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Managing Government Wage Bill for Sustained Recovery

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ABBREVIATIONS AND ACRONYMS

CPI	Consumer Price Index
CSO	Central Statistical Office
GDP	Gross Domestic Product
GIA	Grant in Aid Institutions
GNU	Government of National Unity
GOZ	Government of Zimbabwe
ILO	International Labor Organization
MOF	Ministry of Finance
PDL	Poverty Datum Line
PSC	Public Service Commission
RBZ	Reserve Bank of Zimbabwe
SSB	Salary Service Bureau

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2. **In terms of current plans the wage bill is clearly on an unsustainable trend. It is critical to reach a sustainable level in the medium-term.** Pending any adjustment, the wage bill would go up to 16 percent of GDP (and 56 percent of estimated revenues) by 2015, even if the economy grew at a healthy clip of real five percent annual. It is essential that the wage bill decline in order to make room for critical non-wage expenditures (capital expenditures, social programs) in a context of lack of access to domestic or international financing for the budget.

3. **The Government understands the need to watch the escalating wage bill carefully and put in place a strategy to steer it to a sustainable level as early as possible**. Historically, Zimbabwe's high wage bill, driven by its political economy, has been the main driver of large fiscal deficits and consequentially of macroeconomic instability. This historical pattern needs to be redressed. The government is also aware that a high wage bill would make the structure of public spending inflexible, thereby coming in the way of using fiscal policy, the only policy instrument available to the government in a dollarized environment, to respond to macroeconomic shocks. And lastly, the government is the dominant employer in the labor market; a high public wage bill resulting from high wage levels and/or relatively high employment could result in high private sector wages, which could erode Zimbabwe's competitiveness.

4. **Historical and international comparisons suggest that an overall wage bill of around 10 percent of GDP should be the medium-term target**. Historically, in the 1990s, the wage bill averaged around 10 percent. International comparison also shows that Zimbabwe's wage bill is currently an outlier as a share of GDP and fiscal revenues. Given that the development approach now adopted by the government calls for much less state administration of the economy than in the 1990s, a 10 percent target would appear appropriate in the medium-term; in longer-term lower ratios would need to be considered.

5. **This note illustrates that Zimbabwe could take immediate steps in 2010 and 2011 that will put it on the path of a sustainable level of wage bill in the medium-term**. For the wage bill-GDP ratio to decline, wage bill would need to grow slower than

nominal GDP. This would involve adjusting both the average wage and employment levels – the two determinants of the wage bill – in contrast to the current focus on containing wages alone. In fact, adjustment of employment levels is likely to play a bigger role out of the above two variables. Wage and employment measures during 2010-11 would be preferable because delay would make adjustment that much more difficult to achieve and would push back sustained recovery further.

Recommended short-term measures and a medium-term approach to managing the wage bill

6. **The focus of efforts to contain the wage bill should be on short-term measures because designing and implementing a medium-term approach to wage bill management would be too challenging in view of prevailing economic uncertainty and complex political reality**. The economic uncertainty stems from the timing and volume of external budget support and the fragile nature of economic recovery. Expectations of civil servants have been raised on the news of diamond revenues, which have not even started accruing to the treasury and whose steady state volume is unknown. The political reality is that different parts of the government do not present a unified view on wages and more broadly on economic policies. The policy uncertainty feeds economic uncertainty.

7. **This note recommends the following short-term measures**:

a) The Government should attempt to forge a political consensus in favor of no wage increases in 2010 beyond those already announced, on grounds of affordability. For 2011, average wage increase could be limited to CPI inflation during 2010, which would keep average real wage intact.

b) The findings of the ongoing Payroll and Skills Audit could be used to eliminate irregular salaries. As a first step, the Government could consider stopping salaries for all the staff that did not show up for enumeration, to identify those who are irregularly receiving salaries from those who could not be present due to genuine reasons.

c) In 2011, the range of wages could be expanded, while keeping the average real wage constant with a view to maintain competitiveness of public wages at higher skill-levels.

d) The planned hiring of nearly 18,000 additional staff (10 percent of the employment) during the rest of 2010 should be revisited. Such a large average increase in civil service strength is hard to justify on any grounds. The objective of new hiring should only be to fill critical employment gaps in areas of public service delivery.

e) The current system of wage negotiations can be improved to avoid the potential for misunderstandings and strikes. It would be useful to:

- Carryout the negotiations, well before the Annual Budget is formulated, so that wage increases are not presented to the unions as decisions already made. One of the main complaints of the unions has been that they were not taken into confidence when the 2010 budget was being formulated.

- The analytical basis of the discussions could be improved. A further analysis of the poverty datum line and its relation to the cost of living would be useful. Second a better analysis of the wage movements in the private sector allowing comparison while accounting for worker characteristics would be helpful.

8. **This note recommends putting in place the following wage and employment measures towards a medium-term approach to controlling the wage bill:**

a) The Government could continue with real average wage restraint even after 2011. However, real average wage increases would be possible if GDP growth is very good or if there is a significant reduction in employment. Benchmark thresholds could be adopted for GDP growth and employment reduction as part of a wage bill strategy to guide real wage increases.

b) Within this overall wage framework described above, the Government could continue awarding higher wage increases to senior grades with a view to maintain competitiveness with the private sector. To determine if the current level of salaries is competitive the Government could put in place a system of tracking the attrition in senior grades over time as well as track the number and quality of applicants for senior vacant positions.

c) The Government should recognize that the current health sector salary top-up scheme is at best a temporary solution to the problem of staff retention. It is therefore necessary to prepare for an eventual exit strategy and estimate the budgetary implications of absorbing the higher health sector salaries in the budget. Meanwhile, the Government could work towards obtaining a multiyear commitment from donors to finance the scheme.

d) Once the payroll is cleaned of irregular salaries, the government would need to put in place administrative measures that allow regular updating of the payroll, while maintaining its integrity. Maintaining the establishment register is a labor-intensive activity but it is an effective tool. The Government should consider resuscitating the centrality of establishment register for managing civil service employment. Following up on the findings of the Comptroller and Auditor General there is a need ensure that hiring is only carried out against established posts. The breakdown of this discipline was responsible for the growth in staff during 2007-2009.

e) At an appropriate time the government should consider examining if the size and sectoral composition of civil service employment is in line with the changing role of the Government. The findings of the Payroll and Skills Audit and the planned Public Administration Review would provide a useful input for this exercise.

f) Based on the examination of civil service described above, and as part of its medium-term wage bill strategy after 2011, the government could possibly target a steady decline in the size of the civil service over the medium-term. A detailed examination of the large number of contract workers (about 10 percent of the total staff) currently employed in the Government, and natural attrition, would provide a starting point to the government to change the size and composition of the civil service.

g) The government should consider setting up a high level committee made up of officials from the Ministry of Finance, the Ministry of Public Service and the Public Service Commission to improve the formulation, coordination and implementation of the employment and wage policies.

9. **The program of short and medium term measures described above needs to be supported by analytical work in the following areas to translate broad objectives into specific actions. Some of this work could be carried out in the follow up to the Bank's ongoing payroll and skills audit and the proposed Public Administration Review.**

- **Options for controlling establishment and staffing:** There is need to understand the current regulations governing the creation and filling of established posts. A better understanding of the breakdown in establishment control would help the Government design procedures to avoid this in the future.

- **Contract workers**: As discussed above the presence of large number of contract workers could present an opportunity for rationalization of employment within the Government. It would be important to understand the number and terms under which contract workers are hired, the importance of their work to the mission of the ministry which employs them and the existing financial controls to ensure that there is no fraud of other governance problems.

- **Human resource processes in grant-in-aided institutions**: As discussed above the GIA institutions employ nearly 17 percent of the civil service. A better understanding of how posts are established and filled, the revenue base and existing financial controls on the wage bill of the GIA institutions is needed as a part of the overall rationalization of the government employment.

- **Improving the analytical basis for wage setting**: This work would involve tracking private sector wages and relating them to civil service wages for similar skills, analysis of cost of living using household data, and tracking exits from the civil service (what kind of professionals leave the service, where do they go and what kind of salaries they get).

I. Introduction

1. **The Government of Zimbabwe (GOZ) faces difficult choices in managing the size of its civil service wage bill relative to the budget**. GDP and domestic fiscal resources are at low levels after a decade-long continuous decline, and are expected to recover and stabilize only in the medium-term. Starting from a low base, the Government has had to increase public wages upfront, and is planning to hire an additional ten percent staff in 2010, resulting in a relatively high share of wage bill that is projected to be around 13 percent of GDP (and 45% of revenues- Table 1). There are strong pressures for raising wages further. Arguments cited are that wages are still low in relation to living costs as well as private sector wages. The high share of wage bill in the budget is already cutting into budget allocations to non-wage operational expenditures in social sectors as well as critical capital expenditures. It is necessary for sustained recovery of growth and macroeconomic stability that the wage bill share decline in order to make room for critical non-wage expenditures in a context of lack of access to domestic or international financing for the budget.

Table 1: Wage Bill and Employment, 2009-2010.

	No of Employees ('000)		**Wage Bill (US$ million)**	
	2009 Actual	2010 Estimate	2009 Actual	2010 Estimate
Civil Servants	182147	200389	277	456
Uniformed personnel (Estimate)	42218	46538	99	181
Total Government Employees	**224365**	**246927**	**376**	**637**
Staff employed in Grant in Aid (GIA) Institutions.	31038	33322	43	92
Total Employees (Including GIA Staff)	**255403**	**280249**	**419**	**729**
Pension Payments			**98**	**188**
Total Employment Costs			**517**	**917**
Memorandum Items				
Wage Bill as a % of GDP			9.1	13.1
Wage Bill as a % of Revenues			44.9	44.7

Source: MOF, Auditor General, SSB

2. **In terms of current plans the wage bill is clearly on a fiscally unsustainable trend.** The current thinking in the Government appears to be that higher GDP growth in future will allow the wage bill share in the budget to decline. But as shown later in this note, pending any adjustment, the wage bill would go up to 16 percent of GDP (and 56 percent of estimated revenues) by 2015, even if the economy grew at a healthy clip of

real five percent annual.[1] An adjustment should preferably be achieved sooner rather than later because given the past history of high wage bills in Zimbabwe, a delay would make adjustment that much more difficult to achieve and would push back the sustained recovery further.

3. **The Government needs to identify measures that can be taken in the short-term to contain the growth of wage bill and put it on a path to sustainable medium-term level**. Such a strategy would work towards adjusting both the average wage and employment levels – the two determinants of the wage bill -- in contrast to the current focus on wage levels alone. As of today, there is an absence of a systematic analysis of the public wage and employment levels in Zimbabwe or a thinking on how these variables should evolve in the future, which could guide the annual budget formulation process.

4. **Keeping the economic uncertainty and political realities in mind, this note highlights options for adjusting wage and employment levels in the Central Government during 2010 and 2011**. In addition, it suggests a medium-term approach to controlling the wage bill and illustrates the possibility of reaching a sustainable level through plausible wage and employment adjustments. Policy options behind medium-term approach are not fleshed out and would be the subject of future work such as the planned Public Administration Review (PAR) and similar work, following the completion of Payroll and Skills Audit.

5. **The note covers the staff employed by the Central Government, including uniformed services and staff employed by the Grant-in-Aided (GIA) institutions**. The staff employed by local governments and public enterprises are excluded because direct transfers from the central budget to local government and public enterprises are rather small. (Annex A has an outline of the institutional aspects of civil service in Zimbabwe). Given the paucity of information, the note does not make any recommendations specific to the GIA wage bill.

II. Macroeconomic Context of the Public Wage Bill

6. **Zimbabwe suffered a continuous economic decline over the ten-year period 1999-2008.** GDP fell in real terms by almost 48 percent during this period. Concurrently, there was a progressive acceleration in inflation, which turned into hyperinflation in 2006 and reached almost 500 billion percent in 2008. Hyperinflation ultimately culminated in the collapse of the Zimbabwe dollar towards the end of 2008. Central Government's revenue and expenditure also collapsed in real terms with the onset of hyperinflation. Budget revenue fell from almost 22 percent of GDP in 2005 to 4 percent of GDP in 2008. And expenditure shrank from about 30 percent of GDP in 2005 to 3 percent of GDP in 2008, causing an almost complete collapse in the provision of

[1] A five percent growth rate is hypothetical, assumed to make the point that economic growth alone will not solve the wage bill problem.

public services (Table 2).[2] During the same period, the Government progressively lost access to external aid channeled through the central budget.

Table 2: Major Budgetary Trends, 1995-2010 (Percent of GDP unless otherwise specified).

	1995	1998	Avg. 1999-2004	2005	2006	2007	2008	2009	2010 Budget
Total Tax and Non Tax Revenue	**24.1**	**30.1**	**24.4**	**21.6**	**12.3**	**5.0**	**3.7**	**20.2**	**29.3**
Total Expenditure and Net Lending Cash Basis*	27.2	29.2	27.2	30.5	13.8	6.5	3.4	19.8	32.0
Current Expenditure	28.8	33.7	29.3	29.9	13.6	7.6	6.8	22.8	26.9
Employment costs	11.4	15.1	13.7	15.8	6.0	2.5	1.7	11.3	17.9
Wages & Salaries	10.0	13.2	11.8	13.0	5.0	2.2	1.5	9.1	13.1
Pensions	1.4	1.9	1.9	2.8	1.0	0.3	0.2	2.2	4.8
Non-Wage Goods & Services	5.8	4.5	5.8	4.4	1.6	0.7	0.9	5.6	5.8
Interest Paid	7.5	9.2	5.9	2.7	1.5	0.1	0.0	0.4	0.1
Grants & Transfers	5.3	6.7	4.9	4.6	1.7	1.2	0.3	2.7	1.7
Capital Expenditure	3.0	2.9	2.3	2.6	2.9	1.7	0.4	1.0	5.3
Net Lending	3.0	0.0	0.7	0.4	0.1	0.2	0.1	0.0	1.8
Memorandum items									
Wages and Salaries as a % of Tax and Non Tax Revenues	*41.5*	*43.9*	*48.4*	*60.2*	*40.7*	*44.0*	*40.5*	*44.9*	*44.7*
Wages and Salaries as a % of Total Expenditures	*36.8*	*45.2*	*43.4*	*42.6*	*36.2*	*33.8*	*44.1*	*46.0*	*40.9*
Wages and Salaries as a % of Non-Interest Current Expenditures	*46.9*	*53.8*	*49.7*	*47.8*	*41.4*	*29.3*	*22.1*	*40.6*	*48.8*
Expenditures on Goods and Services as a % of Wage and Salary Expenditures	*58.0*	*34.1*	*49.2*	*33.8*	*32.0*	*31.8*	*60.0*	*61.5*	*44.3*

Source: IMF Staff Reports, MOF, Bank Staff Estimates

*The difference between the accrual and cash basis is accounted for by (i) interest arrears, (ii) current expenditure

7. **Civil servants' salaries declined sharply in real terms over the decade as a result of the economic crisis**. Over 2000-2005, civil servants' salaries declined in real terms by nearly 36 percent.[3] After 2005, as inflation accelerated, nominal salary increases were simply not able to keep up with inflation. As a result, civil servants' salaries continued to fall in real terms until they completely collapsed in 2008 to US$ 2-3 a month.

[2] Excluding quasi-fiscal activities of the Reserve Bank of Zimbabwe

[3] See Kenyenze (2009).

8. **Since 2009, Zimbabwe's economy has started to recover and with it revenues and expenditures**. Real GDP grew by about 5.7 percent in 2009 and is expected to continue recovering during 2010. With the adoption of the multicurrency regime in early 2009, prices have stabilized and US dollar-based CPI increased by 6.5 percent in 2009; it is projected to increase by about 5 percent in 2010. Starting from a small base of about $5 million in January 2009, total revenues are expected to average $120 million per month in 2010.

9. **The absence of domestic currency and the current lack of access to borrowing impose a hard budget constraint on the government expenditure** since fiscal deficits cannot be financed through monetization or debt. The government has responded to the situation by tightening fiscal discipline; it has adopted a cash budgeting system that limits monthly expenditures to available cash resources. RBZ's quasi-fiscal activities have been largely wound down. In the current situation, the scope for discretionary monetary policy is also limited and the government cannot inflate away real wages, as it did in the past.

10. **Zimbabwe's wage bill has now reached a historical peak as a share of available public resources.** Zimbabwe's total wage bill[4] was about 10 percent of GDP in the 1990s, and grew to about 12-13 percent of GDP in the first half of the 2000s (Table 2). This level of wage bill was already high and contributed significantly to Zimbabwe's fiscal problems. With the onset of hyperinflation however, the wage bill as a share of GDP declined sharply and steadily, ending at 1.5 percent of GDP in 2008. While real wages were declining throughout this period of economic contraction (2004-2008), civil service employment continued to grow[5]. Consequently with a move to the dollar based salaries, salary adjustments during 2009, and inherited high levels of employment, the wage bill recovered all the lost ground in 2009. By the end of 2009, the wage bill (excluding pensions)[6] as a share of GDP was back to the pre-crisis levels.

11. **If the current hiring plans and wages increases are implemented, there will be a significant increase in the wage bill in 2010.** In 2010 the Government plans to hire about 18,000 staff amounting to almost 10 percent of the 2009 civil service workforce. In parallel, a 30 percent wage increase has already been granted in January 2010. Consequently, the wage bill is projected to increase by 4 percentage points of GDP (Table 2) and will remain high at 45 percent of revenues despite a 50 percent increase in

[4] The wage bill covers civil servants employed in the central Government, wage bill of the uniformed forces (army and police) and wages of employees of GIA institutions. GIA institutions are autonomous institutions and their employees are paid by budgetary transfers and hence form part of the total wage bill of the Government.

[5] The crash in salaries to some extent masked the fiscal impact of the continued growth in employment.

[6] The total employment costs as reported in the Budget cover: (i) wages and allowances of all civil servants paid through the Salary Service Bureau; (ii) wages and allowances of uniformed services (Army and Police); (iii) wages of contract workers that are not paid through the Salary Service Bureau; (iv) wages paid to the GIA workers through transfers; and (IV) pensions.

revenues as a share of GDP in 2010.[7]In addition to wages and allowances, the Government is also expecting to pay higher pension payments in 2010 amounting to an additional 2.6 percentage points of GDP increasing the total employment cost to almost 18 percent of GDP and 61 percent of revenues.

12. **The GoZ understands the need to watch the escalating wage bill carefully and put in place a strategy to steer it to a sustainable level as early as possible.** There are several reasons for concern. First, in the current situation, the need for capital spending is high. To the extent a high wage bill crowds out spending on emergency rehabilitation of infrastructure, economic recovery will remain fragile.[8] Second, historically, Zimbabwe's high wage bill has been driven by its political economy. And the wage bill has been the main driver of large fiscal deficits. These large deficits, in turn, have been the source of macroeconomic instability. The political economy has not changed. Therefore, delays in adjusting the wage bill will make it that much harder to adjust later. Third, wages and salaries are a part of non-discretionary spending that adjusts only slowly over time; a high wage bill, therefore, renders public spending inflexible overall. An inflexible public spending structure would come in the way of using fiscal policy, the only instrument available to the government in a dollarized environment, to respond to macroeconomic shocks. And lastly, the government is the dominant employer in the labor market; a high public wage bill resulting from high wage levels and/or relatively high employment could result in high private sector wages, which could erode Zimbabwe's competitiveness.

13. **What would be an appropriate level of wage bill for Zimbabwe to target in the near future**? This question does not lend itself to an easy answer. Fundamentally, the size of the wage bill represents the extent to which government administers the economy and the level of public services directly provided by the government, of which education and health represent a very high proportion. And the size of education and health services would, in turn, depend upon the age profile of the population. Assuming that education and health services provided by the government revert back to their pre-crisis level, and given that the development approach now adopted by the government (in STERP) calls for much less state administration of the economy than before, the public wage bill should be a smaller part of the national income than in the pre-crisis period. Cross-country comparisons can also be used to check if Zimbabwe is not an outlier.

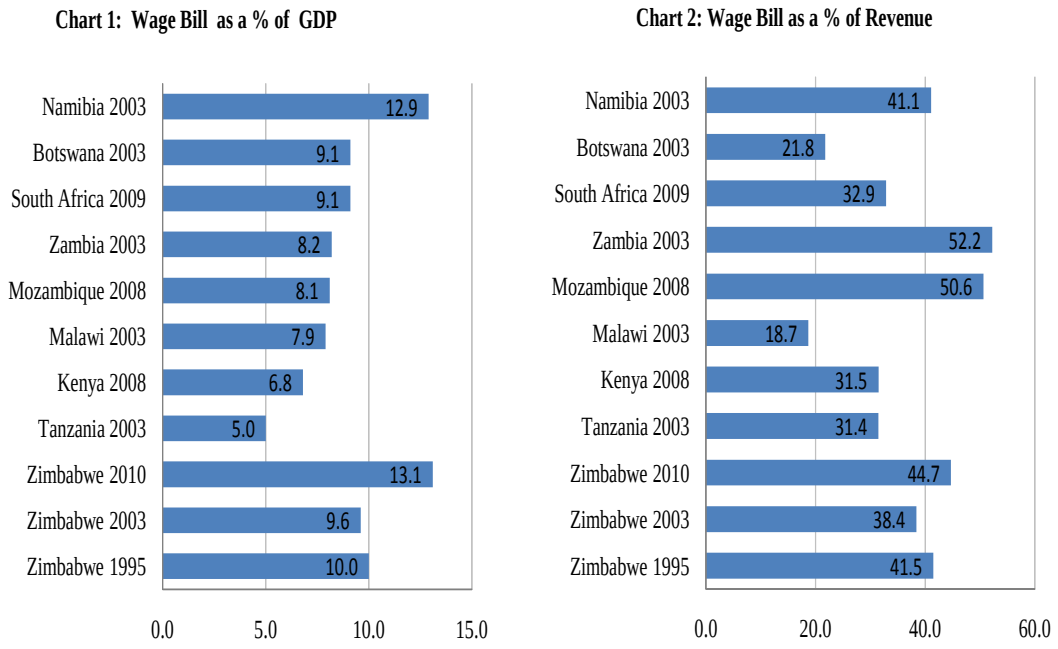
14. **Historical and international comparisons suggest that an overall wage bill of around 10 percent of GDP could be an appropriate medium-term target.** International comparison shows that Zimbabwe's wage bill is highest among its neighbors as a share of GDP and tax and non-tax revenues (Figures 1 and 2). In other countries in the region, the wage bill rarely exceeds 9 percent of GDP. As a share of

[7] These differences would be less pronounced if we take into consideration the fact that wage scales were revised by on average 50 percent in mid 2009 (Table 3). The 2009 wage bill annualized at the revised wage rates would be about 11.2 percent of GDP.

[8] In 2010, Zimbabwe has drawn upon the SDR allocation to finance capital expenditure. Bur SDRs may not be available in the future; moreover their use creates external liabilities which a debt-distressed Zimbabwe is not in a position to expand further`.

revenues, the wage bill in Zimbabwe is also a regional outlier: in the majority of cases the civil service salaries do not exceed 40 percent of government revenues. It should be noted that in comparable countries with a relatively high wage bill, external grants can finance some of other non-wage discretionary expenditures – an option not open to Zimbabwe at present.

Figure 1 and 2: Wage Bill as a percent of GDP and Revenues.



III. Civil Service Wages

15. **Public sector salaries recovered quickly in 2009 with economic and revenue growth.** Following the adoption of the multicurrency system, beginning in February 2009, civil servants were paid a flat monthly allowance of US$ 100 per month. At the time of the mid-term budget review in July 2009, salaries were adjusted by 50 percent on average, doubling the maximum salary and introducing a variation across grades (Table 3). A further increase in salaries was awarded beginning in January 2010 as a part of the 2010 budget. As result of these adjustments, average salary in 2010 is about 30-35 percent higher than the salary at the end of 2009, and about 60 percent higher than the average wage in 2009.

Table 3: Salary Adjustment during 2009-2010.

Grade	% of Staff In Grade	Monthly Wage Feb-June	Monthly Wage July-Dec	Monthly Wage Jan 2010
A	3.7	100	100	131
B	17.6	100	120	159
C	13.6	100	130	186
D	60.8	100	165	222
E	4.0	100	185	254
F	0.3	100	200	274
Weighted Average*		**100**	**151**	**204**

Source: SSB. For civil servants only.
*All values are for the top of the scale. Salary for Grade F is an estimate

Box 1: Comparing Wages in Public and Private Sector

While setting public sector wages, prevailing wages in the private sector for similar level and quality of work are often kept in mind. Using private sector for comparison would be both equitable and efficient. It would be equitable because the government will pay its employees what their private sector equivalents are paid. It would be efficient because it would be unnecessary to pay public employees more than the private sector in order to retain their services. The prevailing wage principle, therefore, ensures an efficient use of public resources.

While simple in concept, the principle is however difficult to apply in practice. Often there could be several public sector jobs for which there is no exact equivalent in the private sector. Therefore deciding on what jobs to compare is not straightforward. Even where jobs are comparable, simple comparison of mean or median wages between private and public sector could lead to misleading conclusions. For a meaningful comparison, total compensation in the public sector which includes pension rights, fringe benefits, working conditions including effort level etc. should be included besides just the wage. Public sector employees also receive non-financial benefits such as greater due process protections than their private sector counterparts resulting in higher job security. And finally, range of wages in the private sector is often more than in the public sector, making comparison difficult.

Setting of public wages by comparing with the private sector is an even more difficult issue in Zimbabwe currently**.** The main reason is that labor market in the private sector is still in transition from a chronic high inflation situation to a stable price situation. The real economy is in the process of recovery with implications that labor demand could be shifting. And finally, there is a large volume of informal activity for which no information is available. These factors suggest that private sector wages are likely not at their equilibrium level.

16. **Generally public sector wages need to be set at sufficiently competitive levels to avoid the potential loss of qualified civil servants to the private sector but it is difficult to apply this principle**. Table 4 lists negotiated salaries in the private sector including those in the civil service in 2009. Based on a cursory comparison, with the exception of traditional low-skilled industries such as clothing or food processing, the minimum wage paid in the public sector ($131 per month) is lower than those paid in private sector jobs or parastatals (public sector enterprises). The civil service salary range is also much narrower than that in other economic sectors. However, as described in Box 1, such a comparison may not be meaningful as it leaves out several financial and non-financial components of public wages.

Table 4: Wages for Minimum and Maximum Grades by Industry 2009 ($ per Month).

Sector	Grade	Feb-09	Dec-09
Civil Service	A	100	131
	B	100	159
	C	100	186
	D	100	222
	E	100	254
	F	100	274
Tobacco	1	150	150
	8	216	216
Food Processing	1	65	125
	11	104	201
Clothing	A	20	80
	XV	20	313
Zimpost	15	150	150
	5	350	350
Banking	Low	273	273
	DPV	533	533
Plastics Manufacturing	1	90	144
	11	422	588

Source: LEDRIZ Database

17. **Given the fiscal constraint, Zimbabwe is not in a position to pay full parity with the private sector**. Due to reasons cited above, public sector can rarely afford to ensure full parity with the private sector in any case. Zimbabwe is an extreme example where the fiscal constraint is binding and public sector wage levels would need to be determined keeping in mind affordability.

18. **While not seeking parity with the private sector, the government would still need to keep salaries attractive at the higher skill-end.** Low wages had forced skilled civil servants in the past to leave the service. With the wage increases awarded in mid-2009 and 2010, and given the large scale open employment in the economy, there is expected to be less incentive for civil servants to join the informal economy or leave the civil service. Still, higher growth and better job situation in the private sector could create incentives for skilled civil servants to look for jobs elsewhere.

19. **Therefore decompression of the salary structure, which narrows the salary differential with the private sector at higher grades, could be an important part of Zimbabwe's wage setting strategy**. In order to inform the decompression process, the government could consider tracking how many civil servants are leaving their jobs in senior grades, and the number and quality of applicants to advertized vacancies at senior grades.

20. **Special salary top-ups, as in the health sector (Box 2) should be pursued only as short-term options**. While the salary top ups can work as a temporary solution, they create their own problems of resentment and medium term fiscal sustainability. Under

the present design, salary top ups are only offered to health sector workers where the Government faces particularly severe problems of staff retention and has a built in provision for reduction in dependence on donor resources as civil servants salaries are increased.

Box 2: Salary Supplements in the Health Sector

For health workers, where the problem of hiring and retaining qualified staff is particularly acute, the Government has relied on special measures including donor-financed salary supplements. To build up staff strength again, the Government made it easy for health workers to reenter the civil service.[1] Previously, in 2008, the Government introduced a donor financed salary supplement scheme to stop the brain drain. This scheme was highly successful, and close to 100 percent of health workers returned to work when this scheme went into operation (Table A).[1] The objective of the salary supplement scheme is to provide the framework for a harmonized national retention allowance, which enables all health sector staff to come to work. The scheme covers only staffs that are regularly in post (not to temporary staff). The total cost of the retention scheme in 2009 is about $ 20 million per year. The main features of this scheme are as follows:

- All health workers who regularly attend their work are covered. This also includes support staff.
- The level of retention allowance is set on an understanding that (i) since early 2000s, in Zimbabwe, clinically skilled staff got a premium of 70 percent over salaries of other civil servants, and (ii) the amount of donor resources the Government was able to raise for this scheme.
- Scheme is fully financed by donor grant resources (Global Fund, European Commission, and other donors), and has no implications for the budget.
- The scheme has no explicit built-in exit policy, which reduces the retention allowance as Government salaries are increased. However, as Government salaries increased over 2009, the retention allowance was reduced for lower grades and currently the retention allowance is only available for Grade C5 and above.[1]

Table A: Salary Supplements for Health Professionals ($ per Month)

Grade	Salary Supplement	Government Salary	Total Salary
F	550	200	750
E5	400	185	585
E1	220	185	405
D5	180	165	345
D1	110	165	275
C5	90	130	220
C1	0	130	130
B	0	120	120
A	0	100	100

Source: MOHCW

21. **There are some issues with the current process of wage revision as well, which need to be addressed.** The civil servants unions have generally complained in wage negotiations that the Government does not share all the facts with them, and that it does not take them into confidence regarding the overall fiscal sustainability issues. For instance, the negotiations this year were carried out after the budget was formulated and presented to the Parliament. The analytical basis for these negotiations has also been weak; consequently it was not possible to carry out the discussions on a common set of

parameters. These issues can be addressed by adopting a time table for negotiations as part of the budget formulation process and also collecting and sharing more of commonly agreed information before the negotiations.[9]

IV. Civil Service Employment

22. **Zimbabwe has a long tradition of maintaining an Establishment Register used to control the size of civil service and implicitly lay down the government's employment policy.** Traditionally, any post to be created in a line ministry needs to be approved by the Public Service Commission and the Ministry of Finance. Once a position is approved, and included in the establishment register, the line ministry and the Public Service Commission can hire staff against the established position, and the information is passed on to the Salary Service Bureau for payment of salaries and allowances. The "established posts" therefore can be thought of as an estimate of staff demanded for effectively delivering government services.

23. **Despite a shrinking economy, established posts have been increasing at a sustained pace since 2004.** Between 2004 and 2009, established posts increased by almost 19 percent or about 3.5 percent per year (Table 5). The increase in established posts was concentrated in the Ministry of Agriculture (14 percent annual increase), Higher Education (4 percent annual increase) and the Ministry of Youth Development, Gender and Employment Creation (26 percent annual increase). In our discussions, the Government pointed out that a shrinking economy does not automatically reduce the demand for Government services in health and education where employment needs to increase. It is nevertheless not easy to identify the drivers of the increase in some Ministries where employment increased. For instance behind the large growth in the Ministry of Youth, it appears that political reasons were at play beyond just economic. In addition, between 2004 and 2009, nearly 14 additional Ministries were created. Some of these were the result of splitting up existing Ministries (Agriculture into Agriculture and Lands), while some like the Regional Integration Ministry were entirely new. Increase in the number of Ministries also contributed to the increase in the number of established posts.

24. **The currently established posts probably overestimate the number of civil servants demanded to provide the needed public services today**. More analysis would be needed to say with greater confidence whether the civil service is oversized. But there is *prima facie* evidence that it could be so. For example, the larger increase in establishment posts was in the Ministries that are not central to public service delivery.

[9] In the past, Poverty Datum Line (PDL) estimated by the Central Statistical Office (CSO) has been an important element of discussions with civil service unions. However there are questions on the extent to which the PDL is a true measure of the cost of living for the poor or if it should even be a basis for negotiations. In addition more information could be collected on private and public sector comparison. Preferably an approach that compares payment for worker characteristics such as education, experience, etc would be used rather than comparing jobs. However such a comparison needs a cross-section data set with wages and worker characteristics covering both public and private sectors not currently available.

Moreover, the norms for determining established posts date from a time when the Zimbabwean economy was intensively administered and was nearly twice the size it is today. These norms are likely to have led to an overestimation of needed staff.

Table 5: Established Posts and Staff in Position*.

Year	Established Posts	Staff in Position				
		Total	As a % of Established Posts	Education and Higher Education	Health	Education and Health as % of total
2004	176,506	161878	91.7	114165	23390	85.0
2005	189,392	159558	84.2	108865	23860	83.2
2006	193386	163974	84.8	109803	26375	83.0
2007	193386	178229	92.2	118970	27596	82.2
2008	201220	180188	89.5	117313	26342	79.7
2009	209371	182147	87.0	115655	25088	77.3
2010 (Budget)		200389				

Source: MOF, SSB
* Excludes military and staff of GIA institutions

25. **International comparison also signals that Zimbabwe's overall establishment could be oversized**. If all the planned hiring in 2010 is actually carried out, Zimbabwe would employ about 15 civil servants to serve a population of 1,000 persons. When compared with countries with similar demographics and development approach, like Kenya, Malawi, Mozambique, Tanzania or Zambia, the proportion of civil servants as a share of the population in Zimbabwe is much higher (Figure 3).[10] Also considering that public expenditures (and by implication public employment) tend to rise with incomes, Zimbabwe is a bit of an outlier compared to these countries, all of which have a higher per capita than Zimbabwe. It is true that the number of civil servants serving the population in Zimbabwe is less than its richer immediate neighbors like South Africa, Namibia, and Botswana. But this comparison is not relevant given the differences in the size and nature of the economy and the degree of development.

26. **The years between 2004 and 2009 also saw a high staff turnover**. The SSB data on new appointments and staff in position indicates that between 2004 and 2009 nearly 64,000 civil servants, about 40 percent of the total civil servants in 2004, left the civil service. At the same time, nearly 80,000 civil servants, about 50 percent of the total civil servants in 2004, were newly appointed (Table 6).

[10] In Kenya, Zambia, Mozambique and Tanzania the share of population less than 14 year old – which is a key determinant of the demand for primary health and basic education services is around 40 percent, which is similar to Zimbabwe's.

Figure 3: Number of Civil Servants Per Thousand Population.

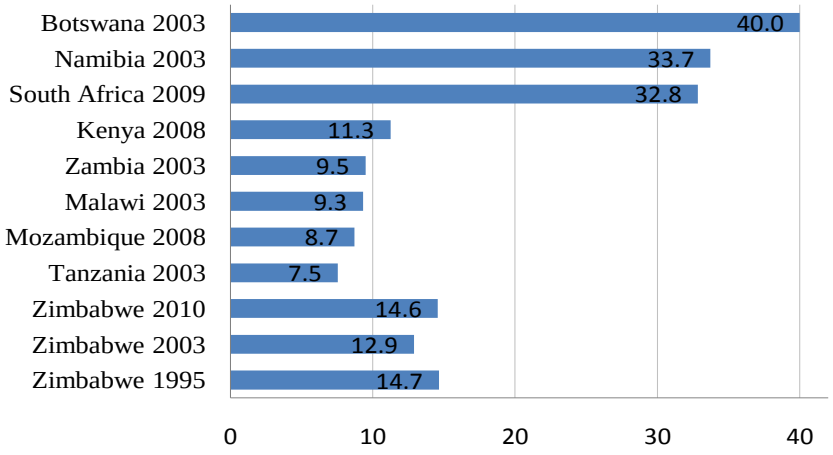


Table 6: Turnover in the Civil Service, 2004-2010.

Year	Total Employment	Persons Leaving	Persons Hired
2004	161878		
2005	159558	11578	9258
2006	163974	4978	9394
2007	178229	249	14006
2008	180188	19523	21482
2009	182147	28503	30462
2010 (Budget)	200389		

Source: MOF, SSB

27. **As a result of the fast pace of new hiring, and despite the declining real wages in the government, actual civil service employment has been growing at a steady pace.** Between 2006 and 2009, staff in position grew by more than 4,500 workers (2.4 percent of the non-GIA non-uniform workforce) on average every year to reach a total of more than 182,000 workers at the end of 2009 (Table 6). This steady increase in the workforce was the result of the steady expansion in the number of established posts as discussed above. In addition there was a breakdown in the discipline of hiring only against the established posts. As pointed out in the 2009 report of the Comptroller and Auditor General, nearly 10,300 employees were found to be hired without the necessary treasury and establishment provisions.[11]

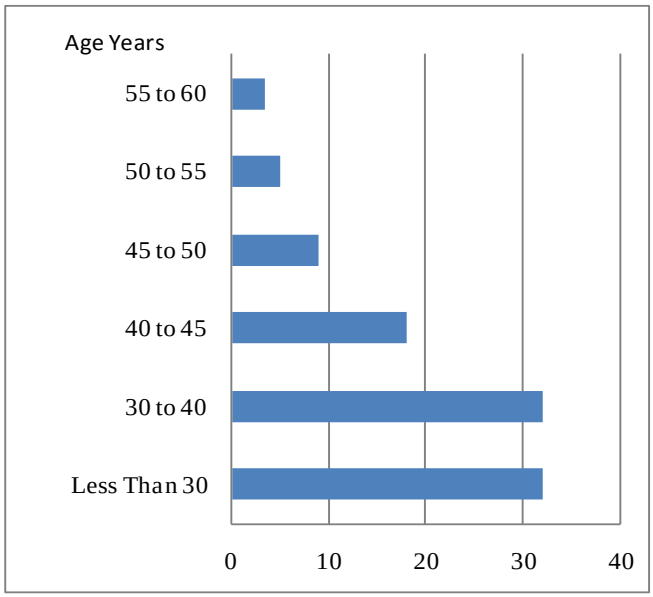
[11] This violates the Public Service Regulation 2000. See the report of the Comptroller and Auditor (General 2009).

28. **The high staff turnover and the sectoral and skill patterns of new hiring had two implications that are important for the future management of the civil service**.

a) One, sectoral imbalances developed in terms of staffing patterns due to differential rates across ministries at which they lost staff and at which they hired new staff. Some ministries appear overstaffed today while key positions remain unfilled in others. For example, despite the overall increase in civil service employment, education and health sectors actually lost staff on a net basis. The number of teachers declined by more than 3,300 and that in health by around 2,500, between 2007 and 2009. There was on the other hand sharp increase in the staff in the Ministry of Youth, as mentioned earlier.

b) Two, the overall level of skills in the government could have eroded during these years. As wages declined, relatively more experienced staff left the service since they were more likely to find jobs outside the Government. They were replaced by staff that were younger, and therefore less experienced, and were willing to work for lower wages. Consequently Zimbabwe now has a relatively young civil service with lower level of experience than before. This is reflected in the age structure of the civil service, which shows that in 2009 nearly 64 percent of the civil servants were less than 40 years old (Figure 4)[12].

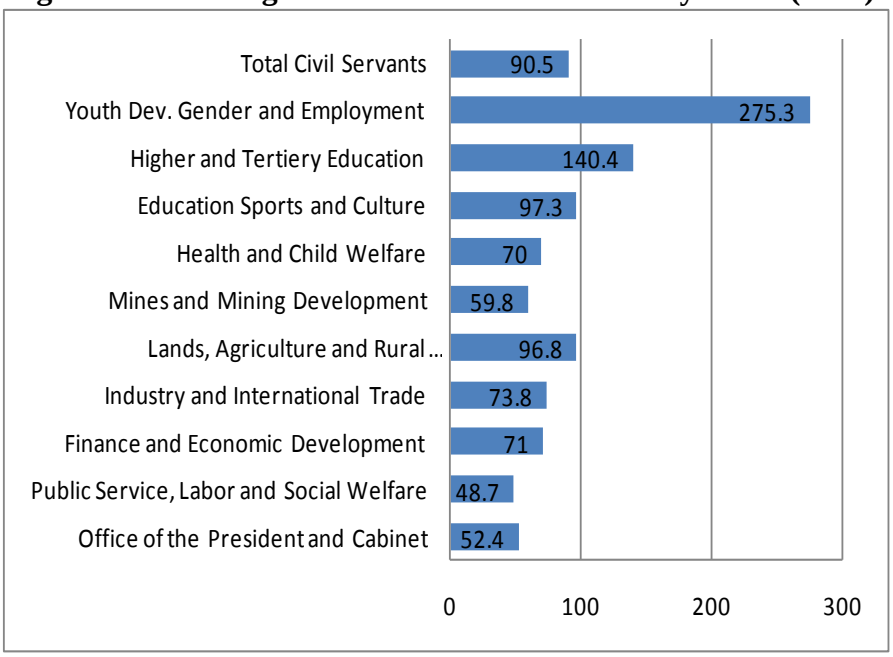
Figure 4: Age Profile of the Civil Service (Percentage by Age), 2009.



[12] The erosion of experience is also supported by anecdotal evidence across the civil service. For instance, in the Ministry of Finance about two-thirds of the budget officers are less than a year in service and most are straight out of university. On the positive side, the relative young age of the civil service offers opportunities for training and making the civil service more dynamic.

29. **Due to sectoral imbalances, the Government could be in a much weaker position to effectively deliver public services today than it was ten years back despite the growth in establishment.** For example, staff in position in the Ministry of Youth and Indigenization, and the Ministry of Higher Education, which together accounted for 6 percent of employment in 2009, exceeds the established number of posts by more than 175 percent and 40 percent respectively (Figure 5). In the Ministry of Education, Sports and Culture, which accounts for about 60 percent of total employment, nearly all the established position are filled but the Ministry employs a large number of student teachers who are not well-skilled. At the same time, in several small but key ministries, such as the Ministry of Finance, the Ministry of Public Service, and the Ministry of Mines and Mining Development, the staffing is well below the established posts. The most serious problem is, however, in the Ministry of Health and Child Welfare, which provides a critical service and accounts for 13 percent of the total employment in 2009. In this Ministry, nearly 30 percent of the positions remain unfulfilled. For certain critical skills, the vacancy rates in the health sector are even above 50 percent.

Figure 5: Percentage of Established Posts Actually Filled (2009).



30. **The above discussion suggests that for effective delivery of public services, Zimbabwe's civil service needs rationalization.** Such rationalization would aim to achieve the following three objectives:

a) To correct the sectoral imbalances by reducing the size of the workforce in overstaffed ministries and making attempts to fill vacancies in ministries critical to service delivery;

b) To improve the skill profile of the civil service, in part by getting rid of staff who do not meet the minimum skill requirements; and

c) To reduce the overall size of the establishment to its pre-2004 level.

31. **Civil service rationalization is an inherently difficult exercise politically.** However there are two areas where further work can help identify measures to partially meet the above three objectives. First, the civil service may contain a number of unaccounted for ("ghost") workers that could be identified by the ongoing payroll audit. And second, the Government has a large number of contract workers. It should be relatively easier to lay-off contract workers, particularly if they do not meet skills requirements.

32. **Unaccounted or irregular workers:** The GoZ faces a number of problems in managing the hiring process and keeping track of the actual number of persons in the civil service. The personnel records of civil servants reside in different databases, and there is no centralized system to ensure that personnel files are maintained and updated regularly for every civil servant. To address this shortcoming the Government is currently conducting a Payroll and Skills Audit which could identify a number of unaccounted workers. In addition, audit could identify if any of the unaccounted workers are fraudulently employed (for example the date of entry into the current grade is prior to the date of entry into the civil service), irregular appointments, employees without proper identification (such as the national ID, a proper pay slip, birth certificate or a passport), and finally, employees absent without authorized leave, retired, or deceased but still on the payroll. All these findings cold be used to rationalize irregular workers.

33. **Contract workers:** The civil service is carrying a large number of contract workers. In 2009 there were about 19,000 contract workers out of a total staff of about 180,000. Contract workers are mostly concentrated in the Ministries of Agriculture, Education, and Health (Table 7). Hiring contract workers accelerated during the last four years, with the share of contract workers in new hires increasing from an average of only 4 percent during 2004-2006 to 16 percent in 2008 and 30 percent in 2009. Government officials have pointed out that many of the contract workers perform useful work and indeed are in line for eventual regularization. However, the large variation overtime in the share of contract workers in new hires suggests that further analysis is needed to get an assessment of how critical the existing contract workers are to the mission of the ministry that employs them.

34. **The above two 'instruments' obviously would not meet all the three objectives of civil service rationalization outlined above**. Therefore, in the medium-term, the government would need to develop a more comprehensive strategy to restore the sectoral balance and productivity of the civil service. The large turnover and sectoral imbalances and the increasing reliance on contract workers discussed above suggest large brain drain and loss of experience. A number of measures could be implemented to improve address these shortcomings. These include systematic training of junior officials, improving the clarity of institutional roles and responsibilities across ministries and improving administration procedures. The results of the currently ongoing Payroll and Skills Audit and the planned PAR would be useful in designing such interventions.

Table 7: Number of Contract and Regular Workers by Ministry, 2009

Ministry	No. Of Contract Workers	Contract Workers as a % of Total Workers
Ministry of Agriculture	2617	15.4
Ministry of Education	6673	7.0
Ministry of Health	5421	15.6
Ministry of Higher Education	3364	47.1
Other Ministries	763	3.2
Total	**18838**	10.6

Source: SSB

V. Recommended Short-Term Measures and a Medium-Term Approach to Managing the Wage Bill

35. **The focus of efforts to contain the wage bill should be on short-term measures because designing and implementing a medium-term approach to wage bill management would be too challenging in view of prevailing economic uncertainty and complex political reality**. The economic uncertainty stems from the timing and volume of external budget support and the fragile nature of economic recovery. Expectations of civil servants have been raised on the news of diamond revenues, which have not even started accruing to the treasury and whose steady state volume is unknown. The political reality is that different parts of the government do not present a unified view on wages and more broadly on economic policies. The policy uncertainty feeds economic uncertainty.

36. **Based on the discussion in previous sections this note recommends the following short-term measures**:

a) The Government should attempt to forge a political consensus in favor of no wage increases in 2010 beyond those already announced, on grounds of affordability. For 2011, average wage increase could be limited to CPI inflation during 2010, which would keep average real wage intact.

b) The findings of the ongoing Payroll and Skills Audit could be used to eliminate irregular salaries. As a first step, the Government could consider stopping salaries for all the staff that did not show up for enumeration, to identify those who are irregularly receiving salaries from those who could not be present due to genuine reasons.

c) In 2011, the range of salaries could be expanded, while keeping the average real wage constant with a view to maintain competitiveness of public wages at higher skill-levels.[13]

d) The planned hiring of nearly 18,000 additional staff (10 percent of the employment) during the rest of 2010 should be revisited. Such a large average increase in civil service strength is hard to justify on the grounds of improving public service delivery. The objective of new hiring should only be to fill critical employment gaps in areas of public service delivery.

e) The current system of wage negotiations can be improved to avoid the potential for misunderstandings and strikes. It would be useful to:

- Carryout the negotiations, well before the Annual Budget is formulated, so that wage increases are not presented to the unions as decisions already made. One of the main complaints of the unions has been that they were not taken into confidence when the 2010 budget was being formulated.

- The analytical basis of the discussions could be improved. A further analysis of the poverty datum line and its relation to the cost of living would be useful. Second a better analysis of the wage movements in the private sector allowing comparison while accounting for worker characteristics would be helpful.

37. **This note recommends putting in place the following wage and employment measures towards a medium-term approach to controlling the wage bill**:

a) The Government could continue with real average wage restraint even after 2011. However, real average wage increases would be possible if GDP growth is very good or if there is a significant reduction in employment. Benchmark thresholds could be adopted for GDP growth and employment reduction as part of a wage bill strategy to guide real wage increases.

b) Within the overall wage policy framework described above, the Government could continue awarding higher wage increases to senior grades with a view to maintain competitiveness with the private sector. To determine if the current level of salaries is competitive the Government could put in place a system of tracking the attrition in senior grades over time as well as track the number and quality of applicants for senior vacant positions.

c) The Government should recognize that the current health sector salary top-up scheme is at best a temporary solution to the problem of staff retention. It is therefore necessary to prepare for an eventual exit strategy and estimate the

[13] This could mean that while everyone receives a nominal wage increase, there is a real decline at lower grades and a real increase in higher grades.

budgetary implications of absorbing the higher health sector salaries in the budget. Meanwhile, the Government could work towards obtaining a multiyear commitment from donors to finance the scheme.

d) Once the payroll is cleaned of irregular salaries, the government would need to put in place administrative measures that allow regular updating of the payroll, while maintaining its integrity. Maintaining the establishment register is a labor-intensive activity but it is an effective tool to control government employment. The Government should consider resuscitating the centrality of establishment register for managing civil service employment. Following up on the findings of the Comptroller and Auditor General there is a need ensure that hiring is only carried out against established posts. The breakdown of this discipline was responsible for the growth in staff during 2007-2009**.** Alternatively, the government should develop other institutional mechanisms for controlling government employment.

e) At an appropriate time the government should consider examining if the size and sectoral composition of civil service employment is in line with the changing role of the Government[14]. The findings of the Payroll and Skills Audit and the planned Public Administration Review would provide a useful input for this exercise.

f) Based on the examination of civil service described above, and as part of its medium-term wage bill strategy after 2011, the government could possibly target a steady decline in the size of the civil service over the medium-term. The large number of contract workers (about 10 percent of the total staff) currently employed in the Government, and natural attrition, would provide the required flexibility to the government to change the size and composition of the civil service.[15]

g) The government should consider setting up a high level committee made up of officials from the Ministry of Finance, the Ministry of Public Service and the Public Service Commission to improve the formulation, coordination and implementation of the employment and wage policies.

38. **The program of short and medium term measures described above needs to be supported by analytical work in the following areas to translate broad objectives into specific actions.** Some of this work could be carried out in the follow up to the Bank's ongoing payroll and skills audit and the proposed Public Administration Review.

- **Options for controlling establishment and staffing:** There is need to understand the current regulations governing the creation and filling of

[14] For instance in agriculture there is a much smaller Government presence in marketing and input supply than in the past. There has, however been no reduction in established posts.

[15] A relatively young civil service means that over the next ten years only about 8.5 percent, less than one percent per annum, can be expected to retire.

established posts. A better understanding of the breakdown in establishment control would help the Government design procedures to avoid this in the future.

- **Contract workers**: As discussed above the presence of large number of contract workers could present an opportunity for rationalization of employment within the Government. It would be important to understand the number and terms under which contract workers are hired, the importance of their work to the mission of the ministry which employs them and the existing financial controls to ensure that there is no fraud of other governance problems.

- **Human resource processes in grant-in-aided institutions**: As discussed above the GIA institutions employ nearly 17 percent of the civil service. A better understanding of how posts are established and filled, the revenue base and existing financial controls on the wage bill of the GIA institutions is needed as a part of the overall rationalization of the government employment.

- **Improving the analytical basis for wage setting**: This work would involve tracking private sector wages and relating them to civil service wages for similar skills, analysis of cost of living using household data, and tracking exits from the civil service (what kind of professionals leave the service, where do they go and what kind of salaries they receive).

39. **The impact of the short-term and medium-term measures recommended above on the wage bill is illustrated in two scenarios below: the baseline scenario and the adjustment scenario.** The assumptions and the results for the two scenarios are as follows (Table 8 and Figure 6):

Baseline Scenario: This scenario makes the following assumptions: (i) the total employment increases by about 10 percent in 2010 (as announced by the Government), and thereafter is maintained at the 2010 level at about 280,000 persons (including GIAs and uniformed personnel). (ii) Average wages are projected to increase by about 30 percent in 2010; by about 20, 40 and 10 percent respectively for 2011, 2012 and 2013[16]; and thereafter only by about 3 percent per year. This implies an increase in nominal wages by about 13 percent per year and real wage by about 8 percent p.a. (assuming an inflation rate of 4.4 percent in 2010, and 5 percent in 2011-2015). (iii) GDP is projected to grow 5.1 percent in 2010, and by 5 percent p.a. thereafter; (iv) Revenues are assumed to grow by 50 percent to 30 percent of GDP in 2010 and are projected to remain at 28.5 percent of GDP thereafter**.**

[16] This wage trend is based on an underlying projection of grade wise wage increases. The average wage increase for the top of the grade is about 14 percent and that at the bottom of the wage by 11 percent. The compression ratio increases from 2.5 in 2010 to 2.8 in 2015.

Under these assumptions, wage bill increases from 13.1 percent of GDP and 44.7 percent of revenues in 2010, to 16 percent of GDP and 56.2 percent of revenues *by 2015. This scenario is clearly fiscally unsustainable on the basis of parameters defined above.*

Table 8: **Wages, Employment and Wage Bill**
Summary Results of two Scenarios.

	2009	2010	2011	2012	2013	2014	2015
	Actual	Estimate	Projections				
Baseline -Government Scenario							
Average Wage Increases (% p.a)	**--**	**58**	**18**	**37**	**9**	**3**	**3**
Employee Growth/Declines (% p.a)	**0**	**10**	**0**	**0**	**0**	**0**	**0**
Average Wage Govt. Employees ($/month)	127	201	237	326	354	365	376
Wage Bill as a % of GDP	9.1	13.1	13.8	17.6	17.7	16.8	16.0
Wage bill as a % of Tax and Non Tax Revenue	44.9	44.7	47.8	60.3	62.0	59.9	57.0
Wage Bill as % of Total Expenditure	45.8	41.0	46.9	59.1	62.9	59.9	57.0
Adjustment Scenario							
Average Wage Increases (% p.a)	**--**	**58**	**5**	**5**	**5**	**5**	**5**
Employee Growth/Declines (% p.a)	**0**	**4**	**--5**	**-1**	**-1**	**-1**	**-1**
Average Wage Govt. Employees ($/month)	127	201	211	222	233	244	257
Wage Bill as a % of GDP	9.1	12.5	11.1	10.7	10.3	9.9	9.5
Wage bill as a % of Tax and Non Tax Revenue	44.9	42.5	38.5	36.8	36.1	34.7	33.4
Wage Bill as % of Total Expenditure	45.8	39.0	37.7	36.1	36.6	35.2	33.8
Memorandum Items							
Real GDP Growth % p.a.	5.7	5.1	5.0	5.0	5.0	5.0	5.0
GDP at MP nominal (US$ million)	4620	5560	6217	6717	7265	7857	8497
Inflation (CPI)	6.5	4.4	5.0	5.0	5.0	5.0	5.0

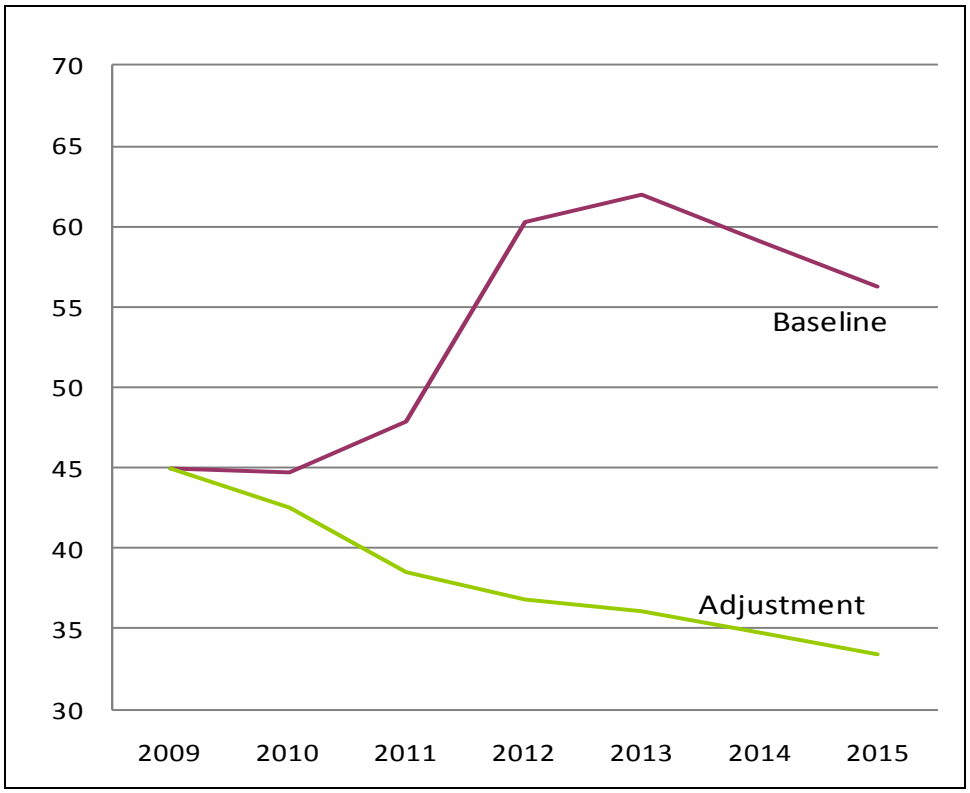
Source: Staff Estimates

Adjustment Scenario: This scenario assumes aggressive efforts by the Government to control wage bill growth starting in 2010: (i) employment is projected to grow only by 4 percent (less than half of the increase projected in the baseline scenario) in 2010 to reach a total of 266,000 persons, then reduced by 5 percent in 2011 by removing "ghost workers", and is projected to decline by about 1 percent p.a. thereafter. (ii) Average wages are projected to grow by about 58 percent in 2010, and by 5 percent p.a. thereafter on account of projected inflation, to maintain the real value of the wage[17]. (iii) Growth and revenue projections remain the same as in the baseline scenario.

[17] The average wage increase of 5 percent annual could accommodate alternative degrees of decompression. Since Grades E and F only account for 4 percent of the total staff and about 7 percent of the total wage bill, it would be possible to increase the average wages of Grades E and F by almost 15 percent annual, if the increase in the wages of grades A through D could be kept around 4.5 percent p.a. This would increase decompression of the salary scales from 1.34 in 2010 to almost 2 percent in 2015.

Under these assumptions, the wage bill declines from 12.5 percent of GDP and 42.5 percent of revenue in 2010 to 9.5 percent of GDP and 33.4 percent of revenue by 2015. This scenario is fiscally sustainable, and in line with the recommended targets in this document.

Figure 6: Wage Bill as a Percentage of Revenues.



40. **In summary, by containing real wage growth and adjusting the size of the civil service, the wage bill can feasibly reach sustainable levels in the medium term.** As illustrated in the adjustment scenario, if civil service wages are only maintained in real terms at the 2010 levels, and the civil service size is rationalized by cutting the announced hiring plans for 2010 and adopting the recommendations from the Payroll and Skills Audit to remove unaccounted workers and redundant contract workers, the wage bill could reach less than 10 percent of GDP and 35 percent of revenues as early as in 4 to 5 years' time.

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Annex A - Institutional Aspects of the Civil Service in Zimbabwe

The Government of Zimbabwe (GOZ) functions at the following three levels:

- **Central Government.** The Central Government consists of 34 Ministries and employs about 182,000 persons, excluding Grant in Aid (GIA) institutions, and uniformed personnel.

- **Local Governments.** There are currently 87 Local Governments consisting of 57 Rural District Councils and 30 Urban Councils (towns and cities). Local Governments in Zimbabwe have their own sources of revenue, and are expected to be self financing and bear the cost their employees.

- **Public Enterprises (Parastatals).** Zimbabwe has nearly 76 public enterprises (parastatals). Of these, 18 enterprises are 100 percent owned by the Government and another 14 that have a major Government stake through the Reserve Bank of Zimbabwe's (RBZ) shareholding. In addition, there are Local Authorities that are fully owned by the Government of Zimbabwe but operate under specific Acts (such as the Zimbabwe National Road Administration, or the Zimbabwe National Water Authority).

Within the Central Government there are four main agencies that are involved with formulating and managing the employment and wage policies in Zimbabwe. These are:

- **Ministry of Finance (MOF).** The MOF budgets and manages the total wage bill (including pensions) as a part of the annual budget. The MOF is responsible for managing the macroeconomic implications of the wage bill.

- **Ministry of Public Service.** This Ministry was newly established in 2009 and is charged with the overall human resource development within the Government of Zimbabwe.

- **Public Service Commission (PSC).** The PSC can be thought of as the executing arm of the human resource policies formulated by the Ministry of Public Service.

- **Salary Service Bureau (SSB).** The SSB is responsible for maintaining the establishment register, hiring against the established positions, implementing the terms of the employment contract, and maintaining the Human Resources Management Information System (HRMIS). Administratively, the SSB reports to the Public Service Commission.

Most Central Government employees are employed under two main acts[18]: (i) the Civil Service Act, and (ii) the Public Health Act which covers all health professionals.[19] Some exceptions are the following:

- Civil servants working on the President and Cabinet, Parliament of Zimbabwe, Audit, Justice, and Legal Affairs offices are employed under a separate constitutional provision to maintain their independence.

- Central Government also employs uniformed personnel (Army and Police) under separate Acts. The civilian employees of the Ministry of Defense and the Police Service Commission are however covered by the Civil Service Act.

- Grant in Aided (GIA) Institutions employ staff under their own laws and their wages are not reported in the Budget. GIAs are institutions such as libraries or museums that receive all their funding from the budget as grants or transfers. These transfers are budgeted under the vote of the respective line ministry to which the GIA Institutions are attached.[20]

The Central Government also employs a number of contractual workers. These are not covered under any of the above acts, and their salaries are budgeted under the vote of the ministry which employees them.

[18] This note only focuses on the staff employed by the Central Government, including uniformed services and staff employed by the GIA institutions, and excludes the staff employed by local governments and public enterprises.

[19] In many countries, there is a separate act for health professionals in view of the special relationship of their service conditions to the professional associations' especially insurance issues in advanced countries.

[20] In practice, the wage scales in GIAs are based on Central Government wage scales, and any increase in Central Government wages is translated to the GIA staff.

Annex B – Wage Negotiations in Zimbabwe

In Zimbabwe, there has traditionally been a well-established system of wage negotiations between the Government and the civil service unions.[21]At the present time, the negotiations are carried out more as a practice or tradition and have no legal basis under the labor law. For negotiations on civil service wages, there is a one negotiating council for civil servants and a separate council for health workers.[22] The two councils have the same chairman, who is independently selected. In these negotiations, the Government is represented by a team, which is led by a Permanent Secretary[23], and consists of representatives of the Ministry of Finance, the Public Service Commission and the Ministry of Public Service. The civil service unions are led by the chairman of the unions. Traditionally, the structure of salaries across grades is discussed first and decided, and then the appropriate salary increases. Once the salary increases are agreed upon, the same salary upgrade is extended for health workers as well as for uniformed services (allowances may differ).

During 2009 and 2010, the negotiations have been difficult and have resulted in the civil servants going on strike. The civil servants unions asked for higher wages on the basis of the following arguments:

- The current wages are below the Poverty Datum Line (PDL), and there have been recent sharp increases in house rent and electricity tariffs.
- The current wages are below those in the private sector.
- The current wages are far below the wages in comparator countries such as Botswana, South Africa, Zambia, Malawi, Uganda, and Tanzania.
- There is a lot of wastage in public expenditures. There are possible savings which could be deployed to raise wages.
- Civil servants unions feel that the Government does not take them sufficiently into confidence when formulating the budgets and setting wages.
- Civil servants unions believe that it is possible to get a lot of revenue from minerals (diamonds, in particular), some of which could be deployed to raise wages.

The Government argued that under the current fiscal situation (economic growth and projected tax and non-tax revenues), higher wages are not affordable. This is especially true since under the multicurrency regime it is not possible to finance expenditure by monetary expansion, and since Zimbabwe does not have access to domestic and international financing.[24] The arguments made by the unions are difficult to fully sustain. First, comparisons of nominal wages with Botswana, South Africa or Tanzania are unfair, given different realities in terms of purchasing power and degree of

[21] There is a parallel well defined system for wage negotiations in the private sector as a part of the Labor Act.

[22] Since these two workers are employed under two different laws.

[23] Currently, it is the Permanent Secretary for the Ministry of Youth and Indigenization.

[24] Under the multicurrency system, the Government has no access to the seniorage revenues.

development. And when the comparison is done with countries with similar levels of per capita income (Malawi, Uganda, Zambia), at least in the education sector (employer of two thirds of civil servants) the typical wage rate ($161 a month) is above those paid in such neighboring countries.[25] Second, budget savings will not be enough to grant substantial wage increase, in a context of already meager non-wage recurrent and capital expenditures. And while the prospects to collect additional mineral revenues seem promising, there is no indication yet on the full mineral potential of Zimbabwe. During the last round of negotiations, the Government (Ministry of Finance) basically provided the negotiators with an envelope for a wage bill increase on the basis of fiscal sustainability, and asked that the wage increases in the structure of wages be determined within this envelope.

There are several problems with the current system of wage negotiations, which need to be addressed. The civil servants have generally complained in wage negotiations that the Government does not share all the facts with them, and that it does not take them into confidence regarding the overall fiscal sustainability issues. For instance, the negotiations this year were carried out after the budget was formulated and presented to the Parliament. The analytical basis for these negotiations has also been weak; consequently it was not possible to carry out the discussions on a common set of parameters. For instance, at the centre of all the discussions is the Poverty Datum Line (PDL) estimated by the Central Statistical Office (CSO). However there are question on the extent to which the PDL is a true measure of the cost of living for the poor or if it should even be a basis for negotiations. Similarly, more analysis is needed for all the issues raised by civil servants during negotiations, including wages in comparator countries, wastage in public expenditures and diamond revenues. Additionally, the current negotiations have no legal basis, and the labor law governing civil servants is not harmonized with the Zimbabwe Labor Act.26 Finally, civil servants in Zimbabwe do not have the right to form trade unions and has no clear guidance for wage negotiations.

[25] See IMF (2010).
[26] ILO. (2009)

Annex C1 – Baseline Scenario

Wages, Employment and Wage Bill							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	Actuals	**Estimates**	**Proj.**	**Proj.**	**Proj.**	**Proj.**	**Proj.**
Nominal GDP	**4620**	**5560**	**6217**	**6717**	**7265**	**7857**	**8497**
Tax and Non Tax Revenue	20.2	29.35	28.9	29.1	28.5	28.5	28.5
Tax and Non Tax Revenue (US$ million)	933	1632	1797	1955	2070	2239	2422
Total Government employees	224365	246927	246927	246927	246927	246927	246927
Total GIA institutions Employees	31038	33322	33322	33322	33322	33322	33322
Total Employees (Govt+GIA)	255403	280249	280249	280249	280249	280249	280249
Average Wage Govt. Employees ($/Month)	127	201	237	326	354	365	376
Total Wage Bill (US$ million)	419	729	860	1179	1284	1322	1362
Total Pension Payments (US$ million)	97	189	193	195	363	369	382
Total Employment Cost (US$ millon)	516	918	1052	1374	1647	1692	1744
Employment cost as a % of GDP	11	17	17	20	23	22	21
Employment Cost as a % of Tax and Non Tax Revenue	55	56	59	70	80	76	72
Wage Bill as a % of GDP	9.1	13.1	13.8	17.6	17.7	16.8	16.0
Wage bill as a % of Tax and Non Tax Revenue	44.9	44.7	47.8	60.3	62.0	59.1	56.2
Wage Bill as % of Total Expenditure on Cash Basis	45.8	41.0	46.9	59.1	62.9	59.9	57.0
Annual Inflation (CPI)	6.5	5.4	5.0	5.0	5.0	5.0	5.0
Assumptions							
GDP Growth	**5.7**	**5.1**	**5**	**5**	**5**	**5**	**5**
Average Wage Increases		**58.6**	**17.9**	**37.2**	**8.9**	**3.0**	**3.0**
Employees Growth		**10.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Source: Bank Staff Estimates							

Annex C2 – Adjustment Scenario

Wages, Employment and Wage Bill							
	2009	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**
	Actuals	**Estimates**	**Proj.**	**Proj.**	**Proj.**	**Proj.**	**Proj.**
Nominal GDP	**4620**	**5560**	**6217**	**6717**	**7265**	**7857**	**8497**
Tax and Non Tax Revenue	20.2	29.35	28.9	29.1	28.5	28.5	28.5
Tax and Non Tax Revenue (US$ million)	933	1632	1797	1955	2070	2239	2422
Total Government employees	224365	233788	222099	219878	217679	215502	213347
Total GIA institutions Employees	31038	33322	31656	31339	31026	30716	30409
Total Employees (Govt+GIA)	255403	267110	253755	251217	248705	246218	243756
Average Wage Govt. Employees ($/Month)	127	201	211	222	233	244	257
Total Wage Bill (US$ million)	419	694	692	719	748	777	808
Total Pension Payments (US$ million)	97	189	193	195	363	369	382
Total Employment Cost (US$ millon)	516	883	885	914	1111	1147	1190
Employment cost as a % of GDP	11	16	14	14	15	15	14
Employment Cost as a % of Tax and Non Tax Revenue	55	54	49	47	54	51	49
Wage Bill as a % of GDP	9.1	12.5	11.1	10.7	10.3	9.9	9.5
Wage bill as a % of Tax and Non Tax Revenue	44.9	42.5	38.5	36.8	36.1	34.7	33.4
Wage Bill as % of Total Expenditure on Cash Basis	45.8	39.0	37.7	36.1	36.6	35.2	33.8
Annual Inflation (CPI)	6.5	5.4	5.0	5.0	5.0	5.0	5.0
Assumptions							
GDP Growth	**5.7**	**5.1**	**5**	**5**	**5**	**5**	**5**
Average Wage Increases		**58.3**	**5**	**5**	**5**	**5**	**5**
Employees Growth		**4.2**	**-5**	**-1**	**-1**	**-1**	**-1**
Source: Bank Staff Estimates							