



**REFORMING THE PAY SYSTEM FOR GOVERNMENT  
EMPLOYEES IN EGYPT**

Doha Abdelhamid and Laila El Baradei

Working Paper No. 151

June 2009

Doha Abdelhamid is visiting professor of public policy evaluation at Carleton University, and executive board member of the International Development Evaluation Association (IDEAS). Laila El Baradei is professor of public administration at the Faculty of Economics and Political Science, Cairo University, and visiting professor at the American University in Cairo. The authors wish to acknowledge the constructive remarks received throughout the preparation of this research from Hanaa Kheir-El-Din, Naglaa El Ehwany and Omneia Helmy (ECES). The authors are also grateful for the support received from the ECES staff, particularly Yousra El-Imam. Amin Abdel-Motaleb and Hussein Mahmoud offered invaluable research assistance to the authors. Thanks are also due to the research discussants: Safwat El Nahass (Central Agency for Organization and Administration), and Abdel-Fattah El Gebaly (Al-Ahram Center for Political and Strategic Studies). The views contained in this paper are those of the authors.

This paper has been edited by Yasser Selim (ECES).

## Abstract

This paper attempts to identify what needs to be done to reform the pay system for government employees in Egypt through proposing a concrete set of feasible policy solutions and strategies. After dissecting the structure and composition of the current pay system, conducting structured interviews with a sample of Egyptian government employees to solicit their views about the adequacy of pay and reviewing other countries' experiences with pay reform, the authors identify a number of strategic issues and complementary strategies that are critical to resolving the problem. Foremost among these issues are securing the needed extra funding for increasing government employees' pay, right-sizing the government civil service, enhancing transparency, reducing wage discrepancies, reforming the minimum wage policy and establishing a better link between pay and performance. To conclude, the study stresses that the urgency of the problem requires the Government of Egypt to consider pay reform a top priority and work immediately on developing its civil service reform strategy and implementation plans in consultation with stakeholders.

## ملخص

تتناول هذه الدراسة سبل تطوير نظام الأجور والمرتبات للعاملين في الجهاز الحكومي في مصر من خلال طرح مجموعة محددة من الحلول والاستراتيجيات العملية. وفي هذا الإطار، تبدأ الدراسة بتحليل هيكل وملامح نظام الأجور والمرتبات الحالي، ونتائج المقابلات المنظمة التي تم إجراؤها مع عينة من العاملين في الجهاز الحكومي لاستطلاع آرائهم حول مدى كفاية الأجور والمرتبات، ثم تستعرض الخبرة الدولية في هذا المجال. بعدها تنتقل الدراسة إلى تحديد عدد من القضايا الاستراتيجية ذات الأهمية لحل هذه المشكلة، ومنها سبل توفير التمويل اللازم لزيادة أجور ومرتبات العاملين بالجهاز الحكومي، وترشيد عدد العاملين به، وتعزيز الشفافية والحد من تفاوت الأجور، وتطوير سياسة الحد الأدنى للأجور، وتحقيق الارتباط بين المرتبات ومستوى الأداء. وفي النهاية، تخلص الدراسة إلى ضرورة الإسراع في إيجاد حل لهذه المشكلة، الأمر الذي يستلزم أن تقوم الحكومة بوضعها ضمن الأولويات في الفترة القادمة، والعمل على وضع استراتيجية وخطط تنفيذية لتطوير العمل في الجهاز الإداري للدولة مع ضرورة التشاور في ذلك مع مختلف الأطراف والجهات المعنية.

## 1. INTRODUCTION

To be effective, a public sector pay system needs to satisfy the needs of both employer and employees. The employer, in this case the government, looks for ease of administration, flexibility and affordability. Meanwhile, the employees look for adequacy in meeting living expenses, and to fairness in relation to other employees and to market rates.

In Egypt, public employees' pay system is laden with problems. Among these problems are low salaries and wages, which are set way below market rates; the impact of these low salaries on the level of motivation of employees and on the ability of government organizations to attract the required skills; the overly complex nature of the pay system; the general ambiguity regarding the actual allowances obtained; and more importantly, the huge burden the current compensation system represents on the state budget.

The purpose of this research is to try to identify what needs to be done to reform the Egyptian government employees' pay system through proposing a concrete set of feasible policy solutions and strategies. Targeted comprehensive reform is one that will lead to the realization of an effective public employees' pay system that satisfies the needs of both employer and employees, and will have positive long-term impacts on productivity, efficiency, performance of the public employees and consequently the effectiveness and responsiveness of the Egyptian bureaucracy.

In order to meet this target, attempts to find clear-cut answers for the following questions will be investigated in the course of research: What are the most salient features of Egypt's government sector employees' pay system? And how do government employees perceive their compensation system? What lessons can be learnt from developed and developing countries good practices in reforming public sector employees' pay system? How can an acceptable formula be constructed for adjusting government employees' pay? And what are the critical issues that need to be addressed in reforming the public employees' pay system?

To answer the research questions, the study will (i) provide an analytical and investigative overview of the features of the current public sector employees pay system including, *inter alia*, governing rules, regulations, policies, pay scales, inflationary trends, allowances, incentives and bonuses; (ii) perform a limited, structured survey covering the various pay categories at the Central Agency for Organization and Administration (CAOA)

and the Ministry of Trade and Industry (MTI) in order to solicit perceptions and opinions on reforming the current pay system in government; (iii) complete a review of a representative sample of developed and developing countries that underwent pay system reforms, drawing lessons and extracting applicable practices to the case of Egypt; (iv) develop a system to adjust government employees' pay rationally while keeping in mind basic needs, price level, and decent living; and (v) conclude with policy-oriented findings and recommendations to enrich the ongoing public debate on government pay system within an overarching framework of civil service reform.

Organizationally, the study is divided into eight main sections. After the introduction, Section two deals with the theoretical and conceptual framework of pay system reform. Section three discusses the main features of the Egyptian government employees pay system. Section four conducts an analysis of Egyptian government employees' perceptions of the pay problem. Section five reviews a number of other country experiences with pay reform. Section six proposes a salary adjustment structure for Egyptian employees' pay. Section seven presents a mix of critical strategic issues and strategies for pay reform in Egypt. Section eight concludes.

## **2. THEORETICAL AND CONCEPTUAL FRAMEWORK**

This section discusses the complexity of the pay reform problem, the pay reform goals aspired to by any nation, and the diverse approaches and techniques theoretically available for making pay decisions and implementing reform.

### ***Complexity of the Problem***

Developing countries face difficulties in reforming the pay system due to contradictory stakeholders' objectives and other political, economic and managerial aspects. Examples of such complexities (Kiragu and Mukandala 2003, 1-7; Mutahaba 2005, 4; Cardona 2007) include:

- Political considerations, which tend to influence government decisions of pay system reform as much as, or even more than, economic considerations. National political leaders may sometimes seek to win votes, especially during elections, by deciding to raise the salaries of low-paid employees in the government bureaucracy.

- Labor unions and syndicates may ask for pay raises—especially for unskilled and semi-skilled labor—that may exceed ongoing market rates, and may end up being unaffordable to the government.
- Governments of developing countries suffering a deficit in fiscal resources and wishing to control or reduce the wage bill sometimes face a serious challenge in realizing that an improvement in the delivery of public services may require an increase in public employment. For example, in the education sector to improve the quality of education there is often a real need for appointment of more teachers and improving the teacher/student ratios in schools.
- Poor compensation of government employees is directly related to many negative phenomena in the government administration, including—but not limited to—feeble productivity, weakened commitment to the public service, corruption, absenteeism, pursuit of alternative employment, reduced accountability, and inability of the government to attract the needed qualified and competent candidates, especially for its leadership positions.
- Valuing civil service pay is complicated because oftentimes the outputs produced by civil servants are not marketable (public goods) or are natural monopolies.
- Donor agencies may sometimes be willing to help by providing support to developing countries to cover and raise their wage bill, but national governments often refuse to resort to such measures for fear of creating aid dependency.
- Pay is not the only factor influencing government employees' performance, but other socio-cultural factors may be more influential and have to be taken into consideration.

### ***Pay Reform Goals***

Pay reform aims to accomplish a number of goals and principles, such as ensuring that:

- equal pay should be provided for equal work;
- pay should be related to differences in qualifications, responsibilities or differences in work type/nature;
- government's pay should be comparable to the private sector pay; and

- the government's compensation has to be revised periodically to ensure its continued validity.

However, although governments' reform of their pay schemes may aspire to the achievement of these objectives, in reality they rarely manage to fulfill them all (Schiavo-Campo, Tommaso, and Mkhherjee 1997, iv).

### ***Diversity of Approaches, Techniques and Models Used in Pay Reform***

Approaches and techniques used by developing countries in reforming and adjusting their pay systems vary widely. They range from setting a national incomes and employment policy for both the public and private sectors, to allowing for collective bargaining with trade unions, to automatic adjustment of salaries by agencies in charge (Kiragu and Mukandala 2003, 18-27).

Three main models of pay adjustment and reform were identified: the crisis driven model, the political model and the rational model. As for the *crisis driven model*, it is the case when the government does not have a proactive policy in tackling pay decisions, but rather reacts most of the time to pressures and comes up with ad hoc temporary solutions to emerging problems. It offers favorable treatment to the more powerful groups of employees.

As for the *political model*, the essence is that pay decisions affect different groups in society differently and that pay decisions should serve some political objectives. There are three variations on this model. The first is the *centralized control option*, where the central government decides on a unified salary structure, index for salary adjustments and minimum wage policy. Second is the *consensus building option* through organizing discussions with stakeholder groups and implementing successive salary reviews. The third is the *egalitarian option* where the main concern is achieving equity and fairness in the allocation of the wage bill.

In the third model, which is the *rational model*, it is believed that the only way to achieve an efficient and effective solution to the public service pay system is to de-politicize it. Three options exist for implementing the rational model including the *affordability option*, the *skills market competitiveness option* and the *performance-based option*. The affordability option starts by setting a wage bill ceiling and tries to find the appropriate matching wage scale and public service size. As for the skills market competitiveness option, it focuses on the need to recruit and retain adequate numbers of personnel with critical skills and experience through setting their salary levels to be comparable with market rates. Finally, the

performance based option tries to link performance to pay, and although seemingly logical, it is difficult to implement, and faces a great deal of resistance from labor unions and syndicates (Kiragu and Mukandala 2003, 27-31).

Egypt seems to be adopting most of the time a weak version of the rational approach coupled with a crisis driven approach, where adjustments of basic salary do not meet, and are actually de-linked from the real increases in cost of living expenses. It is also related to the crisis driven approach as happened on May 1<sup>st</sup> 2008, when the President decided on a 30 percent increase rather than the usual 10-20 percent in an attempt to appease workers and public sector employees and contribute in some way to controlling the rising rates of demonstrations and strikes over the past year. The crisis driven approach is also evident in the recently agreed “special cadres” status for public school teachers and the in-kind and financial allowances and bonuses decreed provisionally to some public enterprise sector workers, like in El Mehalla textile company, and not to others, because they were more vocal in expressing their discontent and asked for their labor rights in a manner caught by the press and civil society organizations.

### **3. MAIN FEATURES OF THE EGYPTIAN GOVERNMENT EMPLOYEES’ PAY SYSTEM**

The following section aims at explaining the status quo of the current Egyptian government employees’ pay system, including the complicated legislative background governing the system and a brief sketch of this system and its developments, the signs of rising dissatisfaction with the system, the current minimum wage policy, effective average wage of government employees and the size and age structure of the Egyptian bureaucracy.

#### ***Legislative Grounds and Sketch of the Governing System***

As a signatory to the International Declaration of Human Rights (1948) and the International Convention for Economic, Social and Cultural Rights (1966), Egypt is required to safeguard the right of citizens to fair and adequate pay, securing decent living and sufficient social protection upon employment and unemployment. In addition, under the International Labor Convention (1970) minimum wages are to be established and regularly updated within the rule of law. Moreover, Islamic jurisprudence dictates that an employee should get his payment upon rendering the services and/or goods contracted.

Currently, there are more than 40 different laws and regulations and no less than 55 decrees regulating the government employees' pay system. The web of allowances is a clear indication of its complexity. The main features of this pay system are as follows:

- Minimum salary in government and public sector has been set at LE 35 per month in 1984 and stayed as such since then.
- In 1986, it was stipulated that any government employee's salary should not exceed LE 20,000 per year (LE 1667 per month). This was raised in 2000 to LE 54,000 per annum (LE 4500 per month).
- A series of special added and un-added bonuses,<sup>1</sup> annual increases and various incentives introduced in 1987 to date burden the system as shown in Table 1.
- The National Council for Wages (NCW) was established by Law 12 for 2003 with the mandate to ensure that salaries (implicitly for the government, non-government and private sectors) should be in tandem with the cost of living.
- The president, vice president and ministers are not considered civil servants and their salaries are governed by special laws.
- Government employees are allowed to hold other paid jobs with permission.

One more feature of the complexity of the Egyptian pay system is the series of special bonuses, annual increases, differing allowances and incentive structures. A closer look at Table 1 illustrates that the lower bound entry salary for a civil servant at grade 6 is LE 35 per month in 2008, yet in-hand salary after adding a series of added and un-added bonuses and incentives reaches LE 289 per month. The range of salaries at the lower bound, as depicted in the table, is narrow. The salary of a first undersecretary does not reach fivefold that of a new entrant to the government without a university degree (grade 6) and fourfold that of a new university graduate (grade 3), thus providing little incentive for advancement. It is worth noting as well that authors' interviews (2008) have shown that government employees are yet to collect incentives that range between 300-950 percent of their salaries for the same grade although in different administrative units of government.

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<sup>1</sup> Laws stipulate that no insurance payments are due over un-added bonuses on both the side of the employer and employee. This reduces the government fiscal burden and increases employees' disposable income. At the same time, it defers the problematic issue of securing a decent pension payment to pensioners upon retirement. This leads to an actuarial mismatch on the sides of the government and its employees contributions and hence on future pension liabilities.



**Table 1. Monthly Salaries of Government Employees as of 01 May 2008 Applicable Starting 01 July 2008 (in LE)**

**(Disbursed yet Unadded Bonuses of 85%)†**

<b>Grade (1)</b>	<b>Grade lower bound (2)</b>	<b>Added special bonuses (210%) (3)</b>	<b>10% in 2004 (4)</b>	<b>20% in 2005 (5)</b>	<b>10% in 2006 (6)</b>	<b>15% in 2007 (7)</b>	<b>30% in 2008 (8)</b>	<b>Additional social bonus (9)</b>	<b>Labor bonus (10)</b>	<b>75% incentive (11)</b>	<b>Total (12)</b>
First undersecretary	216.9	455.5	21.7	43.4	36	32.5	65	4	10	504.3	1,389.3
Undersecretary	140	294	14	30	36	21	42	4	10	325.5	916.5
General manager	125	262.5	12.5	30	36	18.7	37.5	4	10	290.6	826.8
Grade 1	95	199.5	9.5	30	36	14.2	28.5	4	10	220.8	647.5
Grade 2	70	147	7	30	36	10.5	21	4	10	162.7	498.2
Grade 3	48	100.8	4.8	30	36	7.2	14.4	4	10	111.6	366.8
Grade 4	38	79.8	3.8	30	36	5.7	11.4	4	10	88.3	307
Grade 5	36	75.6	3.6	30	36	5.4	10.8	4	10	83.7	295.1
Grade 6	35	73.5	3.5	30	36	5.25	10.5	4	10	81.3	289

Source: CAO (2008b, 2009).

General remarks on Table 1:

a] The table works on lower bounds, therefore, it is somewhat conservative in its computation of salaries and represents an approximation of figures. The upper bound for any grade represents the lower bound for the higher couple of grades.

b] Interviews have shown that employees may acquire additional incentives on top of the above salaries that range between 300 and 900 folds of the above given salaries.

c] A representation allowance is added to some, yet not all, upper three grades as follows: FUS: LE 1,500; US: LE 1,000; and GM (head of authority): LE 500.

d] Pledged un-added special bonuses since the Presidential elections program amounted to 55 percent. The Presidential program promised a 100 percent increase in civil servants salaries by program-end.

\* Column (2): According to attachment no. 1 to Law no. 47 for 1978.

\* Column (3): A special bonus is added on an annual basis for an earlier un-added special bonus. The first special bonus was 20 percent and was passed by Law no. 101 for 1987 and was added in 1992. The cumulative percentage additions for the period since the start of additions in 1992 till 2008 stands at 210 percent.

\* Columns (5-6): Special bonuses were given without a minimum except for:

(5) A special bonus was given in 2005 at 20 percent with a minimum of LE 30.

(6) A special bonus was given in 2006 with a minimum of LE 36.

\* Column (9): Law no. 113 for 1982 offering an additional social bonus of LE 4.

\* Column (10): Presidential Decree no. 458 for 1998 offered civil servants a monthly Labor Day bonus of LE 10 starting 01 January 1999.

\* Column (11): Prime Minister's Decree no. 4249 for 1998 offered civil servants incentives equivalent to 25 percent of basic salary starting 01 January 1999. In addition, Law no. 114 for 2008, Article 4, offered 50 percent additional incentives to local government employees' basic salaries and added bonuses.

† Eighty-five percent is the total percentage of increases in columns (4-8).

Some additional observations were also drawn. *First*, there is a correlation between the increase in the percentage of special bonuses and their years of addition to basic salaries, on the one hand, and presidential election years, on the other hand. To illustrate, it was found that a 20 percent special bonus in 1987 was added in 1992 (a year after elections); a 20 percent special bonus in 1991 was added in 1997 (a year after elections); a 20 percent special bonus in 2006 (election year) to be added in 2011 (election year); and a 15 percent special bonus is to be added in 2012 (a year after elections). *Second*, although so far 200 percent of basic salary increases have been added during the period 1987-2008 with additional 95 percent expected to be added by 2013, the presidential elections program in 2006 promised a 100 percent increase in pay by 2011 (the upcoming election year). Until FY 2008/09, a 55 percent increase in pay has been fulfilled leaving a 45 percent increase for the following three years. However, in spite of these increases, the question remains whether civil servants' basic salary in FY 2008/09 is sufficient to cover rising prices, sustain a decent quality of life for government employees and is adjustable periodically based on economic principles.

### ***Growing Dissatisfaction with Current Pay in Government Sector***

Over the past couple of years, Egypt witnessed an unprecedented increase in the number of demonstrations and labor strikes in various parts of the government's administration and public sector organizations calling for a change in their compensation and pay system. While the Ministry of Manpower and Migration affirms that strikes and sit-ins were resolved amicably, independent human rights activist organizations, such as Human Rights Watch and others, allege that resolutions came as a result of repressions. At any rate, official versus independent figures on labor demonstrations, strikes and sit-ins demonstrate an unchecked area by the government and domestic civil society. Regardless of the numbers, the overall public impression is that there is a general heightened level of dissatisfaction, especially of public employees and workers, with the pay level, which mostly falls under the national poverty line.

### ***Minimum Wage Policy and Real Wage***

Turning again to Egyptian laws, it was found that a minimum wage is guaranteed for all government and non-government employees, in addition to yearly increments to salary ranging usually between 10-20 percent since 1978; the only exception being the 30 percent increment decided on May 1<sup>st</sup>, 2008. The policy has been criticized due to a number of reasons.

*First*, deterioration has occurred in real pay over the years without acceptable adjustments as per international good practice. When minimum wage is related to per capita GNP, it appears that this rate has decreased from nearly 60 percent in 1984 to 19.4 percent in 1991/92 and further to 13 percent in 2007. *Second*, when the ratio of minimum wage to per capita GNP is compared to other countries, it appears amongst the lowest. While in Turkey the rate is 78 percent, France 51 percent, Spain 26 percent, in Egypt it is only 13 percent. *Third*, when compared to the upper poverty line in some other countries, we find in Egypt, with a value of 0.05 percent of the upper poverty line, it is amongst the lowest rates; in Argentina it is 1.32 percent, in Mexico 2.02 percent, while in the Philippines it is 1.55 percent. *Fourth*, despite the fact that the legally binding minimum wage equals LE 35/month, yet there is a huge discrepancy between what is stated in the law and what the employees actually receive as minimum wage (Metwally 2008). The actual minimum wage received by government employees from the category of ‘supporting staff’ employed on job grade six currently exceeds by eightfold the nominal minimum wage (LE 289 versus LE 35). Those who occupy this grade represent only around 3 percent of the total number of government employees (Radwan 2008, 5).

Thus, there is a real need to modify the minimum wage policy in Egypt and therefore the entire grade scales. Although the National Council for Wages was supposed to come up with a revision for minimum wages in Egypt, it has not managed to do so until today. However, several experts have come up with proposals for how to adjust minimum wage in Egypt. According to Radwan (2008, 9), a range of LE 250-300, as a national minimum wage allowing for differences based on educational level and degree, would be the practical solution that can be implemented right away. Radwan did not explain the basis upon which the said figures were proposed. Alternatively, according to El-Tagamou opposition party (2008), and based on a study of living expenses for a basket of basic goods and services required for a family of four individuals in July 2007 (Abdel-Khalek 2008), the party recommended LE 912 per month as a national minimum wage. The upper bound specified by the Tagamou Party’s study stood at LE 9,000 per month. Both proposed upper and lower bounds were said to be subject to cost-of-living adjustments as of the start of FY 2008/09 (i.e., 01/07/08) with adjustments thereafter. The study proposed funding the wage raises through setting minimum corporate taxes to 25 percent progressive up to a ceiling of 30 percent to ensure equitable income distribution in the national economy. In addition, the study

proposed that maximum earnings of a government employee should not exceed by 10-folds the prevailing minimum wage at any point in time as per international good practice (Abdel-Khalek 2008; interview 2008). According to Helmy (2008), the minimum wage should not fall below LE 660 so as to exceed the national poverty line and based on the going dependency rate in Egypt in 2008. According to El Gebali (2008), rather than specifying an exact figure, minimum wage should be raised to be compatible with inflation rates and workers' productivity and at the same time allow for differences between sectors and geographic areas. International experience has proven that those latter measures are somewhat difficult to implement. Since the presidential 30 percent special bonus announced in May 2008, policy dialogue on government employees' wage and salary reviews halted with skepticism looming as to whether or not the government and the National Council for Wages will work on reviewing the wage/salary schedule for government employees in the upcoming period.

### ***Effective Average Wage of Government Employees***

There is no clear and consistent mechanism which informs the public on the effective market price of government employees in various sectors of the economy and vis-à-vis the private sector. The two most recent studies in this domain were conducted by CAO (2008a) and Radwan (2008).

The CAO study used CAPMAS Employment, Wages and Work Hours Bulletin to stress that government employees were generously paid compared to private sector employees. To illustrate, average government and public authorities pay stood at LE 257 per month in 2005 higher than average private sector pay, which was LE 168 per month. In addition, the study pointed to the similarities and dissimilarities in average "economic sector pay" in the government and private sector. For example, CAO found that average pay for government and private sector employees in both the manufacturing, and building and construction sectors was LE 247 per month and LE 236 per month, respectively. Average pay in the financial intermediaries sector in the government versus the private sector showed discrepancies. Average pay of government employees in the finance sector was LE 317 per month, while in the private sector a financial specialist earned LE 514 per month. The study did not go beyond listing those figures.

Alternatively, Radwan (2008) cited some of the CAO A study findings and elaborated on the government wage differentials paid by public authorities and holding companies operating in different economic sectors. A deeper look at Table 2 in FY 2005/06 reveals that the lowest government-paying sector of activity was commerce at LE 806 per month, while the highest was the metallurgical industry at LE 2,055 per month, with total average of LE 1,281 per month for public authorities considered in various sectors. Although Radwan did not address the public-private wage differentials, similar to CAO A, it is obvious that the results of both studies for the same year (FY 2005/06) show a striking contrast on government average pay as well as for sectoral pay.

**Table 2. Average Monthly Pay for Public Authorities' Employees (LE)**

<b>Holding company</b>	<b>2002/03</b>	<b>2003/04</b>	<b>2004/05</b>	<b>2005/06</b>
Metallurgical industries	1358.00	1575.08	1799.33	2054.67
Spinning, weaving & cotton	713.42	756.67	808.42	936.50
Chemical industries	1205.58	1323.42	1544.00	1792.25
Food industries	812.08	872.75	931.75	1050.58
Pharmaceutical industries	1182.25	1249.75	1286.58	1404.75
National for building & construction	986.50	1064.58	1159.50	1247.58
Tourism, cinema & housing	1319.50	1596.75	1610.33	2006.92
Marine & land transport	914.08	1033.42	1079.42	1218.25
Commerce	563.25	586.33	663.00	805.75
<b>Total (average per month)</b>	<b>937.33</b>	<b>1028.08</b>	<b>1123.50</b>	<b>1281.25</b>

*Source:* Derived from the Ministry of Investment.

A study by El-Essawi (2007, 525-6) showed a downward trend in real wages in both the public and private sectors. El-Essawi notes that by 1999/2000 real wages and the standard of living for Egypt's salaried employees have lost almost the level that was achieved in 1981/82 for the private sector and in 1976/77 for the public sector. Cumulated inflation since 1999 has substantially eroded whatever was remaining of real wages. Despite its alarming results, El-Essawi's study seems to be the only government employees' real wage discovery analysis, though it was not sectorally disaggregated.

In general, there does not seem to be a periodic, aggregated or disaggregated mechanism for the Egyptian economy upon which wages are adjusted (i.e., real, nominal pay, average and/or sectoral pay for government vs. private sector). This questions the legitimacy of the basis upon which annual decisions are taken by the National Council for Wages and

other authorities for salary increases if the government lacks a comprehensive, updated database on salaries and compensations in the economy that would lead to informed decisions accordingly. The weakness of the negotiating power of the labor movement and syndicates in the country may be a cause for not bringing the issue of tracking and updating such information and mechanisms to the forefront of civil service reforms in Egypt despite the growing dissatisfaction with wages.

All in all, Egypt’s government pay system is elusive and insufficient to cover rising prices and to sustain a decent quality of life for government employees. Furthermore, it does not follow logic beyond the mechanical salary schedule contained in Law no. 47 for 1978, and the five-year rolling basis annual social allowance additions, which again lacks an explicit rationale for its incremental percentage depiction.

***Size of the Bureaucracy***

Egypt is characterized by a relatively large bureaucracy, as reflected by the number of civil servants per 1000 citizens compared to a number of countries (Table 3). The total size of Egyptian bureaucracy is estimated at around 5.7 million employees.

**Table 3. Number of Civil Servants per 1000 Citizens in Selected Countries**

Country	Egypt	Japan	Germany	US	UK	France
No. of civil servants per 1000 citizens	100	38	65	75	81	97

Source: Quoted in El Baradei (2004).

This raises the issue of rightsizing the Egyptian bureaucracy. Despite the deteriorating real value of wages in the government sector, government jobs are still in high demand, mainly because of the non-pecuniary benefits associated with such jobs (Assaad 1997). Moreover, Egypt’s civil service is an outlier in terms of number, but not in terms of wage bill size when gauged against countries with a comparable level of income and economic structure such as Syria and Iran (World Bank 2008).

***Age Structure in the Egyptian Bureaucracy***

An investigation of the age composition of the Egyptian government bureaucracy revealed important results. Based on available recent data on the distribution of leadership positions as per age group, the authors found that in the year 2008 the bulk of government full-time employees in leadership positions (around 84 percent) are in the 45-55 years age group. In other words, by the year 2013 the government would lose around 55 percent of its

experienced leadership cadres; and five years beyond the year 2013 (in year 2018), it would lose a total of 85 percent of employees in the same age bracket. With the failing human resource development strategy in government (LE 3-10 per year/trainee—interview 2008) and an inverted pyramid structure of employees, the government is indeed suffering an internal capacity hemorrhage, which remains unaddressed due to budgetary constraints. Special attention should be given to attrition, retention, replacement, redeployment and capacity building in government staff, as much as to salary and wage revision (see Table 4).

**Table 4. Number of Employees and Age Distribution per Grade at the Higher Echelons in 01/01/08**

Age group \ Government grade	35-40	40-45	45-50	50-55	55-60	60-65	Unknown birth date	Total grade
<b>Government grade</b>								
<b>Central government</b>								
First undersecretary	2	5	32	132	25		10	206
Undersecretary	3	29	173	688	87	1	18	999
General manager	46	332	1203	1713	121	3	59	3477
Subtotal (1)	51	366	1408	2533	233	4	87	4682
<b>Local government</b>								
First undersecretary								
Undersecretary		1	3	9	1		7	21
General manager	3	26	137	353	26		7	552
Subtotal (2)	3	27	140	362	27	0	7	566
<b>Service authorities</b>								
First undersecretary	1	6	8	42	10		7	74
Undersecretary	1	3	57	147	7	1	4	220
General manager	28	112	360	569	84	2	26	1181
Subtotal (3)	30	121	425	758	101	3	37	1475
<b>Public economic authorities</b>								
First undersecretary	2	5	13	57	6		3	86
Undersecretary	2	12	95	278	26		3	416
General manager	14	135	438	545	17		4	1153
Subtotal (4)	18	152	546	880	49	0	10	1655
<b>Grand total (numbers for all grades)</b> =Subtotals (1)+(2)+(3)+(4)	102	666	2519	4533	410	7	141	8378
<b>Grand total (number by grade)</b>								
First undersecretary	5	17	53	231	41	0	20	367
Undersecretary	6	45	328	1122	121	2	32	1656
General manager	91	605	1038	3180	248	5	96	5263
<b>Concentration per category (% concentration to total of each grade)</b>								
First Undersecretary	1.36	4.63	14.44	62.94	11.17	0	5.45	
Undersecretary	1.63	2.72	19.81	67.75	7.31	0.12	1.93	
General manager	1.73	11.50	19.72	60.42	4.71	0.09	1.82	
<b>Grand age concentration (% to total age groups)</b>	1.22	7.95	30.07	54.11	4.89	0.08	1.68	

Source: CAO (2008b) and authors' calculations.

#### 4. PERCEPTION OF EGYPTIAN GOVERNMENT EMPLOYEES

To further understand the scope and dimensions of the pay problem in Egypt, opinions of a sample of government employees were solicited regarding the currently applicable Egyptian pay system. Structured interviews were held with 100 government employees to investigate their degree of satisfaction with the current pay system, to what extent it suffices their basic needs, what they do to make ends meet, their perceptions regarding the recent pay increases and their opinions about possible options for reform.

Once the questionnaire for the structured interviews was prepared,<sup>2</sup> it was pilot tested on a group of employees at the Ministry of Trade and Industry (MTI) and a set of modifications were introduced to clarify the questions. One of the eye-opening remarks obtained was regarding the engagement in ‘gameyat’, or informal monthly installment collection arrangements for the purpose of saving. The feedback from the initial group on which the questionnaire was tried was that they participate in ‘gameyat’ to be able to repay their debt liabilities, but not for the purpose of saving. Accordingly, the term ‘saving’ was omitted from the perception checklist.

The sample selected for the structured interviews was purposive quota sampling rather than random. Since the topic is a very sensitive one and employees are generally reluctant to engage in discussions regarding their personal management of financial affairs, the interviews were conducted in two traditional government organizations where the researchers have access and connections and the respondents were somewhat cooperative, although still with a certain noticeable degree of reservation. Respondents’ reluctance to cooperate was noted on several occasions. One example being when several of the interviewees first conceded to their having outside jobs but then after second thoughts decided not to mention such an issue in the interview, refused to specify the type of job and asked the interviewer to cross out any reference to it from the interview notes. The two government organizations selected for the conduct of the interviews were the Ministry of Trade and Industry and the Central Agency for Organization and Administration (CAOA) at the Cabinet of Ministers. The selected 100 interviewees reflected as much as possible diverse employment status, different job grades, age groups, gender, number of work years, social status, and number of dependents. Interviews were conducted with 50 employees in each organization; the authors decided it

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<sup>2</sup> The structured interview questionnaire (conducted in Arabic) is available upon request from the authors.



was a suitable limit for the number of interviews since no new insights were obtained beyond that point. Table 5 shows the distribution of the sample of interviewees among the different variables noted above.

**Table 5. Sample Profile**

	Ministry of Trade & Industry		Central Agency for Organization & Administration		Total employees in both organizations	Approximate % in population*
	# of employees	%	# of employees	%	# of employees	
Respondents to interviews	50	100%	50	100%	100	
<b>Employment status</b>						
Tenured	45	90%	47	94%	92	91.7%
Temporary	5	10%	3	6%	8	8.3%
<b>Job grade</b>						
General manager	1	2%	6	12%	7	0.1%
Senior researcher (with a rank of general manager)	7	14%	5	10%	12	4.6%
First grade	6	12%	22	44%	28	19.6%
Second grade	25	50%	3	6%	28	25.4%
Third grade	6	12%	11	22%	17	42%
Contractual employment	5	10%	3	6%	8	8.3%
<b>Gender</b>						
Male	29	58%	22	44%	51	
Female	21	42%	28	56%	49	
<b>Age group</b>						
21<30	4	8%	5	10%	9	
30<40	17	34%	8	16%	25	
40<50	14	28%	15	30%	29	
50<60	15	30%	22	44%	37	
60 or more	0	0	0	0	0	
<b># of work years</b>						
<5years	1	2%	4	8%	5	
5<10	11	22%	5	10%	16	
10<20	20	40%	11	22%	31	
20<30	14	28%	25	50%	39	
30 or more	4	8%	5	10%	9	
<b>Social status</b>						
Single	6	12%	7	14%	13	
Married	39	78%	43	86%	82	
Divorced	1	2%	0	0	1	
Widowed	4	8%	0	0	4	
<b># of dependents</b>						
1	5	10%	0	0	5	
2	15	30%	11	22%	26	
3	12	24%	7	14%	19	
4	4	8%	7	14%	11	
5	7	14%	3	6%	10	
6	0	0	2	4%	2	
7 or more	0	0	1	2%	1	
None	7	14%	19	38%	26	

Sources: Authors' calculations; Ministry of Finance, Statistical Volume for State Budget 2007/2008, quoted in El Gebali (2008, 21).

\* Population of government employees used = 5,264,681 (tenured employees) + 300,000 (contractual employees) – 846,156 (supporting staff on grades 4, 5 and 6) – 1,039,592 (special cadres and unspecified cadres) – 54,611 (excellent grade and general manager grade) = 3,624,322 employees.

Overall, although the results obtained from the structured interviews cannot be generalized or assumed applicable to the 5.7 million Egyptian government employees, yet they can be used as possible indications for general trends within the Egyptian government's bureaucracy. They are to a great extent in conformance with previous results mentioned in the literature. They provide good and concrete examples of detailed aspects of the employees' management of their financial affairs.

### ***Main Findings from Empirical Study***

#### *Reasons for working in government*

On asking respondents about the incentives for which they chose to work in a government organization, interestingly the topmost reason mentioned by 30 percent of the respondents was that it provides them with a sense of 'security and stability'. The second reason mentioned was that there was a 'conformity between their educational degree and the current job requirements' (20 percent). Other reasons mentioned were that in a government job there are 'better working hours' (10.9 percent), 'possibility of promotion' (8.6 percent), 'prestige and social status' (8.2 percent), 'wages, benefits and incentives' (8.2 percent), 'proximity to place of residence' (5.9 percent), 'availability of social services' (such as healthcare and transportation services) (5.9 percent), and finally that the government job provides them with the 'option of taking on a second job' (2.3 percent).

A gender-based classification of responses has demonstrated divergences with respect to the reasons for which government employment was selected. While female employees gave more weight to 'better working hours' (13 percent for females and 7 percent for males) and to 'proximity to place of residence' (9 percent for females and 3 percent for males), male employees rated higher 'security and stability' as family bread winners (34 percent for males and 27 percent for females), for 'possibility of promotion' (10 percent for males and 7 percent for females) and for the 'option of taking on a second job' (4 percent for males and 1 percent for females).

Among the employees who mentioned the 'option of taking on a second job' as one of the reasons for choosing to work in the government, the majority (60 percent) occupied positions in the second grade of the government's system of job classification, that is to say, mid-career employees.

It is clear that people working for the government are not doing this because of pay. It represents only 8 percent of the total weight relative to other reasons for working in a government organization. They understand that it is not the best pay available in the market but they give more tilt to the security and stability associated with the government job than anything else.

### ***Satisfaction with Total Pay Received***

Total monthly pay is defined as the average amount received per month of basic salary, incentives, bonuses and allowances. Employees interviewed were asked about whether they were satisfied with several aspects related to their total monthly pay and they were asked to rate their level of satisfaction on a scale of 4 points ‘strongly agree’, ‘agree’, ‘to a certain extent disagree’ and ‘disagree’.

Overall, it appeared that 82 percent of respondents are not satisfied, at varying degrees, with their monthly pay and 97 percent think that their total monthly pay is not compatible with the market value of wages and salaries.

### ***Satisfaction with Bonuses and Incentives***

On asking respondents about their satisfaction with bonuses and incentives, 75 percent of respondents do not think that bonuses and incentives are distributed according to clear and well determined criteria; 76 percent do not think there is fairness in the distribution of incentives, and 98 percent do not think that yearly bonuses and salary increases are compatible with the inflation rates and rising prices, and 87 percent are not satisfied with the latest social increases to wages authorized by the President in May 2008.

### ***Pay Sufficiency to Workers and their Household Needs***

On asking respondents whether they were capable of saving a portion of their total monthly pay, a high percentage of the employees (76 percent) said they were incapable of saving any portion of their salaries, and as identified during the pilot testing phase of the questionnaire, their participation in ‘gam’eyat’ is for the purpose of making ends meet; they do not approve of calling it ‘savings’.

On asking respondents whether the total monthly pay received covers their total needs, 98 percent chose ‘disagree’, or ‘to a certain extent disagree’. Next, on asking them whether the total monthly pay covers their basic needs, 83 percent said ‘disagree’, 44 percent ‘to a

certain extent disagree’, while only 17 percent stated ‘agree’ or ‘strongly agree’. Specifically, on asking them whether the total monthly pay they receive covers their needs for a balanced food diet for them and their family members, 80 percent ‘disagreed’, or ‘to a certain extent disagreed’, while 20 percent only agreed or strongly agreed.

On asking about the approximate distribution of total monthly pay among different expenditure items in their consumption basket, it appeared that on average respondents in both organizations spend 40.6 percent on food, 18.7 percent on child education (including private lessons), 11.1 percent on electricity, water and telephone bills, 11.2 percent on medical treatment, 11 percent on transportation, only 3.4 percent on recreation and 4.1 percent on other sundry items. Examples of expenditure items classified as ‘sundry’ included: ‘emergencies’, ‘rent’, ‘social obligations’, and ‘personal requirements’.

It should be noted, however, that this distribution of total monthly income among the different expenditure items does not mean that the monthly government income covers all their needs, but is just a reflection of expenditure priorities.

### ***Relationship between Pay and Work Performance***

When respondents were asked if there is a current relationship between their perception of the insufficiency of income and their work performance, 33 percent said ‘strongly agree’, or ‘agree’, while 57 percent ‘to a certain extent disagree’, or ‘disagree’ and 10 percent did not provide an answer to the question.

As for the idea linking pay to performance in the government sector in the future, 58 percent of respondents agreed that pay should be linked to performance, 16 percent said ‘No’ straightaway, and 26 percent did not respond to that question.

### ***Availability of Other Sources of Income***

On asking respondents if they have other sources of income, 39 percent said ‘yes’. For those who have other sources of income, 14.3 percent have another job, 41.3 percent receive assistance from family members, 19 percent own private properties and real estate, 14.3 percent receive loans, and 11.1 percent mentioned other sundry sources.

On sorting responses to the ‘other sources of income’ question based on respondents’ gender, it appeared that males scored higher on having a second job (20.7 percent for men and 8.8 percent for women—mainly due to social culture prototypes and unpaid housework

responsibilities), on ownership of private properties and real estate (24.1 percent for men and 14.7 percent for women), and on having other sundry sources of income (13.8 percent for men and 8.8 percent for women). Conversely, women employees scored higher on receiving assistance from family members (50 percent for women and 31 percent for men) and on receiving loans (17.6 percent for women and 10.3 percent for men). These gender discrepancies in other sources of income are in conformance with the generally more dependent role of women in society, whether working or non-working women.

The percentage (39 percent) denoting the number of respondents having second jobs should be interpreted with caution. The percentage may be more than that as not all respondents may have felt safe enough, or willing enough to declare such information to the interviewers, lest they get themselves in unwarranted troubles.<sup>3</sup> As noted earlier, because of the sensitivity of the issue of having a second job, many refused to specify what type of job and very few specified what type of sundry sources of income they had. The only examples for the types of sundry sources of income mentioned included: 'spouse's pension', 'bank savings', 'spouse's salary', 'private project', 'assistance from charitable people', and 'travel abroad'; while examples of second jobs included: 'construction supervisor', 'company employee', and 'factory owner'.

On asking respondents about the approximate percentage of their total monthly pay from the government job to their total income from all sources, there were great variations in their responses. Fifty-five percent mentioned that the government pay represents a 100 percent of their total income, 16 percent mentioned that the government pay represents 70-90 percent of their total income, 22 percent mentioned that the government pay represents 40-60 percent of their total income, and 7 percent mentioned that the government pay represents only 20-30 percent of their total income. The average approximate percentage of total monthly pay for all respondents to income from all sources equaled 81 percent.

The overall conclusion from these responses is that the government salary is neither sufficient nor satisfactory for employees to guarantee a decent living and motivate them to

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<sup>3</sup> According to Law No. 47 for 1978 concerning state civil employees, article 77, items 11 and 12, an employee should not combine his/her job with any other work that may undermine his/her performance of the job duties and he/she should not perform any paid work even during non-working hours except with permission from the concerned authorities. Although many employees infringe on the law or gain employers' permission as per prime ministerial decree 115/1983, yet they are not all ready to reveal to interviewers that they do so most probably without the required permission.

excel. Therefore, a large proportion of employees currently fill the gap between their basic needs and the rising prices through means other than their government job.

### ***Employees' Recommendations for Reforming Government Pay***

Respondents were asked about general recommendations for reforming the pay system in government, and also their specific recommendations in relation to proposals for adjusting minimum wage, deciding on percentage of yearly increases in salaries and wages, implementing performance-related pay, and suggesting sources for funding wage increases.

A content analysis of respondents' opinions regarding proposals for adjusting minimum wage showed the following: 20 percent suggested that it should be set between LE 1000-2000, 24 percent suggested it should be between LE 2000-3000, 11 percent suggested it should be between LE 3000-4000, and 9 percent suggested it should be between LE 4000-5000. Other responses emphasized that pay should cover living needs (6 percent), it should be compatible with price increases (4 percent), should be increased (3 percent), should be compatible with international wage and salary rates (1 percent), or should be compatible with wages in the private sector (1 percent). Meanwhile, 21 percent of those interviewed were apathetic.

As for interviewees' suggestions regarding the percent of annual increases in wages and salaries, 29 percent said it should be between 30-50 percent of basic salary and 10 percent said the raise should be between 15-20 percent. Meanwhile, other suggestions were that it should be compatible with the purchasing power of the Egyptian pound, the increase in prices and the inflation rates (41 percent), it should be similar to the annual increase offered to employees in the banking sector and petroleum companies (3 percent), or it should be compatible with the increase in international prices (1 percent). Sixteen percent of the interviewees skipped that question altogether.

### ***Possible Sources of Funding Government Pay Increases***

Some respondents mentioned simply that 'it is the government's business to adjust government employee pay from whatever sources there may be.'

As for more rigorously-suggested sources of funding wage increases, respondents came up with a list of options that in their opinion could be utilized by the government to mobilize the needed resources to fund the required wage and salary increases. Despite the earlier

reported deservedness of the interviewees when discussing their financial affairs, in this section of the interview they were very insightful. Through content analysis and by virtue of the number of hits a specific funding suggestion was mentioned, the authors came up with the following order, using the exact wording of the respondents as much as possible:

- Establishing national productive agricultural and industrial projects that generate real and sustainable income for the country (18.5 percent).
- Combating corruption and theft, bringing an end to money smuggling operations and holding officials accountable (17.9 percent).
- Imposing progressive taxes on businessmen and large capitalist owners (11.7 percent).
- Imposing taxes on owners of mansions, large plots of land, privately-owned planes, and on nightclub activities (10.5 percent).
- Increasing exports and encouraging investment and tourism (7.4 percent).
- Increasing Suez Canal passage fees (7.4 percent).
- Reducing excessive government expenditures of officials (4.9 percent).
- Imposing progressive taxes on monthly income above LE 5000 per month (3.7 percent).
- Preventing tax evasion (2.5 percent).
- Imposing progressive taxes on companies and factories producing cigarettes, alcoholic drinks, use of mobile telephones and recreational goods (2.5 percent).
- Accepting grants, assistance and donations whether from foreign agencies or from local businessmen (1.2 percent).
- Imposing more taxes on the iron and cement factories (0.6 percent).
- Printing money (0.6 percent).
- Other suggestions include: reducing gaps between different classes in society, controlling merchants' greed, monopolistic activities and markets, protecting the poor, curbing inflation, spreading a culture of rational consumption, stopping the practice of appointing consultants and contractual appointments for large sums of money, re-distributing incomes between various government organizations so as to avoid discrepancies in wage and salary levels, encouraging research for the purpose of

performance improvement, and finally spreading a new culture of moral and ethical values that would help fight corruption.

The general impression from these recommendations is that respondents are very much dissatisfied with the unequal distribution of wealth in society and wide income disparities in Egypt, and as a result the majority of their conclusions revolved along these themes; that there is a need for more equitable distribution of income and wealth through better taxation, less monopoly and less corruption overall.

## **5. REFORMING GOVERNMENT EMPLOYEES' PAY SYSTEM: COUNTRY EXPERIENCES**

To find out what other countries have been doing with respect to reforming their government employees' pay systems, and the main objectives, drives, strategies and mechanisms utilized for reform, this section reviews a number of other country experiences. The range of countries reviewed include developing African countries (Uganda and Tanzania), Asian countries (Vietnam and Singapore), plus a number of OECD countries (Germany, Australia and Sweden).

### ***The Experience of Uganda***

Pay reform in Uganda started in the late 1980s and early 1990s as a result of serious labor underperformance. The public service was perceived to be too large, corruption widespread and productivity very low. Therefore, all concerned parties, including the president were convinced of the need for pay reform. Despite the high economic performance experienced in Uganda, the decision was to freeze the wage bill as a percentage of GDP (4.9-6 percent of GDP). Furthermore, pay reform was implemented as a policy package the most important component of which included a downsizing program of about half the civil service, which was undertaken based on voluntary retrenchment through donor support. Over the period from 1991 to 1996, the size of the civil service was reduced by about 54 percent from 320,000 to 164,000 employees. In addition, the Ugandan government embarked on a serious program for improving the transparency and equity of the remuneration structure. Salaries increased for a number of years until the mid-1990s. In 1995/96, an election year, the government promised to increase its overall wage bill by 38 percent, but did not deliver on that promise. Due to political struggle, pay reform lost priority, making room for inequitable pay between various groups. By the year 2000, the salary structure for public employees was still way below comparable levels in the private sector—nearly 42 percent only—and was considered



inadequate for attracting and retaining needed competencies and skills (Kiragu and Mukandala 2003, 161-187).

Perhaps, the Ugandan experience with downsizing was more successful than the often announced and quickly thwarted plans by the Egyptian government to try to achieve a leaner and more rational size for its bureaucracy. However, what strikes us as similar are the political pressures imposed by various groups to gain preferential treatment and the succumbing of the government to their needs despite earlier commitments to work on enhancing equity and transparency for all.

### ***The Experience of Tanzania***

Similar to Uganda, Tanzania is considered one of the success stories of civil service reform in Africa. It implemented a successful and bold program of downsizing the total number of civil service employees from 355,000 in 1992 to 264,000 employees in 1998/99, together with a corresponding significant cut in the overall wage bill, and a consolidation of job grades from 196 to 45 grades, plus a cutback in the number of allowances from 36 to 7 only (Kiragu and Mukandala 2003, 136). However, Tanzania's efforts with pay system reform were not as successful as its general civil service reform efforts.

Pay reform in Tanzania went through four main phases. *In the first phase*, in the early 1960s, the main focus was to cut back the high salaries of the top-level employees and reduce the generous job perks they enjoyed. *In the second phase*, from 1966 to 1986, in parallel with the socialist era, the focus was to ensure equity, reduce salary differentials and increase all types of services provided through their job, such as housing, child support and transportation. However, during the last years of the socialist era—*third phase*—economic problems exacerbated and a major policy reversal occurred. Tanzania moved into a more liberal economic era. The government reduced the workweek to five days and allowed government employees to take on other external jobs to supplement their incomes. However, government employees—because of the very low salaries—still engaged extensively in petty corruption. *In the fourth phase* of reform, starting 1995, the government decided to eradicate all forms of corruption. As a result, a bold decision was made to consolidate all types of allowances into the employees' salaries. However, employees continued having their own second jobs and personal projects besides their government jobs.

In 1999, the government was determined to implement a pay reform policy and strategy based on a long-term agenda rather than on simplistic, ad hoc short-term measures. Two primary reform goals were decided: to raise the minimum basic salary, salaries and other compensation benefits of senior level public servants to enable the recruitment and retention of needed competencies.

By the end of 1999, the government allocated sufficient resources to raise employees' salaries. However, in the following two years—2001 and 2002—the government did not fulfill its promises and allocated the resources intended for pay increases to other purposes. As a result, the donor community stepped in and started a selected accelerated salary enhancement scheme (SASE) in three ministries (Ministry of Health, Ministry of Finance and the Civil Service Department), which managed to implement a program for performance enhancement. The main concern of the government was to foster its ability to recruit needed skills and qualifications especially in some selected sectors that had the greatest impact on the quality of service delivery. Despite some objections by the cabinet towards the SASE and its perceived lack of sustainability, it was carried through as an intermediary solution (Kiragu and Mukandala 2003, 136-160; Mutahaba 2005, 5-10).

The Tanzanian experience has some similarities with the Egyptian case. It shows that when salaries are low, the government has to close its eyes to the fact that employees have to take a second job or run a project in order to support themselves and their dependents. It even tried to encourage them by compressing the workweek to five days rather than six, which is exactly what happened in Egypt. Another similarity is the spread of corruption and rent-seeking activities in parallel to the low government salaries and the widespread utilization of allowances as a selective measure to improve the overall payment of some employees' categories. One of the main steps in implementing reform in Tanzania was the consolidation of allowances into the salary structure. The main gain to be achieved from such a step was to increase transparency and understand the true structure of the pay system as a pre-requisite for any type of reform required. Such a measure will find wide stake-holding in Egypt as well.

### ***The Experience of Vietnam<sup>4</sup>***

As Vietnam moved from a command economy to a market-based economy, there was a need for a massive public administration reform program to help the transition. As typical of the

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<sup>4</sup> Painter (2006).

Soviet-style bureaucracy, the salary system had many shortcomings. Not only were the salaries too low for attracting needed competencies, but part of the salaries was paid in-kind in the form of subsidies. The salary differences between grades was minimal, allowances and bonuses comprised a large percentage of total income and many times were unreported.<sup>5</sup> As a result, a master program on public administration reform was developed for the period 2001-2010, including a plan for reforming different institutional, organizational and financial aspects of the system.

Suggested solutions for the pay system problem included: higher salaries, less compressed pay structures, fully monetizing salaries, and decentralization of personnel management through both fiscal and administrative decentralization at the local level. A creative and radical measure taken in that regard—to fund the increase in salaries—was the requirement that part of the salary increases be financed through locally generated sources of revenues. This radical move towards decentralization in the management of the pay system and in the ability of the local units to levy fees and use them for paying salaries, before institutionalizing a centrally managed pay system, was considered ‘leapfrogging’ on the part of the Vietnamese government.

The increase in basic salaries of public employees was considered the number one priority of pay system reform; *first*, to enhance equity, and *second*, to fight corruption. In parallel to a downsizing program, it was stipulated that half of the pay increases were to be paid by the central state budget, and the other half would come from agency budgets, which would require expending extra effort in mobilizing resources and in introducing cost-cutting measures that would result in savings be used in financing the salary increases.

The Vietnamese pay system reform—described by many as unconventional—is still under tested implementation and has not been fully evaluated. Scholars, however, point to the necessity of a strong monitoring and evaluation system to be imposed at the local level so as not to result in further corruption occurrences. The main lesson to be learnt from the Vietnamese experience is that there is always room for creativity and ‘leapfrogging’ to reach objectives.

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<sup>5</sup> Allowances, on average, reached about one third of the total salary, but were much higher in specific demanding positions, while bonuses averaged 34 percent of gross payments and reached up to 64 percent for health sector employees (Painter 2006, 331).

### ***The Experience of Singapore***

Towards the beginning of the 1990s, the Singapore government decided to raise wages and salaries in the civil service sector to parallel those of the private sector. Improving salaries was considered one of the main tools of its anti-corruption strategy, and one of the main methods for attracting competencies to the government civil service. The salary adjustments were part and parcel of a wide-scale program of civil service reform involving computerization, offering attractive scholarships to top-performing students at local universities or abroad with conditional provisions to join the government service upon their return, a modification of the anti-corruption acts, and the creation of the service improvement unit for continuous monitoring of government service provision.

Currently, civil servants in Singapore are the highest paid in the world. The government of Singapore used three types of benchmarks to link salaries of ministers and civil servants to those in the private sector. Either an average salary of the top-ten bankers is used, or average salaries of the top-four individuals from nine different professions (bankers, accountants, engineers, lawyers, local manufacturing companies, multinational corporations, oil companies, architects and doctors), or average salary of the top-four individuals from six different professions (bankers, accountants, engineers, lawyers, local manufacturing companies and multinational companies) (Tay 2008; Quah 1995).

### ***The Experience of OECD Countries***

Unlike the situation in developing countries, the main concern in reforming the pay system in many developed countries was how to move towards a greater degree of decentralization, to instill more flexibility in the pay system and to forge a better link between pay and performance. However, similar to developing countries, there was still a serious concern regarding how to reduce the wage bill.

In general, starting in the 1980s there was a shift in many OECD countries towards greater emphasis on *performance-related pay* (PRP). PRP refers to the variable part of pay that is awarded based on performance of the individual or the group. Pioneering countries in that regard were the Netherlands, New Zealand and the United Kingdom. In Canada and the United States there was more emphasis on using PRP for senior officials to be able to keep them in competition with the private sector. However, interestingly, evaluation of the use of PRP, whether for senior officials or for non-managerial positions, revealed that it did not lead

to any significant improvements in performance or motivation, whether on an individual or organizational level, but most OECD studies concluded that the technique had been useful only in meeting the competition from the private sector for highly qualified personnel. Moreover, despite the attractiveness of PRP in principle, several shortcomings and obstacles related to implementation were pointed out: it is costly and time-consuming to implement, measurement of performance is often very difficult in sectors where there are no quantifiable output, and additional remuneration was not always a significant incentive for the employees concerned. Most government employees in OECD countries implementing PRP did not seem to think that it affected their performance or motivation much (Cardona 2006, 2-5; OECD 2005, 1-6).

### *The Experience of Australia<sup>6</sup>*

The main goals of pay system reform in Australia were to move towards a greater degree of decentralization and to link pay to performance. Starting the mid-1980s, there was a move towards implementation of a productivity-based system of pay. In 1987, a ‘two-tiered system’ for wage increases was approved whereby the first tier included a general wage increase for all workers, and the second comprised supplementary increases awarded based on efficiency. In 1993, ‘performance-based pay’ was introduced to 10 percent of senior government officials, whereby officials who received favorable evaluation on their performance appraisal received lump sum bonuses reaching up to 15 percent of their salaries.

### *The Experience of Sweden<sup>7</sup>*

Downsizing of the Swedish civil service took place starting the mid-1980s with a total peak number of 1.5 million employees to reach 1.3 million employees in 1995. Main goals of reforming the pay system were instilling a greater degree of decentralization and flexibility. After following a centralized system of pay management for hundreds of years, starting 1978 pay negotiations were devolved to independent local and county councils who took over the responsibility of negotiating pay levels and increases on behalf of the government with the different trade unions. Another further step towards decentralization took place in 1989 when a bill was passed allowing for individual differentiated pay and abolished completely the

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<sup>6</sup> Elliott and Bender (1997, 463-465).

<sup>7</sup> Elliott and Bender (1997, 457-460).

traditional centralized pay and grading system. However, to maintain some elements of equity, a centrally awarded minimum settlement was awarded to all employees.

### *The Experience of Germany*<sup>8</sup>

What is interesting in the German experience is that there is a clear distinction between civil service employees and public employees. Out of the 4.6 million employees who work for the government, only 1.6 are considered civil service employees, enjoy tenured appointments and their remuneration is handled separately through a special law. The remaining public employees are appointed by contractual arrangements and abide by the general labor law that applies to the private sector. This is an important experience that may benefit the currently ongoing debate in Egypt regarding tenured versus contractual appointments in the public service.

In deciding on the remuneration of civil servants, the basis is the ‘maintenance’ principle, whereby they should be provided financial independence enabling them to devote themselves entirely to the government job and not take any other job. The basic salary is the basic component of their remuneration and there are four remuneration schemes (A, B, W and R). Schemes A and B are for regular civil servants, W for professors in higher education institutions, and R for judges and public prosecutors.

The main reform attempts of the pay system in Germany were implemented in 1997 involving the establishment of a stronger link between pay and performance for civil servants. Performance bonuses for outstanding service may be awarded based on the employee’s performance appraisal by his supervisor. Bonuses are used more often than performance steps as they represent less of a budgetary burden. The system is working successfully in recognizing high performers and sanctioning poor ones.

To sum up, several main lessons need to be emphasized from the international experiences with pay system reform. As regards *motives and objectives* of pay reform, it appeared that there was a significant difference between developed and developing countries. In Uganda and Tanzania, the main motive was trying to abate corruption and increase employees’ productivity; in Vietnam, the driving force behind reform was the move towards a more liberal economy and the attempt to attract and retain highly qualified personnel; while in

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<sup>8</sup> Otto (2006).

Singapore, the impetus for reform was to counter the intense competition from the private sector. Meanwhile, in Australia, Sweden and Germany, the main drivers for pay reform were the need to realize greater degrees of flexibility and decentralization and establish better links between pay and performance. In the three developed countries, decentralization was pursued through allowing for different pay systems in different regions and organizations, as needed, and shifting pay negotiation authority to the local levels. Performance related pay was implemented following linking different percentages of variable wage to employees' performance.

There was also variation in the *policies, tools and mechanisms* utilized for pay reform. Most significantly, the increase in government employees' pay was in the majority of cases implemented gradually, over phases and according to clearly set plans. Furthermore, the reform of the pay system was always implemented as part of a more comprehensive administrative reform and never implemented in isolation. Examples of parallel reform mechanisms pursued included: downsizing and rightsizing the government bureaucracy as happened in Uganda, Tanzania, Vietnam and Sweden; automation of the government pay system and offering graduate study scholarships to top performers before enrolling them to work for the government as happened in Singapore; limiting the number of allowances and compressing the work week in Tanzania; emphasizing transparency in Uganda and Vietnam; and issuing new anti-corruption laws in Singapore. As for the creative methods utilized for securing additional resources required for pay increases, there was a resort to development cooperation agencies support during crisis situations as happened in Tanzania, and an allowance for partial funding of the wage bill by the local authorities as witnessed in Vietnam. Notably, when pay was linked to performance, to reduce the burden on the budget, several simultaneous pay schemes were developed and bonuses were used more often than performance steps. This happened in both Australia and Germany.

Empirical experiences showed that *political pressures and considerations* often had a considerable impact on the pay reform agenda and its implementation. For example, in Uganda because of the political pressures exerted by some powerful groups of employees, such as judges, physicians and university staff, they were given preferential treatment. Furthermore, in Tanzania, because of a shift in the priorities of general national reform, the resources previously ear-marked for pay increases were directed to other priorities.

## 6. SUGGESTED SALARY STRUCTURE FOR CIVIL SERVANTS IN EGYPT

Two methods could be used to determine the minimum wage level appropriate to the economic and social conditions in a certain country. *Firstly*, in most countries the minimum wage level represents about 25 percent of the average per capita GDP. In Egypt, per capita GDP is LE 12,050 per year; i.e., LE 1,004 per month. Therefore, the minimum wage level is about LE 251 per month. *Secondly*, the minimum wage level should not be less than the lower poverty line, so as to ensure that a worker and his/her dependents can get their basic food and non-food needs. The lower poverty line in Egypt is LE 1,429 per person per year; i.e., LE 119 per month (Helmy 2006, 2008).

As the second option would not fulfill the basic requirements per individual, the minimum wage of LE 251 per month is adopted as a more plausible option. The average household size in Egypt is about 4.632 persons, the percentage of employed persons to household members is 0.3423 and the dependency ratio is 2.921 percent,<sup>9</sup> hence the proposed minimum wage is LE 733.2 per month compared to the current minimum wage of LE 295.13 per month. This proposed minimum wage will help an individual and his/her dependents meet their basic needs. Based on the previous calculations, a new civil servants salary structure could be proposed as shown in columns 5 and 6 in Table 6.

Four aspects have to be noted relating to the proposed salary structure. *First*, a salary grade-per-grade slope was revisited to address the originally flat and irrational slope that is apparent in column 3. *Second*, a salary grade-on-grade schedule was constructed on a trial and error basis with a higher grade not to exceed 10 folds the lowest salary grade, as an accepted international good practice.<sup>10</sup> *Third*, since grade 3 marks the starting employment grade for university graduates, it was decided to reflect a slope increment higher than that recommended for lower non-university degree employment grades (grades 6, 5 and 4). *Fourth*, lower salary bounds per grade were utilized in this instance implying a conservative approach.

The proposed salary structure will increase the total government fiscal cost of wages by nearly 256 percent, which would require substantial government funding. This would further

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<sup>9</sup> Calculated by Heba El-Laithy based on three quarters of the 2008 Household Income, Expenditure and Consumption Survey.

<sup>10</sup> Based on interviews with Gouda Abdelkhalek in 2008, OECD in 2009 and the Austrian Federal Chancellery in 2008.



require additional funding to cover the corresponding pension burden. These added fiscal costs on an already burdened budget suggest that revising the salary structure along the proposed line may not be feasible unless coupled with rightsizing and streamlining the bureaucracy per a medium- to long-term strategy as discussed in the following section.

**Table 6. Proposed Civil Servants Salary Structure**

Grade	No. of employees*	Current salary structure per month** (LE)	% increase per grade	Average salary bill per month (000s LE)	Proposed salary structure (min. wage = LE 733.2/m)	% increase per grade	Revised salary bill per month (000s LE)
	(1)	(2)	(3)	(4) = (1) * (2)	(5)	(6)	(7) = (5) * (1)
1st US	326	1,389.3	51.6	452.9	7,007.1	45.8	2,284.3
US	1,734	916.5	10.8	1,589.2	4,805.0	43.0	8,331.8
GM	254,851	826.8	27.7	210,710.8	3,360.1	40.0	856,331.0
G-1	787,084	647.5	30.0	509,636.9	2,400.1	37.1	1,889,071.5
G-2	1,000,097	498.2	35.8	498,248.3	1,750.1	34.6	1,750,271.0
G-3	1,696,949	366.8	19.5	622,440.9	1,300.0	30.0	2,206,085.6
G-4	459,681	307.0	4.0	141,122.1	1,000.0	17.7	459,691.8
G-5	275,241	295.1	2.1	81,223.6	850.0	15.9	233,954.5
G-6	188,200	289.0	-	54,389.8	733.2	-	137,988.2
<b>Total salary burden per month</b>				<b>2,119,814.5</b>			<b>7,544,009.8</b>

\* CAO (2008b). \*\* See Table 1.

Two additional caveats have to be added. *First*, an important ILO study (ILO 2005) on 36 developing countries has recognized that most of the countries adjusted salaries according to the cost of living (24 countries), GDP growth rates per capita (22 countries), and basic needs of employees according to dependency ratios (or average household size), and this was used in 18 countries studied. Therefore, it is envisioned that based on our point of departure above (proposed salary structure), annual salary is to be automatically adjusted by adding an increment reflecting changes in cost of living and GDP growth per capita rates, which is rational and reflects per capita productivity in order for salaries not to be eroded and employees hold stake in productivity levels.<sup>11</sup>

*Second*, the proposed salary structure represents an approximation of figures and is focused on permanent civil servants within the state apparatus. However, a potential cutback in the wage bill is envisioned upon devolution of fiscal and administrative authorities to the largest wage-bill-consuming civil service categories, i.e., the application of decentralization

<sup>11</sup> See Abdelhamid (2009).

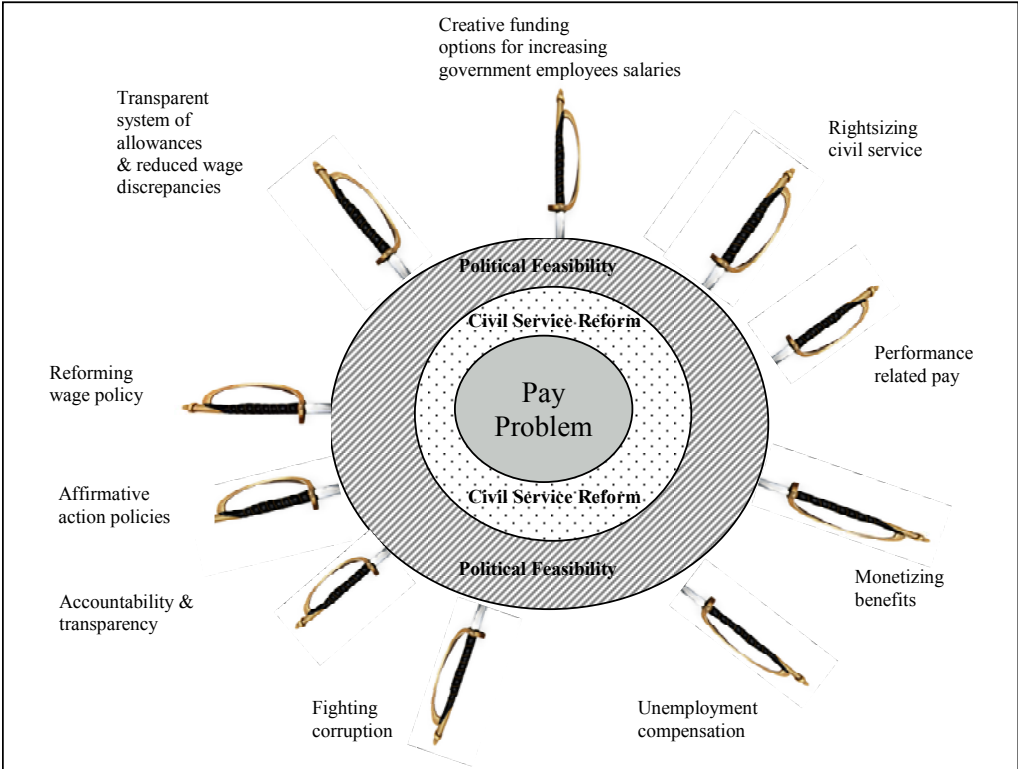
over local administration, public economic and service authorities, representing two-thirds of the size of the state administrative body,<sup>12</sup> reduces recourse to additional public funds and at the same time frees more fiscal resources for effective government outlays on central government employees.

**7. MIX OF STRATEGIES FOR PAY REFORM IN EGYPT**

Based on the previous analysis, *five main critical strategic issues* were identified that are relevant to the pay system reform of government employees in Egypt. For each of those issues, a number of alternative strategies are proposed.<sup>13</sup>

Figure 1 is a simplified model showing that the pay problem should be perceived as part and parcel of civil service reform initiatives in Egypt. In deciding on any number of strategies to resolve the problem, there is a need to test them first for political feasibility, and hence ensure commitment.

**Figure 1. Proposed Model for Reforming Pay System in Egypt**



<sup>12</sup> According to CAO (2008b), in FY 2006/07 civil service employees in the local government were 2,974,602, in the public economic authorities 342,765 and in the public service authorities 445,861, totaling 3,763,228 (out of a grand total of 5,578,930 employees) representing 68 percent.

<sup>13</sup> The authors are using here an adaptation of Bryson’s strategy change cycle as explained in Bryson (2004).

***Strategic Issue #1: How to make available the extra funding necessary for increasing government employees' pay?***

- Cutting back on corruption at all levels through setting clear rules.
- Better management of government assets and resources.
- Reducing expenditure on armed forces (army and police) perks, especially the recreational social clubs, resorts and hotels.
- Rationalizing top level government officials' expenditures (ministers' numerous luxury cars, and extravagant office furnishings).
- Establishing a ceiling for total government pay (basic salary + allowances + bonuses + commissions + incentives + profit sharing) so that the highest total income does not surpass N times<sup>14</sup> the lowest total income for an employee in any part of the government service.
- Re-stressing the fact that the revenues achieved in some of the government sectors, like the petroleum sector, Suez Canal, the Tax Authority, are general public monies and should be looked at in the form of percentage retention (say between 50-70 percent of annual revenues) with the residual transferred to the national budget.
- Effectively enforcing the property tax laws so as to increase revenue collection from those who can afford to pay, together with a phased and announced plan for decentralization to local government to sustain local government employees' pay.
- Continued enhancement of general tax collection and more strict enforcement of the tax laws especially on higher income groups.

***Strategic Issue #2: How to 'right-size' and decentralize the government civil service?***

- Offering early retirement schemes through donor funding (through direct budget support or other means) .
- Freezing new appointments to the government sector and not replacing employees leaving the organization through natural attrition except when there is a proven real need and upon concluding a study on real employee needs and the envisioned rational structure of the government based on core functions.

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<sup>14</sup> Ten times in many countries.

- Transferring employees from organizations that are over-staffed to organizations that are under-staffed.
- Retraining central government level staff based on a clear human resource management strategy after rationalizing ministries and affiliated agencies to core activities, and devolving local government to local bodies, and corporatizing, privatizing, and/or outsourcing from divested public economic and service authorities.
- Offering unemployment insurance rather than secured employment in the government.
- Using transformative training to build and upgrade skills of employees to enable transfer from surplus areas to deficit areas and strengthen the link between labor market needs, and education/training systems.
- More reliance on contracting out of *non-core government functions*, such as transport, catering, cleaning, gardening, car repair, buildings ownership and maintenance services.
- Utilizing temporary and part-time employees for some job categories where there is no real need to provide them with tenured appointment, and putting a stop to the practice of automatic change in employment status—from temporary to tenured—after a number of years as a result of political and social pressures.
- Activating the private sector and attracting foreign direct investment to create more job opportunities for former government employees and for new comers to the job market, so that they do not seek government employment.
- Providing unemployment compensation plus social and medical insurance for workers in the informal and private sector so that the government job loses its main attractiveness of ‘security and stability’ relative to the non-government jobs.
- Offering bonds to displaced labor. Upon being offered a job opportunity through the government network with the private sector, the bond is surrendered to the employer, and the employee is guaranteed a job till bond maturity date, 3-5 years renewable or based on performance. If the employee underperforms in the private sector, he/she is discharged yet collects the debt (bond) instrument to continue to generate a cash flow that would sustain a decent living.
- Creating a government operated e-recruitment system to help place former government employees in private sector companies (for a nominal fee).

- Establishing a government public private partnership (PPP) network to which the government can turn in case of goods and/or services outsourcing.

***Strategic Issue #3: How to make the system of allowances more transparent and reduce wage discrepancies?***

- Development of a new electronic database to keep track of each government employee's actual pay and benefits.
- Consolidation of allowances into salaries. In the current system, allowances are consolidated every five years.
- Setting a ceiling for total government pay and a fixed ratio between the lowest and highest government pay.
- Re-thinking the parallel system of donor supported highly paid staff in technical offices and project implementation units (PIUs) so that policy formulation becomes part of government operations, and more institutionalized and transparent. PIUs play a vital role in initiating reform, but they are not sufficiently sustainable (El Baradei 2006). The ambiguity surrounding their existence in different government organizations and ministries in Egypt enhances the general negative public perception of the extent of discrepancies existing in government employees' pay system.

***Strategic Issue # 4: How to reform the wage policy for government employees?***

- Develop a phased plan for modification of the salary schedule to reflect a decent living for government employees and announce it to the public at large.
- Modify immediately the minimum wage to at least exceed national poverty line (LE 733.2 per month). The same goes for the other salary categories, using the proposed automatic annual pay adjustment formula, and for the other grades.
- Periodically increase government pay in line with rising inflation, GDP growth rates and average household needs.
- Allow for more active collective bargaining in setting salary scales to ensure a sustainable system for continuous adjustment.
- Consider revisiting the social insurance system to include the unadded bonuses while introducing innovative voluntary systems using other country experiences.

- Provide more career-path capacity-building efforts to government employees to increase their productivity.
- Reduce unnecessary and unjustified discrepancies in government employees' pay in different government organizations and sectors.

***Strategic Issue #5: How to establish a better link between pay and performance?***

- For the proposed link to gain acceptance, it is necessary to keep the basic salary constant and link the designated percentage of variable pay to performance.
- Change employees' performance appraisal system to a forced ranking system, disallowing the current practice of giving the majority of employees an excellent rating.
- Develop real performance measures for both organizations and personnel and ensure their fair and just implementation.
- Develop and use competency-based frameworks for evaluating employees' performance.
- Incentives should be tied to citizen satisfaction, especially in front-office organizational interfaces.
- Enforce self-evaluation, independent organizational capacity assessment and strategic planning on a rolling basis.
- Develop a dual system to reward both team and individual performance.

## **8. FINDINGS AND CONCLUSIONS**

There are diverse stakeholders' objectives to consider when reforming the pay system for government employees. Reforming the pay system requires adopting a comprehensive vision toward civil service reform that would satisfy the complex needs and objectives of both employer and employees and that would lead to enhanced performance, efficiency, effectiveness and responsiveness for Egyptian government bureaucracy.

The proposed pay reform recommends adoption of a rational model that takes into consideration the political and social feasibility of application. Egypt should not continue resorting to crisis management approaches in resolving its government employees' pay related problems. The qualitative interviews conducted with the government employees reveal and accentuate the high level of dissatisfaction and inappropriateness of the current pay system,

and point to the urgency of the reform efforts proposed in this study. Moreover, international experiences with pay reform—although encompassing a variety of techniques and policies—have guided the quest for pay reform by pointing out the necessity of the presence of an overall plan, the significance of adopting a comprehensive perspective, the need for building consensus for reform and having a strong political will for effecting the proposed reform.

Thus, there is no one technical fix for the public pay system. Egypt must develop a clear strategy, including action plans. Political considerations in pay system reform are as important as economic considerations and should not be dealt with lightly. But any economically rational recommendation should pass through a political feasibility sieve. Pay reform is part and parcel of civil service reform and should not be considered as a stand-alone intervention. A strategic perspective toward pay system reform requires achieving a balance between different stakeholders' needs and expectations; hence, consultations are a prerequisite for success. This cannot take place without initiating a social dialogue on the subject, securing popular engagement and ownership. A comprehensive and strategic civil service reform plan is needed irrespective of change in political assumptions, and it has to be backed by presidential engagement and effectuation. These types of reforms are long-term and may extend beyond the lifetime of governments and should not be undermined for this very reason.

Regardless of the mix of options and mechanisms decided upon in implementing the reform of the civil service pay system, there are some general pre-requisites that need to be taken into consideration, namely:

- continued support, sponsorship and commitment to reform at the highest political levels (preferably the President, either in partisan or non-partisan announcements) and active participation and involvement of various groups of stakeholders in the reform process;
- adoption of a long-term vision and strategy for civil service reform with concrete quantifiable targets and measures of performance over phased, clear-cut time spans issued and binding by law;
- staged implementation of reforms, since it is not possible that all problems can be solved simultaneously;
- launching structured awareness campaigns to support reform efforts;

- evaluation and documentation of the learning opportunities generated upon implementation;
- the establishment of a high-level civil service reform steering committee to be responsible for championing and coordinating civil service reform efforts;
- full engagement of coordinated/pooled funding and technical support for swift implementation of cross-cutting, sweeping reforms over the largest sector of the nation to sustain development; and
- parallel political reform allowing for greater levels of accountability and transparency in government operations.

Currently, there is a great perceived need for implementing pay reform. The time is right and once sufficient political support is available, the vision for an effective pay system can be achieved. The pay system proposed is affordable, flexible and equitable in light of prevailing market prices. It is also easy to administer and enables employees to meet their living expenses, and therefore could lead to a more efficient, effective and responsive government bureaucracy capable of realizing sustainable economic development.



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