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The Wage-Adequacy-to-Fiscal-Space Dilemma:

Sequencing Public Sector Pay Reforms in Low-Revenue Contexts

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Abstract

Governments in low-revenue and fragile states confront a structural dilemma in public sector compensation. On one side, wages must be high enough to meet basic living costs and to attract, retain, and motivate competent staff and deter corruption—the imperative of wage adequacy. On the other, the wage bill cannot be permitted to consume the limited budgetary room available, crowding out the operations, maintenance, and capital spending that convert public employees into public services—the constraint of fiscal space. This paper develops the wage-adequacy-to-fiscal-space dilemma as an analytical lens, argues that it cannot be dissolved but only navigated, and contends that the instrument for navigating it is the sequencing of reform. Drawing on efficiency-wage theory, the living-wage literature, evidence on public–private wage differentials and wage compression, and the public-finance literature on fiscal space and wage-bill sustainability, the paper situates the dilemma within the World Bank's six-dimension, three-outcome assessment framework. It then synthesises comparative evidence from a range of low-revenue and fragile states—including Liberia, Ghana, Afghanistan, the Democratic Republic of Congo, Sierra Leone, South Sudan, and Mali—to derive a robust ordering of reforms. The evidence supports a five-stage sequence: restoring a simple, timely pay system; establishing payroll integrity and establishment control; embedding wage-bill planning within a medium-term fiscal framework; undertaking targeted decompression for scarce and frontline skills; harmonising pay and grading; and only then introducing performance-related pay. Reforms that invert this order—harmonising pay upward or granting across-the-board increases before payroll and fiscal controls are in place—reliably produce fiscal blow-outs or recompression and reversal. The paper uses Somalia as its lead illustration, examining a public sector in which domestic revenue is approximately 2.5 percent of GDP, grants finance a majority of the budget, the security sector absorbs almost half of the federal wage bill, and a fragmented federal pay landscape coincides with an uncompetitive civil-service scale. It assesses the 2025 Civil Service Grading and Salary Policy against the sequencing framework and sets out policy implications for Somalia, for structurally similar states, and for a forward research agenda.

Keywords: public sector compensation; wage bill; wage adequacy; fiscal space; reform sequencing; fragile and conflict-affected states; efficiency wages; living wage

JEL classification: H50, H61, H72, J31, J45, O23, O55

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1 Introduction

1.1 The puzzle

Few decisions in public financial management are as consequential, or as fraught, as how much to pay public servants. Compensation of employees is typically the largest single item of recurrent government expenditure; it is rigid, politically charged, and difficult to reverse once granted. In low-revenue and fragile states the stakes are higher still. These governments must rebuild the institutions of a functioning state, deliver basic services to populations with urgent needs, and do so on a domestic revenue base that is among the narrowest in the world. Compensation policy sits at the centre of all three objectives, and it confronts policymakers with a genuine dilemma.

The dilemma has two horns. The first is the imperative of wage adequacy. Public wages that fall below the cost of meeting basic needs, or far below what comparable employers offer, undermine the recruitment, retention, integrity, and motivation of the public workforce. Underpaid officials are more likely to be absent, to moonlight, to seek rents, and ultimately to leave for better-paying alternatives in the private sector, non-governmental organisations, or international agencies. The second horn is the constraint of fiscal space. A wage bill that grows faster than revenue crowds out the non-wage spending—supplies, fuel, maintenance, equipment, and capital investment—on which service delivery ultimately depends, and in the limit produces arrears, macroeconomic instability, and the eventual reversal of the very pay gains that precipitated the crisis. Adequacy pulls compensation upward; fiscal space pulls it down. The two cannot be satisfied simultaneously by a single act of generosity or restraint.

This tension is not unique to poor countries, but it is at its most acute where revenue is lowest and need is greatest. Somalia is the paradigmatic case. Its federal government mobilises domestic revenue equivalent to roughly 2.5 percent of gross domestic product, one of the lowest ratios recorded anywhere; grants financed close to two-thirds of the federal budget in recent years; the security sector accounts for some four-fifths of government employees and almost half of the federal wage bill; and a fragmented federal pay landscape coexists with a civil-service salary scale that cannot compete with the international organisations operating in the same labour market. Somalia therefore experiences the wage-adequacy-to-fiscal-space dilemma in a particularly unforgiving form, and the choices its government now faces—above all the operationalisation of a new national grading and salary policy—make it an instructive lead illustration for a problem that recurs across the fragile-state world.

1.2 Argument and contribution

This paper advances a single central argument: the wage-adequacy-to-fiscal-space dilemma cannot be dissolved, only navigated, and the instrument for navigating it is the sequencing of reform. Because adequacy and fiscal space cannot be improved at the same time by the same measure, the order in which reforms are undertaken determines whether a government creates the room to pay its staff adequately or instead exhausts its fiscal space before adequacy is achieved. Reforms undertaken in the wrong order do not merely underperform; they actively destroy value, producing fiscal crises and reform reversals that leave the public sector worse off than before.

The paper makes three contributions. First, it articulates the dilemma as an explicit analytical lens, drawing together strands of economic theory and public-finance practice that are usually treated separately—efficiency-wage theory, the living-wage literature, the evidence on public–private differentials and compression, and the public-finance treatment of fiscal space and wage-bill sustainability—and shows how they jointly define the trade-off. Second, it synthesises comparative evidence from a range of low-revenue and fragile states to derive a robust ordering of reforms, and crystallises that ordering into a five-stage sequencing framework. Third, it applies the framework to Somalia as a worked example, assessing the country's 2025 Civil Service Grading and Salary Policy against the sequencing logic and deriving concrete, prioritised recommendations. The intended contribution is thus both conceptual—a generalisable way of thinking about pay reform under fiscal constraint—and practical, in the form of an ordering principle that practitioners can apply.

1.3 Scope, method, and structure

The paper is conceptual and comparative rather than econometric. Its method is to construct an analytical framework from the theoretical and empirical literature, to interrogate that framework against documented reform experiences in comparable states, and to illustrate it through a structured case study of Somalia. The comparative cases are selected for the lessons they offer about sequencing rather than as a representative sample, and the evidence is drawn from the authoritative policy and academic literature—World Bank and International Monetary Fund analytical work, International Labour Organization studies, peer-reviewed research, and reputable policy institutions—supplemented by Somalia-specific fiscal reporting. The treatment of Somalia is deliberately positioned as the lead illustration of a general argument; the country's experience animates the framework but does not exhaust it.

The remainder of the paper proceeds as follows. Section 2 develops the dilemma as a conceptual framework and explains why it must be navigated rather than solved. Section 3 sets out the theoretical foundations on both sides of the trade-off. Section 4 introduces the assessment framework that organises the diagnostic. Section 5 presents the comparative evidence. Section 6 derives the five-stage sequencing framework. Section 7 applies the analysis to Somalia. Section 8 sets out the policy implications and a research agenda, and Section 9 concludes.

2

The Wage-Adequacy-to-Fiscal-Space Dilemma: *A Conceptual Framework*

This section sets out the dilemma in conceptual terms. It characterises each horn of the trade-off, states the dilemma formally, and explains why it admits of no simultaneous solution—only a sequenced path of navigation. Figure 1 provides a stylised representation.

2.1 The adequacy imperative

Wage adequacy is the requirement that public compensation be sufficient for two related purposes: to allow public employees to meet the cost of a basic standard of living, and to allow the state to attract, retain, and motivate staff of the quality its functions demand. The first purpose is distributive and ethical, and it is increasingly operationalised through living-wage concepts—a wage benchmarked against the monetised cost of a basket of basic needs. The second is instrumental: it concerns the state's capacity to compete in the labour market and to elicit effort and integrity from those it employs. Both purposes push compensation upward, and both are grounded in a substantial body of theory and evidence reviewed in Section 3. The central insight of that literature is that the benefits of higher pay—greater effort, lower turnover, improved sorting of talent into the public sector, and reduced incentive for corruption—are real but subject to diminishing returns, and are contingent on complementary systems of monitoring and management. Adequacy is therefore best understood not as a single threshold but as a region: pay must clear a floor set by living costs and labour-market competition, above which further increases yield progressively smaller returns.

2.1 The adequacy imperative

Fiscal space, in Heller's influential formulation, is the budgetary room that allows a government to provide resources for a desired purpose without prejudice to the sustainability of its financial position. In low-revenue states this room is severely circumscribed. Where domestic revenue is a small fraction of national income, the wage bill competes directly with every other claim on the budget, and increments to compensation must be financed either by raising revenue, by borrowing, by external grants, or by reprioritising expenditure away from other uses. Each of these sources is constrained or costly in a fragile setting: revenue is difficult to raise quickly, borrowing capacity is limited and often foreclosed, grants are volatile and finite, and the expenditure displaced by a larger wage bill is frequently the operational and capital spending that makes the workforce productive in the first place. The fiscal-space constraint therefore pulls compensation downward, and it does so most forcefully precisely where adequacy is hardest to achieve.

2.3 The dilemma stated

Bringing the two horns together yields the dilemma. As public wages rise, the adequacy, retention, and productivity benefits to the state increase, but at a diminishing rate; simultaneously, the fiscal sustainability of the wage bill—and the room left for other spending—deteriorates. Figure 1 depicts the two relationships as crossing curves. To the left of their intersection, pay is inadequate: the state suffers attrition of skills, low effort, and elevated corruption risk. To the right, pay is fiscally unsustainable: the wage bill crowds out other spending, arrears accumulate, and reforms are eventually reversed. The intersection denotes a navigable balance—not an optimum that can be reached in a single step, but a region toward which a well-sequenced reform path can move. The essential point is that the two curves cannot both be shifted favourably at once: a measure that raises pay toward adequacy moves the system rightward, worsening fiscal sustainability, while a measure that protects fiscal space moves it

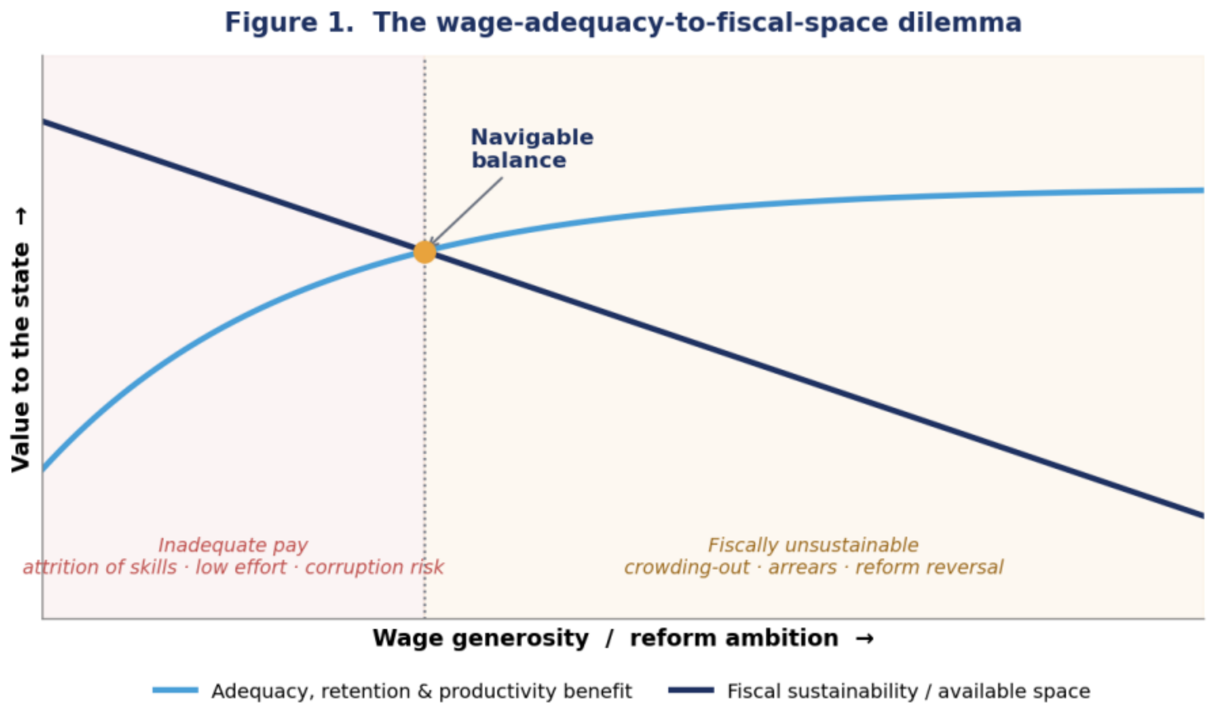

Figure 1. The wage-adequacy-to-fiscal-space dilemma. As wage generosity rises, the adequacy, retention, and productivity benefit increases at a diminishing rate while fiscal sustainability declines. The navigable balance is a region, not a point reachable in one step.

2.4 Why the dilemma is navigated, not solved

If the trade-off were static, the policy problem would reduce to locating the intersection and setting pay there. Three features of the real problem make it dynamic and turn it into a sequencing problem. First, the position of both curves depends on institutions that can themselves be reformed: payroll integrity and establishment control determine how much of any given wage-bill outlay actually reaches legitimate employees and thus how far the fiscal-sustainability curve can be shifted outward; monitoring and management systems determine how much productivity a given level of pay can buy and thus how steeply the adequacy curve rises. Reforming these institutions changes the trade-off itself. Second, the sources of fiscal space are sequential: payroll cleaning and expenditure reprioritisation can create room in the short run that finances adequacy improvements later, whereas revenue mobilisation matures only over years. Third, the political economy of pay is path-dependent: across-the-board increases, once granted, are nearly impossible to claw back, and allowance proliferation triggered by frozen base pay is difficult to reverse, so early missteps foreclose later options. Together these features imply that the order of reforms determines the feasible set of outcomes. The dilemma cannot be solved by a single optimal pay level; it can only be navigated by a sequence that first widens the fiscal-space frontier, then uses the room created to move pay toward adequacy. Sections 5 and 6 show what that sequence looks like in practice.

3 Theoretical Foundations

The dilemma rests on two bodies of theory and evidence: one establishing why adequacy matters and the returns it yields, the other establishing why fiscal space binds and how its limits are measured. This section reviews each, and in doing so identifies the contingencies that make sequencing—rather than a one-off pay decision—the right policy response.

3.1 Efficiency wages and the public sector

The strongest analytical case for wage adequacy comes from efficiency-wage theory, the proposition that higher real wages can raise labour productivity. The Shapiro–Stiglitz (1984) shirking model formalises the central mechanism for settings in which effort cannot be perfectly observed: by paying above the market-clearing wage and maintaining a credible threat of dismissal, the employer raises the cost of job loss and so induces workers not to shirk. Akerlof (1982) and Akerlof and Yellen (1990) add a behavioural channel through the fair-wage–effort hypothesis, under which workers withdraw effort in proportion to the gap between their actual pay and the wage they regard as fair, with pay and effort exchanged as reciprocal gifts. Further channels in the canonical literature include improved sorting and selection (higher wages attract abler applicants), reduced turnover, and, classically in poor settings, the nutrition–productivity link. Table 1 summarises these mechanisms.

Table 1. Channels linking public pay to productivity and integrity

Channel	Mechanism	Key references
Shirking / effort	Imperfect monitoring means a wage above the market-clearing level, plus a credible dismissal threat, raises the cost of job loss and deters shirking.	Shapiro & Stiglitz (1984)
Fair-wage effort	Workers withdraw effort in proportion to the shortfall of actual pay below a perceived fair wage; pay and effort are exchanged as reciprocal "gifts".	Akerlof (1982); Akerlof & Yellen (1990)
Sorting / selection	Higher wages enlarge and improve the applicant pool, raising the average ability of those recruited and retained.	Weiss (1980); Finan, Olken & Pande (2017)
Turnover	Higher relative pay reduces quits, lowering recruitment and training costs and preserving institutional knowledge.	Salop (1979)
Corruption deterrence	Adequate pay raises the opportunity cost of dismissal for corruption; effect is empirically small and contingent on monitoring.	Becker & Stigler (1974); Van Rijckeghem & Weder (2001); Di Tella & Schargrodsky (2003)

Table 1. Theoretical channels through which adequate public pay can raise effort, retention, sorting, and integrity. The corruption-deterrence channel is empirically the weakest and is conditional on monitoring.

These mechanisms apply with particular force in the public sector, where outputs are difficult to measure and monitoring is weak, and they extend naturally to corruption. Building on Becker and Stigler (1974), the shirking logic implies that low pay pushes officials toward rents to recoup lost income while the threat of dismissal deters them. The empirical evidence, however, counsels caution. Van Rijckeghem and Weder (2001) find a negative but rather small association between relative civil-service wages and corruption, estimating that paying public employees roughly twice the average private wage is associated with only a modest improvement on a standard corruption scale. Experimental and micro-empirical work, notably Di Tella and Schargrodsky's study of Buenos Aires procurement, finds that pay increases curb corruption only when combined with monitoring. The shirking literature itself warns that where bribes are large or detection unlikely, the wage required to eliminate corruption becomes prohibitively expensive. The policy inference is direct and central to this paper's argument: adequacy is necessary but not sufficient, and pay reform divorced from control and monitoring reform buys little. Money spent raising wages without complementary systems is, in fiscal-space terms, largely wasted.

3.2 Wage adequacy and the living wage

The distributive floor of adequacy is operationalised through living-wage concepts: a wage sufficient to meet the cost of a basic standard of living, measured against the monetised cost of a basket of essential goods and services. The relevant instruments are a Minimum Basic Needs Basket, which prices that basket in a given location; a Cost-of-Living Index, which captures relative price differences across locations; and a Wage Adequacy Ratio, defined as the ratio of the lowest public wage to the cost of the basic-needs basket, with a ratio below one indicating that pay does not cover basic needs. These measures translate the abstract notion of adequacy into a concrete, location-specific threshold, and they are increasingly built into pay-reform design. In Somalia, the terms of reference for the new pay-and-grading structure direct explicitly that the scale be informed by assessments of economical living standards and the minimum wage in the country, and be benchmarked against minimum-wage realities in East Africa—an instruction that places living-wage measurement at the foundation of the reform.

3.3 Public–private differentials and wage compression

A central empirical regularity reframes the dilemma and explains why average adequacy can coexist with acute retention failure. Using household and labour-force data across many countries, World Bank research finds that the public-sector wage premium is largest in low-income countries and declines as income per capita rises; the Bank's Worldwide Bureaucracy Indicators put the average premium at roughly 23 percent in low-income countries against about 7 percent in high-income countries. The International Monetary Fund's cross-country database similarly finds a public premium of around 10 percent relative to comparable private workers, higher for women, for the low-skilled, and in developing countries. Crucially, however, the premium largely disappears when the comparison is restricted to formal-sector private employees, and it is concentrated among women and low-skilled workers; high-skilled public employees are typically paid the same as, or less than, their private counterparts. This pattern is the signature of wage compression—a pay structure in which differentials between the lowest and highest grades are narrow—and it is the precise mechanism by which the adequacy problem bites.

lowest and highest grades are narrow—and it is the precise mechanism by which the adequacy problem bites. Average pay can look adequate while the state is unable to retain the scarce skilled cadres on which policy formulation and implementation depend.

The compression ratio, the ratio of the highest to the lowest basic pay on a scale, is the standard diagnostic for this problem. Borjas's work shows that compression limits the public sector's ability to attract and retain high-skill workers, because rising private-sector wage inequality raises the opportunity cost for the most talented. World Bank and Fund reports have historically focused on the compression ratio and routinely recommended decompression to restore incentives. The Bank's own governance specialists now caution, however, that international comparisons of compression ratios are hazardous and that decompression is not a universal good, carrying distributional and political costs. The implication for this paper is that the adequacy problem is often not a problem of average pay but of pay structure, and that the appropriate remedy is targeted and selective rather than across-the-board.

3.4 Fiscal space and wage-bill sustainability

The constraint side of the dilemma rests on the concept of fiscal space and on benchmarks for wage-bill sustainability. Heller defines fiscal space as the budgetary room that allows a government to provide resources for a desired purpose without prejudice to the sustainability of its financial position, and identifies five sources: raising revenue, reprioritising expenditure, borrowing, seigniorage, and external grants. He stresses that for low-income countries raising the tax share to at least 15 percent of GDP should be regarded as a minimum objective, and—tellingly for this paper—his menu for expenditure reprioritisation explicitly includes the rationalisation of low- or zero-productivity elements of the civil service, such as overstaffing and ghost workers. The World Bank's complementary definition frames fiscal space as the gap between current expenditure and the maximum a government can sustain without impairing solvency. For a state mobilising revenue of around 2.5 percent of GDP, domestic fiscal space is almost nil; it is created externally through grants and internally through the expenditure reprioritisation on which payroll cleaning and wage-bill control directly operate.

On the magnitude of the wage bill, the evidence provides orientation rather than a universal threshold. Wage bills absorb around one-fifth of public spending in advanced economies and nearly 30 percent in emerging and developing economies, and global wage spending ranges from about 7.4 percent of GDP in developing countries to 10.2 percent in advanced ones. Regional fiscal rules offer benchmarks—most prominently the West African Economic and Monetary Union ceiling of 35 percent of the wage bill to tax revenue—but the World Bank framework warns that cross-national comparisons are unreliable because of differences in what each country counts as compensation. The appropriate benchmark is country-specific and, in low-revenue settings, revenue-relative rather than GDP-relative: a wage bill that is moderate as a share of GDP may be ruinous as a share of domestic revenue. Liberia's wage bill at its peak reached 10 percent of GDP but fully 70 percent of domestic revenue, a level plainly unsustainable that prompted an across-the-board cut. Table 2 collects indicative benchmarks. The lesson for the dilemma is that fiscal space must be assessed against the revenue actually available to the government in question, and that the wage bill's danger is fundamentally one of opportunity cost—the spending it displaces—rather than of any universal ratio.

Table 2. Indicative wage-bill and pay benchmarks

Benchmark / measure	Indicative value	Source / note
Wage bill, % of total public spending (EMDEs)	**~30%**	IMF (2016); IMF WP/19/10
Wage bill, % of GDP (developing vs advanced)	**7.4% vs 10.2%**	IMF WP/23/64
Public wage premium (low-income countries)	**up to ~23%**	World Bank WWBI / PFR (2025)
WAEMU wage-bill-to-tax-revenue ceiling	**35%**	WAEMU convergence rule
Liberia wage bill at FY2018/19 peak	**10% of GDP / 70% of domestic revenue**	World Bank; IMF (Liberia)
Mali wage bill, % of tax revenue (2022)	**55.2%**	IMF (Mali) — above WAEMU ceiling

Table 2. Selected benchmarks for wage-bill size and public pay. Values are indicative and drawn from the cited sources; cross-country comparisons should be treated with caution because definitions of compensation differ.

4 An Organising Diagnostic: *The Assessment Framework*

To move from the conceptual dilemma to operational reform, the paper adopts the World Bank's Public Sector Employment and Compensation assessment framework as its organising diagnostic. The framework distinguishes six dimensions of employment and compensation practice—wage-bill planning, wage-bill controls, employment levels and distribution, wage competitiveness, wage equity, and wage incentives—and assesses their impact against three outcomes: fiscal sustainability, public-sector productivity, and labour allocation between the public and private sectors. Its normative aim is to maximise public-sector productivity in a fiscally sustainable manner without distorting the wider labour market. Table 3 maps the six dimensions onto the two horns of the dilemma, making explicit which dimensions principally widen the fiscal-space frontier and which principally advance adequacy.

Table 3. The six dimensions of the assessment framework and their relation to the dilemma

Dimension	What it assesses	Primary link to the dilemma
Wage-bill planning	Forecasting and budgeting personnel costs within a fiscal-sustainability framework, informed by accurate data.	Fiscal space
Wage-bill controls	Ensuring the budget executes as planned and only legally employed staff are paid.	Fiscal space (and integrity)
Employment levels & distribution	The size and composition of the workforce relative to functions and service needs.	Both
Wage competitiveness	Sufficiency of pay relative to the private/market comparator, by skill.	Adequacy
Wage equity	Horizontal equity (equal pay for equal work) and vertical equity (grade differentials).	Adequacy & equity
Wage incentives	Pay levels, progression, base–allowance balance, and performance pay as drivers of behaviour.	Both

Table 3. Mapping the assessment framework to the dilemma. Wage-bill planning and controls principally govern fiscal space; competitiveness and equity principally govern adequacy; employment and incentives bear on both.

Two findings from the framework are central to this paper's argument. The first is that there is no strong correlation between the size of the wage bill and fiscal balances, and that the public-sector wage premium is not correlated with measures of institutional quality. This reinforces the conclusion of Section 3: how the wage bill is managed matters more than its raw size, and spending more does not by itself buy a better bureaucracy. The second is that the framework explicitly recognises the multi-level character of the problem—responsibilities for wage-bill management are usually divided across jurisdictions, occupational groups, and organisations, requiring the assessment of multiple administrative units.

This federal dimension, returned to in the Somalia case,a recurring complication in the states with which this paper is concerned. The framework also documents a planning gap that is itself a root cause of the dilemma: a Fund review of practices across more than forty countries found that half did not integrate wage-bill decisions into budget planning, and most low- and middle-income countries did not undertake medium-term wage-bill forecasting. The dimensions of the framework, mapped against the dilemma in this way, structure both the comparative evidence in Section 5 and the sequencing framework in Section 6.

5 Comparative Evidence from Low-Revenue and Fragile States

The conceptual claim that the dilemma must be navigated by sequencing can be tested against the documented experience of states that have attempted public sector pay reform under fiscal constraint. This section reviews that experience thematically, organised around the stages a sequence must pass through. The cases are not a representative sample; they are selected for the clarity of the lessons they offer about ordering. Table 4 synthesises them.

5.1 Payroll integrity as the first-stage reform

The most consistent lesson across the cases is that payroll integrity is the indispensable first stage. Liberia is the paradigm. After the civil war the public payroll had more than doubled, from around twenty thousand to forty-four thousand, saddling the government with an unaffordable wage bill whose composition it did not fully know. From 2008 the Civil Service Agency cleaned the payroll, built a centralised automated personnel database, and issued biometric identification. The removal of ghost workers and duplicates created fiscal space and administrative legitimacy at comparatively low political cost, financing later pay improvements. The Democratic Republic of Congo illustrates both the promise and the fragility of such reforms: under a World Bank-supported programme the civil-service ministry consolidated and validated employee records and issued biometric identification to more than one hundred and eighteen thousand civil servants across all provinces, using performance-based conditions to sustain momentum, even as salaries absorbed more than forty percent of government spending. South Sudan, in 2026, announced a nationwide headcount to remove ghost workers and multiple-salary recipients precisely in order to finance a broader public-financial-management reform, with the finance ministry stating that the savings would fund the reform. Payroll cleaning thus does double duty: it is both an integrity measure and the principal domestic source of the fiscal space that later adequacy reforms require.

The same cases show, however, that integrity gains are reversible where the political settlement re-inflates the payroll. In the Democratic Republic of Congo, decrees issued ahead of the 2018 elections granted civil-service registration to more than seven hundred and fifty thousand new entrants, overwhelming the modest achievements of the digitisation programme; the authorities subsequently sought to contain the wage envelope through a cap and a requirement of joint ministerial sign-off for any increase. The lesson is that payroll cleaning is necessary but not self-sustaining: without binding controls and political commitment, the gains erode.

5.2 Harmonisation without fiscal control

Ghana provides the cautionary tale of sequencing inverted. The Single Spine Pay Policy, implemented from 2010, slotted all public jobs into a common grading structure in order to cure pay inequities. Ex-ante World Bank analysis projected that the base-pay wage bill would rise by nearly half and warned that these were lower-bound estimates because allowances lay outside the base. In the event, the policy escalated the government wage bill from about two billion to more than seven billion Ghanaian cedis by the end of 2012, threatening fiscal stability and triggering successive waves of strikes as occupational groups contested their relative positions. The structure has remained contested for more than a decade. The episode demonstrates that harmonising pay upward before payroll and fiscal controls are secured is fiscally explosive, and that equity reforms generate their own leapfrogging dynamics as groups bargain over relativities. Harmonisation belongs late in the sequence, not early.

5.3 Decompression and recompression

Afghanistan illustrates the fate of decompression undertaken without the means to sustain it. The 2007–08 pay-and-grading reform decompressed and raised pay and introduced merit-based competition; to retain technical staff it layered on super-scale benefits and a donor-financed parallel cadre paid on far higher scales. The core failure was that the new pay rates were never adjusted, so that as real wages fell the structure gradually recompressed, reproducing the very compression the reform had been designed to cure. The parallel donor-funded scales, meanwhile, created a second civil service whose pay bore no relation to the regular structure, breeding inequity and distorting incentives. The lesson is twofold: a decompression achieved once is lost without indexation and sustained financing, and parallel pay systems—however tempting as a short-run retention fix—corrode the integrity of the structure they bypass.

5.4 Institutionalising pay-setting

Sierra Leone's recent reform addresses the fragmentation of pay-setting authority. Its 2023 Wages and Compensation Commission Act created a single body to determine compensation across the civil service, teachers, health workers, tertiary institutions, subvented agencies, local government, donor-funded projects, and state-owned enterprises, with the explicit intention of ending the fragmented, leapfrogging pay-setting that drives wage bills upward. The reform unit framed its approach around careful timing and logical sequencing, with labour-market assessment and job evaluation preceding re-grading. Yet reporting documents that disparities have persisted, with political appointees earning multiples of rank-and-file staff, underscoring that centralising institutions bind only if pay-setting discretion is genuinely consolidated within them. Institutional reform is necessary to hold a sequence together, but it is not self-enforcing.

5.5 Ceilings, fiscal rules, and the political settlement

The final theme concerns the role of fiscal rules and the constraint imposed by the political settlement. Mali's wage bill surged from around five percent of GDP in 2019 to nearly eight percent in 2022, reaching fifty-five percent of tax revenue—well above the West African Economic and Monetary Union ceiling of thirty-five percent, which the country had not met since 2019. An across-the-board freeze was judged inconsistent with a negotiated social pact and was therefore politically constrained, even as the arithmetic demanded restraint. The episode generalises a feature noted across fragile states: public sector employment and pay are core ingredients of the political settlement, so that wage-bill reform has immediate implications for stability and security. Fiscal rules and ceilings are valuable but bind only when they are credible and enforceable; in federal systems the difficulty is compounded, as the experience of personnel-spending ceilings being widely exceeded by subnational governments elsewhere demonstrates. Ceilings, in short, are necessary scaffolding for a sequence but cannot substitute for the political management of reform.

5.6 Cross-case synthesis

Read together, the cases yield a consistent ordering. Payroll integrity comes first, because it creates fiscal space and legitimacy at low political cost and because every later reform depends on knowing who is genuinely employed. Wage-bill planning and credible ceilings come next, to convert one-off savings into durable fiscal discipline. Targeted, selective pay adjustments and decompression follow, financed by the room created and aimed at the scarce and frontline skills that compression has driven away. Harmonisation of pay and grading comes later still, after fiscal control is secured, because it is fiscally explosive when attempted early. Performance-related pay comes last, where it comes at all, because it presupposes management systems that fragile states rarely possess. The cases also show what happens when this order is inverted: Ghana's early harmonisation produced a fiscal blow-out, Afghanistan's unsustained decompression produced recompression, and the Democratic Republic of Congo's technical payroll fixes were overwhelmed by patronage absent binding controls. Section 6 distils this ordering into an explicit framework.

Table 4. Cross-case synthesis of pay-reform experience

Country	Reform	What was sequenced	Outcome / lesson
Liberia	Post-war payroll clean-up, biometric IDs, 2019 Harmonization, 10% pay cut	Integrity first; harmonisation later (under-funded)	Cleaning created space; harmonisation without secured financing was partly reversed
Ghana	Single Spine Pay Policy (2010)	Harmonisation upward before fiscal control	Wage bill rose from ~GH¢2bn to >GH¢7bn by 2012; strikes over relativities; fiscal stress
Afghanistan	Pay & Grading (2007–08) + Super Scales + donor “second civil service”	Decompression without indexation; parallel donor scales	Rates never adjusted → recompression; parallel systems bred inequity
DRC	ENCORE payroll digitisation; ECF wage-envelope cap	Integrity reforms vs. political re-inflation	118,000+ biometrically verified; pre-election decrees added 750,000+, eroding gains
Sierra Leone	Wages & Compensation Commission Act (2023)	Centralising pay-setting; job evaluation before re-grading	Institution created; disparities persist where discretion remains
South Sudan	2026 headcount to remove ghosts/duplicates	Integrity first to finance PFM reform	Savings explicitly earmarked to fund reform; real pay eroded by inflation

Table 4. Comparative pay-reform experience in low-revenue and fragile states. The cases illustrate the consequences of sequencing—integrity and control before harmonisation and reward—rather than constituting a representative sample.

Two caveats attach to this evidence. The documented experience is uneven in quality and detail, and the political and institutional configurations of the cases differ, so the lessons are about ordering principles rather than transplantable blueprints. With that qualification, the convergence of the cases on a common sequence is striking and provides the empirical backbone of the framework that follows.

6 A Sequencing Framework for Navigating the Dilemma

The comparative evidence, read alongside practitioner guidance on reform in fragile states, supports a staged sequence for navigating the dilemma. The sequence is keyed to state and fiscal capacity: each stage prepares the conditions for the next, and attempting a later stage before its predecessors are secure invites the failures documented in Section 5. Figure 2 depicts the sequence as an ascending staircase, and Table 5 sets out the rationale and fiscal effect of each stage.

Figure 2. A staged sequence for navigating the dilemma

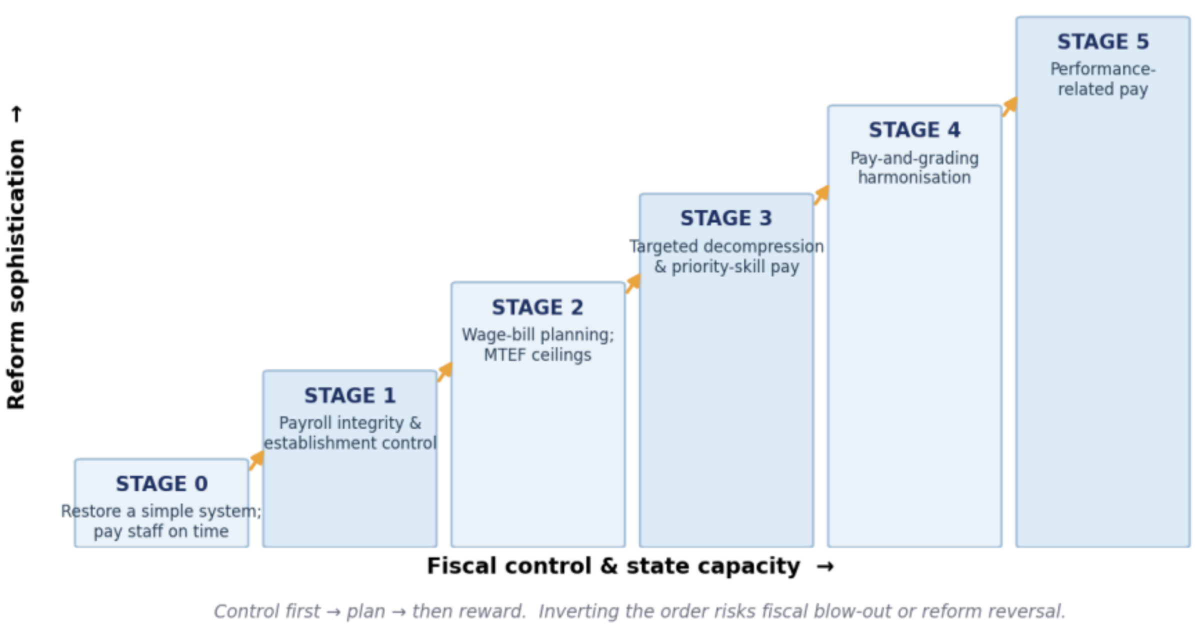

Figure 2. A staged sequence for navigating the dilemma. Control and planning precede reward; inverting the order risks fiscal blow-out or reform reversal.

5.1 Payroll integrity as the first-stage reform

Stage zero applies in conditions of acute fragility, immediately after conflict or state collapse. Here the priority is to restore a simple, realistic pay system and to pay staff on time. A first pay system should be a good fit with local practices and political realities rather than an optimal design; timely salaries for frontline staff matter more than structural elegance, because payment delays demotivate and break service delivery. Sophistication is premature when the basic machinery of the state is not yet functioning.

Stage one establishes payroll integrity and establishment control. This means cleaning the payroll of ghosts and duplicates, introducing biometric or system-based verification, centralising the personnel database, and imposing commitment controls so that only legally employed staff are paid against authorised posts. This is the highest-return, lowest-cost reform available, and it is foundational in two senses: it generates the domestic fiscal space that finances later stages, and it supplies the knowledge of who is genuinely employed on which every subsequent reform depends. Payroll reform is also comparatively technical rather than political, which improves its prospects of success.

Stage two embeds wage-bill planning within a medium-term fiscal framework and sets credible ceilings. The wage bill is forecast over the medium term, a ceiling is set relative to revenue rather than GDP alone, and increases require joint authorisation by the finance, budget, and civil-service authorities. This stage converts the one-off savings of stage one into durable fiscal discipline and closes the planning gap—the failure, common in low- and middle-income countries, to integrate wage-bill decisions into budgeting and to forecast the wage bill over a multi-year horizon.

Stage three undertakes targeted, selective pay adjustments and decompression. Once controls hold and a planning framework is in place, the state can address the skilled-staff penalty directly, prioritising competitive pay for scarce technical and professional cadres and for frontline service delivery over uniform, across-the-board increases. The adjustments are financed by the fiscal space created in the earlier stages, and allowances are consolidated into base pay to avoid the transparency-eroding allowance mushroom and to forestall the recompression that undid Afghanistan's reform. Indexation protects the decompression from silent reversal by inflation.

Stage four harmonises pay and grading. A single, evidence-based grading structure, built on job evaluation and labour-market benchmarking, is rolled out—after fiscal control is secured, not before. This is the stage that Ghana attempted prematurely, with explosive fiscal consequences; placed correctly in the sequence, and properly costed and financed, it delivers horizontal equity without destabilising the budget. Stage five, finally, introduces performance-related pay, sequenced last because the evidence on its effectiveness is mixed and because it presupposes functioning performance-management systems that fragile states rarely possess in the early phases of reform.

Table 5. The five-stage sequencing framework

Stage	Reform focus	Why here in the sequence	Fiscal effect
0	Restore a simple system; pay on time	In acute fragility, a "good-fit" system and timely salaries matter more than optimal structure	Stabilising
1	Payroll integrity & establishment control	Highest-return, lowest-cost reform; every later stage depends on knowing who is employed	Creates space (savings)
2	Wage-bill planning; MTEF ceilings	Converts one-off savings into durable discipline; closes the planning gap	Protects space
3	Targeted decompression & priority-skill pay	Once controls hold, address the skilled-staff penalty selectively, financed by room created	Uses space (targeted)
4	Pay-and-grading harmonisation	Fiscally explosive if early (Ghana); safe only after control is secured	Costed; financed
5	Performance-related pay	Presupposes performance-management systems fragile states rarely have early	Contingent

Table 5. A staged sequence for public sector pay reform under fiscal constraint. Stages are keyed to capacity; each prepares the conditions for the next.

6.2 The cardinal rule and how to calibrate it

The cardinal rule distilled from the framework is simple to state and demanding to observe: gain control of the budget first, progress to medium-term strategies once stability is achieved, and resist building complex and sophisticated systems while basic parts of the state are not yet functioning. Control precedes planning, and planning precedes reward. The rule is a direct corollary of the conceptual argument of Section 2: because early missteps foreclose later options, and because the fiscal space that finances adequacy is created in the early stages, the value of a reform depends on its position in the sequence as much as on its intrinsic merit.

Calibration to context is nonetheless essential. The stages are not rigid gates to be passed one at a time but overlapping phases whose pace depends on capacity, political settlement, and the configuration of donor support. A state emerging from conflict may spend years at stages zero and one; a more stable low-revenue state may pursue stages one through three in parallel. Two thresholds help locate a country within the sequence. The first is the integrity of the payroll: a verified, deduplicated payroll covering the large majority of paid staff is the marker that stage one is substantially complete and that targeted adequacy reforms can safely begin. The second is the revenue base: as domestic revenue rises and grant dependence falls, the fiscal-space constraint loosens and the room for broader pay reform widens. These thresholds, applied to Somalia in the next section, translate the general framework into a country-specific judgement about what reforms the present moment can bear.

7

A Sequencing Framework for Navigating the Dilemma

Somalia presents the wage-adequacy-to-fiscal-space dilemma in its starkest form, and its current reform agenda makes it an instructive test of the sequencing framework. This section assembles the relevant evidence—fiscal context, the securitised wage bill, pay structures and the 2025 reform, the competitiveness gap, federal financing, and the federal pay landscape—and then applies the framework to assess where Somalia stands and what it should do next.

7.1 Fiscal context

Somalia's fiscal space is, in the domestic sense, almost non-existent. Domestic tax revenue rose from around one percent of GDP in 2013 to roughly 2.5 percent in 2022, one of the lowest ratios recorded anywhere in the world. Grants financed close to two-thirds of government expenses in 2022, and more than sixty percent of the federal budget was projected to depend on grants in the following year. The country reached the Heavily Indebted Poor Countries completion point in December 2023, cutting external debt from US$5.3 billion at end-2018 to US$0.6 billion, and is implementing a three-year International Monetary Fund Extended Credit Facility approved in the same month. World Bank diagnostics repeatedly urge the authorities to contain the wage bill while managing security costs. Table 6 collects the principal fiscal and wage-bill indicators. The implication for the dilemma is immediate: with domestic revenue this thin, fiscal space cannot be found domestically except through expenditure reprioritisation, and any move toward wage adequacy must be financed either by grants—which are volatile and projected to decline—or by the room that payroll and wage-bill reform can create.

Table 6. Somalia: selected fiscal and wage-bill indicators

Indicator	Value (recent)
Domestic tax revenue, % of GDP	**~2.5% (2022); among the lowest globally**
Grant share of government expenses	**~64% (2022)**
FGS wage bill, % of total spending	**53% (2021); 35% (2022)**
Security sector, share of FGS employees	**~80% (eight in ten)**
Security sector, share of FGS wage bill	**48% (2019)**
Non-formal/non-security share of wage bill	**rose from 54% (2019) to 64% (2021)**
External debt (HIPC)	**US$5.3bn (end-2018) → US$0.6bn (completion, Dec 2023)**
Government-financed share of civil wage bill	**~40% (2018) → ~84% (2022)**

Table 6. Somalia fiscal and wage-bill indicators. Figures are drawn from World Bank and IMF reporting and vary by edition and definition; they should be read as orders of magnitude. See caveats in the concluding section.

7.2 The securitised wage bill

The defining feature of Somalia's wage bill is its domination by security. The 2020 Somalia Economic Update established the central statistic: the security sector accounts for eight out of ten government employees, roughly one-third of federal expenditure in 2019, and forty-eight percent of the federal wage bill, while international partners spend on the order of US$1.5 billion each year on security—support the report judged unlikely to be sustained. The federal wage bill itself absorbed fifty-three percent of total spending in 2021 and thirty-five percent in 2022. A further signal of weak payroll formalisation is that the non-formal, non-security share of the wage bill rose from fifty-four percent in 2019 to sixty-four percent in 2021, indicating that a growing share of compensation was being paid outside formalised, fully verified payroll arrangements. For the dilemma, the securitised wage bill means that the civilian fiscal space within which adequacy reforms must operate is doubly compressed—first by the narrow revenue base, and then by the prior claim of security on what little is available.

7.3 Pay structures and the 2025 reform

Somalia's statutory grading scale derives from the Civil Service Act of 2006, which ties grades to qualifications rather than job functions and permits little mobility, with advancement essentially conditional on acquiring a higher qualification. In practice the federal pay scale has operated on a set of flat rates established in the 2013 Budget Policy Framework Paper rather than the legislated step system. Compounding this, a donor-financed two-tier arrangement—under which capacity-injection recruits and externally funded staff are paid far above regular civil servants—created acute pay inequity and morale problems, Somalia's analogue of the parallel civil service that distorted Afghanistan's reform. Against this background the government launched a pay-and-grading reform in January 2021, culminating in the Civil Service Grading and Salary Policy unveiled in late April 2025. The new policy introduces a thousand-point grading framework that evaluates civil servants on four pillars—education and experience, level of responsibility, mental and physical effort, and working conditions—organised across eight grades and aligned with the National Reform Plan.

The policy is the right destination: it replaces a qualifications-based, flat-rate, inequitable system with a job-evaluated structure. But in sequencing terms it is a stage-four reform—harmonisation of pay and grading—and the framework cautions that such reforms are safe only after payroll integrity and wage-bill control are secured. Therein lies Somalia's central sequencing risk.

7.4 The competitiveness gap

The adequacy problem in Somalia is, as the theory predicts, concentrated at the skilled end of the distribution, where the public sector competes directly with international organisations and non-governmental employers operating in the same market. Table 7 sets out indicative monthly pay across employers. United Nations national General Service posts start well above what the government pays its directors, and non-governmental country-director roles can reach several thousand dollars a month, against typical formal-sector pay of a few hundred dollars and senior civil-service pay in the hundreds to low thousands. The skilled-staff penalty that compression theory identifies is therefore very large in Somalia, and it is precisely what drives qualified personnel out of government and into the agencies. This is the adequacy gap that a well-sequenced reform must eventually close through targeted decompression—but only once the fiscal space to finance it has been created.

Table 7. Somalia: indicative public, private, and international pay

Employer / role	Indicative monthly pay (US$)
Formal private-sector employee (typical)	**~100–500**
Government director (senior civil servant)	**~500–1,500**
UN national General Service (G-4 to G-5)	**~1,091–1,299**
NGO programme roles	**~700–1,500**
NGO country director	**~1,500–4,000+**

Table 7. Indicative monthly pay by employer in Somalia. Figures are approximate and illustrative of the competitiveness gap facing the public sector for skilled staff; they are not a formal salary survey.

7.5 Federal financing and the RCRF sliding scale

Somalia's transition from donor-financed to domestically financed wages is being managed explicitly, and it is the central fiscal-space challenge of the coming decade. Civil-service wages have been financed through the World Bank-administered Recurrent Cost and Reform Financing programme on a deliberately declining sliding scale, with baseline financing stepping down year by year and the explicit objective that the federal government finance all civil-service salaries from domestic revenue over time. The programme's share of the federal non-security wage bill has been targeted to fall toward ten percent, and the government-financed share of the civilian wage bill is reported to have risen from a baseline of around forty percent in 2018 to roughly eighty-four percent in 2022, a trajectory depicted in Figure 3. Recent payroll counts under the programme cover several thousand civil servants together with teachers and health workers, and performance-based conditions now explicitly address wage-bill management, pay-and-grading implementation, and pension reform. This managed transition is, in the language of this paper, an attempt to finance adequacy from domestically created fiscal space

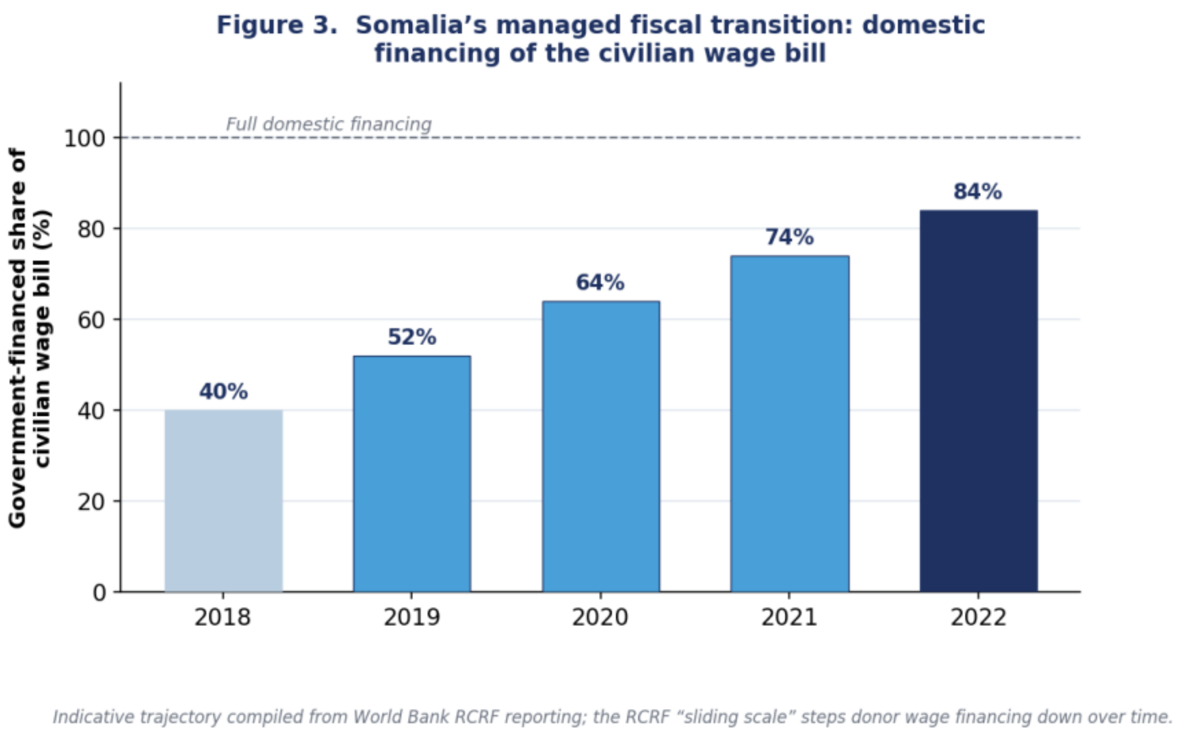

Figure 3. Somalia's managed fiscal transition. The government-financed share of the civilian wage bill has risen steadily as donor wage financing steps down under the RCRF sliding scale. Trajectory is indicative, compiled from World Bank reporting.

7.6 Fiscal federalism and pay

Somalia's federal architecture multiplies the dilemma in the way Section 4 anticipated. The federal government provides several types of largely ad hoc, formula-light transfers to the Federal Member States, and a grants transfer formula was adopted only in early 2023, with at least one state at times opting out. Programme-financed civil-service wages constitute between a fifth and two-fifths of the non-security wage bill in several states but a much smaller share in the state with the strongest own revenue, reflecting divergent fiscal capacity across the federation. The result is pronounced horizontal inequity—similar civil servants paid differently across states—and vertical tension between federal and state pay-setting authority. The assessment framework's warning that wage-bill management is divided across jurisdictions is acute here: a single national pay scale, which is the aspiration of the 2025 policy, cannot by itself deliver equity unless it is paired with a transparent, needs- and capacity-based transfer formula that compensates for the revenue asymmetries among the states. Otherwise the federation risks the inter-jurisdictional wage competition and rule-evasion dynamics observed in larger federal systems.

7.7 Applying the sequencing framework

Locating Somalia within the framework yields a clear diagnosis. The country has, in effect, reached stage zero—salaries are paid, if imperfectly—and has made real progress on the financing transition that belongs to stages one and two, through the sliding-scale mechanism and its performance-based conditions. But the signal that the non-formal share of the wage bill rose to nearly two-thirds by 2021 indicates that payroll integrity—the core of stage one—is not yet substantially complete, and the planning architecture of stage two remains thin. Against this backdrop the 2025 Grading and Salary Policy is a stage-four reform being readied while stages one and two are still maturing. The framework does not counsel abandoning the policy, which sets the right destination; it counsels sequencing its operationalisation behind the consolidation of payroll integrity and wage-bill control. Concretely, Somalia should complete biometric and system-based verification across federal and state payrolls and close the non-formal payroll gap before fully operationalising the new scale; adopt a revenue-relative wage-bill ceiling within a medium-term framework, with joint authorisation for increases; and, once that control is secured, decompress selectively toward the scarce and frontline skills identified in Section 7.4, financed by the room created and protected by indexation. The next section sets out these implications in full.

8 Policy Implications

The analysis yields implications at three levels: for Somalia specifically, for the broader class of low-revenue and fragile states, and for a forward research agenda. The recommendations follow directly from the sequencing framework and from Somalia's position within it.

8.1 For Somalia

First, sequence the 2025 Grading and Salary Policy behind payroll integrity rather than front-loading harmonisation. Before fully operationalising the new eight-grade scale, the authorities should complete biometric and system-based verification across federal and state payrolls and close the non-formal, non-security payroll gap that had risen to nearly two-thirds of the wage bill by 2021. A verified, deduplicated payroll covering the large majority of paid staff is the threshold at which the harmonised scale can be rolled out safely.

Second, adopt a revenue-relative wage-bill ceiling within a medium-term fiscal framework, with joint authorisation for increases. Given a revenue base of around 2.5 percent of GDP, the ceiling should be set against domestic revenue and committed financing rather than GDP, and any new pay or post should require the joint authorisation of the finance, budget, and civil-service authorities, on the model adopted elsewhere to contain wage envelopes. The stance can loosen as the revenue base expands: sustained domestic revenue above roughly five percent of GDP, with grant dependence falling below half, would open room for broader pay increases.

Third, decompress selectively for scarce and frontline skills rather than across the board. The reform should target the large skilled-staff penalty documented in Section 7.4—competitive pay for technical, professional, health, and education cadres benchmarked against East African and international comparators—rather than uniform raises. Allowances should be consolidated into base pay to forestall the transparency-eroding allowance mushroom and the recompression that undid Afghanistan's reform, and the new scale should be indexed so that a one-off decompression is not silently reversed by inflation.

Fourth, treat the sliding scale as a hard fiscal-transition plan rather than an open-ended subsidy. Each step-down in donor wage financing should be tied to a demonstrated increase in domestic revenue and to payroll-control milestones, so that adequacy gains are financed by created fiscal space rather than by aid that may be withdrawn—a live risk given recent warnings of aid reductions.

Fifth, pair the national pay scale with a transparent intergovernmental transfer formula based on population, fiscal capacity, service-delivery gaps, and conflict impact, agreed with all Federal Member States, so that a uniform scale does not entrench horizontal inequity across states of unequal revenue. Sixth, defer performance-related pay: given mixed global evidence and weak performance-management systems, the state should first invest in attendance and time management—a documented source of payroll leakage—and basic appraisal before contemplating performance pay.

8.2 For low-revenue and fragile states

The Somalia case generalises. For the broader class of low-revenue and fragile states, the central lesson is that the order of reform is itself a policy instrument, and that the highest-return early action is almost always payroll integrity and establishment control—reforms that are comparatively technical, create fiscal space at low political cost, and underpin everything that follows. Harmonisation of pay and grading, however desirable for equity, should be sequenced after fiscal control is secured, on pain of the fiscal blow-out that premature harmonisation produced in Ghana. Decompression should be targeted and indexed rather than uniform and static, to avoid the recompression that undid Afghanistan's reform. Wage-bill ceilings should be revenue-relative and credibly enforced, recognising that in federal systems they must contend with subnational evasion and that, everywhere, public pay is embedded in a political settlement that constrains abrupt restraint. And parallel donor-financed pay systems, however tempting as a short-run retention fix, should be avoided or rapidly integrated, because they corrode the integrity of the structures they bypass. The framework is a lens and an ordering principle, not a blueprint; political settlements, federal structures, and donor configurations differ, and the pace and overlap of the stages must be calibrated to each context.

8.3 A research agenda

Three lines of further work would strengthen both the conceptual framework and its application. The first is measurement: developing and publishing a Wage Adequacy Ratio for Somalia—the lowest public wage relative to a locally estimated Minimum Basic Needs Basket—together with a skill-specific compression diagnostic, would make the dilemma measurable and anchor the new pay scale in living-standard evidence as the reform's own terms of reference require. The second is evaluation: as the sequencing reforms are implemented, their effects on fiscal space, retention, and service delivery should be tracked, ideally through repeated payroll audits, wage surveys, and quasi-experimental evaluation of specific measures such as targeted decompression. The third is comparative extension: the framework would benefit from systematic testing against a larger set of fragile-state reforms, including cases—such as Yemen and the Central African Republic—for which the documented evidence remains thin, so that the ordering principle can be refined and its boundary conditions identified. The Institute of Public Finance Somalia is well placed to lead the measurement and evaluation strands as the 2025 policy moves to implementation.

9 Conclusion

The analysis yields implications at three levels: for Somalia specifically, for the broader class of low-revenue and fragile states, and for a forward research agenda. The recommendations follow directly from the sequencing framework and from Somalia's position within it.

Public sector compensation in low-revenue and fragile states is governed by a dilemma that cannot be wished away. Wages must be adequate—sufficient to meet basic living costs and to attract, retain, and motivate competent staff and deter corruption—yet the wage bill cannot be allowed to consume the limited fiscal space and crowd out the spending that turns staff into services. Adequacy and fiscal space cannot be improved at once by the same measure; the trade-off is real, and in the poorest and most fragile states it binds most tightly. This paper has argued that the dilemma is not solved but navigated, and that the instrument of navigation is the sequencing of reform. Because early missteps foreclose later options and because the fiscal space that finances adequacy is created in the early stages, the order of reforms determines the feasible set of outcomes.

Drawing on efficiency-wage theory, the living-wage literature, the evidence on public–private differentials and compression, and the public-finance treatment of fiscal space, and testing the argument against the documented experience of Liberia, Ghana, Afghanistan, the Democratic Republic of Congo, Sierra Leone, South Sudan, and Mali, the paper has derived a five-stage sequence: restore a simple, timely pay system; establish payroll integrity and establishment control; embed wage-bill planning within a medium-term framework; decompress selectively for scarce and frontline skills; harmonise pay and grading; and only then introduce performance-related pay. The cardinal rule is to gain control of the budget first, to plan before rewarding, and to resist sophisticated systems while basic state functions are not yet working. Somalia, the paper's lead illustration, exhibits the dilemma under extreme constraint and is readying a harmonisation reform—the 2025 Grading and Salary Policy—while the payroll-integrity and planning stages that should precede it are still maturing; the appropriate response is to sequence the policy's operationalisation behind the consolidation of control, and to finance adequacy from domestically created space as donor financing recedes.

Several limitations qualify these conclusions.The evidence base in fragile settings is uneven, and many Somalia-specific figures vary by source and definition and should be read as orders of magnitude; the causal evidence that higher pay improves performance and integrity is contingent on monitoring rather than automatic; decompression carries distributional and political costs and is recommended here only in targeted form; and forward-looking statements about revenue, growth, and the financing transition are projections subject to security, climate, and aid distributional and political costs and is recommended here only in targeted form; and forward-looking statements about revenue, growth, and the financing transition are projections subject to security, climate, and aid shocks. The sequencing logic, finally, travels across contexts as an ordering principle rather than a transplantable blueprint. With these qualifications, the paper’s central claim stands: in low-revenue and fragile states, the wage-adequacy-to-fiscal-space dilemma is navigated by getting the order of reform right, and getting it wrong is not merely suboptimal but actively destructive of the fiscal space and institutional capacity that pay reform is meant to build.

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