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Afghanistan Issues Note: Managing the Civilian Wage Bill

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Introduction

1. **Civil service compensation should attract and retain qualified and diverse staff to deliver public services while remaining fiscally sustainable.** Good international practice calls for a forward-looking civil service with sufficient capacity and continuity to deliver high quality services. This requires data on the workforce and functional accountability structures. Management should be sufficiently agile and innovative to respond to changing needs and priorities. To achieve this balance, institutional arrangements should regularly assess competitiveness and adequacy for service delivery objectives and forecast future costs as part of a medium-term fiscal framework. Flexibility is required to maintain a competitive, cost-effective civil service over the longer term.¹
2. **However, civil service reform in fragile states is constrained by complex social and political realities.** Large groups of employees unqualified to deliver basic services are often an enduring legacy of conflict. For example, employees may occupy positions based on political settlements which are serving to distribute central government revenues rather than deliver efficient services. Reforms in a fragile state carry higher risks of social unrest if these arrangements are disrupted. Central agencies and line ministries may also have limited functional authority to implement reforms or control staffing. In this context, a pragmatic approach is required to chart incremental reforms with sufficient political momentum and incentives to be implemented.²
3. **The Government of the Islamic Republic of Afghanistan (GIROA) requested the World Bank's technical assistance in reviewing the management of its wage bill.** Under the direction of the Presidency, the Ministry of Finance (MoF) and the Independent Administration Reform and Civil Services Commission (IARCSC) requested support for this task and have provided data to undertake the analysis. Major data sources include the Tashkeel (staffing structure), the current civil service headcount, and data on actual civil service expenditures. Data was provided by IARCSC, the Central Statistics Office (CSO), MoF, and the Ministry of Education (MoE).
4. **While significant reforms have been implemented in Afghanistan, core civil service compensation arrangements are inadequate.** The demand for skilled labor created by an influx of international assistance over the past fifteen years has resulted in significant labor market distortions. A “parallel civil service” of externally financed national and international advisors has emerged. To attract civil servants to key positions, a variety of arrangements have been used to supplement on-budget salaries. However, these approaches have not been integrated in the civil service compensation framework and the sustainability of this approach is unclear.
5. **Pressure is rising to contain the costs of the civil service.** Afghanistan has targeted self-sufficiency as a national priority. Approximately 60% of the budget is currently financed externally and international assistance is expected to decline in coming years. Nominal costs have risen with the recruitment of additional teachers and the implementation of increased nominal salaries. The future pension liabilities of the civil service remain un-costed and therefore pose an unknown liability.
6. **This Issues Note provides an analysis of the composition arrangements and fiscal cost of the civil service.** The note situates recent reforms in historical context and presents the current composition

¹ OECD (2018). “Strategic HRM and compensation.” <http://www.oecd.org/gov/pem/strategic-hrm-and-compensation.htm>

² Blum, Ferreiro-Rodriguez and Srivastava (forthcoming). “Building Public Services in Postconflict Countries.”

of the civil service by ministries, provinces, and gender. It presents an overview of the evolving wage bill, as well as the cost of parallel technical assistance. The note concludes with a series of directions (key elements) that can be considered to strengthen the overall governance of civil service compensation.

7. **An initial wage bill modeling tool is also available, which allows policymakers to estimate the costs and savings associated with changes in general parameters.** However, the current model is only capable of basic computations and requires more accurate and disaggregated data – on the current composition of the civil service, the size and allocation of National Technical Assistants (NTA), and on the allowances of different career groups – to allow for more precise estimates and more policy permutations. While the Issues Note presents a number of scenarios – not recommendations – to assess the implications of potential wage bill policy choices to address some of the challenges outlined above, these rely on aggregate data and ratios and use the World Bank’s macro-fiscal projections. Scenarios outlined within this note are therefore preliminary and only intended to provide policymakers with a starting point for discussion. These are to be further developed into concrete policy options, situated within the broader fiscal context (using a macroeconomic framework) and reflective of political economy factors, as the wage bill model is refined. This is planned as part of ongoing development of a Policy Note on Government Wages, Salaries, and Allowances. A technical committee comprising MoF, IARCSC, and the World Bank has been formed for this purpose, and is currently sourcing more accurate and disaggregated data from Ministries, Departments, and Agencies (MDAs).

8. **The scope of the note covers the civil service, which accounts for approximately 40 percent of the total public wage bill.** The rest of the wage bill is comprised of the security sector, which is omitted from the analysis except where explicitly stated. This definition differs from the most common and internationally comparable definition of the “general government wage bill” which includes the security sector.

Historical Context

9. **Many features of the modern civil service were defined in the 1970s, when a centralized system of recruitment and job classification was established.** Centralized control was reinforced during the Soviet and Taliban periods, and the Civil Service Commission was abolished in favor of direct Presidential control of staffing and pay. A single pay scale was implemented for the civil service and state-owned enterprises. Pay scales were highly compressed – as inflation eroded basic pay, and fixed food allowances became the primary means of compensation. This system was based on a rank-in-person scale in which individuals progressed up ten-level pay scale irrespective of position. Overall rates of pay were low – by 2002, average pay was about \$52 per month, complemented by a WFP food basket valued at about \$16 for each civil servant. The net result of this system was a nearly universal rate of pay for all civil servants with no possibility for lateral entry to higher positions.³

10. **Following the 2001 Bonn Agreement, a Civil Service Commission was established, a new civil service pay scale was agreed, and the legal framework was revised.** To move towards a merit-based civil service, the Independent Administrative Reform and Civil Service Commission (IARCSC) was created in 2002 with a mandate to lead these reforms. The initial stages of civil service reforms began in 2003, targeting legal, administrative and pay reforms within the position-based compensation framework at that time.⁴ A Civil Service Reform Program began in 2007, implementing a new system of Pay and Grading (P&G) and to provide additional training to civil servants. Under P&G, pay rates were decompressed and raised significantly. A merit-based system was introduced in which all posts are subject to open competition, including external candidates. Rates of pay increased with the implementation of P&G in 2008, with monthly wages rising from \$50-200 on the former scale to \$100-700 on P&G.

11. **The P&G reform has largely been implemented, but with limited long-run results.** By 2018, most ministries had adopted P&G and most civil service positions had been reclassified.⁵ However, P&G wage rates have never been adjusted. As real wages have declined, wages have been gradually recompressed. If this situation persists, it will lead to the same outcome experienced in previous decades – limited pay differences between grades with little incentive to take on more responsibility in higher grades. With a single P&G structure across government, many civil servants have expressed frustration with limited opportunities for career progression. This is particularly evident for technical positions in public financial management, where externally-financed positions are often the only avenue for progression. With little differentiation between categories of public servants, the P&G system may be over-simplistic.

12. **Afghanistan faces significant challenges in managing the civil service workforce.** Data on the civil service has gradually improved, including some ministry level staff headcounts and disaggregated AFMIS expenditure data. However, it remains impossible to systematically validate the identity of the civil servants on the payroll and ‘ghost workers’ remain a recurrent public sector management challenge. Without a universal Human Resources Management Information System (HRMIS), it is not possible to accurately validate appointments, measure performance, or project the cost of future pension obligations. Institutional arrangements to monitor and adjust the size and compensation of the civil

³ Manning, N, Van Gelder, L and Wanjohi, H (2002). “The Civil Service in Afghanistan.”

⁴ The Priority Restructuring and Reform program (PRR) and Public Administration Reform Program (PAR) supported reforms from 2003-08.

⁵ Hogg, R (2013). “Building Government Capacity: Key Issues and Emerging Challenges.” In *Afghanistan in Transition: Looking Beyond 2014*. World Bank. The Ministry of Foreign Affairs, the Administrative Office of the President and the civilian positions in the Ministry of Defense and Ministry of Interior have not been converted to P&G.

service remain weak. Overall public sector compensation exceeds that of the private sector. However, civil service pay for high-skill positions in central ministries remains uncompetitive with the private sector and international organizations. P&G salaries are not regularly adjusted and real salaries have fallen since their introduction in 2008. This situation has resulted in a variety of salary supplement programs discussed in this note, including the Capacity Building for Results program (CBR).

Size and Composition of the Civil Service

Control Regime

13. **The structure of the civil service is defined in the Tashkeel (list of authorized positions).** The IARCSC approves the detailed Tashkeel, including the organizational structure and list of individual positions by department within each ministry/agency. Based on their responsibilities, ministries and agencies propose a provincial and central Tashkeel within their overall budget ceiling. The IARCSC maintains the approved Tashkeel and monitors ministry compliance. The CSO maintains statistics on the civil service based on ministry level headcounts and the approved tashkeel.

14. **The budget provides a hard constraint for the overall employment ceiling.** The national budget controls civil service composition through the aggregate authorized expenditure on wages and salaries by ministry/agency and through an aggregate ceiling on the total number of authorized positions by ministry/agency. However, the detailed structure of each ministry/agency is not presented in the budget. The Budget Committee reviews Tashkeel requests for inclusion in the budget.

15. **In some cases, the hard budget constraint is the main control mechanism for staffing in line ministries.** For example, the actual staffing within the Ministry of Education (MoE) does not match its authorized Tashkeel positions, and the ministry uses budgetary space created by unstaffed high-grade positions to fund large numbers of lower level or contracted staff that are not in the Tashkeel. The legal precedent for this operational practice has not yet been interrogated.

Rates of Pay

16. **Following the introduction of P&G, Afghanistan uses an eight-grade structure for the civil service, with five steps in each grade.** The system is position-based, with appointment criteria established for each grade. The highest positions are Grade 1 and the lowest are Grade 8. In addition, three levels above these grades are primarily used for political appointees – Above, Beyond, and Out of grade. The lowest Grade 7 and 8 positions are generally unskilled labor called contract workers. While seniority can be used to progress between steps, it cannot be used to progress between grades except in the teaching cadre.

17. **Recruitment is a shared responsibility of the IARCSC and ministries and agencies.** All recruitment is competitive. Ministries or agencies are directly responsible for recruitment for positions of Grade 3 or below under the supervision of the IARCSC Appointment Board. Ministries and agencies also recruit Grade 1 and 2 staff, with observation by the IARCSC Appointment Board.⁶ At this time, responsibility for this recruitment process for Grade 1 and 2 staff is being moved back to the IARCSC with participation of the relevant hiring entity.

Size of the Civil Service

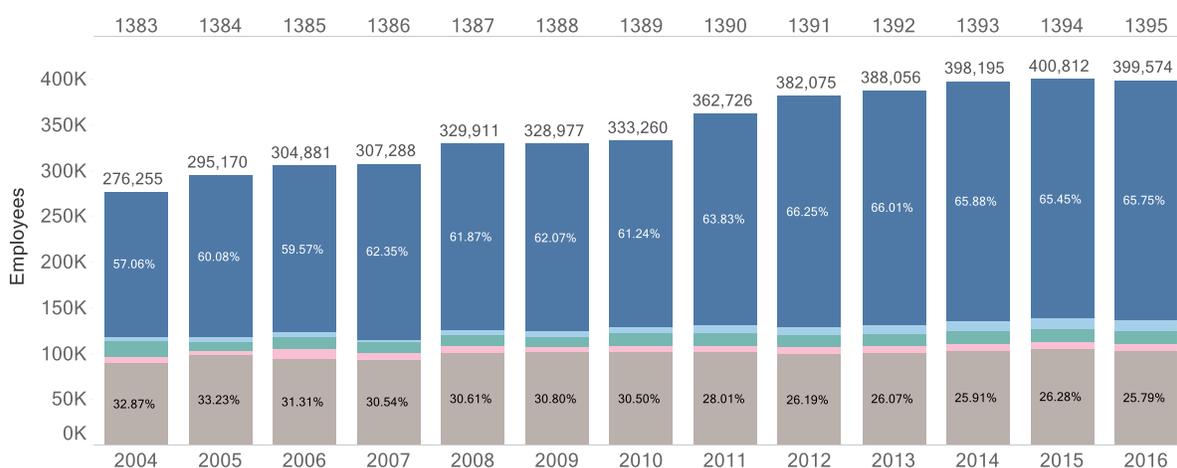
18. **The civil service in Afghanistan grew from 276,000 in 2004 to approximately 400,000 by 2016 (Figure Figure 1: Civil Service by Ministry, 2004-2016 (Headcount)).** The civil service in Afghanistan includes teachers. Based on the headcounts submitted to the CSO, indicate that the Ministry of Education (MoE)

⁶ Hashimi, S, Lauth G (2016) “Civil Service Reform in Afghanistan: Roles and Functions of the Civil Service Sector.” Afghanistan Research and Evaluation Unit.

was by far the largest employer, accounting for 65.7% of civil service employees. The health sector workforce has only shown modest growth, as primary health services have largely expanded through contracts with NGO service providers and MoPH remains a relatively modest employer (3.4% of civil service). The next largest employers were the Ministry of Higher Education (MoHE, 3.0%) and the Kabul Municipality (2.1%). A significant number of temporary staff are recruited and are part of the approved establishment. Although police and soldiers are part of the public sector, they are not included in the definition of the civil service in Afghanistan.

19. **The growth of the civil service is primarily the result of the recruitment of teachers.** The MoE accounts for 85% of the growth of the civil service over this period. In 2017, the authorized Tashkeel further increased to approximately 417,000 as new teacher positions were opened and additional civilian positions were created at the Ministry of Defense.

Figure 1: Civil Service by Ministry, 2004-2016 (Headcount)



Ministry
 ■ 27 Ministry of Education
 ■ 28 Ministry of Higher Education
 ■ 37 Ministry of Public Health
 ■ 79 Kabul Municipalities
 ■ All Others

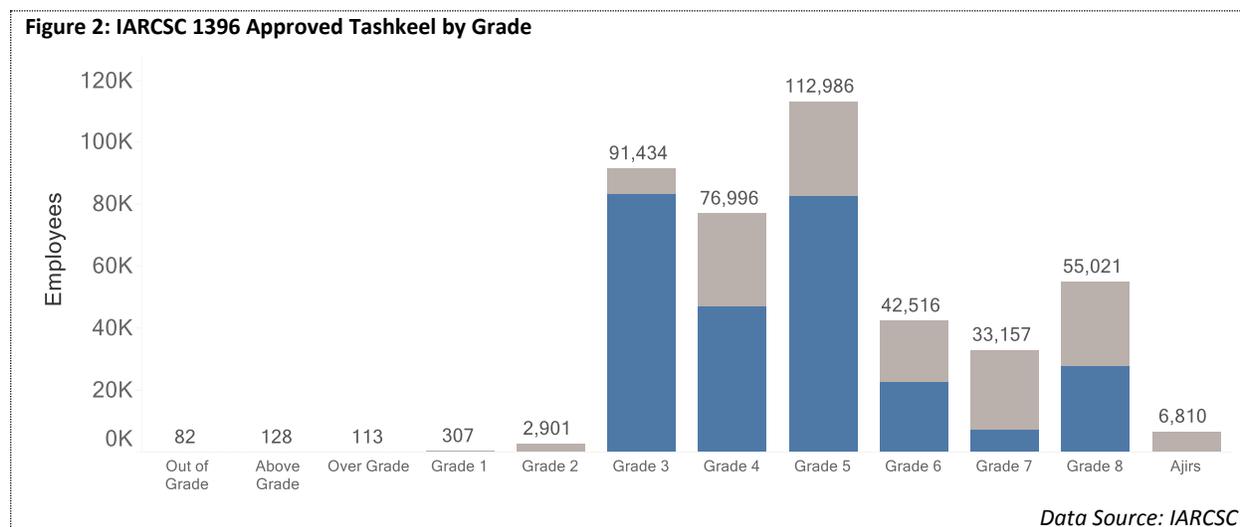
Top Ten Ministries by Headcount – 1395 / 2016	
Ministry/Agency	Employees
Ministry of Education	262,702
Ministry of Public Health	13,491
Ministry of Higher Education	12,071
Kabul Municipalities	8,279
Ministry of Haj and Religious Affairs	8,275
Ministry of Finance	7,777
Ministry of Agriculture	7,628
Ministry of Martyrs, Disabled and Social Affairs	6,897
Ministry of Interior	6,258
Supreme Court	6,229
All Others	59,967
Grand Total	399,574

Data Source: CSO

20. **The modest increase in the size of the civil service has supported service delivery.** Additional teacher recruitment was essential to address a significant increase in the number of enrolled students. Student enrollment has increased faster than teacher recruitment, and despite the additional recruitment, the pupil-teacher ratio increased from 41 in 2011 to 46 in 2017. The recruitment of teachers and implications for service delivery are further discussed in a forthcoming Teacher Policy Study.

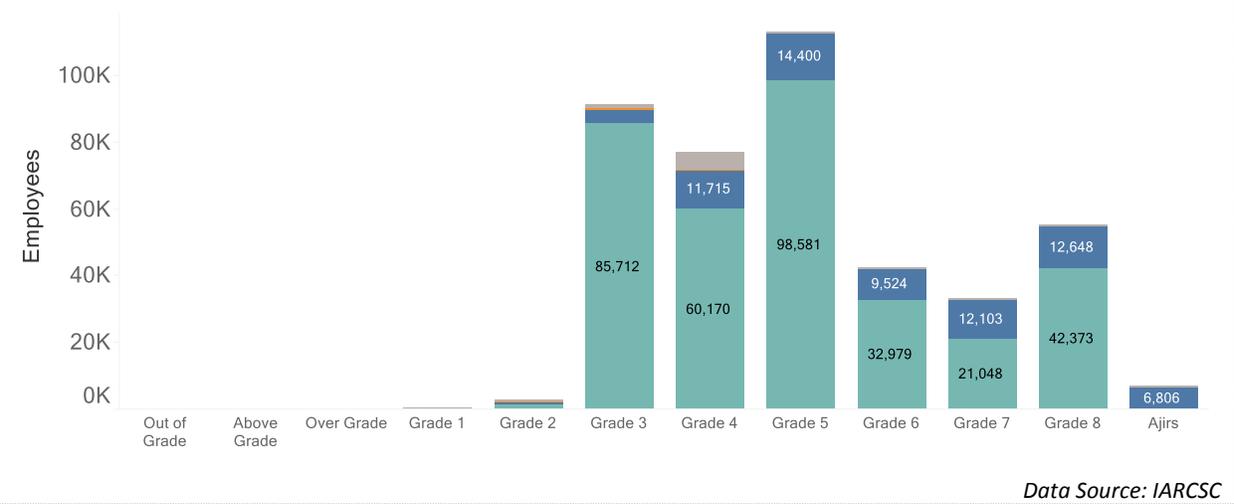
21. **Data on the distribution of civil servants by grade is inconsistent, pointing to an urgent need for a reliable Human Resource Information Management System (HRMIS) across the civil service.** Overall staffing numbers by ministry are authorized in the annual budget. The IARCSC maintains the authorized Tashkeel of positions by ministry/agency. By 2017, this list also included a breakdown of positions by grade. Ministries report on the composition of their workforce to the CSO annually. However, comparing this authorized Tashkeel against payroll data suggests inconsistencies, particularly for the MoE which is the largest civilian employer.

22. **The IARCSC authorized Tashkeel suggests a clustering of staff from Grade 3-6 (Figure 2/ Figure 1).** These mid-level grades account for approximately 68% of the total workforce. Senior management (Grade 2 and above) comprises a relatively small component of the Civil Service. Particularly notable is the large concentration of MoE staff at the Grade 3 level. As the P&G rates of pay have not been adjusted since their introduction, inflation has eroded the value of salaries. One reported explanation for this distribution is that MoE staff have been allowed progress to higher level grades on the basis of seniority, to a maximum of Grade 3. The legal framework governing this arrangement is unclear. As a result, there is a clustering of over 83,000 MoE staff at this level in the authorized Tashkeel. However, payroll data from the MoE does not support this explanation – this is discussed below.



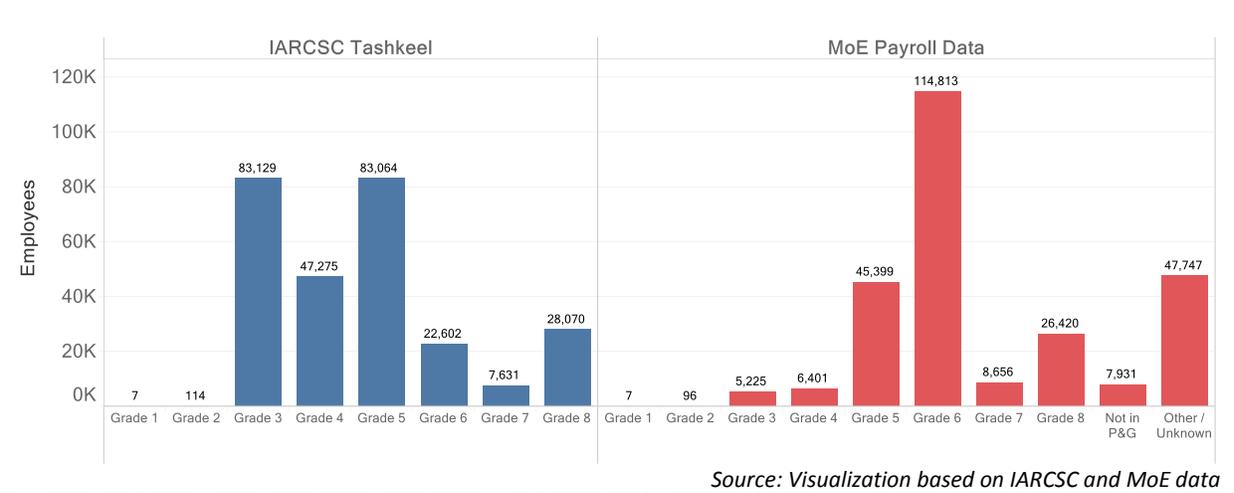
23. **IARCSC data indicates that the majority of the civil service (76.5%) is located in the provinces (Figure 3).** However, wage and salary expenditure data from 1395 indicates that only 56.6% of civilian wages and benefits were paid at provincial level. This suggests a disconnect between distribution of personnel and payments, possibly explained by the concentration of higher level positions and the use of special premiums in central ministries. This is discussed further under Civil Service Compensation.

Figure 3: IARCSC 1396 Approved Tashkeel by Location



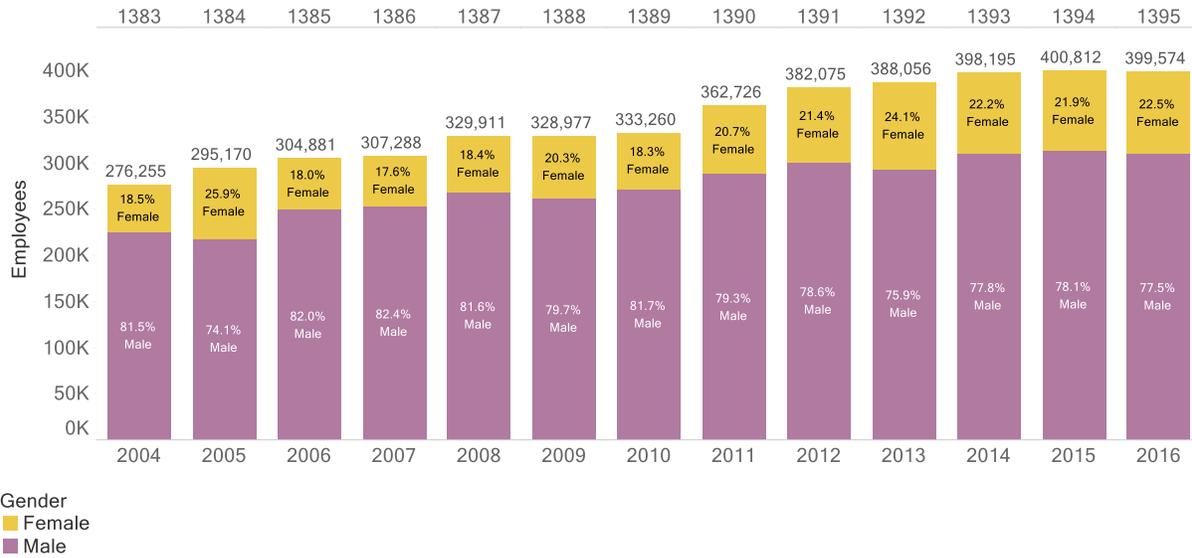
24. **The IARCSC authorized Tashkeel data differs significantly from MoE payroll data (Figure Figure 4: Distribution of MoE Employees by Grade – Conflicting Data,).** MoE payroll data from 34 provinces combined with Tashkeel positions at the central ministry indicates a much different distribution of employees by grade. In MoE data, employees are assigned to lower grades, with a large clustering of personnel at Grade 6 and Grade 5. This data may be more reliable than the Tashkeel, as it is based on payroll and is more plausible when compared to AFMIS expenditure data. Nevertheless, the significant differences indicate an urgent need to identify all Tashkeel positions and all employees by grade. This would require a reliable HRMIS with roles for the IARCSC and MoE.

Figure 4: Distribution of MoE Employees by Grade – Conflicting Data, 1396



25. **Data suggests that female participation in the civil service is low, accounting for approximately 22.5% of the civilian workforce (Figure 5).** Available data indicates that female participation has risen slightly over the past decade. However, large year-over-year adjustments in the gender ratio suggest that the quality of data submitted by ministries and agencies may be somewhat unreliable, as the civil service composition does not change significantly on a year-by-year basis.

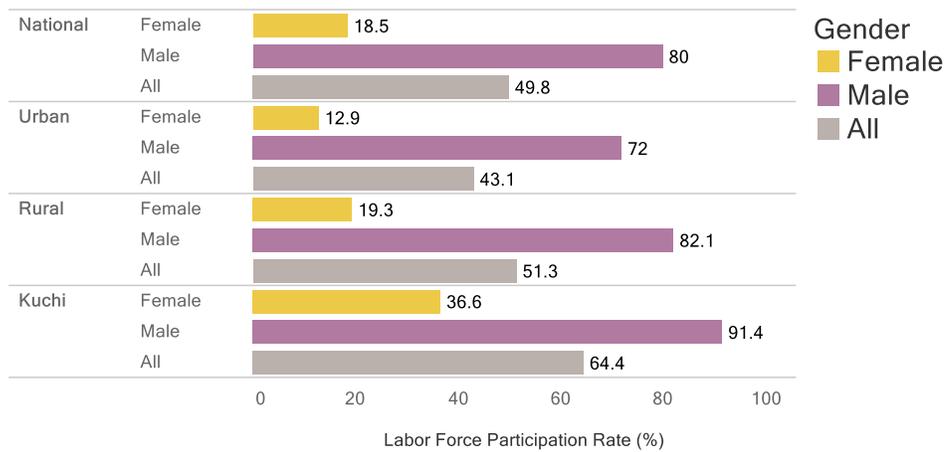
Figure 5: Civil Service Gender



Data Source: CSO

26. **The civil service is a significant source of formal sector employment for females.** Data from the latest publicly released Afghanistan Living Conditions Survey (ALCS) of 2013-14 indicates that only 18.5% of females participate in the labor force, compared to 80.0% of men (Figure 6). Within this small employed population, only 13% of female labor is in salaried positions, suggesting that female participation in the civil service is an important anchor for female participation in formal sector salaried employment.

Figure 6: Total Labor Force Participation Rate by Gender



Data Source: ALCS 2013-14

*Kuchi is the name of a nomadic group in Afghanistan

27. **Female participation rates vary significantly by grade and ministry.** Gender disaggregated data by grade available for approximately 104,000 positions indicates that female participation in high grade positions is limited. (Figure 7). Participation varies significantly between Ministries (Figure 8). While females comprise the majority of the Ministry of Women’s Affairs and the Ministry of Labor, Social Affairs, Martyrs, and Disabled, they are underrepresented in all other ministries.

Figure 7: Civil Service Headcount by Gender and Grade (Limited Data), 1395

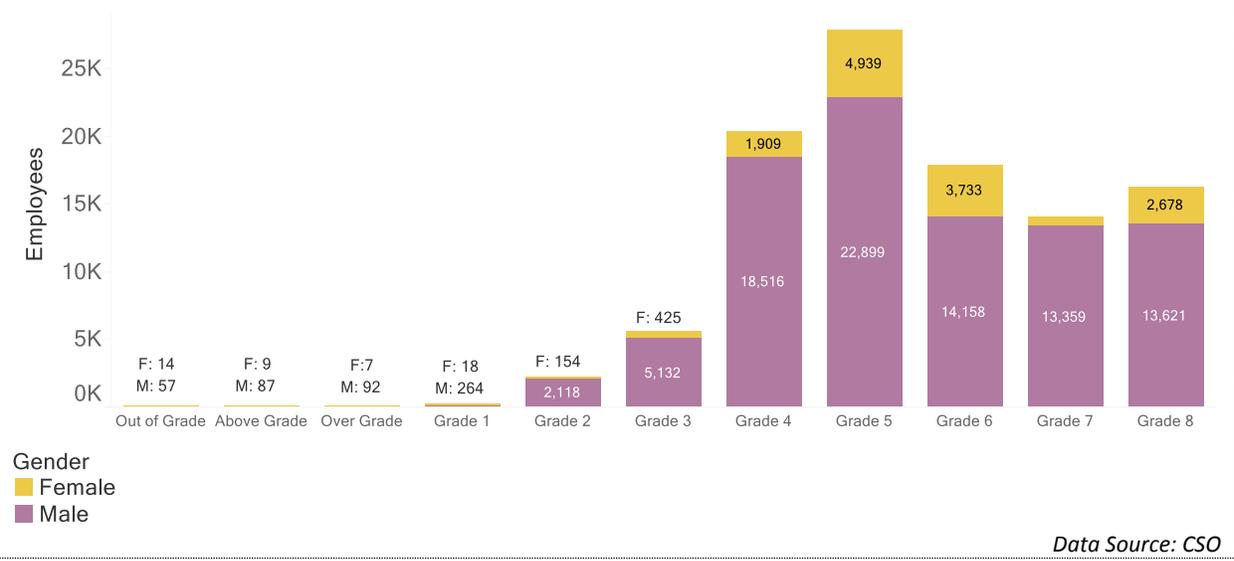
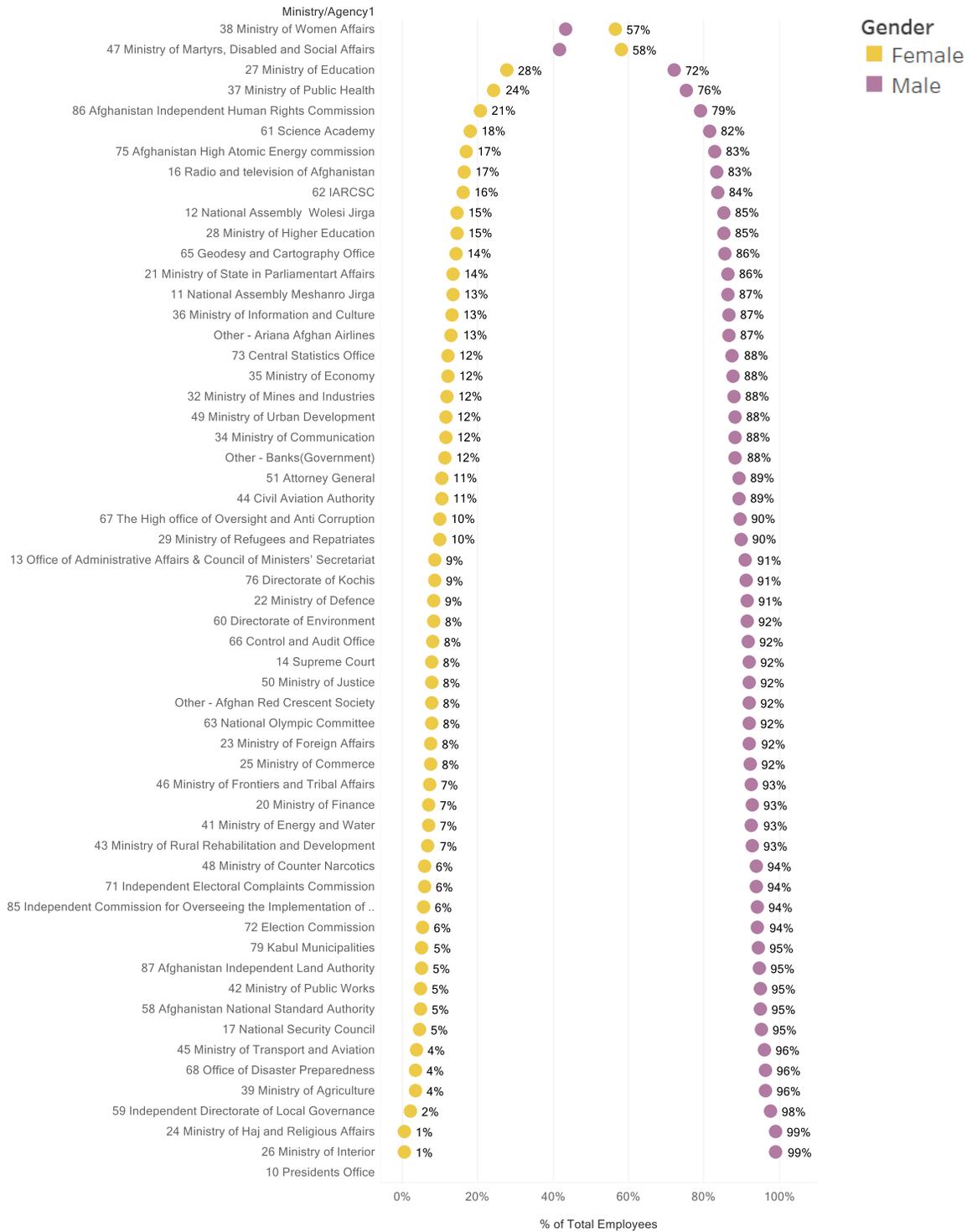


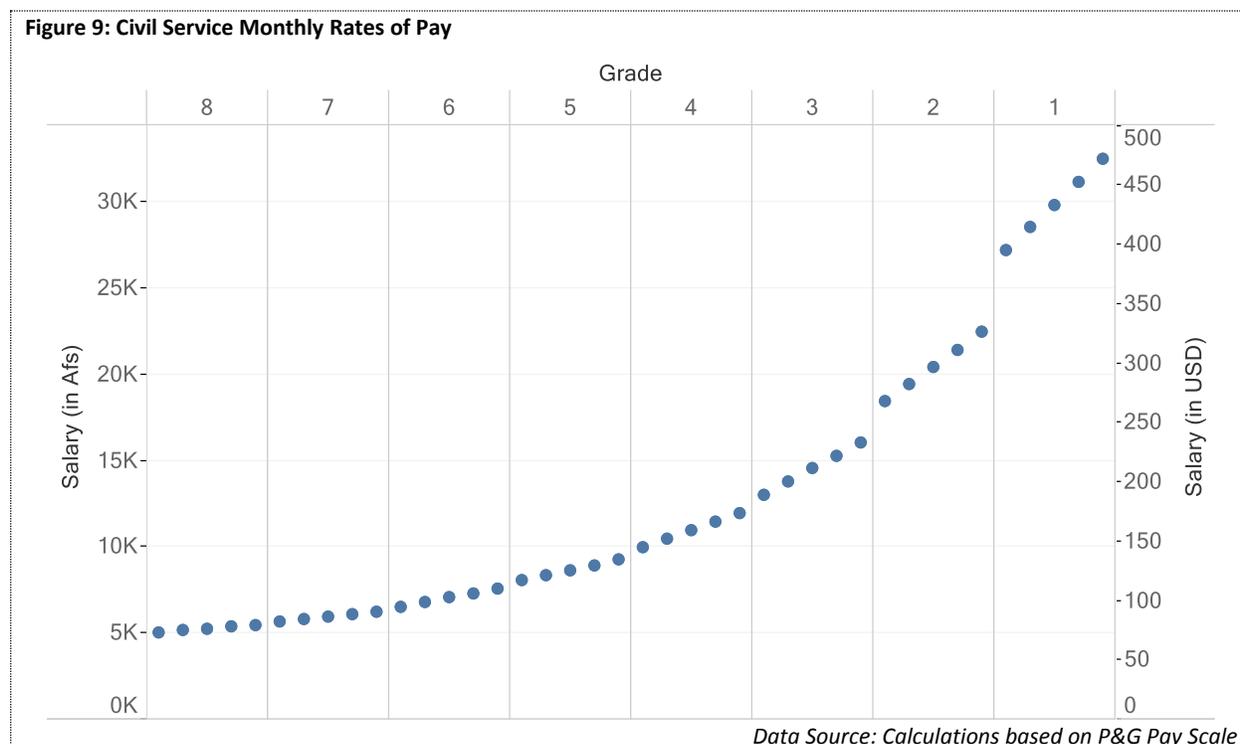
Figure 8: 1395 Civil Service Headcount – Gender Breakdown by Ministry



Data Source: CSO

Civil Service Compensation

28. **Base salaries are set along eight grades, each subdivided into five steps (Figure 9).** This pay scale was progressively implemented in all line ministries and agencies as part of the 2008 P&G reform. P&G reform required that a job profile be created for each position. Complete data on the total number of positions within line ministries and agencies is not available. However, it is estimated that at least 85% of all positions have been converted from the previous ten grade pay scale. Monthly rates of pay on this scale begin at AFN 5,000 (\$53) at Grade 8 and progress up to AFN 32,500 (\$478) for the most senior Grade 1 positions (See Annex 1). Salaries above the pay scale are not defined in the P&G grading.



29. **In addition to base salary, allowances are an important component of civil service compensation.** Under previous pay regimes, allowances were the principle means of civil service compensation after inflation eroded the value of base pay, which was not regularly adjusted. Under P&G salaries, food allowances can be provided in cash or in kind. In-cash allowances are paid monthly with salary payments, while in-kind compensation can be provided through meal services within the ministries. As in the past, allowances continue to be used to address the declining purchasing power of the civil service although no systematic guidance on their application is available. As in the previous pay regimes, a transport allowance continues to be provided for most civil servants in Kabul, offsetting higher costs of living in this city. A table of the most significant allowances is provided in the section that follows.

30. **The P&G salary scale has not been adjusted since its creation in 2008 and base salaries are declining in real terms (Figure 10).** There are currently no systematic increases in base salaries, and there is no central entity responsible and empowered to regularly review salaries and fiscal constraints to propose changes. There are currently no labor unions among the civil service and no negotiation or bargaining processes. Base salaries have been eroded by inflation as a result. For example, a nominal salary of AFN 12,000 in 2008 would have an equivalent real value of only AFN 8,426 in 2017 when year-

over-year CPI is used to adjust purchasing power. International good practice does not recommend indexing pay scales to CPI inflation, as this can result in wage levels inconsistent with available fiscal space. However, regular review and adjustment of wage levels within the fiscal context is essential to maintaining a workable system of compensation.

Figure 10: Nominal vs Real Base Salary – Example of a base salary of AFN 12,000



Data Source: Staff Calculations

31. **To supplement base pay, a range of remuneration mechanisms are used for special categories of civil service staff.** Salary supplements have been used to attract and retain personnel in key positions. These supplements are provided on a range of criteria, including political selection, negotiation, cadre-specific allowances, and competitive selection. Table 1 presents a list of the mechanisms currently in use to supplement the pay of civil servants. Data on expenditure captured in the Afghanistan Financial Management Information System (AFMIS) is presented in the next section.

Table 1: Range of Civil Servants Remuneration Mechanisms

<p>Base Pay Scale – P&G Rates Rate: \$53-478 per month at 2018 exchange rates. Description: Most civil service positions have gone through P&G reform.</p>
<p>Salary Allowances and Top-ups Rate: Variable. Food allowance of approximately AFN 660 per month (\$9.60). Transportation allowance of approximately AFN 1760 per month in Kabul (\$25.50). Description: Ministry and donor specific supplementary payments. This includes various allowances for food, per diems, transport, hardship, and leave. Transportation allowance provides for civil servants in Kabul.</p>
<p>Cadre Allowance Rate: Variable according to scales. Description: Job-specific allowances for attorneys, judges, engineers, and teachers employed by the MoHE, MoPH, and Supreme Court. The modality for these allowances remains a subject of review for new legislation.</p>
<p>Super Skills Rate: \$300-1,500 per month Description: To remunerate the top cadres of civil servants. Primarily for selected Grade 1-4 staff. Large ministries have 30-40 super skills staff on average, however the total number is not currently known.</p>
<p>Presidential Budget</p>

Rate: Variable, up to \$6,000 per month
 Description: Supplementary payment to individuals through presidential order. Salary levels are largely assigned through negotiations between the IDLG, IARCSC, and Office of the President.

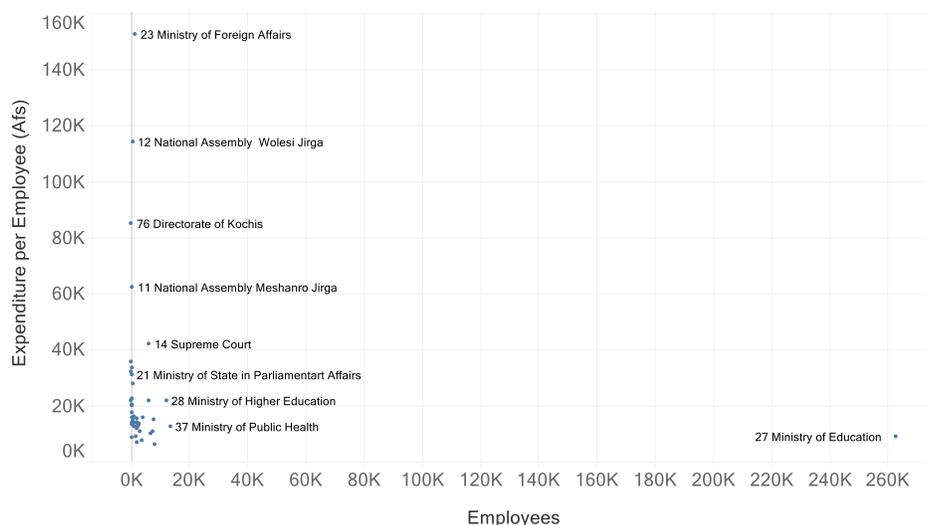
Capacity Building for Results (CBR)

Rate: Follows the NTA scale
 Description: Merit-based recruitment for civil service positions in Grade 1 and 2 positions for 2-3 years. Currently used for 800 positions.

Source: Adapted from Afghanistan in Transition: Looking Beyond 2014, Appendix C

32. **As a result of these allowances and arrangements, the compensation-related expenditure per employee varies significantly between ministries (Figure 11: Monthly Compensation Expenditure Per Employee by Ministry, 1395).** For example, compensation at the Ministry of Foreign Affairs is an average of AFN 152,697, largely due to allowances for overseas employees. Political bodies such as the National Assembly also have high average rates of pay. The Supreme Court, which employs all judges, has higher compensation due to cadre allowances, as does the Ministry of Higher Education. The Ministry of Education provides special allowances based on the educational qualifications of staff. The Ministry of Education has the most employees, but a lower average compensation of AFN 9,212 per month.

Figure 11: Monthly Compensation Expenditure Per Employee by Ministry, 1395

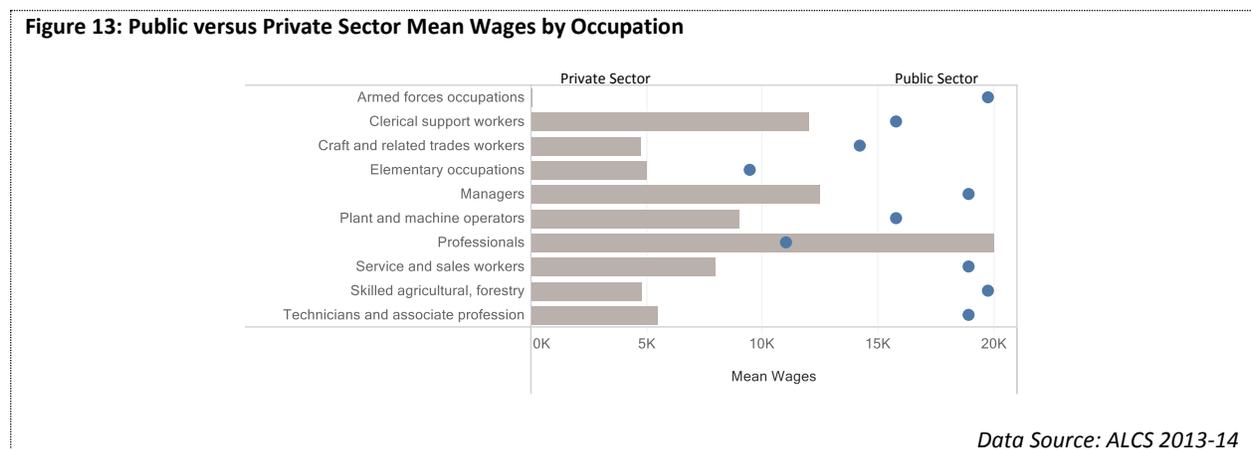
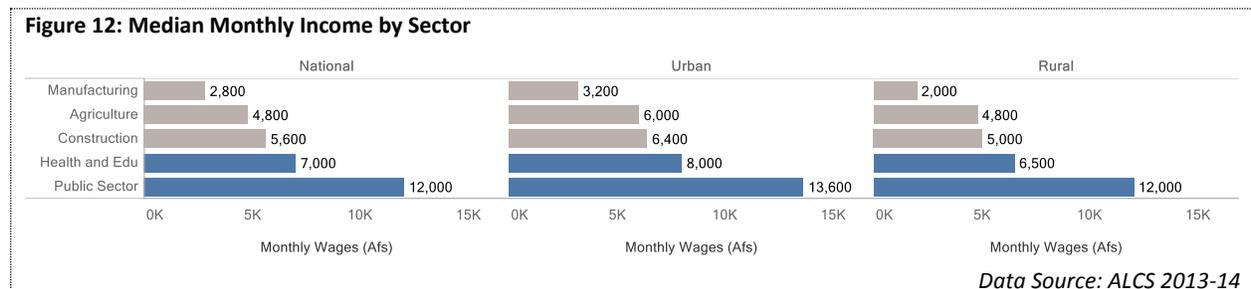


Data Source: Staff calculations based on AFMIS and CSO data

33. **In addition to current salaries and allowances, civil servants also accumulate future pension entitlements.** The pension benefits for most civil servants are outlined in regulations pursuant to the Civil Servant Law. These regulations require a 16% pension contribution, consisting of an 8% employee contribution deducted at source and an additional 8% employer contribution. The minimum retirement age is 55 and minimum length of service is 25 years, with exceptions for disability. Below these minimums, pensions are reduced. Normal retirement age is 65 or at 40 years of service. Hazardous jobs benefit from reduced requirements. Service under 10 years results in a lump sum payment based on years of employment. Beyond 10 years of service, final wages are multiplied by 2% up to a maximum pension of

80% of final wages. Survivor benefits are 3-5 years of final wages for death-in-service or 3 years of final wages for death in retirement.⁷

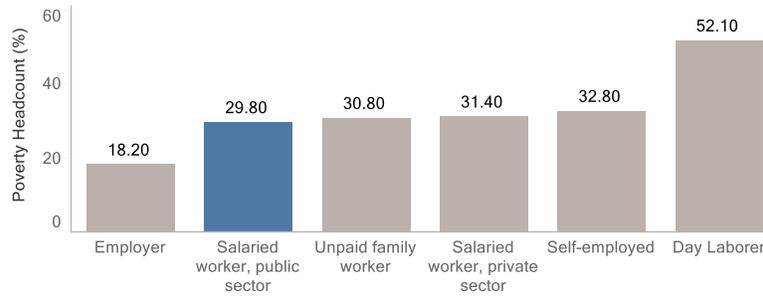
34. **Median civil service salaries are significantly higher than the private sector, measured by household survey data.** The Afghanistan Living Conditions Survey (ALCS) provides an indication of the monthly wages of those working in manufacturing, agriculture, construction, health and education, and the public sector (Figure 12 and Figure 13). These categories do not directly correspond to civil service employment. For example, respondents in the health and education sector could be employed by NGOs and not directly by line ministries. Nevertheless, this data provides a comparative reference point of median private sector wages.



35. **Although median public sector pay is higher than some sectors, poverty remains a significant feature of civil servant households.** Of those surveyed in the 2011-12 ALCS, 29.8% of household members in households headed by a salaried public sector worker fell below the poverty line (Figure 14). The large national average household size (7.4 people in 2011-12) is a significant factor in considering the adequacy of public sector wages. While households headed by a public servant had a lower poverty rate than the private sector and informal sector, the absolute levels of poverty are significant.

⁷ Pension Regulation for Public Service Employees, MoLSAMD

Figure 14: Poverty Headcount by Labor Market Characteristic of Head of Household



Data Source: ALCS 2011-12

36. **Low rates of base pay have limited the applicant pool for key civil service positions.** The relationship between pay and performance is unclear in the literature and unstudied in the context of Afghanistan. However, evidence from ministry selection processes clearly shows that P&G pay alone is insufficient to attract qualified candidates to key positions. As a result, the government has turned to external financing to pay special top-ups for certain civil service positions. This is discussed in more detail in the next section.

Technical Assistance Compensation

37. **While the civil service has grown and its capacity has increased over the past 15 years, the pool of highly qualified and educated core civil servants remains limited.** Development budget execution rates are low for key service delivery ministries, reflecting low capacity in budgeting, procurement, and management. The average level of education in the civil service remains low, limiting effectiveness. For example, in the Ministry of Agriculture, Irrigation and Livestock (MAIL), 42% of staff hold only a primary education. MAIL is not an exception; low levels of education and capacity affect all ministries.

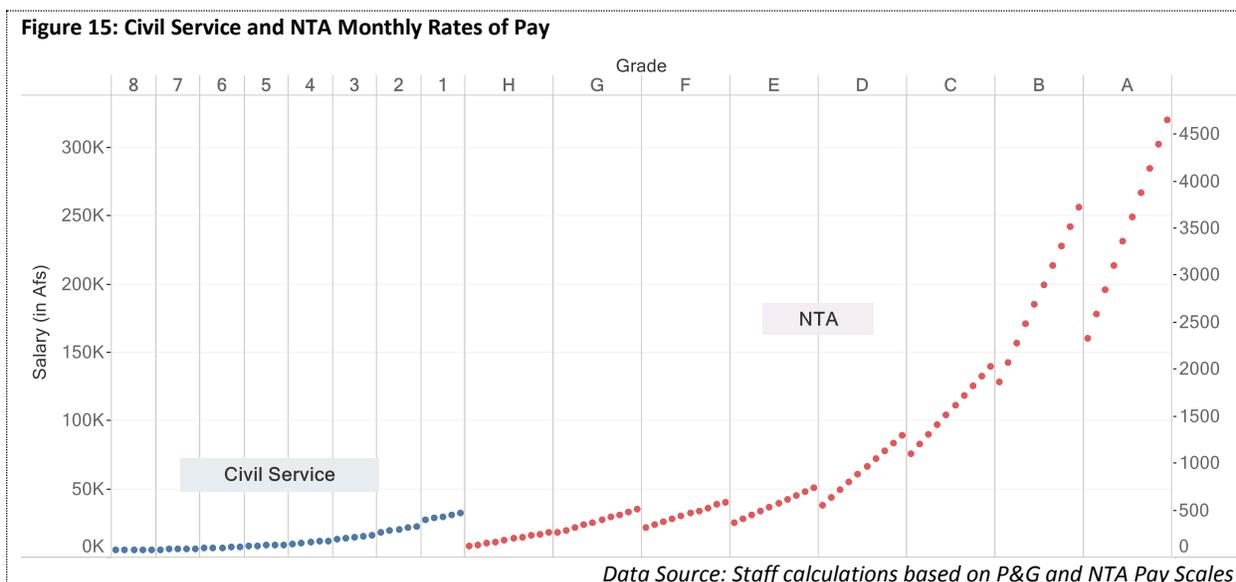
38. **Donor-funded technical assistance has addressed short-term capacity gaps, but has also competed with the public sector for staff.** In the context of weak civil service capacity, many donor-funded programs have hired non-civil service staff (often referred to as a “parallel civil service”) to support urgent development objectives. Approximately 20,141 National Technical Assistance (NTA) contracted staff and advisors are employed by Government through on-budget donor financing and from own development budget (Table 2). An additional 8,000 advisors are estimated to be employed off-budget.⁸

Ministry/Agency	NTA Staff
Ministry of Public Health	4,865
Ministry of Education	2,990
Ministry of Rural Rehabilitation and Development	2,838
Ministry of Urban Development	1,985
Ministry of Agriculture, Irrigation and Livestock	1,384
Ministry of Energy and Water	965
Ministry of Public Works	760
Ministry of Labor, Social Affairs, Martyrs & Disabled	685
Ministry of Finance	470
Independent Administrative Reform and Civil Service Commission	135
Afghanistan Independent Land Authority	122
Administrative Office of the President (including National Procurement Authority)	113
Ministry of Commerce and Industry	62
Others	2,767
TOTAL	20,141

Source: MoF 2018 Budget Statement.

39. **A harmonized NTA pay scale was introduced in 2016 as part of the CBR program to reduce wage inflation.** Based on a Presidential Decree, MoF directed that all technical assistance would be paid at standardized rates, including all externally funded staff funded by international donors. The objective of this initiative was to harmonize pay rates, enhance government control over remuneration levels, and reduce unhelpful competition between donors. Furthermore, CBR salary top-ups to competitively selected officials would also follow the NTA pay scale. The NTA pay scale has eight categories (A to H), mirroring the eight civil service P&G pay grades. However, the NTA scale significantly exceeds the civil service base pay, as illustrated in Figure 15.

⁸ There has been no systematic tracking of such data due also to the difficulty to monitor off budget NTA.



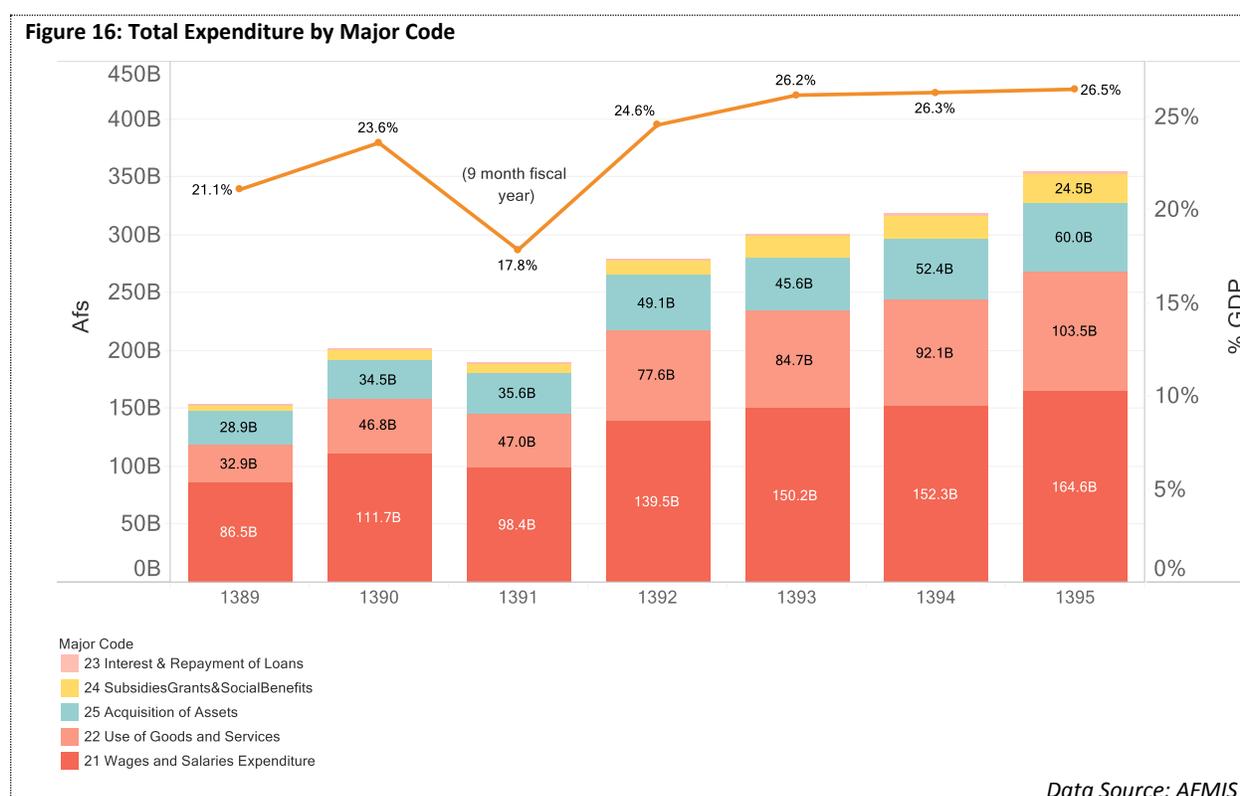
40. **Implementation of the NTA pay scales has proceeded gradually, however, many technical assistance staff have not yet been converted to the scale.** As of 2018, 20,141 NTA staff are estimated to be paid on the scale. Each NTA pay category has defined skills and competence levels, minimum educational and experience requirements, and example job titles.⁹ NTA pay scales are also set in Afghani and are not indexed to inflation or any other automatic increases.

41. **NTA Staff are contracted directly by donors or hired by Government via a project implementation unit, either on or off the national budget.** While the NTAs have narrowed critical capacity gaps, they have also generated additional challenges related to capacity development since capacity remains outside of the core civil service. Salaries are between 6-16 times higher than comparable grades in the core civil service. Consequently, NTA wage expenditures absorb a disproportionate share of the Government’s development budget.

⁹ “National Technical Assistance Salary Scale and Implementation Guideline,” Ministry of Finance, 2014.

Current Fiscal Costs

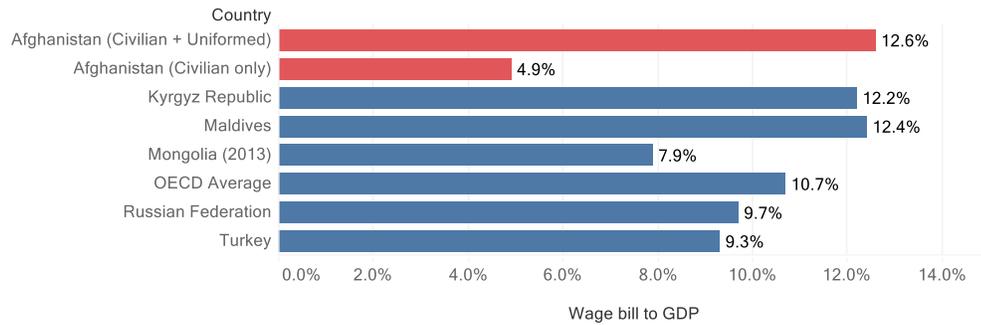
42. **Total government expenditure as a share of GDP is relatively stable.** Total expenditure is 26.5% of GDP. Wages and salaries comprised 46.5% of total expenditure in Afghanistan in 2016, or 12.3% of GDP (Figure 16). Total expenditure on wages and salaries includes all ministries and programs, including the civilian and uniformed workforce. Changes to the definition of the fiscal year in 2012 (1391) resulted in a nine-month fiscal year that is not directly comparable to other years in all of the charts that follow. All expenditure data is taken from the Afghanistan Financial Management Information System (AFMIS).



43. **Expenditure on wages and expenditure in Afghanistan is comparable to other countries as a percentage of GDP (Figure 17).** Cross country expenditure on salary and wage expenditure has significant limitations. For example, some countries measure central government expenditure while others capture general government expenditure, including subnational levels. Additionally, the use of cash or accruals accounting can create significant differences in data, as some countries measure the cost of future pension liabilities, for example. The standard measurement of *public sector* wages generally includes both civilian and uniformed personnel, while *civil service* generally refers to non-uniformed civilian workers.

44. **There is no prescriptive international 'correct' size of the public sector.** The functions, size, geography, administration, and policies of Government differ across countries, which make meaningful comparisons difficult without controlling for these factors. For example, the use of extensive non-government organizations to deliver basic healthcare services in Afghanistan reduces expenditure on government salaries and wages compared with countries that directly deliver these services.

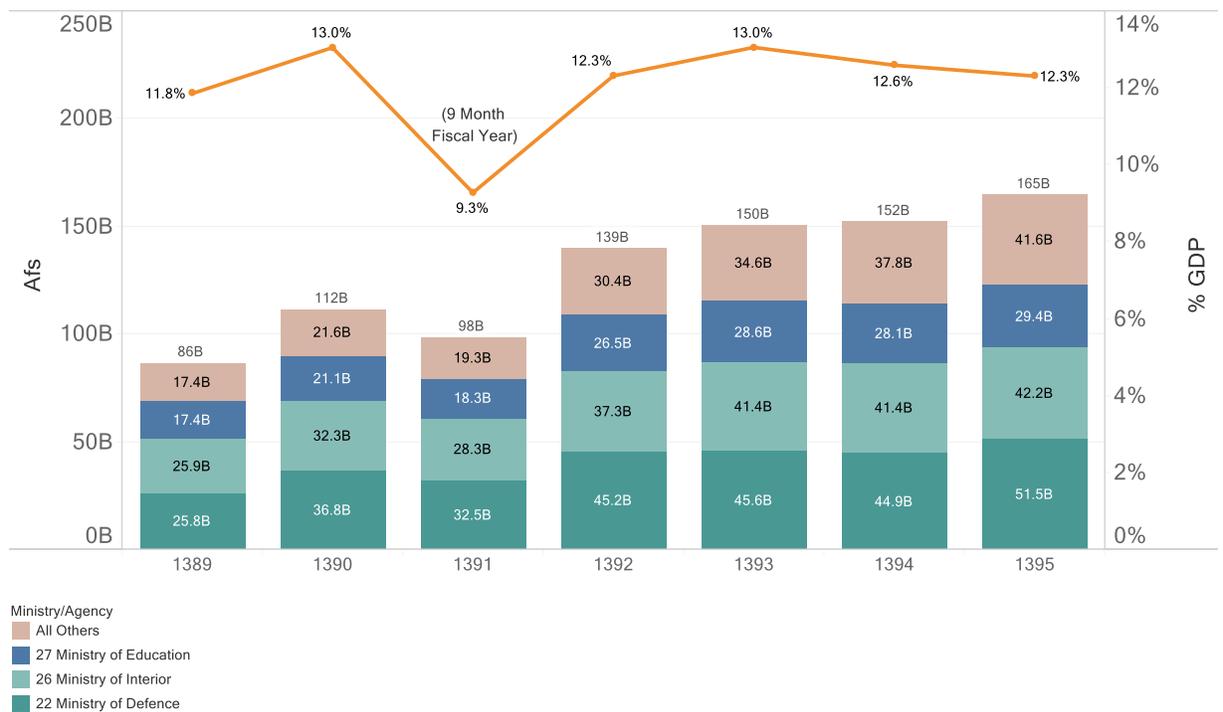
Figure 17: Public Sector Wages and Salaries by Country, 2015



Data Source: AFMIS, IMF GFS, World Bank

45. **Three ministries account for the majority of expenditure on wages and salaries, which have remained stable as a percentage of GDP (Figure 18).** The Ministry of Defence (AFN 51.5 billion, 3.8% of GDP), the Ministry of Interior (AFN 42.2 billion, 3.2% of GDP) and the MoE (AFN 29.4 billion, 2.2% of GDP) employed the largest workforces in 2016. The uniformed sector accounts for a majority of wage expenditure, although it is not the focus of this report. While nominal expenditure on wages and salaries has risen in recent years with the introduction of P&G reforms and other salary increases and allowances in the uniformed workforce, expenditure as a percentage at GDP has remained relatively stable between 11 and 12 percent of GDP.

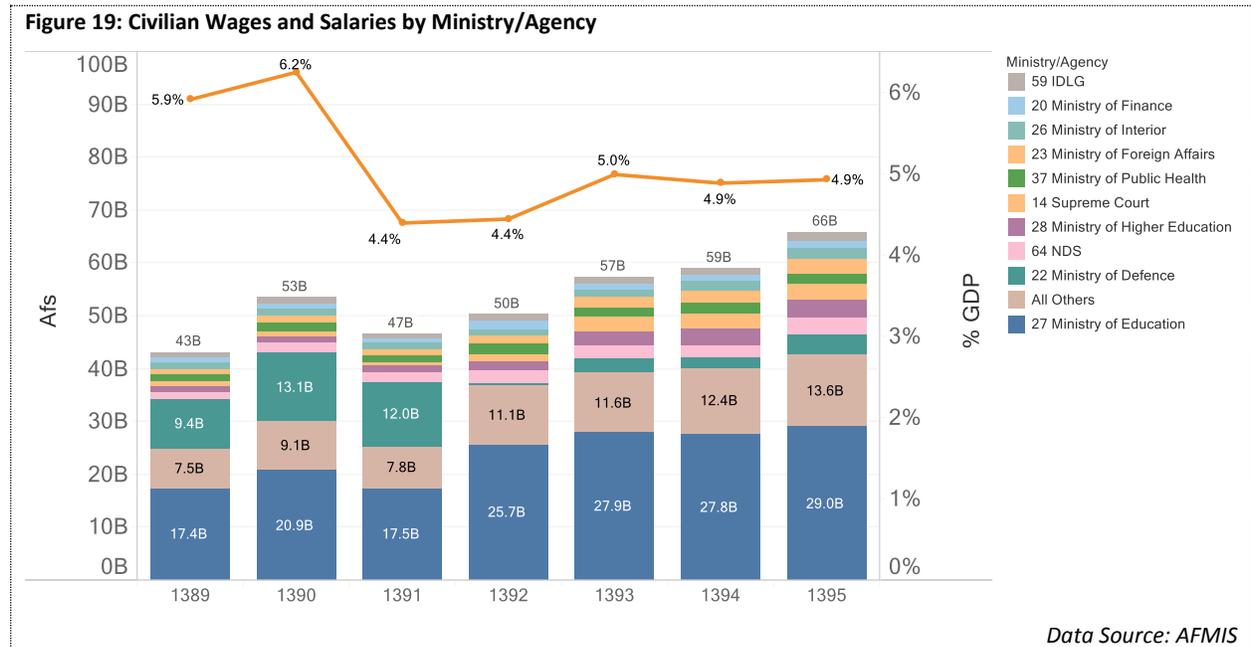
Figure 18: All Wages and Salaries by Ministry/Agency



Data Source: AFMIS

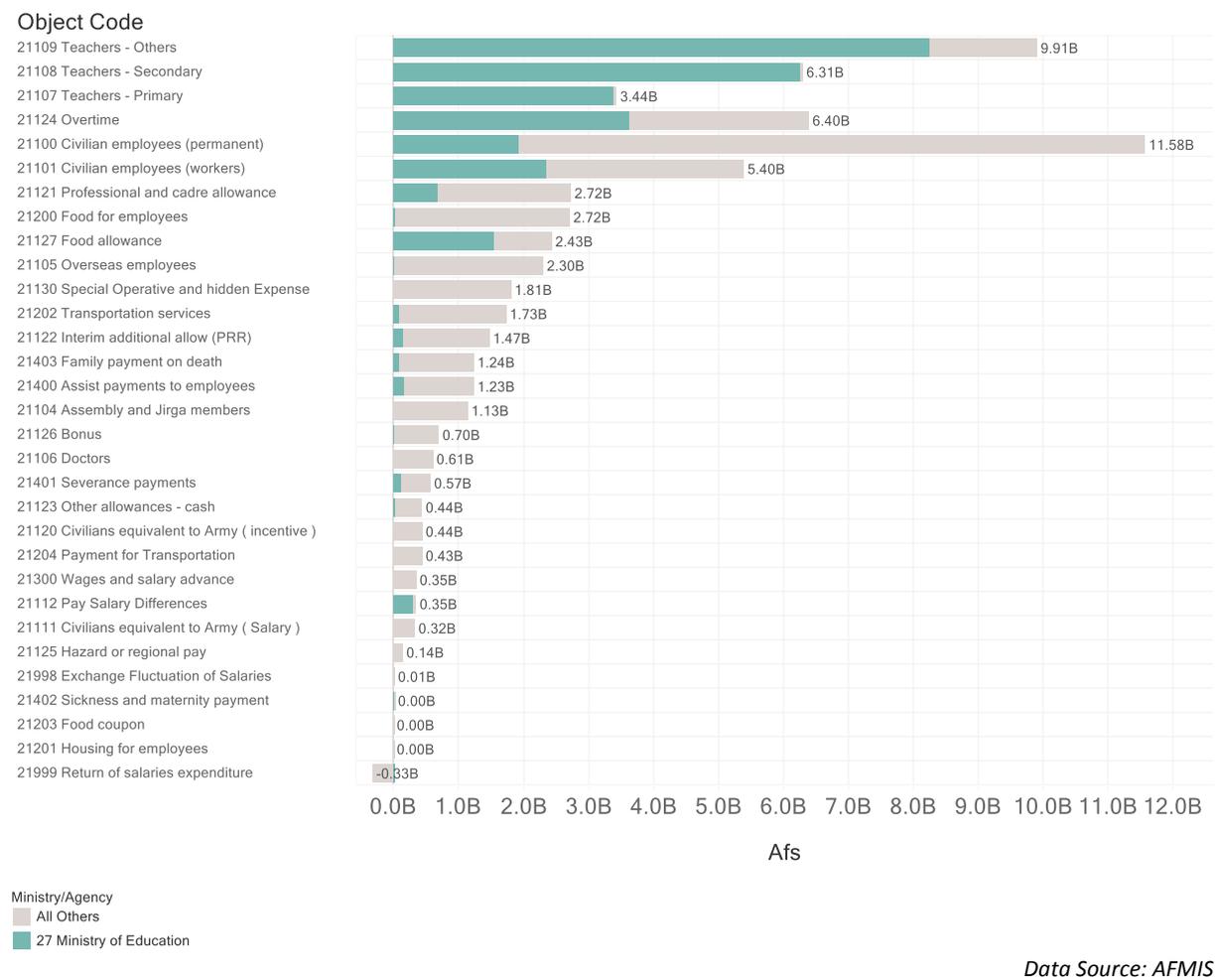
46. **Expenditure on the civilian workforce was approximately 4.9% of GDP, or 66 billion in 2016 (Figure Figure 19: Civilian Wages and Salaries by Ministry/Agency).** The MoE was by far the largest employer by expenditure, followed by civilian expenditures at the Ministry of Defence, and the NDS. With more

generously paid workforces, the Ministry of Higher Education and Supreme Court were the next largest employers by expenditure.



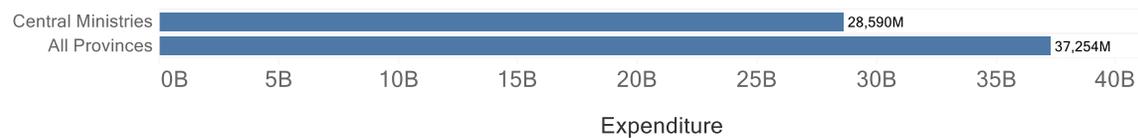
47. **Expenditure on salaries and wages is divided between basic salaries and allowances (Figure 20).** Aggregate expenditure on civilian salaries and allowances in 2016 was approximately AFN 65.84 billion. Allowances and overtime were approximately 36.3% of the total, and other compensation was approximately 63.7% of the total. This ratio illustrates the importance of compensation arrangements outside of the P&G pay scales to the total compensation of employees. AFMIS data is reflective of the long list of special compensation arrangements that have been agreed outside of P&G salary scales. For example, overtime is used extensively in the MoE (AFN 3.6 billion or approximately \$53 million), as indicated in Figure 20.

Figure 20: Civilian Wages and Salaries - Expenditure by Object Code, 1395



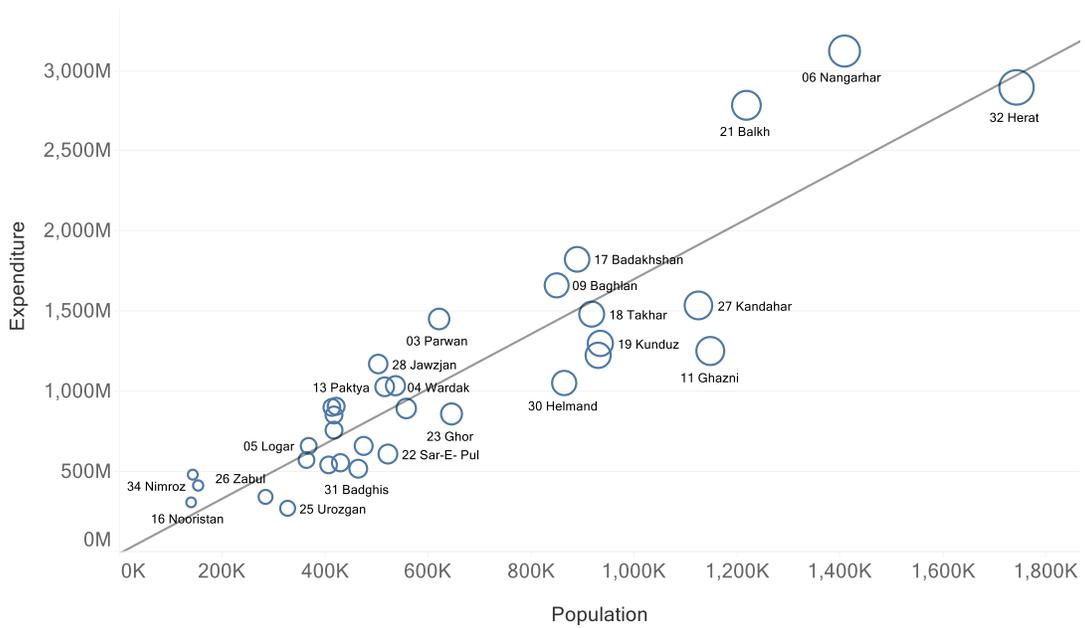
48. **Although 76.5% of the workforce is in the provinces, only 56.6% of wage and salary expenditure is in the provinces (Figure 22).** The concentration of expenditure in Kabul’s central ministries is explained by the higher-grade positions located in the capital and by the use of extensive cadre, education, and other special allowances paid to the relatively more qualified workforce at the central level.

Figure 21: Civilian Wages and Salaries - Expenditure by Location, 1395



49. **Within the AFN 37.3 billion spent in provinces, expenditure is strongly correlated to population (Error! Reference source not found.).** While there are some exceptions, expenditure data suggests that the civil service is allocated in a manner proportional to the population.

Figure 22: Provincial Expenditure on Wages and Salaries by Population (ex. Kabul)



Bubble size indicates population
Data Source: AFMIS, World Bank Provincial Briefs
2016 / 1395 Expenditure
2011 / 1390 Population

Wage Bill Projections – Four Scenarios

50. **To assess the implications of wage bill policy choices, four preliminary scenarios are presented below.** These scenarios explore potential options to address some of the challenges outlined above. These scenarios are limited by the gaps in reliable data on the current composition of the civil service and the size and allocation of NTA. For example, incomplete data on the allowances of different career groups limits the accuracy of these projections. As a result, these scenarios rely on aggregate data and ratios and use the World Bank’s macro-fiscal projections. They are presented here as a starting point for further discussion and will be further developed as the wage bill model is refined.

51. **These present scenarios – not recommendations – to inform policy dialogue.** For example, while the scenarios consider the costs of increasing base P&G pay, the World Bank does not recommend an across-the-board increase in base salaries. Concrete wage-bill policy options, situated within the broader fiscal context (using a macroeconomic framework) and reflective of political economy factors, will be fleshed-out as part of ongoing development of a Policy Note on Government Wages, Salaries, and Allowances. Meanwhile, directions (key elements) that can be considered to strengthen the overall governance of civil service compensation are presented in the next section of this Issues Note.

Baseline Scenario

52. **The baseline scenario assumes that total wage bill will continue gradually rising.** The baseline assumes that nominal compensation will rise by 6.5% per year. This increase accounts for gradually increasing staff numbers as well as a gradual increase in compensation. While P&G wages have not been adjusted since 2008, the transition to P&G from previous grading allowed total compensation per employee to rise. This baseline assumes that the wage bill will continue increasing along these lines through adjustment of P&G and/or allowances.

53. **Additionally, the baseline assumes that two “big bump” wage increases will be negotiated.** In 2019, a 30% increase is projected, as core P&G salaries are adjusted following eleven years of stagnation. Current budget limitations are unlikely to lead to an adjustment in 2018. A pay adjustment is currently under consideration for 2019. In 2025, a 20% increase is negotiated – reflective of a shorter period between adjustments. The fiscal model projects GDP growth of between 4 to 5 percent.

Figure 23: Baseline Scenario

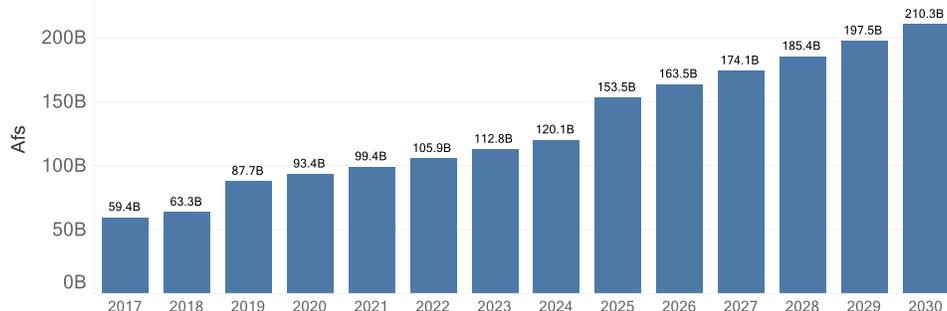
Assumptions:

- 6.5% nominal y-o-y increase
- Two ‘big bump’ increases:
 - 30% in 2019
 - 20% in 2025
- Fiscal model GDP growth rate (4-5%)

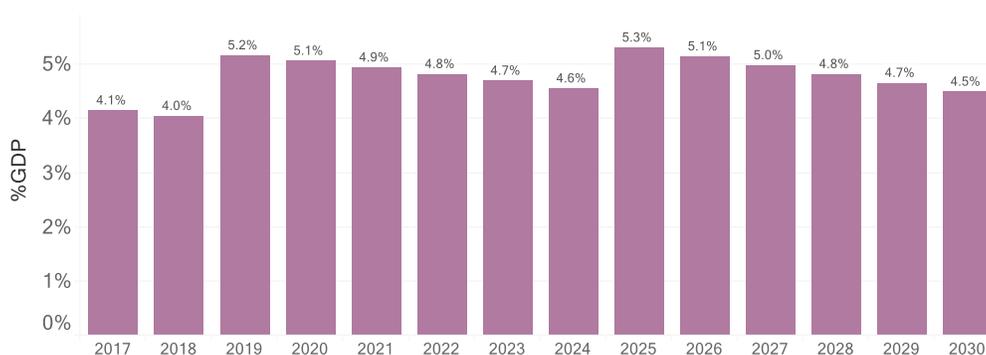
Outcome:

- Nominal increase
- Constant %GDP, with bumps

Baseline Scenario - Nominal



Baseline Scenario – Percentage of GDP



Scenario 1 – Integration of Externally-Funded Staff

54. In this scenario, it is assumed that externally funded core staff are integrated into the civil service. The detail of this scenario is limited to the integration of a relatively small number of highly-paid staff currently funded through the World Bank CBR project. It assumes a progressive integration of these staff at high rates of pay, with an indexation of salaries to projected CPI.

Figure 24: Scenario 1 – Integration of Externally-Funded Staff

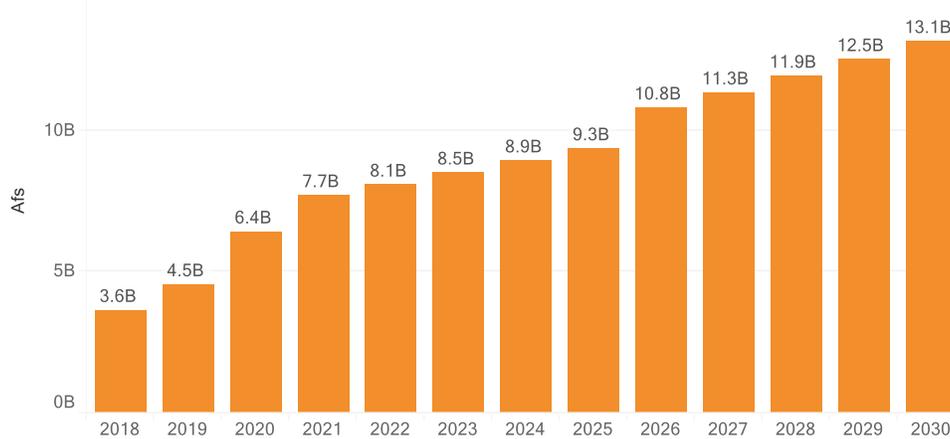
Assumptions:

- Progressive integration of externally funded core staff (CBR paid staff)
 - 2018: 1,500
 - 2019: 1,800
 - 2020: 2,100
 - 2021 onwards: 2,400
- Indexed to CPI forecast

Outcome:

- Significant expenditure, but gradually falls as %GDP with a cap on numbers.

Scenario 1 – Annual Cost of Integration of Externally-Funded Staff - Nominal



Scenario 1 – Annual Cost of Integration of Externally-Funded Staff – Percentage of GDP



Scenario 2 – Additional Teachers

55. In this scenario, it is assumed that additional teachers are added to the civil service. This scenario assumes a progressive addition of batches of teachers recruited by the IARCSC and is completed in batches. For simplicity, salaries of new recruits are assumed to rise with projected CPI.

Figure 25: Scenario 2 – Additional Teachers

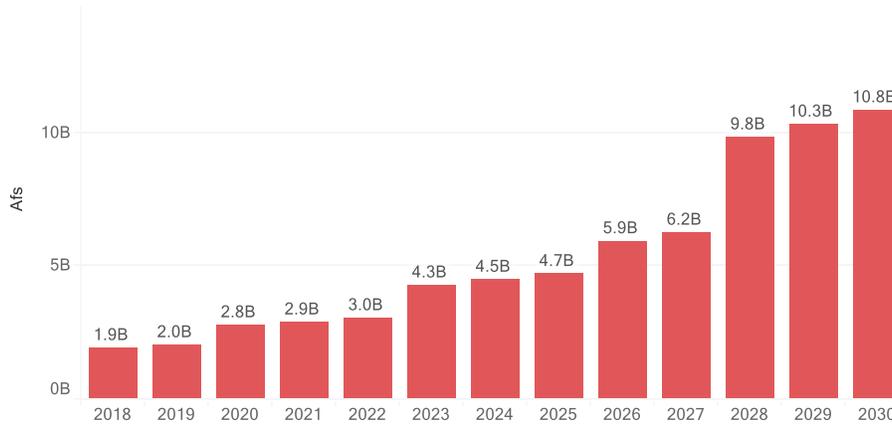
Assumptions:

- Additional Teachers
 - 2018: Total of 15,000 added
 - 2023: Total of 20,000 added
 - 2028: Total of 30,000 added
- Assumes future salary increases
- Indexed to CPI forecast

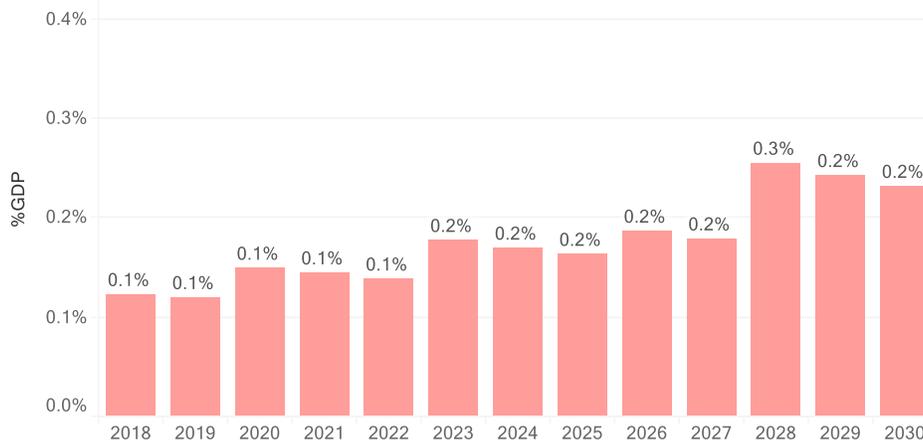
Outcome:

- Lumpy increases in years when mass-recruitment is completed.
- Large numbers, but generally low pay compared with central-level TA addition.

Scenario 2 – Annual Cost of Additional Teachers - Nominal



Scenario 2 – Annual Cost of Additional Teachers – Percentage of GDP



Scenario 3 – Civilianization of Uniformed Staff

56. **In this scenario, it is assumed that civilianization takes place in the defense sector.** This scenario is included due to the interest of the Government in migrating some uniformed positions in this sector into the core civil service. This scenario does not include calculation of the savings in the defense sector due to the migration of these staff. It is assumed that the initial civilianization progressively takes place from 2018-2020, with an additional batch of civilianization in 2026. It also assumes salaries rise with CPI.

Figure 26: Scenario 3 – Civilianization of Uniformed Staff

Assumptions:

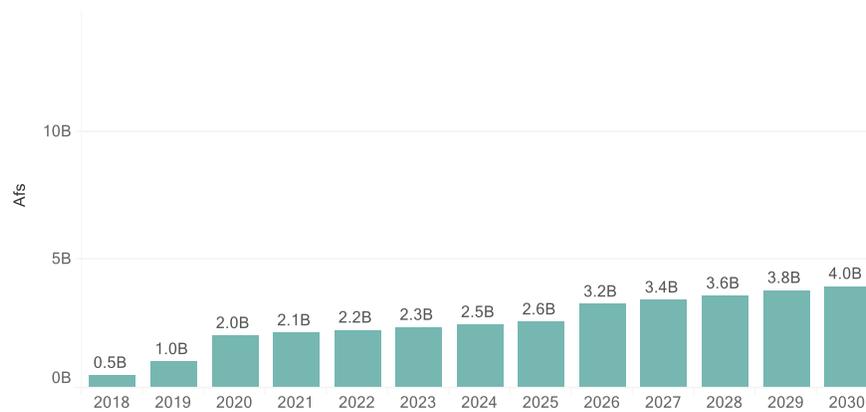
- Progressive shift of ununiformed staff to civilian payroll in MoD and MoI.

Outcome:

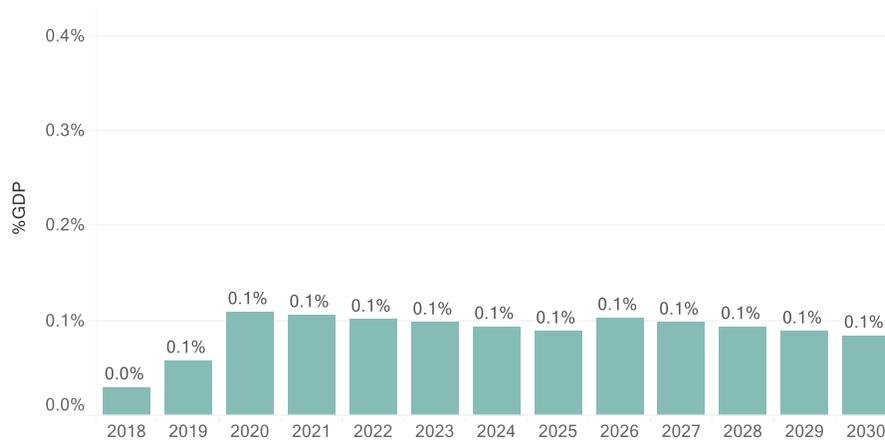
- Largely a one-time increase that would be offset by a decline in uniformed payroll.

- Indexed to CPI forecast and accounting for periodic salary increases.

Scenario 3 – Civilianization of Uniformed Staff – Nominal



Scenario 3 – Annual Cost of Civilianization of Uniformed Staff – Percentage of GDP



Scenario 4 – Professional Cadres

57. In this scenario, it is assumed that a limited number of existing staff are integrated into highly paid cadres. This scenario reflects the interest of the Government in the development of professional cadres. The annual cost of this scenario is estimated at \$50 million in the first year, starting in 2020. This figure is based on calculations of the cost of NTA top-ups paid for common function positions in HR, procurement, and financial management. For simplicity, it is assumed these cadres would rise with CPI.

Figure 27: Scenario 4 – Professional Cadres

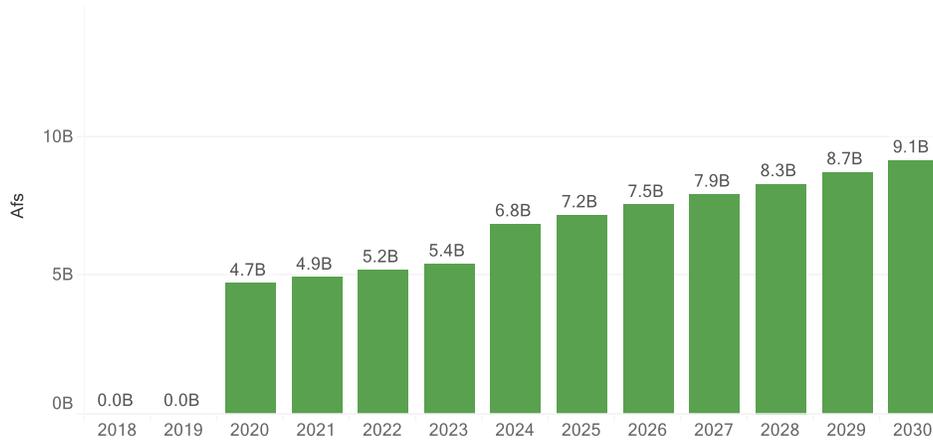
Assumptions:

- Development of professional cadres would take time to develop and approve, starting only in 2020
- Indexed to CPI forecast
- Estimated at \$50 million in first year

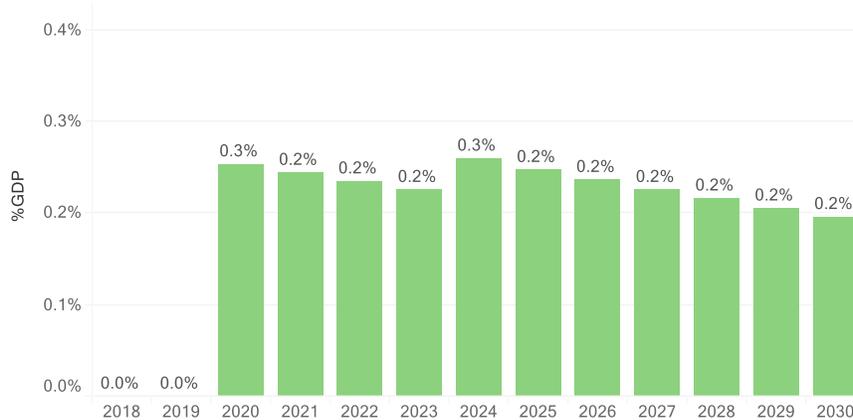
Outcome:

- A significant cost increase for existing staff.

Scenario 4 – Annual Cost of Professional Cadres – Nominal



Scenario 3 – Annual Cost of Professional Cadres – Percentage of GDP

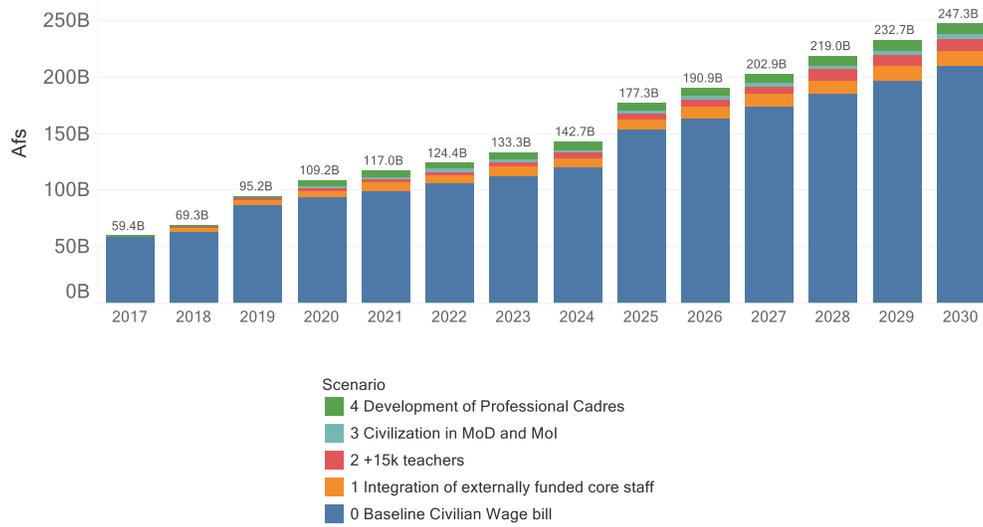


Baseline + Four Scenarios

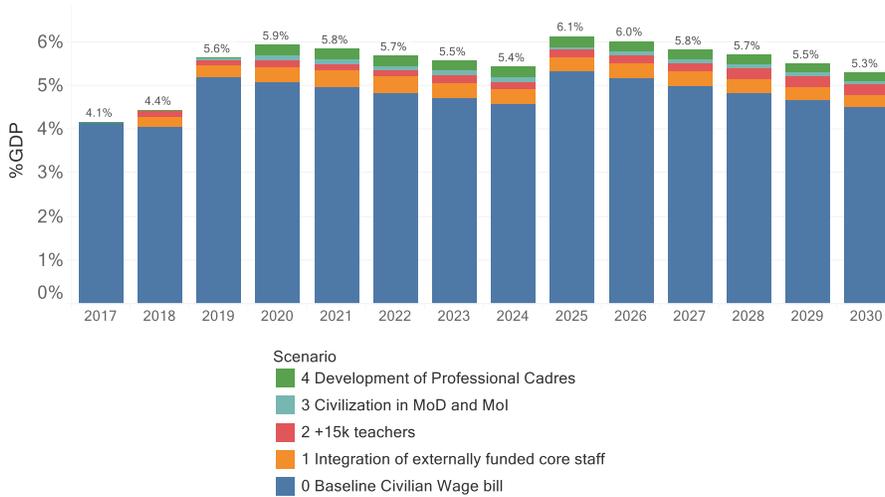
58. **This final projection includes the baseline and adds all four scenarios to calculate the total wage bill.** Simultaneously adopting these scenarios is projected to increase the wage-bill by AFN 20.5bn (approx. \$300m) by 2023. The increase is far less significant as a percentage of GDP (0.7%). Projected scenarios exclude Government plans for civil service renewal and integration of Deputy Ministers into the Civil Service.

Figure 28: Baseline + Four Scenarios

Scenario 4 – Annual Cost of Baseline + Four Scenarios – Nominal

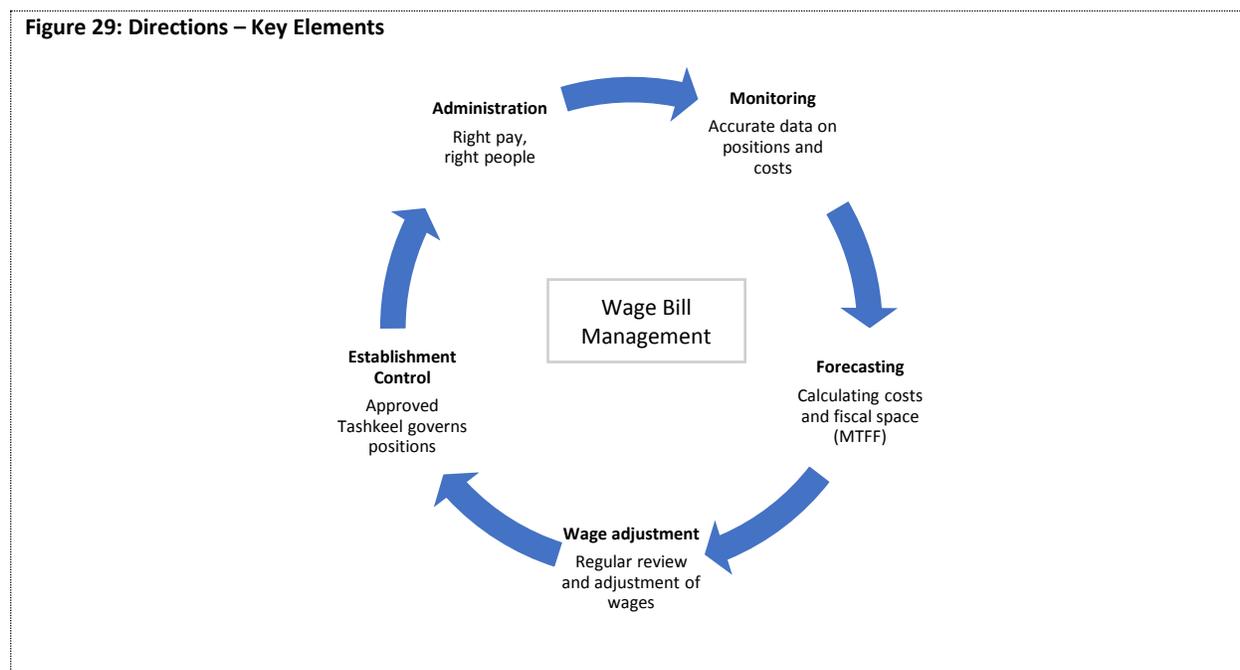


Scenario 4 – Annual Cost of Baseline + Four Scenarios – Percentage of GDP



Directions to Strengthen Governance of Civil Service Compensation

59. **Sustainable management of the civilian wage bill requires a strong governance arrangement informed by accurate data and integration into the budgeting process.** These functions are dependent on accurate data, reliable forecasting, and verifiable control systems. These key elements are outlined below and illustrated in Figure 29.



Monitoring

Direction 1: *Establish an HRMIS cataloguing personnel and positions.*

60. **Accurate data is required as a starting point for wage bill management.** At a minimum, this data should include the detailed establishment (approved Tashkeel) and the full list of government employees (the nominal roll). Employees should be individually identified against the authorized list of positions, ideally against a position number. An HRMIS will be required to identify and track employees against current positions. The IARCSC should play a verification role of line ministries staffing of individual positions. Gender should be incorporated into the HRMIS system to improve data in this area.

61. **Systematic data must be gathered and managed, covering the Tashkeel and the nominal roll of employees.** This approach will require detailed information on employees as well as on each approved position in the Tashkeel. Personnel data provide the key information required to track the entry and progression of an individual in government. Individuals should be mapped to specific positions, which should each be classified in an HRMIS. As a starting point, the type of data that should be tracked for personnel and positions are illustrated below. This is an illustrative starting point, rather than a definitive list:

Personnel Data:	Position Data:
Employee Number	Position Number
Ministry/Institution	Position Grade
Department	Position Title
Unit	Position Work Location
Date of Birth	Position Supervisor
Gender	Basic Salary
Employment Type (Permanent, contractual, etc.)	Overtime Allowance
Education	Education Attainment Allowance
Date of Entry to Government	Food Allowance
Salary Scale	Transport Allowance
Pay Grade History	Other Allowance 1
Increment Level History	Other Allowance 2, etc.
	Bonus 1
	Bonus 2, etc.
	Pension Contributions

Forecasting

Direction 2: *Implement a Wage Bill Forecasting Model based on accurate data.*

62. **Adjustments to rates of pay, composition, or size of the civil service should be based on accurate fiscal data and reliable calculations.** Modern wage bill management requires incorporation of wage bill management into the medium-term fiscal framework, as part of the budget management process. A wage bill forecasting model should be used to analyze the costs and benefits of changes to civilian compensation. A preliminary tool accompanies this note, building on the work that the World Bank has supported in other countries and adapted to the P&G pay scale. However, the model is currently incomplete, as it requires accurate data on allowances, overtime, and cadre compensation.

Table 3: About the Wage Bill Model

The forecasting tool will allow policymakers to accurately forecast the fiscal impact of changes in pay policy and employment under different reform scenarios, within the fiscal space available. It can help decisionmakers assess tradeoffs between:

- Higher pay vs. higher employment
- Higher wage bill expenditure vs. other expenditure
- Universal wage increases vs. targeted wage increases

The draft tool is derived from 1394 Tashkeel employment data, pay policies for the different employment groups, and aggregated wage expenditures from AFMIS. The tool gives the flexibility to input universal or unique changes by each or any pay grade for employees on the pay and grading salary system, teachers, certain ministries, and the political administration. The fiscal impact is derived by multiplying the total number of staff in each pay grade by the corresponding basic salary in each pay scale. Each scenario generates the fiscal impact in nominal terms and in percentages of GDP, revenue, and expenditure. The forecasted fiscal impact could be used to guide recruitment decisions.

The forecasting tool, however, is currently only capable of basic computations and requires further data to allow for more precise estimates and more policy permutations. Since individual payroll data is not widely

available, the tool had to treat staff in each grade as a block group who were paid the middle increment level of basic salary in the corresponding grade. Consequently, a large number of teachers, the total wage bill in the Ministry of Education is estimated to be nearly double than the amount given in the AFMIS 1394 data, which suggests that the assumption of the middle increment level may not be appropriate. Furthermore, without individual payroll data the forecasting tool cannot model changes in allowances, which account for a third of the total civilian wage bill. Thus, although the allowance rates are known for education attainment¹⁰ and others¹¹, it is not possible to model policy changes since it is not known how many staff are in each category. Therefore, these amounts are treated as constant in the tool. If more detailed individual data were to become available, it would relax the need for these assumptions.

A more robust wage bill forecasting tool could be developed if individual employee payroll data was collected more systematically. A tool derived from individual-level data would enable policymakers to (1) forecast the wage bill with much greater accuracy than is possible in this version of the tool; and (2) undertake human resource planning with more certainty regarding the fiscal implications. Specifically, tool users could easily analyze the age profile, time-in-post, increment costs, and expected retirement dates of civil servants by department, grade, and possibly by job title, and develop appropriate plans to cope with the findings. Sector specific tool could also be created, for example, to assist with workforce planning in the Ministry of Education, which would allow the Ministry to appropriately plan recruitment and distribution of teachers within their budget ceiling over the medium-term.

Wage Adjustment

Direction 3: *A high-level body should review compensation and propose wage adjustments, making recommendations for inclusion in the budget process.*

Direction 4: *Ad hoc pay arrangements should be stopped and overtime arrangements should be regularized.*

63. **Civil service wages are not regularly adjusted, leading to erosion in based pay.** As illustrated in this Issues Note, the real base pay of civil servants has significantly declined since P&G rates of pay were introduced in 2008. Historically, real base pay has been allowed to decline and special allowances and ad hoc arrangements have been implemented to offset this decline. This dysfunctional system has led to increased wage compression between pay grades. In the education sector, it has also led to calls for seniority based progression to higher pay grades, undermining the position-based principles of P&G reform.

64. **To address this challenge, a high-level body such as a Civil Service Pay Commission should be created to oversee civilian compensation.** This body should bring together key stakeholders to regularly review civilian compensation at least once per year. This body should be informed by scenarios created using the Wage Bill Forecasting Model. Based on the available fiscal space and informed by consultations with the public service, this body should submit proposals for revised rates of pay and adjustments to allowances for inclusion in the budget process. This body should also make recommendations on cadre-specific rates of pay. This body should consider the impact of compensation on the gender composition of the civil service.

¹⁰ The Baccalaureate Allowance is 8 AFN/day, the Post Baccalaureate Allowance is (14 years of education) 12 AFN/day, the Bachelor Allowance is 2,000 AFN/month, the Masters Allowance is 4,000 AFN/month, and the PhD Allowance is 6,000 AFN/month.

¹¹ The Transportation Allowance is 80 AFN/day and the Food Allowance is 30 AFN/day.

65. **Ad hoc pay arrangements should be stopped.** The growing use of overtime and the long list of special allowances indicate that ministries and agencies are resorting to ad hoc arrangements to ensure competitive compensation for key positions. However, this practice leads to fiscally unsustainable arrangements. The complexity of these arrangements can lead to abuse and weaken oversight. In particular, a policy on the use of overtime is urgently required. Overtime arrangements are largely unsupervised. For example, overtime is used to pay contracted teachers in the Ministry of Education.

Establishment Control

Direction 5: The IARCSC approved Tashkeel should govern the authorization of every position.

Direction 6: Compensation arrangements should be based on positions.

66. **In current practice, the budget envelope for salaries and wages serves as a primary control for ministry employment.** The authorized Tashkeel is not used as a primary reference in line ministries, and it is not currently possible to map individual positions back to the Tashkeel. Additionally, in the MoE, many contracted teachers are employed outside of the authorized Tashkeel.

67. **Ministries should recommend their required staffing levels, and the Tashkeel should provide authorization tracked by the HRMIS.** This control system requires a flexible and dynamic system to respond to emerging requirements from line ministries. This would require use of the HRMIS system, for example. Organizational structures should be linked to the functions of ministries, and should clearly identify the level of each position and job responsibilities. Ad hoc arrangements outside of the authorized Tashkeel should be ended. This would also facilitate implementation of gender targets to address staffing imbalances.

Balancing Control and Flexibility – Options

Implementation of an HRMIS system with strict position-based controls faces implementation challenges and tradeoffs.

- First, it may be politically difficult to implement an arrangement with such strict control.
- Second, centralization would reduce flexibility and agility of MDAs in service delivery.
- As a result, MDAs and provincial officials may seek to maintain flexibility and direct control of this function. MDAs may be incentivized to continue using off-Tashkeel arrangement such as contract positions funded through the overtime budget.

To address these challenges, Tashkeel controls could be implemented at an aggregate level, rather than a position-level. In this “delegated system”, line-MDAs, who currently hold the detailed HR records, would be responsible for optimizing the structure of their staff. An incremental rollout of HRMIS could pilot these options to explore control feasibility.

Administration

Direction 7: The payroll should be restricted to personnel assigned to specific authorized positions.

68. **Changes to rates of pay and the Tashkeel are meaningless if they are not implemented in practice.** The payroll is the most important mechanism by which enforcement of reforms can be monitored. Payroll management should be restricted to pay against the authorized base pay and allowances provided for each position. Ministry-level discretion to determine allowances and overtime should be limited.

Summary of Directions to Strengthen Governance of Civil Service Compensation:

1. Establish an HRMIS cataloguing personnel and positions.
2. Implement a Wage Bill Forecasting Model based on accurate data.
3. A high-level body should review compensation and propose wage adjustments, making recommendations for inclusion in the budget process.
4. Ad hoc pay arrangements should be stopped and overtime arrangements should be regularized.
5. The IARCSC approved Tashkeel should govern the authorization of positions.
6. Compensation arrangements should be based on positions.
7. The payroll should be restricted to personnel assigned to specific authorized positions.

Annex 1. Pay & Grading Scale

Grade	Step	Salary (in AFN)
One	5	32,500
	4	31,100
	3	29,800
	2	28,500
	1	27,200
Two	5	22,400
	4	21,400
	3	20,400
	2	19,400
	1	18,400
Three	5	16,000
	4	15,250
	3	14,500
	2	13,750
	1	13,000
Four	5	11,900
	4	11,400
	3	10,900
	2	10,400
	1	9,900
Five	5	9,200
	4	8,900
	3	8,600
	2	8,300
	1	8,000
Six	5	7,500
	4	7,250
	3	7,000
	2	6,750
	1	6,500
Seven	5	6,200
	4	6,050
	3	5,900
	2	5,750
	1	5,600
Eight	5	5,400
	4	5,300
	3	5,200
	2	5,100
	1	5,000