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Wage Disparities in the Formal Sectors: Policy Options for Kenya

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Policy Issue

Wage employment in the public and private sectors accounts for a significant proportion of formal employment in most developing countries. In Kenya, nearly 655,000 wage earners were employed in the public sector in 2012, whereas the remaining 1.5 million were employed in the private sector. While the sectors employ highly educated workers, the ability to attract and retain highly skilled personnel is a major challenge for both the public and private sectors. Unlike the private sector, the public sector is not profit-driven. The nature of work is service-oriented with demands such as producing and implementing good policies, including wage determination policy.

Introduction

Over time, the public sector has relied on fragmented structures of determining wages, such as the minimum wage regulation, administered wage setting, and flexible and collective bargaining approaches to determine the formal sector wages. These wage setting mechanisms have not, however, promoted productivity and efficiency in the public formal sectors. Instead, they have propagated unprecedented wage differences leading to wage penalties in some sectors of the economy and also within the sub-sectors.

Until the promulgation of a new Constitution in 2010, the Permanent Public Service Remuneration and Review Board was responsible for salary reviews but instead ended up playing an advisory role, with their decisions not binding by the respective government agencies. The new Constitution now mandates the Salaries and Remuneration Commission (SRC) to set and review salaries of state officers and advice both county and national government on wage matters.

Empirical evidence from developed countries shows that wages in the public sector are higher than in the private sector, while evidence from developing countries is either limited or lacking. For instance, in Kenya, there is a general perception that employees in the private sector, particularly the highly skilled ones, earn much higher salaries compared to their public sector counterparts. There are also wider disparities within the public service itself, with those in the higher job groups earning proportionately higher salaries. The compression ratio is 98:1. Moreover, within certain job groups in the public service, education and experience do not seem to account for differences in the wages. As a result of these glaring disparities, and coupled with the rising cost of living, various categories of public servants have in the recent past "downed their tools" to demand higher wages.

Wage premiums in favour of the private sector may impose severe implications on the overall output in the public sector, and on the capacity of the sector to design and implement policies and reforms. Several consequences are likely to follow:

- First, wage differences in favour of the private sector may result in massive 'brain drain' of specialized expertise from the public sector to the private sector, thereby incapacitating the public sector in its mandate of making and implementing sound policies. While the reverse drain may also occur, it is not as extensive.

- Second, substantial wage differences result in low morale among public sector workers, thereby leading to lack of commitment and diminishing output. In most cases, perceived wage differences have led to agitation among public workers for higher pay, as evidenced by strikes and demonstrations by various Kenyan professional groups and trade unions in the recent past.
- Third, in light of the increasing cost of living, corruption could increase in the public sector if the wage differences are not addressed. This means that public governance, both in terms of management of public time and resources, would suffer.

Extent and Nature of Wage Differences

Comprehensive average wage differences

A study by the Kenya Institute for Public Policy Research and Analysis (KIPPRA) and the Salaries and Remuneration Commission (SRC) in 2012 revealed that there were wage differences between the private and the public formal sectors and also within the public and private sectors themselves.

For instance, when civil service basic salary is compared to private sector, the wage difference is in favour of the private sector, with the civil service paying an average of Ksh 7,150 less on basic salary than the private sector.

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When allowances are included in the basic salary, however, the gap shifts in favour of the civil service; that is, on average, the civil service gross salary is higher than private sector by about Ksh 7,032 for individuals with similar education and years of work experience.

While state corporations are classified among the well paid, further insights show that there are wage differences within the different categories of state corporations. For instance, public universities; training and research; and financial state corporations suffer a wage penalty when their wage is compared to similar institutions in the private sector. Training and research suffer the highest average basic wage penalty of Ksh 6,247. On considering the allowances, public universities enjoy a wage premium of Ksh 18,322; regulatory sub-sector enjoy Ksh 35,061 premium; commercial/manufacturing sector workers enjoy a premium Ksh 55,777; service (Ksh 11,776) and training and research (Ksh 2,525) enjoy the least premium.

In addition to the public-private sector wage gaps, the study findings revealed that the vertical disparities (which is the difference between the highest and lowest earners) within the public sector were very high. The highest paid in the civil service earns a basic salary that is 98 times higher than the lowest paid.

Further, a comparison of the wages within the public sector using the broad occupation categories shows major disparities in the levels of wage differences. Legislators, administrators and managers enjoy a wage premium for all the public offices (civil service, state corporations, constitutional offices and local government). Similarly, professionals, technicians and associate professionals in the public sector earn higher wages in terms of both basic salary and gross salary compared to their counterparts in the private sector, with the exception of the civil service. The difference in the basic salary is an average of Ksh 51,826 for professionals and Ksh 50,833 for technicians serving in constitutional offices. Professionals in constitutional offices enjoy a gross wage premium of Ksh 84,466. The highest differences in favour of private sector are among technicians and associates in the local government (Ksh 14,641).

Except for the civil service, all the wage differences are in favour of state corporations, constitutional offices and defunct local government when both basic and gross wages are compared with the private sector. Secretarial, clerical works and related workers across the public sector earn less than their counterparts in the private sector.

Sectors that have suffered massive strikes and demonstration by the professionals and trade unions representing workers include the education and health sector. An analysis of these sectors shows that there is indeed that a significant wage difference. Sector-specific wage differences are discussed in detail below.

Sector-specific average wage differences

In the education sector, public primary school teachers suffer a basic wage penalty of about Ksh 6,783, on average. The penalty is higher for teachers employed by the previous local government (Ksh 7,000). Similarly, public secondary school teachers and technical institute instructors are not spared. A comparison with the private sector shows that the teachers and lecturers suffer wage penalties in: (a) the civil service with a gross wage differential of Ksh 9,188 and a basic wage difference of Ksh 15,629; and (b) parastatals and state corporations with a gross wage difference of Ksh 41,100 and a basic wage differential of Ksh 52,900. University and post-secondary teachers/lecturers in state corporations suffer a gross penalty of Ksh 6,941. Similarly, other teachers and instructors in civil service suffer a basic wage penalty of Ksh 29,516, on average.

For the health sector, nursing and mid-wifely professionals in state corporations, on average, suffer a wage penalty of Ksh 25,675 on their basic salary. Health professionals previously in local government incur a wage penalty of Ksh 95,000 on their gross salary. Medical/clinical officers in civil service incur a wage penalty of Ksh 7,940 on their basic salary, while government health services in the civil service suffer a penalty of Ksh 9,641 and Ksh 983 on basic and gross wage, respectively.

Considering other occupations, computing professionals in state corporations suffer a basic wage penalty of Ksh 11,000. Electrical and telecommunication engineers employed in the civil service have a gross wage difference (premium) of Ksh 4,693 and a basic wage difference (premium) of Ksh 9,793 whereas similar engineers working in parastatals and state corporations have a basic wage difference (premium) of Ksh 99,500. Electrical engineering technicians in state corporations have a gross wage penalty of Ksh 35,112 while civil engineers in the civil service have a basic wage penalty of Ksh 59,090 and gross wage penalty of Ksh 68,240. Mechanical engineers in parastatals and state corporations have a basic wage premium of Ksh 25,840.

Policy Recommendations

The government should develop and implement a comprehensive wage policy for the country as a matter of priority. The key pillars of the proposed wage policy should include:

- Promotion of economic growth with jobs;
- Payment of decent wages (the wages should be linked to realistic living wage that accords workers a decent living);
- Creation of aggregate demand for goods and services;
- Equity dividend in terms of equal pay for work of equal value;
- Enhancing social protection as a tool for redistribution;
- Promotion of social dialogue and rights at work; and
- Remuneration based on level of education and years of experience.

The wage structure should contain basic pay that reflects the value of the job; productivity-based pay (in some cases bonus) which acts as a variable payment to compensate for productivity (performance); and a seniority element to compensate for long service, loyalty and experience.

A measure that is not directly linked to pay concerns the establishment of 'equality plans', which is a widespread practice among in Europe. Such measures include a commitment on the part of public authorities and private employers towards their employees. These commitments could include the promotion of equality of opportunity, and equality in pay for people with the same skills and experience.

These commitments may encompass instigating the compulsory adoption of equality plans in state-owned companies, as is the case in Portugal.

The government should consider reducing the disparities between the highest and the lowest paid to reflect internationally recommended standards (the recommended ratio is 20:1). Similarly, this ratio should be maintained in all the other sectors. The wage compression should be accompanied by a strategy of managing existing overlaps. This would cushion the workers who are already earning the higher salaries while redressing the plight of the disadvantaged workers. In the long run, sustained investment in education and training would ensure higher education and skills attainment for all workers, higher productivity levels, and hence better pay for all income earners.

Borrowing from some international practices, such as in Europe, the public sector should review the role of allowances in total remunerations. The Salaries and Remuneration Commission should undertake a comprehensive review of all allowances with a view to standardizing them or including them as part of basic pay. Allowances that are not directly linked to job responsibilities can be merged, redesigned, and or eliminated. An enhanced basic pay would guarantee retirees a better and descent living standard in their old age.

Employers should create a more favourable work environment. This refers to improved conditions of work with adequate working tools; prospects for career advancement; job satisfaction; and job security. They should ensure equality in access to incentives among potential beneficiaries. Moreover, they should widen the scope for non-monetary incentives.

There is need to legislate policies that support transparency in reporting and monitoring wage differences. The Employment Act 2007 is one of the avenues that could be used in this case. The SRC should establish a department to be in charge of monitoring and evaluation of wage dynamics in the public sector, while taking into account the labour market dynamics (both nationally and internationally), and cost of living index.

Instead of unplanned negotiations with trade unions and other collective bargaining institutions, the SRC in collaboration with stakeholders should develop a medium term pay strategy guided by a three-year framework on pay guidelines. The collective bargaining process with trade unions should be flexible to take into consideration any envisaged pay reforms. The framework should also be flexible enough to accommodate any emerging issues from the trade unions. This undertaking could minimize the uncertainties and inefficiencies associated with ad hoc strikes, and irregular pay demands. The policy should also be consistent with the macroeconomic stability policy objectives of the country, while balancing between labour costs and efficient service delivery.

About KIPPRA Policy Briefs

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