical end.

Performance-Based Pay

Country experiences suggest that civil service is moving towards performance-based benefits and promotions. Pay-for-performance ensures that civil servants’ pay is based on a transparent appraisal system. This performance-based model will need to take account of comparable wages in the private sector. In the private sector and also the public sector of different countries, as we see happening in Singapore and Malaysia, a variable component is also being included in the salary structure. The variable component depends on the performance.

A word of caution about “performance pay” is in order. In the public sector, outputs are difficult to quantify. Performance pay may be worth considering if due attention is paid to its effectiveness and risks. However, informed and candid performance assessment is a foundation of any incentive system (Schiavo-Campo, 1996). The replacement of the ACR system is already in the works (Husain, 2020), which would help make performance-based pay possible.

Job Security and Competition

Currently, the public sector employees, especially in the top tier, do not have to compete with the available talent pool in the private sector because of no lateral entry. The lack of competition poses a risk for adopting performance-based pay because even if the civil servants do not achieve the set goals and objectives, they do not need to worry about being penalized. Something on the lines of Malaysia’s 54+ super grade can be considered in this context.

Box 15

International Experience: Policy Takeaways for Pakistan

- Monetize as many perks and benefits as possible
- Link total compensation with performance: examples include, performance contracts for senior civil servants, and appraisal-based bonus systems for all civil servants
- Make civil service small in size and high on efficiency
- Keep the option of lateral entry for experts open
- Give competitive salaries to civil servants in comparison to the private sector so that incentives are not distorted

CONCLUSIONS & SUGGESTED COURSE OF ACTION

The only thing transparent in the civil servants' compensation structure is that it is opaque. There are numerous allowances, perks, and benefits, many of which are invisible. The generous handing out of perks has allowed the system to be gamed and maximise the compensation. While cash and in-kind benefits are not evenly distributed across different entities, some benefits are not even recognised, such as housing and official car use and fuel. The officers of certain entities avail disproportionately more benefits than the others. The fact that most of the benefits are not taxed make them attractive for the officers but are a burden on the government. Furthermore, the benefits are heavily skewed toward the top-tier officers in grades 20 to 22.

Public administration is an integral whole, and no office, post, or organisation may be allowed to become privileged for the grant of special pays, perks, and benefits.

Economic theory suggests that civil servants should be paid well, in cash only, and on competitive terms with the private sector (Dixit, 1997). We should remember that the Colonial Empire paid civil servants handsomely and got good returns (Hill, 2007).

In general, the reform must begin by adequately compensating all civil servants so that their welfare is not compromised. The monetisation of perks is critical as it would give a more accurate picture of the remuneration and reduce the disparities within the structure. Previous pay commissions' recommendations failed because they recommended only an increase in pay and allowances while sticking to the existing structure.

1 Unproductive Assets

The preceding chapters have shown that the current compensation structure is fragmented and involves complex and costly asset management (housing, official vehicles, etc.), which hinders potential economic activity. Public assets at the disposal of civil servants entail various costs to the government, are unprofitable, and block investment by the private sector.

Housing

Currently, the government does not have a proper check and balance system governing the utilisation of public sector housing for civil servants. For example, the practice of holding more than one subsidised plot in departmental housing schemes is widespread. Even those civil servants who have their own houses or are already utilising a government house buy multiple plots and then sell it on more than double the profit. This speculative behaviour should be discouraged in favour of civil servants without a rental facility to own their own houses. Thus, the government housing schemes should be designed to provide one plot/one

house for a civil servant according to their paying ability, rather than a plethora of departmental schemes leading to speculative behaviour.

One of the federal level employees' major complaints is the difference in facilities being offered to federal and provincial employees. The construction package should work in a manner that there is a level playing field for both federal and provincial employees.

Along with creating inequalities exacerbated by the shortage of government housing, it is an inefficient use of precious land. It is also causing revenue losses, as according to the FBR (2020) report, the government is losing Rs 30 billion annually on government accommodation.

Our estimates in Chapter 3 (Table 5) show that government housing assets have a market value of approximately Rs 1,45 trillion. The government can receive this value after releasing the government housing assets in Islamabad to the private sector. The houses' expected rental value and the market value suggest that the opportunity cost is enormous compared with the benefit of the facility enjoyed by the selected civil servants. The current government housing is causing welfare loss as well as blocking growth opportunities.

Transportation

According to the transport monetisation policy of 2012, the civil servants in BPS 20, 21, and 22 are entitled to withdraw Rs 65,960, Rs 77,430, and Rs 95,910, respectively, in place of using official transport. The policy's core objective was to minimise the vast expenditures on the transport and make efficient use of official vehicles. Unfortunately, despite the monetary compensation, neither the expenditures reduced nor the misuse of official vehicles restricted. Instead, transport expenditures have been increasing. Conservative estimates, considering only the federal civil servants in Islamabad, show that official cars' notional value in use ranges between Rs 1.48 billion and Rs 1.53 billion (Chapter 3, Table 7).

2 Monetisation

One of the NPM literature's key messages is that perks and benefits must be monetised as it brings clarity within the system by freeing up institutional resources that are used to sustain and administer these benefits. International experience also shows that more and more countries are moving towards the monetisation of benefits and perks (Chapter 6). Since Pakistan also seems to be moving towards the NPM, the monetisation of different perks must be on the reform agenda.

As proposed above, the civil servants' salaries must be commensurate with the private sector, adjusted periodically. The adjustment would be twofold.

- Firstly, the government would survey the salaries in the private sector annually and adjust the civil servants' salaries accordingly.
- The second component of the adjustment is performance-based. Those civil servants who cross a pre-determined efficiency bar would be given a performance-based increase.

Government Housing

A natural place to start the discussion on monetisation is government housing because of the assets involved and its potential impact on the real estate sector. For the monetisation of government housing, an important consideration is its pace and sequencing.

Monetise sequentially by grades

- Monetisation in one go can create a housing backlog and can cause another housing market crisis. Thus, the monetisation of the housing facility can be started sequentially by grades within specified time limits.
 - Since houses occupied by employees in grades 19-22 are only 602 (see Table 3), it is logical to start the monetisation of housing from grades 19-22.
 - In the next stage, consider grades 11-16. Around 2,300 houses can be freed up during this phase.
 - In the last stage, the housing facility of the grades 1-10 employees can be monetised; approximately 73% of the total houses in Islamabad have been allocated to grades 1-10 employees. If the government monetises the housing facility of these grades, the government will have to bear an additional Rs 2.8 billion monthly to free up around 13,000 houses located in G-6, G-7, G-9, and other sectors.
 - In step 1, the government will free up 602 houses at prime locations.
 - In steps 2 and 3, the government can release around 84% of the total houses by incurring Rs 6.5 billion on monetising housing.
- Space freed up by the monetisation of the housing facility must be put to gainful uses because most of the land used for official accommodation is in prime locations, close to the downtown.
 - The land must be used for commercial construction and social infrastructure (libraries, recreation, and community places). The use of the freed-up land must be undertaken under a public-private partnership (PPP) model because it requires resources, management, expertise, and risk-sharing. A part of the freed-up land, for example, in the first stage, may be used for affordable apartment-style housing.

Transport Facility

Currently, the estimated value of cars being used by grades 20-22 officers in Islamabad is around Rs 1.53 billion, which could be put to other uses if the transportation facility is monetised.

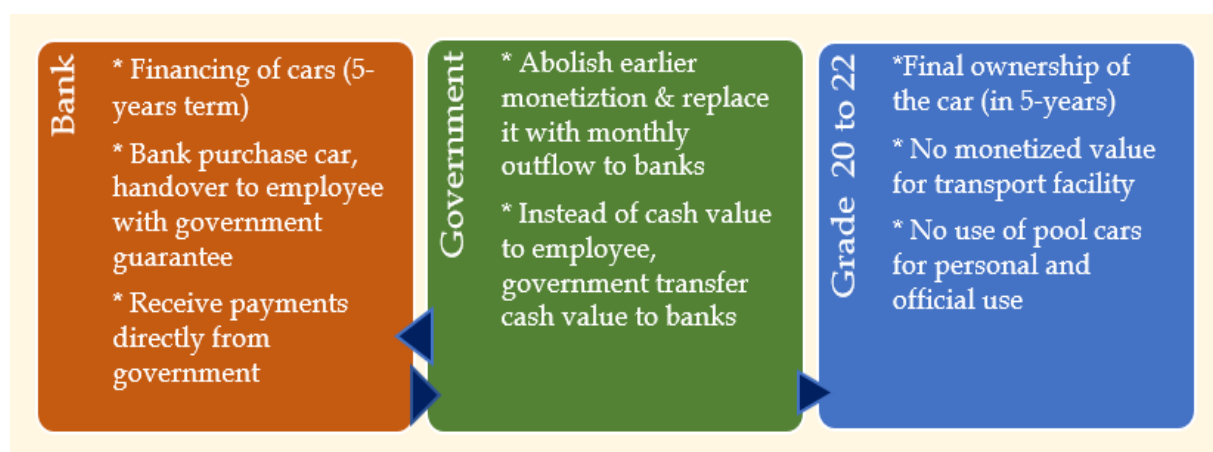
Our proposal is based on successful practices in the labour market. A survey of the private sector labour market suggests that the following low-cost model could minimise transportation expenditures and rent-seeking.

- The current transport monetisation must be abolished. The new system would involve three parties: banks, the government, and grade 20-22 civil servants (Figure 21).

- In this monetisation proposal, banks would finance the car at a five-year term, and the government would guarantee the payments to banks.
- The government would then deduct monthly payment from the salary and transfer to the bank.
- The proposed model would ensure that the officials will have a fully maintained car with a driver from the first day of the contract.
- Piling up of transport expenditures and personal use of official vehicles would be minimised in this model. The advantage of this model is that the bank would do the monitoring of the asset.
- The stock of pool cars and project cars must also be reduced to a bare minimum, and the car requisition system must be abolished. The reduction of pool cars will further increase the financial benefit to the government.

Figure 19

Monetising Car Facility



Source: Authors' illustration

- If the system of official cars used for private use is dispensed with, it will free up at least 1,229 cars only in Islamabad.
 - Based on the inventory of the freed-up cars, most of these cars will be auctioned off.
 - The remaining cars will be put in a shared pool. The civil servants can be issued a fixed number of vouchers per month to use these cars for private use. Beyond the number of vouchers, the civil servants will be charged for using official vehicles as per the government rules for using an official vehicle for private purposes.

Monetise the Medical Facility/Health Care

The current medical reimbursement system has put all the financial burden on the government. The government not only pays the medical allowance but also reimburses the indoor hospital charges. This cost will keep on increasing as the number of employees increases over time.

Our survey of the private-sector labour market indicates that the private sector has successfully shifted to the insurance system. If the government also shifts to the insurance system, it can save Rs 2.3 billion per month (see Table 9).

3 Sustainable Pension with Monetisation

Although civil servants get a pension after retirement (see Appendix for the unsustainability of the pension expenditures in Pakistan), the pension is a sudden decline in retirees' real income. The monetisation of compensation, along with the adoption of a more solvent pension solution (with a grandfather clause), would give the retired civil servants not only an increase in real income after retirement but it would also give them more autonomy to manage their funds.

Fully Funded Defined Benefit (DB) or Defined Contribution (DC) System

An analysis of the pension system for the federal civil servants shows that the existing system has multiple payout systems to pensioners, is actuarially unfair, and is biased upward. Above all, its financing is becoming expensive since it competes for taxpayers' money.

The current system is a DB system that requires flexibility in terms of contributions, vesting period, and other parameters in case of any reform or shock, such as an increase in life expectancy, cost elements, and inflation indexing. However, since it is a pay-as-you-go (PAYG) system, these options are not considered. This system is unsustainable and is considered the least preferred one the world over.

NCGR, in its report (Vol-I, 2008), recommended that: "The Pension System should be revised from defined benefits to defined contribution and should be funded" (p. 204). The Commission proposed a complete road map that required "Complete Analysis of Pension Options and made recommendations guided by the advice given to the government by the Pay and Pension Committee" by the Finance Division, Establishment Division, and an actuarial firm/consultant." This recommendation remains to be followed.

Having a DB system, which is unfunded, creates barriers for entry and exit into the civil services. Turnovers are not possible because of the unrealised pension benefits. If this system is converted into a DC system, employees would have more leverage for switching across governments, autonomous bodies, recruitment types, and the private sector. This would help attract qualified and talented individuals at various stages of the service.

Globally around 10%-15% of the payroll is provided for financing a pension scheme. In the case of Pakistan, this is 33.3% of the pensionable emoluments. An actuarial analysis is required to ascertain the required payroll contribution to switch to a DC system, which is fully funded (inflation-indexed or without index).

Below we have made projections for a DC system on the financing side based on the following assumptions:

- 1 The existing pensioner would get the same pensions as they are receiving now. The overall volume would be frozen; only exits from the system would allow inflation

indexing for the remaining. Using the budget estimates of Civil Federal Pensions for 2019-20, these are projected to remain constant for the next five years and then start to decline at 5% per annum due to a reduction in existing pensioners.

- 2 For those in the government service assuming emoluments reckonable for the pension to be current pay bill⁵ and 30% of current allowances. Three scenarios of defined contribution funded by the government are developed at the rate of 25%, 20%, and 15%. The final outlay of DC and ongoing existing pension expenditure as a percentage of current expenditures are plotted.
- 3 Current expenditures are assumed to increase by 5% per annum.

This basic exercise identifies that initially, total pension outlays increase from 1.5% of the total current expenditures to around 1.83%, 1.72%, and 1.61% for the three scenarios, respectively, in 2020-21, which is the first year of reform (Figure 20). This initial rise tapers down to the starting level of 1.5% in the sixth, the fifth, and the third year respectively for the three scenarios and then continuously decline and converges around 0.5% in thirty years. The reform would make pension payouts to be sustainable in the long run.

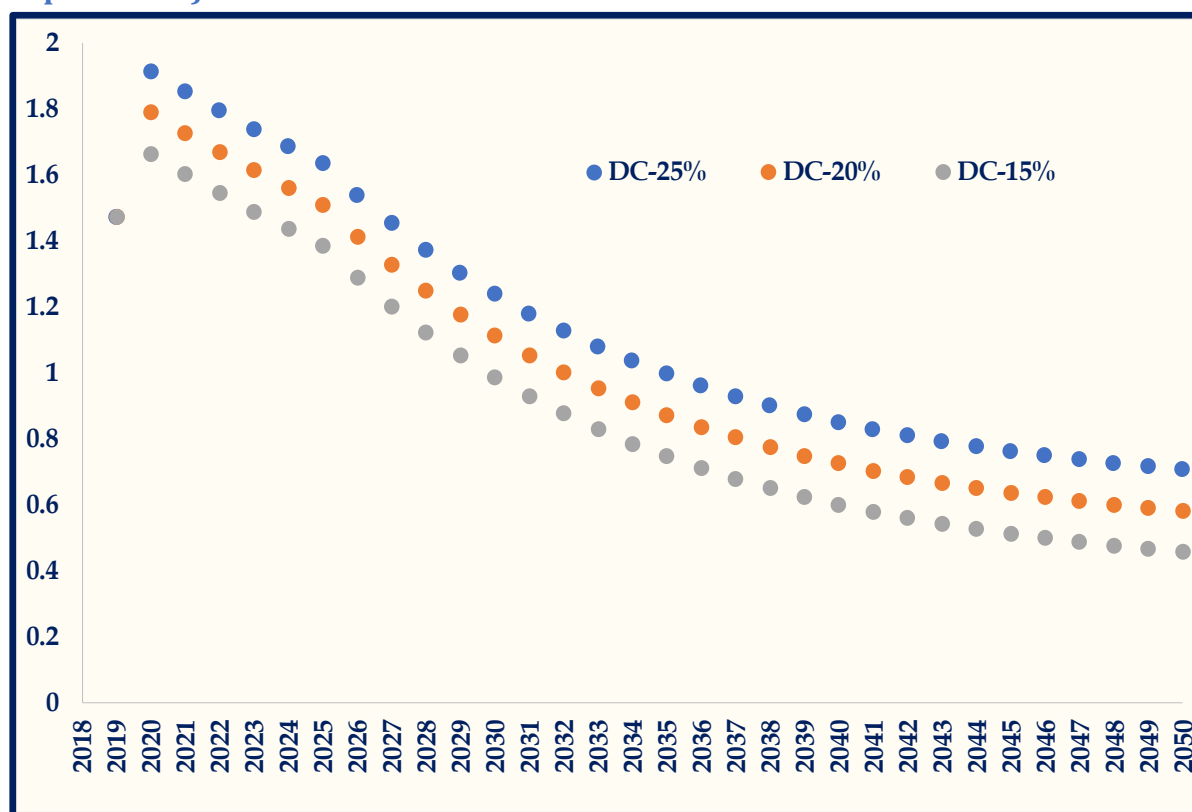
The funds allocated in this option can be invested in:

- Existing options within the government, such as National Savings Scheme (NSS) through pension vouchers (used as assets for annuity payment).
- In approved pension funds, which can be developed in collaboration with the private sector. These will also release substantial capital resources for investments.

⁵ Options such as median wages or average wages can also be evaluated at micro level.

Figure 20

Scenarios for Defined Contribution (Civilian Pensions as % of Current Expenditure)



Source: Authors' calculations

However, an actuarial analysis must be done to identify the possible benefits that these funds can offer. The world over, these pension funds are operated by trusts, private funds managers, and even governments themselves. If appropriately managed, these funds play a pivotal role in providing for the economy's financing requirements. So, this system would also unleash growth along with making this sustainable for the government.

4 Release Assets, Boost Growth

Monetise Housing to Help Boost Construction Industry

The monetisation of government housing has the potential to boost the construction industry. According to a PIDE Knowledge Brief (Ali, 2020), the focus must be shifted from horizontal expansion to vertical expansion. Therefore, instead of horizontal expansion, the scheme should aim at vertical expansion whilst doing away with government-imposed limitations. For this purpose, the government's announced subsidy may be tailored so that the amount of subsidy is substantially larger for vertical expansion projects and involve the private sector in it.

In particular circumstances, like regulating real estate, there are overlapping federal and provincial regulations that need to be brought under the ambit of a single regulatory entity.

- Begin with investment in relatively more outdated and very old houses. For example, more than 6,000 houses in Sector G-6 are very old single-floor small units. These houses are in the prime location, which is connected to the Islamabad downtown.
- The government can start the sequential cycle of investment by opening this area for investment, generate revenue, and reinvest in the next sector. The process must continue until the precious government land is utilised efficiently.
- The investment can be made through a public-private partnership for low-cost housing and commercial construction. By releasing the government land for market activities involving the private sector, substantial financial gains can be had. For example, the government can allow 40% of the land presently occupied by low-value housing for commercial use and 60% for high-rise housing, from which the government can potentially earn billions of rupees. The reform would also increase the accommodation capacity of the land by more than ten times.

Overall financial gains

The monetisation of government housing could free up vast swathes of land. Currently, the prime land is locked up in unproductive use, which could otherwise be used for commercial activities. Government housing is also a drain on resources spent on maintenance. The monetisation of government housing, therefore, could be a source of considerable financial gains. For example, a part of the freed-up land could be auctioned off for commercial uses, such as high-rise buildings, theatres, and complexes, which would bring in significant investment (Box 16). Moreover, the monetisation would also save precious resources spent on maintaining government houses in posh areas located close to the Islamabad downtown.

Box 16

Gains from Monetisation of Housing

Estimates (PIDE, 2020) suggest that about 864 acres of land could be available if all the government houses are vacated in Islamabad. Notably, the land is available in large parcels of about 20 to 50 acres. Due to the course that CDA planning has taken, finding such parcels for commercial development is otherwise almost impossible now. Such fragmentation has destroyed construction possibilities and has eroded value. If we go the usual CDA planning route and sell this land in small housing parcels, the value is estimated to be Rs 233 billion.

On the other hand, even with a generous allocation (about 50%) for common areas and amenities, about 423 of the 864 acres of land could be available for complex modern development. Note that Centaurus has been built on 5 acres of land with an investment of Rs 50 billion or USD 0.5 billion. Assuming we build the equivalent of 80 Centaurus-like malls on this land, the investment potential is USD 40 billion.

With generous height and use rules, it has been estimated by the best experts available that this could result in an investment potential of Rs 6 to 10 trillion. This is equivalent to about USD 60 to 100 billion or 30% to 50 % of our GDP.

Growth and Employment Impact

Haque (2016) has estimated that the construction of each high-rise building directly involves about 3,000 workers and another 3,000 indirectly. It could create about 0.5 million new jobs. Haque's analysis stresses that this development could take ten years if done judiciously without bureaucratic interference. The investment would increase by 3% to 5% of GDP annually. This investment increase could increase growth by 1%–2 % annually over and above other initiatives based on our existing growth-investment relationship.

5 Reduce the Staff in Lower Grades

As discussed above, currently, there is overstaffing in grades 1-11 (85% of the salary bill currently goes to these employees). The discontinuation of most of these posts, which have become redundant over time (such as peons), will save finances that can be used to finance additional costs in case of salary revisions. Once the present occupiers retire, apart from surrendering existing vacant posts, no more employees in these grades should be hired.

REFERENCES

- Alavi, H. (1972). The State in Post-Colonial Societies: Pakistan and Bangladesh. *New Left Review*, 1:74.
- Ali, Z. (2020). *City Planning and Urban Design Guide*. PIDE Knowledge Brief No. 2020:13. Islamabad: Pakistan Institute of Development Economics. <https://pide.org.pk/pdf/PIDE-Knowledge-Brief-13.pdf>
- Ashraf, M. (2007, April 29). *Pay Structure of Public Employees in Pakistan*. Presented at National Reconstruction Bureau (NRB), Islamabad.
- The Accountant General of Pakistan Revenue (AGPR) (2020). Islamabad, the Government of Pakistan.
- Biggs, A. & Richwine, J. (2011). *Comparing Federal and Private Sector Compensation*. American Economic Policy Institute Working Paper 2011-02. Washington, D.C., USA.
- Bilquees, F. (2006). *Civil Servants' Salary Structure*. PIDE-Working Papers 2006:4. Islamabad, Pakistan Institute of Development Economics.
- Chassamboulli, A. & Gomes, P. (2019). *Public Sector Employment, Wages and Human Capital Accumulation*. Department of Economics Working Paper No. 07-2019. Nicosia, The University of Cyprus.
- Cheema, A. & Sayeed, A. (2006). *Bureaucracy and Pro-poor Change*. PIDE-Working Papers 2006:3. Islamabad, Pakistan Institute of Development Economics.
- Dixit, A. (2002). Incentives and Organizations in the Public Sector: An Interpretative Review. *The Journal of Human Resources*, 37(4):696 – 727.
- Dixit, A., Gene, G. & Helpman, E. (1997). Common Agency and Coordination: General Theory and Application to Government Policy Making. *Journal of Political Economy*, 105(4):752-769.
- Dunya News (2018, September 18). *Only the maintenance of the lavish residences of Punjab govt officials cost 10 billion a year*. Accessed at: <https://dunyanews.tv/en/Pakistan/457235-Lavish-Residences-of-Punjab-govt-officials-maintenance-cost-10-b>
- Establishment Division (2019). *Annual Statistical Bulletin of Federal Government Employees for 2018-19*. Islamabad, Government of Pakistan. Accessed at: <https://establishment.gov.pk/SiteImage/Downloads/Annual%20Bulletin%202018-19.pdf>
- Estate Office (2020), Islamabad, the Government of Pakistan.
- Ferlie, E. (2017). Exploring Thirty Years of UK Public Services Management Reform - The Case of Health Care. *International Journal of Public Sector Management*, 30(2):615-625.

- Hill, J. P. (2007). *The Agency Problem of Empire: British Bureaucracy and Institutional Path Dependence* (Unpublished doctoral dissertation). George Mason University, Fairfax, VA, USA.
- Haque, N. Ul (2007). *Brain Drain or Human Capital Flight*. Lectures in Development Economics, No. 11. Islamabad, Pakistan Institute of Development Economics.
- Haque, N. Ul. & Khawaja, I. (2007). *Public Service: Through the Eyes of Civil Servants*. Islamabad, Pakistan Institute of Development Economics.
- Haque, N. Ul & Muslehuddin (eds.) (2006). *Public Sector Efficiency: Perspectives on Civil Service Reform*. Islamabad, Pakistan Institute of Development Economics.
- Husain, I. (2020, Tuesday, October 6) PIDE Webinar on Civil Service Reforms. Retrieved from <https://pide.org.pk/index.php/research/webinars?id=801>
- Husain, I. (2018). *Governing the Ungovernable: Institutional Reforms for Democratic Governance*. Karachi, Oxford University Press.
- Jabeen, N. & Jadoon, M. (2013). *Administrative Reforms in Pakistan*. In Sabharwal, M. & E. Berman (eds.) *Public Administration in South Asia*. Cleveland, OH, USA: CRC Press.
- Jalal, A. (1995). *Democracy and Authoritarianism in South Asia: A Comparative and Historical Perspective*. Cambridge, UK: Cambridge University Press.
- Khan, F. J. (2020). *Foreign Training of Government Officers and Public Sector Capacity in Pakistan*. PIDE Working Paper No. 2020:19. Islamabad, Pakistan Institute of Development Economics, Islamabad.
- Kim, P. S. (2012). *Salary Reform in South Korea and Japan*. Presented at Yonsei University, South Korea.
- Kim, P. S. (2003, October 6). *The Management of Senior Civil Servants in Korea*. Presented at Yonsei University, South Korea.
- Lahore High Court. Judges' Salary Data. Accessed at: <https://www.lhc.gov.pk/system/files/Pay-HCJ-J.pdf>
- McCourt, W. & Horscroft, V. (2004, May 15). *Pay differentials in public sector pay reform: Insights from HR professional practice*. *World Bank Blogs*. <https://blogs.worldbank.org/governance/pay-differentials-public-sector-pay-reform-insights-hr-professional-practice> (Accessed: December 26, 2020).
- The Ministry of Finance (2020). *Budget Documents* (Various Issues). Islamabad, the Government of Pakistan.
- The Ministry of Finance (2020). *Pakistan Fiscal Operations*. Islamabad, the Ministry of Finance, Government of Pakistan. Accessed at: http://www.finance.gov.pk/fiscal_main.html.
- The Ministry of Personnel Management (2020). Seoul, the Ministry of Personnel Management, the Government of South Korea.
- National Commission for Governance Reforms (NCGR) (2008). *Report of the National Commission for Government Reforms on Reforming the Government in Pakistan*. Islamabad, NCGR, Prime Minister's Secretariat, Government of Pakistan.

- Nawaz, S. & Khawaja, I. (2019). Fiscal Policy, Institutions and Growth: New Insights. *The Singapore Economic Review*. 64(05): 1251-1278.
- Pakistan Bureau of Statistics (2019). *Labour Force Survey (LFS) 2017-2018*. Islamabad, Pakistan Bureau of Statistics, the Government of Pakistan.
- Saxena, N. C. (2011). *Virtuous Cycles: The Singapore Public Service and National Development*. Singapore, United National Development Programme (UNDP).
- Schiavo-Campo, S. (1996). Reforming the Civil Service. *Finance & Development*. September, 1996: 10-13.
- Subohi, A. (2020, July 20). How Necessary are Pension Reforms? *Dawn* (Accessed at: <https://www.dawn.com/news/1569936>)
- Tanwir, M. & Chaudhry, A. (2016). Reforming a Broken System: A New Performance Evaluation System for Pakistan Civil Servants. *The Pakistan Development Review*, 55(1): 49-72.
- Tanwir, M. & Chaudhry, A. (2015). The Performance Evaluation Service in Pakistan's Civil Service. *Africa's Public Service Delivery and Performance Review*, 3(2): 81-103.
- Tharoor, S. (2016), *An Era of Darkness: The British Empire in India*. New Delhi: Aleph Book Company.
- Tjiptoherijanto, P. (2012). *Good Governance: The Storybook Children*. Working Papers in Economics and Business 201209 Faculty of Economics and Business. Jakarta, University of Indonesia.
- The United Nations (2020). Islamabad, the United Nations Office.
- The World Bank (2020). *Worldwide Bureaucracy Indicators*. Washington, D.C., the World Bank Group.
- Zameen.com (2020). *Property Data*. Lahore, Zameen.com. Accessed at: zameen.com

Appendix

THE SUSTAINABILITY OF PENSIONS

Unlike other countries, Pakistan has not reformed its pension system and still maintains the PAYG type pension system, which is continuing to build up an unfunded liability for the government⁶. The payment of pensions requires a continuous increase in financing from future taxes to remain solvent. The share of civil pensions as a percentage of current expenditures is increasing gradually. In FY20, it stood at around 7.6% (Federal Government Budget Document) and is entering into an unsustainable territory of public financial management.

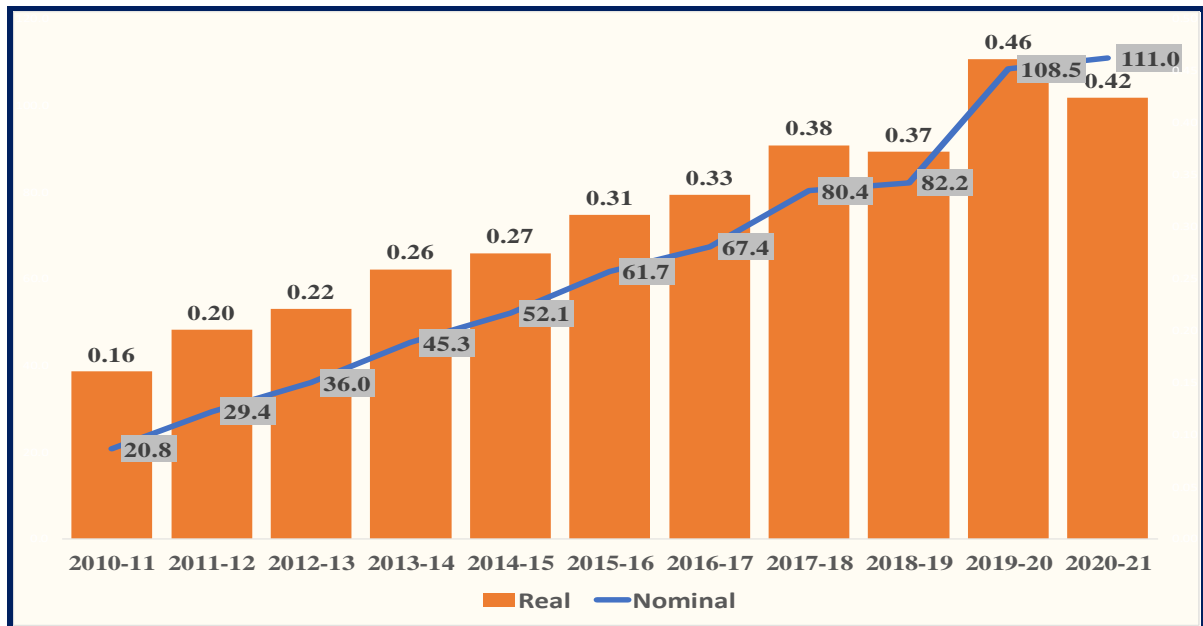
Pakistan's existing pension system is fragmented, non-transparent, understudied, and without any underlying asset base. The federal government, provincial governments, armed forces, autonomous bodies, and other government agencies are throwing forward the pension liability without any plan on how to meet the growing burden.

Reviewing the pension expenditure variable separately is also alarming. Figure A1 shows that both nominal and real pension expenditures are snowballing. The amount spent on federal pensions has increased over the last decade by about 18% per annum in real terms. Given that our long-term GDP growth rate is 4% and growth in taxes is 9.1%, the pensions are growing faster than both. Hence, keeping a pay-as-you-go scheme would certainly make financing more difficult.

⁶ Total Federal Superannuation Allowances and Pension allocation were 0.5% of GDP in FY-2005 and have increased to 1.1% in FY-2020 (Pakistan Fiscal Operations. Accessed at http://www.finance.gov.pk/fiscal_main.html)

Figure A1

Nominal and Real Pensions: 2011-2020 (Rs Billion)

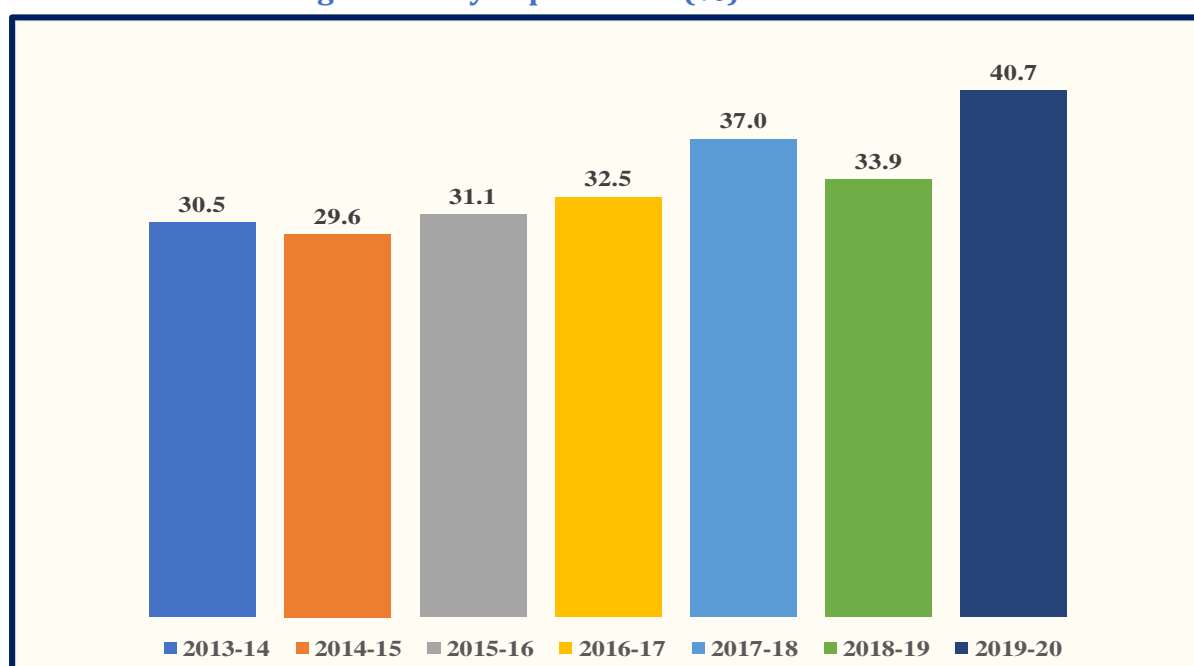


Source: GOP Budget Documents

Pension payouts have many determining factors. Demographic patterns also influence the expected payments to be made. Figure A2 shows an alarming trend; it is continuously rising (30.5% in 2013-14 and 40.7% in 2019-20). An ageing population, increased medical expenditures, pension reforms, and forced inflation indexing will all continue to put pressure on the civil servants' pension bill, adding to the cost to the federal government well beyond their retirement. Since taxes finance pensions, it shows a fiscally unsustainable allocation. With this growth, soon the Federal Government will be paying more as a liability rather than paying for services.

Figure A2

Pensions as Percentage of Salary Expenditure (%)



Source: GOP Budget Documents

Because of employers' risks, defined-benefit plans require complex actuarial projections and insurance for guarantees, making administration costs very high. As a result, DB plans in the private sector are rare and have been largely replaced by defined contribution plans over the last few decades.

1 Some Critical Issues

Some of the critical issues in Pakistan's pension system are:

- The current system is fragmented. There are five classifications (compensation pension, invalid pension, family pension, superannuation pension, retiring pension), but civil servants have no flexibility to choose their benefit streams or use a portable pension scheme.
- Other pension-related benefits to civil servants such as benevolent fund, group insurance scheme, general provident fund scheme, and health facilities at government expense distort the actual benefits streams at the time of retirement from service.
- The current pension scheme in place is actuarially an unfair pension system. The pension is calculated based on the last income drawn. It is a pay-as-you-go system with defined benefits (increasing in rates and scope over time) with no benchmarking based on actuarial analysis. There is currently no one working as an actuary in the Budget Wing of the Finance Ministry. When probed about the last actuarial analysis, it was learned that there is no such report available, and the last analysis was done in 2009.

- There have been significant changes in the demographic patterns of the population. Life expectancy at the superannuation age has changed radically, and, on average, the pension stream lasts for about 23 years.
- *Rate and scale of pension.* Pension is calculated at the rate of 70% (replacement ratio) of the last pay drawn on completing 30 years of qualifying service. However, the requirement of the qualifying service and other terms and conditions bind the civil servant to stay in the system and creates an impediment for new entrants who cannot complete the gestation period.
- *Bias towards higher grades.* There is a clear case of conflict of interest because the beneficiaries of reforms are the ones who develop these reforms. Furthermore, the benefit packages are skewed upwards. For instance, the term emoluments reckoned for pension calculations include the emoluments which a government servant was receiving immediately before their retirement, and includes:
 1. Pay as defined in FR9(21)(a)(i) (i.e. the basic pay).
 2. Personal Pay.
 3. Technical Pay.
 4. Special pay of all types and nature.
 5. Dearness allowance.
 6. Increments accrued during LPR
 7. Senior post allowance in the case of officers of BPS 20 and above.

Other than the emolument in Serial 1, all the rest are skewed towards higher grades or specific groups.

Inner Back

Pakistan Institute of Development Economics

P.O. Box 1091, Islamabad - 44000, Pakistan

Tel: + 92-51-9248137, Fax: 92-51-9248065, E-mail: publications@pide.org.pk