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# Republic of Tajikistan Public Sector Pay Reform

Policy Note on Medium-Term Pay Reform in Public Sector  
Civil Service, Education, Health, Social Protection, Science, Culture and Sport

(In Two Volumes) Volume I: Synthesis Note

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective October 1, 2008)

Currency Unit	=	Tajikistan Somoni (TJS)
TJS 1.00	=	US\$ 0.2941
US\$ 1.00	=	TJS 3.400

## WEIGHTS AND MEASURES

Metric System

## FISCAL YEAR

January 1 to December 31

## ABBREVIATIONS AND ACRONYMS

AOD	Agreement on Deliverables
BBP	Basic Benefits Package
BP	Base pay
CSD	Civil Service Department
DfID	Department for International Development, United Kingdom
EC	evaluation committee
ECSPE	Poverty Reduction and Economic Management Unit, Europe and Central Asia Region
EOP	Executive Office the President
GDP	gross domestic product
GOT	Government of Tajikistan
IMF	International Monetary Fund
MDGs	Millennium Development Goals
MLSP	Ministry of Labor and Social Protection
MOE	Ministry of Education
MOEDT	Ministry of Economic Development and Trade
MOF	Ministry of Finance
MOH	Ministry of Health
NBT	National Bank of Tajikistan
NGO	Nongovernmental organization
PA	performance appraisal
PCF	per capita financing
PDPG	Programmatic Development Policy Grant
PHC	primary health care
PIP	Public Investment Program
PRGF	Poverty Reduction and Growth Facility
PSRP	Public Sector Reform Project
RRS	Rayons of Republican Subordination
SMP	staff-monitored program
SOE	state-owned enterprise
TJS	Tajik Somoni
TA	Technical Assistance
USD	U.S. dollar

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<sup>1</sup> Since May 2008, head of organizational unit in the presidential administration



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## BACKGROUND

1. This Part of the Public Sector Pay Reform Policy Note represents a summary of main messages and findings of the report. The report also provides the summary of simulations for various policy scenarios; it is not imperative that quantitative parameters of policy actions (for example, base pay levels, etc.) should be exactly the same as in the Policy Note – actual numbers may change depending on available fiscal space by the time when final decision is taken vis-à-vis pay increase. Summary of recommendations is provided in Annex 2; by the time when the report was ready for publication, the Government already took actions to address immediate objectives of the pay reform agenda in public sector; it issued a decree to increase pay levels for civil servants, education and health sector workers as well as other social sector workers. In general, the decree was consistent with overall immediate objectives of pay reform in public service.

2. Public sector wage reform is a key aspect of the reform agenda in Tajikistan. The strong erosion of real wages, as a consequence of the civil war and the collapse of the economy in the 1990s, and very limited employment opportunities in the country combined with increasing opportunities for labor migration, as a consequence of growing economies in Kazakhstan and Russia, have led to a large outflow of qualified personnel in the public service. At the same time, these sectors are crucial to the achievement of Millennium Development Goals (MDGs) and for ensuring sustainable growth. The public sector continued to provide a quarter of employment (25 percent) over the last seven years. Job creation in the economy was very marginal. It is very likely that the public sector will continue be one of the major employers in the local labor market in medium term.

3. The proposed wage-reform program envisaged in this report does not imply any increase in the GDP share of the wage-bill over the 2008-11 period; this is spelt out in the fiscal implications tables for various wage scenarios. This means that real wage increases from proposed reforms will be very limited during this period. Rising fiscal deficits, inflation of close to 20 percent, widening trade gap and worsening external debt indicators place make this inevitable. Also, the recent slowdown in GDP growth is likely to dampen revenue growth. Only a significant turnaround in the macro and fiscal situation and in GDP growth is likely to improve prospects for wage increases.

4. The core question addressed in this Policy Note is how in a context of limited macro-fiscal room for maneuver and with limited available capacity, the Tajik authorities can define both short- and medium-term reform options to address some of the key distortions in the current public sector wage system, and build a system that will attract qualified staff and create incentives for enhanced public sector performance. It is very important to address pay policy issues in the context of a potentially shrinking wagebill (as well as non-wage current spending) when capital spending is increasing.

5. Wage system reform is a highly complex question, at least, for three main reasons. First, wage system reforms have to fit overall reform strategies in individual parts of the public sector. Therefore, in the public service wage system reforms have to support a professionalization and ‘rightsizing’ agenda along with sectors’ reform strategy including per capita financing in education and health sectors as well as Basic Benefits Package (BBP) and institutionalization of unofficial payments in health sectors. Second, public sector wage reforms would need to follow some common principles, to avoid further distortions in the public sector itself, and these are not easy to establish, especially in the context of Tajikistan, which has a public service with a strong level of differentiation among employment conditions in the different parts of the public sector. Third, as noted, the fiscal space for wage increases will remain limited for the next five years, which in view of the very low base from which wage reforms need to start, creates a serious risk of reforms not meeting the expectations of public sector staff.

6. The Policy Note focuses on *civil service, education, health, social protection, science, culture, and sport*, sectors with a very uneven reform background and different starting points. The Policy Note attaches special emphasis on state of play in these sectors and explores options that could encompass policy decisions of the authorities in a three- to five-year timeframe.

7. The various wage systems currently in place in the public sector remain overly complex and fragmented. While reforms in recent years brought marginal changes in civil service, health, and education, they have not addressed the fundamental problems identified in the earlier World Bank policy note on the public service wage system (2005), and have also not covered other parts of the public sector. In particular, the absence of clear and transparent wage grids and related job evaluation and ranking systems continues to make wage setting subject to subjective decisions and creates distortions in the structure of public sector employment, including a top-heavy staff profile with the accompanying lack of career and development opportunities. Finally, an ill-structured wage system also leads to inefficient use of scarce public resources in that it does not reward appropriately for job complexity and performance.

8. Apart from the risks outlined above, reform actions undertaken in recent years have not been able to redress significantly the inadequacy of wage levels, which remain low. Low pay levels create a situation where a head of department in a line ministry, who could expect to earn the equivalent of about US\$140 per month, can earn several times more if he/she would decide to work as a seasonal worker in Russia. Two subsequent rounds of wage increases in 2006 and 2007 have marginally altered this situation. Even with increases of up to 100 percent to the lowest paid professionals in the health and education sectors, the impact was limited, especially because increases were generally given across the board, with limited or no reduction in numbers of staff<sup>2</sup>.

9. A further side effect of low wage levels is that it encourages staff providing core public services to charge additional fees for their services. Whereas this practice is being legalized and regulated, for instance by the introduction of the BBP in the health sector, it is still unclear how much extra income health and education professionals make from fees and charges, nor how this is divided across the professions. Civil servants are barred from gaining additional income.

10. Regardless of the complexities that public sector wage reform poses in Tajikistan, due to the factors outlined above, the government has, since 2005, implemented consistently a package of reform measures that reflect good international practice in wage system management. Initially limited to the core civil service (which contains only 4-5 percent of total public service employment), reform measures in 2007 also included initial transparency measures in education and addressed imbalances between primary and secondary care wages in health. As the initial reform measures were largely supported in the public service, the government decided in 2008 to embark on a second, more ambitious, program of wage system reform, covering the core civil service and the social sectors. Such a program would need to be carefully design to ensure that expectations are managed, especially in view of the limited fiscal space for wage level improvements, account is taken of the limited capacity in Tajikistan for managing reform implementation, and the rationale and substance of the reforms are effectively communicated. This policy note therefore emphasizes both technical aspects of public sector wage reforms, as well as proposes ways and methods through which government could consolidate and expand the support base for the reform process.

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<sup>2</sup> Even where staff reductions were applied, they largely consisted of the removal of ghost workers and a limited increase in the number of hours covered by 'loads.'



## COVERAGE

11. The selection of sectors/subsectors covered in this Note is based on two considerations: (i) whether the sector/subsector is fully or partially financed by the general government budget; and (ii) whether sector/subsector is considered to move to budget-grant financing in the future where wages will not be subject to direct government regulation. The reason for this consideration is due to: (i) intention of increasing efficiency of public spending and minimizing possible leakages in the system; (ii) gradual decreasing of burden on general government by formalizing de-facto existing non-budget financing; and (iii) gradual commercialization of specific segments in public sector (where possible) and, accordingly, gradual liberalization of pay policy in those segments.

12. The proposed Policy Note covers civil service (public civil service)<sup>3</sup> and six other social sectors – education (all levels from pre-school up to post-graduate levels), health (primary and secondary healthcare), science, social protection, culture and sport.

13. Other parts of the public sector such as, judiciary, defense, law enforcement, security, as well as diplomatic missions outside the country are not covered by the study,<sup>4</sup> both for reasons of statutory limitations, which does not permit the World Bank to engage in the security sector and the specific nature of, for instance, the judiciary, which has a certain degree of autonomy in its internal management. The note also does not cover those social service institutions (healthcare facilities, pre-school institutions, etc.) which are not funded by general government budget and financed by either SOEs or private sector.

14. Civil service, education and health sectors are considered as *reference sectors* and proposed policy measures in other sectors (and their subsectors) are linked with measures in reference sectors with some alterations depending on specificity in these sectors/subsectors.

## GENERAL OBJECTIVES AND KEY MESSAGES

15. The Policy Note sets out a number of overall objectives – predictability of wages, transparency and minimum space for discretionary decisions, incentive to public servants for career development, incentives for better performance, transparency of using non-budget financing and institutionalizing built-in mechanisms for rationalization in public sector - and proposed policy measures are built around these overall objectives.

16. The Policy Note is based on assumption that the Government will continue with *the regulated public sector wage system* in medium-term prospective. Accordingly, at this stage, it is essential that the Government identifies a strategy towards gradual liberalization of pay policy in some segments of the public sector with the objective of: (i) promoting merit-based pay policy; and (ii) reducing the burden on general government budget by increasing non-budget financing in parts of the public sector that are able to generate significant non-budget revenue (e.g. higher education, secondary health care, commercial functions such as newspapers, sanatoria etc.).

17. To meet the objectives described in the above paragraph, the Policy Note focuses on measures towards: (i) pay structure rationalization; (ii) minimizing intra and cross-sectoral

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<sup>3</sup> According to the Law on Civil Service, civil servants are categorized into three groups: (i) public civil servants; (ii) military civil servants; and (iii) law enforcement civil servants. The Policy Note covers public civil servants only. There are public civil servants working in judiciary, law enforcement, military and security; they are in charge of administrative functions (planning and budgeting, administration, etc.) and covered by this Note as well.

<sup>4</sup> Base pay levels in judiciary, law enforcement, military and security is linked with civil service while salary package in these sectors includes other increments for military ranks. For statutory reasons, the Policy Note does not cover these sectors in civil service.

distortions in wage levels; (iii) discussing the financing strategy for specific sectors/subsectors and policies that effect pay practices in public sector; and (iv) addressing pay policy measures in the environment of macroeconomic and fiscal constraints.

18. *Pay structure rationalization* is the frontline task and immediate policy measures in all social sectors have the elements of it<sup>5</sup>. Pay structure rationalization is proposed to be undertaken at least for three reasons:

- (i) Pay levels in public sector, especially in education and health (and, accordingly, in science, social protection, culture and sport) are very compressed and, therefore do not motivate staff for promotion to higher level positions. It is very important to exercise pay decompression gradually, and simultaneously, ensure that pay levels reflect the level of responsibility.
- (ii) Pay structure in social sector is very complex and leaves a lot of room for discretionary decision-making; number of supplements reaches up to eleven. The Policy Note argues that most of supplements (which are the part of regular duty of a public servant) need to be integrated into base pay and, for the reminders clear rules of eligibility are defined.
- (iii) Staff promotion and pay levels in public sector are highly driven by years of service factor. The Policy Note proposes gradually introducing the elements of performance-based pay levels depending on feasibility and capacity constraints.

Given the fiscal constraints – wagebill level of 4.5 percent of GDP in next four years down the road – it is feasible to: (i) rationalize pay structure by integrating most of supplements into base pay with one-time adjustment in the base pay; (ii) achieve decompression targets: for *civil service* from existing 1 : 2.62 to 1 : 4.15 between specialist-level position (lowest) and head of department at a ministry level; *in education*, from existing 1 : 1.60 to 1 : 2.20 between a teacher of no category with special secondary education and a teacher of highest category at a general education level; and *in health*, from existing 1 : 1.12 between mid-level professionals and surgeon<sup>6</sup> to 1 : 3.40; and (iii) move to new wage grid that reflects the level of responsibility and job complexity. The following three points explain the reason for such a difference in decompression targets across sectors: (i) fiscal constraint is the major factor for this; for instance, in education, this is mostly driven by budget implications as the sector absorbs 40 percent of public sector wagebill; (ii) level of wages – education workers are much better paid than other social sectors, therefore, it would be difficult to adjust pay levels (and, accordingly, decompression targets) in the sector significantly in medium-term prospective; and (iii) the hierarchy of positions – the number of positions between benchmark positions vary from sector to sector (for instance in civil service, it is much greater than in education)

19. The Policy Note proposes gradual institutionalization of a simple performance appraisal system in civil service, the introduction of which was supported by 70 percent of civil servants in a Survey conducted in October 2007.

20. *Minimizing intra-sectoral (education) and cross-sectoral distortions in pay levels* may negatively affect the labor market within civil service and may cause brain drain. The Policy Note proposes measures to equalize pay levels within and across sectors for peer positions and peer institutions. Given the fact that sectors (social protection, non-general-education part of education sector, science, culture and sport) which have been suffering from inadequate wage increases, account for less than 10 percent of overall wagebill, it is feasible to allocate greater resources for

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<sup>5</sup> Civil service exercised pay structure rationalization in 2006.

<sup>6</sup> Further discussed in more details; pay levels for doctors is the same, payments for categories and management responsibilities are considered as supplements

this sector to ensure “catch-up” already in 2008. The Policy Note gives special emphasis in ensuring that there is a minimal discrepancy in pay levels of public sector employers of the same profile and job complexity working in different sectors/subsectors.

21. *Financing strategy for specific sectors/subsectors and policies that effect pay practices in public sector* are critical for designing realistic and fiscally feasible pay models. There is a huge need to: (i) streamline pay system with other sector financing policies that have a potential to generate efficiency gains; and (ii) reduce the burden for general government budget by institutionalizing co-payments and exploring opportunities for commercialization of some segments of the public sector. The Policy Note argues that, along with 100-percent government financing, some (sub)sectors have an opportunity to be partially commercialized (higher education, secondary healthcare, theaters, sport, etc.) and this potential of attracting non-budget financing needs to be utilized.

22. The Policy Note highlights the importance of minimizing practices causing leakages in the system and increasing incentives for more efficient use of resources. Particularly in two reference sectors – education and health – a mechanism of managing supplements with clear rules of eligibility and quantitative parameters is discussed. The Policy Note also stresses the importance of revisiting of some parts of sector financing strategies (in medium-term) including alteration of per capita financing formula in general education to ensure that the issue of location (“standard” schools vs. the ones located remotely mountainous areas) is addressed in the context of equity of access to public resources.

23. *Macroeconomic and fiscal constraints* are key parameters for re-designing the pay policy in the public sector. The Policy Note argues that, in an environment of limited fiscal space, re-designing new pay policy should be based on top-down approach to make sure that budget constraint is respected and marginal increase in wagebill is efficiently used.

24. The Policy Note reviews wage reform from an institutional reform rather than an income level (subsistence or real wage increase) perspective; this is critical from a budget constraint point of view. The approach is rather top-down than bottom-up, i.e., the emphasis is on how to use the wagebill increase in a way that would bring more transparency and predictability in pay system. It is important that this underlying rationale for the reforms be carefully communicated to stakeholders, in order to avoid creating expectations that fiscal space constraints would not allow to deliver upon.

25. Though wage levels remain low, the scope to raise real wages significantly is limited due to fiscal constraints. As mentioned above, the wage reform scenarios do not envisage the increase in total wagebill beyond 4.5 percent of GDP; this phase thus helps mainly to rationalize wage structures across sectors; accordingly, if a decision is taken to increase wagebill beyond this level, it would require some fiscal adjustment through expenditure cuts or revenue increase of equivalent among in order to maintain macro and fiscal stability.

### **CONTEXT: A FRAGMENTED PUBLIC SERVICE SYSTEM**

26. The role of the public sector in the Tajik economy remains significant: the budget-(co-) financed segment of the public sector account for 25 percent of overall employment in the economy.

27. There are a number of challenges that Tajikistan is going to face in medium term: (i) increasing working-age population in recent years is going to increase labor supply; (ii) recent macroeconomic developments have seriously eroded real wages, including in public sector, and significantly reduced the competitiveness of public sector in local labor market and (iii) it is very likely that labor migration will continue causing brain drain, including from the public sector.

28. The core civil service offers employment to 17,696 people including political appointees and servants of state power. There has been significant progress in pay reform in civil service in recent years including improved transparency in pay structure and increasing attractiveness of career development for young professionals. The reforms are still half-way and next steps include classification of positions and move to new wage grid as well as instituting performance appraisal.

29. Education – the largest employer in the public sector offering jobs for 167,550 staff (including administration and ancillary staff) - has very uneven progress: pay structure rationalization was exercised in general education through integration of all supplements, except class leadership and textbook correction. However, two major challenges emerged: (i) there is a significant distortion in pay levels between administration and teachers (a teacher earns much more than a school principal); and (ii) there is a significant distortion in pay levels across subsectors in education (teachers of the same profile in vocational, corresponding and other non-general-education part of the sector get much less salaries than in general education). These shortcomings need to be addressed at immediate stage. There is also a need to align pay policy with other reform actions in the sector including per capita financing, curriculum and staffing policy.

30. The health sector employs 72,706 people including administration and ancillary staff. Almost no progress observed in the sector with the exception of across-the-board pay increases in recent years. Pay system is based on a single base pay level (differentiated for surgeons, physicians and mid-level staff) with further applying up to 11 supplements on the top of it, including the ones for managerial responsibilities and categories. There is a need for immediate change the basis for the base pay depending on job complexity and categories of medical professionals as well as pay structure rationalization through eliminating the most of supplements that reflect the nature of the job of a medical professional. The medium-term steps should include the move to new wage grid and changing the sector financing mechanism depending on the progress of BBP implementation that would allow instituting co-payments/non-budget financing in hospital services with possibility of gradual liberalization of pay levels in the former.

31. From the point of view of its organization, the public service system of Tajikistan is a highly diverse and loose system, which evolved from a relatively coherent set of professional groups and structures under the former Soviet system into a disjointed confederation of different sub-systems since Tajikistan's independence. Ad hoc reforms introduced in different parts of the public service, in particular in the core civil service, combined with the continuation of an (unsatisfactory) status quo in other areas have added further to the fragmented nature of the system. In addition, sector financing reforms, in particular in health and education, have set up sector-specific rules of game aiming at increasing efficiency in financing mechanism, that could not be replicated across all social sectors given limited opportunities for attracting non-budget financing. Nevertheless, the government has continued to define and implement wage policies for the whole of the public service, even if wage increases have moved at different rates for different groups.

32. Following a period of ad hoc adjustments and wage increases, combined with limited wage structure reforms in the civil service, the health and education sectors, the government has recognized the need for a more holistic approach to public sector wage system reform; a holistic approach that, while recognizing the need to reflect the diversity in public sector wage systems that is now irreversible, would still instill a set of guiding principles and rules in the public service overall. As a reflection of this, the note proposes creating reference systems in the core elements of the public service (civil service, education, health), while pay reform in other social sectors – science, social protection, culture and sport – would need to be logically linked with the

reform actions in the three reference sectors (civil service, education and health); however, budget constraints and asymmetric attention to selected sectors have brought significant inconsistency in pay levels of “peer positions”. The immediate policy actions need to eliminate distortions in the system and focus more on financing mechanism of the selected sectors/subsectors.

### **MACROECONOMIC AND FISCAL CONTEXT**

33. While in 2007 the economy continued to grow at a brisk pace (7.8 percent) observed over the past few years; it is expected that the growth rate in 2008 will be much lower (at around 5 percent) in the aftermath of energy and cotton sector crises. The economy has also been under high inflationary pressure in the last two years (12.5 and 19.8 percent in 2006 and 2007, respectively). The recent build-up of debt and the depletion of foreign exchange reserves (mostly due to cotton sector debt) may expose the economy to foreign exchange and inflation risks.

34. Tajikistan’s medium- and long-term prospects may become positive only if the authorities move quickly to restore sound macroeconomic management and continue to implement institutional reforms to improve the business climate, the financial sector, agricultural marketing and public finance management. Expansion in aluminum processing capacity to service continued high world demand, reforms in cotton sector, buoyant inflows of remittances, and the start of a large-scale infrastructure (mostly energy) projects have the potential to support growth of 7–8 percent over the long term.

35. The fiscal space for wage reforms in next few years will depend on a number of factors: (i) growth performance; (ii) trends in commodity prices; and (iii) revenue mobilization efforts of the government.

36. The Government will have to balance between the need to increase pay levels for public servants and macroeconomic constraints – a balanced budget and inflationary pressures. While the emphasis of the Policy Note is largely skewed towards institutional issues of the pay reform, rather than an income (subsistence) level prospective, the reform agenda will have to put emphasis on how to use the limited fiscal space in a more efficient way.

### **SECTOR REFORM CONTEXT**

37. Progress in public sector pay reform has so far been uneven, in particular; (i) the civil service wage system has seen more progress than other parts of the public sector: (ii) education and health sectors need further improve the pay structure and mechanism; and (iii) social protection, culture and science have lagged behind of the reform agenda.

38. Government’s actions in recent years was targeted towards key reform objectives ensuring the following principles in pay policy:

- *Predictability of wages;*
- *Transparency and minimum space for discretionary decisions;*
- *Incentive to public servants for career development;*
- *Incentives for better performance;*
- *Transparency of using non-budget financing;*
- *Institutionalize built-in mechanisms for rationalization in public sector.*

39. Reforms in the civil service address three fundamental issues: (i) establishing a new civil service register based on a new job classification; (ii) improving pay structure that brings more transparency and predictability, and (iii) increasing incentive of career development for young professionals. Key actions during last three years included:

- *Pay structure rationalization; and*
- *Improving pay structure that reflects the level of responsibility;*
- *Improving legal framework for civil service: a legal basis for the separation of administrative and political positions, introduction of eight categories of civil servants and separation of public civil servants from law enforcement servants and military servants.*

40. There are a number of outstanding issues that need to be addressed in next stage of pay reforms in civil service: (i) final stage of pay decompression; (ii) accommodate the perception of civil servants of forthcoming pay reform; (iii) factoring-in the elements of performance-based pay increase; (iv) giving better opportunities to young professionals in civil service; (v) address issues related to the classification of civil service positions prior to the move to new wage grid.

41. Pay policy in the sector of education lacks consistency and systematic approach. There is no policy in place that would ensure consistency of pay levels across subsectors and adequate “equalization” of positions. Government’s attention in the sector has been pretty asymmetric in favor of general education that in longer term may lead to brain drain from other subsectors.

42. Pay structure is very complex and leaves a room for discretionary decisions; there is a number of open-ended supplements and policy environment that undermine predictability of wagebill and creates a space for possible manipulations.

43. General education absorbs roughly 90 percent of overall wagebill in the sector; however, there is no well-established linkage between pay policy, curriculum and class-sizes. Existing practice of wagebill planning is based on “tarifikatsiya” which represents a form of budget allocation request with number of staff and base pay levels and demand for teaching loads is identified based on number of classes that disincentivizes rationalization measures.

44. There are a number of policy actions need to be taken along with the pay policy including sector/subsector financing mechanism, per capita financing and curriculum reform. They should be harmonized with pay policy to bring more efficiency, transparency and predictability of wagebill to minimize potential leakages in the system. The Policy Note argues that next steps in wage reforms in education has to give special emphasis on linking pay policy with curriculum and rightsizing and factoring-in rationalization elements into new pay system and reflecting job complexity on pay levels for teachers.

45. The government decided to change the financing mechanism in education through the move to per capita financing on a step-by step basis. Under the new financing mechanism—per capita financing (PCF)—the allocation of non-earmarked block funds to schools based on a per-student basis rather than a per-class basis, and the decision-making authority over school budget allocation is decentralized and schools have sufficient authority to reallocate funds when needed. PCF has gradually been expanding across the country and is expected to be fully scaled up nationwide in 2010. Because schools in the pilot rayons/cities no longer receive funds depending on number of classes, many schools have merged small classes to create larger classes and increased the number of students per class (without going above 30 students per class except in very few cases) and reduced teaching hours (*stavkas*) per teacher. Schools’ incentive to manage cash flow and their desire for full autonomy over their budgets creates room for efficiency gains and contributes to better use of non-wage expenditures.

46. Given the fact that, the Government will continue exercising regulated pay policy in general education, it would be necessary to adjust PCF financing mechanism to ensure that schools located in areas where number of students in classes (class size) naturally will remain low

(mostly for demographic reasons) are not in disadvantageous position, once PCF is scaled up. Moreover, legal framework needs to be adjusted to ensure enhanced autonomy at the school level.

47. The core of the current payroll system is a base rate (basic salary), applied equally to all positions across the whole sector. Gradually, the sector is moving (in comparison with pre-reform 2005) from applying a single base pay level (for all levels of professional staff) towards a system where pay scale more or less reflects job complexity (Table 3.3). These developments mostly reflect the result of asymmetric wage increase in favor of PHC during 2006-08. These steps still represent initial stage of policy actions; next steps should ensure more decompression in base pay levels and reflect the level responsibility and job complexity. As in other sectors, the base pay in healthcare is supplemented with up to ten different allowances and supplements: (i) for holding management positions (25–30 percent), (ii) for scientific degree (30–40 percent), (iii) additional pay for honorary title (10 percent–30 percent), (iv) for “Otlchnik Zdravoohraneniya” title (10 percent); (v) for diploma (5 percent), (vi) additional pay for hazardous work conditions (6–12 percent), (vii) for area responsibility (30 percent), (viii) for years of service for the presidential administration (10–25 percent), (ix) for category (0–30 percent), and (x) for material assistance (equivalent to 100 percent monthly wage, paid once a year).

48. Pay policy in health sector depends on implementation of Basic Benefits Package (BBP) and defining a strategy for state financing in the sector. The BBP was introduced through government decree on April 14, 2007; it became effective on June 1, 2007. The main objective of the BBP was to reduce informal payments by establishing a more transparent system of patients’ rights and obligations, institutionalizing a co-payment system and reducing financial burden on selected categories of patients. A secondary objective of the BBP was to reorient government financing of the health sector toward supporting primary care from what is still a hospital-dominated care system. The underlying logic of the reform is that by regulating contributions to secondary care (through co-payments), more resources could eventually be freed to develop and strengthen the primary care system, including through non-symmetric allocations of budget financing.

49. Social protection has been far behind in terms of pay reform agenda. Wage payment in the institutions subordinated to the Ministry of Labor and Social Protection is regulated by: (i) the general labor law; as well as, (ii) the Instruction on Wage Calculation for Employees of Health Institutions in the Republic of Tajikistan approved by Order No 12-12/34 of the Ministry of Health (dated 1 February 1994). The latter (regulatory item (2) above) is due to the fact that most institutions provide medical care and other related services to vulnerable groups within the population.

50. Eight types of institutions are subordinated to the central government for the provision of services in the area of social protection and labor: (i) facilities for elderly people – 5 institutions; (ii) psychoneurologic dispensaries – 5 institutions; (iii) sanatorium for the veterans of the war – 4 institutions; (iv) education and science institutions – 3 institutions; (v) management bodies - 2 institution; (vi) enterprise -1 institution; (vii) spa – 1 institution; and (viii) musical band – 1 institution.

51. Other social sectors (science, culture and sport) pay policies are not harmonized with policies in relative subsectors of health and education. The Policy Note argues that pay policies in the remaining social sectors should be harmonized with policies in education and health sectors to ensure equity in pay levels for “peer positions”.

## **REFORM OPTIONS**

52. Reform options in the public sectors, while being broadly supported by both the political leadership and public servants, are constrained by two major factors: fiscal and capacity

constraints. Budget space for pay reform in next few years is based on an assumption that the general government will continue spending 4.5 percent of GDP for public sector wages (under high-case scenario – improved revenue collection and strong macroeconomic performance – the Government may target reaching 6 percent of GDP by 2011). Thus, the policy options are phased out in a way that would fit with overall wage bill of the public sector with the gradual wage decompression in education and health proposed mostly due to budget reasons. Capacity constraints are addressed through bringing upfront those policy measures that do not require technical assistance; policy actions that require TA are scheduled at later stage with assumption that the country will receive adequate TA to implement these measures.

53. Following the above, the next phase of public sector wage reform thus needs to further enhance transparency and predictability of wage allocation; ensure better linkages among job complexity, performance, and wage levels; and, to the extent fiscal space allows, lead to an overall improvement in wage levels.

54. The wage system reform options presented in this note are considered as part of a broad administrative and sector financing reform agenda and do not focus on wage system issues in an isolated manner. Moreover, proposed policy actions are designed to fit two main sets of constraints: (i) limited (fixed) fiscal space of the general government, and (ii) capacity constraints of the government to implement proposed set of reforms.

55. The principles underpinning wage system reform in all parts of the public sector would need to include: enhancing transparency and predictability of wages, rewarding complexity of work and responsibility as well as performance, needs-based use of scarce fiscal resources, and increasing wagebill predictability.

56. The proposed reform options suggests that the overall public sector wage system be reformed around three main subsystems, the civil service system, which would also be the reference system for management positions in other parts of the public sector, the education system, which would serve also as the reference system for science and sports and the health system, which would serve also as a reference system for social protection. It is proposed that some parts of the public sector will be increasingly put on an output financing system, with wages regulated solely by the Labor Code. Initially this could apply to the Culture sector, with a potential expansion to other areas.

#### CIVIL SERVICE

57. Reforms for the core civil service will build upon the transparency and predictability measures already taken and add the dimensions of equity, complexity, and performance as the basis for the wage system. In this context, it is proposed that the medium-term pay reform agenda in civil service (2008–11) be built around the following steps:

- step 1—wage adaptation in 2008, including limited decompression measures (July 1, 2008);
- step 2—(i) define a new wage grid, (ii) complete the job classification, (iii) launch PA in pilot central civil service institutions (July 1, 2009);
- step 3—(i) review the wage grid, (ii) evaluate pilot PA and scale up PA across all central civil service institutions (end-2010); and
- step 4—(i) scale up PA across all civil service institutions including local governments (end-2011).



## **Steps 1 and 2**

### *Wage adaptation*

58. Wage adaptation in 2008 is an important step and has to meet two major objectives: (i) distribute pay increases by positions in a way that would ensure smooth transition to the new wage grid with marginal budget implications, and (ii) maintain adequate pay decompression targets when almost two-fold pay increase is expected to be given to junior level positions (effective July 1, 2008) due to high inflation in recent years.

### *Job classification*

59. Five criteria are proposed for classification purposes: (i) complexity of job, (ii) independence in (technical) decision making, (iii) level of responsibility, (iv) professional communication, and (v) professional competence.

60. Overall, categorization could be consistent with the following hierarchy civil service positions: *High category*—first deputy minister– and deputy minister–level positions (number 1 and number 2 positions in relevant institutions); *First category*—head of department–level positions; *Second category*—head of division–level positions; *Third category*—head of unit–level positions; *Fourth category*—head of sector–level positions; *Fifth category*—chief specialist–level positions; *Sixth category*—lead specialist–level positions; and *Seventh category*—specialist–level positions.

### *New wage grid*

61. The civil service wage grid was abandoned during the Civil War period and replaced by a system of ad hoc wage setting. The proposed new wage grid would cement the re-introduced principles of transparency and equity and ensure that civil servants are eligible only for one consolidated wage, without supplements and qualification rank pay, which will be integrated into overall pay package. During transition to new wage grid civil servants' wages are subject to a one-time adjustment (in addition to pay increase envisaged in the budget) that absorbs both supplements.

62. The wage grid proposed in this note has 8 levels and 12 steps. Levels are consistent with categories of civil servants. Assignment to a new step depends on institutional hierarchy of an institution in which a civil servant is affiliated. A 25 to 30 percent difference in salary between levels is applied. This provides an incentive for capable staff to accept higher-level responsibility at a higher grade level where vacancies exist. Step increase is based on 5 percent increments.

### *Gradual introduction of a performance appraisal system*

63. There are three issues that need to be addressed while PA is instituted in Tajik civil service: (i) institutional setup within and among civil service institutions, (ii) finding out a feasible piloting scheme and possible scale up across the whole country, and (iii) having simple and very straightforward rule. These three constitute the basis of successful implementation or failure PA implementation in civil service.

64. The Civil Service Department (CSD) produces manuals/guidelines on PA and updates them when needed; quality control and oversight functions are to be attached to the CSD as well. It is essential to enhance the role of human resources management units in civil service institutions—they have to be in charge of implementation in their respective institutions.

65. There is a need to decide on a clear plan and schedule of implementation of performance appraisal in the Tajik civil service. One possible option could be piloting it in the same institutions as the new pay system was piloted in 2005 – Presidential Administration, Civil

Service Department, Ministry of Economic Development and Trade, Ministry of Finance, Ministry of Labor and Social Protection and Ministry of Education. The first phase should be implemented by July 1, 2009 when move to new wage grid is due to take effect. Further, following evaluation of performance appraisal pilots, the performance appraisal system should be scaled up to all central civil service institutions and at a final stage (e.g. by 2011), across all civil service institutions, including at the regional and local levels.

### **Step 3**

*Evaluate and review the wage grid and adjust if necessary*

66. Analysis of the implementation of wage grid would be an important step to monitor the progress of reforms. The CSD will have to carry out an analysis of the implementation of wage grid in civil service to check: (i) whether job matching was done correctly and reflects adequate pay levels, and (ii) whether pay differentiation levels provide an incentive for career development.

*Performance appraisal scale up*

67. Evaluation of PA in pilot civil service is essential at this stage. CSD has to conduct a new survey among civil servants in pilot institutions to identify what has worked and what has not worked. The survey has to help to find out at least: (i) the overall level of satisfaction or concerns; (ii) whether the process was organized in a logical and transparent way; and (iii) what has to be changed in appraisal system, etc.

68. Overall, this step requires two fundamental actions: (i) review implementation of pilot PA and draw right conclusions for possible alterations in the system before scaling up to central civil service and (ii) training for human resources management personnel and managers and members of evaluation committees in central civil service institutions.

### **Step 4**

*Evaluate and consolidate performance appraisal*

69. Another survey of civil servants' perception on PA implementation would be needed before the system is scaled up across the whole civil service. As in Step 3, review and possible alteration of the system as well as training program for human resources management personnel and managers and members of evaluation committees would be needed. This requires technical assistance to the client.

## **EDUCATION**

70. Tajikistan's medium-term pay policy has to be based on at least four pillars: (i) redesigned pay policy, (ii) policy options for curriculum development, (iii) rightsizing school size and efficiency gains of per capita financing, and (iv) rationalization of staffing policy. The whole agenda is built within the framework of this rectangle, as the pay reform cannot alone offer the solution for the predictability of wagebill in education—the largest employer of the public sector.

71. Medium-term pay reform agenda in education covers 2008–12 and is built around the following steps:

- step 1—wage equalization across all subsectors in education in 2008-09, including marginal decompression measures—develop a target for staffing rationalization (starting from Sept. 1, 2008 throughout Sept. 1-2009);

- step 2—(i) move to interim wage grid based on existing categories of teachers, (ii) initiate stavka/curriculum reform, (iii) intermediate review of per capita financing (September 1, 2010);
- step 3—(i) move to permanent wage grid with assumption that actions (ii) and (iii) of step 2 are accomplished (end-2012).

## **Step 1**

### *Pay structure rationalization*

72. The sector needs pay structure rationalization similar to the one exercised for general education in April 2007. Given the high complexity of pay structure and the nature of the sector, it is proposed to maintain six additional supplements at this stage—textbook correction, class leadership, classroom responsibility, supplements for laboratory work, supplements for methodological works, and bonus for the best results (sport schools only). Once the system moves to intermediate wage grid, these supplements will be either part of step increase (reflecting job complexity) or defined as an amount as percentage of minimum wage in education. All other supplements—except the six listed above—are proposed to be either integrated into base pay or replaced with a one-time bonus (for honorary title, for example)<sup>7</sup>.

### *Equalization of pay levels across subsectors*

73. Immediate actions in this area require: (i) some benchmarking exercise—linking pay levels of specific subsector(s) with others—has to be done across subsectors; and (ii) existing unit (per hour) for the remuneration of teachers needs to be revised through adjustments in base pay levels and/or number of hours per teaching load.

74. For benchmarking purposes, it is proposed to split the subsectors into two benchmark groups: group 1—“mapped” to general education—includes preschool education institutions and special, boarding, corresponding, vocational, musical, and sport schools, while group 2—“mapped” to university level—includes colleges and post-graduate training institutes.

75. The second element of the equalization of pay levels across subsectors is related to mutual comparability of pay levels. There are two options of addressing this issue: option 1 can be based on adjustments of base pay levels without any changes in number of hours in teaching loads (*stavka*), while option 2 considers some adjustments in number of hours in stavka with aligning base pay levels along with hierarchy of positions. Which option is most appropriate depends to a large degree on the planning and timing of other sector reforms, notably curriculum and teacher training system reforms, which are a condition for further adjustments in the stavka system. As mentioned above, it is also necessary to take into consideration the need for base pay adjustment due to temporary grandfathering of some supplements during transition to interim wage grid.

### *Staffing rationalization in education*

76. It is very important that along with initial steps of pay policy reform, staffing mechanism and staff promotion in the sector are reconsidered. The Policy Note argues that the government needs to design a medium-term strategy to address staffing policy in the sector and develop clear and transparent rules to: (i) improve the mechanism of staff promotion in the sector, notably, change the rule of granting categories to teachers; and (ii) rationalize employment structure without undermining increasing demand for additional teachers due to demographic developments.

## **Step 2**

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<sup>7</sup> Alternatively, these bonuses could be paid out of special budget funds which are not of education sector wagebill.

### *Interim wage grid*

77. Once wage adaptation is completed, intermediate wage grid has to be developed. The proposed intermediate wage grid has 7 levels and 10 steps. Levels largely reflect categories in combination with educational background of teachers, while steps reflect teachers' job complexity.

78. Under interim wage grid, the pay structure consists of three components: (i) *entry-point base pay level* which is equivalent to the product of wage grid coefficient for relevant level and step and minimum wage in education; (ii) *supplements that reflect additional workload and entail step increase*; and (iii) *additional one-time bonuses*, if any.

### *Intermediate review of per capita financing*

79. While per capita financing (PCF) in the sector is ongoing and is expected to be fully scaled up nationwide in 2010, some preparations are needed to meet the challenge of having remotely located mountainous areas under PCF formula due to very low population density and, traditionally, small class sizes.

80. It is very likely that there would be a need to apply diversified variables in the financing formula depending on location. It ensures that small schools are not in disadvantageous positions (vs. bigger ones) as they are right now. The Policy Note explores the option of dividing all rayons into three categories: *category 1*—remotely located mountainous areas, *category 2*—rural areas, and *category 3*—urban areas.

81. The further progress is made in per capita financing, the higher will be a risk of inequality in allocation of resources among schools; accordingly, there will be a need to adjust financing formula. Definitely, small schools with fewer students (category 1) lose if existing per capita formula is maintained; accordingly, the formula needs to be adjusted (variable) to an extent that *all schools could have almost the same proportion of wage and non-wage components* within overall package<sup>8</sup>. Adjustment factors have to ensure some degree of asymmetric allocation of resource envelope in favor of category 1 and category 2 rayon schools within available budget space.

82. **Step 3:** The sector can move to a new wage grid provided that all necessary preconditions are met. Analysis of the implementation of intermediate wage grid would be an important step to monitor the progress of reforms. The MOE, the MLSP and the MOF will have to carry out an analysis of the implementation of intermediate wage grid in education to check whether pay differentiation levels provide an incentive for career development.

## HEALTH

83. 2008 policy actions will start with the final step of asymmetric wage increase in favor of primary health care. Next reform measures in health care require a number of policy actions that would ensure success of pay reform and bring new elements of rationalization in the sector: (i) redesign pay policy in the sector, (ii) develop a strategy to fully institutionalize non-budget financing and wage-sharing arrangement with general government budget, (iii) rationalization of staffing policy, and (iv) establish a mechanism of built-in rationalization in the sector through sector financing strategy.

84. Medium-term pay reform agenda in the health sector covers 2009–12 and is built around the following steps:

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<sup>8</sup> In Tajik context, per capita financing covers only current expenditures.

- step 1—rationalization of pay structure, including marginal decompression measures (July 1, 2009);
- step 2—(i) revision of the strategy of state contribution in salary payments of health sector workers, (ii) separation of primary and secondary health care and job classification in primary health care, and (iii) move to interim wage grid (July 1, 2010);
- step 3—(i) complete job classification, and (ii) evaluate the interim wage grid and move to permanent wage grid in health sector (2011); and
- step 4—adaptation of state portion of wagebill payment to secondary care in line with the assessment of income to be generated by the BBP (2012).

## Step 1

### *Pay structure rationalization and job classification in primary health care*

85. The immediate policy measures consider the change in the whole philosophy of pay policy in the sector. There are a number of policy measures that need to be taken at this stage of wage reform: (i) separate administrative and professional positions in primary and secondary health care, (ii) redefine the status of some health care institutions (including the clinic of the presidential administration), (iii) integrate all supplements—except the ones that reflect job complexity—into base pay, and (iv) initiate job classification.

86. While the government of Tajikistan has initiated establishing new job classification, some initial steps are needed at this stage to redesign existing pay scale that would ensure proper implementation of new wage grid and its synthesis with new wage classification in the sector. The Policy Note proposes to “transpose” existing pay structure toward professional category-based base pay and grouping of health care professionals into the following groups:

<i>Doctors:</i>	Operating Surgeon, Intensive Care Doctor, Family Physician and Physician
<i>Pharmacist</i>	Senior Pharmacist, Pharmacist, Pharmacist—Intern, Assistant to Pharmacist, Laboratory Assistant, Seller of Optics, Junior Assistant to Pharmacist, Packer
<i>Mid-Level Position:</i>	Senior Nurses, Surgery Nurses, Family Nurse, Nurse, Dental Technician, Registrar/Disinfectant
<i>Low-Level Positions</i>	Social Workers, Matron, Junior Nurse/Orderly

## Step 2

### *State financing strategy for the sector, job classification, and interim wage grid*

87. The objective of the sector state co-financing strategy is twofold: (i) reduce the burden on the general government by full or partial non-budget financing of some segments of the sector, and (ii) focus the public sector health care on preventive medicine, i.e., primary health care. This helps to set an overall objective of gradual liberalization of pay system in secondary health care where the general government co-finances only part of wages while the rest of the wagebill is financed by co-payments and other non-budget sources.

88. Job classification has to address two sets of issues:

- *Job matching:* (i) minimum-qualification requirements for each category of positions, and (ii) assess the knowledge and skill-intensiveness of a job in the sector (for example, oncologist vs. general practitioner).
- *Institutional issues:* minimum-qualification requirements for holding professional positions at various levels of health care institutions. For example, central health care

institutions that have research functions vs. rayon polyclinics—what should be minimum-qualification requirements for entry for each? The second one might have modest requirements vis-à-vis qualification requirements (categories), while central health care institutions should have high-profile professionals.

89. Move to the interim wage grid is based on classification of positions in the health sector and reflects the level of responsibility and job complexity. The grouping exercise undertaken at stage 1 serves as a ground for migrating health care positions into new wage grid. Levels are assigned based on the following hierarchy: *level 5*—surgeons and intensive care doctors, *level 4*—physicians, *level 3*—pharmacists, *level 2*—mid-level health care workers, and *level 1*—junior health care workers. The proposed interim wage grid is based on coefficients; *entry-point base pay level* is identified as a product of coefficient (multiplier) and minimum wage level in the health sector, which has to be identified every year depending on available budget resources. Each step increase is based on an incremental increase of 10 percent; level increase is based on a 40 percent increase.

90. It is very important that a clear and straightforward framework for supplement management is established; this is essential to avoid misinterpretation of the nature of supplements and eliminate open-endedness of their use. Therefore, the Policy Note proposes a set of fixed rules for those supplements to be retained following introduction of wage grid.

### **Step 3**

#### *Review interim wage grid, job matching, permanent wage grid*

91. Once job classification is completed, one has to exercise job matching to spread positions across steps, while entry points within levels should be consistent with position grouping exercise (surgeons and intensive care doctors; physicians; pharmacists; mid-level health care workers; and junior health care workers) undertaken during stage 1.

92. Analysis of the implementation of interim wage grid would be an important step to monitor the progress of reforms. The MOH, the MLSP, and the MOF will have to carry out an analysis of the implementation of interim wage grid to check: (i) whether interim wage grid was done correctly and reflects adequate pay levels, and (ii) whether pay differentiation levels provide an incentive for career development for health professionals.

93. The next steps in the reform agenda would include the move toward a permanent wage grid, accompanied by an integration of the remaining wage component (hazardous work condition) into base pay and higher degree of decompression. Under new wage grid, health workers are eligible only for one pay plus supplements for honorary title and night shifts.

94. **Step 4:** Step 2 briefly outlined proposed changes in the financing framework of the sector. It is very important that some actions are taken in this respect along with the implementation of the BBP with user fees in hospitals. From a wage policy prospective, this entails wage-sharing arrangements within specific segments of the sector. This arrangement has to balance between: (i) limited fiscal space of the government and importance of asymmetric allocation of public resources in selected segments of the sector, and (ii) adequate wages of public sector-financed health care.

#### OTHER SECTORS

95. As noted above, it is proposed that the three above systems be the *reference point* for all other parts of the public sector, with science and sports following the logic of the education sector and social protection following the approach of the health sector. Some adjustments will be made to reflect the specifics of each element of the public sector, but in view of the capacity constraints

in Tajikistan and the need to ensure the manageability of the reform agenda it is suggested that reforms in these sectors are anchored in the principles proposed for the civil service, education, and health systems.

### **ENSURING SUSTAINABILITY: PAYROLL MANAGEMENT AND STAFF REGISTERS**

96. The successful introduction and consolidation of the reforms described above will depend further on the introduction of payroll management and human resource register systems. Some of the current problems in managing the wage system have their origin in the lack of reliable databases on public sector staff, which means that wages are basically paid based on estimates of staff numbers confirmed by lower level administrations. This not only poses risks of abuse of funding, but also complicates the design and implementation of human resource development strategies. In order to ensure that with an improved and transparent wage system the government can reap the benefits in terms of more strategic use of limited resources, the wage reform program outlined above would need to be accompanied by measures to automate payroll management (as part of the existing public financial management reform strategy) and to put in place reliable human resource databases in the different parts of the public sector. A human resource register had been initiated previously in the civil service, but has still not become fully operational due to a lack of appropriate software. In this regard, the government would need to undertake also a census of existing staff in the public sector, to ensure that data entered in human resource and payroll databases would be reliable and up to date.

### **FISCAL IMPACT OF REFORMS**

97. In view of the importance of fiscal space consideration, detailed simulations of the impact of wage system reform were conducted, based on the principle that policy proposals need to fit the constraints of available fiscal space.

98. The proposed pay reform in civil service and social sectors is mostly targeted at ensuring predictability of public sector wagebill through a number of policy measures (discussed above) to minimize leakages in the system. Implementation of these measures is the key element of fiscal sustainability of pay reform in the public sector.

99. Once the public sector in Tajikistan moves to new wage grids (interim in 2009 and permanent starting from 2010), pay increases will be based on changing very few parameters of the pay system (minimum wage in specific sectors) with limited transaction cost. Equally important is to establish an adequate staffing policy (rationalization of staffing structure and job classification/matching).

100. Annex 1 illustrates the fiscal impact assessment of wage reforms based on changes in policies in each sector during 2008–11. The 2008 education budget needs some reallocation given pay level equalization exercise that would ensure the catch-up of pay levels in other subsectors (education) as well as adjustments in wages of management in general education.

101. As one may observe from the table there are some important differences in the proposals from one sector to another. Decompression targets do not always reflect the difference between the lowest and highest positions within a sector – the comparison is based on between “benchmark” positions (lowest and highest) which traditionally may reflect potential space for career development for a staff; moreover, each sectors have own *reference subsectors*; in civil service the decompression target is based on comparison of pay levels at a ministry level (between specialist and head of department level positions), while in education it is based on comparison of highest (a teacher of high category with university education) and lowest (a teacher with no category with special secondary education) positions in general education; in

health, in is based on comparison of entry point pay levels between an operating surgeon and mid-level professional. One may manipulate with using other options for setting decompression targets, however, it is not an essential point; the essential point is adequate differentiation of pay levels across vertical progression (in a wage grid) that makes career development attractive for public servants, while remaining within fiscal space constraints.



## **MANAGING THE REFORM PROCESS AND HANDLING POLITICAL ECONOMY CONSTRAINTS**

102. In the context of managing the reform process, it is very important: (i) to identify who will be championing in the reform process; (ii) how the government will institutionalize the management of the reform process; (iii) how the government will address potential risks of reform implementation and issues of political economy and (iv) how reform measures will be communicated with public servants.

103. Based on experience of earlier years of reforms in public sector pay policy, it is very likely that the Executive Office of the President, Civil Service Department and the Ministry of Finance will remain key players in pushing the reform agenda. However, there is increasing need in involving line ministries (social block) in decision-making process given the importance of linking sector policies with pay reform agenda. There will be a need to “increase the profile” of the Ministry of Labor and Social Protection, the Ministry Education and the Ministry of Health and, where needed, provide technical assistance.

104. As discussed at concept stage of the Policy Note, there are four major risks and challenges that might complicate or undermine the implementation of the next steps of wage reform: macroeconomic and fiscal risks, capacity constraints, communication challenge and limited progress (or lack of progress) in implementation of sector financing strategies. The Policy Note has “built-in” proposals to address these challenges.

105. The political context for the reform process remains favorable given high level of commitments of the Government for changes and great level of supportiveness by other reform champions – the Ministry of Finance and Civil Service Department. However, there are two factors that could hinder keeping the reform process on right track: (i) more trade-unionist (rather than institutional) approach of social sector line ministries vis-à-vis pay policy in public sector; and (ii) potential resistance of some groups against sector-financing strategy (health workers vs. formalization of informal payments in health sector).

106. The issue of synchronizing wage system reform and sector financing reforms will require careful consideration. Earlier delays in implementation per capita financing reforms in education and health, and the failed introduction of the Basic Benefit Package in 2005 several limited the possibility to move forward on reform measures in the health and education sectors. Whereas corrections have been made in the design of sector financing reforms, and broader support now appears to be guaranteed, lapses in the implementation of sector financing reform remain a key risk, which can be mitigated only by a well integrated management of overall sector reforms.

107. Capacity constraints remain a significant concern and will be addressed both through an enhanced effort at reinforcing capacities, in particular at the Civil Service Department, but also in sector ministries, as well as by keeping the design of the reform process as simple as possible.

## **CONCLUSIONS**

108. This study sets out a number of important measures for the government to consider in the context of designing a medium-term wage strategy for the public sector. Wage system reforms should be designed according to a common set of principles, which include enhanced transparency, equitable treatment of individual civil and public servants, linking pay levels to complexity of work and level of responsibility, and needs-based use of scarce fiscal resources. However, whereas there are a number of common elements in reforming individual parts of the overall public sector wage system, the different reform dynamics in individual sectors, as well as the differentiation between civil and public servants in terms of the right to gain additional income, require different approaches to wage system development. At the same time, it is crucial

for these reforms to be designed in parallel and in close coordination with each other, so that the underlying principles of reform are reflected in an appropriate manner, keeping in mind the overall objective of structuring a wage system that helps build the professional capacity to design reform policies in government and helps enhance the level of human capital and economic competitiveness of the country. Annex 2 summarizes proposed policy options and actions in pay reform across seven sectors.

### **REQUIRED TECHNICAL ASSISTANCE**

109. It is very likely that Tajikistan will be faced with the need of bringing in good international expertise for public sector reform. Annex 3 summarizes needs for technical assistance to Tajikistan during the design and implementation of new pay policy in public sector. Technical support to the government of Tajikistan could be channeled through ongoing investment operations of the World Bank and regular staff technical support during the implementation of budget support operation.

## ANNEX 1: FISCAL IMPACT ASSESSMENT OF WAGE REFORMS IN PUBLIC SECTOR

(in thousands of TJS unless otherwise indicated)

	2007	2008 (appr)	2008 (exp)	2009	2010	2011
<b>1. Variables</b>						
Decompression targets <sup>9</sup> :						
Civil Service <sup>10</sup>	1 : 2.62	1 : 40	1 : 3.8	1 : 4.15	1 : 4.15	1 : 4.15
Education <sup>11</sup>	1 : 1.60	1 : 1.70	1 : 1.70	1 : 1.76	1 : 2.20	1 : 2.20
Health <sup>12</sup>	1 : 1.15	1 : 1.15	1 : 1.15	1 : 2.74	1 : 3.40	1 : 3.40
<b>2. Output - Annual Wagebill</b>	<b>490,600</b>	<b>739,900</b>	<b>743,496</b>	<b>912,194</b>	<b>1,132,204</b>	<b>1,381,070</b>
Education	239,915	320,200	320,200	392,853	487,604	594,783
Health	51,200	103,400	103,400	126,861	157,459	192,069
Social Protection	3,000	6,700	6,700	8,220	10,203	12,445
Culture and Sport	7,800	12,500	12,500	15,336	19,035	23,219
Science	6,185	6,400	9,896	12,141	15,070	18,382
Civil Service	64,300	80,600	80,600	98,888	122,739	149,717
Defense & Law Enforcement	91,600	147,500	147,500	180,967	224,615	273,987
Other Sectors	26,600	62,600	62,700	76,927	95,480	116,467
<b>GDP, TJS mln</b>	12,780	14,800	16,135	20,200	25,072	30,583
GDP annual growth, percent	7.8	5.0	5.0	7.0	7.0	7.0
GDP Deflator, percent	27.9	20.2	20.2	17.0	16.0	14.0
<b>Wagebill in percent of GDP</b>	3.84	5.00	4.61	4.52	4.52	4.52

<sup>9</sup> Decompression targets are based on comparison of lowest and highest positions in reference subsectors within civil service (reference subsector - ministry level), education (reference subsector - general education) and health.

<sup>10</sup> Based on the comparison of head of department and specialist level positions at a ministry level (reference subsector).

<sup>11</sup> Based on the comparison of a teacher with high category and university level education (level 6, step 3) and a teacher with no category and special secondary education (level 1, step 3) in general education (reference subsector).

<sup>12</sup> Based on the comparison of an operating surgeon (level 5, step 5) and a nurse (level 2, step 5).

## ANNEX 2: MATRIX OF RECOMMENDATIONS

Sector	Action	Timeframe
<b>General (cross-sectoral)</b>	Prepare the inventory of all laws and secondary legislation regulating pay policy in public sector; prepare a Law on remuneration of public servants in Tajikistan	End-2010
	Launch public sector census	End-2009
<b>Core Civil Service</b>	Design detailed implementation decree (next steps and reforms)	July 2008
	Wage grid design, considering different models: Integrated vs. separated grid System of classification and ranking of jobs	August 2008
	Job evaluation, classification, and ranking, placing jobs in the wage grid	October 2008–end-March2009
	Design a performance evaluation system, piloting and testing:	October 2008–May 2009
	Design and test procedures Communication and sensitization campaign Training management and personnel officers Design and implementation of transitory procedures	October–November 2008 January 2009 February–April 2009 Starting July 2009 with interim evaluation in January 2010
	Fully implement performance appraisal and link to promotion system	From January 2012
	Evaluation and adjustment	First half of 2012
<b>Education</b>	Design-detailed implementation decree (outlining next steps of reforms)	April 2009
	Design wage grid: linking different elements of the education sector	August–September 2009
	Review impact on the introduction of per capita financing, adjust elements if required	September 2009
	Design curricular reform and teacher training reform program and estimate duration	September–December 2009
	Job-matching exercise across all parts of the education sector	August 2009
	Job evaluation, ranking and placing jobs in the grid <sup>13</sup> :  Communication and sensitization strategy and roll out Job evaluation and classification	November 2009–May 2010
	Assess of self-financing potential in higher education and develop a mechanism for budget grant-based financing for university and college level education based on needs of public sector for specific professionals	December 2009
	Design and pilot performance appraisal system for teachers	
	Revise existing teachers' evaluation system towards performance appraisal model Separate design for preschool, primary, secondary, professional, and higher education Communication and sensitization campaign Training management and personnel officers	September - November 2009 November 2009–April 2010 April 2010 May–June 2010

<sup>13</sup> Wage grid in education will be applied in the school year 2009–10, thus two to three months later than in other parts of public service.

Sector	Action	Timeframe
	Design and application of interim procedures	Starting school year 2009–10
	Adjust stavka system based on implemented curriculum and teaching training system reform	Study in first half of 2012, introduction with the new school year 2012–13
	Evaluation and adjustment	New system applied in September 2012
Health sector	Design detailed implementation decree: (i) immediate actions: adjust existing pay scale towards the one based on complexity of jobs and category of health sector professionals; and (ii) articulate next steps of reforms	July 2009
	Design wage grid: linking different elements of the health sector	August–September 2009
	Review impact on the introduction of per capita financing, adjust elements if required	September 2009
	Job evaluation, ranking and placing jobs in the grid:  Select classification methods Undertake job matching across the sector Roll out of communication and sensitization strategy Train for job evaluators Conduct evaluation and classification	October 2008–July 2009
	Design a performance evaluation system, piloting and testing:  Design and test procedures Communication and sensitization campaign Training management and personnel officers Design and implementation of transitory procedures	October 2009–May 2010  October–November 2009 January 2010 February–April 2010 Starting July 2010 with interim evaluation in January 2011
	Fully implement performance appraisal and link to promotion system	From January 2012
	Assessment of self-financing potential in secondary and hospital care under BBP implementation	Second half of 2010
	Evaluation and adjustment, including reduction of state financing in secondary-care wages and possibility of (partial) pay policy liberalization (selected segments) of secondary health care	Budget 2012
Science	Design detailed implementation decree	July 2009
	Design wage grid: linking wage system with the higher-education and civil service sectors	August–September 2009
	Job-matching exercise (with higher education)	September 2009
	Job evaluation, ranking and placing jobs in the grid	October 2009–January 2010
	Design and pilot performance appraisal system for researchers  Design Communication and sensitization campaign Training management and personnel officers Design and application of interim procedures	November 2009–January 2010 March 2010 May–June 2010 July 2010
	Assessment of self-financing potential in science	Second half of 2010
	Evaluation and adjustment	2012
Social Protection	Design detailed implementation decree	July 2009
	Linking social protection wage grid to health and education sectors, depending on the institutions	October 2009

<b>Sector</b>	<b>Action</b>	<b>Timeframe</b>
	Job evaluation, ranking and placing jobs in the grid	October 2009–March 2010
	Design and pilot performance appraisal system based on the health and education systems	Ibid. health and education
	Redesign subordination of institutions	To be achieved by July 2010
	Evaluation and adjustment	2012
<b>Sports</b>	Design detailed implementation decree	July 2009
	Linking sports to education sector	Ibid. education
	Job evaluation, ranking and placing jobs in the grid	Ibid. education
	Design and pilot performance appraisal system based on the education system	Ibid. education
	Evaluation and adjustment	2012
<b>Administration (Social Sectors)</b>	Design detailed implementation decree	December 2008
	Identify general management positions and administrative support positions and rank in terms of complexity, based on job matching with civil service–related management positions	December 2008
	Design simple wage grid (consistent with interim wage grid in civil service)	August 2009
	Job evaluation, classification and ranking, placing jobs in the wage grid	October 2009–December 2009
	Design a performance evaluation system, piloting and testing:	October 2009–May 2010
	Design and test procedures	October–November 2009
	Communication and sensitization campaign	January 2010
	Training management and personnel officers	February–April 2010
	Design and implementation of transitory procedures	Starting July 2010 with interim evaluation in January 2010
	Fully implement performance appraisal and link to promotion system	From January 2012
	Evaluation and adjustment	2012
<b>Culture</b>	Review of sector-financing levels and scope for output-based financing, decide on which institutions can move to output-based financing	First half of 2009
	For those institutions that cannot be put on output-based financing, conduct job-matching exercise with the education and general management categories and introduce new wage grid by June 2009	June 2010
	Definition of financing levels for individual institutions that will work based on output-based financing	January 2010
	Move to output-based financing	July 2010

### ANNEX 3: TECHNICAL ASSISTANCE NEEDS FOR PUBLIC SECTOR PAY REFORM IN TAJIKISTAN

Sector	Action	Technical assistance requirement	Provider of assistance
<b>General (cross-sectoral)</b>	Prepare the inventory of all laws and secondary legislation regulating pay policy in public sector; prepare a Law on remuneration of public servants in Tajikistan	Advisory support	World Bank staff advice
	Launch public sector census	Advisory and financial support	World Bank/donor financing
<b>Core Civil Service</b>	Design detailed implementation decree	Advisory support	World Bank staff advice World Bank–financed PSRP project
	Wage grid design, considering different models: Integrated vs. separated grid System of Classification and ranking of jobs	Advisory support on wage grid design	World Bank staff advice World Bank–financed PSRP project
	Job evaluation, classification and ranking, placing jobs in the wage grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	World Bank–financed PSRP project
	Design a performance evaluation system, piloting and testing	Technical assistance to design and test procedures Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation Design of interim procedures	World Bank–financed PSRP project
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	World Bank–financed PSRP project
<b>Education</b>	Design detailed implementation decree	Advisory support	World Bank Staff
	Design wage grid: linking different elements of the education sector	Advisory support on design	World Bank staff
	Review impact on the introduction of per capita financing, adjust elements if required	Technical assistance on linking wage reform and sector financing reform	
	Design curricular reform and teacher training reform program and estimate duration		World Bank education project
	Job matching exercise (higher education)	Technical assistance for job matching	To be identified
	Job evaluation, ranking and placing jobs in the grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	To be identified
	Design and pilot performance appraisal system for teachers	Technical assistance: Separate design and advisory support for pre-school, primary, secondary, professional and higher education Technical assistance for evaluation Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation	To be identified

Sector	Action	Technical assistance requirement	Provider of assistance
		Design of interim procedures	
	Assessment of self-financing potential in higher education and develop a mechanism for grant-based financing in university and college-level education	Financing for the study	To be identified
	Adjust Stavka system based on implemented curriculum and teaching training system reform	Technical assistance on reviewing the Stavka system	Asian Development Bank
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	
<b>Health sector</b>	Design detailed implementation decree	Advisory support	World Bank staff
	Design wage grid: linking different elements of the health sector	Advisory support on design	World Bank staff
	Review impact on the introduction of per capita financing, adjust elements if required	Technical assistance on linking wage reform and sector financing reform	World Bank health project
	Job evaluation, ranking and placing jobs in the grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	World Bank health project
	Design and pilot performance appraisal system for medical professionals	Technical assistance: Separate design and advisory support for primary and secondary care providers Technical assistance for evaluation Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation Design of interim procedures	To be identified
	Assessment of self-financing potential in secondary and hospital care under BBP implementation	Financing for the study	To be identified
	Evaluation and adjustment, including reduction of state financing in secondary care wages	Technical assistance for evaluation and adjustment	
<b>Science</b>	Design detailed implementation decree	Advisory support	World Bank staff
	Design wage grid: linking wage system with the higher education sector	Advisory support on design	World Bank staff
	Job matching exercise (with higher education)	Technical assistance for job matching	World Bank staff
	Job evaluation, ranking and placing jobs in the grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	World Bank staff advice
	Design and pilot performance appraisal system for researchers	Technical assistance: Design and advisory support Technical assistance for evaluation Technical assistance for a communication and sensitization campaign Training for management and personnel officers	To be identified



Sector	Action	Technical assistance requirement	Provider of assistance
		Technical assistance for interim evaluation Design of interim procedures	
	Assessment of self-financing potential in science	Financing for the study	To be identified
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	
<b>Social Protection</b>	Design detailed implementation decree	Advisory support	World Bank staff
	Linking social protection wage grid to health and education sector depending on the institutions	Advisory support on design	World Bank staff
	Job evaluation, ranking and placing jobs in the grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	To be identified
	Design and pilot performance appraisal system based on the health and education systems	Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation Design of interim procedures	To be identified
	Redesign subordination of institutions	Review scope for redefining the subordination of individual institutions, in particular those related to training and education Hive off band, newspapers, and other non-core elements of the sector	To be identified
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	
<b>Sports</b>	Design detailed implementation decree	Advisory support	World Bank staff
	Linking sports to education sector	Advisory support on design	World Bank staff
	Job evaluation, ranking and placing jobs in the grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	To be identified
	Design and pilot performance appraisal system based on the education systems	Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation Design of interim procedures	To be identified
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	

<b>General Management</b>	Design detailed implementation decree	Advisory support on implementation decree	World Bank staff
	Design simple wage grid		World Bank staff
	Identify general management positions and administrative support positions and rank in terms of complexity, based on job matching with civil service-related management positions		World Bank staff
	Job evaluation, classification, and ranking, placing jobs in the wage grid	Advisory support on classification methods Technical assistance for a communication and sensitization strategy and roll out Technical assistance and training for job evaluators Technical assistance to assist and guide the evaluation and classification process	World Bank staff
	Design a performance evaluation, piloting and testing	Technical assistance to design and test procedures Technical assistance for a communication and sensitization campaign Training for management and personnel officers Technical assistance for interim evaluation Design of interim procedures	World Bank staff
	Evaluation and adjustment	Technical assistance for evaluation and adjustment	
<b>Culture</b>	Review of sector financing levels and scope for output-based financing, decide on which institutions can move to output based financing and when	Financing for the study Communication and sensitization campaign for cultural institution workers	To be identified
	For those institutions that cannot be put on output-based financing, conduct job-matching exercise with the education and general management categories and introduce new wage grid by June 2009	Technical assistance for job matching	To be identified
	Definition of financing levels for individual institutions that will work based on output-based financing	Advisory support on defining financing levels	To be identified
	Move to output-based financing		

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