> Nemr Kanafani
Senior Economist
+965 2259 5360, nemrkanafani@nbk.com

Public finance

Kuwait: Public wage reform to standardize pay, control wage bill

The government proposed last year a major initiative to reform the public sector wage bill, which currently awaits National Assembly approval. If approved as is, the proposal, dubbed the "strategic alternative", would restructure job classifications, standardize pay across the public sector and introduce an annual inflation adjustment, among other things. The measures are intended to provide the government with increased centralized control over wage growth and unify pay standards across the public sector. The initiative will include staff of all government entities, K-institutions and the oil sector. Military professions (defense, national guard, police and firefighters) will be excluded.

The initiative will cost an estimated KD 350 million during the first year of implementation, or 4.5% of the KD 7.85 billion public sector wage bill. The cost will go towards increasing the salaries of employees earning less than the new pay scale (those below the mode in their category). An estimated 45% of public sector employees currently earn below the proposed new pay scale; their salaries will be increased by 18% on average. As a result, the initial implementation year could see a moderate boost to household income and consumer spending.

The salaries of those earning above the new pay scale will not be reduced. Instead, individuals in this group will have their pay frozen until it equals the pay corresponding to their grade and job classification. This group's pay will still be adjusted for inflation.

In the long run, the reforms should mean substantial savings for the government in addition to the improvement in efficiency. Official estimates put the fiscal savings at over KD 16 billion during the first ten years of implementation. By the tenth year, the government wage bill under the proposed system is projected to be over 20% lower than if no action was taken.

The "strategic alternative", the result of over a decade of research and deliberation, was developed by the Civil Service Council (CSC) and Tri International Consulting Group (TICG). CSC, which currently manages new hiring across most of the public sector, will be responsible for the implementation and enforcement of the initiative once it is approved. The core objectives of the reforms are based on the research prepared by TICG (a joint venture between Oliver Wyman, KIA and Kuwait Fund), which has undertaken a comprehensive analysis of pay in the government, public entities and the oil sector.

One of the main objectives of the "strategic alternative" is to reduce unfairness in pay and increase transparency. Research revealed that pay across the public sector varies widely; for example, pay at one of the K-institutions for a "grade 4" accountant is double what is paid at one of the ministries. One of the reasons for this is the proliferation of job-specific allowances (not including child and social allowances) which can vary significantly; but there are also inconsistencies in basic pay across the public sector. Not surprisingly, the analysis has shown that individual performance did not appear to play any role in explaining differences in employee pay.

The wide discrepancies in compensation across the public sector exist both within entities and between them. At some of the entities with the largest proportion of underpaid staff, more than half, and up to 2/3, of employees will receive an increase in pay as a result of the proposed law. Meanwhile, staff at entities with the lowest proportions of employees earning below the new pay scale will require smaller adjustments.

In an effort to resolve the problem of unequal pay, the initiative would set a unified basic pay scale and a "job allowance" scale to account for differences between job categories or professions. The proposal sets up 15 equivalent grades across the public sector, with each having the same basic salary; each job category would also have its own "job allowance" scale. Of course, the initiative calls for unifying job classifications, which will be done according to the internationally recognized standard (ISCO).

Another key objective of the initiative is to manage growth in the public sector wage bill. Wage bill growth over the last two decades has averaged around 12% a year. In some years, growth was even higher, topping 20% in FY11/12 and 18% in FY12/13. The high pace of growth in the wage bill is partly due to the lack of an overarching system that would allow the government to manage the wage bill more tightly, without the proliferation of new categories, benefits, and cadres. The new proposed system will fix that.

The reform initiative should eliminate the existing haphazard process of salary growth and could reduce average wage bill growth to around 9% a year, while increasing fairness and transparency. The existing system allows worker groups and organized professional cadres to lobby for wage hikes in the absence of a formal process that accounts cost of living growth and changes in the labor market. One step is to introduce an annual inflation adjustment. A pay review every four years will also be introduced whereby the CSC would negotiate adjustments to the pay scales in accordance with specific budgetary guidelines from the government. This process will allow authorities to make needed adjustments to the pay scales to accommodate changes in labor market conditions.

The new wage system also seeks to encourage high performance among employees. According to TICG's analysis, the existing annual performance review fails to identify top performers, with 80% of employees receiving the top "excellent" grade. To fix this, the new wage system will require that no more than 10% of employees receive the newly created "superior" grade. This will allow the government to identify and reward the high performers more effectively.

If approved in its current form, the proposed wage system will be a positive step that will help control wage bill growth and contribute to making the public sector more effective and efficient. Meanwhile, the focus on reducing the (correct) perception of unfairness in public sector compensation should also help boost employee motivation and productivity, and ultimately overall government sector efficiency. Other steps are needed but this is necessary and "feasible" first step.

Head Office

Kuwait
National Bank of Kuwait SAK
Abdullah Al-Ahmed Street
P.O. Box 95, Safat 13001
Kuwait City
Tel: +965 2242 2011
Fax: +965 2259 5804
Telex: 22043-22451 NATBANK
www.nbk.com

International Network

Bahrain
National Bank of Kuwait SAK
Bahrain Branch
Zain Tower, Building 401, Road 2806
Seef Area 428, P. O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

National Bank of Kuwait
Bahrain Branch (H.O)
GB Corp Tower
Block 346, Road 4626
Building 1411
P.O. Box 5290, Manama
Kingdom of Bahrain
Tel: +973 17 155 555
Fax: +973 17 104 860

United Arab Emirates
National Bank of Kuwait SAK
Head Office - Dubai
Latifa Tower, Sheikh Zayed Road
Next to Crown Plaza
P.O.Box 9293, Dubai, U.A.E
Tel: +971 4 3161600
Fax: +971 4 3888588

National Bank of Kuwait
Abu Dhabi - Branch
Sheikh Rashed Bin Saeed
Al Maktoom, (Old Airport Road)
P.O.Box 113567,Abu Dhabi, U.A.E
Tel: +971 2 4199 555
Fax: +971 2 2222 477

Saudi Arabia
National Bank of Kuwait SAK
Jeddah Branch
Al Khalidiah District,
Al Mukmal Tower, Jeddah
P.O Box: 15385 Jeddah 21444
Kingdom of Saudi Arabia
Tel: +966 2 603 6300
Fax: +966 2 603 6318

Jordan
National Bank of Kuwait SAK
Amman Branch
Shareef Abdul Hamid Sharaf St
P.O. Box 941297, Shmeisani,
Amman 11194, Jordan
Tel: +962 6 580 0400
Fax: +962 6 580 0441

Lebanon
National Bank of Kuwait
(Lebanon) SAL
BAC Building, Justinien Street, Sanayeh
P.O. Box 11-5727, Riad El-Solh
Beirut 1107 2200, Lebanon
Tel: +961 1 759700
Fax: +961 1 747866

Iraq
Credit Bank of Iraq
Street 9, Building 187
Sadoon Street, District 102
P.O. Box 3420, Baghdad, Iraq
Tel: +964 1 7182198/7191944
+964 1 7188406/7171673
Fax: +964 1 7170156

Egypt
National Bank of Kuwait - Egypt
Plot 155, City Center, First Sector
5th Settlement, New Cairo
Egypt
Tel: +20 2 26149300
Fax: +20 2 26133978

United States of America
National Bank of Kuwait SAK
New York Branch
299 Park Avenue
New York, NY 10171
USA
Tel: +1 212 303 9800
Fax: +1 212 319 8269

United Kingdom
National Bank of Kuwait
(International) Plc
Head Office
13 George Street
London W1U 3QJ
UK
Tel: +44 20 7224 2277
Fax: +44 20 7224 2101

National Bank of Kuwait
(International) Plc
Portman Square Branch
7 Portman Square
London W1H 6NA, UK
Tel: +44 20 7224 2277
Fax: +44 20 7486 3877

France
National Bank of Kuwait
(International) Plc
Paris Branch
90 Avenue des Champs-Elysees
75008 Paris
France
Tel: +33 1 5659 8600
Fax: +33 1 5659 8623

Singapore
National Bank of Kuwait SAK
Singapore Branch
9 Raffles Place #24-01/02
Republic Plaza
Singapore 048619
Tel: +65 6222 5348
Fax: +65 6224 5438

China
National Bank of Kuwait SAK
Shanghai Representative Office
Suite 1003, 10th Floor, Azia Center
133 Yin Cheng Bei Road, Lujiazui
Shanghai 200120
China
Tel: +86 21 6888 1092
Fax: +86 21 5047 1011

NBK Capital

Kuwait
NBK Capital
38th Floor, Arraya II Building, Block 6
Shuhada'a street, Sharq
PO Box 4950, Safat, 13050
Kuwait
Tel: +965 2224 6900
Fax: +965 2224 6904 / 5

United Arab Emirates
NBK Capital Limited - UAE
Precinct Building 3, Office 404
Dubai International Financial Center
Sheikh Zayed Road
P.O. Box 506506, Dubai
UAE
Tel: +971 4 365 2800
Fax: +971 4 365 2805

Associates

Turkey
Turkish Bank
Valikonagl CAD. 7
Nisantasi, P.O. Box. 34371
Istanbul, Turkey
Tel: +90 212 373 6373
Fax: +90 212 225 0353