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# Pakistan

## A Framework for Civil Service Reform in Pakistan

December 15, 1998

Poverty Reduction and Economic Management  
South Asia Region



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## CURRENCY EQUIVALENTS

Currency Unit	=	Pakistan Rupee (Rs) at Official Exchange Rate	
US\$1	=	25.895	1992/93
	=	30.082	1993/94
	=	30.773	1994/95
	=	33.496	1995/96
	=	38.894	1996/97
	=	43.145	1997/98
	=	46.23	(December 1998)

## FISCAL YEAR (FY)

July 1 – June 30

## ABBREVIATIONS AND ACRONYMS

ACR	Annual Confidential Report
AG	Accountant General
AGPR	Accountant General Pakistan Revenues
BPS	Basic Pay Scale
CAR	Commission on Administrative Restructuring
CBR	Central Board of Revenue
CSP	Civil Service of Pakistan
CSR	Civil Service Reform
DDOs	Drawing and Disbursement Officers
DMG	District Management Group
EOBI	Employees' Old-Age Benefits Institution
GHS/ERS	Golden Handshake Scheme (Early Retirement Benefits Scheme)
GOP	Government of Pakistan
NDP	National Drainage Program
NGOs	Non-Governmental Organizations
NWFP	North West Frontier Province
O&M	Operations and Maintenance
PAC	Public Accounts Committee
PIFRA	Project for Improvement to Financial Reporting and Auditing
PRS	Pakistan Revenue Service
PSC	Public Service Commission
PakPWD	Pakistan Public Works Department
SAP	Social Action Program
S&GAD	Services & General Administration Department
UNDP	United Nations' Development Program

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The missions and preparation of the report were led by Antoinette Sayeh, then Senior Economist, SASPR. Other team members were: Hanid Mukhtar and Muhammad Khan Niazi, Economists, SASPR; Khalid Chima, Malcolm Green, Sophie Korczyk, Saeed A. Qureshi, Trevor Robinson, and David Turnbull, Consultants; and Mahjabeen Hussain, Staff Assistant, SASPR. Messrs. Salvatore Schiavo-Campo (Advisor for Public Sector Management and Reform) and John Rive (Programs Officer) of the ADB participated in the February mission. Mr. Rive and Mr. Eaomoinn Taylor (DFID, Islamabad) also participated in the June mission. William Byrd, Principal Economist and Pakistan Public Sector Management Team Leader, SASPR, contributed the bulk of the first chapter and provided, along with John Williamson, Chief Economist, SARVP, guidance in drafting the full report. Maria B. Ledesma and Lin Chin, Team Assistants, SASPR, processed the report, and Abdul Qadir, Team Assistant, SASPR, provided support in Islamabad. Peer reviewers were: Philip Keefer (DECRG), Barbara Nunberg (PRMPS), and Professor Gary Libecap (University of Arizona).

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## EXECUTIVE SUMMARY

1. In recent years civil service reform has become increasingly viewed as a key development priority for Pakistan. Although past attempts did not achieve desired results, the strong interest in civil service reform recently shown by the political leadership, by large parts of the government bureaucracy, and by civil society as a whole is a very positive development. This interest stems from a widespread perception that the civil service has been unable to cope with its increased responsibilities as the role of the state in Pakistan has expanded and changed over the years. The civil service is also viewed as ill-equipped to assume new and more complex roles that are needed in the context of broader structural reforms that are currently being implemented. Severe fiscal constraints further underscore the urgency of reforms to ensure appropriate balance between wage and non-wage public expenditures.

2. This report, prepared in response to the Government's request, is intended to provide a framework and technical inputs for Pakistan's ongoing efforts to develop a "home-grown" civil service reform program and implementation plans, adapted to the specific needs and constraints of the country. More preparatory work and consensus building within Pakistan are needed before such a program can be finalized by the Government and its implementation initiated (in November 1998 the Government set up a number of committees to examine reform proposals presented in this report). The World Bank and other external partners are prepared to supplement national efforts with additional analysis and technical assistance where needed.

3. The report covers the following main topics: the need for reform; employment and personnel expenditures; accountability and performance; pay and benefits; pensions; and preparing, sequencing, and managing comprehensive reform. This summary first assesses the nature of the problem facing Pakistan's civil service, then briefly reviews the broad principles of civil service reform and the lessons from international experience. The key elements of a comprehensive civil service reform program are outlined, and suggestions for next steps in reform design and implementation are put forward.

### ***The Problem***

4. The weakness of the civil service is only one of the many factors constraining Pakistan's development, but there is now broad agreement that it is a very important one and that the civil service is seriously in need of reform. There is considerable consensus on the following problems and shortcomings:

- ***An over-centralized organizational structure, as well as rigid, often irrelevant, and unevenly enforced rules and management*** which are inappropriate for most public sector activities, result in delays in responding to clients, and distract senior officials from strategy formulation, policy-making, and results-oriented management.
- ***An inappropriate skills mix***, reflecting (i) the past role of the state as employer of first resort and the associated expansion of employment at low skill levels and (ii) the closed nature of the civil service, which imposes constraints on the introduction of needed skills at higher grade levels.
- ***Seriously eroded internal accountability and lack of accountability to the public.*** As a consequence of its colonial heritage and long years of military dictatorship, the civil service's accountability to the public has always been very limited. But the internal mechanisms of accountability also have been

seriously weakened over time, while accountability via legislative review and the legal system has been ineffective.

- ***Politicization of civil service decisionmaking.*** Political interference has reduced the effectiveness and professionalism of the civil service, while at the same time politicians have often failed to exercise their oversight role in the wider public interest.
- ***Tensions and inadequate cooperation between different, compartmentalized civil service cadres.*** Such problems detract from work effectiveness and may have been a factor in the failure of past civil service reform efforts.
- ***Widespread corruption.*** As noted by the government's Pakistan 2010 Vision Statement, "Corruption...pervades all three branches of government: the executive, the legislature, and the judiciary." The civil service is no exception, and corruption is believed to be particularly serious in its middle and lower levels.
- ***Increasing public sector wage costs which are crowding out high-priority non-wage expenditures.*** Although Pakistan's civil service appears not to be overly large or costly by international standards, paying for it (given the burden of defense and interest payments) has squeezed operations and maintenance (O&M) spending to the point of severely undermining the public sector's effectiveness.

5. The civil service thus faces major difficulties in fulfilling its current functions; moreover, it is not in a good position to adapt to future challenges. These interrelated problems are not amenable to piecemeal solutions, but will need to be tackled in a broad and sustained effort to fundamentally transform Pakistan's public administration.

### ***General Principles***

6. A clear vision of the role of the state in Pakistan's development should be the starting point for the design of comprehensive civil service reform. Such a vision is not yet fully in place, although changes are occurring on the ground, and the federal government has moved farther in this regard than the provinces. The vision for reforming the state should seek to focus government energies on priority development objectives. The articulation of such a vision for Pakistan could begin with:

- identification of core public sector functions, based on rigorous cost-benefit justification of government intervention that may be necessitated by national objectives;
- assessment of whether such interventions should take the form of provision, financing, or regulation (with others, e.g. NGOs, providing); and
- an objective assessment of the private sector's capacity to perform non-core functions to be divested by the public sector.

7. In line with these principles, the most important changes required in the state's role would appear to include:

- exit from direct public sector involvement in commercially-oriented activities best left to the private sector;
- shedding the role of directly generating employment for the society;
- effective, transparent, and evenhanded regulation;
- effective provision of basic social services;

- provision of public information; and
- administration of justice and maintenance of law and order.

8. Given Pakistan's federal nature, the vision of the future role of the state must necessarily include a considered view of how the three levels of government (federal, provincial, local) can best support national development. Federal and provincial government officials agree that "decentralization" can help redress the problems resulting from an unresponsive and unaccountable civil service. However, a distinction needs to be drawn between decentralization (which preserves the line of command from decentralized bodies to the central bureaucracy) and devolution (or the transfer of substantive authority to a lower government tier). For various reasons, there appears to be more willingness to proceed with decentralization than with devolution. Effective devolution would require: (i) constitutional protection to mitigate the risk of arbitrary dismissal of local governments; (ii) appropriate revenue-sharing arrangements to better align agreed expenditure assignments with financial capacity; and (iii) strengthening administrative capacity in line with agreed functions at all levels of government. But adding a third (local) layer of bureaucracy without enacting needed managerial, administrative, and personnel expenditure reforms would render such devolution ineffective.

#### *Some Lessons From International Experience*

9. International experience is not always easy to interpret or generalize. Nor should lessons be applied without reference to Pakistan's own institutional circumstances and political fabric. Studying cross-country experiences nonetheless helps in clarifying the general conditions that have made for successful reforms and the pitfalls in the change process. Pakistan therefore need not start from a blank slate in designing a comprehensive reform program. The challenge instead will be to absorb the lessons of international experience in ways that fit conditions in Pakistan. Some of these lessons as they apply to the general conditions for reform include the following:

- **Ownership** is a fundamental prerequisite for successful reform, as is support from the highest political levels.
- **A long-term vision** of the end-point of reform -- i.e. the type of civil service being aspired to -- is essential, as are detailed targets, timetables, and means of monitoring progress towards goals.
- **Sequencing** is necessary, both to make comprehensive civil service reform manageable and to learn from mistakes that will inevitably be made in the difficult area of institutional change.
- Because the long-gestating nature of civil service reform requires **endurance**, it calls for long-term investment in resources, policy attention, and sustained follow-through on the part of the government.
- **Institutional capacity** plays a key role in driving the reform process, and a certain minimum level is essential for success.

10. In light of Pakistan's own experience and problems, the following more specific conclusions from cross-country experiences appear especially pertinent:

- **Downsizing**, when necessary, must be pursued in the context of a comprehensive reform program, in order to reduce the risks of skill reduction, recurrence of overstaffing, and staff demotivation. To ensure appropriate targeting of downsizing efforts, a logical starting point in Pakistan could be the employees assigned to the "surplus pool" and redundancies identified by the reviews conducted by

the Commission on Administrative Restructuring (CAR). Depending on their tenure, a clear distinction would need to be drawn between a form of time-limited unemployment compensation, severance pay, or early retirement packages to facilitate the departure of redundant staff.

- Determining the adequacy of civil service *compensation* should be based on in-depth country-specific analysis and comparison with comparable private sector skills. Pay is an important incentive in the civil service, but it alone does not explain the deep-seated performance and governance problems that characterize public administration in Pakistan. To better inform decisions on pay, the Government should commission a thorough survey of private sector pay. Reform of civil service pensions also must be an integral part of compensation reform. The main goals of pension reform should be to improve the income security of both employees and retirees; to enhance the usefulness of pensions as personnel management tools; and to contain the budgetary costs of pensions, (and especially the commutation provision), in part to finance other improvements in civil servants' income security.
- In the absence of reforms to improve *accountability*, downsizing and better remuneration may result in a smaller, better-paid, but still corrupt and ineffective civil service. Priorities for enhancing both internal and external civil service accountability in Pakistan include: improved information systems and accountability for inputs; better audit; reinvigoration of the Public Accounts Committees; publishing budget summaries in a form accessible to the public; a stronger performance evaluation system; scrutiny and active use of quarterly and annual reports; less frequent rotation of senior staff; and selective use of contractual appointments.

11. Pakistan's interest in the experience of Commonwealth countries is understandable, given its history and the system it inherited at independence. There are indeed valuable lessons for Pakistan from reform efforts in the United Kingdom, Australia, and other countries. As some researchers have argued, however, the New Zealand experience is not easily transferable to developing countries (including Pakistan), primarily because its successful replication presupposes developed contractual relations and markets that are not normally found in these countries. As a Commonwealth country with a federal structure, there is much in Canada's experience that Pakistan can learn from, particularly in relation to devolution and inter-governmental fiscal relations. And the experience of Ghana, a developing Commonwealth country with social indicators closer to Pakistan's, should be of interest as well. But Pakistan also needs to look beyond the Commonwealth in absorbing lessons from the successes and failures of civil service reform.

#### ***Toward a Comprehensive Civil Service Reform Program for Pakistan***

12. The benefits to Pakistan from fundamentally transforming its public administration would be great. Indeed, the achievement of all of the country's key development objectives depends on a performing, professional, and accountable civil service. First, accelerating economic growth and poverty reduction will require reducing the obstacles to private sector development that the poorly performing public sector now creates. Second, expanding the poor's access to basic yet good quality social services under the Social Action Program (SAP) requires much better governance and management of social sector employees and accountability to local communities. Third, fiscal adjustment and increasing resources for priority spending will necessitate containing personnel expenditures, especially given the large budgetary share of defense and interest payments and the constraints on significantly increasing revenues in the short-to-medium term. Finally, the country's serious governance problems cannot be addressed in the absence of a professional bureaucracy that is less susceptible to corruption.

13. Pakistan needs to combine its vision of the redefined role of the state and available technical analysis to develop a “home grown” comprehensive reform program for the civil service. On the basis of the analysis contained in this report, core elements of such a program would include the following:

- ***Personnel and wage bill management.*** This should be the starting point for any serious and sustained reform effort. Actions to improve personnel and wage bill management also provide the best opportunity for obtaining robust improvements in the short run, even in advance of more fundamental structural reforms. The required improvements in this area are relatively uncontroversial, so their timely implementation would signal readiness and set a good foundation for the more difficult challenges on the reform agenda.
- ***Improving accountability and performance.*** While arguably the most challenging and long-gestating of the reforms, measures to improve accountability and performance promise the most far-reaching benefits for Pakistan. Enhancing civil service performance in the management of public resources, transparency in its operations, and accountability to the public will go a long way toward tackling the country’s chronic governance problems.
- ***Downsizing and obtaining new skills.*** Downsizing will be needed to the extent that the redefinition of the role of the state and the CAR reviews point to the existence of redundant staff. Downsizing can potentially free up resources for non-wage O&M and ultimately contribute to better remuneration for essential staff. The need for new skills to meet existing and future demands on the civil service is already evident, and should be factored into restructuring plans at an early stage.
- ***Devolution.*** This is needed to improve both accountability and outcomes, and for more effective management of the civil service. A universal and simultaneous transfer of functions to the local level would, however, be fraught with risks. The Government should therefore consider piloting devolution in a limited number of localities; the experience gained from such efforts could then feed into the design of a broader program. With local government elections completed in Punjab after many years (and being considered in other provinces), now is an opportune time to spell out the principles on which local governments will operate -- including what financial and managerial powers will be transferred to them.
- ***Compensation reform.*** Reform of the compensation system (encompassing pay, allowances, and pensions) is necessary but should be carried out only in the context of systemic changes in the management of the civil service. Pay may need to increase for certain types of skilled staff, but this cannot be determined in the absence of detailed comparison with the private sector. Such comparisons would have to account for the employment protections available to civil servants that are not typically found in the private sector. Pay increases and improved income security for employees and pensioners would need to be accompanied by other reforms (including changes in the commutation option under the pension system) to make them fiscally affordable. Accordingly, the terms of reference of any future Pay Commission should be broadened to consider structural issues in the compensation system (including pensions and commutations) and to ensure that improvements in compensation are linked to improved civil service performance.

14. As for the sequencing of the reform program, strengthening performance and accountability will need to be initiated at the start and -- given the long-term nature of the changes envisaged -- continue for its duration. Improved personnel databases and wage bill management must necessarily precede downsizing as well as compensation reform, as should putting in place minimum improvements in the performance management process and accountability. It would also be preferable to have solid

information on the size, cost, and skills profile of the civil service and put in place systems to track changes in them prior to large-scale devolution, although the practical import of the latter may ultimately mean adjusting such systems to fit the new structures. Likewise, while downsizing at the federal or provincial level can proceed prior to the redistribution of responsibilities between the different levels of government (e.g. as part of the privatization effort as is now occurring), devolution will have additional implications for staffing at all levels (and in particular for the large volume of provincial employment concentrated in the social sectors). There are thus general principles that should guide the timing of different aspects of the reform program, but the practical issues arising from implementation experience should inform subsequent decisions on next steps.

15. Pakistan's current circumstances would appear well-suited to sequencing of comprehensive reforms on a sector-by-sector basis, beginning with those that are directly supportive of achievement of the Government's development objectives. The Government should consider a two-pronged approach to sectoral piloting efforts:

- ***Comprehensive reforms in key sectors.*** In light of their importance to Pakistan's development agenda, the major institutional reforms already envisaged for them, and their moderate size, the Central Board of Revenues/Pakistan Revenue Service at the federal level and the health departments in the provinces would appear to be the best candidates.
- ***Less radical reforms in selected sectors.*** Given the greater clarity of its mandate, the Ministry of Finance appears to perform somewhat better than other agencies. It would therefore seem a good candidate for piloting less radical reforms, especially since its restructuring needs have already been evaluated and agreed upon by the CAR and the Ministry.

16. The Government should accelerate implementation of such sectoral pilots over the next several months, so that the experience gained can feed into formulation of the comprehensive reform program and action plan that it plans to produce by end-June 1999. To this end, the Government should seek to complete drafts and solicit public input on them by February 1999. To avoid a narrowly "enclave" approach to reform (where one sector or agency is "fenced off" from the others), a time-frame during which other sectors/agencies would be brought into the reform program should be made explicit. Accordingly, ***the Government should issue a coherent and public statement about its intentions on civil service reform*** to provide the context for the piloting efforts. As with the comprehensive program, the sectoral pilots should be designed and monitored by high-powered steering and technical committees (see below) to ensure their consistency with the general directions for reform.

### ***Next Steps***

17. Preparing for and managing the reform process will require sustained political support at the highest level. While good progress is being made in preparing for reform at the federal level, preparations in the provinces are less advanced. At both levels of government, ***strengthening and clarifying the institutional framework for leadership of the reform effort is a necessary first step***. In particular, high-level steering committees at the federal level and in all four provinces (reporting to the Prime Minister and Chief Ministers, respectively) are needed to establish policy and oversee and coordinate the reform program, while technical units for detailed planning and management of implementation are necessary. A forum for effective coordination between the federal and provincial committees is also required. The steering committees should solicit structured public input into their deliberations and decision-making.

18. The immediate tasks of these committees should be to provide answers to strategic questions that remain unsettled (e.g. the future directions and functions of the state and the division of responsibilities between the three levels of government). These committees would be the appropriate groups for formulating the comprehensive program and action plan by end-June 1999. Priorities for the technical units include, inter alia, a major effort on an urgent basis to collect accurate and consistent data on government employees, pensioners, and personnel expenditures; formulation of an action plan for rationalization of payrolls; and providing a secretariat, planning and scheduling, and monitoring service to the high-level steering committees. Parallel to the design of the comprehensive program and action plan, on-going initiatives such as the work of the CAR should be brought to fruition. Simultaneously, the Government should move swiftly to stem existing irregularities and improve the information base, both to provide a strong signal of its commitment to reform and to generate short-term savings. Some pertinent actions in this regard include:

- undertaking payroll audits to remove ghost workers and pensioners;
- maintaining and tightening existing recruitment freezes (with the exception of frontline staff in SAP sectors and, on an exceptional basis, to obtain needed skills);
- stopping new work-charged employment, and -- legal considerations permitting -- not regularizing existing work-charge employees;
- terminating all ad hoc and contractual appointments at the end of the contract period, with all future contractual hiring to be on the basis of specific, well-defined terms of reference;
- denotifying all unfilled sanctioned posts which have remained vacant for more than one year;
- ending the practice of "move-overs" while reviewing the length of certain pay scales to permit them to become "career grades";
- undertaking an immediate effort to gather data on prospective retirees; and
- carrying out provincial civil servants' censuses, and publishing the results of the 1997 federal civil servants' census.

Some of these actions are currently being initiated as part of the austerity measures introduced by the Government in the aftermath of international sanctions following Pakistan's nuclear tests in May 1998. There is an urgent need to accelerate others as well, and to sustain the actions underway.

19. Now is a most opportune time for Pakistan to initiate a fundamental restructuring of its civil service. The combination of an emerging national consensus on the need for change, a reform-oriented political leadership with a strong mandate, and the imperative of fiscal austerity in these difficult times for the country, should, if well exploited, enable Pakistan to move into the 21<sup>st</sup> century with very good prospects for a reinvigorated, responsive, and accountable civil service to carry forward the country's development agenda.

## CHAPTER 1: THE NEED FOR REFORM

1.1 Pakistan's civil service<sup>1</sup> has become increasingly incapable of performing its functions effectively, particularly as public sector involvement in the economy and society expanded during the past several decades. Moreover, major qualitative and quantitative changes in the role of the state in the economy are called for in the context of structural reforms and are already underway, which will place new and different demands on the civil service. There is thus no alternative to thorough, comprehensive reforms if the Government is to achieve the development objectives it has set for itself and ensure good governance. As demonstrated by experience internationally and in Pakistan itself, civil service reform is a complex task, which needs to be approached carefully and implemented in a sequenced manner. This chapter first discusses the rationale for change, based on both existing shortcomings and the new demands placed on the civil service by the changing role of the state in the economy. It ends by briefly reviewing the lessons from international experience (with reference to Pakistan's experience as well).

### The Rationale for Change

1.2 Pakistan's civil service has been asked to take on increasing responsibilities in a variety of areas over the years, but its formal structure and management have not changed greatly since colonial times. It remains a closed, hierarchical, ostensibly rules-based, and compartmentalized system, held together by the glue of centralized management and personal relationships within elite generalist and subordinate specialist cadres. The civil service has been a powerful force in Pakistan, especially during the frequent intervals when there was no democratic government in the country, but it has also proven vulnerable to frequent political intervention in micro-level public sector decision-making. This combination of power over the public and weakness in the face of politicians has been damaging. Overall, the disconnect between the responsibilities of the civil service and its capacity, organization, management, incentives, and orientation has progressively increased over time.

1.3 **Problems.** The shortcomings of the civil service in relation to its existing responsibilities can be summarized as follows:

- ***An over-centralized organizational structure, management, and rules,*** which are inappropriate for most public sector activities (ranging from commercially-oriented public enterprises to primary schools and public health facilities). They also result in delays in responding to clients and distract senior officials from strategy formulation, policy-making, and management. With the Federal Government collecting some 95 percent of tax revenues and provincial governments relying on federal transfers to finance the overwhelming bulk of their expenditures, fiscal centralization disassociates taxation from spending responsibilities thus undermining accountability and incentives for provincial own-resource mobilization. A similar relationship exists between the provinces and local authorities (where they have been allowed to function).
- ***Tensions and inadequate cooperation between different, compartmentalized civil service cadres,*** including between elite generalist civil servants (e.g. the Secretariat and District Management Groups which dominate the upper echelons of the civil service) and the technical cadres (e.g. Engineering Group, Customs, Accounts, etc.) spread through the middle layers. Such tensions detract from work

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<sup>1</sup> The discussion in this report is limited to the core civil service (i.e. all employees of the federal and provincial governments) and does not cover public corporations.

effectiveness and may have been a factor in the failure of past civil service reform efforts (see Chapter 6).

- ***An inappropriate skills mix*** which reflects the use of the public sector to provide employment for the society (mainly at low skill levels). The problem has been exacerbated by the closed nature of the civil service, which makes it difficult to bring in needed skills at higher grade levels. Capacity for fostering an enabling regulatory environment and for promotional services has lagged behind requirements as the state's role in the economy has shrunk relative to that of the private sector.
- ***Seriously eroded internal accountability and lack of accountability to the public.*** While accountability to the public has been very limited all along, the internal mechanisms of accountability within the civil service (such as the role of merit in appointments, performance evaluations, promotion process, etc.) are widely perceived to have weakened greatly over time, and accountability via legislative review, the legal system, and political oversight by elected representatives has not been very significant or effective.
- ***Politicization of civil service decisionmaking.*** While accountability has been eroding, the civil service has become increasingly politicized and open to intervention by specific political interests in routine decisions such as appointments, transfers, and promotions of individual civil servants (even primary school teachers, clerks, and orderlies), siting decisions for schools, health facilities, and local infrastructure, and political sponsorship of large and small development projects, among others. In the most recent period of democracy (i.e. since 1988), there appears to have been a shift from adversarial to collusive relationships between bureaucrats and politicians. Political interference and the lack of accountability have undermined good governance, with adverse consequences for Pakistan's development.
- ***Widespread corruption.*** As noted by the Government's Pakistan 2010 Vision Statement, "Corruption...pervades all three branches of government: the executive, the legislature, and the judiciary. The result is that none of the three branches acts as a check upon the misfeasance of the other two. The powers to appoint or reward public officials are used arbitrarily, public property is handled in a cavalier fashion, the system ignores (and often rewards) financial corruption and the misuse of powers, financial institutions have been burdened with unserviceable loans, public lands have been doled out in return for political or financial favors, and publicly controlled institutions are badly managed and respond neither to citizen needs nor to financial imperatives." Evidence of corruption can be found in a variety of sources, including government audit reports, a survey of private companies conducted by the World Bank for its last private sector assessment, and indices of perceived corruption such as that compiled by Transparency International. Pakistan's international competitiveness is being harmed by the perception that it is one of the most corrupt countries in the world.
- ***Problematic information systems.*** Data on public sector employment and emoluments are inadequate for monitoring and control purposes. Not only are available statistics incomplete and late in being compiled, but there are inconsistencies because different agencies are responsible for collecting information, with no mechanisms to ensure consistency and integration of data. The distinction between wage and non-wage expenditures has become increasingly blurred over time. More generally, statistics on the outputs and outcomes of public expenditures are sorely lacking, severely hindering monitoring and evaluation of the public sector.

1.4 **Outcomes.** The impact of civil service weaknesses on outcomes is readily apparent, although in most cases they are far from the only factor leading to these results. Examples include:

- ***Persistently inadequate tax collection*** which is in part a reflection of weak management, incentives, accountability, and governance in the tax administration bureaucracy. Pakistan's tax revenue/GDP ratio has stagnated at around 13 percent of GDP for several years and is currently not projected to regain the level attained in 1994/95 (13.8 percent) until 1999/2000.
- ***Inefficiency and poor financial performance of public enterprises***, for the most part managed by civil servants. These problems are traceable partly to appointment of generalist civil servants as CEOs, frequent transfers, heavy-handed control exercised by line ministries, and political interference.
- ***Unacceptably low social indicators***, which fall well short of those of comparable developing countries and neighboring countries in South Asia and reflect management problems (over centralization, weak accountability), inadequate skills, lack of beneficiary participation/monitoring and failure to provide adequate budgetary resources for basic social services. In education, for example, teacher absenteeism is an important factor in the low quality and poor retention rates that plague the system.
- ***Increasing public sector wage costs which are crowding out high-priority non-wage expenditures.*** The size of Pakistan's civil service is not particularly large in absolute terms (see Chapter 2), though at roughly 20 percent of the non-agricultural workforce, it is significant. The civil service grew rapidly in the 1980s and 1990s, and its known cost now approximates 4.2% of GDP and 56% of non-defense, non-interest current spending. Thus personnel costs (civil service salaries, benefits, and pensions) have been taking up much of the limited fiscal space left after defense and the rising interest burden are taken care of, squeezing high-priority non-wage operations and maintenance (O&M) and development spending. The paucity of materials, supplies, transportation and equipment resulting from inadequate O&M resources -- which are being further drastically reduced in 1998/99 as part of the post-sanctions austerity program -- in turn undermines civil service effectiveness.

1.5 All in all, there is ample evidence that at present Pakistan's civil service is unable to effectively fulfill its responsibilities, and that this contributes to poor public sector performance in a variety of ways. Thus the need for change is readily apparent, even without considering the new demands on the civil service discussed below. The benefits to Pakistan from fundamentally transforming its public administration would be several. Indeed, achievement of all of Pakistan's key development objectives depend on a performing, professional, and accountable civil service. First, accelerating economic growth and poverty reduction will require reducing the obstacles to private sector development emanating from the non-performing (or poorly performing) public sector. Achieving these objectives will also depend on improved performance in economic policy formulation and management, which are core functions of the civil service. Second, expanding the poor's access to basic, but quality, social services under the Social Action Program (SAP) requires much better governance and management of social sector employees and accountability to local communities. Third, Pakistan's success at fiscal adjustment and increasing resources for priority spending will necessitate containing personnel spending, especially given the large budgetary share of defense and interest payments and constraints to significantly increasing revenues in the short-to-medium term. And finally, Pakistan's serious governance problems cannot be addressed in the absence of a professional bureaucracy that is less susceptible to corruption.

## Changes in the Role of the State and Implications for the Civil Service

1.6 ***Historical background and recent developments.*** The role of the state in Pakistan's economy has changed over the years. Its past growth was fueled by several agendas. The objectives of *nation-building and promoting economic development* by both direct (substantial public investment, creation of public enterprises, direct public provision of services, etc.) and indirect (e.g. tax incentives, subsidies, directed credit, regulatory restrictions) means have been pursued vigorously for several decades. These roles have been superimposed on the earlier colonial system, under which an elite civil service was charged *with maintaining law and order and extracting a certain amount of revenue*. The public sector has also taken on the role of *directly providing employment for society*, and its activities and expenditures have become geared toward expanding/protecting public sector employment, pay, and benefits. Together these objectives and roles have resulted in a public sector that is large and overextended (both in relation to available public sector resources and in the sense that it is heavily involved in activities better handled by the private sector), overstaffed at lower grades and skill levels, and inefficient.

1.7 There have been important changes in the role of the public sector during the past decade. Its involvement in manufacturing through public enterprises and restrictive regulatory controls has greatly diminished. The economy has been increasingly opened up to international trade and capital flows. The private sector's role in energy and infrastructure has sharply expanded. Perhaps most important, fiscal resource constraints have become of overriding concern due to the difficult macroeconomic situation -- exacerbated by international sanctions imposed after Pakistan's May 1998 nuclear tests -- which creates a strong imperative for change in the public sector.

1.8 Until recently these currents of change had barely begun to penetrate the core of the public sector's institutions and practices, and the civil service in particular. Incremental budgeting,<sup>2</sup> a major constraint to expenditure restructuring, continues to be practiced. Establishment costs are protected at the expense of other expenditures. Politicization of routine decisions has continued. And progress in shedding government liabilities -- public enterprises, unnecessary departments and bodies, etc. -- has been slow. Until the most recent efforts, shortages of funds did not result in a substantial reduction in the size or scope of public sector activities (except where privatization has been successful) or in a thorough restructuring of public expenditures.

1.9 Recognizing the gravity of the fiscal crisis and the urgent need for change, the present Government, which came into office in February 1997, initiated a major economic reform program, which reflected further development of the new vision of the role of the government in the economy. Among other initiatives, the program comprised an effort to accelerate and broaden the privatization program, a major exercise to "downsize" government departments and public sector corporations, a voluntary "golden handshake" scheme to encourage early retirement and thereby reduce the size of the civil service, and measures to prevent political intervention in micro-level public sector decision-making. Various initiatives are underway to improve governance, strengthen accountability, and develop a program for reform of public administration. In response to international sanctions, the 1998/99 budget provides for several austerity measures, including e.g., the abolition of unfilled sanctioned posts.

1.10 ***New and changing roles of the public sector.*** Reforms must start from a vision of the appropriate roles of the state and its various instruments post-reform. This has been articulated at various times and places, and at the federal level there is already broad consensus on much of the new vision.

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<sup>2</sup> Incremental (as against program-based) budgeting entails adjusting the previous year's budgeted (or actual) expenditures by some fixed amount rather than determining whether the activities in fact continue to be needed and are cost-effective.

The government's 1998 Pakistan 2010 Vision Statement speaks of "a new government, small but effective, decentralized, responsible, customer-oriented, and managed professionally," and of a partnership between the government, the private sector, and the citizen. The report of the 1997 Committee on Downsizing of the Federal Government advocated "changes in the character of the Government from that of a provider to that of a regulator and enabler."

1.11 While the changing roles of the state would imply downsizing of the public sector in many respects, a core set of functions should remain its responsibility; indeed, the public sector role may need to expand in some areas (although not necessarily in financial terms). Public sector intervention should be based on well-known criteria related to market failure (public goods, so-called "merit goods," externalities of various kinds), but only provided that the expected benefits of intervention clearly exceed the costs by a substantial margin. Another consideration is whether and on what time horizon the private sector could be expected to handle the activities concerned. The objective of poverty reduction also can justify government intervention, provided it is cost-effective and well-targeted. Finally, even if there is a clear justification for public sector involvement, this need not take the form of public sector production or provision of services; alternatives include subsidization of private or NGO provision, regulation, information provision, etc.

1.12 In line with these principles, some of the most important required changes in the role of the state include the following:

- ***Effective, transparent, evenhanded regulation.*** Whole swathes of the economy need a certain minimum, yet effective, degree of government regulation. In the past the Government's regulatory role has been entirely missing in many areas and, where present, has been used primarily as a micro-level control mechanism and has been counterproductive (e.g. past licensing of private industrial investment). The control-oriented civil service is not used to either the concept or the implementation of transparent, arms-length regulation of the private sector, autonomous from government line agencies. Effective regulation is essential in key infrastructure sectors where existing public sector monopolies are being restructured for privatization and new private investment is being encouraged. Recognizing this need, the government has set up and is making operational regulatory institutions in electric power, natural gas, and telecommunications, but their capacity and autonomy and the rules of the game are not yet clearly established. There are also many activities which urgently need effective regulation for health, safety, quality control, or other reasons. Examples include certification of private education and the qualifications of health care providers, measures to prevent adulteration of pesticides and other agricultural inputs, and environmental regulation. Of course, regulation cannot be allowed to degenerate into another opportunity for officials to collect bribes from regulated private sector entities or individuals. Fulfilling the state's regulatory function will require new skills in some areas of the civil service (e.g. regulators and regulatory analysts) and different types of interaction with the private sector than is now the case.
- ***Exit from direct public sector involvement in commercially-oriented activities that are best left to the private sector.*** The process of privatization is already well underway at the federal level, but the government's ambitious program needs to be effectively implemented in a phased manner, while privatization needs to be accelerated in the provinces. The Government should also exit from departmental and other non-commercial activities that are no longer necessary or can be effectively handled by the private sector. This will likely result in redundancies and staff pressures to retain such activities that will need to be resisted.

- ***Shedding the role of directly generating employment for the society.*** The desire to protect public sector jobs can impede the development of employment opportunities in the private sector. In the context of constrained revenue growth in the short-to-medium term, as well as the inflexibility of public expenditures resulting from the burden of interest payments and defense, the result is often: (i) the pre-emption of resources that would otherwise be available for private investment (through, for example, higher private sector borrowing costs associated with the large government deficits); and (ii) higher private sector investment and operating costs as a result of deteriorating road infrastructure, unreliable power supply, etc., as these sectors are starved of funds for O&M. Maintaining the existing level of employment in the public sector or in specific agencies can therefore no longer be treated as a prior claim on resources over the medium term, not to speak of new employment generation. Instead, levels of employment in public sector activities should become increasingly closely related to the objectives and needs of those activities. Over the longer term (and with more favorable fiscal conditions), an appropriate safety net could be put in place to alleviate resulting hardships while at the same time encouraging labor force mobility and economic growth. Such a safety net would also reduce the ability of politicians to use income security in the form of civil service jobs as a personal patronage.
- ***Effective provision of basic social services.*** This is the main area where the public sector will continue to play a direct role in production of goods/services, but with greater emphasis and priority given to achieving much better outcomes in terms of Pakistan's social indicators. Improvements in the effectiveness of government provision of basic (and better quality) social services will require a genuine service orientation among both service providers and managers, along with the required technical and management capacity and appropriate incentives. Improving service orientation and accountability will in turn mean devolving responsibility<sup>3</sup> for the provision of local public services to local authorities and overhauling the centralized organizational structure of the civil service. If primary education and basic public health provision are devolved to the local government level (as recommended by this report), then primary school teachers and health personnel would become local government employees rather than provincial civil servants.
- ***Provision of public information.*** This is a relatively neglected area where the public sector has a clear-cut role. In addition to provision of timely and accurate data and analysis of a public good nature on relevant economic and social topics, availability of information on the activities of the public sector, their costs, and their outputs/outcomes is essential for greater accountability and openness. Investments in information systems to provide better budgetary data (including on personnel expenditures) are critical to the civil service's ability to perform this function adequately.

### **Lessons From International Experience**

1.13 Civil service reform is a complex and difficult task, which takes time to plan and to put the basic building blocks in place. Yet governments are often suddenly faced with strong pressures to achieve cost savings quickly by streamlining organizations and shedding staff, particularly in times of fiscal crisis. The lessons of international experience<sup>4</sup> show, however, that careful planning is needed (see also Box

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<sup>3</sup> As used in this report, the term devolution refers to the transfer of substantive authority to a lower government tier. This is distinct from decentralization which preserves the line of command from decentralized bodies to the central bureaucracy, without any local governance.

<sup>4</sup> As summarized, for example, in the World Bank's 1997 World Development Report (*The State in a Changing World*) and in S. Schiavo-Campo et. al "Government Employment and Pay in Global Perspective", Technical Department for Europe, Central Asia, Middle East, and North Africa, the World Bank, 1997.

6.1). Even in the case of urgent actions, a sober evaluation of available options must be carried out in order to avoid mistakes and/or setting unfortunate precedents. Box 1.1 below summarizes some key lessons from international experience pertaining to the general conditions for successful reform.

**Box 1.1: The General Conditions for Reform – Key Lessons from International Experience**

International experience is not always easy to interpret or generalize. Nor should lessons be applied without reference to Pakistan's own institutional circumstances and political fabric. Studying cross-country experiences nonetheless helps in clarifying the general conditions that have made for successful reforms and the pitfalls in the change process. Pakistan therefore need not start from a blank slate in designing a comprehensive reform program. The challenge instead will be to absorb the lessons of international experience in ways that fit conditions in Pakistan. Some of these lessons as they apply to the general conditions for reform include the following:

- **Ownership** is a fundamental prerequisite for successful reform, as is support from the highest political levels.
- **A long-term vision** of the end-point of reform -- i.e. the type of civil service being aspired to -- is essential, as are detailed targets, timetables, and means of monitoring progress towards goals.
- **Sequencing** is necessary, both to make comprehensive civil service reform manageable and to learn from mistakes that will inevitably be made in the difficult area of institutional change.
- Because the long-gestating nature of civil service reform requires **endurance**, it calls for long-term investment in resources, policy attention, and sustained follow-through on the part of the government.
- **Institutional capacity** plays a key role in driving the reform process, and a certain minimum level is essential for success.
- **Downsizing**, when necessary, must be pursued in the context of a comprehensive reform program, in order to reduce the risks of skill reduction, recurrence of overstaffing, and staff demotivation.
- Determining the adequacy of civil service **compensation** should be based on in-depth country-specific analysis and comparison with comparable private sector skills.
- In the absence of reforms to improve **accountability**, downsizing and better remuneration may result in a smaller, better-paid, but still corrupt and ineffective civil service.

1.14 Pakistan's own recent experience highlights the need for careful design and preparation of civil service reforms. In early 1997, the present Government moved quickly to initiate a major downsizing exercise involving a "zero-based" review of federal government divisions, attached departments, autonomous bodies, and public enterprises. Although this review was completed in a timely manner and generated detailed recommendations, they were not implemented due to concerns about the large numbers of public sector employees that would have been declared surplus as a result and associated political costs. Then, in August 1997, an untargeted, voluntary "Golden Handshake/Early Retirement Scheme" (GHS/ERS) was promulgated, under which federal government employees could opt for early retirement with enhanced benefits applicable to longer periods of service. As explained in Chapter 2, the Government subsequently suspended the scheme once it became apparent that it would have denuded parts of the civil service of needed skills.

1.15 Another lesson from Pakistan's recent experience is that coordination between different parts of the civil service reform effort is essential, and that there needs to be a focal point or reform leadership group to provide the impetus and follow-up required to move ahead with reforms as well as to ensure overall coordination and consistency. There are numerous committees and groups working on different aspects of civil service reform in Pakistan; although some efforts are being made to coordinate them (mainly through common membership in several groups on the part of individuals), there is room for improvement. The importance of wholehearted support from the highest political level cannot be overstated in this context, as well as the need to build a broad consensus on the desirability of civil service reform and its main directions. Reform leadership groups at the federal level and in each of the

four provinces, led by people of suitable stature and playing a coordinating role, could facilitate both political commitment and consensus building (see Chapter 6).

1.16 Experience has shown that the design and implementation of programs for voluntary/involuntary departure of government employees from service can be very difficult and challenging yet crucial for the overall success of civil service reforms. Key issues in this respect are discussed in Box 2.1, which emphasizes the need for clear objectives, careful preparation, and well-designed, targeted departure packages which balance the need to provide adequate financial compensation with adherence to fiscal constraints.

1.17 Pakistan should take a two-pronged approach to move ahead with the formidable agenda of civil service reform (see Chapter 6). On the one hand, extensive work is required to design a comprehensive reform package with appropriate sequencing and to build up the required broad political consensus for reform. Ongoing initiatives such as the work of the Commission on Administrative Restructuring (CAR) can be brought to fruition and followed up by developing a detailed reform program. On the other hand, immediate measures should be taken to stop abuses and redress existing irregularities in public sector employment, the wage bill, pension provision, and civil service management (see Chapters 2 and 3). The most obvious opportunities for savings through staff reductions should be exploited as well.

## CHAPTER 2: EMPLOYMENT AND PERSONNEL EXPENDITURES

2.1 A basic input into the design of a comprehensive reform program must be knowledge of the size and cost of the civil service. This chapter first reviews the data deficiencies that currently limit such knowledge, then discusses trends in government employment and personnel expenditures, and finally reviews the complex issues associated with assessing and dealing with redundant staff.

### **Data Deficiencies and Employment and Wage Bill Management**

2.2 Analysis of government employment and the wage bill in Pakistan is hampered by incomplete and at times inconsistent data. These difficulties arise because various agencies compile different aspects of this information, usually for purposes which do not require ensuring their consistency and consolidation. Censuses of federal government employees are conducted after an interval of 3-4 years, but these become available only with a considerable lag. The last available census relates to 1993/94; a census was also conducted in 1996/97, but the final report has not yet been published. Provincial employment figures are based on numbers of sanctioned posts rather than actual employment as established by employee censuses.<sup>1</sup>

2.3 The available data underestimate the actual numbers of government employees and the true wage bill due to lack of complete information on "work-charged" and other non-regular staff, who are not employed on the basis of sanctioned posts and who are paid from the non-establishment budget (contingent funds, development and operations and maintenance budgets). In some government agencies, work-charged staff can comprise a significant portion of total employment, sometimes exceeding the numbers of sanctioned employees (as in the case of the Pakistan Public Works Department, Pak PWD). Work-charged staff tend to be found in large numbers in agencies involved in building or road construction and repairs (e.g. Pak PWD and the Capital Development Authority at the federal level and the provincial Communications and Works Departments). Although meant to be temporary, many work-charged staff have been employed for long periods, effectively becoming permanent employees.<sup>2</sup> In recent years, work-charged staff have become a mechanism for circumventing the hiring freezes that have been in effect intermittently since 1993/94.<sup>3</sup>

2.4 These data deficiencies hamper effective personnel and wage bill management. The problem is especially acute at the provincial level, where the bulk of government employment is concentrated. In addition to the non-existence of civil servants' censuses in all four provinces, two (Punjab and Balochistan) do not compile data by "object classification" (an approximation of the economic classification of expenditures), and hence have no complete data on actual establishment charges (pay and allowances).<sup>4</sup> The distinction between expenditure classifications has in any case grown more confused and opaque over time. For example, the inclusion of salaries of work-charged and temporary

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<sup>1</sup> A comparison of federal sanctioned posts and actual employees (as measured by the censuses) suggests, however, that the former are a good proxy for the latter, at least in relation to permanent civil servants. For example, the results of the 1989 and 1993 federal censuses show that actual employment was 95.6% and 92.8%, respectively, of sanctioned posts in those years.

<sup>2</sup> In the Lahore Development Authority, for example, some 7000 work-charged employees have apparently outlasted the projects for which they were employed.

<sup>3</sup> At the federal level, some measures have been put in place to limit work-charged employment, including prior concurrence of the Finance Division. The Federal Government apparently has also banned new employment of contingent paid staff.

<sup>4</sup> Efforts are, however, underway in Punjab to begin compiling and publishing expenditure data by object classification.

staff in the maintenance and repair and development budgets (instead of in establishment charges) has made the distinction between wage and non-wage expenditure more difficult. Moreover, with at least a portion of the remuneration for some employees being provided in kind, information on wages underestimates total compensation. A major effort to improve the information base is therefore required. While difficult and time-consuming, such an undertaking is necessary for effective personnel and wage bill management.

2.5 Efforts to improve the information base would include as an essential component the rationalization and computerization of the payroll systems. Currently, the Federal Government maintains and manages twelve payrolls, only one of which is computerized. A similar situation exists in the provinces (see Annex C). This not only precludes the availability of accurate and timely information to the managers of government finances, but also leaves the door open for irregularities since the payrolls are not easily cross-checked (to ensure, for example, that an individual's name does not appear on more than one payroll, as the responsible officials in Punjab acknowledged could be the case). Because the payroll systems (in Islamabad and the provinces) are essentially free-standing ones and thus incompatible with each other, it is practically impossible to audit the payrolls. Efforts are underway to computerize some of the federal payrolls, which should be expedited. Similar efforts are required in all of the provinces. Computerization, in and of itself, is, however, no panacea for the more systemic problems (e.g. political interference) that underlie defective personnel and wage bill management.

2.6 The payroll system would need to be linked to improved personnel management practices and data bases. Explicit links to the budget would also need to be forged. The integration of personnel data, the payroll, and budgetary information will be a significant administrative and institutional challenge, as it involves the coordination of various organs of government: to name a few, the Ministry of Finance, the Establishment Division, and the Accountant General Pakistan Revenues (AGPR) at the federal level, and the Finance and Services and General Administration Departments (S&GAD) and Accountant General's (AG) offices in the provinces. However, comprehensive and sustained control over personnel management cannot be obtained without an integrated system. Moreover, in the event of greater decentralization of government functions, an integrated network will become even more important. Finally, effective control over employment and the wage bill is a *sine qua non* for any sustainable downsizing effort.

### **Trends in Government Employment**

2.7 *Size and Growth of Employment.* Bearing the above deficiencies in mind, the available data indicate that Pakistan's civil service is not large by international standards<sup>5</sup> but that employment has been increasing at a significant pace in recent years (Table 2.1). Between 1989/90 and 1993/94 federal government employment declined, whereas it rose sharply in the three subsequent years. Such an expansion is inconsistent with the recruitment bans officially in effect during this period.<sup>6</sup> On the basis of data on sanctioned posts, the growth in provincial government employment was more modest, but nevertheless also at odds with the recruitment freezes that have ostensibly been in place in the provinces

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<sup>5</sup> Recent research into the determinants of public sector employment indicates that while cross-country comparisons are useful in identifying countries where over-staffing is likely to be prevalent, they cannot measure the actual extent of redundancies. Labor redundancy could in fact be significant in countries where the government share of the labor force is lower than what would be implied by country characteristics, for two main reasons: (i) for any given level of government consumption too much is spent on labor inputs and too little on non-labor inputs; and (ii) the common finding that government consumption has a negative impact on long-run growth. See Martin Rama, "Efficient Public Sector Downsizing", World Bank Policy Research Working Paper #1840, November 1997.

<sup>6</sup> Some officials explained that this increase likely reflects definitional problems, but a fully satisfactory explanation for it has not been provided.

as well (with the exception of the SAP sectors). In 1996/97, total government civilian employment of 2.4 million accounted for 6.5 percent of Pakistan's total labor force (but about 20 percent of the non-agricultural work force) and some 1.8 percent of its population.<sup>7</sup>

**Table 2.1: Government Employment, Selected Years**

	Employment			Growth (% p.a.)	
	1988/89	1993/94	1996/97	1989-94	1994-97
Federal Government	491145	452141	696549	-1.6	15.5
Provincial Governments	1284006	1586081	1708014	4.3	2.5
Punjab	722916	818647	880781	2.5	2.5
Sindh	285042	424974	445577	8.3	1.6
NWFP*	177106	219539	254587	4.4	5.1
Balochistan	98942	122921	127069	4.4	1.1
Total Government	1775151	2038222	2404563	2.8	5.7
Federal Corporations	448185	452283	424073	0.2	-2.1
Total Public Sector**	2223336	2490505	2828636	2.3	4.3
	% of total public sector				
Federal Government	22.1	18.2	24.6		
Provincial Government	57.8	63.7	60.4		
Punjab	32.5	32.9	31.1		
Sindh	12.8	17.1	15.8		
NWFP*	8.0	8.8	9.0		
Balochistan	4.5	4.9	4.5		
Total Government	79.8	81.8	85.0		
Federal Corporations	20.2	18.2	15.0		
Total Public Sector**	100.0	100.0	100.0		

\*Figure for 1988/89 extrapolated backwards.

\*\*Excludes employment in provincial public corporations, local governments, as well as ad hoc, work charge, and other temporary staff.

Source: Federal Government Civil Servants' Censuses; provincial government budget documents; and Government of Pakistan, Report of Task Force on Restructuring of Public Sector Corporations, 1996.

**2.8 Structure of Government Employment.** The provinces account for close to three-quarters of government employment. Punjab has the largest share, but there has been significant expansion in the smaller provinces, particularly Sindh and the North West Frontier Province (NWFP). As shown in Table 2.2, most of this expansion occurred at the middle skill levels (Basic Pay Scale, or BPS, 8-15) which include teachers. As in the provinces, the vast majority of federal government employees are in the lower grades (BPS 1-7), and only about 5 percent are officers (i.e. in BPS 16-22). Employment in the lower

<sup>7</sup> These data do not include employees of local governments, for which complete information was unavailable. By comparison, general government (central and local government, including teaching and health personnel) employment as a percent of the population in the early 1990s averaged 2.1% in Africa, 2.8% in Asia, 6.9% in Eastern Europe and the former USSR, 3.0% in Latin America and the Caribbean, and 7.6% in OECD countries (see Schiavo-Campo et. al., op. cit., p.7). Including the federal corporations (but not provincial corporations on which complete data are not available) would raise Pakistan's public sector employment to 2.83 million or 7.6% of the labor force and 2.1% of the population. However, governments and public choice vary substantially from country to country on account of the scope of governmental activity and service delivery standards, on which there are no firmly established norms. And as explained in the text, the numbers for Pakistan in any case underestimate the true size of government employment. See also footnote 5 above.

grades (1-15) has risen sharply in recent years, particularly in the middle-skill levels of 11-15 which contain significant numbers of accountants and higher-level clerical staff.

	1993/94		1996/97		Avg. Annual Growth p.a. (%)
	Number	% of total	Number	% of total	
<b>All Provinces</b>	1588154	100.0	1695412	100.0	2.2
BPS 1-7	1127089	71.0	1172489	69.2	1.3
BPS 8-15	305857	19.3	356812	21.0	5.3
BPS 16-22	155208	9.8	166111	9.8	2.3
<b>Punjab</b>	817062	100.0	872939	100.0	2.2
BPS 1-7	545026	66.7	552976	63.3	0.5
BPS 8-15	179871	22.0	224209	25.7	7.6
BPS 16-22	92165	11.3	95754	11.0	1.3
<b>Sindh</b>	419879	100.0	442613	100.0	1.8
BPS 1-7	311616	74.2	328925	74.3	1.8
BPS 8-15	77483	18.5	78974	17.8	0.6
BPS 16-22	30780	7.3	34714	7.8	4.1
<b>NWFP</b>	227679	100.0	254615	100.0	3.8
BPS 1-7	174611	76.7	193607	76.0	3.5
BPS 8-15	32715	14.4	37657	14.8	4.8
BPS 16-22	20353	8.9	23351	9.2	4.7
<b>Balochistan</b>	123534	100.0	125245	100.0	0.5
BPS 1-7	95836	77.6	96981	77.4	0.4
BPS 8-15	15788	12.8	15972	12.8	0.4
BPS 16-22	11910	9.6	12292	9.8	1.1

Source: Provincial Governments.

2.9 **Sectoral Distribution of Employment.** Federal government employment is concentrated in the railways, finance, interior and education departments.<sup>8</sup> In the provinces, a very large proportion of employees work in the social sectors (see Annex Tables A1-3): 64 percent in Punjab (including about 55 percent in education); 68 percent in NWFP (with 56 percent in education); and 45 percent in Balochistan (of which 31 percent is in education).<sup>9</sup> In both Punjab and NWFP, the social sectors have increased their share in total employment since initiation of the SAP in 1993/94 (the share in Balochistan has remained constant). However, not all of the employment growth in the social sectors can be attributed to the SAP, since these sectors contain significant numbers of staff employed outside primary education, basic health, and rural water supply and sanitation.<sup>10</sup> In primary education in Punjab, for example, employment grew by only 0.4 percent per annum between 1993/94 and 1997/98, compared to 1.9 percent for secondary education. More generally, in the provinces as a whole, a significant expansion in provincial employment predates the SAP.

2.10 A large number of provincial government employees also work in the police and other law and order-related departments, as well as in agriculture (including irrigation). Pakistan's deteriorating law

<sup>8</sup> Within the sub-sample of civil servants disaggregated in the 1993 Census, these departments employed 63% of civil servants.

<sup>9</sup> The sectoral breakdown of employment was not available for Sindh.

<sup>10</sup> The definition of SAP sectors has since 1997/98 been expanded to encompass "katchi" (equivalent to kindergarten) through elementary education (grades K-8), whereas only grades 1-5 were included previously.

and order situation has resulted in sharp growth of employment in law and order in recent years (Annex Tables A2-A4). The employment data for Punjab confirm that the number of work-charged employees rose significantly (by 13 percent) in 1990-96.<sup>11</sup>

### **Trends in Personnel Expenditures**

2.11 The employment trends discussed above are reflected in rising personnel expenditures (pay, allowances, and pensions) at both federal and provincial levels over the years (Table 2.3).<sup>12</sup> Overall, aggregate federal and provincial spending on personnel accounts for more than half of the consolidated non-defense, non-interest current budget. However, federal personnel spending consumes a relatively small portion of the total federal government budget and takes up only slightly more than a quarter of its non-defense, non-interest current expenditure. In the provinces, by contrast, more than two-thirds of non-interest current expenditures are on personnel.

2.12 These shares would be higher if the parts of "non wage" operations and maintenance budgets and the development budget that finance work-charged employees were included, and if non-monetary compensation was monetized. In the absence of the required information, assessing how much larger is necessarily a matter of estimation which may, nonetheless, serve to illustrate the significance of the issue. For example, if it is assumed that 10 percent of federal and provincial development budget allocations are consumed by wages (as is the case with agricultural research and extension at the federal level), and that 10 percent of "non-wage" O&M spending is actually on wages,<sup>13</sup> the "true" magnitude of personnel spending would increase to 4.8 percent of GDP and 65 percent of consolidated non-defense, non-interest expenditures. With these assumptions, the share of the federal non-defense, non-interest current budget devoted to personnel would rise significantly to more than two-fifths, while the share of personnel spending in the non-interest provincial current budgets would increase to three-quarters.

2.13 If it is assumed further that the value of non-monetary compensation to civil servants serves to double their total monetary compensation (pay, non-housing allowances, and pensions),<sup>14</sup> the "true" value of the resources spent on compensation of civil servants would approach 6.5 percent of GDP. These magnitudes are obviously subject to the assumptions made; however, the results of even the conservative estimates used here imply that official budgetary data significantly underestimate the full cost of the civil service.

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<sup>11</sup> According to data from the Government of Punjab, work-charged employees in 1997/98 totaled 10,405. There have been at least two occasions of regularizing work charged employees in the last few years; a case of regularization of such employees is pending in a labor court against the Lahore Development Authority.

<sup>12</sup> Pakistan's federal personnel spending is, however, among the lowest in Asia, both as a percent of GDP and as a proportion of current expenditure. For example, analysis of Pakistani data and those from the IMF's *Government Finance Yearbook 1994* suggest that as a percentage of current government expenditure, the 1992-93 central government wage bill (including wages and pensions of both civilian and military employees) was about 23% in Pakistan, compared to 35% in Indonesia, 33% in the Philippines, and 25% in Sri Lanka. International comparisons are, however, subject to definitional problems. In addition, due to data gaps, the comparison is only possible at the federal level, whereas the bulk of government employment in Pakistan is at the provincial level. Moreover, the comparison is based on cash compensation only and does not consider the significant amount of civil servants' remuneration that non-cash benefits constitute (see Chapter 4).

<sup>13</sup> This may in fact significantly underestimate the proportion of "non-wage" O&M budgets that are used to compensate work-charged and other temporary staff in agencies like the Pak PWD (para. 2.3), but may be closer to the average in the government as a whole.

<sup>14</sup> As discussed in Chapter 4, the value of non-monetary compensation for the typical Secretary (the highest ranking civil servant) approximates 4 times monetary compensation; the lower multiple used here is likely more representative of the average employee.

2.14 A final measure of the cost of the civil service is seen in the ratio of personnel spending to total revenues which increased from 22 percent in 1990/91 to 27 percent in 1996/97. While this rise is as much a reflection of the slow progress with resource mobilization in Pakistan, it shows that an increasing proportion of the resources mobilized through taxes from the public is being spent on compensating the civil service itself.

2.15 As measured by official budgetary data, federal and provincial personnel spending increased at an average annual rate of 18 percent between 1990/91 and 1996/97 (4 percent p.a. in real terms) due both to the expansion of employment and to significant pay increases in 1990/91 and 1993/94. Relative to 1990/91, the Federal Government spent about the same proportion of its non-interest non-defense budget on personnel in 1996/97, whereas in the provinces this proportion has increased by about 5 percent (with the largest increase in Punjab and a decline in NWFP). The provincial governments attribute the increase in their personnel expenditures to expanded employment in support of the SAP. While it has undoubtedly been a factor, the employment trends discussed above (para. 2.9) imply that non-SAP social sector personnel spending also increased significantly. Moreover, the average annual increase in provincial personnel expenditures between 1990/91 and 1993/94 (i.e. prior to the initiation of the SAP) was 25 percent. Thus the SAP is but one factor explaining the expansion in the provincial wage bill.

2.16 Overall, the rapid increase in Pakistan's spending on personnel since 1990/91 is explained by: (i) a significant expansion in government employment and increases in expenditures on pensions; (ii) revision of basic salaries by the 1991 and 1994 Pay and Pensions Commissions, translating into nominal increases of 8 percent in each of the two years; (iii) increases in some allowances; and (iv) the provision for automatic "move-overs",<sup>15</sup> as explained in Chapter 4. While basic pay has increased at an average rate of only about 7 percent p.a. over the past decade (i.e. below inflation), the growth in aggregate personnel spending during the past five years has approximated 20 percent p.a. as a result of employment and pension growth, as well as the last two factors. Non-cash benefits to civil servants (e.g. government-provided housing, cars, etc.) have also been on the rise, and constitute an additional claim on limited government resources that is, however, necessarily difficult to quantify (see Chapter 4).

2.17 The average annual wage implied by the data on federal and provincial employment and personnel expenditures (Rs. 43,634 or US\$1,119 in 1996/97) is -- as a multiple of per capita income (2.3) -- low by international standards.<sup>16</sup> But again, this is likely to be an underestimate of the gap between average incomes in Pakistan and the average civil service wage, for the reasons discussed in paras. 2.12 and 2.13. The magnitude of personnel spending is especially of concern in view of weak civil service performance and the crowding out of non-wage O&M spending. Increasing the operational effectiveness of the civil service will require containment of personnel expenditures in order to permit the increases in O&M necessary, for example, to arrest the deterioration of physical infrastructure, provide supplies and medicines, and support an effective agriculture research and extension system. Fiscal imperatives may be secondary to the other reasons for pursuing civil service reform, but containing personnel spending should nonetheless be an important objective of a comprehensive program in Pakistan. Policies to support such containment are discussed below, as well as in Chapters 4 and 5 (which also discuss structural issues in the compensation system).

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<sup>15</sup> The system whereby once an employee below BPS-16 reaches the top of a pay scale, and has been there for 2-3 years, they automatically "move over" into the next scale.

<sup>16</sup> Bearing in mind the difficulties in making cross-country comparisons. Data reported in Schiavo-Campo et. al. (op. cit) put the average central government wage as a multiple of per capita GDP at 6.7 for Africa as a whole; 4.7 for Asia; 4.9 for Latin America and the Caribbean; and 4.5 for OECD countries.

**Table 2.3: Personnel Expenditures of the Federal and Provincial Governments**

	1990/91	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	Avg. Annual Growth p.a. (%)
	<i>(Rs. Billion)</i>							
All Governments	38.2	50.6	59.0	66.0	79.2	100.1	104.7	18.3
Federal Government	8.3	10.4	12.4	13.8	16.8	19.2	20.2	15.9
Provincial Governments	29.9	40.2	46.7	52.2	62.4	80.9	84.5	18.9
Punjab	15.7	21.1	25.3	28.2	32.1	44.0	46.2	19.7
Sindh	7.7	10.4	11.5	13.1	16.7	19.7	20.4	17.5
NWFP	4.4	5.8	6.4	7.1	8.9	11.4	11.5	17.5
Balochistan <sup>1/</sup>	2.1	2.9	3.4	3.9	4.6	5.9	6.4	20.0
	<i>Personnel Expenditure as Percent of Non-Defense Non-Interest Current Expenditure <sup>2/</sup></i>							
All Governments	47.3	55.0	55.6	59.6	54.9	58.2	56.2	--
Federal Government	26.4	29.8	29.8	28.7	27.8	20.5	26.8	--
Provincial Governments	63.8	71.0	72.6	76.1	68.8	72.8	69.4	--
Punjab	63.0	75.6	78.9	83.5	73.1	79.5	74.3	--
Sindh	69.7	69.7	72.0	73.7	66.2	64.5	68.7	--
NWFP	61.6	66.6	65.2	66.1	63.8	69.5	58.1	--
Balochistan	55.6	56.5	54.0	60.9	61.5	65.6	63.9	--
	<i>Personnel Expenditure as Percent of GDP</i>							
All Governments	3.8	4.2	4.4	4.2	4.2	4.6	4.2	--

<sup>1/</sup> Except for 1996/97, estimated from employment (sanctioned posts) data and average employment cost in other provinces; 1996/97 figure provided by Ministry of Finance, Government of Pakistan.

<sup>2/</sup> The relevant bases for different governments are: for "all governments" the consolidated federal and provincial non-defense, non-interest current expenditure; for "federal government" federal non-defense, non-interest current expenditure; for "provincial" and individual provincial governments, the non-interest current expenditures of the provincial governments combined and of individual provinces, respectively.

*Source:* For 1990/91-1995/96, Federal, Sindh and NWFP figures are from the Appropriations Accounts; for 1996/97, Federal, Sindh, and NWFP figures provided by Ministry of Finance, Government of Pakistan; Punjab figures were provided by the Government of Punjab.

## Assessing and Dealing with Excess Staff

2.18 Improving wage bill management and reducing the number of government staff to levels required to fulfill core government functions can help provide needed resources for priority spending (including on better remuneration for employees who will continue to be needed).<sup>17</sup> But staff reduction is necessarily difficult and requires careful planning. The principles outlined in Chapter 1 (clearer definition of the role of the state, skill needs, devolution) should guide any future "downsizing" effort. As is currently being undertaken by the CAR, the continued relevance and organization of various divisions/departments/autonomous bodies would also need to be assessed.

2.19 To the extent that such an assessment suggests that some downsizing is necessary, retrenchment efforts will need to be designed very carefully. Loss of morale, staff resistance, and further erosion of service standards can be avoided by making the process more transparent, including in the design of separation schemes. The public and other interests who are likely to benefit from more efficient government entities should also be brought on board. Retrenchment programs can be costly, and their successful implementation requires strategic thinking to make them affordable and irreversible, and to

<sup>17</sup> Expanding Pakistan's tax base, strengthening tax administration, and reducing the high share of "inflexible" (defense and interest) spending in the budget are also necessary to provide fiscal space for priority spending.

avoid productivity losses. Often, insufficient attention is paid to maximizing the economic returns from downsizing (which are more difficult to assess than financial returns). While the efficiency gains from downsizing can be significant if carried out properly, lack of careful planning can exacerbate problems it was designed to address.

2.20 Pakistan has attempted to reduce overstaffing in the public sector through bans on recruitment, and selective retrenchments. For the most part the staff declared surplus in the past as result of restructuring exercises (and placed in "surplus pools") were re-absorbed into other departments. The GHS/ERS scheme announced in August 1997<sup>18</sup> repeated the design problems seen in a number of countries. In particular, its untargeted nature risked adverse selection, such that needed staff might depart and would need to be replaced (in fact, large numbers of teachers, paramedics, and research staff applied). Lack of targeting would also likely have reduced the economic returns from downsizing by creating an incentive for the best workers to leave and the least productive to remain. There was also the risk of a "revolving door", since employees opting for the scheme would be allowed to resume public sector employment after only two years and because of the major deficiencies in employment and wage bill monitoring mechanisms discussed above. Finally, the scheme could have effectively overpaid certain categories of staff; and its design was unnecessarily costly, in part because of the commutation arrangement under the pension system, which increases the Government's up-front costs for each retiree (see Chapter 5).

2.21 In the event, some 80,000 government servants (mostly in lower grades with service of 10-20 years), applied for the GHS/ERS. According to government estimates, the scheme would have cost about Rs 20 billion (US\$513 million at 1997 exchange rates, or an average of US\$6,412 per person). Although the benefits from early retirement were substantial, very few people in the higher grades applied, partly because non-wage benefits were not reflected in the package (these tend to constitute a larger proportion of their total remuneration than is the case for lower-level staff). Moreover, the scheme was confused by a series of "clarifications" effectively revising the original offer. The CAR subsequently reviewed the scheme and has recommended a more comprehensive review of the role of government, broader civil service reforms (including downsizing in a phased manner where warranted) and consensus-building on the issue. The CAR has also conducted reviews of 17 divisions and has made recommendations for their possible future restructuring.

2.22 Although the GHS/ERS remains suspended, staff retrenchment and restructuring exercises have continued on a smaller scale. Examples include those in Pakistan International Airlines at the federal level, and in the Punjab Road Transport Corporation and the Lahore Development Authority in Punjab. These schemes also are un-targeted, costly, and without safeguards in place to avoid a recurrence of overstaffing.<sup>19</sup> Delayed payments to the staff concerned have further increased resistance. Even the more successful (and targeted) downsizing carried out in 1997/98 in public sector financial institutions has been challenged in court.

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<sup>18</sup> The incentives for early retirement were: three months' basic salary for each completed year of service for employees with service up to ten years; retirement benefits equal to those for 25 years of service for employees with service of 10-20 years; retirement benefits for 30 years of service for employees with service of 20-25 years; maximum retirement benefits (i.e. for 35 years of service) for employees with service of 25 years or more; right of retention of government housing for a year after retirement; and right to purchase official cars at depreciated value to retiring officers entitled to cars. The benefits to mid-career retiring employees (i.e. people in the service bracket of 10-20 years) were much larger than for others, given the statutory provision of commuting 50% of pension for the remainder of expected life on an un-discounted basis.

<sup>19</sup> All employees in the Punjab Road Transport Corporation (PRTC) were laid off when was closed down, and its retrenchment scheme can therefore be viewed as having been "targeted". However, there was no prohibition on these employees seeking employment in other parts of the public sector.

2.23 Box 2.1 below discusses some key issues in adjusting the size of the civil service based on international experience. Targeting of redundant/unproductive workers rather than general offers for voluntary departure is necessary to avoid the loss of needed staff. Recent research on this issue shows that targeting increases the economic returns to downsizing (because re-hiring -- which implies that the worker was not redundant in the first place -- of displaced workers is less).<sup>20</sup> Targeting can be achieved by directing voluntary departure/early retirement schemes at agencies or categories of staff where overstaffing is concentrated, and/or excluding categories of staff in short supply. Even in the case of voluntary schemes that are open to all, a "menu" of various self-selecting mechanisms can be used to minimize the adverse selection problem. For example, offering better-paid but-fixed term contracts could be attractive to productive workers who know they can find alternative employment at the end of the contract term but would be unattractive to those workers who do little or no work but expect under current arrangements to ultimately receive a pension. The fixed term offer could also be combined with one of severance pay to entice unproductive workers to leave.

2.24 A logical starting point for a downsizing effort in Pakistan would appear to be redundant staff assigned to the "surplus pool" and redundancies identified by the CAR reviews. The over-compensation problem could be minimized by using labor market data to tailor packages to characteristics such as education, seniority, family status, etc (rather than the standard rules of thumb based on a certain number of months for each year of service). In formulating the menu of options, a careful distinction would need to be made between staff who would be eligible for enhanced early retirement and those who will receive severance pay. One way to do this would be to specify that employees not eligible for early retirement by virtue of age -- say those younger than 55 or 57 and who have not accumulated the years of service necessary for early retirement pension -- would be offered a severance package based on observable characteristics of the workers (e.g. seniority, family status, education, etc.).

2.25 Severance pay would be intended as a transition between government service and the private sector, not as a permanent source of replacement income. Therefore, to encourage a more rapid transition to other employment, employees could be offered a chance to receive their severance allotment as a one-time commutation, paid at market rates. With such a sum, an employee would be able to start or buy a business or enroll in a retraining course. Payments to employees designated to the "surplus pool" could likewise be time-limited and commuted to give them something with which to make a fresh start.

2.26 As explained more fully in Chapter 5, the commutation provision means that civil servants who retire before the normal retirement age of 60 receive higher benefits (rather than lower benefits as in other countries) in the form of half of a larger number of years' benefits in lump-sum form. Without reform, this provision will render any early retirement scheme unaffordable; the current commutation arrangements are in any case an expenditure timebomb even if limited to normal retirements. Early retirement should continue to be available and be used as a work force restructuring tool, but only at a specific age (or combined age plus service), and it should include an actuarial reduction to reflect the longer period during which the retiree will receive benefits.

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<sup>20</sup> See Rama, *op. cit.*

### Box 2.1: Adjusting Civil Service Size – Key Issues From International Experience

International experience clearly demonstrates that cost containment and downsizing should not be undertaken as ends in themselves but rather to achieve key objectives for the renewal and professionalization of the civil service. Reforms should be based on a clear rationale, well-defined objectives, and a carefully developed and phased reform strategy. Short-term, fiscally driven measures such as wage freezes and across-the-board staff reductions make little sense unless they are linked to a broader reform effort. Otherwise the result will simply be a smaller, demoralized service whose effectiveness has been further undermined.

Moreover, in the absence of technical capacity to monitor and control the movement of personnel (recruitment, transfers, retirements, etc.) and to enforce the relevant rules and procedures, efforts at downsizing may be rapidly undermined through renewed recruitment or fraudulent re-entry. Hence it is very important to put in place systems to maintain, update, and utilize the relevant data. While the databases and systems needed for this are being put in place, essential cost containment and control measures also should proceed. These could include: (i) elimination of non-existent or "ghost workers"; (ii) elimination of empty posts deemed to be non-essential; (iii) strict enforcement of the retirement age; (iv) freezing of recruitment, subject to exceptions for clearly demonstrated skill needs; and (v) elimination of guaranteed entry into the civil service from the education system.

After government priorities have been identified and resource constraints are clearly understood within the macroeconomic scenario, the existing establishment should be analyzed to ascertain the need for renewal based on attrition, recruitment, downsizing, etc. Normal attrition frequently is insufficient to achieve government targets for the cost and numbers of civil servants; nor does attrition permit major staffing changes in the short run to meet the requirements of a different skills profile. Thus redundancy programs are often required, but they demand careful preparation, design, and costing.

Most successful programs involve a mix of measures, including: (i) enforcement of the retirement age; (ii) early retirement; (iii) voluntary departure; and (iv) forced departure (redundancy). The appropriate strategy will depend on particular circumstances and objectives. If, for example, there are excess staff at lower levels and too few people at higher professional and technical levels, the program should be targeted at the former group. If certain skills are in short supply – e.g. graduate nurses or secondary school teachers – they should not be offered a voluntary departure option. Appropriate sequencing also is needed. Offering a menu of options and using labor market data to determine appropriate compensation levels can help reduce the risks of adverse selection and overpayment often associated with voluntary departure programs.

Departure packages have to be designed carefully in the light of existing legal and pension provisions. A survey could be carried out to test various options; in addition, available survey data on household incomes should be analyzed. For example, if turnover in the civil service has been low despite inadequate salaries, it may be because government employment provides status and a secure yet small salary with pension and other benefits, which could include legal protection, access to information about economic activities, possibilities for rent-seeking, etc. Any program of departure benefits will need to take all of these elements into consideration.

The voluntary departure program of Sri Lanka's 1990 administrative reform shows the pitfalls of inadequate preparation. The package offered was very generous and untargeted, with the result that some of the most senior retirees had to be rehired as consultants and 14,000 experienced teachers left who had to be replaced by untrained recent graduates. Staff who were about to retire anyway also were offered packages, thus unnecessarily inflating the cost of the program.

International experience shows that voluntary departures can entail high short-term budgetary costs, which need to be taken into account in fiscal planning and weighed against future savings. The level of compensation offered must be carefully balanced between fiscal, equity, and incentive considerations. Attention must be paid to maximizing the economic (and not just the financial) returns from downsizing.

In general, the experience with non-monetary compensation for those who lose their jobs, such as credit schemes for setting up businesses, job placement programs, etc. has not been positive; these initiatives have proved difficult to administer and entail high costs in relation to the services provided and the numbers of individuals helped. Outplacement schemes have faced formidable problems, in particular a poor match between the skills of redundant public sector employees and the main sources of demand for workers in the agricultural and informal sectors. (An elaborate outplacement scheme in Ghana only reached a small minority of retrenched workers, for example.) Even the most successful programs to provide credit to redundant civil servants have only reached a small percentage of those targeted. For example, in the Gambia recovery rates for credit schemes for former civil servants were less than 30%, much lower than for other credit schemes. It may be useful, however, to offer redundant workers access to specific training, when there is expressed demand for specific skills in the private sector. Job information services and/or counseling may also be useful and do not require elaborate administrative arrangements. But the Government itself is not usually best-placed to provide such services (which should be financed out of -- rather than in addition to -- departure packages for concerned staff).

**Box 2.1 cont'd. Adjusting civil Service Size – Key Issues From International Experience**

Those leaving the civil service expect generous departure packages, for which there are several justifications. One set of design principles could involve: (i) maintaining income during the transition to a new career; (ii) compensating for past contributions to the civil service (because compensation may have been backloaded through lower current wages in return for job security and a good pension); and (iii) providing support to develop the capacity to engage in new productive activities. These principles could lead to the following type of package: (1) a transition payment based on characteristics such as age, family status, and education; (2) a service recognition element, i.e. a payment based on length of service; and (3) an investment incentive element which recognizes that starting a new career may require an initial investment.

A good example of a package which succeeded is the Uganda case, where those forced to leave (the size of the civil service was reduced by 50% between 1989 and 1995) departed without social unrest. The severance payment formula comprised three months' basic salary in lieu of notice, plus one month in lieu of leave entitlement, plus three months' basic salary for each year of pensionable service up to a maximum of 20 years.

In conclusion, international experience in this difficult area clearly shows that there are no simple prescriptions – what is required is a clear vision of the goals of reform, solid technical analysis, and awareness that economic and fiscal considerations must be tempered by what is politically and socially desirable.

2.27 The Government believes that the political and social feasibility of future retrenchment efforts will be enhanced by putting in place job transition/safety net assistance (possibly including credit facilities) for departing staff. It is important that the Government review the experience of other countries before undertaking such efforts. This experience is not a positive one, as such schemes have been costly to administer and fraught with other problems (see Box 2.1). The Government must also determine whether the expenditure of additional resources to facilitate the transition to new employment of an already privileged segment of the population -- who moreover would be offered attractive departure packages -- ranks as top priority relative to the other demands on it (e.g. for extension of basic social services to Pakistan's poor). Finally, there is no evidence that government does better than -- or even as well as -- the private sector in training people for private sector jobs. Placement, training, and other services for displaced civil servants should instead be financed out of their departure package; departing staff should be left the choice of using part of this package for these services, if they find them useful (this would also avoid the creation of new or subsidization of old unproductive training institutes and/or credit facilities).

2.28 The extent of employment, pension, and payroll irregularities in Pakistan means that significant budgetary savings may be achieved even without downsizing, by ending abuses and gaining control over the payroll and pension spending. The saleability, irreversibility, and affordability of any future downsizing scheme will, in any case, be enhanced by such actions, in particular:

- undertaking payroll audits to remove ghost workers and pensioners;
- putting in place an integrated management information system on personnel expenditures;
- maintaining and tightening existing recruitment freezes (with the exception of frontline staff in SAP sectors);
- stopping new work-charged employment; and - legal considerations permitting - not regularizing existing work-charged staff;
- terminating all ad hoc appointments and contractual appointments at the end of the contract period, with all future contractual hiring to be on the basis of specific, well-defined terms of reference;
- denotifying all unfilled sanctioned posts which have remained vacant for more than one year;

- ending the practice of “move overs”, while reviewing the length of certain pay scales to permit them to become “career grades” (see Chapter 4);
- undertaking a crash effort to gather data on prospective retirees and pensioners; and
- carrying out provincial civil servants’ censuses, and publishing the results of the 1997 federal civil servants’ census.

2.29 As modeled in Annex E, downsizing and significant savings could also be achieved through normal attrition and effective hiring freezes, although neither of these would permit the attainment of the different staffing profiles and introduction of new skills that are necessary to improve civil service performance and effectiveness.

## CHAPTER 3: ACCOUNTABILITY AND PERFORMANCE

3.1 A civil service exists to provide services to the public, to carry out regulatory functions, and to assist ministers in formulating policy. The public needs to know that these functions are being carried out well, cost-effectively, and honestly. This implies the need for some way to measure the outcomes achieved by the public service in performing its tasks. It also implies a chain of accountability from every civil servant up through the internal chain of command to the minister and through the Assembly to the public. This “internal” chain of accountability is strengthened if individuals at each level of the chain also see themselves as accountable directly to the public and as needing to understand and to pay heed to the views of all citizens. This is part of the essence of democracy which recognizes that it is the public who through taxes are paying for the public service.

3.2 Improving performance must begin with ensuring more transparency. Major initiatives underway in Pakistan in this connection include: the work of the CAR; the Pakistan 2010 Program; the work on revising the federal Rules of Business; and the coordinating committee chaired by an advisor to the Prime Minister. The second phase of the SAP stresses institutional and governance reform issues. In Punjab, among other initiatives, there are the various Chief Minister’s Task Forces (including one dealing with “Reformation of Government Offices”), and in NWFP a “Good Governance Project”. As noted below, there are also a number of small-scale initiatives and pilots. While there are very serious problems with the present system, prospects for the future are good if these various initiatives are carried forward in a coordinated fashion with commitment from all levels of government.

3.3 This chapter first discusses internal mechanisms of accountability; then the various specific institutions which have been created to strengthen accountability; and then the issue of external accountability to citizens. The final section identifies some reform initiatives already under way in the country or being discussed.

### The Internal Chain of Command and Accountability Mechanisms

3.4 In Pakistan at present *there is, at least in theory, a clear internal chain of accountability* running upward from the individual public servant working in day-to-day contact with the public. This goes through the immediate supervisor and on through the management chain to the secretary, who as principal accounting officer is accountable both to the minister and to the Public Accounts Committee (PAC) of the Provincial or National Assembly. The minister is of course personally accountable to the Assembly and to the electorate. The strength of this internal chain of accountability depends on four things:

- The *group norms* of what is and is not the acceptable or right way to behave. These vary in detail between the various levels but in a well-functioning system of governance will include a commitment to serving superiors and the public, and complete intolerance of corrupt or other illegal behavior.
- The strength of standard management *systems and procedures*, in particular the existence of rules and the availability of information on inputs and on outcomes/results (in terms of the basic tasks of delivery of services to the public, performance of regulatory functions, and assistance in the formulation of policy).
- The extent to which there is a strong framework of *basic management processes* including objective setting, budgeting, managing staff, and monitoring and evaluation.

- The existence of *specific institutions and formal systems* to promote accountability. Such institutions include PACs, ombudspersons, and the various review commissions. The formal systems vary with the levels of the accountability chain. Examples include: the system of annual confidential reports (ACRs); the responsibility of each secretary to produce quarterly reports (repealed in March 1998 as part of the on-going review of the Rules of Business) and an annual report; and the requirement for ministers to answer to the Assembly, not least through answering questions on the business of their ministries (cf. the general debate on budgetary proposals, references to standing committees, etc.).

3.5 It is widely accepted in Pakistan that *all of these elements of internal accountability have been seriously eroded*. There is almost universal agreement that ethical standards have fallen (although there are many exceptions to this general trend). The country's international reputation in this regard is low, which is one factor harming its ability to compete in the world economy.

3.6 The systems and procedures needed to sustain accountability have also been eroded. There seem to be four main reasons. First is the *failure to update processes* as the functions and size of government have evolved. The most obvious example of this is the limited extent of computerization of the various payrolls. At the "field" level, a computerized system of land registration could contribute to reducing one of the most significant areas of complaint about the civil service (although this would in practice present major management and political challenges). More generally, procedures that are overly elaborate decrease accountability. Another reason is the *reduced role of merit* in recruitment and promotion decisions, and the increase in the use of subjective/personalized appointments. Personnel management approaches have also been eroded (paras. 3.10 - 3.16), and there are serious problems in the area of compensation and benefits (Chapter 4). Third is the *increasing use of discretion* in ways that are too often not supervised within the accountability chain and which are not at all transparent (paras. 3.25 - 3.26). A final explanation concerns the *lack of adequate training*, an area not covered in this report but one which was raised several times by officials and others in Pakistan. It is clearly an important area, both for instilling new values and for improving skills.

3.7 Most of the *specific mechanisms of accountability have also declined in effectiveness*. Basic disciplines have been abandoned in such areas as simple time keeping, targets for numbers of nights "on tour" (i.e. moving around the district to take action as needed) and producing "tour reports" (i.e. noting action taken and observations made). It is widely said that the ACR system is never used to record adverse markings or comments. Moreover, like most such Commonwealth systems, it would be of limited utility in developing a performance-oriented culture even if used boldly. This is because such systems give greater emphasis to personal qualities than to setting objectives and measurable targets against which performance can be objectively assessed. Many Commonwealth countries are now moving to such objective-driven systems and finding that focusing on outcomes does help to increase the objectivity of reports. It is easier for the officers being assessed to recognize that they have achieved few of the things they undertook to do than for senior officers to comment adversely on the personal qualities of their junior colleagues.

3.8 *Higher-level mechanisms* have also been eroded. The system of quarterly and annual reports although required by the federal Rules of Business is said to have become no more than a ritual.<sup>1</sup> However, the recent repeal of the provision requiring a quarterly report removes a potentially useful mechanism for enforcing agency accountability. Until recently, the delays in producing audited accounts

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<sup>1</sup> At least in Punjab it has not been a legal requirement at the provincial level.

and the sporadic existence of a PAC have meant that any public hearing into alleged errors occurred only after the responsible Secretary had moved on. The effectiveness of sectoral Standing Committees is also said to have varied widely. In any Commonwealth system this final link in the accountability chain to the democratic representatives of the people is critical.

3.9 The World Bank has commented separately on the *incremental approach to budgeting* in its recent Public Expenditure Review. In addition to the implications for controlling expenditure, this also reduces the scope of one potential pressure for accountability. If each year's program is to a very large extent a repeat of the previous year's, then senior managers will tend to have less personal involvement in the costs or content than if they had been required to argue the case themselves. The responsibility of managers for the use of resources is a critical part of the "New Public Management" approach to strengthening service delivery and ensuring efficiency and effectiveness. More generally, managers' budgets can be a significant tool for behavioral change, both through the priorities they set and through the pressure to achieve results in line with the resources used.

### **Legal Provisions and Accountability**

3.10 Functions of government are carried out in accordance with the *Rules of Business* as set out in the 1973 Constitution. These rules are not materially different between the federal and provincial governments except to the extent that the Constitution assigns different functions to the two levels of government. The federal Rules of Business provides for the distribution of functions among the various divisions and attached departments (the latter are attached to specific divisions). In general, the divisions are concerned with policy matters and the attached departments (as well as the statutory/autonomous bodies) with operations (the comparable distinction at the provincial level is between the secretariat and the directorate). In practice, this dual structure has led to considerable overlap in structures and confusion of roles.

3.11 Over the years, the *management culture of government* has evolved in favor of increased centralization, with adverse consequences for efficiency and effectiveness. Thus actions like recruitment of clerical staff, and teacher postings and transfers -- which were previously the responsibility of individual departments and divisions -- are now decided by a central authority or a Secretary. Personnel management cases involving BPS 17-22-level staff (some 20,000 people at the federal level alone) require the intervention of the Chief Minister/Prime Minister. In the Federal Government, all cases of official foreign travel require the Prime Minister's approval. Such centralization of routine matters both impedes the functioning of the government machinery and diverts the attention of top officials from policy-making and strategic issues.

3.12 The 1935 Government of India Act (Pakistan's Constitution until 1956) contained detailed provisions regarding the *terms and conditions of service of civil servants*. The 1956 Constitution expressly prohibited variation of tenure and conditions of service to the employee's disadvantage, and provided the right of appeal, inter alia, against alteration or adverse interpretation of a rule affecting conditions of service. Although the provisions of the 1962 Constitution were not as comprehensive, it provided protection in relation to remuneration as well as for appeal against a disadvantageous alteration or interpretation of rules affecting terms or conditions of service. By contrast, the 1973 Constitution (currently in force) removed these protections, instead leaving determination of terms and conditions of service to organic law. However, as currently observed, the terms and conditions governing civil service employment mean, for example, that a civil servant vests from the date of hire in such (trivial) job-related perks as an office with a window, but must wait typically 30 years to acquire a vested interest in any portion of his/her pension (although he/she has somehow a vested interest in the provisions governing

that pension). Such a situation is anomalous at best and provides little in the way of true income protection, whether current or retirement (see Chapter 5).

3.13 Some view this absence of *constitutional protection* as detrimental to the independence and objectivity of government servants (and therefore to performance). But in the past such independence was not guaranteed; in effect, political influence over the civil service predates 1973. One noteworthy example was the “screening” of civil servants considered loyal to General Ayub Khan by his successor, resulting in the forced retirement or dismissal of more than 300 officials. The elaborate constitutional safeguards provided for members of the elite cadre (the “Civil Service of Pakistan”, or CSP) in the past reduced political control over the civil service and its accountability to the country’s democratically elected representatives.<sup>2</sup> Iron-clad constitutional protection is, in any case, not necessarily in the country’s wider interest. In particular, it would prevent the Government from managing the civil service in a flexible manner to respond to changes in the role of the state and to fiscal imperatives.

3.14 The current terms and conditions of service of the federal civil service are spelled out in the *Civil Servants Act of 1973* and the rules framed under it. Direct recruitments to BPS-15 and above are made through the federal Public Service Commission (PSC); recruitment to levels 1-15 are the responsibility of the Secretary. Unlike the earlier constitutional schemes, the 1973 Constitution does not provide for the PSCs, and merely states that they may be set up by law. PSCs have, however, remained throughout Pakistan’s existence (although now with reduced powers, as explained below). The PSCs, whose responsibilities include conducting of tests and examinations (including interviews) for various posts, consist almost entirely of former government servants. In carrying out their functions these commissions judge the suitability of candidates for running the various public services and are advised only by departmental representatives. To provide for the public perspective as an input into this process, half of the members of the PSCs could instead be selected from among former academics, legislators, private sector professionals, representatives of NGO’s, and other interested parties.

3.15 The first *promotions* in the careers of civil servants belonging to regularly constituted groups or services (e. g. District Management or DMG, Customs, Police) are on the basis of seniority, subject to (physical and mental) fitness. Subsequent promotions are meant to be based on merit, at least according to the 1973 Civil Servants Act. In practice, however, the system has degenerated into one of promotion purely on the basis of seniority, which is a source of significant staff demotivation since there is no link between performance and career advancement. Given its inutility in assessing actual performance, the ACR has not provided an objective basis for determining promotions either.

3.16 While prohibiting discrimination in the civil service, the 1973 Constitution provided for “*reservations*” (in effect quotas) on a provincial or urban/rural basis for a period of 20 years. There have been demands for a further extension of these quotas beyond their 1993 expiration date by means of an amendment to the Constitution. Such an extension may however have the effect of discouraging the institutionalization of a merit-based civil service. Moreover, the continued justification for quotas for regions that are converging in the level of educated people -- cf. urban Sindh versus Punjab -- is also an issue requiring more reflection.

3.17 The *legal system* has in general proved a weak instrument for helping the citizen to hold the state accountable, although Pakistan could draw on its triple inheritance of Common Law, Shariah, and Statute Law -- if it so wished -- to develop a robust system of administrative law. There may specifically be

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<sup>2</sup> For more discussion of this issue see Mohammad Mohabbat Khan, *Bureaucratic Self-Preservation: Failure of Major Administrative Reform Efforts in the Civil Service of Pakistan*, University of Dacca, Dacca, Bangladesh, 1980.

scope to develop the role of the various special courts (Income Tax Tribunals, Banking Courts, Drug Courts, Customs Courts, Commercial Courts) as a means of redress among their other functions. The legal system has, however, become a significant constraint on the Government's ability to take actions which adversely affect individual civil servants, even where such decisions are in the broader organizational or national interest. This judicial review of personnel decisions can affect even the federal PSC.

3.18 **Corruption** is a pervasive, deep-seated problem in Pakistan, affecting the civil service as well as most other institutions. There are twelve laws to deal with corruption, apart from the disabling provisions in the Constitution. The number of agencies to deal with corruption cases has expanded in recent years (paras. 3.27-3.29) as politicians have made public commitments to stem it and bring corrupt employees to justice. Yet the record is bleak. Very few corrupt officials are convicted. With little or no power to investigate and prosecute, new institutions such as the Ehtesab (accountability) Commission established to fight corruption have in effect added other non-functioning layers to the bureaucracy (para. 3.28).

3.19 It would be preferable if early evidence of corruption were dealt with under the **Efficiency and Discipline Rules** of the federal and provincial **Establishment Codes** which provide for the penalty of dismissal of corrupt civil servants. Japan, for example, relies on disciplinary action in such cases. It has no anti-corruption laws. Pakistan, on the other hand, has many laws, but has made little or no progress on this front. Anti-corruption commissions, by themselves can accomplish little in the absence of other fundamental accompanying actions (e.g. regulatory procedures, strengthening judicial institutions) and broader efforts to improve civil servants' accountability to the public).

#### **The Civil Service/Political Interface and Accountability**

3.20 **The ability of the legislature to hold the executive to account** is very limited. The role of Assembly Members seems too often to be limited to intervening to advance the cause of individual electors in a way which can undermine good administration, rather than pressing for good service delivery for the majority. Examples include: excessively frequent contact with local staff over particular decisions (which at best can in moderation be helpful in overcoming bureaucratic inertia); the development of patron/client relationships under which public servants owe their loyalty to particular politicians rather than to their hierarchy in the public service; and the pressure to use the public service as a source of employment.

3.21 **Political interference** is widely viewed as a key factor undermining civil service performance and accountability. It is therefore important to understand the incentives propelling it, and thus the aspects of the civil service/political interface requiring reform. One hypothesis explaining increased proclivity to political interference is that politicians perceive the civil service as unresponsive to political objectives and therefore attempt to circumvent and/or mould it to achieve them. Pakistan's experience provides some support for this view. First, for much of the post-independence period through 1973 the few democratically elected governments were frustrated with what they viewed as a powerful elite civil service (the CSP) that appeared to pursue its own agenda, rather than one set by the politicians of the day.<sup>3</sup> Elected governments since that time have sought to reduce the power and independence of the civil service to serve political interests. Second, few elected politicians have completed their tenure and their horizon therefore tends to be very short-term. Pressures from their constituencies to deliver short-term results lead politicians to view the reservations expressed by the civil service as bureaucratic

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<sup>3</sup> See Khan, *op. cit.*, for a discussion of the bureaucratic/political interface in a historical context.

unresponsiveness. Too often, however, politicians press for favors for individual constituents (or even relatives) rather than promote broader constituency interests. Although possibly a dominant one, constituency pressures are not the only incentives for political interference in the civil service. Others can include the mutuality of patronage between civil servants and politicians and, of course, personal gain.<sup>4</sup>

3.22 While the impact of political interference has been extremely detrimental to civil service professionalism and governance, there are instances where changes brought about at least partly for political reasons were desirable for themselves. Such was arguably the case with the introduction of lateral entry under the 1973 reforms. By permitting appointments at mid-career, lateral entry held the promise of widening the pool of potential managers and/or introducing needed new skills into the civil service. In the absence of more fundamental reform however -- and amidst widespread political interference -- the system foundered and subsequently came to be blamed for the induction of unqualified people into the civil service.

3.23 Nonetheless, ways must be found for successive governments to be able to carry out the policies for which they were elected without at the same time compromising the integrity of the civil service. In those cases where political interference is genuinely a reaction to bureaucratic unresponsiveness or inefficiencies, the reforms discussed in this report should help to limit it. There is also the need to address some of the long-standing irritants in the *relationship between Ministers and Secretaries*. The recent change (March 1998) in the Rules of Business governing the settlement of differences of opinion between the Minister and the Secretary to allow the latter to appeal directly to the Prime Minister may in that respect, be a welcome development. Other changes the Government might wish to consider include: (i) providing for ministerial orders to Secretaries to be in writing (in order to improve transparency and minimize friction); and (ii) removing the incentives for Ministers to by-pass senior functionaries and directly instruct lower-level field agencies.

3.24 In the effort to build a more productive relationship between politicians and the civil service, the first priority should be *transparency of procedures and predictability of outcomes*. In particular, there should be a body of rules which are known in advance, are uniformly applied, have mechanisms to ensure application, and provide for recourse. Such rules exist in Pakistan, but confidence in their uniform application has eroded over the years. The recourse mechanisms are slow and uncertain and are not perceived to be fully autonomous. It is necessary to restore the credibility of the system by making the rules more widely known, introducing publications that explain these rules in simple language, and publicizing decisions of the courts, the ombudsman, and the service tribunals.

3.25 It would also help if the need for *stability in the framework of rules and regulations* is recognized and frequent changes avoided. Complaints have often been voiced that agencies like the Central Board of Revenue (CBR)/Pakistan Revenue Service frequently change Statutory Regulatory Orders without providing sufficient opportunity to the stakeholders to express their views. In many departments there is a tendency to change rules for eligibility for promotion a few months before the meeting of the promotion board, in calculated attempts to help specific individuals. Changes in the rules should not take place without establishing an inter-agency forum for debate and consulting non-government stakeholders, because rules fall in the category of executive legislation and are not subjected to parliamentary scrutiny. The power to relax rules has also been widely used to legitimize favoritism. It

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<sup>4</sup> In the case of political interference in teacher appointments, one factor may be that teachers are polling officers at election time; it may therefore make sense to have the polling officer be beholden to him/her.

seriously undermines the predictability of the system and constricts institutional space. This power should be exercised sparingly, subjected to prior approval of the cabinet, and made public.

3.26 Some room for *discretion* in public administration is necessary to provide relief in exceptional cases not covered by the generality of rules. However, the use of discretion has become alarming, and has created rent-seeking opportunities linked to access and influence. Some favored areas for the exercise of such discretion are: employment; conversion of residential areas to commercial use; admission to prestigious and heavily subsidized educational institutions; and selection of villages for electrification (in relaxation of established criteria for such selection). The Government has recently taken measures to curb the use of such discretion, but significant opportunities remain to exercise and profit from it. In higher education, for example, information from the Ministry of Education shows that in a recent year up to 92 percent of places in some classes in "model" schools and colleges had been granted on discretion rather than merit; given the high cost to the Government of these institutions, such discretion results in large private gains at a time when access by the poor to quality primary education remains limited.

### **Institutions to Promote Accountability**

3.27 Over the years specific institutions have been created to seek to increase accountability. The oldest are the *PSCs* at federal and provincial levels. It is essential for good performance and accountability that appointments to the public service be made on merit (however defined) and not by nepotism or patronage. At the federal level the PSC's remit was greatly restricted by the 1973 constitutional changes, and it lost its status and security as a body established by the Constitution (para. 3.14). The federal PSC now recruits for senior posts but has no role at lower levels. The Cabinet has apparently decided to extend its remit to lower levels, but this has not yet been implemented.

3.28 A potentially important institution is the *Ehtesab Commission*, established in November 1996 amidst dissatisfaction with the effectiveness of existing institutions charged with ensuring accountability of public officials for wrongdoing. In its first half year this body worked effectively and as envisaged, referring some 64 cases to the High Courts for trial on suspected misconduct. With the establishment of the Ehtesab Bureau (attached to the Prime Minister's office) and the removal of the Ehtesab Commission's investigating authority, its usefulness was drastically reduced. In the following half year only four cases were referred. There are several countries which have found accountability commissions useful in controlling corruption at least in the short term (e. g. the Philippines) or more permanently (e. g. Singapore and Hong Kong). Pakistan could draw lessons from and build on their experiences, while making effective use of tools already at its disposal such as the Efficiency and Discipline Rules and addressing the structural factors that contribute to corruption (para. 3.19).

3.29 The *Prime Minister's Inspection Commission*<sup>5</sup> provides a capability for addressing important issues of efficiency and accountability at, potentially, a very high level. The *Ombudsman* provides what is clearly a very valuable service by responding to approaches from ordinary citizens who are in some way experiencing difficulties in dealing with government. Over 20,000 people a year are helped in ways going beyond a narrow definition of maladministration. But the Ombudsman's approach is to leave to the Courts issues where the facts are contested, and the citizen is capable and has the necessary means. Again many countries, starting with Sweden but now including most European countries, have found the role important both in securing more accountable administration and also in allowing their citizens a

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<sup>5</sup> There are also Chief Ministers' Inspection Commissions in the provinces.

voice to present their grievances. Private sector industries are now following the public service's example in some developed economies.

### **Direct Accountability to the Public**

3.30 This limited "internal" accountability through the management and democratic chain is made worse by the fact that "*external*" *accountability to the public is very limited*. Indeed discussions with a range of service providers at the federal level and in Punjab suggest that in many ministries -- at least until recently -- it has not been widely regarded as necessary or even desirable. This is partly a matter of the way in which civil servants perform their duties and of the quality of the systems and procedures used. It is also a matter of the extent to which the public and politicians understand and can monitor what is going on in the civil service, as well the absence of local oversight of civil servants who derive their authority from the federal or provincial governments. More generally, it is important to note that some two-thirds of the population is still in rural areas; ensuring that civil servants located in the federal and provincial capitals feel accountable to them would appear to be a near impossibility. Some effective system of governance and service delivery at the local level is required if their needs and concerns are to be addressed (see Chapter 6 and Annex G for suggestions in this connection).

3.31 At a more profound level there is already evidence that the lack of "voice" accorded to many citizens is leading them to an approach of "*exit*" *from the system*. Voter turnout in the last general election was low, particularly in urban areas. There is increasing resort to private schools and health care facilities, at least in the urban areas where they are available. This of course can be helpful both in providing competition to the public sector and in reducing demand on the government budget. The new health and education policies include a commitment of government help for private sector provision. More subtly, the rapid growth of road haulage can be seen as partly an exit from the railways. Those who can afford it do not rely on the police but instead make private security arrangements. Conflict resolution and handling of criminal matters often bypass law enforcement and judicial channels. Rural communities are increasingly relying on their own efforts to develop local village infrastructure and social services. Although greater reliance on community/NGO and private efforts is generally a positive development, when this occurs in the core areas of responsibility of the public sector it is a worrisome sign of disillusionment with the latter's inability to deliver.

3.32 While exit is essentially a passive (though often very effective) strategy, various segments of the population are also making known their dissatisfaction with the public sector and the civil service which runs it in more active, palpable ways. The weakness and lack of credibility of complaint mechanisms and other official modes of recourse through which voice can be exercised results in *resort to other channels*. Civil unrest is an extreme response to perceived inability of the public sector to fulfill its responsibilities (most commonly in relation to law enforcement cases). More generally, as noted by the government's Pakistan 2010 Vision Statement in connection with the widespread public dissatisfaction with corruption, "The resulting social frustration feeds upon and encourages civic violence, generalized dysfunctional behavior, and involvement in criminal or terrorist activities." In particular, the lack of effectively functioning, politically accountable local governments in Pakistan leaves a vacuum in which unofficial and extra-legal responses to the inadequacies of the public sector often occur.

### **Current Initiatives**

3.33 This is a bleak picture. But *things are changing*; and indeed a great many services have continued to function in spite of all the problems -- in many cases because of the dedication of individuals. There is scope for the numerous recent initiatives to come together to transform the public

service, provided they are well-coordinated, helped to succeed, and promulgated throughout the country. There is also, as discussed in Chapter 1, a need to consider the future “vision” for a transformation of the country’s public service and the future values that will need to be instilled. These have been identified as important steps for many change programs in private and public sector organizations around the world. However, even in the short term much could be done by introducing various changes already being piloted or at least considered.

3.34 Given that the aim at all levels is to serve the interests of the majority of the people and not those of any elite, a critical step is to *provide much more information to the general public*. The proposal to set up an “*Information House*” is an important approach to providing paper and electronic access to large amounts of government information. It is, however, necessary to remember the needs of the rural as well as the urban population. Governments all over the world are finding that the decreasing costs of communications are allowing more information to be made available. Examples include the United States, the United Kingdom, and France. The proposed *Freedom of Information law* would also be a major contribution and would mark a change from habits of secrecy formed in many countries under rule from foreign regimes. In time Pakistan could draw on experience in Britain and elsewhere of publishing “Citizens Charters”, defining standards of service to which the public is entitled.

3.35 *Access to public offices* is already being improved in places. These include the use of “Facilitation Officers” in divisions, the collection of a number of services in one building in Islamabad and reported plans to set up a “Complaint Office” at district commissioner offices. It is important that the public can get their problems addressed by officials in an appropriate way. There are many examples in Pakistan of *consultation with citizens and business interests* over specific changes, for example on taxes. There are also examples of broader-based consultative exercises, including a plan by the CAR to consult broadly and the public fora organized by the Good Governance Group. Again practical experience around the world supports the common sense arguments for involving those who will be affected by government initiatives in the process of planning such changes. This links to the broader problem of strengthening civil society in Pakistan.

3.36 The big need, however, is to *improve the collection and dissemination of basic data and the adoption of simple and realistic performance indicators*. In many cases the government itself does not have the facts needed to manage the public service (cf. Chapters 2 and 5) . The process of gathering basic facts needs to lead to the dissemination of much more information to the media and directly to the public. People need to know how the performance of one administrative unit compares with that of others if they are to hold public servants accountable. One very dramatic example of this is in Britain, where publishing information about the exam results achieved by different schools has led to much public debate. Some of this has drawn attention to broader issues about the home background of students and how this affects learning outcomes. Some has led to effective pressure on less successful schools to do better. But as always there has been the temptation to focus only on what is being measured by the chosen indicators and to neglect other important functions of schools. In the United States where school results also have been published for many years, this has led to greater pressures for accountability, has demonstrated that children from disadvantaged backgrounds are not a priori “unteachable”, and has had the side effect of increasing relative housing prices in districts with high-performing schools. Health system functioning and to some degree outcomes (percent immunized, percent screened for various diseases, death rates by procedure and hospital, etc.) are also carefully calculated and publicized.

3.37 In Pakistan, the publication in the new national Health Policy of *quantitative targets* for a carefully selected range of indicators is one very important development (see Box 3.1 below). The introduction of criterion-based tests for basic educational outcomes is another step forward, however

difficult to achieve. The collection of statistics on court backlogs in Punjab (the “Prosecution Clinic” approach) shows what can be done by very simple means. For other services, publication of carefully chosen basic indicators area by area, or even institution by institution, would increase public accountability and increase the pressure for improved performance. The Federal Government, Punjab, and NWFP have recently instructed their ministries/departments to formulate and design *mission statements and performance indicators*.

**Box 3.1: Pakistan’s New Health Policy:  
Examples of “Good Practice” Accountability and Performance Measurement**

The National Health Policy approved by the Federal Cabinet in December 1997 includes a number of examples of “good practice” accountability and performance measurement, particularly in primary and preventive health. The Introduction notes that “There is a lack of focus in the district health system ..... There is also a need for a more action oriented approach in the policy guidelines ..... Good governance will be the cornerstone of health sector reforms with special emphasis on strengthening the district health system ..... The private sector will be given greater responsibility for health services delivery. Communities will be empowered to take an active role in the health system, which will be decentralized.”

The Policy sets out targets for 1998, 2003 and 2010 for: infant and maternal mortality rates; life expectancy; immunization percentages for children and expectant mothers; eradicating polio (by the year 2000); percentage of low birth weight babies; use of Oral Rehydration Therapy; iron deficiency anemia in women and children; and prevalence of goiter. There are also a set of targets for deployment of staff.

The Policy defines the steps to be taken to implement the concept of decentralization:

- Roles and responsibilities at each level will be clearly defined.
- Appropriate resources will be allocated at each level so that it can perform well.
- Necessary structural reforms will be brought about.
- Codes and regulations will be modified to bring them in line with revised roles and responsibilities.
- Peripheral levels will be given control over budgets and programme implementation.
- Peripheral levels will be allowed to hire and fire staff, determine staffing patterns, and establish incentives for good performance.
- Prospective target setting at the central level will be relinquished and substituted with retrospective monitoring of results.

On supervision, monitoring and accountability, the Policy sets out that:

- Local units will function as monitoring and evaluation cells.
- Proper supervision, monitoring, and evaluation of health services will be emphasized and made a regular part of health programs.
- A Health Institutions Database will be established and updated annually.
- The concept of accountability will be based on clear assignment of responsibilities, proper training, adequate authority, objective and supportive supervision, and timely feedback for corrective action, as well as reward for good performance.
- Supervisory checklists will be implemented at all levels.
- The ACR system will be strengthened and made more transparent and participatory.
- Quality assessment and assurance of [primary health care] services, in relation to set standards, will be made an integral part of health services management.
- Modern record keeping and audit systems will be introduced.
- The community will have a direct role in management and supervision of health care systems.

3.38 The World Bank is supporting *a project for Improvement to Financial Reporting and Auditing (PIFRA)*. If implemented as planned, PIFRA would help increase accountability for inputs through improved systems (including payroll computerization), better financial information, and better audit. Implementation of this project is currently facing major difficulties however, linked, inter alia, to the reluctance on the part of some officials to proceed with the commitment to separate the accounting and auditing functions. The recent increase in activity by the National Assembly’s PAC will complement and “give teeth” to this work, and further help could be given by active provincial PACs. From the

experience of other countries with PAC systems, it is clear that the effectiveness of the audit body depends on it being supported by the parliament through publicity and, ultimately, control over approving its budget. International experience in the private sector as well as in public services shows that in time proper management of inputs is likely to lead to a demand for information about the outcomes/results achieved from both internal management and the public and their representatives on the outside. Recent developments in Australia are a particular example.

3.39 At a broader level, the public needs to know where public money is spent. Publishing expenditure *budget summaries in a form accessible to ordinary people* would facilitate widespread understanding of government activities. The discussion of possible new freedom of information legislation (para. 3.34) is also very relevant. There is, finally, the proposal that all exercises of administrative discretion should be made public and so open to review (para. 3.25).

3.40 In terms of specific individual mechanisms to hold individuals accountable there are several relevant initiatives. Many of these are being introduced as pilots, which is clearly a sensible, lower-risk approach. Current relevant initiatives include:

- At the level of basic systems, *administrative simplification* could without doubt help (it is said, for example, that 18 steps are involved in clearing goods through Karachi Customs). But in Pakistan's present situation the uncritical introduction of some techniques such as ISO 9000 approaches to quality management could be dangerous. International experience suggests that these can too easily become bureaucratic paper systems rather than genuinely improve quality.
- At supervisory levels, a *stronger performance evaluation system* would help. Efforts are currently being initiated to this end. In the short term the ACR could be strengthened by imposing "forced distributions" (no more than x% of staff in a unit to be awarded the top markings), and by giving more weight to the sections on job functions. In time it might be preferable to move to a system fully driven by agreed performance objectives and measures.
- At intermediate management levels, Pakistan could consider the relevance of the British initiative of a "*scrutiny programme*". This would involve getting highly motivated young officials to carry out a short sharp review of the delivery of a particular service. They should have the full backing of top management and ministers and be given just 90 days to come up with an action plan, which should then be endorsed by the Cabinet and implemented under monitoring by the Prime Minister's and Chief Ministers' offices.
- At the Secretary level, the system of *annual reports* (even if quarterly reports have been abolished) could be made to "bite" as soon as very senior people (not excluding the Prime and Chief Ministers) started asking questions and challenging the reports. Alternatively a new system could be set up based on a series of "vision statements" for each division/department cascading into a series of objectives and measurable performance targets. It is for consideration how far to advance by reinvigorating the old system and how far by changing to a new one. The essential is to ensure that departments commit themselves to programs of work and report on progress.
- *Less frequent rotation* of senior staff would increase accountability and performance as well as promote stability in policy-making. This frequent movement of the senior "generalist" cadre is again a feature inherited by many Commonwealth countries; and many, including Britain itself, have been seeking to slow down the frequency of transfers.

- There could also be *scope for more lateral entry* to secure specific skills and access to new approaches. This, however, needs to be done in a manner that does not allow abuse (as was the case with the system introduced in 1973). One approach would be to make all such appointments through the PSC. Induction from specialized departmental functional groups (e.g. engineering, accounts) to the higher managerial levels (i.e. BPS-20 and above), could also be handled in this way (thereby also helping to limit a source of friction between the elite generalist and technical cadres).
- More contentiously, *some key staff could be appointed on contract*. The trade off here is between higher pay and more stringent demands for performance with less job security. This approach is of course being piloted at the level of the head of the CBR/Pakistan Revenue Service as well as for basic health care staff in less popular areas (“hardship posts”) in Punjab and NWFP (and possibly in other provinces as well), and to give priority to local people and women in teaching posts. It is too early to determine whether performance matches expectations and how other staff have reacted, but it will be important to ensure that such contractual appointments are not abused and that they do not become a source of corruption.
- At the political level, many countries (including the United Kingdom), recognizing that the ethical lead needs to come from the top, have found it worthwhile to *review the guidance/codes of conduct* which are published so there is no question of what the public can expect of their legislators and ministers.<sup>6</sup> This is part of the general challenge of introducing a new value system in government.
- In management terms at this highest parliamentary level, it is of course up to the *national and provincial PACs*, Standing committees, and Call Attention Notices to hold ministers accountable for good administration in a tough but unpartisan way.

3.41 The point of all these suggestions is to draw the Government’s attention to some relatively *low-key approaches* which have helped in other countries. Much is going on and much good progress could be made without undue dispute in ways which over time could have a profound effect on even the most difficult governance issues.

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<sup>6</sup> For further discussion of this issue see the 1997 World Development Report and the 1997 World Bank report “Helping Countries Combat Corruption: the Role of the World Bank”.

## CHAPTER 4: PAY AND BENEFITS

4.1 Previous reviews of governance issues in Pakistan have suggested that inadequate pay and benefits are at the heart of the problems faced by the civil service, but this conclusion has not been documented convincingly. This chapter examines civil servants' remuneration package; discusses the pay review mechanisms used in the civil service; compares civil servants' remuneration with the private sector; and raises some issues about pay policy for the government to consider in the context of a comprehensive reform program. The results of a model of the payroll which was used to examine various policy options for pay, allowances, and the size of the civil service -- and to assess the impact of alternative policies on the government's total personnel expenditures -- are discussed in Annex E.

### Remuneration Package for Civil Servants

4.2 Civil servants in Pakistan are compensated by a package comprising several different elements: a basic monthly salary, a variety of allowances paid in addition to salary, and (for some civil servants) benefits in kind such as housing and transport. Civil servants also enjoy a pension (Chapter 5), which is in a sense deferred remuneration. The private sector in Pakistan does not normally provide pensions, and few jobs provide the job security that the civil service enjoys. In view of the intangible elements of civil servants' compensation, determining the full value of civil servants' remuneration is, therefore, a matter of estimation (see also paras. 2.12-2.13).

### *Pay*

4.3 **Basic Salary.** The vast majority of civil servants in Pakistan, both at the federal and provincial levels, are accorded basic monthly salary according to a single pay spine, as shown in Annex A6. This spine ranges from Rs. 1,245 for sweepers to Rs. 17,000 per month for Secretaries. The officer entry grade (BPS-17) offers a starting salary in the range Rs. 3,800 – 7,360 per month. The only staff not paid according to these basic scales are in the autonomous and semi-autonomous public corporations and in some categories of temporary workers. Some of the corporations operate their own pay scales entirely. Others operate the BPS pay scales for civil servants and have adopted separate pay scales for non-civil servants who come to work for the corporations. These organisations have been ignored for the purpose of this report, which focuses on the “core” civil service. The unified pay scale for the civil service is an excellent basis for the pay system. As discussed below, however, there are many unnecessary complications caused by the system of allowances. These allowances distort pay, causing inequity, and also result in unnecessary complication in payroll administration.

4.4 **Allowances.** Civil servants receive a range of allowances, some of which appear to relate to circumstances now long past. An initial list of allowances provided by the Finance and Establishment Divisions proved to be incomplete. Analysis of a sample of 7,400 pay records downloaded from one of the few computerized payrolls revealed a total of 48 different payments outside the basic salary, but even this may not be a complete list. There were also a total of 51 different deductions from basic pay, although some of these appear to be negative allowances – presumably allowances previously overpaid and now being refunded. Details of the additional payments are shown in Annex A7, and of the deductions in A8.<sup>1</sup> Although these indicate that only some allowances are received by the majority of staff, the large number of pay adjustments to be made each month presents a significant challenge to

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<sup>1</sup> In each case, allowances and deductions are described exactly as they appear in the payroll, which in some cases means that they are presented as abbreviations. It was not possible to determine the exact meaning of all payroll entries, especially when they were for minor sums.

accurate payroll administration, particularly when most payrolls are still manual. Fewer than 10 percent of employees in the federal government and the Government of Punjab are paid via a computerized payroll. (See Annex C for a discussion of payroll administration).

4.5 One of the largest single allowances is for housing, which is discussed in greater detail below. Many of the other allowances are for minor sums, and, as a general rule, they should be incorporated into basic pay.<sup>2</sup> All civil servants receive a cost of living allowance (Compensatory Allowance in Punjab) equal to seven percent of basic salary. In addition there is "Ad Hoc Relief" equal to Rs. 300 per month, payable from March 1, 1997. These allowances appear to be paid in lieu of reviews of the basic salary scale, which only take place every three to four years (para. 4.18). Allowances represented 27 percent of basic pay for the records downloaded from the computerized payroll maintained by the AGPR, Islamabad. Reweighting the distribution of employees across salary scales according to an estimate of the distribution of the population as a whole suggests that this figure could be as high as 41 percent for the civil service as a whole.

### ***Benefits in Kind***

4.6 **Housing.** From the 7,400 employee records analyzed, it was determined that 52 percent of employees pay rent, 42 percent receive housing allowance in lieu of a house, and 6 percent neither pay rent, nor receive a housing allowance. "Rent" is supposedly a maintenance charge, and is calculated as five percent of basic salary. This deduction, however, is paid into general government revenues and is not earmarked for maintenance costs. Staff who do not have a house receive a housing allowance equal to 45 percent of basic pay.

4.7 Market rentals are believed to be as much as two times the level of salaries, or more, depending on location. Civil servants in receipt of housing, therefore, are treated very favorably compared to those who only receive housing allowances. For Secretary-level staff this benefit may have a value of about Rs. 30,000 per month. The system of housing provision and housing allowances would therefore appear to be inequitable and inefficient. The inequity arises because some civil servants get housing and others do not.<sup>3</sup> The inefficiency derives from two factors: (i) the fact that the housing stock represents an asset which may not be earning an appropriate economic return<sup>4</sup> and is almost certainly being allowed to deteriorate in value due to lack of maintenance; and (ii) differences in the value of the housing benefit among employees are almost certainly not related to differences in productivity or merit.

4.8 Providing housing for government employees is a practice maintained from colonial days, when it was necessary to provide accommodation for colonial civil servants who were far from home on what were inevitably temporary appointments. There was some justification for maintaining the practice when Islamabad was first founded, and there was a scarcity of accommodation. This is no longer so, and was never the case in older metropolitan areas. The Government should therefore consider doing away with

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<sup>2</sup> Subject to safeguards against their subsequent reinstatement as separate allowances with consequent wage inflation, as well as the impact on pension provision, which is based on basic pay plus certain other payments.

<sup>3</sup> A case could perhaps be made that providing housing to mostly higher-ranking civil servants and housing allowance to lower-rank staff is a way of alleviating the compression problem in the basic wage structure. However, in practice, the system results in inequality even between higher-ranking civil servants (e.g. Secretaries), not all of whom are provided housing.

<sup>4</sup> The Government may be earning a "return" in the form of the forgone additional wage payments to civil servants that it would otherwise have to make; nonetheless, it is likely that the market rent that could be earned from the housing stock would exceed the additional payments that the Government would reasonably need to make to provide adequate compensation for (skilled) civil servants.

the system of providing housing for civil servants; housing allowance could instead be provided to all civil servants as part of a comprehensive compensation package<sup>5</sup> (see also Annex D).

4.9 **Transport.** Many senior civil servants are provided with vehicles that they are free to use for personal business. It is not clear why civil servants are permitted to use their vehicles for private use, which amounts to a tax-free benefit. Normal practice in most countries is for government vehicles to be parked at the place of work, and to be used as and when needed on official business. Officials estimate that the approximate value of this benefit is Rs. 25,000 per month for cars provided to Secretaries.

4.10 **Health Care.** All civil servants are provided with free health care (see also Chapter 5). Staff up to grade BPS-15 also receive Rs. 90 per month as medical benefit. As free health care is universal, the additional value of this benefit is only the allowance.

4.11 **Other Benefits.** Secretary-level staff (BPS-22) also receive other benefits, such as the use of a personal secretary (who is available out of office hours); this benefit is valued at Rs. 25,000 per month, on the advice of knowledgeable officials.<sup>6</sup>

### Summary of Remuneration Package

4.12 Clearly, in considering total remuneration, the basic pay received by civil servants has to be adjusted to take account of non-monetary benefits. In summary, for a BPS-22 level Secretary, these could be as shown in Table 4.1. The total package for such Secretaries, which may approximate Rs. 100,000 per month, is therefore substantially in excess of their basic salary of Rs. 17,000 per month.

Table 4.1: Estimated Total Remuneration for BPS-22-level Secretary

	Rs./ month
Basic pay (max.)	17,000
Cost of living and other (non-housing) Allowances	1,500
Value of accommodation provided	30,000
Value of personal secretary*	25,000
Value of transport provided	25,000
Value of pension (say 10% of basic pay)	1,700
<b>TOTAL</b>	<b>100,200</b>

\*Includes pay and the estimated value of allowances and other emoluments.

### Pay Review Mechanisms

4.13 There are three ways in which civil servants receive pay increases: pay increments, "move-overs" in pay scale, and general pay reviews.

4.14 **Increments.** All salary scales consist of a series of incremental steps and civil servants automatically move up an increment every year. The increments are not of equal, or even proportionately equal, value at different points in the pay scale, ranging from less than three percent of basic pay to more than eight percent. An analysis of the relative value of increments compared to basic salary is given in Annex B1. The effect of this inequality in increments is that the difference in pay between two people joining, say, BPS-1 and BPS-5 on the same day will steadily broaden over time because the increment of BPS-5 is a higher proportion of salary than that of BPS-1. Similarly, the salaries of, say, a BPS-15 and a BPS-20 will compress over time, as the former's increment is a higher proportion of salary than the latter's. The effect of this phenomenon can be seen in Annexes B2 and B3. Annex B2 shows how BPS-5 salary is initially 112 percent of BPS-1 salary, but after 10 years has decompressed to 128 percent.

<sup>5</sup> For tax reasons, some private sector firms offer housing allowances as a standard element in total remuneration, if not a house.

<sup>6</sup> The actual monthly salary of a (BPS 17) private secretary is Rs. 7,360. Some officials maintain that valuing the services of a private secretary at Rs. 25,000 is an overestimate. There is also some question about the proportion of time spent by private secretaries on official as compared to private matters of the Secretary. However, even if the value of the private secretary is excluded from the remuneration package, it would still approach three times a Secretary's basic salary (see Table 4.1).

Annex B3 shows how BPS-20 salary is initially 420 percent of BPS-15 salary but after 10 years has compressed to 346 percent. The basic salary scales therefore fail to maintain initial differentials.

4.15 ***Automatic Staff "Move-Over" to a Higher Pay Scale.*** The effects of the increment system are complicated by the system of "move over". Under this system, when employees below BPS-16 reach the top of a pay scale, and have been there for 2 – 3 years, then they automatically "move over" into the next scale, on the next higher pay point (i.e. not the bottom of the scale). They then progress on those increments in the higher scale. Officers in non-technical, non-professional scales above BPS-16 are only allowed to move over once. The reason for this is that the "move-over" has apparently been used as a substitute for making pay awards.

4.16 Annex B4 and B5 show the pay scales and move-over points for 1972 and 1997/98 respectively. The policy of moving people over to the next highest pay point results in staff moving from one scale to another on the black sections of the pay scales (that is, towards the top end of the pay scale into which they move over). The grey segment of each pay scale is thus redundant, except for staff who enter the service on that particular pay scale. The effect of this is to substantially shorten pay scales, thus allowing relatively frequent "move-overs".

4.17 Pay compression in recent years has exacerbated the impact of "move overs". The smaller number of pay points in the black segment at the right of each pay scale in Annex B5 compared to Annex B4 illustrates this phenomenon. The net result of automatic move-over and pay compression has been to render the system of pay scales virtually meaningless (since the scales are an unreliable guide to actual pay), and to weaken overall pay control.

4.18 ***General Pay Review.*** Pay is reviewed periodically by Pay and Pensions Committees constituted in the past about every 3-4 years. The last such Committee met in 1994. The effect of recent pay awards on pay compression ratios are shown in Annex B6. Overall, pay has been compressed during the last 25 years such that a Secretary's basic salary was more than 2,000 percent of BPS-1 basic salary in 1972, whereas today it is less than 1,000 percent.

4.19 ***Summary on Pay Reviews.*** In summary, the civil service pay scales are illogical and should be corrected. More seriously, the system of "move overs" appears to defeat the whole purpose of pay control, and should be discontinued, and alternative arrangements made to facilitate "career grades" for staff (para. 4.27). The correct approach to pay control is to review pay at annual intervals. This does not mean that pay should be increased every year, but there should be a conscious policy decision on the subject. Pay should not be increased except as explicit policy<sup>7</sup> – and this does not happen at the moment. Also, from the point of view of expenditure management, it is not at all clear how the Government can prepare realistic budgets for personnel expenditures given "move overs".

### **Pay and Benefits: Comparisons With the Private Sector**

4.20 Pay is an important incentive in the civil service, but not the only one. Informal discussions were held with some new entrants at the Civil Service Academy, and they were asked their reasons for joining the civil service. The staff had impressive academic credentials and expressed a high degree of commitment to the notion of public service. They were aware of the relatively low pay offered by the public sector, but this seemed not to be a significant factor in their thinking. One or two stated that they felt they were not suited to an enterprise culture -- which may be another way of saying that they sought shelter from market forces. It should also be said that some of the new entrants clearly came from well-

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<sup>7</sup> Such policy changes would not require new legislation as pay revisions are approved by the Cabinet.

to-do families and may have had substantial private incomes. In general pay appears to be no barrier to recruiting well-qualified people at entry level. In the main, however, this is a reflection of the current labor market and general economic conditions. At higher levels, there are specialist areas where higher pay would appear to be needed to attract and retain qualified professionals e.g. accountants, computer specialists, and high-calibre managers.

4.21 Some individuals consulted outside the service (members of Chambers of Commerce and NGOs) commented that life in the civil service was undemanding, provided complete security of employment, and offered a pension, which was not generally available in the private sector. Notwithstanding the broader reasons there may be for joining the civil service, an attempt was made to compare pay in the civil service with that obtainable in the private sector. The approach was to look at top pay, i.e. a Secretary's remuneration.<sup>8</sup> A Secretary's basic salary may be only Rs. 17,000 per month, but the total value of his or her remuneration could be as high as Rs. 100,000 per month (Rs. 1,200,000 per annum) when provided with a house (para. 4.12). When a Secretary receives a housing allowance in place of a house, the value of his or her remuneration reduces to about Rs. 75,000 per month (Rs. 900,000 per annum) -- although it is not clear in practice how many Secretaries receive an allowance rather than a house.

4.22 Arriving at a proper estimate of private sector pay would require a comprehensive survey, and was not undertaken for the preparation of this report. However, data were gathered from the UNDP pay survey, and from discussions with members of the Chamber of Commerce in Lahore. The conclusion, which must be regarded as tentative, is that top executive pay in Pakistan varies from about Rs. 2,000,000 per annum to more than Rs. 4,000,000. Only a senior executive of an international bank (i.e. someone who would earn substantially more than a top government official in most countries) would earn the latter sum. The pay for the managing director of a national engineering company was described as being "generous" at Rs. 3,000,000.

4.23 As a matter of principle, public pay should not lead private pay in the labor market in order to avoid inducing wage-led inflationary pressures. The amount by which public wages should lag private wages will vary from country to country, but in order for the difference in wage rates to be meaningful, need to be of the order of about 25 percent. On this basis, the total annual package for a Secretary, in order to be competitive with the private sector, would need to be increased by about 100 percent (i.e. to about Rs. 2,500,000). However, this assessment is complicated by the fact that public employees enjoy virtually total security of employment, and a generous pension while private employees may not. In order to achieve proper competitiveness and transparency, this remuneration should be largely monetized. Except to the extent available in comparable private sector jobs, there would be no pension entitlement, no car for private use, and no access to private secretarial support. Additionally, such remuneration should be contemplated only in the context of a much more rigorous performance management system, and savings achieved from elsewhere in the personnel budget to make it affordable. These estimates should not be relied on for drawing firm conclusions about pay, however, since this analysis has been based on a very narrow research base. Pay is, moreover, clearly not the sole factor determining integrity in public service -- public servants appear to be subject to a range of undue influences.

### **Policy Options**

4.24 Overall, it appears that while a revised pay policy has an important role to play in civil service reform in Pakistan, it is by no means clear that it is at the heart of the problems of governance. The

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<sup>8</sup> Not that there was reason, a priori, to believe it to be unremunerative, but because the comparison was more feasible than others and because Secretaries are in any case the highest-paid civil servants.

Government has no difficulty in attracting able recruits. Low pay may well be a factor in motivation, and in acceptance of corruption. It does, however, appear to be only one factor in what is a much larger and much more complicated set of issues to be tackled in reforming government service. Throughout the civil service, for example, there are important issues to be addressed in order to improve accountability, responsiveness to customers, and obtain value for money (see Chapter 3).

4.25 The Government should commission a thorough survey of private sector pay by independent advisers to inform decisions on pay. In the light of the results of the pay survey, and subject to fiscal constraints, the Government should consider increasing basic pay as a measure to attract staff with specific skills and to combat corruption. This should only be pursued following restructuring of the current administrative structures in favor of more decentralized, accountable units; and in conjunction with a package of other measures, including automatic dismissal from government service and a bar to any future employment in the public service for those found guilty of corruption. Annex C on a pay model illustrates how basic pay can be improved by using the savings generated from reducing total staff numbers. The terms of reference of any future Pay Commission should be broadened to consider the structural problems in the compensation system discussed above and in Chapter 5.

4.26 The Government should consider developing a short-term contract of employment for senior recruits with specific skills (e.g. accountants, systems development specialists). These contracts would be for about two years, non-pensionable, and would relate to senior points on the pay spine comparable to the private sector. This contract could be used to hire senior financial managers e.g. a Chief Accountant for the education service.

4.27 While the present unified pay scale should be retained, there are several improvements which can and should be made. Many of these improvements are at least to some degree interdependent:

- subject to the impact on pension expenditures, most allowances should be incorporated into basic pay -- with effective safeguards to prevent their recurrence -- the possible exception being housing allowance;
- the system of automatic annual increments should be reviewed with a view to maintaining initial differentials in the pay scales and linking pay increments to performance;
- the system of "move over" should be abolished; in parallel, the length of certain pay scales may need to be reviewed so that they become "career grades" at which staff may expect to spend several years, during which they may obtain increments within the existing scale;
- the cost of living allowance should be abolished, and instead a competent committee should review basic pay annually, deciding at that time the extent to which pay should be increased to take account of inflation; and
- the Government should commission a study into the future of government-owned housing, with a view to its abolition.

## CHAPTER 5: PENSIONS

5.1 Reform of the pension arrangements covering government employees is a necessary part of any civil service reforms that the government might choose to undertake. To formulate and evaluate reform options, it is necessary to first set out both the broader context of civil service pension provision in Pakistan and the goals of pension reform. Following that, this chapter discusses compensation and other objectives of pension provision; pension cost and trends; options for restructuring pension benefits; and means of managing the fallout from pension reform.

### The Case for Reform

5.2 Employees who serve a full career of 30 years in government service -- but generally not less than 25 years -- retire with a pension of 70 percent of the value of basic pay plus certain other emoluments. While the pension is not systematically indexed for inflation, occasional increases have compensated pensioners for some of the loss of purchasing power caused by inflation, and provisions governing the receipt of a lump sum at retirement -- called a commutation -- double the lifetime value of the pension.

#### Box 5.1: Non-Pension Benefits for Civil Service Retirees

The analysis in this chapter focuses on the pension because it is the largest source of income support for civil service retirees as well as the one presenting the broadest range of policy issues and options. But civil service retirees receive several additional benefits:

- **Gratuities to short-service employees.** An employee who has served less than 10 years, or whose job was abolished before his 25-year minimum eligibility period was complete, receives 1 month's pay for every year served, or 1.5 month's pay in the case of death or disability.
- **Family (survivor) pensions.** The widow (or widows) of a pensioner receives 50 percent of the individual's pension at the time of death, payable for life or until remarriage.
- **Mandatory savings accumulated in the General Provident Fund.** Employees are required to contribute to this fund, which can be borrowed against throughout one's working career. The Government does not contribute, but pays an interest rate 30 percent higher than market rates.
- **Survivor benefits provided by the Benevolent Fund.** Employees must contribute 2 percent of pay to this fund, which pays a widow (or widows) roughly 35 percent of wages for premature death or disability up to age 70.
- **Life insurance provided by the Group Insurance Fund.** This fund pays about 2.5 times the annual salary. Through the lower grades, the premium is paid by the Government, and at higher grades it is paid by the employee.
- **Access to health facilities.** In addition to access to government health facilities available to other citizens, government employees may be able to be treated at private facilities, when approved, at the Government's cost. Government employees are also reimbursed for prescription drugs.

5.3 Government employees are served by a more comprehensive social safety net than is available to the population of Pakistan at large (also see Box 5.1). Retirement income coverage in the work force as a whole is not universal. Under current law, all employers of 10 or more workers are required to contribute five percent of the first Rs. 3,000 of monthly wages to the Employees Old-Age Benefits Institution (EOBI), an old-age, disability, and survivor benefit program. As of 1997, however, EOBI enrolled only

1.2 million workers out of a labor force estimated by the Government of Pakistan at 37.2 million. Monthly EOBI benefits were Rs. 425, paid to about 133,000 pensioners, or about three-quarters of the number of pensioners served by the federal civil service pension program. By comparison, the minimum monthly wage is Rs. 1,950.

5.4 While Pakistan spends a smaller share of GDP on all government-paid pensions than similar countries, it ranks higher in the share devoted to civil service pensions. Compare the situation of Pakistan with those of Malaysia, Egypt, Tunisia, India, Turkey, Sri Lanka, and Singapore, all of which, like Pakistan, have less than 10 percent of their populations over age 60. In the late 1980s and early 1990s, Pakistan spent the lowest share of GDP -- 0.6 percent -- on all government-paid pensions, excluding the military (Figure 5.1). But when civil service pensions alone are considered, Pakistan spent a larger share of GDP on pensions than India or Singapore, and a share approaching that of Turkey, whose civil service pension system is financially troubled and under reform.<sup>1</sup> These statistics should be particularly alarming in view of the fact that just over four percent of Pakistan's population is over age 60, the lowest share in the comparison group.



Source: The World Bank, *Averting the Old-Age Crisis* (New York: Oxford University Press, 1994); and Government of Pakistan.

5.5 Government employees also have more protection against job loss than the typical employee. Pakistan does not have a universal unemployment insurance program, though there are reports that the Government is considering one. If a private enterprise closes its doors, its employees must seek their fortunes elsewhere, supported only by any severance or other payments their employer might be able or willing to offer. While government, of course, does not "close" in the way a private enterprise might, individual departments are sometimes closed, reorganized, or privatized, leading to job loss for some employees. Redundant civil service employees are then designated to a "surplus pool" (see Chapter 2). All of these employees draw their full pay and allowances while waiting for an opening that could allow them to become reemployed. Since there is no limit on the length of time an employee can spend in the

<sup>1</sup> These numbers should be considered as only illustrative, since they do not take into account pension benefits that might be paid out of pension funds that are not part of a unified budgetary framework.

surplus pool, this arrangement amounts to permanent unemployment insurance at 100 percent of previous pay. These terms are far more liberal than available in any country with an unemployment insurance system.

5.6 However, civil servants still face important income security gaps, both during their work career and after retirement. Most pension experts consider pensions a deferred wage. Under this view, pension rights accrue with each year of active service. Thus, even though pension rights are exercised only in the future, they should be thought of as part of the employee's current compensation package. Under this perspective, the current system shortchanges short-service employees. Indeed, any employee who serves less than 25 years receives no pension at all, not even a pension actuarially reduced for early retirement, though a gratuity may be payable. Disability pensions are available to employees meeting the criteria after at least 10 years of service.

5.7 In addition to being inequitable, this arrangement arguably does not serve the interests of either an emerging dynamic market economy or the management and compensation reforms the government might wish to consider. At the present time, turnover in government service is low, reflecting the scarcity of opportunities in the private sector. As the private sector develops -- or as civil service reforms proceed -- some government employees will want or need to leave government service before reaching pension eligibility. To the extent that "golden handcuffs" impede such mobility or raise its costs, both the government and the economy at large will be worse off.

5.8 After retirement, government employees face further threats to their income security. Pension benefits are not systematically increased for inflation. While retirees typically receive only half of their pensions in annuity form (the other half is received as a commutation), inflation even at Pakistan's recent moderate rates will rapidly erode the purchasing power of pensions. Yet the burgeoning cost of providing pensions under the current arrangements leaves little room for even partial inflation protection.

5.9 This evaluation suggests the following goals for reform:

- improving the income security of both employees and retirees;
- enhancing the usefulness of pensions as personnel management tools, including removing pension-related obstacles to job mobility; and
- containing the budgetary costs of pensions, in part to finance other improvements in employees' income security.

### **Compensation and Other Objectives of Pension Provision**

5.10 Employers typically provide pensions to serve both their employees' needs and their own. Employees want both a current income and the assurance that they can maintain something approaching their pre-retirement living standard once they are no longer able to work. To this end, the employee will assess the adequacy of the pension by its income replacement rate, or the share of pre-retirement income replaced by the pension.

#### ***Pensions as Income Replacement***

5.11 The statutory pension provision for civil servants is within the bounds of international standards on this measure. A 30-year employee receives 70 percent of his most recent pay (defined as basic pay plus certain other cash emoluments), rising to a maximum of 77 percent of pay after 35 years. Most people should be able to maintain their pre-retirement living standard on this percentage of their pay,

since many types of expenses fall after the principal wage-earner is no longer working. Retirees do not need clothing suitable for work, they may eat fewer meals away from home, and they face lower commuting expenses. Assuming good health, retirees can spend more time on nonmarket domestic production (repairing the car, painting a room) than they might if engaged in full-time work. Pensioners have also typically already raised their children, further reducing their income needs, and have often already accumulated the durable goods that younger households may be struggling to buy. Tax code provisions should also be considered in evaluating the adequacy of the income replacement rate. Civil service employee pensions are received tax-free, while wages are taxable.

5.12 The effective replacement rate provided by the civil service pension is reduced by the fact that the pension applies only to basic pay plus certain non-wage pay. Various allowances that are part of the compensation package are not included in the compensation base for pensions. The analysis of pay and benefits concluded that allowances plus non-wage pay could account for up to 41 percent of total compensation (Chapter 4). The exclusion of certain allowances from the pension base lowers the effective replacement rate to between 40 and 50 percent of total compensation.<sup>2</sup> While this replacement rate is lower than the statutory rate, it is still within international bounds. Furthermore, the availability of allowances and noncash compensation -- even if not pensionable -- during the working career should enhance the worker's ability to accumulate both financial and real assets against retirement needs.

5.13 But these calculations and assessments do not take into account the way the pension is actually paid out. Civil service employees benefit from a practice called commutation, under which a fraction of the monthly pension -- currently half -- payable for the employee's life expectancy at retirement is paid out as a lump sum. World-wide, lump-sum provisions are often available in employer-provided pensions, including those pensions provided by governments in their capacity as employers of civil servants. The terms under which the commutation is available to civil servants in Pakistan are unique, however. When lump-sum provisions are available in other pension systems, the amount paid is typically discounted to reflect the time value of money. A rational person will trade a fixed future payment for a smaller amount available today, because the payment received today can, at least in theory, be invested at the market rate of interest to increase its future value. But the commutations are available without discounting, though discounting was practiced in the past. As a further enhancement, the employee retiring at age 60 is only considered to be "purchasing" 15 years of benefits at the time the commutation is calculated. Consequently, even if a commutation is elected, the full pension is restored when the pensioner reaches age 75.

5.14 As a 1995 World Bank study previously pointed out,<sup>3</sup> the payment of commutations without discounting doubles the lifetime value of the pension to the pensioner (and the Government's long-term -- and unfunded -- fiscal liability for such pensions) over the amount provided by statute. The effective lifetime replacement rate becomes not 40 to 50 percent of total compensation (after taking allowances into account), but 80 to 100 percent of total compensation. Depending on the share of an individual employee's compensation accounted for by allowances, the government could be paying some employees more to retire than it paid them to work. Put another way, the pay package is seriously overbalanced in favor of future pension benefits at the expense of current wages, and thus risks providing the wrong signals to employees. Furthermore, this practice raises equity concerns, as it benefits only new

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<sup>2</sup> It was not possible to estimate the proportion of compensation accounted for by non-wage pay that is included in the base for calculating the pension. Thus, only an approximate range for the replacement rate can be given.

<sup>3</sup> "Note on Reform of Civil Service and Military Pensions", PSP, World Bank, February, 1995.

pensioners and not those retired in previous years. New pensioners are already better off than those already retired since their pension benefits are based on a higher wage.

### **Pensions as Insurance**

5.15 The practice of commutations may also be at odds with another fundamental function of pensions, that of insurance against a long life. People typically do not know how long they will live, nor do they even have reliable ways of assessing their likely longevity. The long-lived person could thus be at risk of outliving his or her assets. An employer pension is a means for pooling these risks. The employer can budget for pensions by offsetting losses on long-lived persons against savings on those who die early.

5.16 The practice of commutations attenuates this function of pensions in two ways. First, the employer's ability to pool longevity risks is reduced -- and the cost of pension provision increased -- by the fact that both the long-lived and the short-lived persons receive a fraction of their pension payments outright on the day of retirement. Without commutation, the Government may have paid substantially less on account of the latter, even when survivor and other benefits are taken into account. Second, the pensioner faces a greater possibility of outliving his assets. People who receive a large sum of money at one time -- perhaps more than they have received at any one time in their lives -- face the risk of making mistakes with this money. Some may invest poorly, others may face family pressures to make bad decisions, and still others may simply not think carefully enough about their future needs. Those who survive past age 75 -- when the full pension is restored -- are protected, but with the typical retiree leaving government service at age 60, there is considerable room for bad decisions. Thus the current practice of commutations may be both more generous than intended and more risky to its beneficiaries than anticipated.

5.17 Finally, the practice of commutations complicates the task of reforming the compensation package as a whole. For example, in June 1998 the Government was considering monetizing certain types of in-kind pay and allowances. There are good reasons for considering this policy option, including the fact that pension benefits, if paid on an annuity basis, would acquire a more reasonable relationship to total compensation. But monetizing allowances without revising the structure of commutations would mean that the government's pension liabilities would explode, the pension payment would become even more excessive relative to pre-retirement compensation, and the compensation package would be even more unbalanced in favor of future compensation.

### ***The Role of Pensions in Personnel Management***

5.18 While the benefits to the employer of offering pensions may be less apparent, they are also substantial, and can become even more so if some of the reforms outlined in this report are adopted. Modern theories of personnel management hold that employers offer pensions to attract, retain, reward, and retire the right employees. The civil service pension system seems to work well in attracting and retaining employees, but some of its functions of rewarding and retiring employees may work less well. In particular, short-service employees and those who might need to retire before completing the statutory term of service do not receive benefits proportional to their length of service. Options for redressing these imbalances in fiscally responsible ways are discussed below.

## Costs, Trends, and Policy Options

5.19 To assist the Government in assessing the tradeoffs it faces in managing, compensating, and retiring its employees, a 20-year model of the federal civil service retirement system was prepared.<sup>4</sup> The model is based on the age distribution of civil service employees derived from the 1993 census of federal civil service employees, aged forward to 1997 using preliminary estimates from the 1997 census of civil servants. Its underlying structure and basic assumptions are consistent with those of the model formulated as part of the analysis of pay and benefits (see Annex E). Consequently, should the Government so desire, it would be possible to combine alternative economic scenarios concerning employment and wage growth and other economic conditions with alternative pension assumptions to project the joint impact of a wide range of economic policies. For clarity and ease of exposition, the pension calculations explained below are based on two base-case assumptions. First, civil service employment changes at the rate of natural attrition (defined as the sum of mortality and retirement). As a result of this assumption, total civil service employment declines over time. This is a benchmark assumption made for the sake of consistency with the analysis of pay and benefits, and should not be considered a realistic measure of likely government policy. Second, civil service wages are adjusted for annual step increases, cost-of-living allowances, and “move-overs”. These increases are assumed to raise average wages by eight percent per year even in the absence of revision of the BPS.

### Cost Projections

5.20 Even under these restrictive base-case assumptions, the budgetary cost of providing pensions under the current approach -- that is, with 50 percent commutations -- explodes rapidly. It nearly doubles between the 1998/99 and 2003/04 fiscal years and rises almost ninefold by the end of the projection period (Table 5.1 and Figure 5.2). Over the course of the projection period, civil service pension costs of the federal and provincial governments rise to about 1.6 percent of GDP (from about 0.6 percent in 1997/98).<sup>5</sup>

**Table 5.1: Pakistan Civil Service Pension Expenditures**  
Under Current Practices and Selected Policy Alternatives, 1998-2018  
(in Rs. Billions)

Pension Expenditures	1998	2003	2008	2013	2018
--with current commutation	4.57	9.69	19.18	30.41	39.71
--with present value commutation	3.47	5.37	8.42	12.37	16.21
--annuitized	2.47	4.12	7.61	13.17	20.20
--annuitized, indexed	2.68	5.54	11.14	20.28	32.95
--pay commission + replacement rate increase, annuitized	2.64	5.41	10.98	19.70	30.36

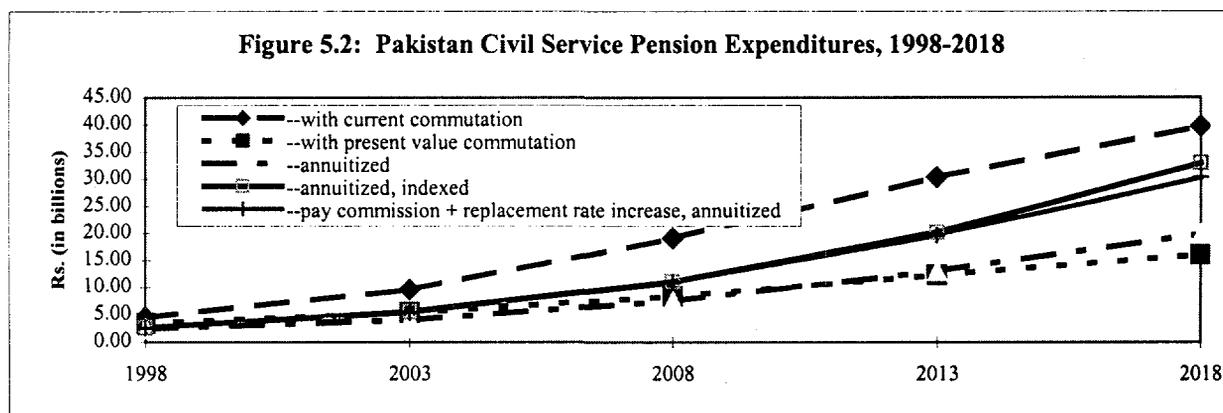
*Source:* Team estimates based on data provided by the Government of Pakistan.

<sup>4</sup> It was also the intention to produce full-fledged projections of the future course of provincial civil service pensions. However, provincial officials were unable to provide the team with a frequency distribution of provincial employees by age, a necessary input into any retirement system model. While this is unfortunate, the federal estimates can serve as order-of-magnitude estimates of the future expenditures needs of the much larger provincial governments.

<sup>5</sup> If pensioners of public corporations and other quasi-governmental entities are included, and with certain simplifying assumptions, pension payments could account for more than 2 percent of GDP over the forecast period.

### Options for Paying Benefits

5.21 Some observers argue that commutations are needed by employees, perhaps to buy a house at the time of retirement if one was previously provided as part of compensation. If commutations are retained but calculated in present value terms (using an assumed interest rate of ten percent), the fiscal relief to the budget is significant. Pension expenditures rise through much of the forecast period but stay below half of the amounts projected under current payment practices. The savings from this option could be used to finance at least partial indexing of pensions, buyouts of redundant employees as described in Chapter 2, or other budget priorities. If commutations are discounted at the Government's cost of borrowing -- which could be a significant concession to pensioners, depending on the relationship between borrowing costs and market rates -- the budgetary savings would be lower than indicated above but still sizable.



Source: Table 5.1.

5.22 In other countries, some employers refuse to pay out any share of retirement benefits in lump-sum form for fear that employees will manage their funds unwisely and risk outliving their retirement income. Paying all benefits in annuity form rather than allowing commutations on any basis would change the time path of payments to pensioners, lowering them in the early years of the forecast period but raising them in the later years compared with the case where present-value commutations would be allowed. But annuitized benefits would barely reach half the cost of paying pensions under the current commutation practice by the end of the forecast period.<sup>6</sup>

5.23 One of the gaps in retirement income security facing Pakistan's civil service pensioners concerns the effect of inflation on pension benefits. The case for indexing the half of pension benefits currently paid out in annuity form is not very strong, since pensioners are more than compensated for inflation by the payment of undiscounted commutations. If all benefits are annuitized or if the lump-sum are discounted at market rates, however, a case for inflation indexing, at least in part or for some pensioners, could be made. Only by the end of the forecast period do the cumulative effects of adjusting benefits for inflation begin to approach the cost of the current practice of commutations. Thus, based on World Bank inflation forecasts used in the *Pakistan 2010 Report*, the Government would be able to finance indexing of benefits for all pensioners out of the savings from commutations throughout the forecast period.

5.24 But indexing pension payments can pose fiscal dangers for the Government, creating an uncontrollable segment of the budget that cannot be reduced without public resistance. To avoid

<sup>6</sup> Due to the lack of information on the age distribution of pensioners, the calculations presented here do not take into account the restoration of the full pension at age 75, and thus understate the cost of paying pensions under the current practice.

committing the budget to excessive spending 15 to 20 years hence, the Government could consider indexing pension benefits at some proportion of increases in the Consumer Price Index, say, 50 percent. Many people argue that pensioners, to the extent that they have already accumulated durable goods such as furniture and appliances and have completed the costly task of raising their children, do not need full inflation increases. Compensating pensioners for only a share of inflation would ensure that pension expenditures would remain below those forecast under current payment practices for some time in the future, while still affording pensioners more inflation protection than available at the present time. Alternatively, it would be possible to award inflation increases only to pensioners above a certain age, who presumably have suffered the most from inflation, or only to those receiving a monthly pension below some specified minimum amount. Data available to the team were not sufficient to allow cost estimates of these options.

5.25 Another option, which is included as a choice in the largest private-sector employer-sponsored pension plan in the United States, is to offer pensioners complete inflation protection in return for a specified reduction in the initial benefit. Pensioners would thus be contributing to the cost of their inflation protection, just as in many pension plans they must “pay” for a survivor benefit with a lower current benefit.<sup>7</sup> The Government could charge them less than the actuarially fair cost of inflation protection, however, especially if instituting inflation protection were paired with elimination of the commutation option. Pension expenditures under this option would fall somewhere between the costs of the annuitized and annuitized (indexed) options presented in Table 5.1 and Figure 5.2, depending on the degree to which the Government wished to subsidize the inflation protection.

5.26 Finally, it is useful to examine one of the many ways changes in pensions could be packaged with changes in pay. It was learned in June 1998 that the government was considering establishing a Pay and Pensions Commission, one of whose tasks would be to re-evaluate the civil service pay structure. The government could set as a condition of eligibility for the revised pay scales that civil servants would give up the right to receive commutations calculated under the current method. Those who wanted to retain the right to the current commutation method would give up the pay increase. Suppose that the pay scales were revised upward by 35 percent (a typical result of recent Pay Commissions), and the pension formula were revised to provide 80 percent of pay after 30 years, and all employees opted for the new pay-pension package (Table 5.1 and Figure 5.2). By 2018, pension expenditures would be nearly 7 times as high as 1998 expenditures under the current commutation procedure but would be only three-quarters as high as the total projected for 2018 under the current commutation procedure.

### **Options for Restructuring Pension Benefits**

5.27 The government should consider certain additional policy changes that would support both the personnel management reforms suggested in Chapter 3 and the needs of a developing, dynamic market economy.

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<sup>7</sup> The Pakistani civil service pension plan does not require employees to take a current benefit reduction in return for electing survivor protection.

### Box 5.2: Data Gaps and the Analysis of Pension Costs

While the estimates in this chapter are based on the best and most complete data provided to the mission, it should be emphasized that Pakistan's civil service pension system is a costly expenditure program about which little up-to-date information exists. Any cost estimates, projections, or analyses of policy options will thus have a considerable margin of error.

A major data gap concerns the civil services of the provincial governments, which account for the vast majority of civil service employees in Pakistan. The provincial governments are unable themselves to predict how many employees will become eligible for retirement by virtue of age in a given year.

Another gap concerns the exact numbers, ages, salaries, and job tenure of employees who may at some point become eligible for a pension. The analysis in this chapter relied on the 1993 census of federal civil servants and preliminary data from the 1997 census and applied certain assumptions about the future to move these data forward over time. This solution, while reasonable under the circumstances, is far inferior to using timely and accurate payroll data. Important questions of timeliness, coverage, comparability, and accuracy of the employee censuses remain unanswered. It is not clear whether a census administered to employees would yield the same results as accurate and reliable long-term payroll data.

Information on the ages and benefit entitlements of retirees was not available to the team. Such information would allow more detailed analysis of the adequacy of current pension arrangements. It is also important to know how retirees dispose of their commutations. Do they buy houses or businesses, help their families, invest the funds? If the latter, do they invest in Pakistan or overseas? Are their investments or other decisions successful, or are they left soon after retirement to rely on an inflation-eroded half-pension? The household survey conducted by the Pakistan Federal Bureau of Statistics could be a useful vehicle for exploring this issue. Finally, this report did not evaluate either the military retirement system (which accounts for a larger proportion of government pension expenditures than does the civil service retirement system) or the retirement benefits of employees of public corporations and similar entities.

### *Shortening Vesting Periods*

5.28 The vesting period -- the period after which the employee earns an irrevocable right to accumulated pension benefits -- should be shortened. Currently, since no pension is generally payable to those with less than 25 years of service, the vesting period is effectively a full career. Vesting periods in both government-employee and private-employee pension plans in other countries are typically around 5 to seven years. An employee who leaves government service after five years would not, of course, be entitled to a full pension, but could receive the present discounted value of future benefits earned to the date of departure at the time of departure from civil service.<sup>8</sup> A shorter vesting period would mean that the "golden handcuffs" phenomenon would be reduced, facilitating efficient labor mobility. Data available to the team did not allow estimation of the cost of this change, but it could be offset by the increased flexibility in personnel policies afforded the Government.

5.29 One argument against shortening the vesting period is that a shorter vesting period could reduce the cost to the employee of dishonesty or poor performance that could result in firing and the loss of a pension. Given widespread concerns about corruption in the civil service, however, it is possible that the lengthy vesting period does not serve this purpose at the present time. For the pension vesting period to encourage honest and good performance, civil servants have to be fired for malfeasance, or even for honest but poor performance. Such terminations, in turn, would require the existence of organized and equitably applied procedures for performance evaluation, a condition that most officials agree does not

<sup>8</sup> As an alternative, the departing vested participant could be promised a monthly pension at the age of retirement. Since even moderate inflation would rapidly erode the value of such a payment, however, most people would probably prefer to receive a lump-sum payment at termination. This payment could be made portable by making it transferable to EOBI or to a privately run mutual fund.

currently exist (see Chapter 3). In short, improving the performance of civil servants is more an argument for comprehensive civil service reform than a prescription for pension system design.

### ***Early Retirement and Its Potential Role in Work Force Restructuring***

5.30 The authorities should reconsider the terms under which early retirement can be granted to employees. Elsewhere in the world, employees who choose to retire before the normal retirement age must accept a reduced benefit, calculated on the basis of their life expectancy, to reflect the longer period during which they will collect benefits. But in Pakistan, employees who retire before the normal retirement age of 60 receive *higher* benefits since the practice of commutations allows them to receive half of a larger number of years' benefits in lump-sum form.

5.31 Early retirement should continue to be available, because it can serve the needs of both employees and the Government if managed properly. Employees can be better off because those who want, need, or are financially able to retire sooner can do so without losing all of their retirement benefits. The Government, in turn, can benefit because early retirement can allow it to achieve reduction or restructuring of the work force while minimizing the cost and hardship to affected individuals. But early retirement should be available only at a specific age -- say, 55 or 57 -- or combination of age and service, and should include an actuarial reduction to reflect the retiree's longer period of benefit reciprocity. Box 5.3 below sketches some options that the Government could consider in implementing an actuarial reduction for early retirement.

#### **Box 5.3: Options for Implementing an Actuarial Reduction For Early Retirement**

Under the present pension formula, such a reduction could work as follows. A pensioner with enough service years to retire but who has not yet reached age 60 would receive a reduction in the pension benefit of one to two percent of the calculated full benefit per year of age short of 60. Thus a person wishing to claim his/her pension at age 57 would receive a pension equal to 94 percent of what he/she would be entitled to if he/she had the same wage history but were 60.

Implementing an actuarial reduction for early retirement would discourage at least some people from leaving the Government's payroll before normal retirement age. But if the Government wanted to change either the level or structure of staffing, encouraging early retirement among employees nearly ready to retire could be the least expensive and least disruptive way to do so. The Government could encourage early retirements as follows. For certain categories of employees (say, those in the surplus pool) or at certain periods of time, the Government could declare the early retirement benefit reduction temporarily suspended. Pensioners would then be able to claim the full earned pension benefit regardless of their age. Alternatively, the Government could "add" notional years of service to the employment records of certain employees targeted for downsizing. For example, employees with 25 years of service would be deemed to have worked 30 years, qualifying them for the basic pension. Neither approach should be available on a permanent basis, but rather should be put into place only when needed to meet the Government's staffing objectives.

As an alternative, the Government could consider revising the pension benefit formula to make clear the relationship between the number of years worked and the resulting pension benefit earned. A typical formula of this type entitles the employee to  $x$  percent of final pay (typically an average of pay in the highest three to five years before retirement) per year of service. Thus, if a plan paid two percent of final pay per year of service, a 30-year employee would receive 60 percent of final pay as a retirement benefit.

5.32 While enhanced early retirement can be used to allow more rapid changes in the work force than could be achieved through natural attrition, the Government should be careful not to duplicate the mistakes that some countries have made -- Poland and Hungary are notable examples -- in this regard. As those countries embarked on the transition from planned to market economies, they were faced with

large numbers of workers dislocated from formerly government-operated enterprises. Most of these workers were given early retirement benefits under the countries' social security programs. As a result, both countries are now paying a crippling share of their budgets and of GDP for retirement benefits and are unable to finance many other needed expenditures -- notably improvements in health and education. As explained in Chapter 2, the Government can avoid making such unaffordable budget commitments by drawing a careful distinction between those employees who will be eligible for early retirement and those who will receive severance pay, unemployment benefits, or both, if they become redundant in the course of work force restructuring.

### ***The Role of Pensions in Civil Service Reform***

5.33 Most of the changes discussed in this chapter could be adopted independently of any other civil service personnel management changes the Government might want to consider. But the Government could also consider pairing certain pension reforms with other changes in compensation to reward employees for making changes that serve the Government's interests as an employer. For example, the Government may offer some civil servants the chance to earn market-rate salaries in return for time-limited employment commitments rather than lifetime tenure. The Government may, at least initially, want to offer a reduced vesting period to these employees to insure them against a total loss of retirement credits if their employment is not extended. Likewise, the availability of early retirement could, at least initially, be limited to employees in certain departments, grades, jobs, or locations marked for employment reductions or restructuring.

### **Managing the Fallout from Reform**

5.34 Change is destabilizing to an organization and, improperly managed, can be demoralizing. This is, if anything, even more true of changes in pension benefits than of changes in current employment conditions. This chapter has identified both a conceptual framework and a number of urgently needed actions that could form an immediate action plan. Its work stops short of a comprehensive implementation plan for civil service reform, of which pension reform should be a fully integrated part. Given the need to weigh various considerations -- in particular political and social ones -- in designing such a plan, the Government is best placed to do so, with the report providing the framework and building blocks.

5.35 A number of guidelines for implementation of civil service pension reform do come out of the work underpinning this report, however. The Government's task of managing the fallout from pension reforms would be eased by the prominent gaps that are found side-by-side with arguably excessively generous provisions. Thus, for example, restructuring the payment of commutations could be paired with liberalization of the vesting period or partial indexing for inflation. In other words, managing the fallout can best be accomplished by designing a new pension package for employees rather than by piecemeal changes.

5.36 Managing the fallout would also be eased by the design of transition schemes appropriate to the Pakistani situation. For example, despite the absence of constitutional protection for civil servants in the 1973 Constitution (see Chapter 3),<sup>9</sup> some officials believe that the Government has limited ability to

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<sup>9</sup> Since the Constitution leaves the determination of terms and conditions of service to organic law, these should be susceptible to change by Parliament (e.g. through amendments to the Civil Servants Act), as officials of the Law Ministry confirmed to the team. Moreover, the Government appears to have changed the commutation provision a number of times in an ad hoc fashion in the past.

change the terms and conditions of government employees' service from those prevailing when the employee was first hired. In this view it would not be possible for the government to change the calculation of commutations other than prospectively for new hires, a condition with adverse fiscal implications. This interpretation does not appear to be supported by current legal texts and the Constitution however. But even if it were, the Government could still design packages of compensation plus benefits that would make it attractive for employees to forego commutations as they are currently calculated. Employees would be able to continue under the current regime -- perhaps foregoing wage increases to market rates -- or to elect new compensation options, possibly with higher wages, under which pensions would be calculated without the current commutation option. Annex F briefly reviews some recent international trends in civil service pension reform and their possible application in the Pakistani context.

## **CHAPTER 6: PREPARING, SEQUENCING AND MANAGING COMPREHENSIVE REFORM**

6.1 Previous chapters have discussed the far-reaching reforms required to improve the effectiveness and accountability of Pakistan's civil service. The knowledge of insiders and technical experts, as well as political leadership, will be necessary to spell out the vision and details of a reform program suited to Pakistan's needs. Outsiders can provide advice, but the challenge remains for policymakers to use such advice judiciously in a manner that results in formulation of a program genuinely owned by Pakistan. The World Bank and Pakistan's other development partners therefore cannot and should not be expected to finalize a reform blueprint. In addition to this fundamental prerequisite of ownership, the importance of a comprehensive, but appropriately sequenced approach to reform is another lesson emerging from other countries' experience with civil service reform. This chapter discusses what a comprehensive reform program for Pakistan should contain; sequencing of reforms; and institutional arrangements to manage them.

### **Toward a Comprehensive Reform Program for Pakistan**

6.2 Taken together,<sup>1</sup> the changes discussed in this report provide a framework for formulating a program to fundamentally transform Pakistan's civil service. But the Government may, instead, be tempted to engage in piecemeal reform, based on an assessment of the political support for reform and of its ability to deal with the inevitable resistance that will arise in the course of implementation. In choosing between piecemeal and comprehensive reform, the Government would do well to review the experience of other countries that were relatively successful in sequencing a comprehensive approach to change by beginning with selective reform of key agencies and functions (e.g. Peru and Ghana). By contrast, piecemeal reforms across sectors have proven, in most cases, to be unsustainable. In Pakistan serious governance problems exacerbate the structural civil service reform issues, strengthening the case for a comprehensive approach. Notwithstanding the need to act broadly, the different areas on the reform agenda must be prioritized and their timing specified.

6.3 Individual reforms require a coherent long-term vision and approach to make them sustainable. There must be a vision of the type of civil service that will best support the achievement of the Government's development objectives and of the specific actions and timetable required to produce it. And public involvement is necessary to develop a vision that is widely shared. There is already ample raw material in Pakistan to formulate a comprehensive reform program of this type, including earlier reports commissioned by the Government and various donors, the report of the Committee on Downsizing of the Federal Government, the ministry/divisional reviews carried out by the CAR, the public consensus-building initiated by the Good Governance Group, as well as related work being initiated in Punjab and NWFP. What is needed is political leadership to forge them into a coherent whole and advance strategic thinking and discussions at the federal level and in the provinces. The following paragraphs are intended to provide some background for this endeavor by describing in summary fashion what such a comprehensive reform program for Pakistan should comprise. On the basis of the analysis in previous chapters, such a program would contain the following core elements, ranked in order of urgency:

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<sup>1</sup> Along with the area of training and modernization of work processes not covered in this report, but which are important components of a renewal program for the civil service.

- personnel and wage bill management;
- improving accountability and performance;
- downsizing and obtaining new skills;
- devolution; and
- compensation reform.

6.4 **Sequencing.** There are general principles that should guide the timing of different aspects of the reform program. Improving performance and accountability will need to be initiated at the start and -- given the long-term nature of the changes envisaged -- continue for the duration of the reform program. Better personnel databases and wage bill management must necessarily precede downsizing as well as compensation reform, as should putting in place minimum improvements in the performance management process and accountability. It would also be preferable to have solid knowledge of the size, cost, and skills profile of the civil service and the systems to track changes in them prior to major undertakings such as devolution, although the latter may ultimately mean adjusting such systems to fit the new structures. Likewise, while downsizing at the federal or provincial level can proceed prior to the redistribution of responsibilities between the different levels of government (e.g. as part of the privatization effort as is now occurring), devolution will have additional implications for staffing at all levels (and in particular for the large volume of provincial employment concentrated in the social sectors). However, the practical issues arising from implementation experience should inform subsequent decisions on next steps.

6.5 **Personnel and wage bill management.** For the reasons discussed in Chapter 2 and Annex C, major improvements in personnel databases and payroll systems, and their links to the budget, should be the starting point for any serious, comprehensive, and sustainable civil service reform effort. These actions also provide the best opportunity for obtaining robust improvements even in the absence of full political support for more fundamental structural reforms. This is because the Government can easily make the case to the public that it is merely enhancing the information base required to better manage the civil service and stopping abuses that most people agree are unacceptable (e.g. the existence of ghost employees). Implementation of the PIFRA project should, in this context, be made a priority, as should conducting civil service censuses. The federal and provincial governments will require additional technical assistance in the latter area. Timely implementation of basic improvements in personnel and wage bill management would set a good foundation for the more complex and politically more difficult challenges on the reform agenda.

6.6 **Accountability and performance.** The main conclusion that emerges from the discussion in Chapter 3 is that the mechanisms and institutions for ensuring both internal accountability of civil servants to their superiors and external accountability to politicians and the public are seriously defective. Improving these mechanisms is, arguably, the most challenging and long-gestating of the reforms, but the one with potentially the most far-reaching benefits for Pakistan. The country's success in tackling its chronic governance problems depends critically on enhancing civil service performance in the management of public resources, transparency, and the rule of law. To this end, the reform program would need to encompass:

- Changes in the recruitment process to ensure respect for the principle of recruitment on the basis of merit, and non-civil service input into the decision-making of the PSCs.
- Significantly improving the availability of information to the public on the activities and performance of the civil service and substantially broadening current initiatives to solicit public feedback and input into decision-making.

- Introduction of a more effective performance evaluation system as a basis for decisions on promotions and for identifying cases of sub-optimal performance.
- Reinvigoration of existing mechanisms and institutions to deal effectively with corruption.
- In the short run, selective use of contractual appointments (with competitive salaries but no pension provision, and safeguards to prevent abuse of this option) may be necessary to bring in needed skills. Ultimately, changing Pakistan's current "mandarin"-type (closed) system into a more "open" system that permits lateral entry and exit of staff at different points in the career stream (while limiting possible abuses through the transparent involvement of the PSC) should be considered.
- Improving politicians' role in oversight of the civil service through strengthened mechanisms for accountability and budgetary decision-making, while amending the Rules of Business and other legislative instruments to reduce politicians' ability to interfere in the day-to-day running of the civil service.
- Re-invigorating the PACs, and improving financial information flows and management, beginning with PIFRA.
- Curtailing the use of discretionary powers through appropriate amendments to the Rules of Business and other legal provisions.

6.7 ***Downsizing and obtaining new skills.*** Following the model being carried out by the CAR, the provincial authorities should begin the process of systematically reviewing their departments to determine their future functions, organization, and staffing needs. This should be done by assessing which agencies/staff are redundant/need different skills, both on the basis of the status quo and in the event of devolution. The CAR's terms of reference already include attention to issues arising out of the future provincialization of federal functions; it should, in this context, examine the implications of devolution for the federal civil service. The staff identified as surplus as a result of these reviews should be offered the possibility of time-limited unemployment benefits, severance or early retirement packages along the lines described in Chapters 2 and 5. Dealing with work charge staff who have been employed for a long period of time may present some legal difficulties for the Government. It will be important to prohibit their eligibility for early retirement; they should instead be provided severance payments to the extent that the Government is legally obligated to do so. At all levels of government, early attention needs to be paid to the new skills that will be needed to effectively handle redefined government functions, and to changes in the recruitment and compensation system that may be necessary to obtain them. Skills upgrading has not been covered in this report, but is obviously an important part of the civil service reform agenda.

6.8 ***Devolution.*** As discussed in Chapter 1, a comprehensive civil service reform program and the vision to move it forward are best anchored in a clear redefinition of the role of the state and of the responsibilities of its three levels (federal, provincial, and local governments). In relation to the latter issue, a political decision has already been made to restore elected local governments, and Punjab has already successfully concluded its local bodies' elections. It is therefore an appropriate time to reflect on the taxation and expenditure responsibilities that can be devolved to local governments and the time-frame for doing so. In recent months, a process spearheaded by the Good Governance Group (with support from UNDP) has been underway to solicit public input into discussions about decentralization. The Government should use these inputs, and may wish also to draw on the detailed analysis of options presented in the 1996 World Bank report "Supporting Fiscal Decentralization in Pakistan", to make early strategic decisions on devolution, with a view to improving outcomes and accountability, as well as

promoting more effective management of the civil service. Introducing reforms that do not tackle the fundamental deficiencies in governance and management resulting from the overextension of the federal and provincial governments would have only a limited effect on Pakistan's governance and service delivery problems. There now appears to be a broad consensus on this point, as well as recognition that some reform of revenue-sharing arrangements would be required to permit local governments to function effectively. The federal government is, moreover, considering submitting to parliament a constitutional amendment to protect local governments from arbitrary dismissal.

6.9 However, a universal and simultaneous transfer of functions and financial resources to the local level would be fraught with risks and would not be practical. Moreover, adding a third layer of bureaucracy without enacting the managerial, administrative, and other reforms discussed in earlier chapters could doom new local governments to ineffectiveness. The Government should therefore consider piloting devolution in a limited number of localities; experience gained from such efforts could then feed into the design of a broader program of devolution. To this end, the Government may wish to proceed along the following lines:

- Addressing the constraint of local institutional capacity by considering the establishment of "provisional" authorities in advance of actual devolution, and transferring needed provincial staff to local units after the completion of preparatory work.
- Pursuing a phased approach whereby local authorities would be established in pilot districts with the greatest support for devolution, which can provide demonstrations for other districts.
- Transferring responsibility for primary education, basic health, and certain other services to local authorities in these pilot districts.
- Re-examining the roles of District Commissioners and their Deputies *once effectively functioning local governments have been put in place*. Since many federal and provincial government officials believe that abolishing these positions may create a vacuum in coordinating their activities at the local level, there should be a clear demarcation of the responsibilities of these officials and safeguards put in place to prevent their encroachment on local governments and intervention in their affairs.
- Redefinition of the role of the provincial bureaucracy to provide the framework for local governance (e.g. setting standards) and administering services that require a province-wide organization (possibly tertiary education, police).
- Creation of organizational "templates" in order to ensure broad similarity in the administrative and financial organization and systems of the local authorities.

These suggestions, and the details presented in Annex G, are not the result of exhaustive review and analysis, but are meant to provide food for thought as the federal and provincial authorities consider how best to operationalize their commitment to establishing local governments. Already there are various initiatives underway that the authorities could build upon, including the proposed Punjab Municipal Development Fund which would begin to build financial and institutional capacity in urban areas; similar efforts are needed for rural areas.

6.10 **Compensation reform.** In many countries, civil service reform has tended to emphasize compensation reform at the expense of other systemic issues behind poor civil service performance and susceptibility to corruption. Pakistan, likewise, appears eager to address some compensation issues, and is currently contemplating monetization of in-kind benefits as well as a Pay Commission to consider

possible pay increases for civil servants. This emphasis on compensation reform is explained by the belief that corruption and lack of motivation are attributable to inadequate remuneration and/or distortions in the compensation package. As discussed in previous chapters, however, there are more fundamental factors at work in Pakistan's civil service malaise. While reform of civil service compensation is certainly necessary, it should only be carried out in the context of systemic changes in the management and governance of the civil service. It would also need to be accompanied by other reforms (including downsizing where needed) to make it affordable. Otherwise the result could be a better-paid but still bloated, ineffective, unaccountable, and corruption-prone civil service. Accordingly, the terms of reference of any future Pay Commission should be broadened to consider the structural issues in the compensation system discussed in Chapters 4 and 5. Compensation reform would need to encompass:

- Monetization of in-kind benefits, provided this is accompanied by other needed changes, and only if it can be accomplished without further increasing pension costs and overall personnel expenditures.
- If justified on the basis of comparison with the private sector, increasing the competitiveness of basic pay to attract skilled staff (but only after addressing fundamental restructuring issues, and in combination with other reforms to ensure performance, accountability, and affordability).
- Incorporation of most allowances into basic pay (while retaining the unified pay scale), but with strong provisions preventing their re-emergence in the future, and appropriate changes in pension provisions to maintain budgetary control and promote retirement income objectives.
- Abolition of the cost of living allowance, and conducting annual pay reviews by a competent committee.
- Discontinuation of the "move-over" system, accompanied by alternative arrangements to facilitate "career grades" for staff.
- Commissioning of a study of government-provided housing, with a view to abolishing it.
- Designing a new pension package for the civil service, including restructuring the payment of commutations and/or designing packages of compensation plus benefits that would discourage employees from electing commutations as currently calculated.

6.11 *Lessons from past attempts at reform.* While the above framework can serve as building blocks of a comprehensive program, the Government is best placed to decide on the significant trade-offs involved in designing a package of reforms that will be implementable. There is, at present, widespread doubt in Pakistan that such reforms can be implemented successfully. Two sets of factors appear to explain this. First is a history of failed reform attempts, and the many reports on the subject that were not acted upon. These include the various "Economy Committees/Commissions" set up at the federal level over the years (1948, 1957, 1973, 1975, and 1991); the 1953 Egger Report; the 1955 Gladieux Report; the 1962 Pay and Services Commission Report; a Civil Services Commission of 1978; and more recently, the 1997 Report of the Committee on Downsizing of the Federal Government. Of the recommendations of the earlier economy committees, only those relating to downsizing and cost containment were implemented.<sup>2</sup> The recommendations of the Committee on Downsizing of the Federal Government

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<sup>2</sup> As noted in Chapter 3, an important structural reform implemented as part of the 1973 reforms (but subsequently reversed) was lateral entry. The 1973 reforms (including, inter alia, the introduction of the unified Basic Pay Scales) were based on the work of the Administrative Reforms Committee set up by Prime Minister Z.A. Bhutto which reached similar conclusions and recommendations as the 1962 Pay and Services Commission.

remain under review by the CAR. It emerges from these various episodes that only those changes aimed at generating short-term savings were implemented (and then only partially). Because the more deep-seated and intractable problems (e.g. political interference in recruitment) were not addressed, it was easy for even these limited reforms to be undone by successor governments.

6.12 The second factor that may account for cynicism about reform concerns intra-service rivalries between elite generalist civil servants on the one hand (the DMG and Secretariat Group) and the technical cadres on the other (Accounts, Engineering, etc.). To some extent this reflects the long-running argument about whether management of "technical" departments is best left to technicians or general administrators, a common tension in Commonwealth systems. But there are also undercurrents of deep-seated resentment of what some view as domination of the civil service by an elite class whose compensation and lifestyle constitute vestiges of the colonial period. Many officials belonging to the technical groups believe that any reforms that may threaten the interests of the elite cadre (e.g. monetization of housing benefits) will be thwarted.<sup>3</sup> These subjective perceptions are obviously impossible to validate or refute, but it is clear that they must be dealt with as part of the process of building broad consensus on reform.

6.13 Pakistan's past reform attempts and failure to implement the recommendations of various reports suggest some lessons that may inform current efforts to formulate a comprehensive and implementable program:

- otherwise desirable reforms can backfire if fundamental problems are not tackled (thus the introduction of lateral entry in the context of heightened political interference in the civil service resulted in the appointment and promotion of incompetent officials and further demoralization);
- reforms viewed as threatening the interests of one cadre and/or promoting one cadre's interests over others will be undermined (arguably the case of the 1962 Pay and Services Commission's recommendations); and
- reform recommendations arrived at with little or no internal or public discussion or debate will generate little support and therefore will prove unimplementable (as with the 1992 Economy Commission and the report of the 1997 Committee on Downsizing of the Federal Government).

6.14 The formulation of a coherent civil service reform program with broad ownership in the civil service and Pakistani society as a whole -- and thus good prospects for successful implementation -- will therefore require accelerating consensus-building (both internally and externally) on a model for change; engaging the public and publicizing the benefits of reform; and upfront recognition of potential losers and how to deal with them.

6.15 It is essential, however, that formulation of a coherent approach to reform and the search for consensus do not stretch into a prolonged exercise with no early results and provide excuses for inaction. Specific "quick wins" must accompany the systematic analysis and approach discussed in this report. Such wins can promote the longer-term culture changes that are needed to sustain the reform process and minimize the risks of backtracking on reforms once they are implemented. And the very difficult

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<sup>3</sup> Some researchers have blamed resistance on the part of the elite generalist civil service cadre (formerly the CSP and now the DMG and the Secretariat Group), for the failure to implement far-reaching reforms in the civil service. See, for example, Mohammad Mohabbat Khan, *op. cit.* The Pay and Services Commission Report -- which proposed radical changes that would have ended the existence of such an elite cadre -- was not made public until after the end of General Ayub Khan's regime.

decisions to be made will require strong political leadership and unequivocal commitment at the highest levels of government.

6.16 It is only to be expected that reforms will face significant opposition from within the civil service and among many politicians as well. From a short-term perspective, foremost among the losers from reform will be redundant and “ghost” government employees; “ghost” pensioners; employees benefiting from government-owned housing; unqualified applicants who, in the absence of reform, may have entered the civil service on the basis of nepotism or other personal or political connections; and civil servants, private citizens, and politicians who have benefited from rent-seeking permitted by lack of transparency, misuse of discretionary powers, and absence of accountability.

6.17 Because the overall benefits to Pakistan will likely take time to become evident, and the political power of the losers may be greater than that of the silent majority that stand to gain, implementation of a comprehensive reform program will carry political risks for the Government that will need to be managed judiciously. However, international experience shows that the appropriate sequencing, as well as design of specific reforms and transitional arrangements can help reduce resistance, while maintaining the overall integrity of the program.<sup>4</sup>

### **The Case for Sectoral Sequencing**

6.18 Given the complex and contentious issues involved, attempting to reform the civil service all at once would be courting failure. Instead, beginning with sectors and/or agencies that promote policy objectives already embraced by the Government -- and which are likely to generate demonstration effects for others -- would appear to have the best prospects for early success. The reform process is also facilitated if each step builds upon the previous one. And sequencing allows learning from the mistakes which are inevitable in the difficult area of institutional change. However, a narrowly “enclave” approach to reform (where one sector or agency is “fenced off” from other non-reforming ones) is to be avoided as it can impede sustainable long-term institutional development.

6.19 Pakistan’s current circumstances would appear well-suited to a *sector-by-sector approach* to sequencing of reforms. At the federal level, far-reaching reforms are already being initiated in relation to revenue generation, with strong support at the highest levels of government (including, e.g., a larger recurrent budget allocation in 1998/99) . Key components of the CBR reforms include: (i) the re-establishment of CBR as the financially and managerially autonomous Pakistan Revenue Service (PRS); (ii) outsourcing of some functions; (iii) reengineering of processes to simplify the tax system and facilitate cooperation of taxpayers; (iv) redeployment/layoffs of excess staff; and (v) incentive/bonus-based remuneration combined with better staff selection and evaluation. It will be important to share CBR’s/PRS’ experience with the provincial revenue authorities where tax administration is even more deficient.

6.20 In Punjab and NWFP, elements of the sector-by-sector approach are being piloted on a small scale in the *education and health* sectors in the framework of the SAP. Reform initiatives in health include: (i) recruitment of staff on a contractual basis (with better remuneration) to serve in “hardship” posts; (ii) improved monitoring and supervision of field-level staff; and (iii) proposed financial and administrative autonomy to the district health authorities. In NWFP there are plans to recruit all new health sector staff on a contractual basis, and initiating the use of a new pro forma ACR to evaluate the performance of different types of staff was envisaged for July 1998. Pakistan’s new health policy (see Box 3.1) also includes a number of reforms that would greatly enhance accountability and performance

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<sup>4</sup> On this point see Chapter 9 of the 1997 World Development Report.

management. Recognizing that achievement of the objectives of universal primary education requires a frontal attack on the major governance problems that have plagued the recruitment and management of teachers, the education initiatives cover a number of areas discussed in previous chapters, e.g. the use of short-term contractual employees with better remuneration and accountability for performance, as well as devolving responsibility for teacher management and supervision to local school management committees.

6.21 Under Pakistan's *National Drainage Program (NDP)*, the provinces are committed -- initially on a pilot basis -- to restructuring their irrigation departments and beginning to devolve responsibility for operation and maintenance of their large irrigation networks, as well as for the collection of irrigation water charges, to autonomous irrigation and drainage authorities, area water boards, and farmers' organizations. Further analysis and reflection are still necessary about the numbers and fate of staff that will likely be made redundant by these fundamental institutional reforms. The successful implementation of the NDP will require strong political will to resist vested interests, but the potential benefits are large -- savings in budgetary O&M expenditures and, more importantly, better maintenance of Pakistan's irrigation and drainage network, whose deterioration is the major threat to increased agricultural productivity.

6.22 Given the centrality of fiscal adjustment to achievement of the Government's development objectives, its central role in this regard, and its apparent willingness to change, another candidate for early reform would appear to be the *Ministry of Finance*. The CAR has already formulated proposals for restructuring on which the Ministry's agreement has been obtained. These include reorganization of the Finance Division, resulting in a substantial number of surplus staff (473 out of a total of 1108); skills upgrading and increased use of computer technology; reorganization of the various attached departments, some of which are already underway as self-contained exercises (e.g. CBR/PRS); lateral recruitment from universities and the Pakistan Institute of Development Economics; and facilitating enhanced access by the public and speedier response to complaints. The proposals for the Ministry, however, stop short of the far-changes in remuneration and management that are being experimented with in education and health.

6.23 The federal and provincial governments should consider a two-pronged approach to sectoral piloting efforts:

- ***Comprehensive reforms in selected sectors.*** In light of their importance for Pakistan's development agenda, the major institutional reforms already envisaged, and the significant preparatory work already accomplished, the CBR/PRS at the federal level and the health departments in the provinces<sup>5</sup> would appear to be the best candidates for piloting the comprehensive civil service reform program outlined earlier in this chapter.
- ***Less radical reforms in areas/agencies that operate relatively well.*** Although it shares many of the problems that plague the rest of the civil service, its clearer mandate and, arguably, greater exposure to and scrutiny by the public (including from external development partners) has enabled the Ministry of Finance to perform somewhat better than other ministries/departments. Its restructuring needs have already been reviewed by the CAR and agreed to. It would accordingly appear to be the best

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<sup>5</sup> The irrigation departments, for which significant institutional reforms also are envisaged, would not currently appear to be a suitable pilot because: (i) the various studies to formulate the restructuring details (including staffing changes) will not be completed before April 1999; and (ii) their nature as an engineering/technical departments suggests that the replicability of their experience could be limited to only a few other agencies. Piloting reforms in a large department like education (some 500,000 staff in Punjab alone) could be highly disruptive.

candidate for piloting less radical but nonetheless important restructuring. These reforms should be based on those already identified by the CAR.

6.24 **Strong political support** will need to be given to these pilots, since their success or failure is likely to set the stage for future reform efforts. Careful preparation will also be needed in order to avoid major mistakes that then set unfortunate precedents. The Government should nonetheless seek to accelerate implementation of the pilots over the next several months, with a view to using the experience gained as input into the formulation of an overall civil service reform program and action plan, which Pakistan intends to complete by end-June 1999. While implementing the pilots, it will be important to continue to look at the broader picture and build consensus on reforms that cut across the civil service. This is to an extent already occurring at the federal level and in Punjab and NWFP. Fundamental decisions about the role of the state and the objectives of reform are, however, still required at all levels. In this regard, widespread dissemination of positive results from the CBR, provincial health departments, and Ministry of Finance pilots (as well as the institutional reforms in irrigation and education) could help build support for change.

6.25 To avoid a narrowly “enclave” approach, it is critical that the Government issue a coherent and public statement about its intentions with regard to civil service reform to provide the context for the piloting efforts. It should also spell out a time-frame during which other agencies would be brought into the reform program. As a result of the CAR’s review of 17 ministries to date, the Federal Government already has a significant amount of information and analysis with which to formulate reform proposals in many areas. A first effort at identifying surplus employees has been made in NWFP, and the “Good Governance Project” there has been working on draft good governance laws. Other aspects of the reform program that require much less consensus but cut across sectors must proceed simultaneously with the piloting efforts, including the stopping of employment, payroll, and pension irregularities and the installation of effective employment and wage bill management systems.

### **Preparing for and Managing Reform**

6.26 With the establishment of the CAR, the Good Governance Group, and the coordinating group led by an advisor to the Prime Minister, good progress has been made at the federal level to begin preparation for reform.<sup>6</sup> Work has also begun in Punjab and NWFP but is not as advanced. At both provincial and federal levels, ***strengthening and clarifying the institutional framework for leadership of the reform effort*** is a necessary first step. One of the many advantages of a single institutional focus for reform would be that all participants could start from the same base of facts concerning what current laws permit and what new legislation or other actions might be required to accomplish the goals of reform (which remains a source of some confusion). This should include high-level steering committees reporting to the Prime Minister or Chief Ministers (as has now been put in place at the federal level), to establish policy, build consensus, and oversee the reform program, as well as technical units for detailed planning and management of reform implementation. Punjab and NWFP may wish to build on and consolidate the various reform groups recently put in place. The steering committees should solicit structured input from the public in their deliberations and decision-making. At the federal level, it might be possible to combine the two technical/secretariat groups now supporting the CAR and the Good Governance Group into the technical unit. Sustained political support at the level of the Prime Minister and Chief Ministers will be necessary to reduce resistance from politicians and the civil service itself. Box 6.1 below gives some examples of the experience of other countries in successfully planning for reform.

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<sup>6</sup> In November 1998, the federal Government informed the Bank that it had put in place five technical committees to examine this report and make recommendations to the Cabinet.

6.27 The immediate tasks of the high-level steering committees should be to provide answers to strategic questions, and in particular to:

- Forge a shared set of values and vision for change;
- Come to agreement on the future directions and functions of the state and related implications for the civil service;
- Make decisions regarding the division of responsibilities between the federal, provincial, and local authorities;
- Clarify the governments' objectives for reform (including what kind of professional civil service to strive for, and how much it should cost in terms of the budget);
- Agree on a comprehensive reform program to achieve these objectives;
- Decide on the appropriate sectoral sequencing of reform;
- Make decisions on the first phase of a "downsizing" effort based on the 17 reviews conducted by the CAR to date; and
- Formulate and implement a communication strategy to clearly articulate to the public the Government's goals and plans for reform.

**Box 6.1: Planning for Civil Service Reform: Malaysia and Uganda**

Although the circumstances under which reforms were launched differed, the experiences of Malaysia and Uganda both demonstrate the importance of defining goals, ensuring sustained commitment from the highest levels over the long haul, devising a strategic plan, and setting up appropriate institutional arrangements. In both cases the reforms were deemed essential to meeting the governments' goals. The reforms were driven from the top: the Prime Minister of Malaysia and the President of Uganda took a keen personal interest in these programs, chaired the relevant committees, and were responsible for sustaining the momentum of the reforms.

In the case of Uganda, the reforms were outlined in a document entitled "Vision, Objectives, Strategy and Plans." The objectives were to improve service delivery, efficiency, and effectiveness. These goals were to be achieved by the creation of a small, better paid, and more effective service where staff would be fully accountable and where clear, simple, and consistent rules and procedures were to be applied.

In the Malaysian case, the government started its first phase of reforms in 1965 with a clear definition of the role and nature of the public sector transformation it wanted to achieve. For this purpose, the Development Administration Unit and a training center were created. Activities carried out included reorientation of structure and organization – some units were decentralized, others left under strong central control; a thorough reform of personnel management and remuneration; and introduction of a new budget management system with a view to enhancing transparency and the accountability of units and managers.

6.28 The committees should solicit the views of the public before making these decisions. Since bureaucracies cannot be expected to reform themselves from within on a consensual basis, a mechanism to facilitate the involvement of outsiders and maintain a momentum for reform will be necessary. Arrangements for coordination between the federal and provincial committees will also be needed, particularly on devolution but on other issues as well. These committees should be charged with completing the formulation of the reform program and the action plan to implement it in draft form by February 1999 and in final form by end-June 1999.

6.29 *The technical units* will need to include full-time staff for the duration of the reform program and should be led by senior officials. Immediate priorities for these units should be to:

- Collect accurate and consistent data on government employees and personnel expenditures, including conducting a full census of the provincial civil services;
- Formulate an action plan for rationalization and computerization of civil service payrolls;
- Keep themselves and the high-level steering committees abreast of on-going initiatives;

- Provide a secretariat, planning and scheduling, and monitoring service to the steering committees;
- Disseminate best practice and lessons of experience (from Pakistan and abroad); and
- Commission or execute studies as required by the steering committees.

6.30 While both these sets of tasks are being undertaken, the Government should move swiftly to stop the irregularities discussed in Chapters 2, 4, and 5. Such actions will simultaneously provide a clear signal about its commitment to reform and generate savings that should reduce the immediate pressures for rushed, inadequately prepared downsizing exercises.

6.31 Now is a most opportune time for Pakistan to initiate a fundamental restructuring of its civil service. The combination of an emerging national consensus on the need for change, a reform-oriented political leadership with a strong mandate, and the imperative of fiscal austerity in these difficult times for the country, should, if well exploited, enable Pakistan to move into the 21st century with very good prospects for a reinvigorated, responsive, and accountable civil service to carry forward the country's development agenda.



## ANNEX A: STATISTICAL APPENDIX

<b>Table A1: Grade-wise Distribution of Employment in Government of Pakistan</b>					
<b>Grade</b>	<b>Employment</b>			<b>Growth (% p.a)</b>	
	<b>1989</b>	<b>1993</b>	<b>1997</b>	<b>1989-93</b>	<b>1993-97</b>
17-22	16245	17004	19649	1.1	3.7
16	10832	12682	15530	4.0	5.2
<b>Total 16-22</b>	<b>27077</b>	<b>29686</b>	<b>35179</b>	<b>2.3</b>	<b>4.3</b>
11-15	68303	62259	110529	-2.3	15.4
3-10	250717	218081	295946	-3.4	7.9
1-2	167519	177241	255895	1.4	9.6
<b>Total 1-15</b>	<b>486539</b>	<b>457581</b>	<b>662370</b>	<b>-1.5</b>	<b>9.7</b>
<b>Grand Total</b>	<b>513616</b>	<b>487267</b>	<b>697549</b>	<b>-1.3</b>	<b>9.4</b>
<b>Memo: As Percent of total</b>					
17-22	3.2	3.5	2.8		
16	2.1	2.6	2.2		
<b>Total 16-22</b>	<b>5.3</b>	<b>6.1</b>	<b>5.0</b>		
11-15	13.3	12.8	15.8		
3-10	48.8	44.8	42.4		
1-2	32.6	36.4	36.7		
<b>Total 1-15</b>	<b>94.7</b>	<b>93.9</b>	<b>95.0</b>		
<b>Grand Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>		

*Source:* Establishment Division, Management Services Wing.

<b>Table A2: Employment in Government of Punjab</b>					
	<b>Employment</b>			<b>Growth (% p.a.)</b>	
	<b>1989/90</b>	<b>1993/94</b>	<b>1998/98</b>	<b>1990-94</b>	<b>1994-98</b>
Punjab	751347	818647	890792	2.17	2.13
Social Sectors	461666	510050	574246	2.52	3.01
Education	385245	430404	486641	2.81	3.12
Health & PHE	76421	79646	87605	1.04	2.41
Law & Order	96146	110413	117447	3.52	1.56
Police	81015	94242	100217	3.85	1.55
Law Dept.	8218	8861	9887	1.90	2.78
Jails, etc.	6913	7310	7343	1.41	0.11
Irrigation	54028	53089	52500	-0.44	-0.28
Agriculture	23681	24369	26151	0.72	1.78
Gen Admn	18902	20824	21675	2.45	1.01
Others	96924	99902	98773	0.76	-0.28
<b>Memo Item:</b>	<b>Percent of Total</b>				
Punjab	100.00	100.00	100.00		
Social Sectors	61.45	62.30	64.46		
Education	51.27	52.58	54.63		
Health & PE	10.17	9.73	9.83		
Law & Order	12.80	13.49	13.18		
Police	10.78	11.51	11.25		
Law Dept.	1.09	1.08	1.11		
Jails, etc.	0.92	0.89	0.82		
Irrigation	7.19	6.48	5.89		
Agriculture	3.15	2.98	2.94		
Gen Admn	2.52	2.54	2.43		
Others	12.90	12.20	11.09		

*Source:* Government of Punjab.

**Table A3: Employment in Government of NWFP**

	Employment			Growth (% p.a.)	
	1989/90	1993/94	1996/97	1990-94	1994-97
NWFP	184880	226105	254587	5.16	4.03
Social Sectors	119065	148376	173171	5.66	5.29
Education	96428	120995	142276	5.84	5.55
Health & PHE	22637	27381	30895	4.87	4.11
Law & Order	30140	34829	36816	3.68	1.87
Police	26674	31076	32609	3.89	1.62
Law Dept	1680	1981	2421	4.21	6.91
Jails, etc.	1786	1772	1786	-0.20	0.26
Irrigation	6106	6689	6900	2.31	1.04
Agriculture	9241	9890	10135	1.71	0.82
Gen Admn	2850	6566	7364	23.20	3.90
Others	17478	19755	20201	3.11	0.75
<b>Memo Item:</b>	<b>% of total</b>				
NWFP	100.00	100.00	100.00		
Social Sectors	64.40	65.62	68.02		
Education	52.16	53.51	55.89		
Health & PE	12.24	12.11	12.14		
Law & Order	16.30	15.40	14.46		
Police	14.43	13.74	12.81		
Law Dept.	0.91	0.88	0.95		
Jails, etc.	0.97	0.78	0.70		
Irrigation	3.30	2.96	2.71		
Agriculture	5.00	4.37	3.98		
Gen Admn	1.54	2.90	2.89		
Others	9.45	8.74	7.93		

Source: Government of NWFP.

**Table A4: Employment in Government of Balochistan**

	Employment			Growth (% p.a.)	
	1988/89	1993/94	1996/97	1990-94	1994-97
Balochistan	98842	122921	127069	4.46	1.11
Social Sectors	43491	55131	56994	4.86	1.11
Education	29487	38880	39800	5.69	0.78
Health & PHE	14004	16251	17194	3.02	1.90
Law & Order	20273	24820	26283	4.13	1.93
Police	18933	23062	24433	4.02	1.94
Law Dept	628	858	957	6.44	3.71
Jails, etc.	712	900	893	4.80	-0.26
Irrigation	3171	3889	3823	4.17	-0.57
Agriculture	7067	9519	9581	6.14	0.22
Gen Admn	5245	6469	6027	4.28	-2.33
Others	19595	23093	24361	3.34	1.80
<b>Memo Item:</b>	<b>% of total</b>				
Balochistan	100.00	100.00	100.00		
Social Sectors	44.00	44.85	44.85		
Education	29.83	31.63	31.32		
Health & PE	14.17	13.22	13.53		
Law & Order	20.51	20.19	20.68		
Police	19.15	18.76	19.23		
Law Dept.	0.64	0.70	0.75		
Jails, etc.	0.72	0.73	0.70		
Irrigation	3.21	3.16	3.01		
Agriculture	7.15	7.74	7.54		
Gen Admn	5.31	5.26	4.74		
Others	19.82	18.79	19.17		

Source: Government of Balochistan.

**Table A5: Provincial Government Employees and Pay and Allowances, Selected Years**  
(Rs. In millions)

Year	Punjab	Sindh	NWFP	Balochistan	Total
1998-89					
Employees	722,916	n.a.	186,488	n.a.	909,404
Pay and Allowances	n.a.	n.a.	n.a.	n.a.	n.a.
1992-93					
Employees	821,273	389,620	217,159	122,140	1,550,192
Pay and Allowances	20,791	10,020	5,747	4,265	40,823
1996-97					
Employees	872,534	453,978	257,804	125,056	1,709,372
Pay and Allowances	39,514	17,987	9,601	5,952	73,054

Source: Government of Pakistan, Ministry of Finance.

**Table A6: Basic Monthly Pay Scales**

Pay Scale	Minimum (Rs)	Increment (Rs)	Number of pay points	Maximum (Rs)	Sample Position
BPS-1	1,245	35	16	1,770	Sweeper
BPS-2	1,275	44	16	1,935	Quasid
BPS-3	1,320	50	16	2,070	Daftri
BPS-4	1,360	58	16	2,230	Dispatch Rider, Driver
BPS-5	1,400	66	16	2,390	Urdu Typist
BPS-6	1,440	73	16	2,535	
BPS-7	1,480	81	16	2,695	Telex Operator
BPS-8	1,540	88	16	2,860	
BPS-9	1,605	97	16	3,060	
BPS-10	1,660	107	16	3,265	
BPS-11	1,725	116	16	3,465	
BPS-12	1,830	130	16	3,780	Stenotypist
BPS-13	1,950	144	16	4,110	Accountant
BPS-14	2,065	161	16	4,480	
BPS-15	2,190	177	16	4,845	Stenographer
BPS-16	2,535	197	16	5,490	Admin Officer
BPS-17	3,880	290	13	7,360	Private Secretary
BPS-18	5,085	366	11	8,745	Agronomist
BPS-19	7,750	385	11	11,600	Deputy Secretary, Senior Agricultural Economist
BPS-20	9,195	440	11	13,595	Economic Consultant, Joint Secretary
BPS-21	10,190	545	11	15,640	Senior Joint Secretary
BPS-22	10,900	610	11	17,000	Secretary

**Table A7: Allowances and Deductions Appearing on the Payroll**

	<b>Description</b>	<b>Minimum Payment</b>	<b>Maximum Payment</b>	<b>Number in receipt</b>	<b>Share of total</b>
1	Cost/Living Allowance	40	952	7418	100%
2	Adhoc Relief	95	300	5909	80%
3	Medical Allowance	60	90	5748	77%
4	Conveyance Allowance	0.01	355	3688	50%
5	House Allowance	131	3,064.50	3087	42%
6	Special Conveyance Allowa	0.01	386	2767	37%
7	Washing Allowance	13	233	1673	23%
8	Dress Allowance	21	40	1581	21%
9	Motor car Maint Allow	0.01	710	579	8%
10	Motor Cycle Maint All	130	130	269	4%
11	Charge Allowance	20	756	266	4%
12	Teaching Allowance/Instru	200	200	243	3%
13	Special Pay	20	750	217	3%
14	Personal Allowance	184	1,002.00	31	0%
15	Qualification Allowance	200	1,500.00	25	0%
16	Adj Spl Conveyance Allowa	63	193	15	0%
17	L.h.p. Offg	802	4,006.50	11	0%
18	Adj Officiating Pay	35	1,136.00	11	0%
19	Senior Post Allowance	20	600	11	0%
20	Entertainment Allow.	400	400	10	0%
21	Orderly Allowance	1,900.00	1,900.00	10	0%
22	Personnel Pay	81	645	10	0%
23	Dusting Allowance	20	90	7	0%
24	Technical Allowance	100	200	5	0%
25	Q.Pay(PASC/NDCC/NIPA)	200	1,500.00	5	0%
26	Study Allowance	300	300	5	0%
27	Special Allowance	30	200	4	0%
28	Hostel Warden Allnce	100	100	4	0%
29	L.f.p. Offg con hp	2,810.00	5,800.00	3	0%
30	Copier/Photostat Allowanc	35	35	3	0%
31	Kit Allowance	150	150	3	0%
32	Deputation Allowance	250	574	2	0%
33	Design Allowance	20	1,500.00	2	0%
34	Qualification Pay	200	1,500.00	2	0%
35	Adj Cost/Living Allowance	4	14	2	0%
36	Adj Motor Cycle Maint All	68	68	1	0%
37	Adj House Allowance	448.5	448.5	1	0%
38	Anti-Terrorist Sqd: Alce	90	90	1	0%
39	Anesthesia Allowance	300	300	1	0%
40	Computer Allowance	1,000.00	1,000.00	1	0%
41	Deputation Special Pay	1,148.00	1,148.00	1	0%
42	Additional Pay	60	60	1	0%
43	L.f.p. Offg	2,935.50	2,935.50	1	0%
44	L.f.p. Sub con h.p.	66	66	1	0%
45	Performance Evaluation Al	192	192	1	0%
46	Presidency Allowance/p.m.	100	100	1	0%
47	Ration Allowance	500	500	1	0%
48	Indexation Pay	37	37	1	0%

Table A8: Deductions Appearing on the Payroll

	Description	Minimum Payment	Maximum Payment	Number in Receipt	Share of Total
1	Benevolent Fund	1.00	100.00	7415	100%
2	Gen. Prov. Fund Subs.	35.00	920.00	7378	99%
3	House Rent Charges	19.35	852.50	3829	52%
4	Income-Tax	1.00	2,000.00	2221	30%
5	Group Insurance	35.00	155.75	1605	22%
6	Subs Army Book Club	200.00	200.00	1566	21%
7	House Building Advance	40.00	8,546.00	1255	17%
8	Motor Cycle Advance	20.00	3,336.00	685	9%
9	G-P-F Advance 1	1.00	2,415.00	616	8%
10	Motor Car Advance	20.00	2,100.00	224	3%
11	Recovery Of House Allowan	5.00	2,583.00	94	1%
12	Cycle Advance	30.00	590.00	91	1%
13	Adj Conveyance Allowance	13.00	629.00	82	1%
14	House Rent Recovery	1.00	2,000.00	56	1%
15	Adj Spl Conveyance Allowa	25.00	619.00	53	1%
16	Recovery Of Pay	5.00	2,000.00	41	1%
17	Adj Officiating Pay	50.00	2,000.00	37	0%
18	Int Motor Car Advance	325.00	1,670.00	33	0%
19	G.P. Fund (Special 80% Ad	100.00	2,000.00	26	0%
20	Int. M/Cycle Advance	200.00	300.00	10	0%
21	Adj House Allowance	500.00	2,065.50	10	0%
22	Adj Cost/Living Allowance	4.00	150.00	9	0%
23	Adj Motor Cycle Maint All	42.00	390.00	8	0%
24	Adj House Rent Charges	391.00	1,381.90	7	0%
25	Recovery Of Conveyance Al	63.00	355.00	7	0%
26	Adj Charge Allowance	10.00	50.00	5	0%
27	G-P-F Advance 2	40.00	400.00	5	0%
28	Additional House Rent Cha	89.00	1,140.00	5	0%
29	Adj Motor Car Maint Allow	130.16	594.00	4	0%
30	Adj Adhoc Relief	19.00	250.00	3	0%
31	Adj Medical Allowance	6.00	80.00	3	0%
32	Gas Charges	50.00	50.00	3	0%
33	Adj Substantive Pay	57.00	1,070.00	2	0%
34	Water Charges	2.50	5.00	2	0%
35	Standard Rent Charges	119.50	274.50	2	0%
36	Pay Advance	200.00	2,000.00	2	0%
37	G.P.F Advance 3	100.00	1,000.00	2	0%
38	Int House Bld Advance	660.00	1,089.00	2	0%
39	Adj Interest House Buildi	32.00	32.00	1	0%
40	Adj Boot Maker Eqpt Allow	180.00	180.00	1	0%
41	Refund Of Loss	55.00	55.00	1	0%
42	Adj Hair Cutting Allowanc	48.00	48.00	1	0%
43	P.M.Flood Relief Fund	400.65	400.65	1	0%
44	Adj Indexation Pay	82.00	82.00	1	0%
45	Adj Teaching Allowance/In	200.00	200.00	1	0%
46	Conservency Cherges	5.00	5.00	1	0%
47	Instructional Pay	11.20	11.20	1	0%
48	Adj Over Time	48.00	48.00	1	0%
49	Adj Personal Allowance	300.00	300.00	1	0%
50	H.B.A. Out Of G.P.Fund	1,000.00	1,000.00	1	0%
51	Other Recoveries	184.00	184.00	1	0%

**Table A9: Population, Labor Force, Employment, and Gross Domestic Product, Selected Years**

Year	Population a/	Labor Force a/	Employment a/	Gross Domestic Product b/
1990/91	113.78	31.83	29.83	1,020.6
1991/92	117.31	32.97	31.04	1,211.4
1992/93	120.83	33.87	32.08	1,341.6
1993/94	124.48	34.69	33.01	1,573.1
1994/95	128.01	35.15	33.26	1,882.1
1995/96	131.63	36.14	34.20	2,171.3
1996/97	136.28	37.15	35.15	2,503.3

a/ In millions.

b/ In Rs. Billions.

Source: Government of Pakistan.

**Table A10: Age-Specific Death Rates, 1992**

Age Group	All	Male	Female
All ages	10.1	9.8	10.3
Below 1	132.1	130.2	134.0
1-4	8.3	6.0	10.7
1-9	2.1	1.6	2.6
10-14	1.4	1.5	1.2
15-19	2.2	1.6	2.8
20-24	2.0	2.1	1.9
25-29	2.9	2.7	1.1
30-34	3.0	3.9	2.3
35-39	3.9	6.5	1.3
40-44	4.7	4.0	5.4
45-49	4.0	4.8	3.2
50-54	8.0	6.2	9.8
55-59	14.4	12.9	15.1
60-64	24.2	25.2	23.2
65+	60.5	60.4	63.2

Source: Government of Pakistan, Federal Bureau of Statistics, Pakistan Demographic Survey, 1992.

**Table A11: Federal Civil Service Pensioners and New Pensions Granted, 1990/1991-1997/1998**

Years	Pensioners	New Pensions Granted
1990/1991	111,635	10,912
1991/1992	120,618	8,983
1992/1993	130,360	9,742
1993/1994	139,427	9,067
1994/1995	149,966	10,512
1995/1996	161,694	11,728
1996/1997	172,932	11,238
1997/1998 a/	177,501	4,569

a/ Through December, 1997.

Source: Government of Pakistan, Office of the Accountant General.

**Table A12: Annual Pension Expenditures for Federal Civil Servants, 1990/1991 - 1997/1998**

Year	Amount (in Rs. millions)	Percent of GDP
1990/1991	1,329.6	0.13
1991/1992	1,857.6	0.15
1992/1993	2,409.7	0.18
1993/1994	2,567.7	0.16
1994/1995	3,190.4	0.17
1995/1996	4,061.6	0.19
1996/1997	3,744.1	0.15
1997/1998 a/	1,840.5	n.a.

a/ Through December, 1997.

Source: Government of Pakistan, Office of the Accountant General.

**Table A13: Loans to Federal Civil Servants and Repayment of Principal, 1990/1991 - 1997/1998**  
(in Rs. Millions)

Year	Loans	Repayment (Principal)
1990/1991	322.7	170.8
1991/1992	499.6	202.5
1992/1993	626.4	249.5
1993/1994	568.0	302.7
1994/1995	701.2	384.8
1995/1996	691.0	427.4
1996/1997	377.7	407.7
1997/1998 a/	36.0	221.4

a/ Through December, 1997.

Source: Government of Pakistan, Office of the Accountant General.

**Table A14: Contributions to and Payments from Benevolent Fund and Group Insurance Fund, Federal Civil Service, 1990/1991 - 1996/1997**  
(Rs. millions)

Year	Benevolent Fund		Group Insurance Fund		General Provident Fund	
	Contributions	Payments	Contributions	Payments	Contributions	Payments
1990/1991	135.7	67.5	81.7	55.5	777.8	385.6
1991/1992	167.0	78.2	108.5	69.1	915.4	412.5
1992/1993	194.0	86.9	104.0	73.3	1270.8	526.4
1993/1994	195.5	99.6	111.3	79.2	1750.0	715.8
1994/1995	268.5	111.3	135.6	94.5	1304.2	688.8
1995/1996	293.2	134.2	151.3	115.3	1962.2	925.5
1996/1997	303.2	190.4	212.0	143.9	727.3	532.8
1997/1998 a/	n.a.	n.a.	n.a.	n.a.	316.8	519.8

a/ Through December, 1997.

Source: Government of Pakistan, Office of the Accountant General.

**Table A15: Composition of Benefit Payments to Civil Service Retirees, in percents**

Year	Pension Payments	Non-pension Payments a/	Total
1990/1991	72.3	27.7	100
1991/1992	76.8	23.2	100
1992/1993	77.8	22.2	100
1993/1994	74.2	25.8	100
1994/1995	78.1	21.9	100
1995/1996	77.6	22.4	100
1996/1997	81.2	18.8	100

a/ Includes gross payments out of Benevolent Fund, Group Insurance Fund, and General Provident Fund. Annual employee contributions exceed payments for all categories.

Source: Mission calculations based on Tables 5 and 7.

**Table A16: Employees Old-Age Benefits Institution: Key Measures, Selected Years**

(Monetary values in Rs. Millions)

Year	Pensioners	Participating Employees	Participating Employers	Contributions	Assets
1977	0	8,807	5,447	34	29
1982	7,370	376,254	10,722	579	685
1987	37,430	585,713	18,606	1,685	2,558
1992	89,257	881,109	27,145	4,187	9,521
1997	128,000	1,231,753	37,141	9,000	25,460

Source: Employees Old-Age Benefits Institution of Pakistan.

**Table A17: Provincial Government Pension Expenditures, 1990/1991 - 1997/1998 (In Rs. Millions and as Percent of GDP)**

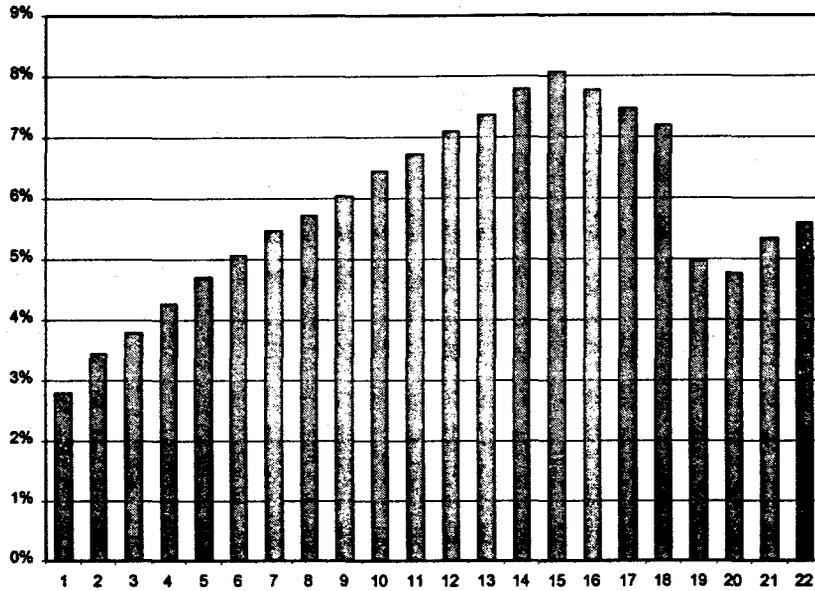
Year a/	Punjab	Sindh	NWFP	Balochistan	Total	Total as % of GDP
1990/1991	1,739.2	794.8	466.5	101.5	3102.0	0.30
1991/1992	2,388.0	1,043.9	638.0	117.0	4,186.9	0.35
1992/1993	3,064.4	1,229.5	770.1	268.2	5,332.2	0.40
1993/1994	2,868.4	1,224.0	757.7	236.5	5,106.6	0.32
1994/1995	3,993.7	1,629.2	1,160.1	411.9	7,194.9	0.38
1995/1996	9,518.0	2,568.0	1,831.6	829.8	14,747.4	0.68
1996/1997	6,681.7	2,373.6	1,940.0	451.2	11,346.5	0.45
1997/1998	6,013.9	2,953.1	2,517.0	760.0	12,244.0	n.a.

a/ 1990/1991 to 1995/1996 actual data, 1996/1997 revised estimates, 1997/1998 budget estimates.

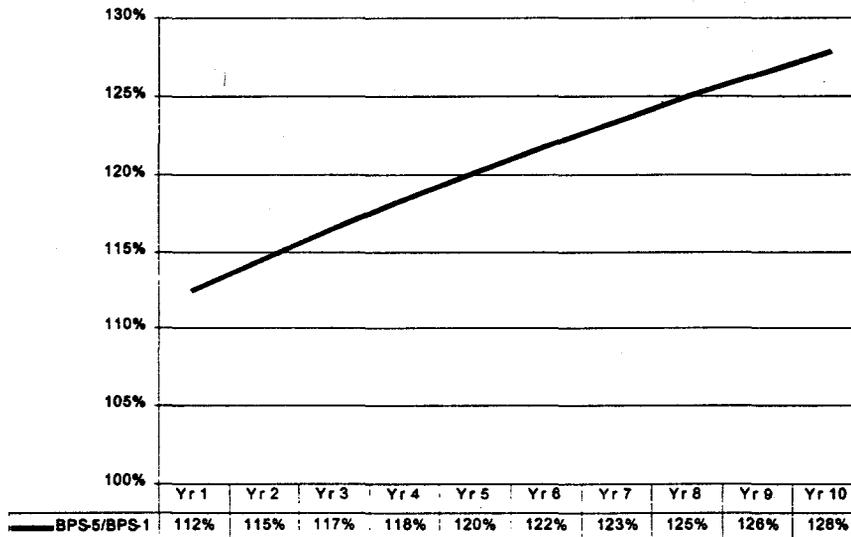
Source: Government of Pakistan, Ministry of Finance and Provincial Governments.

## ANNEX B: FIGURES

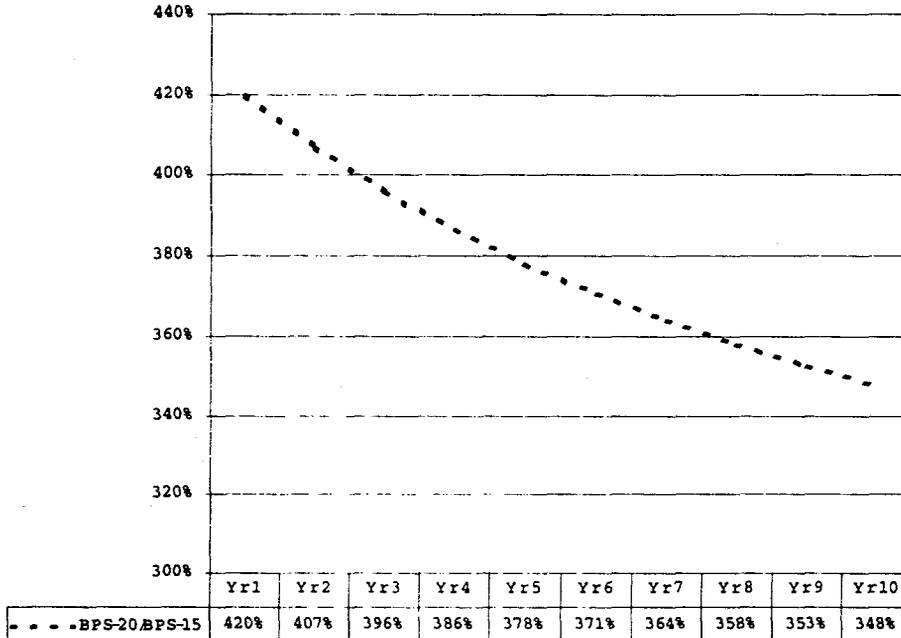
**Figure B1: Proportion of Minimum Basic Pay Represented by the Annual Increment for BPS-1 to 22**



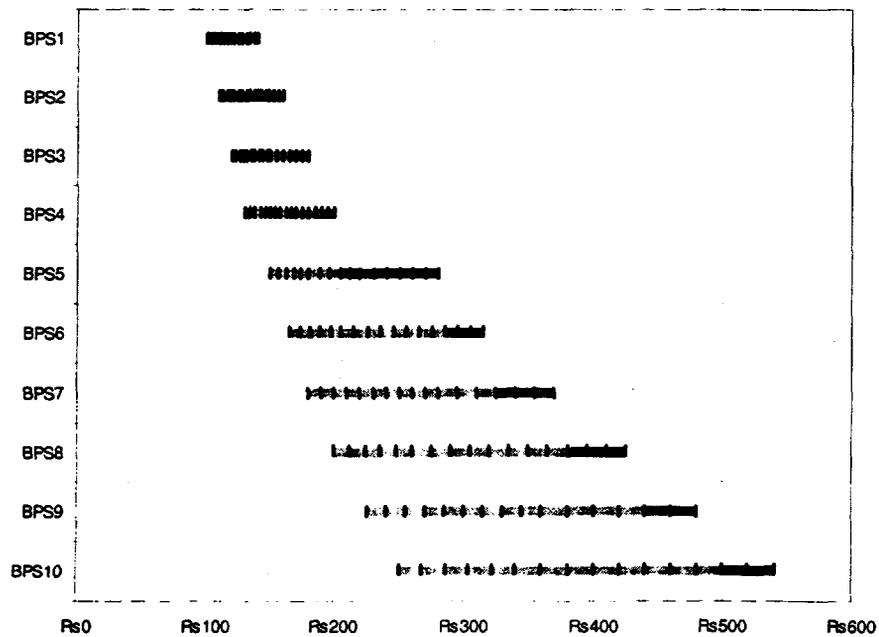
**Figure B2: Decompression of BPS-5 compared to BPS-1 Salary Over Time due to the Automatic Increment**



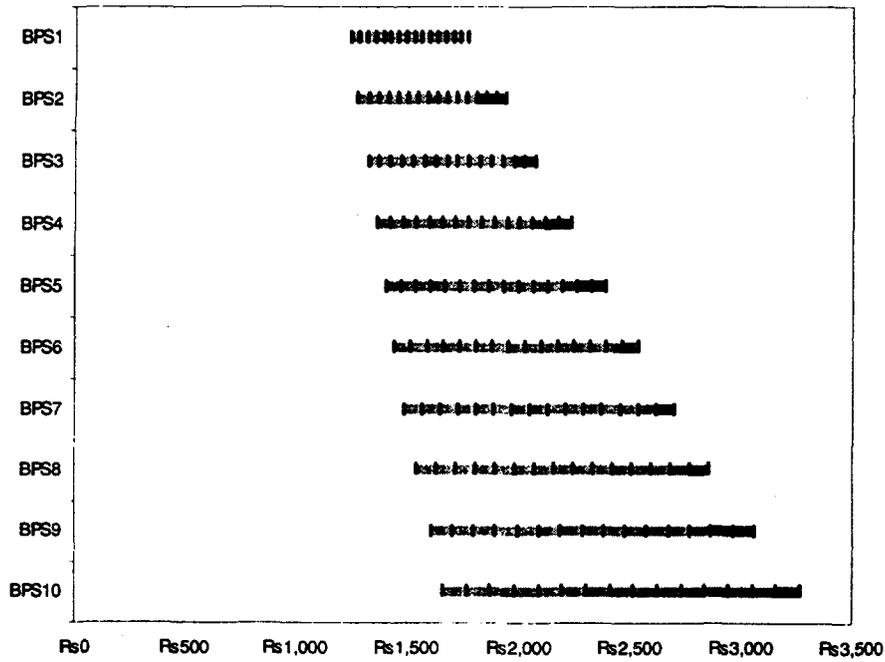
**Figure B3: Compression of BPS-20 Compared to BPS-15 Salary Over Time Due to the Automatic Increment**



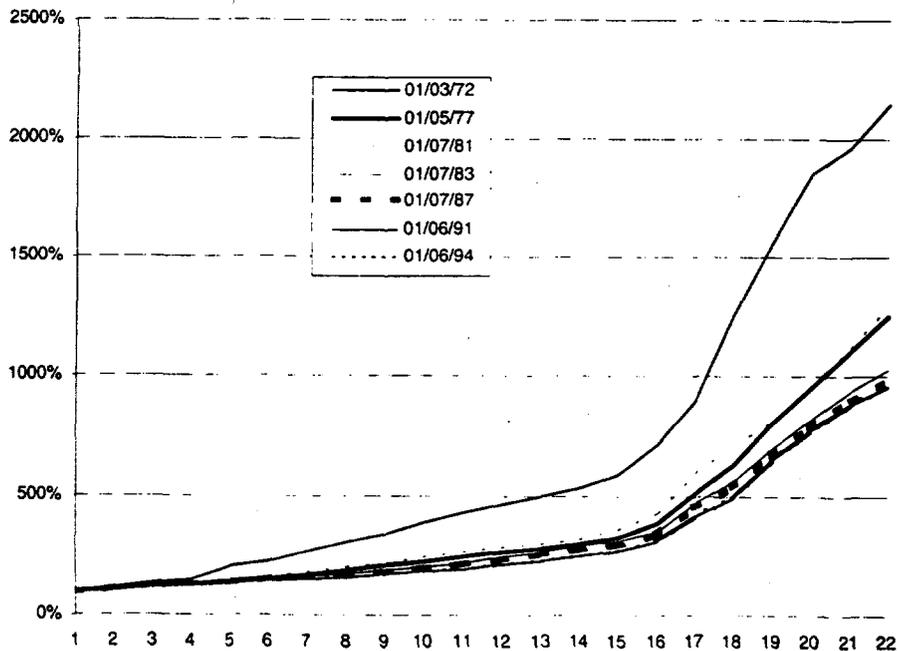
**Figure B4: Pay and move-over points in BPS-1 to 10 under the 1972 pay structure**



**Figure B5: Pay and move-over points in BPS-1 to 10 under the current pay structure**



**Figure B6: Effect of Various Pay and Pension Commissions on Compression Ratios of Basic Pay of Various BPS Salary Scales (BPS-1=100%)**





## ANNEX C: NOTE ON PAYROLL ADMINISTRATION

### Federal Government

The federal government operates 12 different payrolls of which five are the responsibility of the Accountant-General (AGPR), and seven are administered by the individual agencies concerned. So far as we could ascertain, only one of these 12 payrolls is computerised. The details are as follows:

No.	Employees	Responsibility for payment	Computerised?
1	Federal employees in Islamabad	AGPR	Yes
2	Federal employees in Punjab	AGPR	No
3	Federal employees in Sindh	AGPR	No
4	Federal employees in Baluchistan	AGPR	No
5	Federal employees in NWFP	AGPR	No
6	Military/defence	Self-administered	No
7	Railways	Self-administered	No
8	Post Office	Self-administered	No
9	Foreign Office	Self-administered	No
10	Public Works Dept	Self-administered	No
11	DG Works	Self-administered	No
12	AO ISF	Self-administered	No

The one computerised payroll contains about 50,000 records. Over 600,000 federal civil servants, therefore, are paid through a manual payroll system. None of the systems are cross-checked with each other – indeed it is difficult to imagine how they could be cross-checked, given lack of computerisation.

### Government of Punjab

The Punjab government maintains 34 different payrolls, one for provincial staff located in Lahore, and 33 in the Districts. Within each district there are 24 Drawing & Disbursement Officers who collect cash for groups of staff (e.g. all teachers in a single school), and who then distribute it. These D&D Officers, therefore, must maintain some form of sub-payroll – amounting to another 792 manual systems in the Punjab alone. The security risks of so much cash being distributed manually are obvious.

We visited the payroll administration in Lahore and in one district (Qasur). The central payroll in Lahore is computerised, and is used to pay 96,000 staff. The system in Qasur is partially computerised and is used to pay about 16,000 staff.

Neither of these systems was compatible with each other, or with the AGPR system in Islamabad. Given that these systems are free-standing, with no possible means of cross-checking, means that it is basically impossible to audit the payrolls. In Lahore and Qasur payroll officials told us of their belief that there were likely to be 'ghosts', and indeed 'ghost schools' on the payroll.

Effective payroll administration in Punjab further weakened by the fact that, of the 33 District Accounts Officers, nine report to the Accountant-General, and 24 report to the provincial secretariat.

**Establishment Control**

Control of establishment against authorised posts is performed manually, albeit with help of computer-generated totals by department where the payroll is partially computerised. Clearly this is not only vastly time-consuming, it also leaves open possibilities of error and establishment weakness. Furthermore, effective establishment control is also weakened by the 'move-over' phenomenon. The only effective system of establishment control is by means of a computerised record of individual posts compared against a computerised payroll system.

## **ANNEX D: NOTE ON CIVIL SERVANTS' HOUSING IN ISLAMABAD**

This annex has been prepared on the basis of an examination of the issues relating to government housing in Islamabad. In principle, the issues are likely to be similar in other parts of the country.

### **Government Accommodation: Policy and Practice**

The current policy and practice is described in the main report, and indicate that up to about 50% of employees may be in receipt of a government house.

The Public Works Department (PWD) maintains the government housing stock (in Islamabad). Anecdotal evidence suggest that PWD and discussions between it and the 1997 World Bank Public Expenditure Review mission has insufficient funds to maintain the housing, and the condition of the stock is gradually deteriorating.

Overall there appears to be a shortage of housing, or land for building in Islamabad, witnessed by the current high level of rentals. The responsibility for releasing development land lies with the Capital Development Authority. We were informed that cash constraints have limited the operational effectiveness of the CDA in recent years.

### **Conclusion**

As explained in the main text, the system of housing provision and housing allowances is inequitable and inefficient. It is inequitable between those who have and have not got houses; and it is inefficient, as the housing stock represents an appropriate asset that is not earning an economic return, and is being allowed to deteriorate in value.

### **Way Forward**

Providing housing for government employees is a practice maintained from colonial days, when it was necessary to provide accommodation for colonial civil servants who were far from home on what were inevitably temporary appointments. There was some justification for maintaining the practice when Islamabad was first founded, and there was a scarcity of accommodation. This is no longer the case. Government no longer needs to provide accommodation for civil servants.

Instead, the Government should seek to foster the development of a responsive and flexible private rented market that will meet the demand for housing in Islamabad. This would mean that the government housing stock should be transferred in a transparent to the private sector (in a manner that maximizes the Government's receipts from such transactions), and that the federal government should withdraw from the housing business.

These issues should be considered in relation to the wider problem of how to promote further development in the capital district. It may be, for example, that receipts from the sale of the government stock could be used as working capital by the CDA to stimulate land supply, and make property more affordable. In any event, more rigorous and detailed analysis of these issues must be undertaken prior to policy-making.

**Recommendations**

The Government should therefore initiate a policy review of the capital city's housing market, and of those public institutions that play a role in development in Islamabad. The specific objectives of the review should be to inform policy-making, with a view to:

- Stopping the practice of providing housing, or housing allowances, to civil servants, and to phasing out all current tenancies within, say, five years, ensuring that all civil servants are treated equitably in this process.
- Divesting all federal government housing stock to the private sector in a manner that will stimulate a competitive private market in rented accommodation.
- Determining the amount of new land needed for housing in Islamabad, and assessing what measures need to be taken to stimulate the supply of land for housing.
- Ensuring that government institutions responsible for physical planning, land production, and development in Islamabad promote development effectively, maximize private sector participation in the financing and development of new housing, and operate with full cost recovery.

The Government should commission international consultants to conduct detailed analyses and devise the actions necessary to achieve these aims. These problems have been encountered elsewhere, and the Government could benefit from international experience. (There are examples from other governments which are based on the British model, albeit on a much reduced scale compared to Pakistan i.e. Malawi and Ghana.)

## **ANNEX E: MODEL OF THE PAKISTAN FEDERAL GOVERNMENT PAYROLL**

### **Introduction**

This paper sets out a number of scenarios for pay and employment of the federal government of Pakistan, and analyses the employment and fiscal consequences of these scenarios over the next ten years using a specially developed model. Details of the model are given at Appendix 1.

This paper is not intended, on its own, to aid policy decisions – this is the role of the full model. The paper should be read as an introduction to the model, and some of the basic concepts, of using the model to analyse the fiscal effects of various employment and pay scenarios. It is a prelude to, not a substitute for, working with the full model.

The approach of the paper is to start off with a fairly simple, ‘base-case’ scenario of a hiring freeze, nominal pay freeze, ending move-over immediately and a gradual incorporation of allowances into basic salary. Other elements are then added to the scenario individually, including finally salary decompression and some downsizing. This constitutes a broadly linear narrative arriving at a final scenario.

This final scenario does not, under any circumstances, represent a policy recommendation. It is merely a sample scenario, designed to show off the features of the model. The consequences of any number of other scenarios can be examined using the model, though clearly space does not permit an exhaustive cataloguing of these in this paper.

We would recommend that the Government of Pakistan designates a counterpart team to work with us in examining a number of different scenarios, using the model, in order to understand the fiscal consequences of various pay and employment policies.

### **Status**

Under the ‘base-case’ scenario, there is no hiring, no nominal pay increases and no move-over. The only things which change in the model are:

- An across the board attrition rate of 3 per cent of the starting values of employment in each salary scale. This is designed to account for deaths and retirement; and
- Allowances are incorporated into salary gradually over the ten years, with final salaries being equal to the sum of initial salary and allowances.

The model shows that this would result in employment falling by 27 per cent (nine years of a 3 per cent cut), resulting in a cumulative saving to the government of Rs33bn in nominal terms or Rs103bn in real terms over ten years. Part of this saving is due, though, to there being no move-over, and frozen nominal wages, resulting in a 50 per cent cut in the average real wage. The nominal payroll bill in 2006/7 would be Rs20bn as against an estimated Rs27bn in 1997/8. In real terms, it would drop from Rs27bn to about Rs10bn in today’s prices.

## Move Over

If move-over is then allowed for, employment still drops by 27 per cent, but savings on the payroll bill are smaller and the real wage cut is not as severe. The Figure 1 gives some illustrative examples of various move-over rates,<sup>1</sup> the implied nominal cumulative payroll savings over ten years and the average real wage.

**Figure 1: Move-over Rates and their Implications for Nominal Cumulative Savings & Average Real Wage**

Move-over rate	Nominal cumulative payroll savings	Average real wage cut
0%	Rs33bn	50%
5%	Rs27bn	47%
10%	Rs21bn	44%
15%	Rs16bn	42%
20%	Rs10bn	39%
25%	Rs5bn	37%

Thus a move-over rate of 0 per cent (i.e. move-over abolished) would result in a 50 per cent real wage cut over ten years, but cumulative savings of Rs33bn in nominal terms, as outlined in paragraph 0. However, a move-over rate of 25 per cent (i.e. a quarter of people move-over every year) would result in only a 37 per cent average real wage cut, thus compensating for a little over a quarter of the cost of living increases *on average*.<sup>2</sup> At the same time a 25 per cent move-over rate would wipe out almost all of the cumulative payroll savings. In reality, of course, the true move-over rate probably lies somewhere between these extremes.

## Nominal Pay Increases

To account for inflation, some nominal pay increases are now allowed for. To simulate the effect of infrequent Pay and Pension Commission awards, 25 per cent nominal pay increases are awarded at the start of fiscal years 1998/9, 2001/2 and 2004/5. The figure of 25% was chosen to keep real wages roughly similar to the current level, at the end of ten years. The cumulative nominal salary increase over the life-time of the model is thus 95 per cent, as against a 99 per cent increase in the CPI. In the absence of move-over, therefore, this would represent a 2 per cent drop in real wages.

Figure 2 shows the nominal wage bill under the scenario of:

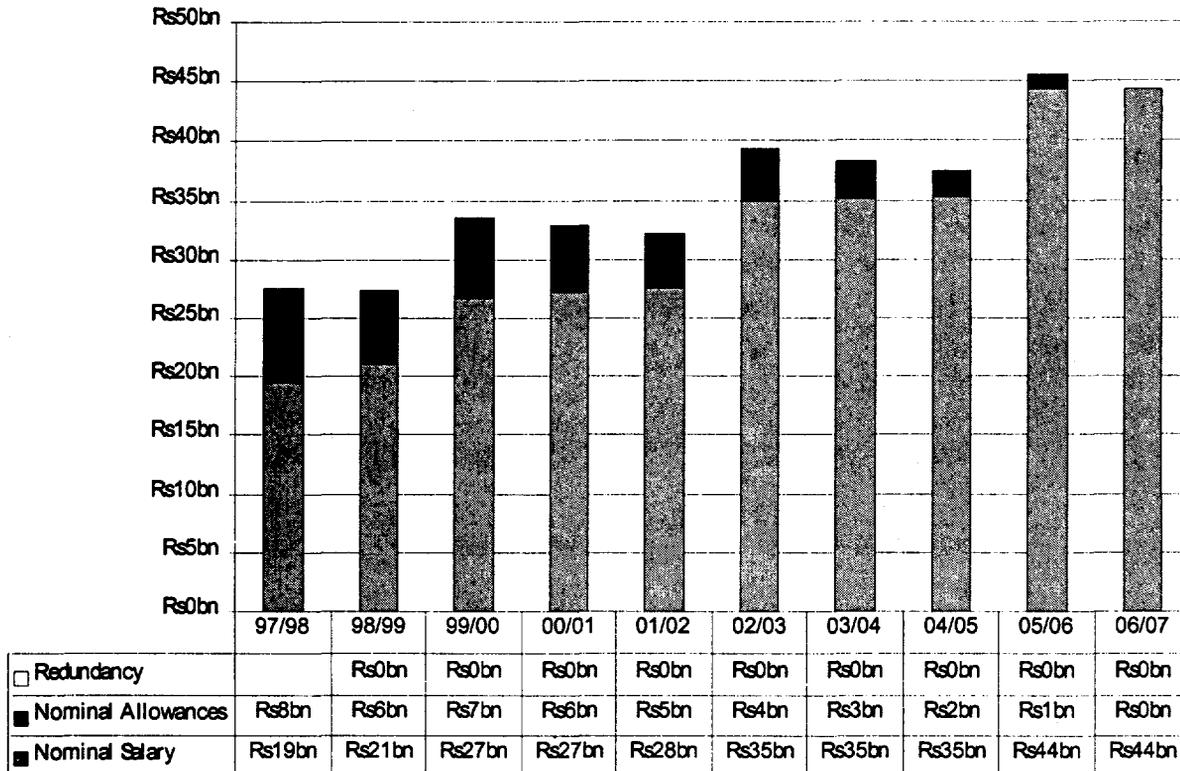
- Three per cent attrition;
- Ten per cent move-over;
- Gradual incorporation of allowances into salary; and
- Three-yearly Pay and Pension Commissions awarding 25 per cent salary increases.
- 

<sup>1</sup> For an explanation of the move-over rate, see ¶0.

<sup>2</sup> Those who didn't move-over, of course, would not have any compensation for cost of living increases.

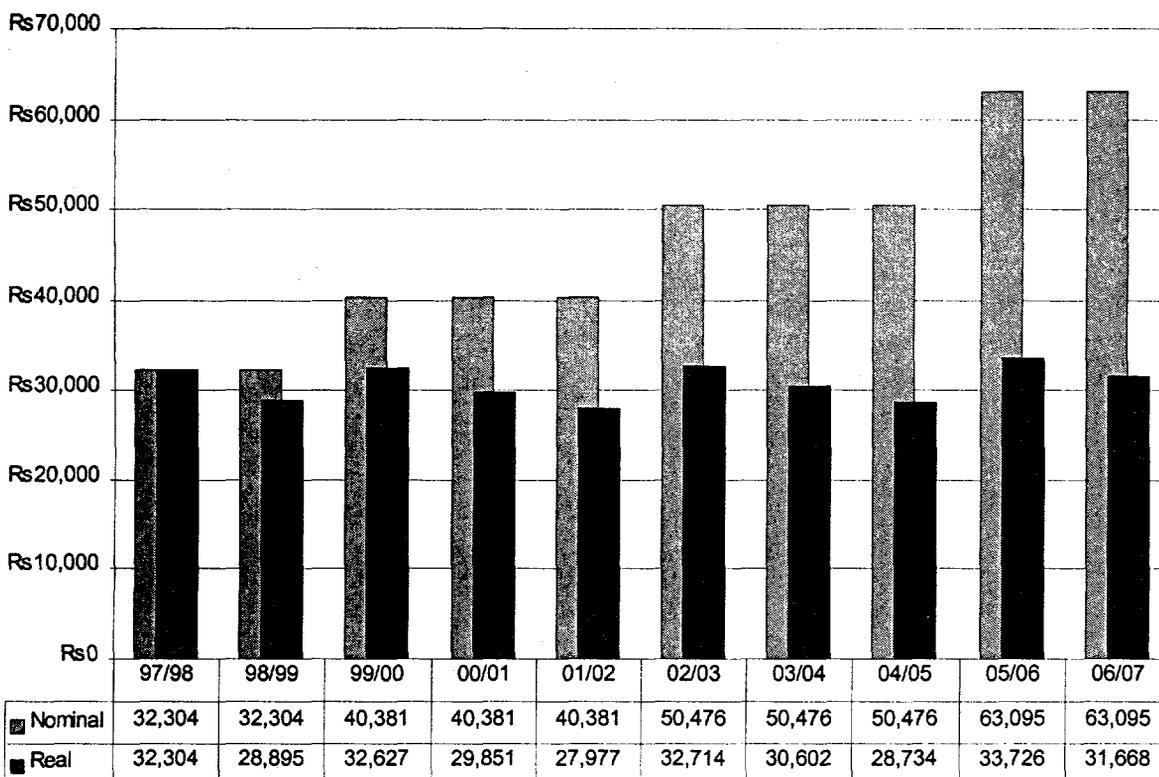
As can be seen from Figure 2, the nominal salary bill jumps every three years with the award of pay rises, and then gradually drops in the other two years due to attrition. Figure 2 shows quite clearly how 'lumpy' the wage bill is under these circumstances, and how difficult it must be to budget effectively to allow for the wage bill, particularly in years with a pay award. (Note: the 1977/8 figure is our best estimate of current expenditures).

**Figure 2: Nominal Wage Bill, with 3 percent Attrition, 10 percent Move Over, Incorporation of Allowances into Salary, and Three-yearly Pay Reviews**



The individual also faces this 'lumpiness'. Figure 3 shows the annual salary and allowances of someone employed in BPS-1 and shows that pay is also lumpy, varying between 28,000 Rupees and almost 34,000 Rupees a year in real terms.

**Figure 3: Pay (Salary and Allowances) of BPS-1  
with Three-Yearly Pay Increases**



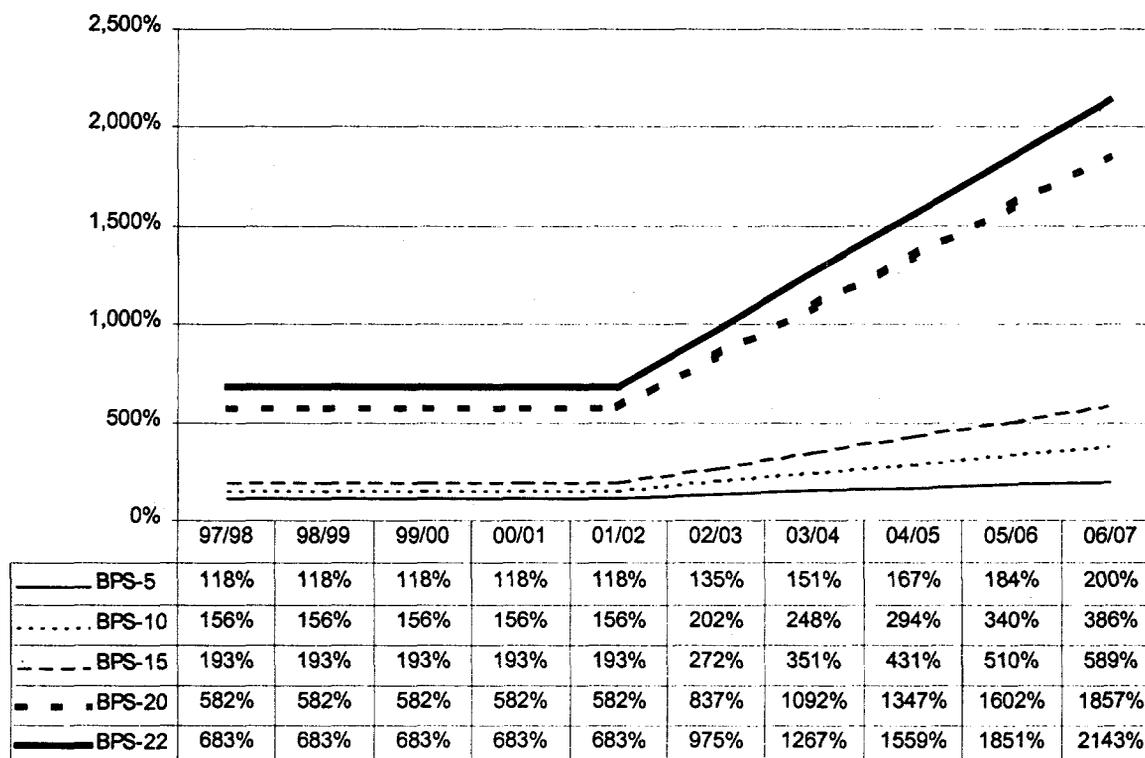
### Salary Decompression

Salary decompression will now be included in the scenario, such that the assumptions for the model are as follows:

- Three per cent attrition;
- Ten per cent move-over;
- Gradual incorporation of allowances into salary;
- Three-yearly Pay and Pension Commissions awarding 25 per cent salary increases; and
- Decompression of salaries so that compression ratios in 2006/7 are as they were after the Pay and Pension Commission award of 1<sup>st</sup> March 1972.<sup>3</sup> Decompression will be evenly spaced over the period 2002/3 to 2006/7, and ratios for selected salary scales are shown in Figure 4.

<sup>3</sup> Note that this approach may actually 'over-decompress', as the ratios used in the model are based on both salaries and allowances. As allowances are assumed to be a smaller proportion of salary for high salary scales, compensation will be more compressed when considered as being salary and allowances rather than just salary. However, the compression ratios calculated as pertaining after the 1972 pay award are on the basis of salaries alone.

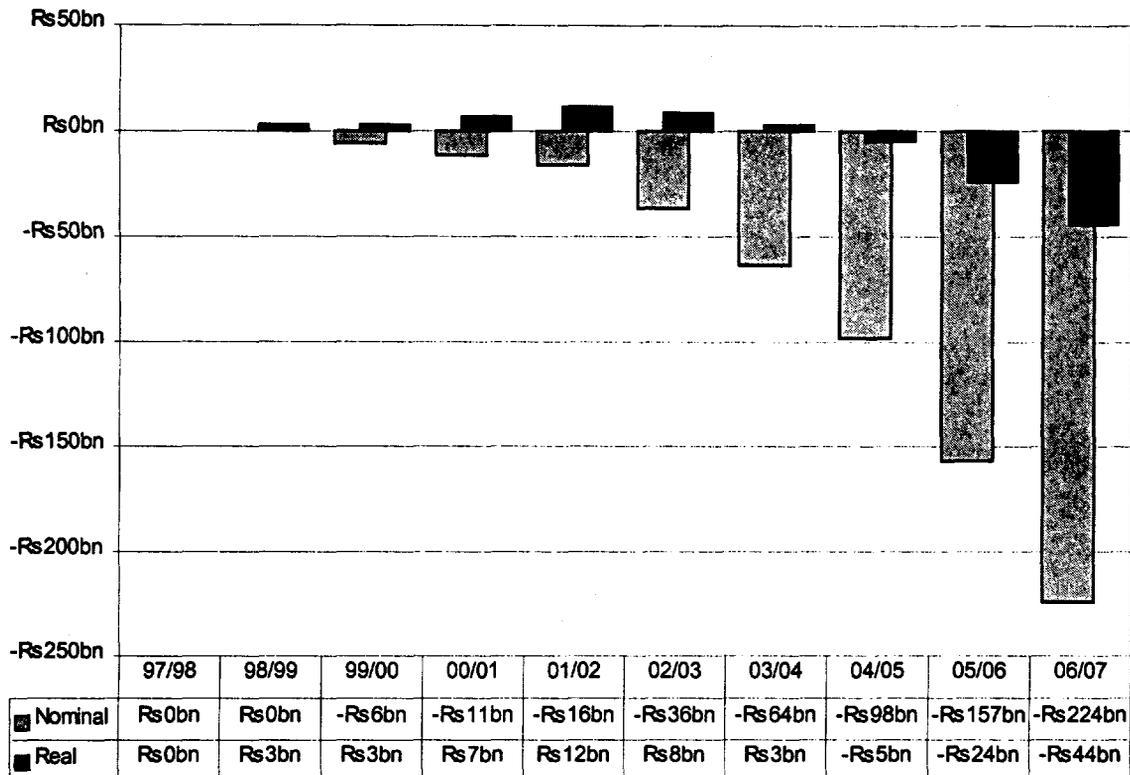
**Figure 4: Compression Ratios of Selected Salary Scales Under Scenario Described in ¶0**



Clearly, government's resources are not infinite and it must make hard but informed decisions about how its revenue should be allocated. As a result, one of the key factors to bear in mind when considering any changes to the employment and pay structures of the civil service is total expenditure on pay.

The effects of the scenario outlined in ¶0 on total payroll expenditures are clearly significant, with average real pay more than doubling from Rs42,439 p.a. in 1997/8 to Rs98,665 p.a. in 2006/7.<sup>4</sup> The cumulative effects are shown in Figure 5 in both nominal and real terms. Even in real terms (i.e. comparing spending to today's salary bill, assuming the latter grows in line with the cost of living) the salary decompression will cost Rs44bn over ten years in today's prices, and will carry on costing about Rs20bn a year more in real terms than the current payroll (about Rs47bn compared to Rs27bn).

<sup>4</sup> Note, though, that the pay of someone on BPS-1 will remain unchanged and will in fact still be as shown in Figure 4.

**Figure 5: Cumulative Effect on Payroll Expenditure of Scenario Described in ¶0**

### Downsizing

In order to try and make the salary decompression affordable, one approach is to consider some downsizing of the civil service. As an example, an across the board down-sizing of 40 per cent was considered, i.e. employment in each salary scale was targeted at 60 per cent of its 1997/8 level. While this does sound like a sizeable cut, note that natural attrition and a hiring freeze alone over ten years would amount to a 27 per cent cut (see ¶0), and that this is incorporated in the scenario resulting in the cumulative costs shown in Figure 5.

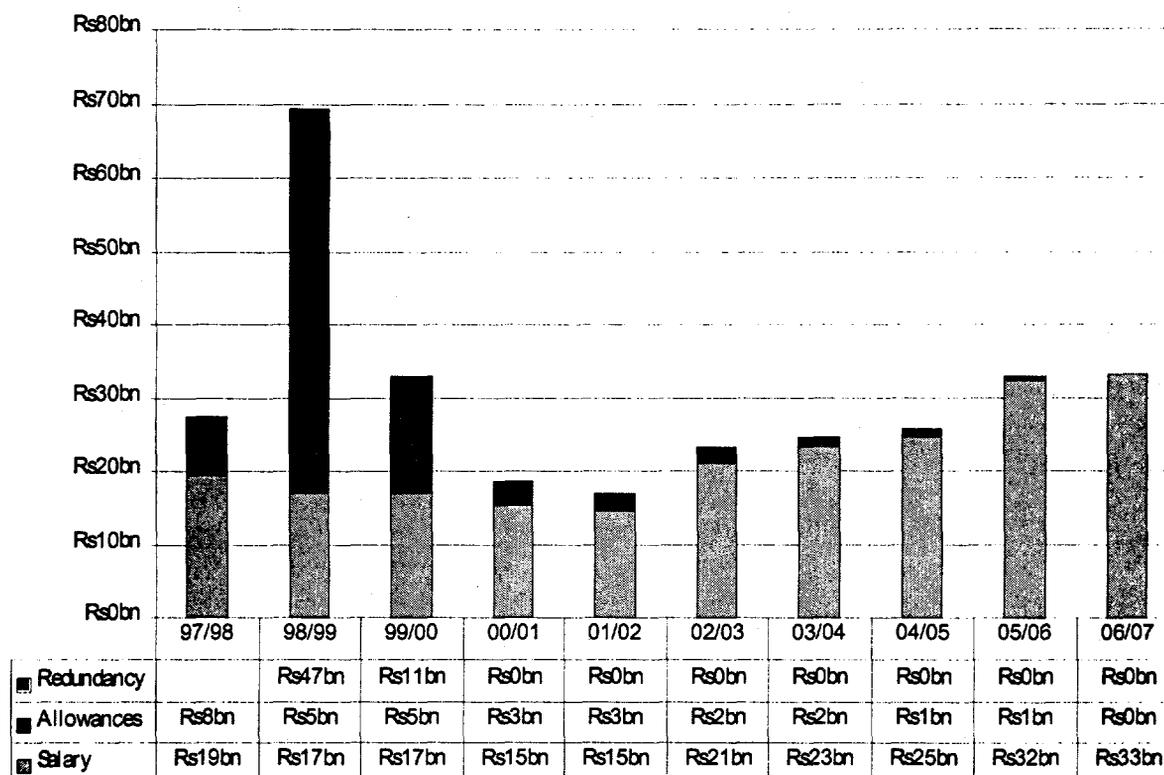
To illustrate the effects of downsizing, the following assumptions are tested in the model:

- Three per cent attrition;
- Ten per cent move-over;
- Gradual incorporation of allowances into salary;
- Three-yearly Pay and Pension Commissions awarding 25 per cent salary increases;
- Decompression of pay so that compression ratios in 2006/7 are as they were after the Pay and Pension Commission award of 1<sup>st</sup> March 1972. Decompression will be evenly spaced over the period 2002/3 to 2006/7;

- Redundancy<sup>5</sup> and hiring decisions in each salary grade will be determined so that employment in 2006/7 for each salary grade is 60 per cent of its level in 1997/8;
- Redundancies are phased so that 80 per cent of the necessary redundancies occur in 1998/9 and 20 per cent in 1999/2000;
- Redundancy payments are assumed to be three times annual salary.

The initial results of this model are not encouraging – real payroll expenditure as well as cumulative payroll expenditure are shown in Figures 6 and 7. The payment of very high redundancy payments in 1998/9, and to a lesser extent in 1999/2000, represents a hit on the budget from which the government never really recovers.

**Figure 6: Effect on Real Payroll Expenditure of Scenario Described in ¶0**

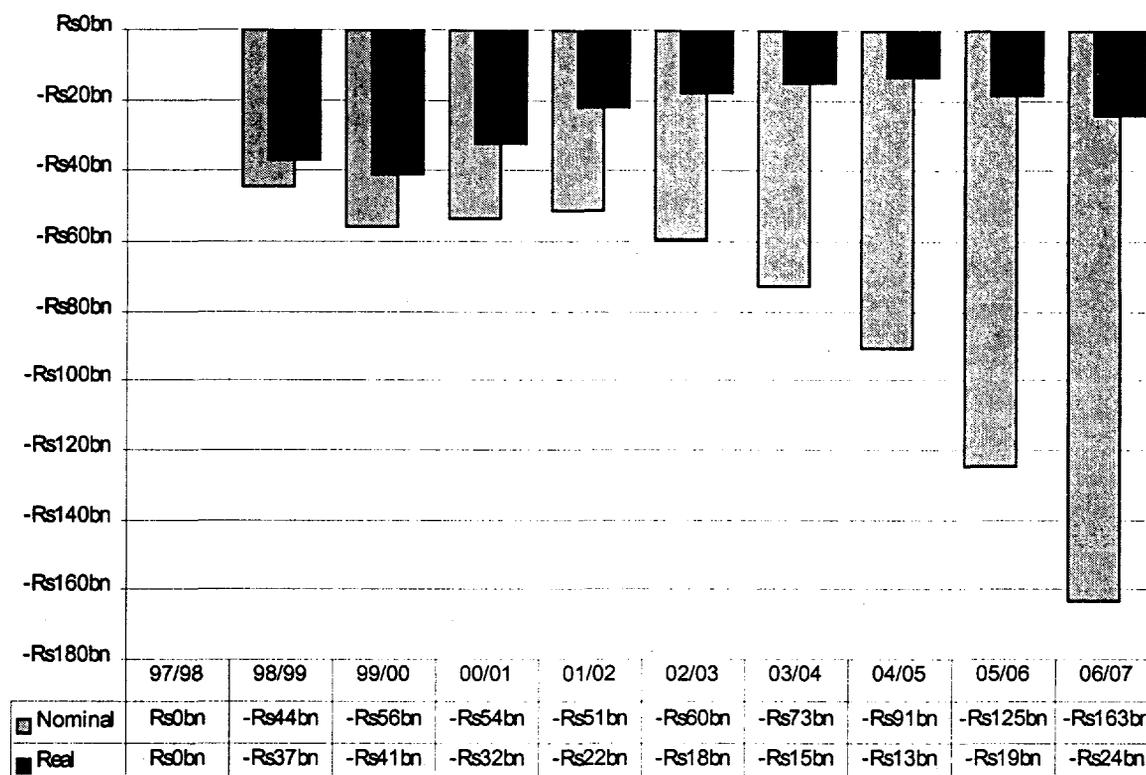


However, looking at redundancies and hirings reveals an interesting story. While scenario described in ¶0 requires 614,111 redundancies, it also requires 529,898 hirings. The reason for this is that in BPS-1, say, there is a three per cent employment cut assumed for attrition and a ten per cent cut for move-over every year. Clearly after ten years, employment is going to have fallen by such an extent that to achieve 60 per cent of initial employment, some hirings, rather than redundancies, will actually be necessary. This effect will also occur in any salary scale where employment is larger than the salary scale below it – i.e. more people are lost to the salary scale through move-over than it gains.

<sup>5</sup> The terms 'redundancy' and 'redundancy payments' are used for the sake of simplicity throughout the paper to describe people leaving the civil service in the context of downsizing. In practice, the actual mode of leaving may be different, e.g. resignation for the inducement of a voluntary severance package.

This effect artificially inflates the number of redundancies actually required which in turn boosts the redundancy payments in 1998/9 and 1999/2000. In fact, what happens is that people are moved-over from BPS-1 to BPS-2 and then made redundant because there are too many people in BPS-2. At the same time, however, people would be hired in the BPS-1 scale to partially replace those being moved-over and then made redundant. This is clearly a nonsense.

**Figure 7: Cumulative Effect on Payroll Expenditure of Scenario Described in ¶10**



In order to try and overcome this problem, move-over will be phased out in the third year. Note that this has the added advantage of improving pay and employment controls as discussed in our separate paper on pay issues. Thus, the final scenario presented has these parameters:

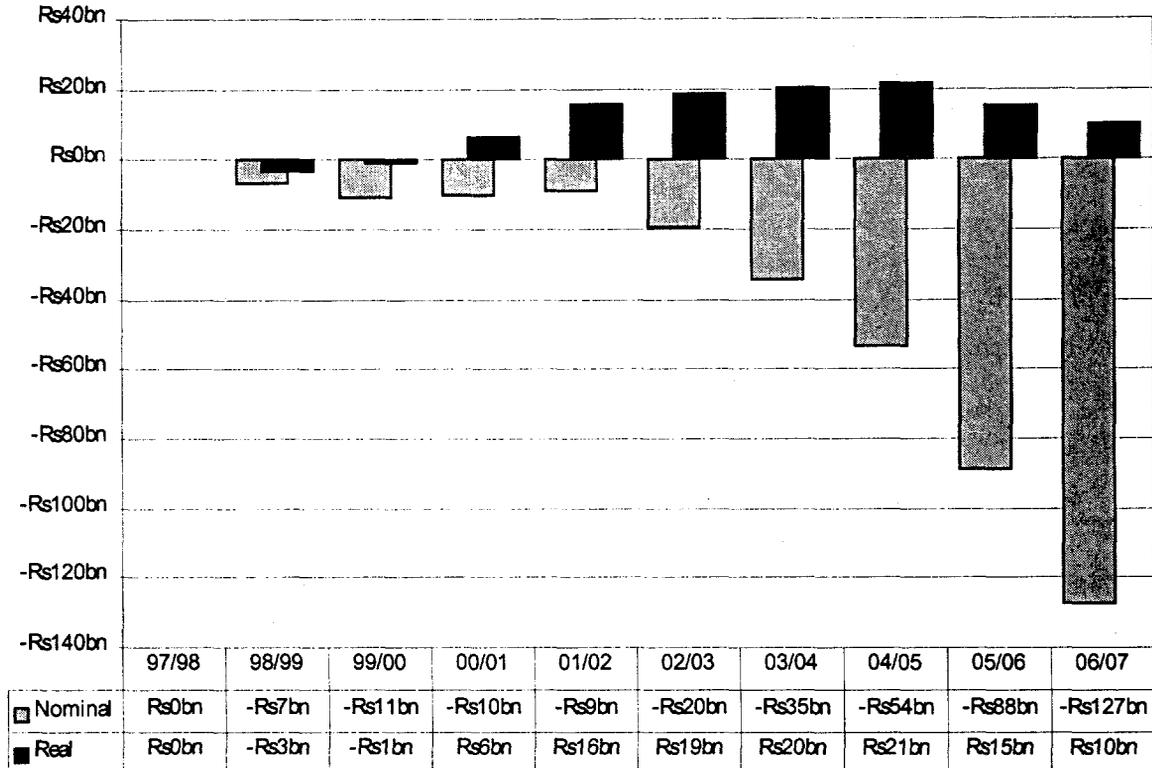
- Three per cent attrition;
- Ten per cent move-over for the first two years, and zero thereafter;
- Gradual incorporation of allowances into salary;
- Three-yearly Pay and Pension Commissions awarding 25 per cent salary increases;
- Decompression of pay so that compression ratios in 2006/7 are as they were after the Pay and Pension Commission award of 1<sup>st</sup> March 1972. Decompression will be evenly spaced over the period 2002/3 to 2006/7;
- Redundancy<sup>6</sup> and hiring decisions in each salary grade will be determined so that employment in 2006/7 for each salary grade is 60 per cent of its level in 1997/8;

<sup>6</sup> The terms 'redundancy' and 'redundancy payments' are used for the sake of simplicity throughout the paper to describe people leaving the civil service in the context of downsizing. In practice, the actual mode of leaving may be different, e.g. resignation for the inducement of a voluntary severance package.

- Redundancies are phased so that 80 per cent of the necessary redundancies occur in 1998/9 and 20 per cent in 1999/2000;
- Redundancy payments are assumed to be three times annual salary.

Redundancies required are cut to 105,431 and hirings to 21,218. Figure 8 shows that this scenario does pay for itself, in real terms, over 10 years albeit it will probably not do so after 12 to 14 years as the real wage bill would actually be about Rs5bn high than it is now.

**Figure 8: Cumulative Effect on Payroll Expenditure of Scenario Described in ¶0**



Note that pay decompression is still as depicted in Figure 4 and the annual pay and allowances payable to someone in BPS-1 are still as shown in Figure 3.

### Conclusions

Hopefully this paper will give the Government of Pakistan an idea of the range of different policy scenarios which can be examined using this model, and will provide useful groundwork for a counterpart team to work with the model directly rather than having the results presented in a paper.

## APPENDIX 1: TECHNICAL DETAILS

### Pay and Employment Estimates

The starting point of the model is estimates of current employment, salary expenditures and allowances of the federal government. These are outlined in Figure 9.

The estimates of employment were derived by taking preliminary results of the 1997 federal government census, and applying an across-the-board seven per cent vacancy estimate. The 1997 results were only provided by broad groups of BPS scale,<sup>7</sup> and within these broad groups, employment was estimated by applying the appropriate pro rata from the 1993 census whilst keeping the total of the broad group as reported in the 1997 census. Thus, within the total for BPS-1 to 2 reported in the 1997 census, adjusted for a seven per cent vacancy rate, the employment was allocated between BPS-1 and BPS-2 in the same proportions as held in the 1993 census.

**Figure 9: Estimates of Employment, Salary and Allowances (Rupees per month)**

BPS Number	Number	Average Salary	Allowances
1	168,698	1,670	1,022
2	69,284	,897	1,090
3	13,481	2,070	1,115
4	14,307	2,023	1,021
5	117,082	2,162	1,021
6	10,280	2,356	1,039
7	71,008	2,465	1,015
8	5,253	2,804	1,077
9	32,840	2,529	906
10	10,979	3,148	1,050
11	47,426	3,319	1,031
12	14,132	3,648	1,056
13	3,002	4,110	1,108
14	20,920	3,280	825
15	17,312	4,203	988
16	14,443	4,288	944
17	8,625	6,299	1,303
18	4,751	8,494	1,658
19	2,448	10,851	2,008
20	1,162	13,309	2,350
21	264	14,550	2,469
22	94	15,780	2,594

<sup>7</sup> BPS-1 to 2, BPS-3 to 10, BPS-11 to 15, BPS-16 and BPS-17 to 22.

For BPS-1 to BPS-20, average salary was determined from a sample of some 7,400 records downloaded from the computerised payroll maintained by the AGPR, Islamabad.

The sample contained no records for BPS-21 and BPS-22 employees. Instead, average salary was estimated as being at the ninth pay-point (out of eleven) for these scales. The assumption that people are paid towards the top of their pay scale is based on the move-over effect, meaning that only entry-level people are likely to be at the middle to bottom pay points in their pay scales, and is backed up by preliminary analysis of the records downloaded from the federal payroll maintained by the AGPR in Islamabad.

Allowances are estimated as being a proportion of salary, determined by  $p = 0.0008 \cdot n^2 - 0.0396 \cdot n + 0.6506$  where  $p$  is allowances as a proportion of basic salary and  $n$  is the BPS scale. This assumption is based on preliminary analysis of records of the federal payroll maintained by the AGPR in Islamabad. It implies that for BPS-1, allowances amount to an additional 61 per cent of basic salary as against about 16 per cent for BPS-22.

These estimates are presumed to hold for FY97/98.

The model's payroll bill estimates do not take into account deductions such as income tax, contributions to the General Provident Fund and correction of past errors. Income tax and GPF contributions are excluded because they are genuine payments to accounts outside the payroll. Error corrections are excluded as there is no reason to assume that fresh errors are not being made.

### **Attrition and Redundancies**

A flat rate attrition assumption is made, and is set in the base case at 3 per cent of the employment in FY97/98 every year. The rate can be altered year by year when better data become available. The model can also be altered to assume that attrition takes place as a proportion of employment in that year rather than in FY97/98 though the latter assumption is made on the basis of a hiring freeze in federal government.

Redundancies are calculated on the basis of targets for employment set in each salary scale and where the civil service is estimated to end up in ten years' time given move-over and attrition. There is thus a total number of redundancies (or potentially hirings) for each salary scale, which are phased over ten years in a fashion that can be adjusted by specifying the percentage of redundancies that will occur in a given year. Three scenarios are depicted in Figure 10, front-loading, back-loading and an even distribution.

**Figure 10: Illustrations of Redundancy Phasings -  
Proportion of Redundancies Occurring in Given Years**

BPS	Front-loading	Back-loading	Even distribution
97/98	20%	0%	10%
98/99	80%	0%	10%
99/00	0%	0%	10%
00/01	0%	0%	10%
01/02	0%	0%	10%
02/03	0%	0%	10%
03/04	0%	0%	10%
04/05	0%	0%	10%
05/06	0%	80%	10%
06/07	0%	20%	10%

Redundancy payments (e.g. a golden handshake) are calculated on the basis of a multiple of salary, which can easily be adjusted. These are assumed to be paid in the year in which the person is made redundant.

People leaving the payroll through attrition or redundancy are assumed to be paid half-salary in the year in which they leave the payroll, as if the departures were spaced evenly throughout the fiscal year, or occurred all on 31<sup>st</sup> December.

### Move-Over

Move-over is accounted for by assuming that a proportion of staff move-over into the next pay-scale every year. This does not capture the full complexity of move-over arrangements but is made for the sake of simplicity. The proportion can be varied from year to year to allow for, for example, the phasing out of move-over. An explanation of how the move-over assumption works is shown in Figure 11, assuming that the move-over proportion is  $x$  (e.g. ten per cent). Note that total employment remains unchanged, being fixed at  $\sum_{i=1}^{i=22} N_i$ . All that changes is the distribution of the employment within the salary scales.

**Figure 11: Illustration of the Move-Over Assumption**

BPS	Number in Year 1	Number in Year 2
1	$N_1$	$(1-x) \cdot N_1$
2	$N_2$	$(1-x) \cdot N_2 + x \cdot N_1$
3	$N_3$	$(1-x) \cdot N_3 + x \cdot N_2$
4	$N_4$	$(1-x) \cdot N_4 + x \cdot N_3$
...	...	...
21	$N_{21}$	$(1-x) \cdot N_{21} + x \cdot N_{20}$
22	$N_{22}$	$N_{22} + x \cdot N_{21}$

**Pay Increases**

Annual percentage increases in *nominal* pay and allowances are possible. Mimicking the system of infrequent Pay and Pensions Commissions would lead to a series similar to  $\{0\%, 0\%, 25\%, 0\%, 0\%, 25\%, 0\%, 0\%, \dots\}$ , though the model also allows series such as  $\{0\%, 0\%, 25\%, 0\%, 0\%, 7\%, 7\%, 7\%, \dots\}$  to simulate the phasing in of annual Pay and Pensions Commissions, rather than the current arrangement of one every three or four years.

**Incorporation of Allowances into Salary**

The model allows a phased programme of incorporating allowances into salary for those in salary scale BPS-1. For other salary scales the incorporation is effected by decompressing pay using BPS-1 salaries as a base, which includes allowances, thus achieving consistency across salary scales. In each of the ten years, a percentage is entered, representing the proportion of allowances to be converted to basic pay in that year. If the percentages sum to 100%, allowances will be fully incorporated over time. If they only sum to 50%, half of allowances will be incorporated.

**Pay Decompression**

For the remaining salary scales (i.e. BPS-2 to BPS-22) annual pay (i.e. salary plus allowances) is determined by a multiple of the pay awarded at BPS-1. These multiples – compression ratios – have final target values, to which they progress from their initial, actual positions. This progression can be phased over the ten years in whatever way is desired, in the same way as redundancies (see ¶10). Allowances are phased out at the same rate as for BPS-1, and salaries are determined as being pay less allowances.

### Real Nominal Values

In order to present the Rupee amounts in both real and nominal terms, a series of percentage changes in the CPI from the World Bank was used as the basis for reconstructing a CPI based at 1 in 1997/98. The World Bank series presented changes in calendar rather than fiscal years, but this was felt to be an acceptable basis for estimates of fiscal year inflation, given that they were in any case estimates. The World Bank figures and the CPI constructed are presented in Figure 12. The figures are based on an early draft of The World Bank's Base Case ("Getting Back On Track") projections for the Pakistan 2010 Report. If available, later figures should be used for detailed analysis and, potentially, policy formulation.

**Figure 12: Consumer Price Index Assumptions**

	97/98	98/99	99/00	00/01	01/02	02/03	03/04	04/05	05/06	06/07
CPI %Δ	11.8%	10.7%	9.3%	6.7%	6.9%	6.9%	6.5%	6.5%	6.5%	6.5%
CPI, 97/8=1	1.00	1.12	1.24	1.35	1.44	1.54	1.65	1.76	1.87	1.99

## **ANNEX F: RECENT INTERNATIONAL TRENDS IN CIVIL SERVICE PENSION REFORM**

Lessons from international experience have to be applied carefully. Simple numerical cross-country comparisons of civil service staffing or personnel expenditures do not take into account differences among countries in the relative roles of government and the private sector, in stage of economic development, or in political and constitutional history and structure. That said, there are certain important international trends the authorities may want to consider in debating directions for reform.

### ***Civil Service Pension Reform in a National Context***

The first trend for the Government to consider concerns integration of civil service pension systems with broader national social security programs. In the period since World War II, many industrialized countries have decided against maintaining unique and separate retirement systems for public service employees, and integrated these programs to a greater or lesser degree with their broad-based national social insurance programs. Indeed, some countries -- Chile, Uruguay, and Peru, for example -- have eliminated separate civil service schemes entirely in the course of implementing nationwide pension reform. But both the coverage and the scope of the EOBI program are much narrower than those of the civil service pension program. Difficult changes in the civil service pension system of Pakistan may become more palatable if the government and civil servants recognize that many Pakistanis are compensated significantly below the pay and benefits package available to civil servants.

### ***Funding and Individual Savings Accounts***

Another important trend the government may want to consider is the establishment of a funded pension system. In a funded system, benefits are paid out of accumulated contributions plus investment earnings, rather than out of current government revenues. In particular, many countries are establishing funded individual savings accounts to cover at least some share of retirement income. The U.S. federal civil service system includes such accounts, and the Chilean national retirement system is entirely based on them.

A funded pension system can have several advantages, including increasing employees' understanding of the role of pensions in their compensation and helping build up a national savings pool for economic development. The team was informed in June, 1998, that North West Frontier Province officials are taking steps to put the province's civil service pension fund on a funded basis.

The Government may want to consider funding, the establishment of individual accounts, or both, but only as long-term reform options. At the present time, two problems stand in the way of such policy decisions. First, it would not be possible to fund a pension system paying commutations as they are currently structured. The contributions required to fund a pension plan paying up to 154 percent of pre-retirement income (depending on the share of compensation included in the pension base) would be prohibitive. Second, problems of management and accountability in the civil service payroll system as a whole could create problems in maintaining the integrity of a funded system. Questions about the integrity of the pension system, in turn, could threaten employees' acceptance of pension reform in general. Funding should therefore be considered only after benefits have been restructured and other reforms in payroll management undertaken.



## **ANNEX G: A PROPOSAL FOR INTRODUCING AN ENHANCED SYSTEM OF LOCAL GOVERNMENT IN PUNJAB**

### **Introduction**

This brief paper has been prepared as an aid to discussing the governance problems of the Punjab. It is not the product of a detailed review of provincial administration. As a consequence, there may well be factual errors or misunderstandings. It has the status, therefore, of a draft working paper.

### **Current Structure of the Government of Punjab**

The civil service of the Government of Punjab comprises nearly one million staff organized into a provincial secretariat and about 30 departments. It is responsible for delivering services to a population of about 70 millions. Whilst large departments (such as education and health) have some district level structures, the provincial administration is organized as a single entity.

There are local authorities in the province, and they have responsibility for basic municipal services such as sanitation, solid waste management, and fire protection. There are no locally elected assemblies at present, although local elections are planned for April/May 1998. In the meantime, Administrators appointed by the provincial government are controlling the local authorities. We were informed that these local bodies, which were established under provincial legislation, have always been subject to detailed interference by the provincial government. There has never been truly local *government*.

To complete the structure of provincial administration, there is a system of Commissioners and Deputy Commissioners overlaying the provincial departmental structure, who report to the provincial secretariat, rather than to any department, and who appear to owe their position to the historic role of colonial District Officers. These Commissioners are responsible for revenue collection and dispensing justice (as magistrates), but also appear to play a key role in 'co-ordinating' all public services within their district. It is not clear what their role is in relation to the central provincial departments. Representatives of NGOs and the private sector, as well as some government officials encountered by the mission maintain that Commissioners and Deputy Commissioners are the focal point for individual politicians (both national and provincial) to interfere directly in the administration of local public services; and that Commissioners and Deputy Commissioners, lacking overt local accountability, are susceptible to corrupt practices.

### **Deficiencies in Present Arrangements**

A public organization of about one million people would appear to be unmanageable. It is also very difficult to hold the provincial government accountable for its actions if the only processes for holding it accountable are at the apex of its organization i.e. the provincial assembly. In a province as large as the Punjab, systems of accountability are required at a local level, close to the point of service delivery.

Given these fundamental deficiencies in governance and management, it is hardly surprising that there is widespread criticism of the provincial bureaucracy for failing to deliver adequate public services. Introducing reforms in the Government of Punjab that do not tackle these fundamental problems of governance and management are likely to have only marginal impact.

## **A Way Forward**

The only solution to these problems is to devolve responsibility for the provision of public services such as primary education and basic health care from the provincial government to local units, and to introduce public accountability at that level. In other words – introduce a system of local government that devolves substantial authority to the lower tier. (This is quite different from decentralization, which preserves the line of command from decentralized bodies to the central bureaucracy, without any local governance). Devolution of administrative authority to local bodies is essential in order to introduce more broad-based accountability.

The Government of Punjab (and other provinces) should give urgent consideration to:

- Re-introducing a system of local government which provides for real devolution of authority
- Transferring responsibility for education, health and certain other services to the new local authorities, and
- Discontinuing the positions of District Commissioners and their Deputies *once effectively functioning local governments are in place*. Alternatively, if the federal and provincial governments believe that doing so may create a vacuum in coordinating their activities at the local level, there should be a clear demarcation of their responsibilities and safeguards put in place to prevent their encroachment on local governments and intervention in their affairs.

The remainder of this annex illustrates how such proposals might be taken forward -- solely for the purpose of advancing debate and discussion. *Concrete proposals could be made only after much more detailed study*, and this annex could serve as the basis for defining the necessary terms of reference..

### **Institutional Capacity at Local Level**

The idea of establishing local authorities with substantial devolved powers has been raised previously, and seems to have attracted the immediate objection that there is no local institutional capacity to which administrative functions could be transferred. This is a circular argument that can be broken in several ways. There are international examples of “provisional” authorities being established one year in advance, into which would be recruited senior managers needed to organize the new services. The majority of staff (e.g. teachers) can then be transferred from the province to local units after preparatory work has been completed – usually a period of up to 12 months is required.

### **Role of the Provincial Bureaucracy**

In such a system the role of the provincial government becomes one of providing a framework for local governance (e.g. setting standards and providing inspection and advisory services); plus administering services which genuinely require a province-wide organization (tertiary education, police, and prisons are possible examples).

Revenue raising powers and responsibility for co-ordinating service provision at District level would be transferred to local authorities. There would be no purpose, therefore, in retaining the posts of District Commissioners and their Deputies. Their residual responsibilities (as magistrates) could be transferred to a separate judicial service.

## **Local Discretion**

One of the main purposes of establishing local authorities with devolved powers would be to allow local discretion in service provision. Discretion, however, should be focused on public services: there would be little merit in allowing each local authority the discretion to determine its own administrative and financial organization and systems. These could be specified to a very high degree, so that there would be a 'template' for establishing each authority. These 'templates' would offer simple but precise models for managing the authority e.g. specifying which payroll and establishment control systems should be used. This approach, of creating organizational 'templates' would be enshrined in the legislation establishing the local authorities.

## **Opportunity for Broader Reform**

The creation of such units offers the opportunity for broader administrative reform as the new authorities would be starting with brand new terms and conditions of employment, and rules of business. For example, the current civil service pension rules are actuarially unsound: there would be no reason to maintain these rules in the new local authorities. Staff transferring from the provincial bureaucracy would have to be given the choice of opting to stay with their existing terms and conditions, but all new staff could be engaged on a new employment contract, which provided – amongst other things – for actuarially sound pensions.

The opportunity would also be taken to create streamlined organizations for the new local authorities. They should not, for example, automatically receive all provincial staff. The local organizations would be designed on the basis of service requirements, and would accept on transfer only those staff who are actually needed. Given that there appears to be little doubt about overstaffing of the provincial bureaucracy, the province would be left with the residue of surplus staff. Various options are available as to how surplus staff would then be dealt with. For example, there could be a gradual process of reducing staff through natural wastage combined with a hiring freeze; or a separations program could be developed, providing staff with cash incentives to leave and to set up their own businesses.

## **Phased Introduction**

There is no need to try to establish a system of local government across the province in one move. Rather, such an idea should be resisted. Local authorities should be established in pilot districts where there is greatest support for the idea, and where experience can be gained. Following implementation of a pilot project, and the resolution of unforeseen problems, the system can then be bedded out around the province.

## **Giving Effect to the New Local Government System**

The Constitution of Pakistan does not provide for a system of local government. There is merit in seeking constitutional change to make such provision; this would undoubtedly be a time-consuming process, but one that the Federal Government at least is considering. The following provisions (some of which are apparently already reflected in the Punjab local government ordinance) might be included in future local government legislation:

- **Legal form.** A local authority would be a body corporate governed by law enacted by the provincial assembly. In this sense, local authorities would be separate legal entities, and could sue and be sued.

- **Powers.** The law would prescribe the powers that the authority could exercise, there being no legal basis to exercise powers not provided in the law (ultra vires concept). For the pilot project, the authority would certainly have powers to provide education and health services, and probably to build and maintain district roads, and to provide refuse collection and waste disposal services. Other minor powers could be considered. The authority would have a general power to enter into contracts, buy property, employ staff, etc.
- **Governance.** A Council comprising locally elected representatives would govern the local authority. The law would prescribe the manner in which the Council would be elected, and its principal standing orders (Rules of Business). In particular, the law could specify that the Council may delegate certain decisions to a committee of the Council, or to a chief officer, but not to an individual elected member of the Council, who would have no standing in law. All delegated decisions would have to be reported to the next full meeting of the Council. It would probably be useful for the law to specify that, as a minimum, the Council establishes an Education Committee, a Health Committee, a Public Works Committee, and a Finance & Management Committee. Committee meetings would be open to the public, except when considering staff or commercial matters (e.g. award of contracts). All Council meetings would be open to the public.
- **Chief officers.** The law would require the Council to appoint a Clerk to the Council (who must have a legal qualification), a chief financial officer, a chief education officer, a chief health services officer, and a chief engineer. All would be required to have appropriate qualifications. The Clerk would have a duty in law to ensure that the Council complied with its governing statutes. Appointing chief officers on fixed term contracts could be considered as a means of giving them an incentive to perform, and also providing them with some professional independence.
- **Staff.** The law would specify the arrangements for establishing the Council's administration by transferring staff from the provincial education, health, and highways departments who work in that district. A limited number of administrative and financial staff would also be transferred from the province according to an assessment of required staff strength. All staff would be in the employment of the Council, and would report to their respective chief officers. They would have a duty to the Council, and to the Council alone. No posts would be reserved to any particular grade. Appointments would be on the basis of qualifications and merit. Consideration should be given to including fixed ratios for the number of staff that could be employed so as to prevent excessive recruitment. There would be no provision for 'work-charge' staff.
- **Responsibilities of the provincial government.** The law would define any responsibilities reserved to the province e.g. in setting standards, monitoring performance, and providing specialist advice and common services. (It would probably be necessary to establish a Ministry of Local Government for this purpose). The post of District Commissioner would be abolished, and no individual provincial staff would have any authority over the Council's administration. The provincial Minister of Local Government would be able to direct the Council only as permitted in law and such provisions should be kept to an absolute minimum.
- **Finance.** Initially, the Council would receive a block grant from the province to fund its operations, plus all revenues currently raised by the District Commissioner would be payable to the Council. It should be possible for the province to earmark elements of the block grant for health and education purposes. Aside from that, the Council would have discretion to allocate funds as it saw fit. In time, there may well be other local sources of finance that the Council could

receive directly. All revenues received would be paid into the Council's general fund, from which all expenses would be met

- **Financial management.** The law would require the chief financial officer to be responsible for collecting revenues, making all payments, and keeping financial accounts in a specified format. The Council would be entitled to borrow money for specified purposes (e.g. capital works), but – initially at least – only from the provincial government. The Council would be required by law to balance its budget, and to produce annual accounts that would be subject to external audit.
- **Service delivery.** The law would require the chief education and health officers to prepare annual plans showing how they intended to provide primary services to all the people of the district, including how the authority intended to meet service standards and targets set by the provincial government. The plans should state how the provision of those services would be inspected and evaluated. The plans would be subject to Council approval, but no other consents would be required. The Council would be free to implement its plans with all the energy and resources at its disposal
- **Accountability.** The Council would be required by law to produce a short annual report to the people of the district, and to the province, setting out its progress in implementing its plans during the year e.g. pupils taught, exam results, incidence of disease etc. There could be 'District meetings' at which members of the Council had to explain and defend their actions, and answer the public's questions.
- **Administration.** The law would set out (in annexes, or in secondary legislation) simple model codes for employment terms and conditions, financial regulations, standing orders, budget, accounts etc.. There would also be a requirement to use standard accounting, payroll, personnel and establishment control packages. In addition to providing standard common systems this would permit cross-checking of payrolls to ensure integrity was maintained.

Some elements of the above scheme are apparently already provided for in Punjab's local government ordinance, and should therefore be more easily put in place.

### Next Steps

If the provincial government is interested in examining how these ideas might be developed, then the logical next step would be for a small technical assistance project to engage an international consulting team to work with a small group of senior provincial officials. The aim of the project would be to assist local officials gain an understanding of what might be possible, and possibly help them create a vision for local government. The project would comprise the following activities:

- The team would initially prepare and deliver a workshop on the subjects of local government; upper tier – lower tier financial relations; education administration where different tiers of government play different roles; etc. Such a workshop should last one day and be delivered in Lahore.
- The team giving the workshop should then spend about a week gathering some more information about provincial services and the existing local authorities in order to increase their understanding of the relevant issues in the Punjab.

- At the end of this week, the team would prepare a second workshop (possibly a couple of days would be needed), at which they would present ideas for developing local government in the Punjab, based on the knowledge and understanding they had acquired. They would also facilitate the local officials in preparing a short paper on a possible outline local government system for the Punjab.