

Public Sector Wage Bill in Mali

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SIP/2023/056

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on May 9, 2023. This paper is also published separately as IMF Country Report No 23/210.

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ABSTRACT: Mali's wage bill has soared to levels not seen since the early 1990s. This may cause considerable opportunity costs—limiting fiscal space and potentially adding to inflationary pressures—as well as adversely affect medium-term debt sustainability as it weighs heavily on the primary deficit. This SIP investigates the extent and drivers of the recent wage increases and their fiscal and economic consequences. It concludes that across-the board salary freezes may help wage growth moderation in the short term but are politically difficult to implement. Structural reforms to strengthen wage bill management are critical to preserving medium-term fiscal sustainability.

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Evolution of the Wage Bill and Determining Factors

1. Mali's wage bill has been rising for decades, with its share of GDP reaching historical and regional highs. The wage bill rose from 4.4 percent of GDP in 2010 to 5.1 percent of GDP in 2019, before surging to 7.9 percent of GDP in 2022, a level not seen since the early 1990s. While the country's wage bill as a share of GDP has been historically lower than that of its regional peers, the recent jump, since 2019, has placed it above the averages in countries in the West African Economic and Monetary Union (WAEMU) and sub-Saharan Africa (SSA)—5.8 percent and 7.2 percent, respectively. The share of the wage bill pertaining to local governments has not played a major role in the wage bill increase. By contrast, the central government component of the wage bill increased by 22.6 percent between 2021-22. The dynamics of public wages has little to do with employee skills and performance, as civil servants benefit from automatic progression mechanisms.

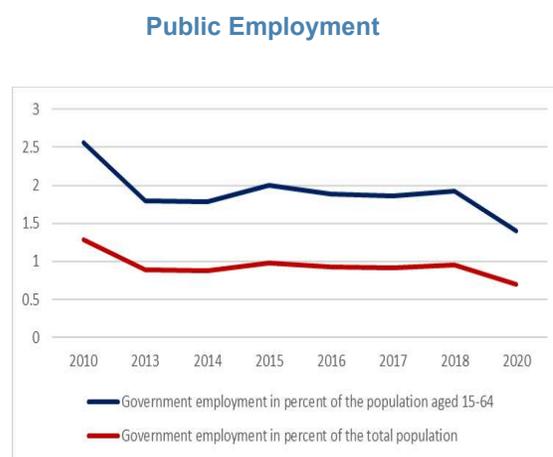
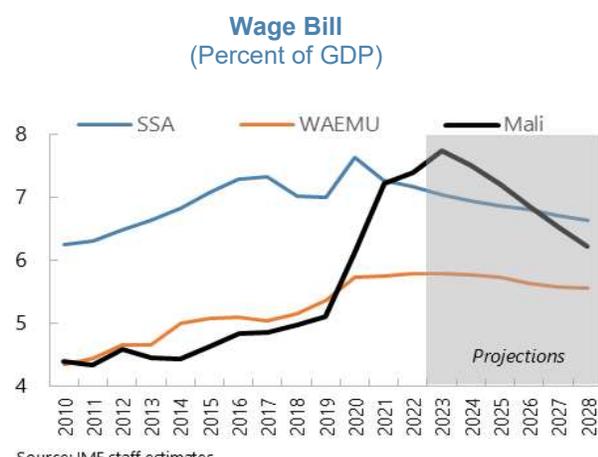
2. The sharp rise in wage bill ratios is weighing heavily on the fiscal outlook and potentially adds to inflation pressures. The wage bill accounts for 44.7 percent of current expenditure and 55.2 percent of tax revenue as of 2022.¹ Mali's wage bill to tax revenue ratio is higher than the WAEMU and SSA averages (44.7 percent and 51.3 percent, respectively). The country has not met the WAEMU 35 percent ceiling on the wage bill to tax revenue ratio since 2019. High wage expenditure relative to current expenditure restricts fiscal space for priority capital and social spending and challenges fiscal plans. Also, cross-country evidence suggests that if sustained, an exploding wage bill could put upward pressure on consumer price inflation, especially when wage growth exceeds productivity growth (e.g., Alvarez et al. 2023, Mihaljek and Saxena, 2010). While the wage bill ratio to GDP is projected to decline steadily from 2023 on account of faster economic growth, it is expected to remain well above WAEMU and SSA averages until 2025.

3. Average compensation has played a major role in the wage bill surge, as public sector employment has been declining as a ratio of the working-age population. Public employment as a ratio to the working-age population has declined by around 1.2 percentage point since 2010. (Figure 1). Recruitment in priority areas—especially security and education—has recently increased in absolute terms, by 18.9 percent between 2019-22.¹ But the ratio of government employment to the working-age population, at 1.9 percent, remains one of the lowest among LICs (4.65 percent on average). Furthermore, public employment has recently slowed down compared to private employment, with the ratio of public to total employment slipping from 43.2 percent in 2013 to 32 percent in 2020 (Figure 2). Higher public sector wage bill reflects both material increases in base pay and employee allowances. All segments of the public sector recorded an increase in salary grid ceiling between 2019 and 2022, with the average wage index increasing by 222 points. Civil servants in the Prison Administration (284 points), Registrar (282 points), and General (282 points) sectors had the largest increases between 2019-22. But the education sector accounts for the lion share of the public wage

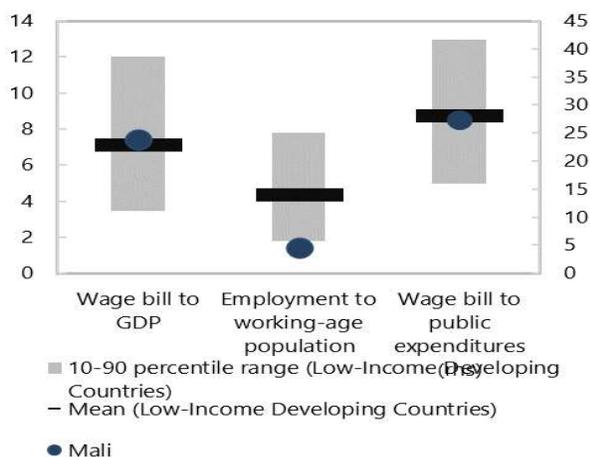
¹ These numbers are expressed in net terms and do not include defense recruitment. The security sector has the largest increase in recruitment.

bill, with higher education professors earning the highest salaries. The public sector wage premium has historically been substantial. For instance, employment survey data for 1991 show that, on average, wages were 31.9 percent higher in the public sector than in the private sector (Lachaud, 1994).² The results of a 2015 census also suggest that a considerable number of ‘ghost’ workers have contributed to inflating the wage bill.³

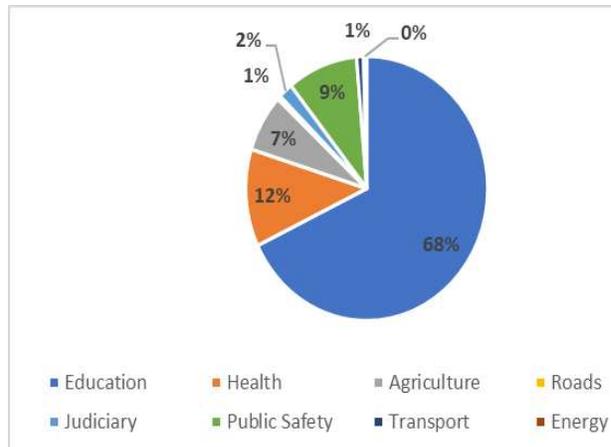
Figure 1. Wage Bill Dynamics in Mali



Public Wage Bill and Public Employment



Public Wage Bill by Sector



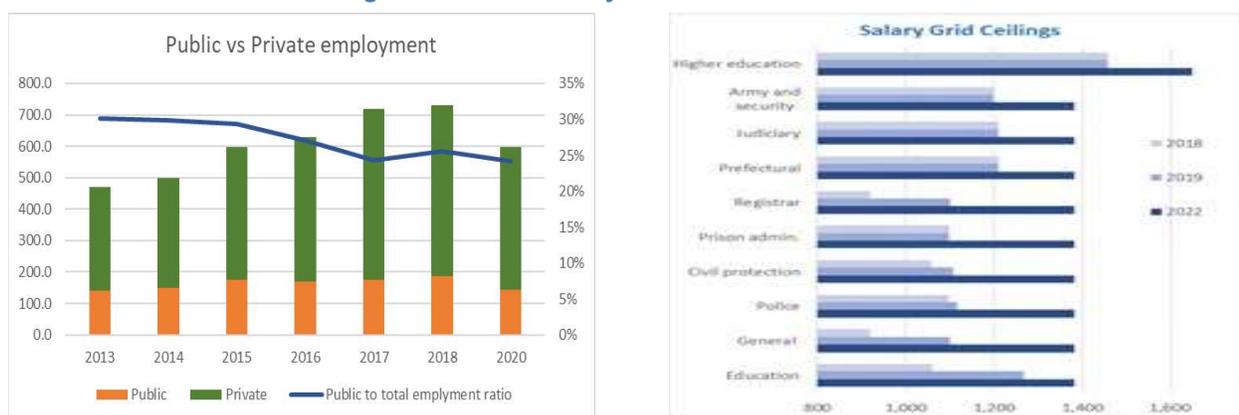
Sources: Malian authorities and FAD Expenditure Assessment Tool

² More recent data on the public wage premium are not available for Mali.

³ Ghost workers are typically public sector retirees or departed employees who are unduly being paid.

4. Demands for higher wages from civil servants have led to ad-hoc wage negotiations and salary increases across several sectors. Ad-hoc wage hikes are at times provided outside the usual budget process, increasing uncertainty to the forecasts of wage expenditure. An increase in the retirement age from 62 to 65 in 2019 contributed to pressures from trade unions and youth associations to increase salaries and recruitments⁴. The government responded by first signing a deal with the National Trade Union in August 2019, granting a 20 percent salary increase to general civil servants. This triggered a series of protests and strikes from teachers' unions, asking for the same salary increase. As a result, teacher salaries were increased by over 33 percent in 2020, placing them among the highest paid civil servants. Other sectors have subsequently expressed demands for the harmonization of the salary grid to bring all public wages to the same level as in the education sector. As a result, all categories of civil servants were granted a 25 percent salary increase in June 2021. The government then committed to recruiting 8,600 staff per year over 2021-2026 and agreed to take steps to harmonize bonuses and allowances. This harmonization induced a rise of CFAF 157 billion (9.1 percent of tax revenue) in the wage bill in 2022. A social conference was held from October 17-22, 2022, the first in the country's history, to discuss the public wage setting mechanism with the purpose of achieving a social pact on public wage setting in the next five years.⁵

Figure 2. Recent Salary Increases in the Public Sector



Sources: Malian Authorities and ILO Statistics on Employment

The Need for Immediate and Longer-Term Reforms

5. The immediate reform challenge is to avoid further ad-hoc wage increases, and rationalize bonuses and allowances, but this could be politically sensitive. A nominal pay freeze has the potential to moderate both average compensation and the public wage premium. It could be combined with targeted competitive compensation and performance-based bonuses and allowances to ensure adequate staffing in

⁴ This pension reform led to very little retirements in the public sector between 2019-21.

⁵ The conference gathered nearly 500 participants from the government, unions, and private sector. Participants agreed on 139 recommendations, whose implementation is not expected to have a major fiscal implication.

priority sectors.⁶ While across-the-board pay freezes could generate between 1-2 percentage points of GDP reductions in the wage bill immediately, as seen in Côte d'Ivoire and Senegal, some country case studies have suggested that they are not necessarily effective in containing the wage bill in the medium term (IMF, 2016). This is because these freezes can hamper public sector labor markets by setting back the provision of adequate staffing in priority sectors and potentially distort the wage structure by generating demands for higher allowances and bonuses, as was the case in Côte d'Ivoire and Senegal. In the case of Mali, an across-the-board wage freeze may be inconsistent with the agreement reached during the social conference, ultimately leading to social unrest in an already-fragile environment. Other possible reforms towards ensuring stabilizing wage ratios include restricting public sector wage to rise by less than inflation, nominal GDP, tax revenue or private sector wages. The previous ECF program also considered ways to ensure that any wage bill increase is accompanied by an equivalent increase in revenues through specific tax policy measures. For instance, tax reform that increases the tax to GDP ratio by 1ppt would generate a drop of the wage bill to revenue ratio of nearly 0.7ppt, all else equal. While this would help to stabilize the wage bill to tax revenue ratio, budget execution issues may complicate implementation.

6. Over the longer term, structural reforms to stabilize nominal wage growth and strengthen wage bill management are critical for fiscal sustainability. Structural wage reforms could include institutional and social arrangements to ensure the control, oversight, and transparency of the wage setting mechanism.⁷ Furthermore, enhancing payment-related digitization and PFM and integrating wage decision-making in the budgetary framework may help improve fiscal sustainability. Cross-country evidence shows that such arrangements tend to improve the efficiency of wage formation and hiring processes (IMF, 2014). There is also evidence that reforms which place tighter controls on bonuses and allowances can lead to large falls in public sector wage spending. Egypt, for instance, was able to reduce its wage bill by nearly 3.5 percentage points of GDP between 2014-19, by setting up tighter controls on bonuses and allowances. In the case of Mali, such structural measures should be based on the outcomes of the social conference. The agreement reached during the conference could (i) pave the way for an effective wage bill management, notably through the adoption of a social stability pact, (ii) harmonize and rationalize allowances and bonuses, and (iii) develop a national wage bill policy/strategy for civil servants.⁸ The completion of the planned wage bill study is a critical milestone to understand more comprehensively the drivers of wage bill growth and the available policy options.

Conclusions and Policy Recommendations

7. In recent years, the wage bill has increased substantially and now exceeds the WAEMU norm. Average compensation level has been a key driver of the recent wage bill increase, resulting in a public sector wage bill to tax revenue ratio of 55 percent, far exceeding the WAEMU's 35 percent ceiling. In particular, the

⁶Wage bill moderation measures should be well-targeted and sector-specific. In LICs, some wages should be set in such a way to attract and motivate staff.

⁷ However, weak institutional capacity is a key challenge complicating the implementation of such structural reforms. IMF Technical Assistance would be useful in many of these reform areas.

⁸ Côte d'Ivoire has recently adopted a medium-term wage bill strategy with a pathway to improve wage bill management over the medium term.

sharp rise in the wage bill ratio since 2019 coincided with salary increases resulting from ad hoc salary negotiations with civil servant unions. By contrast, public employment as a ratio to the working-age population has been declining.

8. Pay freezes may be effective in the short run but difficult to maintain, thus calling for structural measures that work over the medium term. While across-the board salary freezes may help wage growth moderation in the short term, they would be politically difficult to implement in the current context. Structural reforms to strengthen wage bill management are critical to preserving medium-term fiscal sustainability.

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