

## Reforming the Civil Service Compensation in Pakistan

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Since the 1950s, many pay commissions and committees have been formed, but there has been no objective assessment of civil servants' pay structure. Moreover, there has been no analysis of civil servants' total cost, including not just the pay but all the monetary and non-monetary perks, to verify the commonly-held perception that civil servants are underpaid compared to their private sector counterparts. To fill this gap, PIDE's report on the civil service compensation, "Cash Poor, Perk (Plots, Privileges) Rich! Civil Service Compensation in Pakistan: Incentives, Dissatisfaction, and Costs" (PIDE, 2021), looks into some key issues within the civil services. The issues that the report looks into 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 analysis shows that the remuneration of a civil servant is a collection of cash payments, in-kind rewards, and intangible benefits.

- The total reward of a civil servant is several times 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 several times higher than the benefits received by the official.

### THE CURRENT FEATURES OF PAKISTAN'S CIVIL SERVICE

#### Allowance Pervade

The allowances and perks pervade the pay structure of the civil servants. The system causes disparities when the more powerful cadres get more allowances and perks than the others. The provision of perks instead of cash is believed to distort employees' incentives.

#### 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. While technical and professional staff are restricted both vertically and horizontally.

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*Authors' Note:* Based on the PIDE study, "Cash Poor, Perk (Plots, Privileges) Rich! Civil Service Compensation in Pakistan: Incentives, Dissatisfaction, and Costs" (PIDE, 2021) by Nadeem Ul Haque, Durr-e Nayab, Omer Siddique and Naseem Faraz.

### **Pay and Performance Disconnect**

The promotion and placement policy is not aimed at rewarding those who perform well and can take higher responsibilities. Wage overlaps accentuate this disconnect when people in a lower grade get the same pay as those above.

### **Wage Compression**

In Pakistan's public sector, the wage compression ratio is under 10 if we only consider the average basic pay for the lowest and the highest BPS grades. However, the ratio increases to 17 when considering 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.

### **BENEFITS**

Valuing the in-kind benefits received by the civil servants shows that:

- Public-owned houses have a minimum market value of Rs. 1.45 trillion, which has the potential to 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 percent to 17 percent on the compensation.
- Apart from the medical allowance, which is a part of the salary slip, approximately Rs. 2.3 billion monthly is 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.

### **SUGGESTED REFORM MEASURES**

Economic theory suggests that civil servants should be paid well, in cash only, and on competitive terms with the private sector (Dixit, 1997). In general, the reform must begin by adequately compensating all civil servants to not compromise their welfare. Previous pay commissions' recommendations failed because they recommended only an increase in pay and allowances while sticking to the existing structure.

The important features of the compensation should be the following:

- The current unified pay scale (UPS) system must be abolished and replaced with a new federal service system. In the new system, different professions should be introduced based on merit.

- The wage system should be based on an annual survey of salaries in the private sector, discounted by parliament and the cabinet.
- The civil servants' salaries should be adjusted based on two components: (i) inflation-indexation and (ii) performance.

### **Monetisation**

One of the New Public Management (NPM) literature's key messages is that perks and benefits must be monetised to bring clarity within the system. International experience also shows that more and more countries are moving towards the monetisation of benefits and perks.

### ***Government Housing***

The monetisation could start from 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.

- Since houses occupied by employees in grades 19-22 are only 602, the housing monetisation should start from grades 19-22.
- In the next stage, consider grades 11-16, which can free up around 2,300 houses.
- Finally, the housing facility of the grades 1-10 employees can be monetised; approximately 73 percent of the total houses in Islamabad have been allocated to grade 1-10 employees.
- In steps 2 and 3, the government can release around 84 percent of the total houses by incurring Rs 6.5 billion on monetising housing.
- The freed-up land must be used for commercial construction and social infrastructure (libraries, recreation, and community places) 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. The features of the transport facility monetisation should be the following:

- Abolish the current transport monetisation and adopt a new system, which involves three parties: banks, the government, and grade 20-22 civil servants.
- 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.
- Adopting this model, transport expenditures and personal use of official vehicles would be minimised, while the monitoring of the asset, i.e., the car, would be done by the bank.
- 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.

- 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.
  - 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.

### ***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.

### ***Sustainable Pension with Monetisation***

The monetisation of compensation, along with the adoption of a more solvent pension solution (with a grandfather clause), would give the retired civil servants an increase in real income after retirement and give them more autonomy to manage their funds.

### **Fully-Funded Defined Benefit (DB) or Defined Contribution (DC) Pension System**

The current unfunded DB system creates barriers for entry and exit into the civil services, and 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. Also, switching to a DC system would make pension payouts to be sustainable in the long run.

The funds allocated for the DC system 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.

So, this system would also unleash growth along with making this sustainable for the government.

### **Reduce the Staff in Lower Grades**

Currently, there is overstaffing in grades 1-11 (85 percent 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.