

Report by working group 1: Fiscal impact of pay reform and wage bill strategies at the PRBS Meeting, 24th June, 2009



Outline of Presentation

- (1) Pay reforms
- (2) Allowances
- (3) Wage Bill
- (4) Other issues

(1) Pay reforms

Two main concerns under pay reforms:

- ✓ Commitment of the Government to the pay reforms
- ✓ Effect of the 2011 elections with regard to implementation of reforms

(1) Pay reforms cont/d

- Concerns addressed by pointing out that;
 - Slow pace of implementation was due to the comprehensive methodology used to come up with the pay policy
 - However, draft pay policy was ready. The consultant is finalising the draft as well as the implementation mechanism.
 - The process of implementation would depend on the programme by Cabinet, especially as we approach budget preparation time.

(1) Pay reforms cont/d

- Recommendations under pay reforms:
 - In order to improve the pace of implementation of the Pay Policy, the Committee of Permanent Secretaries recommend quick wins for consideration. This should be done by end of July 2009.
 - As the implementation of the pay reform is being undertaken, right-sizing and having job evaluations should be an integral part of the process. This activity should be spearheaded by the Permanent Secretary, PSMD.

(1) Pay reforms cont/d

- Additional point under pay reforms was with regard to job evaluations: should job evaluations be decentralized?
 - Options considered:
 - Decentralize to improve ownership of process by MPSAs
 - Use central system to ensure consistency and unbiasedness.
 - Agreed way forward by Group: need for expert advice on pros and cons of options.

(2) Allowances

- Three main issues:
- (a) Civil servants spend more time in workshops than doing core work
 - In order to reduce on such expenditure, the practice of seeking authority from the Secretary to the Cabinet was endorsed
 - Need to enforce provision on payment of allowances in the Terms and conditions of Service for the Public Service

(2) Allowances

- (b) Staff attached to projects are remunerated differently, depending on the cooperating partners supporting the projects.
 - In the long term, use job evaluations to assess how much should be paid to each officer. In the interim the incentive scheme should be implemented as short-term measures pending the adoption of the Pay Policy (Quick-win). Timing: September 2009

(2) Allowances

- (c) Most taxable allowances are not taxed
- *Issue:* problem with regard to taxing allowances, especially in the public service
- *Recommendation:* The treasury should develop guidelines for taxing of taxable allowances

Timing: September 2009, Secretary to the Treasury

(3) Wage bill

- Issue: The wage bill at 8.5 percent of GDP is not sustainable
- Various ways to change this:
 - Growing the economy;
 - Endeavour to enter into agreement with unions for salary increases in line with the MTEF; and
 - Undertake the proposed pay policy reforms.
- These actions will require among others:
- Better calculation of GDP in order to provide the correct picture of the PE/GDP ratio; and
- Sensitize stakeholders on the implications of demands for a higher wage rate in relation to funds available for capital projects, the macro-economy etc.

(3) Wage bill cont/d

- Recommendations:
 - The GRZ should sensitise key stakeholders (such as Unions) on the implications of annual pay increases and explain the advantages of having in place medium-term targets. The sensitization exercise could be undertaken with the support of cooperating partners as well as organisations such as the Economics Association of Zambia. *Timing: First quarter of every year; Lead; PS (BEA)*
 - Wage negotiations should be aligned with the budget planning process
 - CSO should be encouraged to validate their data

END

I thank you