

# A Comparative Analysis of Public Private Wages in Somalia: An Evaluation of Wage Differentials

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## Abstract

This paper aims to comparatively analyze public private wage differentials in Mogadishu, Somalia. The secondary data used in this study is derived mainly from documents analysis such as national wage and salary structure for public servants and the payroll data of some selected private companies and of both and nonprofit organizations in Mogadishu, Somalia. The study is particularly significant because it is the first of its kind in Somalia aimed at analyzing and comparing wages between public and private sector in Somalia. The finding of the analysis indicates earning gap exist between public, not for profit organization and that of private sector and specifically the earning gap is significant among employees working in not for profit organizations and those in private sector. Furthermore, the study also shows the existence of wage differentials within each sector itself. Finally, the study suggests some policy recommendations that are useful in solving the wage differentials.

**Keywords:** Wage differentials, earning gap, Somalia,

## 1. Introduction

Wage differentials among employees in different sectors are still experienced in some parts of the world and it has attracted the attention of many researchers in the field of labor market to identify the nature and main cause of such wage differentials. The central question regarding wage differential is whether employees with similar skills and experience receive similar wage across sectors of employment. It is documented in some research literature, as it will be discussed much in detail in the literature review section, employees who have similar qualification and number of years of work experience receives different pay within the same sector or in different sectors. For instance, it was mentioned in study, working Paper 2012-3 by Falk (2012) that several researchers have concluded that employees in the federal government are more highly compensated, on average, than those in the private sector with similar education, experience, and other characteristics.

Apart from the challenges faced by labor in Somalia including lack of clear labor laws, there is growing concern about wage differentials among employees across sectors in Somalia which are very tremendous. The evidence of wage differential is growing significantly among sectors in Somalia. It is argued that such differentials may discourage job seekers from applying jobs in low paying sectors or even may affect the motivation of those who are working in that sector. Moreover, this widening gap contributes to growing income equality among Somalis.

There are many factors that contribute to wage differentials. The most critical factor attributed to wage differentials is the lack of clear national wages, and salaries structure set by the government of Somalia which can be used as guide for determining the pay of the employees. According to Somali Federation of trade union (2012), labor laws were not enacted after the collapse of Somali central government in 1991. Therefore, the lack of such structure poses greater challenges to employers in setting an appropriate and competitive salary structure for their respective organization. Secondly, despite its controversy, it is also believed that employees working in highly sensitive areas are paid higher than others in less sensitive security areas.

Finally, minimum wage policy was not passed and there is no limit to the maximum duration of fixed-term contracts in Somalia as indicated in the report (2010) by ILO on the Assessment on the policy and legal frameworks for micro, small and medium enterprises (MSMEs) in Somalia. Such lack of minimum wage policy gave employers the opportunity to set their own monthly salary or hourly rate for their respective employees which created widening wage differentials among employees working in the same sector. The evidence of wage differentials can be seen within each sector itself. A good of example is the hourly rate or monthly salary provided by universities in Mogadishu city to their staff. Some universities set an hourly rate for lecturers far higher than other universities.

In this study, sectors are classified into three major categories namely, public, private and nonprofit organization. First, employees in public organizations are those working in government institutions such as in the ministry and others. Private organizations are those privately companies that ranges from sole proprietorship to corporations. Finally, nonprofit organizations include international NGOs, local NGOs and the UN organizations.

## 2.0 Objectives of the study

Despite growing wage gap among employees across sectors, studies on wage labor issues particularly on wage differentials have not been conducted in Somalia. This study is the first of its kind in Somalia aimed at exploring and evaluating recent trends in wage inequality among sectors in Somalia. In particular, this study focuses on

analyzing trends and developments concerning wage differentials in a comparative perspective.

### 3.0 Review of related literature

Numerous studies have been conducted to analyze inter wage differentials among employees. For instance, Chatterji, Mumford and Smith (2007) examined the role of individual characteristics, occupation, and workplace features accounting for differences in hourly earnings between male and female full-time employees in the public and private sectors the nature of the public private pay gap differs between genders and that of the gender pay gap differs between sectors. Decomposition analysis further reveals that the contribution of differences in workplace characteristics to the public private earnings gap is sizeable and significant.

Jonah and Yousuo (2014) also carried out study to analyze wage differentials among public servants in Nigeria. The result of the study shows that, on intergovernmental worker analysis, workers in some states are paid higher than others. For instance, Bayelsa State workers earn higher than other States selected, including Federal workers and Enugu State workers are seen to earn lower than the rest of the State workers selected. Moreover, the study also found that, on inter sector analysis, employees working in health sector earn higher than other employees in the study.

Similarly, Baye, Epo and Ndenzako (2016) investigated Wage Differentials in Cameroon using pooled 2005 and 2010 Cameroon labor force surveys. The finding indicates that factors such as Education, hours worked, agricultural employment and urban residence contribute to the widening the gender wage-gap in terms of endowments, male advantage and female disadvantage. The study also revealed that men were overpaid, while women were underpaid on the average and across percentiles.

Beyond African continent, Caju, and et al (2010) conducted study on inter industry wage differentials in EU countries. After comparing the wage differentials among countries in Europe over two years, the study observed that inter industry wage differential exist in these countries and are sizeable. For instance, Extraction and Mining, Petroleum, Nuclear and Chemical industries, the Utilities and the Financial and Insurance sectors are amongst the highest paying industries in most countries while Clothing, Leather and Textiles industries are the lowest paying industries.

In a similar study, Caju, Rycx and Ojerow (2011) examined inter wage differentials in Belgium by using detailed matched employer-employee data covering all the years from 1999 to 2005. The result of the study shows that huge wage differentials exist among workers employed in different sectors. The study revealed magnitude, dispersion and significance of inter-industry wage differentials decrease sharply when controlling profit. Ramos, Sanromá and Simón (2015) also studied an analysis of wage differentials between full- and part-time workers in Spain using microdata from the Spanish structure of earnings survey. The study has shown that part-time workers in Spain experience a significant wage disadvantage.

There is large body of research on examining gender wage differentials conducted in different part of the world. Biltagy (2014) conducted a study on estimating gender wage differentials using Oaxaca decomposition techniques. It is estimated in the study that the wage gap between males and females is 25% and the results ascertain that the overall gap is attributed to discrimination against women. Furthermore, in another study conducted by Taniguchi and Tuwo (2014) on New Evidence on the Gender Wage Gap in Indonesia revealed that the existence of wide gender wage gap among young workers particularly among those who are underemployed and severely underemployed. The study also found that gender discrimination is the main factor contributing to gender wage gap in Indonesia.

Regarding the topic of public private wage differentials, Seshan (2013) studied Public-Private-Sector Employment Decisions and Wage Differentials in Peninsular Malaysia. The result of the study indicates that employees working in the public sector earn a wage premium regardless of their human capital endowments and personal attributes and the wage premium have shown an increase over the twelve year period. Furthermore, the study also found that there is little evidence of a gender wage gap in the public sector but more in the private sector. Similarly, Emilio, Bonczek and Botelho (2012) also evaluated the wage differential between public and private sectors in Brazil and found that evidence of small wage differentials in favor of the public sector. Finally, in a study by Tiagi (2010) found that both men and women earn a wage premium in the public sector in Canada, although the premium is higher for women. The pure wage premium or economic rent that public sector workers receive relative to their counterparts in the private sector is \$1.09, or 5.4 per cent for men and \$3.15, or 20 per cent for women.

In another study by Reilly (2013) to compare public sector with private sector pay and benefits indicates that total compensation of public employee is higher that of average private employee. In addition to this, when the total compensation is based on number of years worked, there is significant increase in the gap between the public and private sector.

Finally, in a study by Kenya institute for public policy research and analysis (2013) confirms the existence of wage differences between private and public sectors in Kenya. On average, the magnitude of the difference is about Ksh 7,150 per month for basic salary in favor of the private sector for individuals with similar

education and years of experience. However, when allowances are included in the basic salary, the gap is in favor of civil service by a magnitude of Ksh 7,032.

#### 4.0 Methodology

There is no dataset on salaries and wages that can be used for analyzing the wage inequality. However, the secondary data used in this study is derived mainly from documents analysis such as national wage and salary structure for public servants. In addition to that, a quantitative data on the payroll data of some selected private companies and of both and nonprofit organizations was also used in the analyzing the wage differentials among sectors of employment. The data collection and analysis was carried out between 10 April and 05 July 2016. The analysis of the information found in such documents is aimed at identifying pay differentials among public, private and nonprofit organizations.

#### 5.0 Data analysis and discussion

The study reviewed the national wages and salary structure and the payroll data of some selected private companies and not for profit organizations with the aim of comparing the salaries of workers in all sectors. First, the study conducted comparative analysis on the wages and the salary of public and private sector. In particular, workers with similar characteristics such as the level of education, work experience and comparable works are considered in comparing the wages among workers in public and private sector. The analysis indicates that average private-sector wages were lower compared to their peers working in government agencies. Moreover, fresh graduates are paid higher in public sector than in private sector.

The table below shows the average salary earned by the workers in public sector and private organizations excluding incentives and allowances. This information is extracted from secondary data used in this study.

SN	Educational level	Average Salary in public sector ( USD)	Average Salary in private sector
1	University degree	700	450
2	Secondary school	335	250
3	Skilled labor	250	150
4	Unskilled labor	198	130

Source; payroll of some selected private companies and that of public sector

Secondly, the study also analyzed the wage differentials among public and not for profit workers. Factors such as educational level, work experience and comparable jobs were taken into the account when comparing the wages of workers in both sectors. When the salary of public workers is compared with that in not for profit organization, the finding from the analysis shows that on average workers in UN, and NGOs are paid higher than those of working in the government institutions. In particular, significant differences in earning between civil servants and local NGO workers were not observed in the analysis.

Third, the study investigated the earning of workers in not for profit organization and that of working in private sector. After comparing the earning of these two workers with consideration of factors such educational level and work experiences of the employees, the result of the finding indicates that a significant earning gap exist between workers in not for profit organization and those in the private sector. In particular, on average employees working in not for profit organizations earn more than those working in private sector. Furthermore, unskilled workers are paid higher in not for profit organization. Employees working in the not for profit organizations receive incentives and allowances for extra work done and this contributed to the wage gap among the two sectors studied.

The table below shows the average salary earned by the workers in not for profit organization and private organizations excluding incentives and allowances. This information is extracted from secondary data used in this study.

SN	Educational level	Average Salary in not for profit sector ( USD)	Average Salary in private sector
1	University degree	900	450
2	Secondary school	400	250
3	Skilled labor	300	150
4	Unskilled labor	200	130

#### 6.0 Conclusion and policy implications

The main objective of this study is to evaluate the wage differential among public, not for profit and private sectors. Based on the analysis of the information collected in this study, it is evident that there is a considerable amount of evidence of increasing inequality of wages among sectors in Mogadishu, Somalia. It is also concluded that the earning gap is significant between not for profit sector and private sector.

The study suggests that private sector (business enterprise) is required to change their salary structure to reduce the gap and attract better qualified personnel that can help foster their business. The study also suggests that proper incentive and allowance system is necessary for closing the wage differential between public and private sector and vital for solving the growing employee turnover in the private sector. These two would help business firms motivate their staffs which in turn boost the productivity of the business organizations. Furthermore,

Finally, from future research point of view, the study recommends researchers interested in this filed carry out study on the motivational level among employees in different sectors.

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