

# Pay and Employment Reform in Developing and Transition Societies

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## Acronyms

<b>CR</b>	compulsory redundancy
<b>CSA</b>	Civil Servants' Association
<b>GDP</b>	gross domestic product
<b>HRM</b>	human resource management
<b>IMF</b>	International Monetary Fund
<b>LIFO</b>	last in, first out
<b>OECD</b>	Organisation for Economic Co-operation and Development
<b>PSC</b>	Public Service Commission
<b>PRP</b>	performance-related pay
<b>RMC</b>	Redeployment Management Committee
<b>UNDP</b>	United Nations Development Programme
<b>USSR</b>	Union of Soviet Socialist Republics
<b>VR</b>	voluntary redundancy

## **Summary/Résumé/Resumen**

### ***Summary***

Pay and employment reform has been a significant phenomenon in developing and transition societies in recent years. The background to reform is presented—in terms of the significance of reform and the (sometimes differing) aims of governments and other actors, including donors—together with the political, economic and social influences on reform. Changes to the number and the remuneration of civil servants are analysed, and the instruments which brought about those changes are reviewed. Comparative material from the reform experience of Organisation for Economic Co-operation and Development (OECD) countries is brought to bear. The experience of reform is discussed in the light of the Copenhagen Declaration and Programme of Action, with a particular emphasis on the impact of reform on workers, including those who are members of disadvantaged groups, and on the steps that governments have taken to alleviate negative impacts. The paper concludes with an overall assessment of the experience of reform.

### ***Résumé***

La réforme des salaires et de l'emploi est, depuis quelques années, un phénomène important dans les pays en développement et les sociétés en transition. L'auteur dépeint la toile de fond sur laquelle s'inscrit la réforme, expliquant l'importance de la réforme et exposant les objectifs (parfois divergents) des gouvernements et d'autres acteurs, notamment des donateurs, ainsi que les influences politiques, économiques et sociales qui se sont fait sentir. Il analyse les changements apportés au nombre et à la rémunération des fonctionnaires et les instruments qui les ont amenés. Il étudie des données comparatives concernant les réformes effectuées par les pays de l'Organisation de coopération et de développement économiques (OCDE). Tout en examinant l'expérience de la réforme à la lumière de la Déclaration de Copenhague et du Programme d'action, l'auteur accorde une attention particulière aux conséquences de la réforme pour les travailleurs, notamment ceux des groupes défavorisés, et aux mesures prises par les gouvernements pour en atténuer les effets négatifs. En conclusion, l'auteur dresse un bilan général de cette expérience de réforme.

### ***Resumen***

La reforma de los salarios y del empleo ha sido un fenómeno importante en las sociedades en transición y en vías de desarrollo en los últimos años. Los antecedentes de la reforma se presentan—en cuanto a la importancia de la reforma y de los objetivos (a veces divergentes) de los gobiernos y de otros actores, incluidos los donantes—junto con las influencias políticas, económicas y sociales de la misma. Se analizan los cambios operados en el número de empleados civiles y en su remuneración, y se estudian los instrumentos que han producido dichos cambios. Se expone para su consideración, material comparativo procedente de la experiencia de la reforma de los países de la Organización de Cooperación y Desarrollo Económico (OCDE). Se debate la experiencia de la reforma a la luz de la Declaración de Copenhague y del Programa de Acción, prestando particular atención a los efectos de la reforma en los trabajadores, incluidos los miembros de grupos marginados, y las medidas adoptadas por los gobiernos para combatir los efectos negativos. El documento concluye con una valoración general de la experiencia de la reforma.

## **Introduction: The Background to Reform**

### ***The structure of the paper***

This paper reviews the experience of pay and employment in developing and transition societies. It begins by presenting the background to reform: its significance, the typical aims that reform programmes espoused and the political, economic and social influences on reform. It reports the effect that reform has had on the size of the public workforce, and the reform methods that produced that effect. It compares the developing and transition country experience with the experience of Organisation for Economic Co-operation and Development (OECD) member countries. Since the paper has been written in preparation for the United Nations General Assembly Special Session, Geneva 2000: Taking Responsibility for Social Development, it looks at reform in the light of the Copenhagen Declaration and Programme of Action, which have implications for the conduct of reform. Finally, an overall assessment is made of the outcomes of reform.

### ***The significance of employment reform***

What has come to be called pay and employment reform, or (somewhat misleadingly) civil service reform, is one of the most important human resource initiatives to be taken by developing country governments in recent years. Reform in this context refers to those measures that governments have taken to alter the employment and payment of their staff, typically within some larger programme of macroeconomic reform. "Reform" is often a euphemism, since in practice the most prominent measure has been job reduction, with which reform has frequently been synonymous (Pronk, 1996).

It is easy to demonstrate the importance of reform. Between 1987 and 1996 the World Bank assisted no fewer than 68 developing and transition countries with reform programmes (Nunberg, 1997), a large figure that excludes countries that have reformed under their own steam. China, which in 1998 embarked on a reform programme designed to cut the number of its civil servants by half – or, in other words, by a projected four million people (The Economist, 1998), is the most dramatic example. There are others, such as Malaysia and South Africa. In 1996, South Africa's Finance Minister announced the government's intention to reduce the number of civil servants by a quarter, from 1.2 million to 900,000.

### ***The aims of reform***

What is the purpose of pay and employment reform? It is surprising how seldom this question is asked. Reforms of pay and employment have often been intimately linked with wider public sector reform. In the case of developing countries, the latter comes under the heading of "structural adjustment" and is sufficiently widely known to not require restating here (see World Bank, 1981; Mosley et al., 1991; Nelson, 1990). In the case of the so-called transition economies of Central and Eastern Europe, it is part and parcel of the transition from a socialist, planned economy to a capitalist, market economy (World Bank, 1996). The influence of public sector reform in industrialized countries, in particular what has come to be called the "New Public Management" (Dunleavy and Hood, 1994; OECD, 1994), is also apparent. These three schools of thought have many common features, leading some to posit a growing globalization

of public management (OECD, 1994). They share an emphasis on a reduced role for the state, a reduction in public expenditure and a concomitant reduction of the public payroll. (For a general discussion of public sector reforms as a whole, see Bangura, 1999.)

#### The Washington model of reform

Thus pay and employment reforms have typically been one component of an economic programme in which the private sector replaces the public sector as the engine of economic growth. In this context the objective of reform might be stated as “*a lean and efficient public service*”. It is easy to see how actions such as reducing the number of civil servants and eliminating ghost workers contribute to this objective.

This, in essence, is what has been labelled the “Washington model” of employment reform (see McCourt, 1998a). In this model, the reduction of the number of civil servants is supposed to be offset by an increase in the wages of those who survive, and particularly of senior and specialist staff. Evidence has been produced (World Bank, 1997) for the existence of a link between the level of wages in the public sector and the incidence of corruption, and some writers (such as Stevens, 1994b) have also argued for steps to “decompress” public wages, so that the income differential between high- and low-paid staff, which has decreased in many countries, would increase again.

#### Other approaches

That is one model of reform. But governments may have other fish to fry where reform is concerned. Griffin (1975:2) commented on agriculture reform that “Rather than criticising governments for failing to attain, or offering advice on how to attain a *non-goal*, it would be instructive if more time were devoted to analysing what governments actually do and why.” The same is true of pay and employment reform. To the extent that reform is internally driven, there are likely to be objectives that differ from those of the Washington model. While Singapore, for instance, has been preoccupied by the need to retain staff in the face of competition from the private sector in a tight labour market, South Africa has emphasized transforming an apartheid bureaucracy, through affirmative action, into a public workforce which represents the ethnic and gender composition of the country’s population. Sri Lanka has been using constitutional reform as a device to solve the problem of Tamil insurgency by co-opting Tamil representatives into the system of governance. Uganda has attempted to free

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