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Reform of the Malawian Public Sector

Incentives, Governance and Accountability

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Abstract

Since the early 1990s, Malawi has tried to undertake economic reforms, including the restructuring of the public sector, even as it embraced democratic reforms. Paucity of human and financial resources has made the process difficult and drawn out. However, towards the end of the 1990s, the reforms began to bear fruit. Notably, the efficiency of the civil service improved, while the government continued to emphasise the importance of accountability and established an agency to fight corruption.

This chapter analyses the factors, which have influenced public sector reforms in Malawi, with emphasis on the nature of reforms implemented by the government and the incentive structure in the civil service. Not unlike many other African countries, top political support has been important for the successful implementation of public sector reform in Malawi. However, sustainability will only be ensured when support for the programmes is spread among broad sections of the population.

Keywords: accountability, civil service reform, good governance, Malawi, public sector reform

JEL classification: E61, H1

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1. Introduction

Since independence, Malawi's public sector has gone through three distinct phases, related closely to the performance of the economy. Between the achievement of independence in the early 1960s and the end of the 1970s, the generally high commodity export prices had led to above average GDP growth, close to of 3 percent per annum and capita. Combined with macroeconomic stability, this period of unbroken growth provided a basis for public sector expansion. Before the end of the period, public investment accounted for two-thirds of total investment. However, the government failed to translate these investment outlays into social welfare improvements. Health and education expenditure remained below 6 percent of GDP in the late 1960s, falling to about 5 percent already by the mid 1970s (Prior 1990: 173).

The second period, 1980-94, saw the economy and the public sector enter a period of serious imbalance. There were severe shocks, including increases in oil prices and transport costs related to external trade, as routes through Mozambique were disrupted by civil war. The war in the neighbouring country forced up to 750,000 refugees into Malawi, at a time when it was experiencing severe drought. Investments dropped sharply and foreign reserves dwindled. Growth for the period 1980-94 was only 1.6 percent. The budget deficit, rising to 15 percent in 1980 alone, averaged above 10 percent during 1981-7, and again hit 15 percent in 1994. In the early 1990s donors withdrew their balance of payments support to Malawi to demonstrate their increasing concern with both the poor fiscal discipline of the government and its human rights violations. The donor community also hoped that aid retrenchment would force the government to hold multiparty elections.

The most recent period, from the mid 1990s up to the end of the millennium, saw the election of a democratic government in 1994 and the introduction of a new structural adjustment programme in 1995 with broad-based support from the donor community. Aside from policies for macroeconomic stabilisation, the government also introduced structural reforms with implications for the public sector. They included privatisation, deregulation, regulatory reform, liberalisation of agricultural markets, including the phasing out of the price control and subsidisation regimes, and the reform of the civil service. Towards the end of the 1990s, the reform efforts were starting to bear fruit. The economy, which had earlier stagnated, grew by 5.5 percent per annum during the latter half of the decade. This resumption of growth improved voter sentiment and probably explains the ruling party's re-election in 1999.

In Malawi the case for a well-functioning public service sector is a stark one. Per capita GDP was only US$163 in 1999, while close to 70 percent of the population was living below the poverty line and life expectancy at birth was only about 43 years. Given a narrow tax base, recurrent government expenditure is very low, estimated at less than US$30 per capita in the 1998/99 budget year. The government is thus not in a position to meet the huge expenditures on education and training required to reverse the serious shortage of human capital nor the investments in infrastructure and maintenance necessary to alleviate the transport constraints of landlocked Malawi.

The marginal benefit of improved living standards is thus clearly very large in Malawi. However, the growth enhancing and poverty reducing economic policies needed to ensure this require the creation of an efficient and accountable public sector. In poor countries the latter is a more crucial precondition for development than in much richer countries, where there are less growth constraints (Goldsmith 2000).

At least since the dawn of independence, the government has tried to raise public sector efficiency by designing and adopting reform programmes (Msosa 1998). Progress was intermittent, however, making it necessary, with the coming to power of a new government in 1994, to undertake a thorough review of the public sector.

The purpose of this chapter is to study the nature of public sector reforms in Malawi and to analyse their impact on governance and accountability. Section 2 provides a theoretical background to good governance and public sector reform, while section 3 looks at the evolution of Malawi's public sector reforms. Section 4 looks at changes in employment and wages in the public sector, while section 5 discusses the issue of accountability in government, and the steps being taken to ensure that it takes root. Section 6 concludes the paper.

2. Public sector reform and good governance: the issues

Although public sector reforms are difficult and complex, making a good record of performance hard to establish, they are important for the promotion of good governance in Sub-Saharan Africa (see Collier and Gunning 1999). In our context, governance can be defined as the exercise of political, economic and administrative authority in the management of a nation's affairs. Good governance is when this authority is used to stimulate and promote sustainable development (Mugore 1997, Shacter 2000). It is thus closely related to the functioning of the state in a democratic society: with separation of powers between the legislative, the judiciary and the executive. The legislature sets policy goals, objectives and rules. The judiciary determines whether the aforementioned are adhered to and sanctions errant practices. The executive, that is the political leadership as well as the civil service, implements the policies agreed upon. Obviously, for good governance to be realised the three branches of a democratic society have to work in tandem.[1]

Schacter (2000) has argued, however, that it is almost impossible to find an African government that is more efficient in policy implementation in the new millennium than it was in the 1980s. There are a number of reasons for the poor outcomes. First, there has generally been a lack of a holistic approach to public sector reform in most African countries. In recent years donors have tended to influence the nature and speed of economic reforms more than domestic policymakers. Structural adjustment reforms are illustrative. The public sector components of the reforms focused on areas emphasised by multilateral and bilateral agencies such raising efficiency in the civil service and state divestiture. In the area of legal and judicial reforms, again issues close to the donor constituency, such as human rights protection, were emphasised. Invariably there was less emphasis on issues of co-ordination of the various reforms to meet domestic needs and enhance local capacities. The recent emphasis on the inclusion of civil society in

[1] There are countries that have achieved rapid growth and rising living standards without fulfilling these requirements for good governance (e.g. South Korea). However, it seems unlikely that this can be repeated in Sub-Saharan Africa given the experience of the last 35 years.

policymaking can also be seen in similar light. It switched the focus once again to issues of access to policymakers and services, via decentralisation and empowerment of the citizenry, championed by donors. However, these shifts in emphasis precluded a more systematic and long-term approach to public sector reform in many countries in Africa (Mugore 1997).

Second, the domestic co-ordination of public sector reforms has generally been poor. Ministries have conducted their own internal reforms with little attempt at synchronising with other agencies. Notably, local government reforms have been poorly coordinated with those in the line ministries of finance, health and education. The situation is thus often aggravated by the fact that donors tend to favour portions of the reform project, which they fund accordingly, neglecting the other components that do not appeal to them. This could leave important facets of the reform programmes poorly funded, thus making a mockery of the whole.

Third, and rather ironically, although public sector reform seeks to enhance accountability in government, its implementation has in many countries been a study in poor accountability and transparency, with little information reaching the public and with much of the programme shrouded in secrecy and poorly explained to the electorate. This has meant that few of the public sector reforms are 'owned' by the populations, and continue to be seen as impositions from outside.

In spite of the problems of implementation, good governance continues to be highlighted by both donor and recipient governments as crucial for reform success. It is argued in the literature that by favouring controls and rent-seeking behaviour, bad governance crowds out the private sector, generates uncertainty, and thus reduces investment. With controls driven to the extreme, governments become seriously inefficient, patrimonial and predatory (Mutahaba et al. 1993, Lienert and Modi 1997). Corruption is an oft-cited example of the outcomes of bad governance. While, in the 1980s, corruption was sometimes seen as important for 'unclogging' the rampant system of controls, increasing public sector efficiency by supplying public services at market-determined prices, there is widespread agreement that its effects are negative (Bardhan 1997). Empirical results relate it to lower investment and thus lower growth. It also lowers expenditure on basic services and generally reduces the productivity of public investment as well as that of the public sector (Tanzi 2000).

Theory and empirical evidence suggest four determinants of corruption in the public sector: opportunities for corruption, the level of remuneration of the civil service, the extent of controls, and effectiveness of penalties (Bardhan 1997, Van Rijckeghem and Weder 1997). Opportunities for corrupt behaviour are directly related to the control regime supported by the government. The proliferation of permits and licences in a regime rife with shortages creates enormous rents which accrue directly to those administering the system, while poor remuneration is also often blamed for causing corruption (Van Rijckeghem and Weder 1997). Still, it is not clear what the optimal level of wages in the public sector should be. If civil servants exhibit maximising behaviour, increasing their wages might, on its own, fail to resolve the incentive problem. However, if their behaviour is 'satisficing', they might abstain from corruption when they perceive their wages to be fair. In the latter case, small wage increases will have a large productivity effect (Van Rijckeghem and Weder 1997). Still, even if wages were to increase, penalties will only be effective in reducing corruption if they are relatively high and their enforcement rigorous.

Among economists, a stable macroeconomic environment, absence of government-induced market distortions, and the efficient provision of social and infrastructure services comprise ‘good’ policy. However, although broad adoption of adjustment programmes in Africa is seen as indicating a willingness to embrace ‘good’ policies, in practice few Sub-Saharan governments have implemented them fully. As a result of factors ranging from poor incentive structures, weak monitoring and supervision, lack of transparency and inadequate legislation, public administration in Africa remains extremely inefficient. This is depicted by poor value for money in service delivery, wastage of resources, low morale among employees and outright corruption.

In the economic literature, the ‘principal-agent’ model has been used to analyse the impact of poor incentives.[2] The principal-agent problem arises because contracts between agents, for example employees and employers, are incomplete, with compliance requiring monitoring. In trying to reach an incentive-compatible contract the principal is constrained by the need to overcome the agent’s participation constraint. The contract offered must at least satisfy the agent’s ‘reservation’ utility. Moreover, to discourage shirking and other costly behaviour on the part of the agent, the wage or incentive offered must be such that the threat of dismissal is credible i.e. it is sufficient to instil discipline. However, the principal-agent framework, while insightful, tends to project too simplified a view. Typically, there are hierarchies of ‘principals’ and ‘agents’ in the public sector. In a democracy, citizens are the principals of the parliament, which in turn is the principal of the cabinet. The cabinet is itself the principal of the civil service etc. There are also principal-agent relations between the president and his ministers, ministers and their permanent secretaries, and the latter and the staff of the ministries. When institutions are weak, such a formal framework tends to be displaced by informal lines of authority based on patronage, ethnic affiliation and corruption (Wescott 1996; Kaluwa and Musila 2000).

The monitoring problems in the principal-agent model discussed above arise from lack of transparency. If, for example, the budgetary process of the government is opaque, it is difficult for the parliament to scrutinise the government’s intentions as demanded by the electorate. It simply does not have enough information to do so. Similarly, if public sector job descriptions are poorly specified, imposing disciplinary measures or devising an adequate level of remuneration will be next to impossible. The importance of transparency was powerfully demonstrated in Uganda when the government published the amounts of money it was disbursing to the districts in the local newspapers, making recipients aware of what to expect. With regard to primary schools, financial flows from the central government that reached their targets at the district level rose considerably as a result of the increased level of transparency in the disbursement process (Reinikka 2001).

Evaluation, or after-the-fact monitoring, is another means of ensuring compliance. There is, however, little point in evaluation when poor performance cannot be punished. In practice, especially where job descriptions are imprecise, it can be difficult to prove that employees are guilty of misconduct. Moreover, given the correlation between punishment, the risk of getting caught and the wage level, creating an effective system of deterrents is difficult. If, for example, the penalty is generally considered too hash and thus viewed as unfair by onlookers, enforcers will be reluctant to apply it. Similarly, when wages are low,

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[2] See Lazear (1995) for reviews of the literature on incentives in organizations.

society takes a more lenient view of corruption in the public service. Since softer deterrents do not work either, the answer seems to lie in fundamental reform of the incentive structure of the public service (Tanzi 1998).

3. The evolution of Malawi's public sector reforms

3.1 Introduction

Although recent developments have been dramatic, with pressures from all sides, the very first efforts at public sector reform in Malawi were embarked on immediately after the attainment of independence in the early 1960s. A major concern at the time was how to manage the transition from an expatriate-based civil service to one dominated by Africans. With the goal of limiting the cost of running the post-colonial public service, the Skinner Commission, established in 1964, recommended lower salaries and job reclassification for African employees taking over the civil service. These recommendations were adopted and the salary scales were compressed accordingly. However, very little effort was allotted the more important task of creating incentives in the public sector in order to ensure the efficient provision of basic services in, for example, education, agriculture, healthcare and communications.

With the goal of incorporating these concerns, the Economic Commission for Africa commissioned a study in 1966, which recommended measures aimed at increasing public sector efficiency and improving administrative capacities in state institutions. Still, precisely because implementation capacities were missing in government, few of its recommendations were adopted (Msosa 1998). Equally ineffective was the Herbecq Review Commission of 1985 whose recommendations on staff structure, career development and job grading, which were meant to improve the quality of the service, while putting a cap on employment, were not fully implemented. The number of civil servants continued to grow rapidly during the 1980s.

During the 1990s a number of policy reviews and programmes directed at reforming the public sector were attempted, often simultaneously. Among them were a public sector management review, civil service pay and employment study, civil service action plan, the poverty alleviation programme, functional reviews of the ministries, decentralisation and formation of local government policy reform, medium term expenditure framework, and sector investment programmes. Since the earlier problems of paucity of human resources and managerial capacities persisted, the implementation of this new crop of programmes was slow and unsatisfactory. However, in comparison to the early 1990s, public sector performance has improved in the last few years (Msosa 1998, Malawi Government and World Bank 2000). In the rest of this section we shall look more closely at the Civil Service Action Plan on which the government based its hopes for a reformed and efficient civil service.

3.2. The civil service action plan

In 1996, the government launched the Civil Service Action Plan (CSAP). It is one of the most comprehensive reform plans ever attempted in Malawi, with a detailed description of the actions and activities to be undertaken, including timetable and deadlines, as well as identification of the ministries or agencies responsible for implementing the various segments of the programme. The aim of CSAP was to improve the efficiency and effectiveness of the civil service by restructuring the establishment and retrenching staff. The government also sought to improve financial and human resources management, and generally to better manage the process of changing the public sector (Lungo and Mugore 1999).

Four years after the introduction of the CSAP, the government had completed a census of the civil service, done strategic and functional reviews of its ministries, laid down plans for contracting out some services, such as cleaning and security provision, to the private sector, and retrenched about 20,000 temporary employees. Nearing completion was a job evaluation and personnel audit for the civil service. However, the above comprises a small part of the total number of actions envisioned when CSAP was launched in 1996 and much work remains to be done (Malawi Government 2000).

The slow implementation is partly to blame on the low level of political consultation during the initiation of CSAP. The latter was designed by a small number of civil servants, working under pressure from domestic politicians and donors. There was insufficient interaction with the cabinet, civil servants and other stakeholders. One consequence of this was that neither the members of the Cabinet Committee on Public and Civil Service Reform, which was formed to oversee the reform exercise, nor employees in the ministries felt a high degree of ownership of the programme. Moreover, poor consultation aside, the fact that the reform was focused on retrenchment, privatisation and contracting out, with little effort expended on capacity and institution building, further alienated civil servants who feared loss of employment. Equally important, absence of the involvement of civil society meant that a potential source of pressure for rapid implementation of the new reforms had been expurgated (Lungo and Mugore 1999).

The design of CSAP also had serious flaws. It was, for example, far from clear who was ultimately responsible for the programme implementation, monitoring and evaluation. In the case of the latter, progress was gauged on the basis of very simple indicators. The lack of a clearly defined implementing authority also led to poor sequencing of interventions. Without a plan of implementation, the CSAP became a mere list of initiatives. Line ministries acted autonomously in requesting support from donors for projects and the process became uncoordinated.

The functional reviews of the ministries were an important aspect of the civil service reform. The goals of the reviews included defining mission statements for the ministries, streamlining organisational structures and clarifying issues of accountability and responsibility at all levels of government. Furthermore, the reviews looked at staffing levels with a view to eliminating the duplication of functions by ministries.

The functional review programme was managed by the Public Sector Change Management Agency, which commissioned the reviews and suggested the required interventions to the cabinet. In the beginning the reviews were done more or less according to plan. However, with time the speed of execution declined. Thus instead of completing work at the beginning of 1998 as planned, it was not completed until the beginning of 2001.

Initially the functional reviews had important policy impacts. For example, the number of ministries was reduced by 7 to 19, while a number of functions for contracting out were identified. Still, the reduction in the number of ministries does not seem to have reduced the number of civil servants. Individuals and functions were simply transferred to other ministries. Efforts at contracting out activities also encountered serious problems. The contracting-out unit was not ready in time, while the capacity in the private sector for service provision on behalf of the public sector was limited. The government also had a poor record of payment for services rendered and many private companies were reluctant to tender for the new functions being contracted out. Moreover, for similar reasons, banks were not willing to finance firms, even after being awarded contracts by the government. This cautious response on the part of the private sector meant that the envisaged massive reduction in civil servants due to contracting out was not realised (see Msosa 1998).

A typical aspect of the lack of coordination in the CSAP is the omission of the functional reviews regarding decentralisation. For example, while the functional review of the Ministry of Education Science and Technology was completed promptly, it was largely irrelevant as it failed to take into consideration the fact that responsibility for the schools was to be transferred to the local governments.

Another key part of the CSAP was the implementation of a Medium Term Expenditure Framework (MTEF). Two pressing issues necessitated its introduction. First, it was necessary to abandon the hitherto incremental basis for recurrent budget preparation towards more emphasis on outcomes. Second, budgets were typically prepared for a single year with a demarcation between development and recurrent expenditures. However, since development budgets generate recurrent expenditures of their own, but often not budgeted for, it was important to prepare budgets that anticipate medium-term outcomes. Under the MTEF, the recurrent and development budgets will be integrated. The budget process will change from being an inventory of inputs, adjusted on a discretionary basis, to an outcomes oriented framework, that focuses on outputs, the costing of priority activities and medium-term projections of available resources (Ministry of Finance and Economic Planning 2000).

The reform of the budget process has turned out to be much more difficult to implement than anticipated. In application, the MTEF entailed more drastic changes in organisational structure, operation of the ministries as well as behaviour of civil servants than the government could muster. A recent evaluation has concluded that after five years of budgetary reform, the budget process remained incomplete (Ministry of Finance and Economic Planning 2000). Thus while budgetary allocations to priority sectors, such as health and education, have increased in the recent past, this was more the result of cabinet level interventions than of improved cost and benefit analyses of expenditure.

4. Employment and wages in the public sector

As in other African countries, the post-independence years in Malawi have seen a rapid expansion in civil service employment, at the same time as wages in the sector experienced a dramatic decline in real terms accompanied by sharp wage compression. At the beginning of the 1960s, the civil service (defined as the public sector less police, parastatal and local government employees) totalled only about 10,700 employees. Partly to cater for the increased demand for services and to create employment, the number of civil servants increased by 13 percent per year during the first twenty years of independence. During the 1990s, the expansion continued, reaching a total of 127,000 civil servants by 1998 (Malawi Government 1998). However, as part of the civil service reform, the government attempted to stop the expansion of its labour force. Since 1995, about 20,000 temporary employees have been retrenched and ghost workers eliminated (Malawi Government 2000). Still, by the beginning of the new millennium, the number of civil servants had increased to 130,000.[3]

However, although the focus on numbers seems to suggest that there still are too many civil servants in Malawi, the opposite might indeed be the case. Looked at as a provider of services for a population of up to 10.5 million people, the size of the civil service is not excessive. Civil servants are only about 1.2 percent of the total population. This figure, while comparable to those for other African countries, is very low compared to developed countries in general and to the welfare states of Europe in particular (Lienert and Modi 1997). Moreover, taking into account that almost half of the civil servants are currently employed as teachers in the Ministry of Education, Science and Technology, only about 65,000 are left to run state administration and public hospitals. Thus, on the face of it, there is no compelling reason for reducing the size of the Malawian civil service per se, especially given the serious shortages of personnel in some of the most vital sectors, such as education and health (Malawi Government and World Bank 2000).

Ultimately, however, the size of the civil service depends on the level that the government can afford, on its own or with the assistance of the donor community. Thus, looked at from the point of view of economic efficiency and affordability, employment in Malawi's civil service is large. The service employs about 20 percent of the formal sector labour force, excluding agriculture and estates. In the 1990s, close to half of all the country's professionals and more than two thirds of its sub-professionals were working for the government (World Bank 1994). A large civil service that is not adequately remunerated will not only become a burden on state finances it also distorts relative wages in the rest of the economy. What then goes on in the civil service plays an unduly large role in the determination of employment and wages in the rest of the economy. Moreover, the hoarding of professionals and technicians in low productivity government employment retards the development of the private sector.

In the proceeding section, we look at the evolution of wages and wage related costs in the Malawian civil service, and between the civil service and the private sector. Three questions are asked: How have wage costs as well as real wages evolved in the past decades. What factors have determined the sharp wage compression in Malawi? How do civil service sector wages compare with those in the private sector?

In the 1980s, after close to two decades of relatively good economic performance, the public sector wage bill, as a share of GDP and public expenditure, respectively, was, at 5.3 and 16.4, higher in Malawi than in the rest of Sub-Saharan Africa (see Table 1). For the period from 1990, the pattern was reversed, with wages growing much slower in Malawi than in the rest of Sub-Saharan Africa. However, in light of the decline in public service provision in the 1990s, it is doubtful whether raising the public sector wage bill, without steps at restructuring the sector, is prudent. As illustrated by Figure 1, which depicts developments for selected wage categories, (see also Appendix 1) salaries and wages have declined by more than 60 percent in Malawi since the beginning of the 1980s. Between 1982 and 2000, for example, the top scale in the civil service (S1), that of the Chief Justice,

[3] *The Nation*, 1 March 2001.

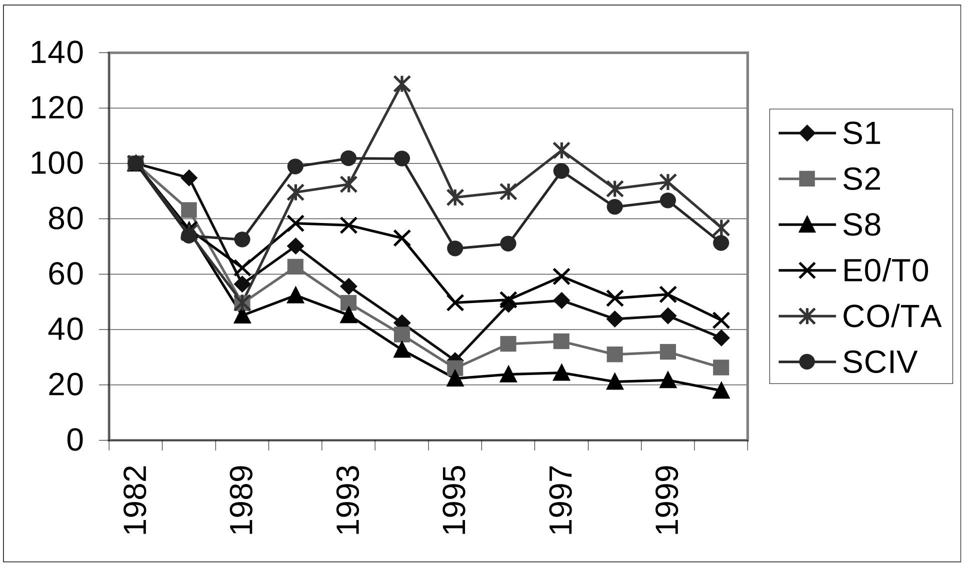
declined by 63 percent, while that of a Senior Administrative Officer in government (S8) declined by 82 percent. Mid level grades, for example Clerical Officers with Diplomas (E0/T0), have seen similar declines, an average of 56 percent. For some in the lower grades, declines have been lower, below 30 percent, although some categories saw declines of over 50 percent. It is noteworthy that the increasing militancy of the otherwise traditionally docile civil service workforce, resorting to strikes when need be, has not reversed this downward trend in real wages (Ademolekun and Mvula 1999).

Table 1
Wage costs as a share of GDP and government expenditure in Malawi and Sub-Saharan Africa (in percent)

		1980-4	1985-9	1990-4	1995-8
Malawi	Wages/GDP	5.3	5.3	6.5	6.5
Sub-Saharan Africa	Wages/GDP	3.7	3.3	7.2	7.7
Malawi	Wages/Expenditure	16.4	16.3	18.5	21.1
Sub-Saharan Africa	Wages/Expenditure	14.7	12.2	24.6	27.3

Source: World Bank (2000), African Development Indicators 2000.
Notes: Government expenditure is measured as total expenditure and lending minus repayments.

Figure 1
The Evolution of Real Salaries and Wages for some Grades 1982-2000 (1982=100)



Notes: The salaries are designated as follows: S1=Chief Justice, S2=Attorney General, S8=Senior Administrative Officer, E0/T0=Clerical Officer with Diploma, C0/TA=Technical Assistant, SCIV=Messenger. The salaries were first converted to constant 1995 Malawi Kwachas using the consumer price index. Then all were normalised to 100 in 1982. See Appendix 1 for sources.

Another interesting feature of wage developments in Malawi relates to the severe compression that resulted from decades of parsimonious adjustments, via wage reviews and recommendations from commissions, but failing to improve incentives in the system as a whole. Over the period, 1982-2000, there were periodic adjustments to wages across the board (Table 2). There are two striking features of these changes. First, although the nominal increases were sometimes evenly distributed, most often they were not. For instance, the revisions that took place in 1986 were clearly biased in favour of higher salary grades, this was reversed in 1989 when wages for lower grades rose by well over 40 percent. In 1992, adjustments favoured the mid level grades while in the year that followed lower grades saw their wages increasing strongly once again. Since 1997, wage increases have been equally distributed across the various grades.

Table 2
Nominal salary adjustments for select grades (1982-2000) in percent

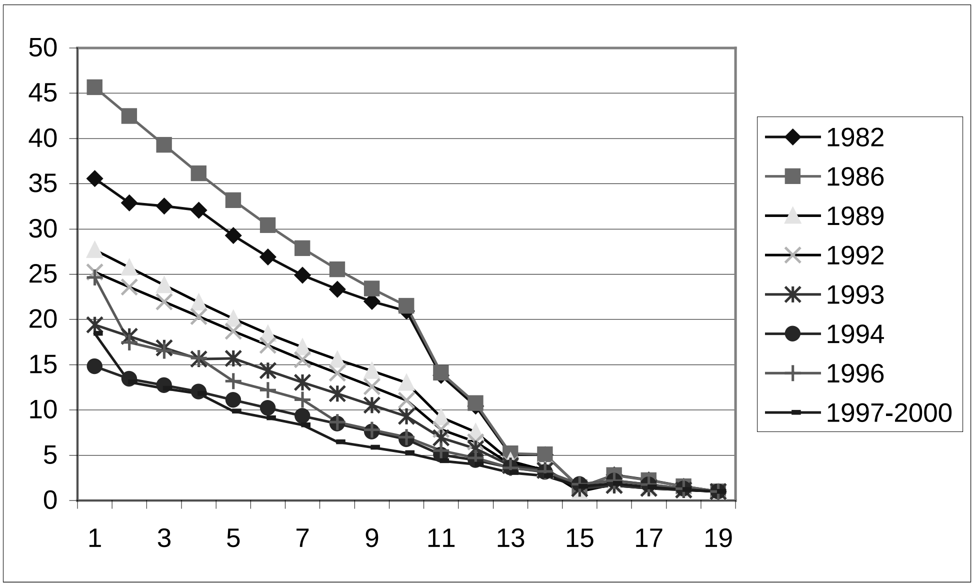
Salary Grades	1982-6	1986-9	1989-92	1992-3	1993-4	1994-5	1995-6	1996-7	1997-00
Super scale									
S1	63	12	80	0	21	44	88	10	83
S2C						44	47	10	83
S2B	64	12	80	0	18	44	47	10	83
S2A	53	12	81	0	20	44	47	10	83
S2	43	12	83	0	22	44	48	10	83
S3	44	12	83	9	13	44	34	10	83
S4	43	12	83	9	13	44	35	10	83
S5	42	12	81	9	14	44	35	10	83
S6	39	13	78	9	14	44	15	10	83
S7	35	13	73	9	15	44	16	10	83
S8	30	12	68	9	15	44	18	10	83
Adm. & Professional									
A0/P0				15	42	44	24	17	83
Executive & Technical									
CE0/CT0	30	20	68	15	16	44	24	17	83
SE0/ST0	31	30	68	15	24	44	19	25	83
E0/T0	31	54	82	25	50	44	13	25	83
Junior Tech./Clerical									
SC0/STA	28	20	106	25	50	44	15	25	83
CO/TA	29	25	160	30	122	44	13	25	83
Subordinate Staff									
SCI	26	20	80	30	113	44	13	25	83
SCII	25	20	80	30	109	44	13	25	83
SCIII	27	43	92	30	77	44	13	35	83
SCIV	27	85	97	30	59	44	13	47	83

Source: See Appendix 1.

The abrupt and uneven adjustments in the salary scales depicted in Table 2 illustrate a lack of continuity in public sector pay policies. The authorities have essentially been crisis managers in the past decades, with little strategic planning. Adjustments were invariably responses to mounting discontent from civil servants than results of well thought out strategies that were consistent with the country's fiscal standing. In the midst of labour unrest, there would be a one-off increase in wages, followed by policy inactivity until the next crisis. Since large and unplanned salary adjustments led to distortions of the economy-wide pay structure, they affected overall work effort negatively, especially since they bred discontent in other sectors of the economy and led to inflationary pressure.

The wage compression that resulted from the Africanisation of the civil service after independence has remained at the core of the incentive problems in Malawi's civil service. While the reduction in salary levels had affected those in the top grades most, and the narrowing of wage differentials was probably initially defendable on efficiency grounds, the persistence of wage compression has distorted the incentive structure in the civil service. The government has had to resort to non-wage complements of various types to keep its labour force motivated. Figure 2, illustrates the compression factors for major salary grades over the period 1982-2000. They range from the top category (S1), that of the Chief Justice, to the lowest level (SCIV) of subordinate staff (see also Table 2). The compression factors are ratios of each grade's salary level and that of subordinate staff. A ratio of unity implies that compression is complete, with all grades enjoying the same salary complement.

Figure 2
Compression factors by year: major salary grades as ratios of lowest grade, SCIV (1982-2000)



Notes: The designation 1 on the horizontal axis stands for the salary level of the Chief Justice, levels then decline downwards to that of the Messenger, 19. The compression factors were calculated as ratios between each grade and the lowest one (SCIV). See Appendix 1 for sources.

Although the compression of salaries has been a common phenomenon in African public services, it has been driven to extremes in poor countries like Malawi (see Liernert and Modi 1997; World Bank 1994). Thus while at the beginning of the 1980s, top government employees were earning up to 45 times more than the lowest paid messenger, the gaps had been reduced to only between 12 to 18 times in the decade that followed. The compression has been severer for the mid range grades, with some ratios falling from above 20 to only about 5.

The government attempted to reverse the effects of wage compression by inventing a variety of employment benefits, notably housing and transport allowances. Top civil servants travel abroad at frequent intervals, which enables them to generate extra income via per diem and related allowances. Training workshops and conferences, where allowances are paid for attendance, are also common, in many cases sponsored by donors (Government of Malawi and World Bank 2000). More often than not, however, employees attempt to supplement their incomes by 'privatising' public property, such as official stamps, demanding a fee for them. Medicines are stolen from hospitals, while government vehicles are used for private businesses. Shirking is common while some individuals simply abscond from duty while continuing to draw salaries from the government.

How do public sector salaries and wages compare with those of private sector? Comparing wage levels in the two sectors is difficult. First, within the private sector the pay levels vary across employers, with some paying much less than minimum salaries in the civil service, while others that pay up to 30 percent more for staff with similar levels of training (World Bank 1994). Second, comparisons should ideally be made between jobs held by individuals with similar training and experience. Last, in addition to salaries, one also needs to look at monetary and non-monetary benefits, although the latter can be difficult to quantify.

A study of pay by sector done by the ILO (1989) found that basic salaries among professionals in the private sector were about 150 percent higher than in government, with sub-professional categories in the private sector enjoying 45 percent higher wages. Only among the low-skilled occupations did civil servants earn a little more, 4 percent, than those in the private sector. On the basis of an extensive survey, the World Bank (1994) was able to put value on the various non-monetary benefits attached to these jobs. When these were added to salaries and wages, the pay gap between professionals in the private sector and civil service was reduced to 60 per cent. For the middle and junior grades in the civil service, with subsidized housing, the total remuneration package was in fact better than in the private sector.

However, during the period 1993 to 1999, private sector salaries grew much faster than in the public sector. In real terms, salaries for high-ranking civil servants decreased by about 50 percent over the period while they increased by six times for top jobs in the private sector (Malawi Government and World Bank 2000). Lower grades were similarly lagging behind their equivalents in the private sector. At the end of 1999, a civil service extension worker earned US$41 per month after tax, and including benefits, while extension workers employed by NGOs earned three times as much (Moll 2000).

The Ministry of Health and Population provides an example of the consequences of low salaries and wages. Although the share of public expenditure going to personal emoluments increased from 24 percent to 39 percent over the period 1990 to 1997 as part of a deliberate effort to maintain reasonable salary levels, there were large-scale resignations from the ministry. By 1999 up to 50 percent of the employees had left, mostly doctors, nurses and other clinical staff, and most vacancies remained unfilled (Malawi Government and World Bank 2000).

In modern economics, a central component of the incentive structure is ability to relate inputs and outcomes to wage compensation (Lazear 1995). This approach is, however, rarely practised in Malawi. The information required for its operation is simply not available. Another reason is that for most jobs in the civil service, it is difficult to establish a clear link between human resource inputs and the quantity and quality of the service provided. But even when the latter is possible, incentives based on outputs could go wrong. If, for example, health clinics are compensated for the number of vaccinations carried out, they might neglect other aspects of primary care and treatment.

Nevertheless, a job restructuring exercise is under way in Malawi and new employment contracts have been introduced. Some institutions, such as the Anti-Corruption Bureau (ACB)[4] and Malawi Revenue Authority, now use employment contracts that relate pay to either individual performance or outcomes. During 2000, senior civil servants from Deputy Secretary and above, were given the option to switch to performance-based contracts of a three-year duration, with pay levels that were about 500 percent above current ones. Still, initially only those close to retirement accepted performance-based contracts, since they had little to lose, while others hesitated for fear of unfair performance appraisals and anxiety regarding the sustainability of the system itself. More recently, however, more individuals have opted for the new scheme.

As already noted, the success of a system based on salary enhancement rests on ability to design a credible system of performance evaluation. It is not self-evident how to measure the output of a Principal Secretary, for example. Ultimately, the procedure used must combine objective measurement with a degree of subjectivity. This implies, in turn, that other considerations, such as politics and ethnic bias, might distort the evaluation.

5. Accountability in the public sector

A key goal of the reform of the civil service has been to raise accountability in the public sector. Lack of accountability has serious implications for the use of resources in ministries and departments. Without accountability, many important initiatives by the government will have little effect. For example, the introduction of a cash-budget in Malawi in 1994 was meant to instil a high level of accountability in the budgetary process and also to reduce discretionary expenditures in the ministries. Still, poor accountability led to the build up of arrears. Private sector firms have been willing to supply goods and services on credit to government departments on the strength of promises of future payment. This has helped senior officers to maintain their activities. In other cases, cash-strapped departments continue to consume public utilities, including water, electricity and telecommunications, while refusing to pay for the accumulated bills.

To increase accountability in government demands not only reforms of the nature described in the sections above, but also concerted actions directed against corruption in public life. In 1994, a new constitution was written which expressed a commitment to political pluralism and good governance. As a result, the latter part of the 1990s saw the establishment of institutions like the Ombudsman, Electoral Commission, Compensation Tribunal, and the Anti-Corruption Bureau (ACB).

Corruption is a big problem in Malawi, as indeed in other parts of Sub-Saharan Africa. The new government thus sought support from the World Bank to put into place policies to

[4] The experience of the ACB is discussed in some detail further below.

address it. Already in 1995, Parliament passed the Corrupt Practice Act. The leadership of the Anti-Corruption Bureau was appointed in 1997, with operations commencing a year later. The Bureau's mandate is to investigate and prosecute offences of corruption, empower civil society via education and information to fight corruption and deter corruption in all its various forms.

The ACB has gained a reputation for efficiency. Its corruption fighting activities have led to the dismissal of at least four ministers and several senior civil servants. In 2001 a further two ministers were on trial for corruption along with a large number of civil servants. The causes of the ACB's relatively high efficiency are illustrative. First, it enjoys the political support of the President. This implies that lower instances are not able to interfere. Second, the staff of the institution was handpicked, with emphasis put on relevant qualifications and experience. Further, the Bureau hired experienced expatriates who brought with them the know-how that gave the institution confidence.

Employees at the ACB work on the basis of three-year contracts. Their remuneration is several times that of civil servants in other departments. The salary of a senior investigator is, for example, about MK30,000 a month. This is supplemented by a housing allowance (MK15,500), a duty allowance (MK4,500) and a 25 percent taxfree gratuity at the end of the contract. This amounts to approximately MK53,000 (currently US$660). In addition, the investigator gets MK980 per day to cover personal expenses when travelling within in Malawi and US$250 when travelling abroad. Moreover, the medical expenses of the employee's family are covered by the ACB.

Monitoring and evaluation of ACB's performance is done every year. Each employee prepares a report on own activities during the year under review and presents it to an evaluation team made up of six people, including peers, supervisors, and an external human resource officer. The team members then assess aspects of the employee's performance. The average score is then used to determine whether the salary should be increased and by how much. While the above pay increases are purely on merit, ACB staff also enjoy the salary increases that accrue to the rest of the civil service. So far this system has worked well, since discrepancies in assessment by the evaluation team members are small the system has achieved credibility.

6. Concluding remarks

The Malawian authorities have since 1994 implemented public sector reforms with the goal of increasing efficiency in the delivery of social services. However, although some institutions, such as the new Anti-Corruption Bureau, appear to perform well above average, the progress made so far has been slow and far between. Still, the reform of the public sector is considered a long-term process and it has been important to learn from past mistakes.

Lack of accountability remains a serious impediment to raising efficiency in the public sector in Malawi. A number of issues need to be addressed in this regard including the incentive structure, transparency, monitoring, evaluation, and the disciplinary regime. There seems to be problems with all these factors in Malawi. Basic salaries are low, in real terms and relative to the private sector, and there has been a serious compression of the salary structure since the 1980s. On the other hand, the level of transparency, as well as compliance with rules and regulations remains low. But a perhaps more serious cause for concern is the lack of a system that sanctions those that break the rules. Before democracy was re-introduced in Malawi, with the elections of 1994, accountability in government was upheld by a strict code of civil service conduct. Then, a mere suspicion of wrongdoing was enough to send civil servants to jail. Since this rigorous system has not been replaced with an effective system of deterrence under the new regime, democracy is sometimes blamed for increasing corruption and lethargy in the civil service.

The low level of accountability has also affected the government's budgeting process. Five years after the Medium-Term Expenditure Framework was introduced, there are still large discrepancies between policy goals, implementation and results. Evaluation of the outcomes is made difficult by the poor feedback from end-users, for example those receiving primary health care in the countryside. Lacking this information, it is difficult to assess the impact of the reforms, and how to adjust future budgets in order to improve the public sector's capacity to target the vulnerable groups.

An important lesson to learn from the Malawian experience is the necessity of public reforms to have champions across the length of the political hierarchy. At each level of administration, somebody has to take on the responsibility of pushing the reform forward. This also relates to the question of ownership. There are many cases where the implementation of a programme has depended on the exertion of pressure by multilateral and bilateral donors, often alienating civil servants in the process. Programmes so implemented are prone to fail. Many donors now realise that, while they will need to continue providing the requisite financing and technical assistance, Malawian authorities must run the process if it is to have any chance of success. It is also necessary to encourage agencies outside government, such as civil society, business associations and academics to take active part in the development debate. This would broaden support for the reforms pursued and check government excesses.

Finally, in spite of the problems in the Malawian public sector listed above and the substantial amount of work still to be done, the government has taken important reform measures in the past few years. The reforms have been of a three-pronged nature. First has been a focus on the creation of incentives for improved performance in the civil service, second is the emphasis on inclusion and a participatory approach, third is the attempt to boost the institutions of the public sector, raising their efficiency and reducing corruption. The enhancement of the terms of service in government in recent years, creation of the office of the Ombudsman and Anti-Corruption Bureau to act as checks on government excesses are examples of the recent policy thrust. So far, progress in public sector reforms has been made thanks to political support from the President. However, for public sector reform to be sustained in Malawi, it will be necessary to incorporate broader sections of the population into the process.

Appendix Table
Salaries and wages for select grades (in MK and US$)

Salary Grades	Representative/Generic Job Titles	Annual Salaries (Dec. 2000)	
Super scale, Administrative roles		MK	$US
S1	SPC, Chief Justice	239483	2994
S2C	Deputy SPC	178397	2230
S2A	Attorney General	160785	2010
S2	Principal Secretary	153034	1913
S3	Senior DPSs, Ambassador	128010	1600
S4	DPS's	118467	1481
S5	Chief, Under Secretaries	108325	1354
S6	Senior Assistant Secretary	84018	1050
S7	Principal Admin. Officer	76029	950
S8	Senior Admin. Officer	68159	852
Super-scale, Professional			
P1	Chief Specialist	239483	2994
P2	Controller, Commissioner	153034	1913
P3	Principal Specialist	128010	1600
P4	Senior Specialist	118467	1481
P5	Chief Officer	108325	1354
P6	Assistant Chief Officer	84018	1050
P7	Principal Officer, (Medical Doctor)	76029	950
P8	Senior Officer, (Senior Accountant)	68159	852
Administrative and Professional			
A0/P0	Prof. / Admin. Officer, (1st degree holder)	49969	625
CE0/CT0	Chief Exec. / Tech Officer (Accountant)	56962	712
SE0/ST0	Senior Exec. / Tech Officer	51921	649
E0/T0	Clerical Officers (Diploma holder)	39907	499
SC0/STA	Clerical officer	35464	443
CO/TA	Clerical / Technical Assistants (O-level)	20023	250
Subordinate Staff			
SCI	Messenger	24387	305
SCII	Messenger	19366	242
SCIII	Messenger	15541	194
SCIV	Messenger	12970	162

Source: Government of Malawi.

Note: The salaries are minimum salaries within each grade as of December 2000. The exchange rate used was MK80 per US$. Sources are World Bank (1994) and Department of Human Resource Management and Development.

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