2017 CABRI Conference
MANAGING BUDGETARY PRESSURES
7-9 March 2017
Ouagadougou, Burkina Faso

2017 CABRI CONFERENCE

WHEN CHRONIC PRESSURES TURN INTO CRISIS

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FOREWORD

Budget managers are frequently confronted with changing circumstances during a fiscal year that disrupt even the best prepared spending plans. Some of these changed circumstances require no more than regular adjustments to plans, while others become chronic and have a significant effect on public finances. The latter are commonly referred to as extraordinary shocks, which are sudden and can pose a threat to fiscal stability and service delivery.

At the time of the hosting of the CABRI Conference in Ouagadougou in March 2017, several African countries were emerging from natural disasters and health emergencies. The best known of these is the Ebola epidemic that affected Liberia, Guinea and Sierra Leone, claiming over 11 000 lives and resulting in a significant contraction in gross domestic product (GDP). Burkina Faso was recovering from devastating floods that were followed by unaffordable public-sector wage demands; and South Africa was under pressure to increase subsidies to tertiary institutions and state-owned enterprises. Similarly, Nigeria and Lesotho were facing revenue losses from the decline in oil prices and customs revenue, respectively.

The conference in Ouagadougou provided a platform for peers from 26 African countries to share their experiences of various budgetary pressures: how they managed in the midst of the crisis, what strategies were applied, and what they would do differently were the crisis to reoccur.

Once more, CABRI is grateful to our partners for their contribution to the conference content and financial support, as well as to those who shared their insights into both African and international experiences. And, lastly, a special thank you to the dynamic CABRI team for their willingness to go the extra mile to ensure the successful delivery of CABRI programmes. Thank you.

Neil Cole
Executive Secretary

SECTION 1
INTRODUCTION

1: MANAGING BUDGETARY PRESSURES – THE 2017 CABRI CONFERENCE

THE CONFERENCE

The ninth CABRI Conference was held in Ouagadougou, Burkina Faso, from 7 to 9 March 2017. Attended by 69 officials from 26 African countries, it examined how governments can prepare for and manage extraordinary budget shocks that threaten budget stability and the financing of service delivery.

Budgetary pressures are an unavoidable consequence of allocating scarce resources between potentially limitless societal needs. Ministries of finance routinely contend with budgetary pressures during the preparation and approval of public budgets, as well as when managing ordinary deviations from planned revenues and expenditures during the year. Countries with stronger budget institutions are better able to manage this year-to-year budgetary pressure than countries with weaker systems – that is, more fragmented budget processes and less robust revenue and expenditure forecasting, cash management, in-year control, and accounting and reporting systems.

The conference's focus, however, was neither on these routine pressures, nor on how to build the strong budget institutions needed to best manage them. Rather, the overarching question for the 2017 CABRI Conference was how governments can better prepare for and manage extraordinary pressures that either arise suddenly or build up over several years, without veering towards unsustainable debt or disrupting service delivery. It aimed to explore successful ministry of finance strategies for managing these pressures and achieving budget credibility. Key to understanding the pressures is that context matters.

The sessions were structured to allow senior budget officials to reflect on the budgetary pressures they have faced, how they managed them and what they learnt. Almost all the conference sessions presented a country case study followed by contributions from other countries from the floor. Sessions that followed this structure focused on managing the impact of natural and man-made disasters on countries' revenues and expenditures; managing the impact of macroeconomic shocks on countries' revenues; and managing large budgetary demands that have built up over years.

A fourth set of pressures – the pressures that result from the realisation of off-budget contingent liabilities – were discussed through a fictitious case of a large bailout for a public water utility company. Participants had to identify what their responses would be and discuss how the case reflected experiences in their countries.

These substantive sessions were bookended by an introductory panel discussion that considered why many African countries are vulnerable to budgetary pressures and the importance of managing them, and a concluding session that examined common responses and approaches to being better prepared for crises. A copy of the conference programme and all materials can be found at www.cabri-sbo.org.

1: MANAGING BUDGETARY PRESSURES – THE 2017 CABRI CONFERENCE

ABOUT THE CONFERENCE PUBLICATIONS

2017 CABRI Conference

MANAGING BUDGETARY PRESSURES

7–9 March 2017
Ouagadougou, Burkina Faso

CABRI has produced four publications based on the 2017 conference. The main report, *2017 CABRI Conference: Managing budgetary pressures*, reflects on the conference discussions and conclusions. It is structured around three country case studies, each focused on a different category of pressure. For ease of use, these three case studies are also presented in separate, summarised publications.

The second of these case studies, presented here, focuses on chronic pressures that turn into crises. It reflects on how South Africa, Burkina Faso and Côte d'Ivoire responded when long-term, bottom-up expenditure demands (the financing of tertiary education in South Africa and the public wage bill in Burkina Faso and Côte d'Ivoire) reached a crisis point, threatening to destabilise the budget. The discussion outlines options available to finance ministries when they are caught between bottom-up stakeholder pressure and top-down political pressure to undertake significant additional expenditures that may not have been budgeted for and may not be the best expenditure choices.

The two other country case study publications focus on macro-fiscal shocks and fiscal responses to disasters respectively (both available on the CABRI Publications page).

SECTION 2

WHEN CHRONIC PRESSURES TURN INTO CRISIS

2: WHEN CHRONIC PRESSURES TURN INTO CRISIS

INTRODUCTION

By Joana Bento[1]

The budget is a political statement that outlines how governments intend to deliver their policy objectives. During the budget process, technical and political decisions usually follow an iterative process, where ministries, departments and agencies negotiate their envelopes and advocate for the most efficient allocations.

Budget processes can struggle to take into account the impact of unexpected shocks on the annual budget. The past decade has highlighted a series of unforeseen shocks, namely the global financial crisis and the collapse of commodity prices, which have led governments to reduce public investment and increase their borrowing requirements. A large share of the shocks, however, were caused by pressures resulting from decisions largely within the government's control, such as government bailouts and the cost of social security entitlements. In these cases, the decisions were foreseeable but the budget did not fully account for the risk they posed.

Beyond technical choices, the political balance of powers can affect budgeting decisions. Budget officers often act as referees between unlimited demands and limited resources, guided by the political preferences of the government of the day. The two case studies in this section highlight unique challenges with demands for increased expenditure. In both instances, chronic budgetary pressures – present when the budget was prepared but not prioritised – finally turned into crises.

The first case study explores how South Africa's "fees must fall" movement, a public contestation over university fee hikes, affected the budget. It is based on the presentation made by Michael Sachs, Deputy Director General in the South African National Treasury in charge of the Budget Office, at the CABRI Conference.[2] The second case study examines the pressures that arise from managing public wages in Côte d'Ivoire and Burkina Faso. These cases were presented by Traore Tiede, Director of National Budget at the Ministry of Economy and Finance in Côte d'Ivoire, and Vieux Abdoul Rachid Soulama, Director General of Budget at the Ministry of Economy, Finance and Development in Burkina Faso. Although these shocks are different in nature and context, they show similar patterns.

> *"Responses to these types of pressures require a great deal of strategic communication to make the trade-offs clear and decision makers accountable."*

[1] *Joana Bento is a public finance management specialist in the CABRI Secretariat, responsible for budget transparency and accountability.*
[2] *At the time of publication, Michael Sachs had resigned from his position at the National Treasury.*

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These shocks usually start as social demands that governments chose to include in the budget to preserve political capital. The complex space between bottom-up and top-down pressures is what makes these types of shocks particularly difficult to manage.

First, the decision-making process is largely taken away from the budget office and efficiency criteria are assigned secondary importance. In this situation, effectively communicating the costs and benefits of the policy choices to policymakers becomes even more important. Responses to these types of pressures also require a great deal of strategic communication to external actors and agents – to make the policy trade-offs clear and decision makers accountable. Yet, transparency does not guarantee that trade-offs are effectively understood. Countries also need institutions and think tanks well versed in these social issues that can enrich the public debate and speak to ordinary citizens.

Second, although they occur during a fiscal year, the shocks are the result of pressures that build over the medium term. They often point to institutional weaknesses in public financial management and/or policy pressures that were not addressed. That is precisely what makes them difficult to manage: by the time governments acknowledge these shocks, the credibility of institutions is already compromised, which exacerbates social discontent and diminishes the executive's power to present credible policy alternatives.

Managing the risks cannot only depend on the processes, practices and instruments of finance ministries. For instance, many African countries introduced fiscal rules to counter political agendas and influence on the budget, ensuring government does not borrow beyond its limits. "Rules fortify politicians who want to be fiscally prudent, but they do not stand in the way of those who are determined to spend more or tax less than the rules allow" (Schick, 2003).[3] Politicians still have a say in budgetary decisions, and the social pressure underlying these shocks acts as a powerful political incentive. Effectively managing these budgetary demands not only depends on the credibility of the institutions that govern the budget process, but also on the capability of a finance ministry to effectively communicate – to citizens and policymakers – the costs of policy choices.

[3] *https://www.oecd.org/gov/budgeting/43494591.pdf*

FEES MUST FALL: MANAGING THE COST OF INCREASING STATE FINANCING FOR HIGHER EDUCATION IN SOUTH AFRICA

DEMANDING MORE ACCESSIBLE HIGHER EDUCATION: THE SHOCK IN CONTEXT

In October 2015, South Africa's Minister of Finance delivered the medium-term budget policy statement – which presents the country's projected economic context and fiscal policy objectives for the following three years – in Parliament amid protests outside the building.

University students were protesting the increase in higher-education fees. South Africa's universities are autonomous; they set their fees while government contributes about 30% of their funding. Earlier in October, when the University of the Witwatersrand announced a 10% fee increase for the following year, protests erupted on its campus. The campus was closed, but the protests rapidly spread across the country as other universities announced their fee increases. This marked the beginning of South Africa's "fees must fall" movement.

At the time, South Africa was facing a challenging economic outlook, with sluggish GDP growth since 2013, which put pressure on the fiscal deficit and weakened its debt position. Low and fragile growth also meant that the government was confronted with difficult trade-offs between tackling fiscal and external imbalances and addressing social challenges (unemployment, poverty and inequality). At the same time, public-sector wage settlements had exceeded inflation, placing further strain on the ability to budget for social spending.

The medium-term budget policy statement is an important event in South Africa. It manages expectations for the budget and supports predictability in government's fiscal and budget policy stance over the medium term. In 2015 it was particularly important: international investors were eyeing a strong policy stance on fiscal consolidation while rating agencies were evaluating the creditworthiness of South African debt. Since 2012, the medium-term expenditure framework (MTEF) had been set within a context of fiscal consolidation and the National Treasury had committed to using this framework as a set ceiling for the three years. Any new policy within the medium term had to be within those ceilings.

On 23 October, two days after the Minister of Finance delivered the medium-term budget policy statement, the President announced that there would be a freeze on university fees. This decision called for the National Treasury to accommodate an estimated additional expenditure of US$1 billion in the following three years.

> *"In South Africa, we are fortunate to have a well-established and robust medium-term expenditure framework underlying our budget, and although those institutions are strong, they are constantly being tested."*
>
> *– Michael Sachs at the CABRI Conference*

Photo credit: Ashraf Hendricks/GroundUp

RESPONSE: WEIGHING FISCAL DISCIPLINE AGAINST SOCIAL DEMANDS

On 9 December, a team from the National Treasury met with Cabinet to present the full range of response options and their implications. Budget managers had to present a strategy for financing the unbudgeted US$1 billion over the next three years. The options were either to work within MTEF limits by reprioritising existing expenditure or to increase revenues by raising taxes or taking on additional borrowing, or some combination of these.

The economic outlook limited the choices available for addressing this fiscal shock. Increasing revenues by raising taxes would further hamper economic growth. Raising additional borrowing would put a strain on South Africa's fiscal sustainability over the medium term and possibly trigger junk status by rating agencies. The possibility of expanding overall expenditure faded even further when the surprise removal of the finance minister increased uncertainty over the economic outlook and pressure on the 2016 budget due in February. In the days following the minister's dismissal, the rand depreciated by 10.5% and half a trillion rand was wiped off the value of South African bonds and stocks as investors took flight. Although the rand and markets recovered during 2016, the event arguably contributed to slowing economic growth, which resulted in an even tighter fiscal space and a more unpredictable budget.

2: WHEN CHRONIC PRESSURES TURN INTO CRISIS

Within this context, the National Treasury preferred reprioritising expenditure, while recognising the importance of minimising the impact on social projects. In a transparent process, it presented the political leadership with options and trade-offs to reprioritise spending within the existing limits. Ways in which funding could be met within the ceiling included:

- Shutting down non-performing government programmes.
- Cutting the allocations to large public infrastructure projects.
- Postponing government's social infrastructure programmes.
- Shifting resources from the country's sector education training authorities – that are funded by earmarked taxes outside of university education – which were running surpluses at the time.
- Cutting administrative budgets by imposing a cut on all programmes and freezing wages across the public sector.

While working within the limits, the government restricted the choice of responses. Cutting large infrastructure projects or freezing public-sector wages was not an option. In the end, budgets were cut from national government across line items, particularly the expansion of government employment and transfers to public entities with large surpluses. Provincial budgets were also affected, specifically conditional grants to provinces' social infrastructure projects.

To compensate for the 0% fee increase in the 2016 academic year, government increased subsidies to universities. The subsidies were set to grow at an annual average rate of 10.9% in the following three years, while allocations to the National Students Financial Aid System, which provides support to underfunded university students, were increased by 18.5%. In the 2016 budget, R5.6 billion was added to university subsidies, of which R2.5 billion was allocated to the financial aid system. An additional R8 billion was allocated to new unfunded students for the 2016 academic year and beyond. The policy, however, was implemented under the assumption that there would be normal fee increases in the following years.

LESSONS LEARNT: PRIORITISING SHORT-TERM OVER MEDIUM-TERM TRADE-OFFS

The combination of bottom-up and top-down pressures made the tertiary fee issue difficult to manage. The widespread media coverage of the student protests created sympathy for students' demands. At the same time, different levels of government were capitalising on these bottom-up pressures to further their political and financial agendas. What follows are lessons that can be drawn from this case study.

Maintaining budget credibility

In the short term, the National Treasury was able to respond to the shock, demonstrate flexibility in the fiscal system and retain investors' confidence. The response options pleased credit rating agencies and foreign investors, who evaluated the policy decision as a continued commitment to fiscal consolidation. However, the response choice had a different effect on the fiscus and on budget credibility in the medium term.

Inadvertently, the National Treasury had signalled that the budget was an unlimited pot of resources, as long as there was enough social and political pressure. Government demonstrated that demands could be fulfilled – even outside the budget process – if it was pushed hard enough. Departments and agencies realised that there was an opportunity to make increased budget bids for policies they had been developing over the last 10 years that address specific social pressures. Furthermore, the following year, when the discussions about university fee increases for 2017 started, protests calling for fully free higher education reignited and significantly worsened. In fact, the same reprioritisation exercise had to be done for the 2017 budget. So, although South Africa demonstrated flexibility in responding to the problem immediately, it compromised the credibility and efficiency of the allocative budget process going forward.

Communicating policy/cost implications

When bottom-up and top-down pressures combine, the power to make decisions about policy choices is largely taken away from the budget office. The National Treasury's role in this instance was to inform decision makers about the policy options and implications of their choices. While budget institutions were effective in responding to this shock without undermining the fiscus, they were ineffective in making policymakers and political leadership confront the long-term trade-offs.

The National Treasury's weakened position was partly because the costs of this policy choice were not strongly communicated or understood, despite a transparent budget process. Student protests in South Africa were covered extensively in the media and there was widespread public debate on reprioritising resources and reforms in the education system. However, the trade-offs from additional funding to higher education were difficult to communicate to South Africans.

Access to and participation in higher education in South Africa, as with many other countries, is dominated by more affluent individuals. The main problem for the poor in South Africa is not that they cannot afford higher education. The issue is that less than 5% of them qualify for entry into universities.

Lessons from elsewhere show that free higher education in highly unequal societies mainly benefits the already privileged (political and business elite), who have the social, cultural and economic capital required to access, participate in and succeed in education.[4] This is especially relevant in countries with significant disparities in the quality of primary and secondary schooling between poorer and more affluent communities, such as in South Africa. Lower tertiary education fees actually widen, rather than reduce, inequality across the system, except where universities have taken steps to cross-subsidise students internally. By agreeing to finance lower university fees, the South African government was effectively compromising pro-poor policies – including primary education and social grants – to allow cheaper access to higher education to predominantly wealthier citizens. A question that remains to be answered is whether making these trade-offs clearer to the public would have eased the pressure and allowed for a more sustainable solution to the crisis.

A challenging policy-budget link

Protests over fee hikes were not new to South Africa: universities in the country's disadvantaged communities had long been contesting the costs of higher education, though they had largely been ignored by the media. The pressure of funding higher education had been building for many years prior to the events in 2015. Since the democratic process began in South Africa in 1994, universities have seen a considerable increase in student numbers. However, funding to these institutions has not matched the growth in demand for higher education that resulted from the opening of admission to all members of society. Since government was not adequately funding universities, they needed more autonomous funding, mostly through student fees.

Despite an increase in grants and subsidies to tertiary education, particularly financial aid programmes, the proportion of historically disadvantaged groups in the higher-education system remains disproportionate to their share of the population.[5] In addition, they are less likely to complete their studies – a legacy of unequal education provision

[4] *P Langa, G Wangenge-Ouma, J Jungblut and N Cloete (2016) "South Africa and the illusion of free higher education" in University World News, Issue 402.*
[5] *Council for Higher Education (2015) Vital Statistics Public Higher Education 2015. Council for Higher Education: Pretoria.*

during apartheid. The protests also raised the issue of a missing class: students who qualify to go to university, but cannot afford to pay university fees and do not qualify for educational subsidies directed at poorer members of society. The challenge for policy planning in the post-apartheid era is to achieve the right level of prioritisation between pro-poor policy programmes and policies that address the legacy of apartheid-generated imbalances for those who are not necessarily poor. At the same time, this prioritisation needs to weigh short- and long-term investment outcomes in the whole education system.

Responding to the specific shock vs. managing the pressure

The National Treasury's response was effective in addressing the shock, but not in easing the underlying political and budgetary issues that gave rise to the pressure. Furthermore, the response may have weakened the budget process at the cost of the National Treasury's ability to finance long-term policy objectives and plans. The fees must fall movement highlighted an accountability issue in the link between long-term policy objectives and budgetary planning. Chronic pressures require strong institutions that balance technical considerations and political pressures to proactively attend to developmental needs while considering social transformation, within sustainable fiscal limits. When these institutions are not in place, budgetary pressures articulated by certain groups of citizens can easily drown out the developmental needs of the whole. The fees must fall movement may have also signalled an institutional bias towards political decision-making over optimally efficient allocations. Budget officers can strictly follow due processes to ensure they fulfil their technical mandate, but ultimately, they are guided by political agency. Yet, it is events like these that provide an opportunity to recognise and address those institutional weaknesses.

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DEMANDING HIGHER WAGES IN THE PUBLIC SECTOR: THE CASES OF BURKINA FASO AND CÔTE D'IVOIRE

In many developing countries, the government is the biggest employer. The literature suggests that the size and scope of the public sector has increased considerably since the early 1970s, and while the wage bill has stabilised in advanced economies, it has been increasing in low-income economies.[6] In these countries, administrative delivery functions have broadened while social needs have called for an increase in service delivery capacity, particularly in health, education, sanitation and security. Furthermore, social and political pressures, such as youth unemployment, often result in governments implementing extensive recruitment programmes without considering real needs, inflating the wage bill and putting fiscal sustainability at risk.

The management of the wage bill has important fiscal and macroeconomic implications. Raising government wages can stimulate inflation, which can compromise the stabilising role of fiscal policy and lead to burgeoning public debt levels during economic downturns. High compensation spending can also reduce priority spending on public infrastructure and social protection, crucial for economic growth and poverty reduction.[7] However, the wage bill is a quick and easy way for governments to build political capital, which can outweigh more technical considerations and trade-offs in the medium to long term.

Wage bill pressures can materialise in many ways. Cyclical pressures, such as compensation demands from labour unions, can unexpectedly increase the wage bill and put a strain on in-year budgets. However, there are also structural pressures, such as normal salary progressions or recruitment programmes, that contribute to inflating the wage bill. Although these pressures do not necessarily affect in-year budgets, they do affect medium-term frameworks to the detriment of the complementary inputs to public service delivery, such as public infrastructure, maintenance or even textbooks for schools.

In West Africa, historically, the public-sector wage bill has been high despite rising budget deficits, which led to considerable state debt. The wage bill was one factor in the large fiscal imbalances experienced before 1994, contributing to high inflation rates, which led to the depreciation of the CFA franc by 50%. As part of its convergence targets, in 1994 the West African Economic and Monetary Union (WAEMU) took a strong stance against the high burden of the wage bill on its member countries. Its fiscal rules dictate that the ratio of the wage bill to total tax revenue should not exceed 35%.

Burkina Faso and Côte d'Ivoire have historically had the highest share of public compensation in the total budget, compared to the rest of the region, at 40% to 45%. The two countries have never managed to come below the 35% threshold, despite efforts to contain and reduce the wage bill. The WAEMU directives also set a rule on fiscal deficit levels, which should be lower than 3% of a country's GDP in any given year. These fiscal rules limit the scope to use additional borrowing as a response to wage bill pressures, and the trade-off is often met by reducing capital expenditure.

Compensation and employment policies have come under scrutiny in recent years, after the introduction of fiscal rules in 1994, particularly as the fiscal imbalances that led to these rules were in part caused by wage bills. As set out in the two case studies, the most pressing issues include the continuous realignment of actual pay across sectors or with prescribed scales; increased employment; and adjustments to catch up public-sector pay after long freezes. While wage bill pressures can occur in-year, as public-sector unions and employees make demands, they are more often the result of an accumulation of years of pressure. They usually need to be addressed by multi-year interventions, often within uncertain macro-fiscal contexts.

Within this context, pressures on different fronts have prevented Burkina Faso and Côte d'Ivoire from fully pursuing their strategies to contain their wage bills. The following two sections present how the two countries have attempted to manage the pressures ensuing from the public-sector wage bill over the years.

[6] *IMF (2016) Managing government compensation and employment – Institutions, policies and reform challenges.*
[7] *Ibid.*

CÔTE D'IVOIRE: ACCRUING WAGE BILL PRESSURES

Despite worldwide economic uncertainty, Côte d'Ivoire has experienced remarkable economic growth since 2011. In 2015, real GDP grew by 8.6%, driven by strong investment and economic consumption.[8] The 2016–2020 National Development Plan's focus is on achieving strong and inclusive growth, particularly through private development stimulated by public infrastructure projects and improved service delivery. However, the fiscal space for capital investment projects has gradually been eroded by increased operational expenditure, especially the wage bill.

Over the last two decades, the wage bill has grown rapidly in Côte d'Ivoire, putting considerable pressure on the fiscus. This pressure has been both structural and cyclical. Cyclical wage pressures occurred as a result of in-year union demands for salary increases, allowances and advantages, which were granted to different spheres of government (such as research grants or additional work time), as well as exceptional recruitment (the disarmament, demobilisation and reintegration programme).

Negotiation outcomes from the in-year demands varied widely across and within sectors, mostly because government did not follow a strict compensation policy. The disparity between civil servants' pay was clear: public officials would have the same years of experience, education and rank and yet be on a different salary pay scale.

Over the years, the government has been confronted with unexpected salary demands, often a consequence of the growing frustration with the disparity in pay. Because these demands are unexpected and negotiation outcomes difficult to predict, they are usually not taken into account when the budget is prepared. Wage settlements have called for difficult negotiations with teachers, nurses, doctors or the armed forces while the country is in complete lockdown. Addressing cyclical pressures often required in-year adjustment mechanisms from the government of Côte d'Ivoire. Yet, this only represents a fragment of its wage bill pressure.

The cyclical pressures have often occurred in combination with the more structural pressure created by automatic salary progression. Before 1988, public servants in Côte d'Ivoire were guaranteed a base salary increase for every two years of service. However, due to the wage pressure on the budget, all increases were frozen. Yet, from 2000 to 2013, wage costs nonetheless increased by 129%, mostly due to considerable expansion in government employment as well as special status and advantages granted to certain public enterprises and the health and education sectors. Côte d'Ivoire's challenge has been to strike a balance between improving civil servants' purchasing power while ensuring that the wage bill does not become a pressure on the budget – including tax revenue and borrowing – and erode the budget for capital expenditure. In 2009, the former government committed to a retroactive and gradual unfreezing of wages, starting in 2014. This meant that from 2014, the government has needed to account for a backlog of 26 years of wage premiums in the wage bill going forward, an estimated 125 billion CFA francs (about US$232.5 million).

Response to building wage bill pressures in Côte d'Ivoire

The Ivoirian government designed a broad set of responses to address wage bill pressures. For more cyclical pressures, it often includes a 3% provision to meet unforeseen expenditure in the budget proposal. Any remaining pressure is covered by revenue collected in excess of the budget projections. Historically, total revenues in Côte d'Ivoire have exceeded expectations, reducing these shocks and allowing the government to respond without extensive cuts to social expenditure or increased debt. However, accommodating these ad-hoc pressures has contributed to the significant shift in the balance between recurrent and capital expenditure.

For structural pressures, government treated the future ongoing cost of the adjustments separately from the once-

[8] *IMF (2016) Côte d'Ivoire Article IV Consultation Report.*

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off payment of arrears. In response to ongoing structural wage pressures, government focused on medium-term compensation and employment policies. It adopted a 2014–2020 strategy to bring the wage bill to 35%, in line with WAEMU directives. The strategy aims to shift the emphasis from short-term response actions to a medium-term sustainability approach through reduced recruitment targets and a new wage grid to address equity issues – which would make cyclical wage pressures more predictable.

Absorbing budgetary pressure due to the once-off payment of wage arrears was also part of the medium-term strategy. In 2014, the financial impact of civil servants' promotions was budgeted for, including promotions that had been on hold since 1988. The government negotiated on a case-by-case basis, and adopted different strategies depending on the sector. The main concern was to negotiate a payout that would not place the full burden in one fiscal year, but rather stagger it over a period of time. To that end, multiple simulations of response options were performed in order to consider the full range of options and their financial implications. For 2014, 78.9 billion CFA francs, 63% of total wage arrears, was included in the annual budget. Arrears and bonus payments to the education and health sector took a large share of this allocation.

In December 2016, the National Assembly approved a total budget of CFA6 501 billion (about US$11 billion) for 2017, most of which was financed through domestic resources. The wage bill accounted for 24%, and although this represents a decline in the share of compensation of employees in the total budget, it still accounts for 38% of total tax revenue – slightly above the 35% threshold imposed by WAEMU directives. Despite this, the government was committed to ensuring that it delivered on its promises, while gradually adjusting to the new directives.

Ensuring that the ongoing wage bill negotiations were aligned with government's strategy and budget, particularly regarding the gradual unfreezing of arrears since 1988, proved difficult as the negotiations were public. Public workers were closely monitoring concessions made by the executive to different sectors of government. As such, past union agreements were jeopardised because politicians were seen to concede more favourably to some demands than to others.

In May 2017, the military took to the streets, shutting down most of the country, to demand increased bonuses and pension benefits that the President had promised earlier that year. Short of invading the presidential palace, the government had no option but to concede to the demands of the armed forces. This had a considerable impact on the credibility of the wage bill strategy in the medium term and weakened the government's negotiating position going forward.

BURKINA FASO: WAGE PRESSURES IN THE MIDST OF POLITICAL UNCERTAINTY

Between 2014 and 2016 Burkina Faso faced a firestorm of budgetary pressures from political events, shifts in global markets and a regional pandemic. In the middle of this firestorm, a set of public wage issues also emerged, putting further pressure on the budget.

In 2014, after 25 years in office, President Compaoré sought to amend the Constitution to remain in power. This sparked mass outcry from the Burkinabe population. Compaoré was forced to resign, and a transitional government was established despite attempts from the presidential guard to stage a military coup in favour of the ousted President. While the political transition was relatively peaceful, the economy was a lot more volatile.

In 2014 and 2015, economic growth decelerated to 4%, from a 7% average between 2010 and 2013. The economic cost of political upheaval was exacerbated by a drop in commodity prices, specifically gold and cotton – the country's two leading exports. The Ebola outbreak in West Africa also negatively affected tourism and services in the region. The decline in the gold price adversely affected mining royalties, while the popular insurrection resulted in a long service interruption to the revenue and customs administration, and the onset of widespread tax avoidance practices.[9] As a result, Burkina Faso saw a decline in domestic resource growth of 12.1% in 2014, followed by a slight increase of 2.2% in 2015. In 2014, domestic revenues reached 17.3% of GDP, 2 percentage points of GDP below the levels initially projected, before falling by a further 1.2% of GDP in 2015.[10]

Evolution of the wage bill in Burkina Faso

There were also growing pressures to increase spending on salaries. Since 2000, the public wage bill had been growing faster than GDP, driven by a large increase in public employment, even though sector pay levels declined. Since 2012, staff costs had been increasing considerably and disproportionally to domestic income, at an average of 14.5% per year, as the government came under pressure to make up for years of below-inflation increases to existing employees. Agreements on the compensation of public officials made by the previous government included a 25% increase in the salaries of government employees, increases in allowances for teachers and health workers, and increases in housing allowances for state employees. As a result, and in combination with low growth after the political transition, the wage bill put considerable strain on the government's fiscal space.

Despite these pressures, Burkina Faso started implementing a set of strategies to contain the wage bill from 2012. It started with the pre-approval of new recruits by the centre of government, particularly for non-priority sectors. It also completed a personnel census to audit the wage bill in 2012; adopted biometric enrolment in 2013; improved information technology capacity to allow for more automated payroll management and review processes; implemented cash payment operations to identify ghost workers and other irregular payments in 2015; and, in the same year, adopted legislation to make it compulsory to formally identify incoming and outgoing officials on appointment documents to allow for automatic updating of their salary status.[11]

In November 2015, the new government agreed to the adoption of a new civil service code, which introduced a revised wage grid, and integrated contractual staff as permanent civil servants. The implementation of the new code, and of other sector-specific wage agreements (for example, with the judiciary), permanently increased the wage bill by an estimated 0.4% of GDP in 2016.

Burkina Faso's increasing wage bill is also largely due to high indemnities and allowances granted to specific government sectors (housing and transportation allowances). These are

[9] *IMF (2016) Burkina Faso Article IV Consultation Report.*
[10] *Ibid.*
[11] *IMF (2016) Article IV.*

2: WHEN CHRONIC PRESSURES TURN INTO CRISIS

> *Back home I often hear people objecting, saying: We cannot eat roads! But the fact is, if you don't have roads to fetch your food, what are you going to eat?*
>
> *– Vieux Abdoul Rachid Soulama, Director General of Budget at the Ministry of Economy, Finance and Development in Burkina Faso*

often put forward as a strategy for retaining highly skilled workers who would otherwise move to the private sector. Like Côte d'Ivoire, the challenge for Burkina Faso was to expand on much-needed public services, especially in the health and education sectors, while containing the wage bill within sustainable fiscal limits.

Burkina Faso's response to growing pressures

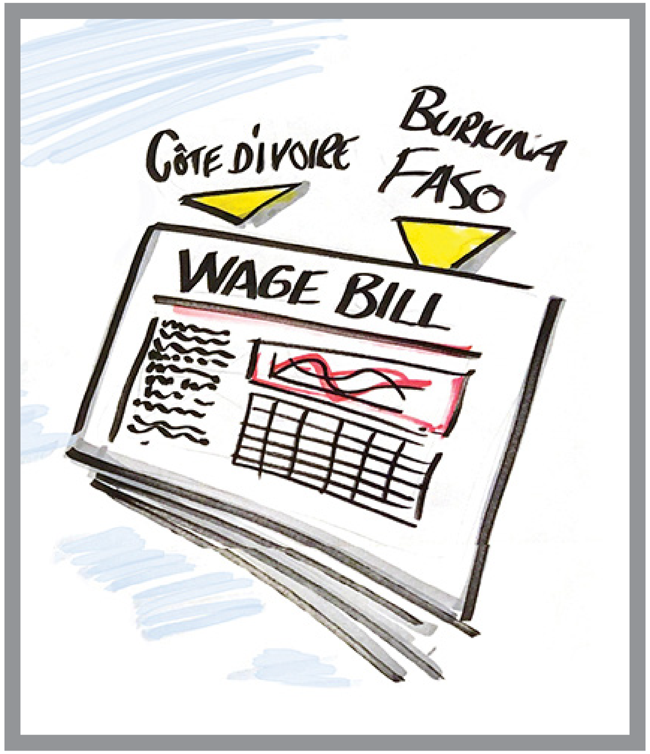
Regulations are often in place to prevent changes in appropriations, including the wage bill. As such, the Burkinabe government has always attempted to anticipate and budget for both structural and cyclical pressures, including wage increases. When unexpected demands occur, they are often deferred to the outer years of the medium-term framework.

Even so, these demands are often unpredictable, and in Burkina Faso they coincided with macro-fiscal shocks that affected the budget's implementation. In the past, the impact of these pressures was cushioned partially by conservative revenue forecasts, which were often lower than actual revenue collection in the years leading up to the economic shocks (by as much as 30%). This, however, was not the case in 2014, when actual revenue was 86% of projected revenue, but the situation could have been much worse had revenue forecasts been more optimistic.[12]

To accommodate the shock, the Burkinabe government adopted a supplementary budget. While measures were introduced to curtail superfluous recurrent spending (for example, by limiting foreign trips, reducing the size of the government's car fleet, and reprioritising some staff cost items over others) and allowing arrears to accumulate, the burden of the adjustment was borne by much-reduced investment spending. In addition to wage bill pressures, expenditure on security increased considerably from 2014, given social unrest and militant attacks. This led to a relative shift from investment to recurrent spending in the budget balance. During the 2014 fiscal year, the government executed 94% of the recurrent expenditure target, but just two-thirds of planned investment expenditure.[13]

The political transition has increased expectations of the country's pace of development and created significant pressures to increase recurrent spending, particularly as a means to tackle urban youth underemployment.[14] Although economic activity started to rebound in 2016, after two years of weak growth numerous budgetary pressures remain. While unions continue to argue for further salary increases, planned investments in the social sectors, as well as physical infrastructure, will generate significant recurrent costs over time. The implementation of upcoming budgets is associated with higher risk of social tensions and demands. At the same time, the expansion of government services will be critical to achieve much-needed improvements in service delivery.

[12] ODI (2017) Under pressure: Executing the budget in an uncertain world, paper prepared for the 2017 CABRI Conference.
[13] 9.1% of GDP, compared to a projection of 13.7% of GDP.
[14] Almost 65% of Burkina Faso's population is under the age of 25 years, and the youth emerged as a driving force for change in the process that led to the popular uprising.



LESSONS LEARNT FROM WAGE PRESSURES IN BURKINA FASO AND CÔTE D'IVOIRE

The wage bill is particularly difficult to manage because it is often both a bottom-up and a top-down pressure. Public wage spending is largely influenced by political cycles, where concessions are made in times of low political capital and governments have nothing to lose. Low-income developing countries appear to be more susceptible to this phenomenon. During election years, the public-to-private-wage ratio in these countries increases by nearly 3% on average.[15] Finance ministries operate in a complex space, reconciling long-term structural pressures with short-term cyclical shocks. Long-term strategies are difficult to implement because they easily fail to take into account the political incentives to deviate from the plan.

Documenting information on public service remuneration

Data on the total amount and composition of the wage bill remains inadequate.[16] Poor or fragmented information on compensation and payrolls often limits the scope of government interventions. Both Burkina Faso and Côte d'Ivoire lacked adequate information on civil service pay, in terms of the amount of pay and to whom it is paid. This reduced their ability to identify cost-saving measures, for instance, by eliminating ghost workers, which is an easy and apolitical way of decreasing the burden of the wage bill. Obtaining disaggregated information on payroll allows governments to break down costs and identify policy interventions that limit the impact of cyclical and structural wage bill pressure on the fiscus, providing additional flexibility to respond to budgetary pressures.

Because the wage bill is both a bottom-up and top-down pressure, the most important role of the finance ministry is to communicate the costs of policy choices to decision makers. Governments need an accurate and in-depth breakdown of labour costs to communicate the fiscal implications of their policy choices. Providing reliable and timely information on these cost and policy options is critical to decision makers aware of and accountable for political decisions that have a financial impact on the budget.

[15] *IMF (2016) Managing government compensation and employment.*
[16] *Ibid.*

Negotiating based on reliable facts

Supporting facts/data can also strengthen the government's position during negotiations with labour unions. Labour unions often publicise their disputes to mobilise support for their members. During those disputes, governments navigate a complex web of interactions between public servants and the media, requiring skilful strategies to preserve the institutions' credibility. An effective negotiation strategy, supported by reliable data, will also include effective communication of the facts, thereby managing public workers' demands and proactively setting their expectations for the future.

Fair, consistent and transparent remuneration policies

A coherent remuneration policy can help ensure that there are no discrepancies in compensation packages between public workers of similar status. The policy must be clear about qualifications, experience and location, and have strict directions for salary progression. The demands from different labour unions are often exacerbated because wages have been negotiated without considering the outcomes of past negotiations with other unions or groups, even for the same industry and function. Governments can easily lose credibility in their negotiating position when they are seen to concede to some union demands more than others. While absorbing the once-off cost of these concessions can be tempting in anticipation of further strikes, it jeopardises the implementation schedules of previous wage settlements as well as governments' future containment plans. Although a clear remuneration policy would not prevent public-sector workers from demanding higher wages, it can strengthen the government's position in negotiating with labour unions.

Fiscal space to implement government's employment and wage policies

Medium-term implementation schedules for wage measures provide relief from immediate pressures in cases of limited fiscal space to act on a sudden shock. They are also prudent, as containing wages and employment within short-term fiscal limits usually results in new crises down the line. However, medium-term wage measures also need to be backed by strategies to increase domestic revenue for governments with limited flexibility to cut expenditure. This is essential to ensure that any increase in the wage bill does not erode essential social expenditure and public investment spending. WAEMU countries, in particular, cannot only reduce expenditure as they are constrained by the 35% wage rule and deficit rules. In order to sustain the size of government needed to implement development policies, and pay public officials adequately, governments need to strengthen domestic resource mobilisation, particularly tax revenues, while decreasing reliance on external aid.

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