



GOVERNANCE REFORMS: ANCHORED IN CIVIL SERVICE REFORMS

Shahid Kardar

Summarised below are the components of a civil servant's compensation that do not get fully reflected to enable determination of the accurate cost of a civil servant.

- A host of allowances like entertainment, special pay at 15% of basic salary (as is the case in the Punjab), qualification pay, senior post, etc.
- Furnished residences provided in prime locations of the city (with services of security staff and a gardener) whose maintenance and periodic renovation is shown respectively under repairs and maintenance of the euphemistic term 'public buildings' and under the much celebrated term 'development expenditure';
- The cost of residential utilities like electricity, gas and telephone borne by government;
- Peons, janitorial staff in offices or those employed by local governments found providing free services in the homes of officers in Grades I9 and above (the former especially in the provinces);
- The use (including the cost of petrol) of an official chauffer driven car for private use as well. According to a PIDE study, the cost of use of an official car can be as high as the cash salary of those in pay grades 20-22. In reality, most senior civil servants in Federal Ministries or provincial departments that have set up public sector agencies have at least an additional chauffer driven car at the disposal of their families, whose running costs are financed by one of these parastatals, that are also more than likely to be bearing the cost of his cell phone;
- The costs of medical treatment of him/herself and his/her family. The PIDE study reveals that whereas

a medical allowance is paid for separately as part of the monthly salary slip exceeding Rs.2.3 billion on average costs to the Federal Government monthly on their medical related reimbursements;

- As representatives of government, memberships of boards of entities in which the government has a stake;
- Postings to high profile Pakistan specific positions in multilaterals;
- Subsidised social clubs in all major cities;
- Many Secretaries also get a heavily subsidised, if not allotted (free of cost), residential plot on retirement (with the more 'enterprising' among them managing multiple allotments), apart from being entitled to retain (free of rent) for 2 years after retirement the official residence that they were occupying on the date of retirement;
- Apart from job security they are also entitled to forms of social protection, both pension and non-pension in nature, such as life insurance, medical coverage, provident fund, etc. briefly described below. An understanding of the pension system is important since average life-expectancy is rising and government functionaries as a group are likely to live longer than the rest of the population, which is pushing up the already high future pension payment bill even further; by now the pension liability of the Federal and provincial governments (excluding those pertaining to staff of public universities) has crossed Rs.13 trillion;
- Civil servants are entitled to a generous monthly pension payment after 25 years of service, which is linked to the salary drawn at the time of retirement and the number of years of service, presently 70% of the last drawn salary. According to the PIDE study, the rights to pension are even more generous: after the civil servant's death 13 heirs can claim pension as family-including widows, unmarried or divorced daughter, underage/dependent children at a reduced rate of 50%. Moreover, with pension increases announced periodically by government, the pension payment, in some cases, touches almost 1.4 times the last drawn salary;

Furthermore, under the pension entitlement rules they can 'commute' 40% (reduced from 50% in 2001) of their gross pension in lump sum at the time of retirement. This is a generous benefit, since the amount paid as commuted pension is not discounted to arrive at the present value of this payment in advance that the retiree would have received as monthly pension over several years in the future.

- On retirement civil servants are also paid a gratuity, equal to 40 times the last drawn salary. Under the current pension system existing civil servants are not required to make any contribution to their eventual pension or gratuity benefit. This cost is borne entirely by the government.
- Civil servants are also entitled to a General Provident (GP) Fund to which only they contribute, but on which, until 2001, they were paid an interest rate that was 30% higher than the market rate.
- Employees also contribute 2% of their basic salary to a benevolent fund, the benefit under which translates to 35% of wages for premature death or disability up to the age of 70.
- There is also a life insurance cover under a Group Insurance Policy under which the benefit is roughly 2.5 times the annual salary- ranging from Rs. 100,000 to Rs.1 million.
- Civil servants are also entitled to four days a month as leave that they can accumulate equivalent to one year's vacation with pay, of which six months can be encashed.

Admittedly, some of the non-monetary perks granted to senior civil servants tend to be discretionary and selective in nature; the rationing covering less than 15% of the total civil service work force. However, and understandably, in return for the granting of such benefits favours have to be exchanged, undermining governance systems and structures.

RECOMMENDATIONS:

A) REORIENTATION OF GOVERNMENT

The discussion above has tried to show that with budgetary constraints, competing imperatives, pallid growth and rising expectations of citizens, an overriding vision informing the future role of government governments is warranted. This will require reconsidering functions they should take upon themselves to perform, and accordingly reengineer the institutional set-up. It has attempted to demonstrate the need to rethink and redefine the role of government, since this will determine the size, skill-mix, compensation and training of the civil service to be paid from the public purse.

The best way to explain this is in terms of what the government should neither do nor pay for (e.g running retail outlets for articles of daily use, banks, airlines, etc.), should do and pay for (only defence, foreign policy, fiscal

and monetary policy, justice, law and order and some categories of physical and social infrastructure that the market and the private sector cannot provide come to mind as the government's sole responsibility) and those that the government should pay for but not necessarily do itself.

Identifying areas and services that the government should pay for but not do, produce or provide itself, is relatively more difficult. However, the following example should be able to illustrate this point.

It is the moral duty of the state to ensure that the population gets free good quality elementary level education. Which only means that the government must pay for this education. It does not mean that the government should produce or provide the service itself. Better quality education in terms of learning outcomes can be provided through private schools than that being delivered by government schools by providing funding at a rate per child which could be less than half the cost incurred to educate a child in the public schooling system, while making this financial assistance conditional on performance of children.

Today, such an effort can be facilitated by harnessing the whole range of instruments (such as telecommunication and internet technology) to improve the quality, efficiency and effectiveness of services, and by partnering with a rapidly maturing private sector. This is, therefore, an opportune time to conduct an assessment of the kind of roles that the government.

A large part of the regulatory framework exists because of lack of clarity on the role of the government, thereby providing employment opportunities for skills that the market neither demands nor produces. New products and instruments are better replacements and more effective mechanisms for achieving the objectives underlying the rules and institutional arrangements for enforcement. For instance, the provincial Boiler Acts, 1923 expect Grade-II Boiler Inspectors to certify boilers manufactured by globally recognized multinationals. While the technology for manufacturing boilers has taken a leap these professionally ill-equipped inspectors are tasked to perform a regulatory function.

Similarly, governments recruit Building and Electricity Inspectors to ensure the safety of private buildings used for public purposes, e.g cinema houses, factories, etc. These regulatory functions can be better achieved by such buildings being comprehensively covered by insurance. The owners can then be spared the frequent visits of these government employees. The insurance companies will ensure the security and safety of the public using these boilers and buildings.

Such examples question the justification of a regulatory apparatus to achieve objectives that other market-based

institutional arrangements and instruments can provide much more efficiently and effectively. In other words, to bring greater focus to the government's activities, there is a need to redefine its role and the way it carries out its business.

Similarly, it would be a cheaper proposition to outsource several services. Examples include the daily cleaning operations of government offices instead of the government employing an army of cleaners, and computerised CAD services, available in abundance in the private sector.

The right-sizing of government (following the 18th Amendment) will also improve government efficiency, simply through a reduction in the number of layers of processing. Further gains can be realised through elimination of unnecessary tasks and by closely aligning functions, resources and responsibilities.

B) REALIGNING OF STRUCTURE

The reform of the civil service is linked with the restructuring of government and the enhancement of the capacities of sub-national governments to deliver on the overhauled mandate.

To begin with, post the 18th Amendment there is no need for the continuation of the PAS Cadre. The role of the Federal Government should be restricted to establishing and calibrating a strategic direction through a collaborative process, policy making and standard setting, with the provincial governments fixing their own priorities in terms of the sequencing of implementation and practical matters of governance.

Only a small core, recruited on the basis of specialisations (to ensure knowledge, continuity and security of tenure), should form part of the permanent cadre and paid market based salaries, but without perks like cars, housing, etc. And, going forward, recent inductees to the PAS should be required to specialise in one or two sectors of their own choosing, while keeping the option for lateral entry open in all positions (with no reservations of posts for any group/cadre) to induct high quality professional with much needed new and rapidly developing technological knowledge and skills.

The old systems of governance and skill set requirements do not equip civil servants to manage policies and operations of new technical skills for delivering decent basic services at the local level. Henceforth, therefore, the structures and the skill sets to be inducted in the public sector should be dependent on the type of services to be performed by each level of government, with, for example, local governments mandated to deliver efficient and sustainable primary and secondary social and municipal services. And this requires the devolution of effective administrative and financial powers to local governments

as a next step to the devolution of functions and powers to the provinces by the centre.

This is desirable because local governments serve as a nursery for the tutoring and nurturing of the country's future political leadership, while making the elected representatives, nearer to their constituents, more accountable for their decisions on the selection of priority areas and the quality of service delivery.

The realisation of these goals would, therefore, require a combination of reorganised structures, delegation of administrative and financial powers and re-engineering of business processes and work-flow through simplification and automation.

And to this end, each tier of government and relevant ministry, should be independent in designing the performance of its functions requiring policy making or service delivery through its own employees with its own pay structure, based broadly on market valuation for the required skills and experience by establishing a sensible list of comparators. Furthermore, as already implied earlier, the unified pay structure should be discontinued, along with the elimination of perks and privileges, which should be monetised. However, if decision making remains hierarchical and authority essentially rank-based, mere recruitment of adequately skilled professionals may be a necessary but not a sufficient condition for the achievement of the objectives associated with efficient, effective and timely delivery of basic social services through the suitable level of government. Therefore, the Rules of Business need to be renewed to delegate the Principal Accounting Officer's financial and administrative powers, by taking them away from the Secretary.

There is also the need to consider a more pronounced shift to a contractual basis of appointments for a whole range of skills. Recruitments of a significant proportion of the public sector work force on market based salaries could be on contract. And to counter the curse of transfers, to the extent practical, this hiring should be on department and facility specific basis, e.g. school teachers and doctors should be appointed to a school, basic health unit or hospital, on a non-transferable basis.

C) DEREGULATION AND GREATER TRANSPARENCY

In this writer's opinion reducing the regulatory role, streamlining procedures and processes and increasing transparency through wider adoption of digitisation of service delivery and on-line availability of government policies, laws, rules and regulations, circulars and guidelines and related procedural requirements will make civil servants less powerful. This will enable curbing excesses

and discretion and reduce transaction costs, thereby raising the efficiency and productivity of the private sector, as businessmen get more time to focus on their operations.

In this writer's opinion for dismantling this predatory, discretion-laden and outmoded regulatory regime a radical way forward would be to identify some sectors, essentially electricity, gas, SBP, SECP, judicial processes and law and order, whose regulatory systems be mapped and reviewed clause by clause. All other regulatory rules should be suspended literally overnight, requiring their proponents/protectors to argue the case publicly for their retention for serving a creditable public good purpose.

D) RIGHT SIZING THE FEDERAL AND PROVINCIAL GOVERNMENTS

There is a large Federal Government, comprising 43 Divisions, even after 18th Amendment. In addition, there are 400 Attached Departments of 650,000 personnel and autonomous organisations with 520,000. Excluding the cost of losses of, or subsidies, to the autonomous organisations, more than Rs.750 billion, according to a World Bank estimate, is presently being spent annually by the Federal Government either on functions actually transferred to the provinces, on agencies and activities whose cost should be shared by the provinces or on intra-provincial schemes. The size of the Federal Government and the provincial governments needs to be pruned, and sharply. Presently, the rationalisation of its size is opposed both by politicians and bureaucrats-seeking Minister and Secretary level positions.

The case of the provincial governments is even more disconcerting. They are not only doling out all kinds of allowances to those on their payrolls, they have, as mentioned above, also become huge employment bureaus, engaging a veritable army of unskilled staff while lacking personnel with adequate domain knowledge. We therefore find that, for example, the Punjab province which had 22 Departments it in 2000, now has 48!

Although both the Federal and provincial levels of government need restructuring and right sizing the discussion here confines itself to the Federal Government. To reflect the transfer of functions, post 18th Amendment, there should be a shrinking of the over-staffed Federal Government. For example, those in Grades I-I6, are being paid well above what the market would compensate for a comparable skill set. And these absorb close to 85% of the payroll charged to the Federal budget. Most of these posts should be discontinued

(many of which have become redundant overtime) as present occupiers retire. This thinning should be complemented by the following actions:

- Surrender of all vacant posts.
- Since only a handful of entities could potentially be candidates for privatisation (because some would end up as monopolies without unbundling, restructuring or retooling/neoteric mode of delivering economic goods and services), the list of the majority of agencies & autonomous organisations that should be liquidated/wound up (for redundancy of purposes or uses for which initially established) should be finalised, while placing bans on all further recruitments.
- Next, for all the above referred divisions and institutions proposed for functional cessation, retire those who have completed 30 years of service (protecting pension entitlements attained to date). If it is politically difficult under present recession type conditions they should be placed in 'surplus pool', thereby saving on office rent, utilities, cars, etc.

E) COMPENSATION STRUCTURE

The discussion above has hopefully made out the case for redesigning the compensation structure by monetising the vast array of perks by costing the entire set of handouts listed above. This shift will make the compensation package more transparent and understandable while giving the officer the choice to say spend more on the education of his child rather than residing in a palatial house, thereby also exposing them personally to some of the basic socio-economic stresses faced by ordinary citizens. It will also help release prime commercial land, presently used for providing residential accommodation to these officers. The additional cash expenditures arising from the monetisation of the benefits can be financed by the resources released from the trimming of the Federal and provincial Governments, the liquidation/closing down of several organisations and the use/sale of the above referred land, along with the money that will be saved on a recurrent basis for not having to maintain these properties and motor vehicles funded from the public purse.

To facilitate a speedier shift to monetisation the government should a) assist them in getting their cars leased and under existing government rules and compensate the use of the private car for official business; b) cover their health needs through medical insurance; etc.

Furthermore, there is a need to move away from the present defined benefit pension scheme to a defined contribution pension scheme for new entrants to the Civil Service. For existing employees there is a need adopt it (along the lines described above on the moneti-

sation of perks), while protecting pension entitlements attained to date.

CONCLUSION

To conclude, government has to be re-invented to bring it in harmony with the demands of a modern globalised economy in which the private sector adopts internationally recognised technologies, production techniques and management practices to remain competitive. Regrettably, the government, which is supposed to facilitate private sector operations and expects it to become modern in its outlook, sees nothing amiss with its own skills and work processes being antiquated and outmoded. This huge contradiction is obviously unsustainable, being an important contributory factor to the poor quality of input provided by the bureaucracy for decision-making.

The modernisation of the institutional structures and processes is being ignored at a great risk to the much-needed acceleration of economic growth. This essay argues that this would not be possible without adjustments in the size and skill base of the bureaucracy, with more than 45% of its membership of limited functionally literacy, ill-suited to the changing skill requirements of a competitive world. Rapid technological changes, pressures of growing social tensions, political discords and heightened expectations of a citizenry better informed by a hyper active social media and seeking direct policy and affiliated managerial interventions to address transient developments and challenges, also require the assembling of a structure and associated systems that are not just lean but also more adaptable and responsive. Admittedly, a politically daunting and long haul task.

The author is a former Governor of the State Bank of Pakistan and former Minister for Finance and Planning in the Government of Punjab.