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Civil Service Reform in Latin America and the Caribbean

Proceedings of a Conference

Edited by Shahid Amjad Chaudhry, Gary James Reid,
and Waleed Haider Malik



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(List continues on the inside back cover)

World Bank Technical Paper Number 259

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PROCEEDINGS OF A CONFERENCE

Edited by

Shahid Amjad Chaudhry, Gary James Reid, and Waleed Haider Malik

The World Bank

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CONTENTS

Foreword	vii
Abstract	ix
Contributors and Participants	x
Overview	1
<i>Gary J. Reid and Waleed H. Malik</i>	

Part I Keynote Speakers: Reviewing Civil Service Reform and Its Role 7

1	Civil Service Reform and Economic Development	9
	<i>S. Shahid Husain</i>	
2	Civil Service Reform in Developing Countries	11
	<i>Ibrahim F. I. Shihata</i>	
3	Civil Service Reform in Africa: Cultural Context	14
	<i>Abdul Magid Osman</i>	
4	Civil Service Reform: The African Experience	18
	<i>Mamadou Dia</i>	
5	Public Bureaucracies in Developing Countries: Ten Paradoxes	22
	<i>Moises Naim</i>	
6	Civil Service Reform in Japan	26
	<i>T. J. Pempel</i>	
7	Selected Discussion Points	33
	<i>Moderator: Shahid A. Chaudhry</i>	

Part II Overarching Issues 37

8	Public Sector Human Resource Management in Latin America and the Caribbean	39
	<i>Gary J. Reid and Graham Scott</i>	
9	Administrative Reform in Developing Countries: Some General Observations	82
	<i>Ibrahim F. I. Shihata</i>	
10	Public Sector Retrenchment and Severance Pay: Nine Propositions	97
	<i>Ishac Diwan</i>	

Part III Adjusting Staffing Levels and Upgrading Compensation		109
11	Downsizing the State: The Argentina Experience <i>Pablo Antonio Fontdevila</i>	111
12	Downsizing: Jamaica's Experience, 1992–93 <i>Marie Slyfield and Paulette Morgan</i>	116
13	Compensation Upgrading in Caribbean Public Services: Comparative Needs and Experience <i>Richard Kitchen</i>	120
14	Pay and Employment Issues in the Brazilian Civil Service <i>Hélio Zylberstajn</i>	128
15	Selected Discussion Points <i>Discussants: Gary J. Reid and Ishac Diwan</i>	136
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Part IV Recruiting and Retaining Personnel and the Higher Managerial Ranks		141
16	Senior Civil Service in Argentina: Creating an Elite Managerial Corps <i>Oscar Oszlak, with Ernesto Gantman</i>	143
17	Spain's Experience with Recruiting and Retaining Qualified Personnel <i>Joan Prats-Catala</i>	156
18	Administrative Reform Program: The Case of Bolivia <i>Alberto Leyton</i>	158
19	Selected Discussion Points <i>Discussants: Arturo Israel and Nélica Gruber</i>	166
<hr/>		
Part V Strengthening Institutional Capacity to Manage Human Resources and Building Managerial Accountability		169
20	Administrative Reform: The Case of Mexico <i>Alejandro Carrillo Castro</i>	171
21	Strengthening Government Capacity to Manage Human Resources: The New Zealand Experience <i>Graham Scott</i>	172
22	The Brazilian Experience of Administrative Reform <i>Nilson Holanda</i>	180

23	Efforts to Improve Executive and Managerial Performance in the U.S. Government	183
	<i>Ben Burdetsky</i>	
24	Chile's MIDEPLAN: A System for Programming and Evaluating Social Policy	191
	<i>Alvaro Garcia Hurtado</i>	
25	Selected Discussion Points	195
	<i>Discussants: Mike Stevens and Mauricio Camps</i>	

Part VI Role of the World Bank in Civil Service Reform **197**

26	Selected Discussion Points	199
	<i>Moderator: Shahid A. Chaudhry</i>	

Part VII Background Papers **203**

27	Culture Change in the Singapore Civil Service	205
	<i>Jon S. T. Quah</i>	
28	Civil Service Reform in Africa	217
	<i>Clay Wescott</i>	
29	Civil Service in Mexico	230
	<i>Mauricio Camps and Carlos Noriega Curtis</i>	
30	The National School for Public Administration: An Experiment in Forming Management Teams	236
	<i>Gileno Fernandez Marcelino</i>	
31	The Reform of Argentina's Federal Tax Administration Office	242
	<i>Constancia Tiboni</i>	
32	The Impact of Sociocultural and Governance Factors on Institutional Reform	245
	<i>Thakoor Persaud and Waleed H. Malik</i>	
33	Transforming the State: Issues in Public Administration Reform in Poland	251
	<i>Barbara Nunberg and Luca Barbone</i>	

FOREWORD

A large, interventionist state apparatus, promoted in the past to achieve rapid economic development, has consistently manifested weakness in its basic function of good governance. This weakness has been aggravated by the fiscal austerity that accompanied the economic adjustment efforts of the 1980s. No longer can the state afford to devote much of its time and energy to performing a role for which it is poorly endowed—that of economic entrepreneur—while neglecting the provision of good government. In order to support and encourage sustainable and equitable development, Latin American and Caribbean governments are striving to achieve not only a smaller state but a stronger one, characterized by greater functional autonomy and improved service provision. This in turn requires a major reform effort focused in areas such as public sector management, accountability and transparency, the building of a legal framework for development, and enforcement of the rule of law.

Civil service is a tool that governments use to design, formulate, and implement public policy and discharge government functions. A good civil service—for good government—is consistent in its policies, limited in size, strong, efficient, and effective. It fosters an enabling environment capable of promoting sustained economic and social development and institutional growth. Civil service reform—improvement in the management of public sector human resources—typically involves several elements including carefully planned downsizing, upgrading compensation packages, improving the recruitment and retention of employees, strengthening institutional capacity to manage human resources, and creating better checks on the exercise of managerial authority and accountability.

In Latin America and the Caribbean indicators of poor civil service management include high levels of public employment, low ratios of salary compression, high ratios of support staff, rapid turnover in the managerial ranks, and high ratios of personnel expenditures. Poor management capacity is the product of such deficiencies as:

- Inadequate monitoring of resources and agency performance.
- Personnel policies and practices that cannot compete with those in the private sector.

- Inadequate training for enhancing the quality of public servants.
- Constraints that reduce competitive pressures in hiring and promotion of personnel.
- A legal framework that does not clearly define the role and mission of institutions.
- Budgeting procedures that do not hold program managers accountable for the performance of their agencies.
- Expenditure (including payroll) monitoring and control systems that do not ensure transparency as well as compliance and performance accountability.
- Management and employee incentive systems that fail to reward good performance and sanction poor performance.

The World Bank's interest in civil service reform stems from its concern about the sustainability of the development efforts it supports in borrowing countries. Many of the programs the Bank and other development institutions and governments finance are at risk because of the lack of implementation capacity of recipient governments.

The purpose of this conference volume is to provide an overview of human resource management problems and strategies for solving them. The review of problems concentrates on indicators—as well as causes—of poor human resource management in the public sector. The evaluation of strategies considers the prerequisites for and key elements involved in solving these problems, with particular attention to sequencing issues and ways of ensuring seamless integration of the elements of the reform strategies. The volume is also meant to serve as a reference on the state of the art of public sector resource management and on civil service reform experiences to date in Latin America and the Caribbean and other regions.

I hope that this report will help governments, practitioners, researchers, and World Bank staff in their development of future civil service reform programs.

Sri-Ram Aiyer
Director, Technical Department
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World Bank, September 1994

ABSTRACT

The papers collected in this volume were presented at the World Bank Conference on Civil Service Reform in Latin America and the Caribbean (LAC), held on May 20–21, 1993, in Washington, D.C. This regionwide conference, the first in a series planned by the LAC Technical Department Public Sector Modernization Division, was intended to promote the flow of ideas among researchers and practitioners in the civil service and public sector human resource field in Latin America and the Caribbean and at the World Bank.

One of the principal challenges facing Latin American and Caribbean countries today is the appropriate role of the state in a post-adjustment era and, more specifically, the role of the state in reforming the civil service. The civil service reform conference addressed the need to identify effective strategies for improving the capacity of governments in Latin America and the Caribbean to manage their human resources effectively and efficiently. It focused on these themes:

- Reviewing civil service reform and its overall role in economic development.
- Adjusting staffing levels and upgrading compensation.

- Recruiting and retaining personnel, particularly in the higher managerial ranks.
- Strengthening institutional capacity to manage human resources and improving managerial authority and accountability.

The overall goal of the conference—expanding the flow of ideas among the practitioners and researchers and Bank staff—was supported by commissioned studies and reports that provided views of the state of the art of civil service reform. The conference's format allowed each theme to be explored at some length, first by the authors, then through comments from invited discussants, and finally, through floor discussions.

The purpose of this conference volume is to provide an overview of human resource management problems and strategies for solving them. The volume is also meant to serve as a reference on the state of the art of public sector resource management and on civil service reform experiences to date in Latin America and the Caribbean and other regions. It is hoped that the paper will be useful to governments, practitioners, researchers, and World Bank staff in their development of future civil service reform programs.

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Gary J. Reid and Waleed H. Malik

The papers collected in this volume were presented at the World Bank Conference on Civil Service Reform in Latin America and the Caribbean (LAC), held on May 20–21, 1993, in Washington, D.C. This regionwide conference, the first in a series planned by the LAC Technical Department Public Sector Modernization Division, was intended to promote the flow of ideas among researchers and practitioners in the civil service and public sector human resource field in Latin America and the Caribbean and at the World Bank.

Through these conferences, the World Bank—and the Bank's Latin America and the Caribbean Regional Office in particular—seeks not only to disseminate current knowledge about economic development but to further the understanding of the new challenges the region faces. One such challenge is the appropriate role of the state in a post-adjustment era. As the debate has focused more specifically on the state's role in reform of the civil service, legal and judicial reform and the decentralization of government have received increasing attention in the Latin America and the Caribbean Region's institutional review. The Region, concerned with the changing imperatives in promoting economic development, seeks to share the issues and concerns World Bank staff members face in dealing with new problems, expose Bank staff to recent developments and experiences in state reform, and improve collaboration among practitioners, researchers, and the Bank. It is hoped that these conferences, and the dissemination of their proceedings in conference volumes, will contribute to this objective.

The civil service reform conference addressed the need to identify effective strategies for improving the capacity of governments in Latin America and the Carib-

bean to manage their human resources effectively and efficiently. It focused on these themes:

- Reviewing civil service reform and its overall role in economic development.
- Adjusting staffing levels and upgrading compensation.
- Recruiting and retaining personnel, particularly in the higher managerial ranks.
- Strengthening institutional capacity to manage human resources and improving managerial authority and accountability.

The overall goal—expanding the flow of ideas among the practitioners and researchers and Bank staff—was supported by commissioned studies (see the section on overarching issues) and reports (see the section on studies and background papers) that provided views of the state of the art of civil service reform. The conference's format allowed each theme to be explored at some length, first by the authors, then through comments from invited discussants, and finally, through floor discussions. An open roundtable discussion permitted the sharing of views on the role the World Bank can play in assisting the countries of the region in dealing with human resource management issues.

The conference received tremendous attention. Participating were representatives of fifteen countries—including Argentina, Bolivia, Brazil, Ecuador, Guyana, Honduras, Jamaica, Mexico, New Zealand, Spain, Trinidad and Tobago, the United Kingdom, the United States, and Venezuela—as well as members of the international development community from the United Nations Development Programme, the Inter-American Development Bank, and the Organization of American States—and several World Bank staff members. The conference successfully demonstrated that seminars can be a powerful instrument for enhancing borrowers' receptivity to reform.

Reviewing civil service reform and its role

In his opening remarks, S. Shahid Husain, Vice President, Latin America and the Caribbean Region, emphasized that this was an opportune time for a conference on civil service reform in view of the fundamental changes that have taken place in the region and the challenges that lie ahead. He identified as the fundamental problem facing the region today the governments' lack of capacity to provide services that only they can provide—the outcome of years of expansion of the state. He explained that from the 1950s to the 1970s the region experienced a continuous expansion in the number of state employees and in the states' activities, as the governments became involved in commercial activities. The result of this expansion was an inefficient apparatus that placed tremendous demands on public resources, as well as a lack of public confidence that these resources were used well. He emphasized that although in recent years many countries have initiated broad government reforms to improve economic performance—addressing external debt problems and undertaking massive reform of the state, including reducing the size of central governments, increasing reliance on the private sector for goods and services, and beginning to decentralize government—institutional capacity remains weak and requires urgent attention. He suggested that in dealing with this crisis of the state, civil service reform—involving the establishment of durable civil service structures that rely on merit, competition, and stable expectations and the provision of improved training and better compensation for civil servants—should be seen as an important tool in achieving economic development. This broadening of human opportunity by improving the state's capacity to provide quality social services is essential if governments are to enhance their relevance to the population.

In his keynote remarks, Ibrahim F. I. Shihata, Vice President and General Counsel and Secretary General, International Center for Settlement of Investment Disputes, emphasized the need for a systems approach in civil service reform. He briefly described the issues faced by civil services in developing countries and the main elements of civil service reform. He also stated that there was increased realization in the Bank that without effective government administration, economic reforms are seriously handicapped. Surplus employment, cost overruns, and poor performance were cited as the most severe symptoms of administrative dysfunction affecting developing countries. These symptoms arise as a result of many conditions, including the political expectation of many people that the state will always act as an employer of last

resort; policies such as those guaranteeing automatic hiring of graduates; and rigidities in pay and employment systems. As a possible reform program he outlined the following elements in this sequence: elaboration of a clear role for the civil service; rationalization of procedures and systems; and finally, implementation of the program. He also suggested that civil service reform programs should have three main objectives: to improve staff performance, to reduce the fiscal burden to the state, and to raise the prestige of the civil service.

In his keynote remarks, Abdul Magid Osman, Director, Public Sector Management Group, United Nations Development Programme, shared the UNDP's experience with civil service reform projects. He stressed that culture and history should be taken into account in designing civil service reform programs, particularly in Africa. He pointed out that although the need for reform in Africa was clear on economic grounds, historical and cultural factors have impeded success. He emphasized that the problem in African countries is the deep-rooted legacy of colonialism, which promoted discretionary hiring practices and clientelism—features that have persisted even after independence. Too much attention has been given to the state as a tool for reform—and to reform based on technical solutions without regard to popular participation. Mr. Osman recommended that if the reform process is to succeed, it must be based on the strengthening of civil society through closer integration between the state and the other social and political forces that recognize regional cultural and historical realities. He also announced that the UNDP was ready to work with recipient states and the donor community to identify new approaches to civil service reform.

In his keynote address tracing the experience of more than fifty civil service projects supported by the Bank in Africa, Mamadou Dia, Division Chief, Institutional Capacity Building Division of the Africa Technical Department, stressed the need for a governance approach to civil service reform programs. He described the governance approach as an operational process consisting of a first, upstream phase, assessing a country's institutional environment to determine the country's patrimonial profile—high, low, or medium, based on its social, cultural, and political complexities, followed by a prescriptive phase to determine the nature—comprehensive, enclave, or hybrid—of the reform package and the lending instrument. He suggested that the proposed governance framework would greatly increase the effectiveness of future civil service reform programs because it directly addresses the complexities of the patrimonial administrative environment. These complexities, which seriously impede the performance of public sector institutions, include lack of accountability, lack of the rule of law, a patrimonial salary regime, a crippling regula-

tory burden on the private sector, distorted resource allocation, and bureaucratic budget management.

As a user and an observer of civil service systems, Moises Naim, former executive director of the World Bank and Senior Fellow at the Carnegie Endowment for International Peace, presented a list of ten paradoxes, or ten observations about these regimes, in his keynote presentation:

- The more powerful, more active, and more interventionist an agency appears to be, the more inefficient and weak it is.
- The more overstaffed an agency is, the more overwhelmed it is by requests to do things for which it lacks the necessary resources and capacity.
- The more rules and regulations, the weaker an agency's control.
- The higher the responsibility an individual has, the less authority that individual has in terms of use of resources for performing functions.
- The weaker a government's interagency coordination is, the more likely it is to adopt policies that depend on interagency coordination.
- The state appears to attract and assign the most talented public servants to the easier jobs, not the tough ones.
- Staff turnover rates seem to be inversely proportional to hierarchical levels.
- The decentralization of government, which is motivated by two different forces—managerial and government forces—is in the short run weakening the state's capacity to deliver public services.
- Despite the opportunity to learn from experience, institutions tend to repeat mistakes.
- Among all the efforts to get prices right (under macroeconomic programs), one price has been forgotten—the price (salaries) paid to public servants in charge of getting the prices right.

To tackle some of the problems implicit in these paradoxes, Mr. Naim suggested using one or a combination of several options: first, a technocratic approach—looking at numbers and statistics in developing an appropriate framework; second, an economic incentive approach—injecting competitive pressures by bringing public sector salaries closer to private sector salaries; and third, a political approach—identifying the political determinants of the problems and assessing political commitment. Before concluding, he emphasized that the path of reform would be very difficult and that strong theoretical frameworks would be needed to guide policymakers through the maze of institutional reform.

The Japanese civil service is widely recognized for its efficiency and effectiveness, reflected in several traits: its

relatively small size, its low cost of operation, its ability to attract and retain high-quality personnel, the intensity of competition among its staff, its high prestige throughout the country, its flexibility in adjusting to social needs, and the frequency of its administrative reforms, including downsizing. T. J. Pempel, Professor at the University of Colorado, sketched the links among these attributes. He argued that the ongoing administrative reform efforts and the government's cap on personnel and budgetary expansion have had positive effects (rather than undermining efficiency and morale) by enhancing the quality, loyalty, and performance of the country's civil servants. He highlighted several lessons from Japan's experience for countries planning to undertake civil service reform. First, an outside agency should be used as initiator and arbiter of the reform effort. Second, government agencies should be allowed discretion in achieving broad reform goals. Third, ministries and agencies should be treated fairly in budgetary allocations and personnel assignments. Fourth, administrative reform should be institutionalized, with downsizing and privatization as a permanent feature. And fifth, psychological motivating factors should be used as incentives for enhancing the performance of public servants.

Adjusting staffing levels and upgrading compensation

Pablo Antonio Fontdevila describes Argentina's initiative to downsize the public sector in the late 1980s through such measures as hiring freezes, forced early retirement, and decentralization. The country's bold strategy to reduce inefficiencies in the public service was prefaced and supported by the national reform plan that continued to run concurrently. The national reform, which included privatization, rationalization of pay structures, and strengthening of management, absorbed some of the shocks created by the socially and economically disruptive process of shrinking the public sector labor force.

Jamaica's civil service reform program, described by Marie Slyfield and Paulette Morgan, was built on initiatives already being taken in three focus areas: corporate planning and budgeting, restructuring, and budget reduction. As in Argentina, hiring freezes and downsizing were key strategies, and both supported the overall restructuring and the reduction in expenditure. Special provisions were made for employees who lost their jobs through downsizing.

Against a backdrop of broader administrative reform strategies, English-speaking Caribbean countries have targeted compensation upgrading in their civil service reform. Richard Kitchen describes this effort as the Carib-

bean's response to highly competitive salaries in the private sector, the resulting low retention rate among senior managers, the substantial numbers of poorly skilled professionals, and an "overemployed" junior labor force. But he also names the price governments often must pay to increase compensation: downsizing, forced early retirement, and liberalized pension policies.

Hélio Zylberstajin attributes a problematic aspect of Brazil's public sector work force to the country's laws and its Constitution. He argues that because the Constitution allows the public service to hire personnel outside of the traditional government hiring system, political patronage has become a key feature in Brazil's public work force. At the local level political patronage accounts for as much as 40 percent of the staff.

In the discussion session following the above presentations, the discussants divided the responsibilities for commenting on pay and employment systems. Gary Reid, who looked at pay issues, emphasized the need to link public sector salaries to private sector salaries. Ishac Diwan, in addressing adjustments to civil service staffing levels, stressed the need to focus carefully on two aspects: compensation schedules in downsizing and the role of compression ratios in attrition. He argued that there was a need for innovative severance mechanisms and contracts, and suggested that reform programs should use voluntary separation as the primary means of downsizing. He also suggested that governments should not choose between retrenchment and attrition but should instead sequence them in a manageable way.

Recruiting and retaining personnel

Oscar Oszlak's paper describes Argentina's successful strategy to upgrade performance standards in its civil service. In 1984 Argentina launched a program to develop a core of highly trained senior professionals capable of providing managerial and trouble-shooting services across government institutions. The program, which selected participants on a highly competitive basis, provided incentives to attract university graduates who were otherwise dissuaded from joining the civil service because of poor salaries and the likelihood of political interference. The program promised salaries comparable to those in the private sector and "immunity" from host institutions' internal bureaucracies.

Joan Prats-Catala cites the selection, lack of motivation, and compensation of higher-level civil servants as some of the problems in Spain's public sector. The selection process, which targets graduates competing in public examinations, guarantees technical competency but ne-

glects other professional skills. Motivation is low among senior professionals because the hiring system quickly pushes them to the highest positions (within ten to fifteen years), leaving them with little incentive for improvement. Compensation, although lower than private sector salaries, has not yet had an adverse effect on performance because the benefits of civil service employment outweigh the deficiencies in compensation and retention has not yet become a problem. Ms. Prats-Catala prescribes innovative hiring and promotion measures as a means for preventing and alleviating possible problems.

Alberto Leyton points out that Bolivia's 1985 reform program encountered difficulties in establishing its human resource policies because the state bureaucracy directing the reform was itself subject to inconsistencies. Routine functions were assigned to state-funded workers in the bureaucracy, while the more critical task of executing the reform was delegated to foreign-financed technical experts whose unique status enabled them to circumvent those policies. Mr. Leyton suggests that Bolivia needs to go beyond this administrative dilemma to establish objectives, instruments, and financial means of achieving reform.

In the discussion session that followed the presentation of these papers, the discussants commented on the issue of recruiting and grooming higher civil servants. Arturo Israel stressed the need for highly qualified technocrats to manage economic and sectoral policies and regulate the private sector. Although this may mean creating a select group—a cadre—in the public sector, he suggested that in many developing countries the potential benefits of this measure outweigh the undesirable side effects. Using Venezuela as her focus, Nélide Gruber suggested that there was a need for professionalization of the public sector, which can be achieved through civil service reform that takes a long-term view, is permanent, and is nationally motivated (with no outside involvement).

Strengthening institutional capacity

This section begins with a paper by Alejandro Carrillo Castro in which he admonishes Mexico's public administration system for not having made a concerted effort in civil service reform. Regrettably, he notes, any reform that has occurred has been a by-product of broader political and administrative changes.

Graham Scott's paper describes measures that New Zealand implemented to create a functional framework in which government institutions could achieve their long-term objectives. The reform increased the salaries of the

chief executives of government departments to levels comparable to those in the private sector and gave them more authority in hiring, in management, and in controlling departmental finances. At the same time, however, departments were required to comply with stricter accounting and reporting procedures and to pay keener attention to output. The success is the more noteworthy because, although the government directed fewer resources to departments following the reform, their output did not decline in quality or volume and, in some cases, it even increased.

Nilson Holanda segments the development of Brazil's public administration from 1936 to the present into three stages. The second stage, following a period in which the authoritarian government viewed reform as a tool rather than a product, benefited from Decree-Law 200. This legislation reflected Brazil's decision to give central institutions the responsibility for coordinating different facets of public administration amid increasing decentralization. This approach to reform was overshadowed by political issues after 1985 (the third stage) and lost ground because of the revision of the Constitution. Holanda expresses confidence that the current revision of the Constitution will return the public administration system to one characterized by decentralized responsibilities.

Ben Burdetsky tells how the U.S. public administration system, in an attempt to reduce costs and increase efficiency, has adopted strategies commonly practiced in the private sector. He describes some of these strategies, including the management-by-objective system, meritocracy pay systems, and total quality management techniques, along with the mixed results they have produced. The success of reform, the author argues, is related to the level of support and the quality of managerial capacity at the top of the public administration system.

Alvaro Garcia Hurtado describes a tool used by Chile's public sector to strengthen its ability to evaluate and implement social programs. This tool, MIDEPLAN, was part of Chile's strategy for increasing the government's capacity to set goals, to plan and monitor progress effectively, and to introduce into government institutions the concept of social responsibility.

Following the above presentations, discussants Mike Stevens and Mauricio Camps shared their views on key ingredients of successful civil service reform. Mr. Stevens cited three critical needs: maintaining strong commitment during the process, relating civil service reform to other reforms in the country, and maximizing the link between civil service reform and budgeting. Mr. Camps emphasized (based on Mexico's experience) the need to create a management culture—for example, by adopting the total quality management system as a means of enhancing the public sector's efficiency.

Role of the World Bank

In this discussion session, moderator Shahid Chaudhry provided an overview of the World Bank's past Latin American and Caribbean involvement. He initiated the discussion by announcing the intended objectives of the conference: to gain insight from Latin American and Caribbean colleagues on current civil service reform issues, to develop a network among these colleagues and the World Bank, and to receive guidance on appropriate areas of World Bank involvement in issues of civil service reform.

Background papers

For the benefit of participants and to stimulate discussion, background papers were commissioned for the conference. These present a wide range of background issues and concerns relating to human resource management in the public sector. The *studies* (chapters 8–10) provide an overarching review of human resource management—but they also look in some detail at policies and practices around the globe.

Gary Reid's paper offers recommendations on long-term strategies for fundamentally restructuring the civil service systems in many Latin American countries to correct the counterproductive policies and practices that impede efforts to recruit and retain highly qualified employees and to motivate these employees to perform. The paper also offers a variety of recommendations for improving human resource management capacities in the short term within the existing legal framework of most Latin American countries. These recommendations address salary restructuring as well as other core personnel policies, such as recruitment, promotion, and employee performance reviews.

Ibrahim F. I. Shihata's paper discusses the experience of developing countries that have recently undertaken comprehensive economic reform programs. It then reviews the principal problems afflicting civil administrations in most developing countries and presents a number of solutions that have been applied in similar situations.

Ishac Diwan's paper focuses on how a judiciously designed severance mechanism and a sequence of wage adjustments and layoffs can help reduce agency costs. The nine propositions he provides to improve public sector retrenchment and severance pay are based on three types of imperfections: information rents, adverse selection, and free-riding.

The *background papers* (chapters 27–33) focus mainly on success cases, reform strategies, and lessons from Ar-

gentina, Botswana, Mexico, Poland, and Singapore. They attempt to pinpoint the factors contributing to successful reform, citing improved human resources, better management controls, and factors external to the reform program that affect the civil service reform agenda.

Jon Quah relates how Singapore transformed its public sector from one undermined by corruption to a productive sector whose personnel and services compared favorably with those of the private sector. The improvements resulted in part from extensive legal changes that increased transparency and accountability and put the public sector under public scrutiny. The improvements also resulted from the government's strategy to reduce the incentive for corruption by raising pay and making corruption a high-risk, low-return option for civil servants.

Clay Wescott highlights the role of attitudinal factors and the enabling environment in the success of reform in Botswana. The reform's effectiveness was ensured through widespread approval gained through community meetings and publicity, the long-term vision used to guide its strategy, and the effectively managed delivery of public services. A powerful legal system and a merit-based human resource program eliminated corruption within the system, one of the more disabling characteristics of public sectors around the world.

Mauricio Camps and Carlos Noriega Curtis describe reform in Mexico as coming in the wake of government restructuring and the release of government-owned enterprises to the private sector by the early 1980s. Civil service reform therefore involved not only human resource reform, but also restructuring of the state and its role. Thus, personnel changes were supported by institutional reorganization and consolidation of various ministries, as well as by training and improved wage packages aimed at setting the stage for improved management systems.

The human resources component of Brazil's public sector reform agenda is described by Gileno Fernandez Marcelino. The author details Brazil's attempt to develop a cadre of effective mid-level civil servants through the formation of a specialized public administration institute.

The program, which sought to create responsive managers even within the constraints of the system, failed for several reasons, including poor leadership, the lack of a coherent doctrine, the isolation of the institute from other institutes and research facilities, and the image of the group of managers as a "preferred core."

Constancia Tiboni singles out reform in Argentina's Tax Administration Office as a case in which reform has begun to achieve its objectives. This agency departed from Argentina's broader public sector reform program by resorting to methods other than downsizing to deal with overemployment. Reformers negotiated legal reforms with the workers' union to tighten promotion and recruitment procedures, implemented an intensive training program, provided compensation for those leaving the public sector, and increased the compensation curve.

Thakoor Persaud and Waleed Haider Malik highlight the significant changes in the role of the World Bank over the past few decades with respect to its development assistance strategy. The evolution of the development model is the result of lessons learned from project experience, of world events, and of an increased awareness that growth and development are intricately linked by non-economic elements that cannot be ignored without negative consequences for the system. Although progress has been made in addressing institutional deficiencies in developing countries, the authors stress that a comprehensive framework that provides for sociocultural and governance factors is required if institutional reform, including civil service reform, is to succeed.

Barbara Nunberg and Luca Barbone discuss Poland's political transition in the post-communist period, analyzing the various options and strategies that might be utilized to transform the country's public sector. The reform process was intended to consider the issues of public pay and employment, external coordination, and decentralization and public administration management, in that order, and the authors discuss each in the light of Poland's emerging political situation. The discussion's usefulness lies in its evaluation of the different possibilities at the outset of reform.

**Keynote Speakers:
Reviewing Civil Service Reform
and Its Role**

Civil Service Reform and Economic Development

S. Shahid Husain

I would like to welcome all of you to the World Bank, to this conference on Civil Service Reform in Latin America and the Caribbean. In our view here at the World Bank, this is a particularly opportune time for this conference in view of the fundamental changes that have taken place in the region in the past decade and the issues that lie ahead. I would like to describe briefly the changes that have taken place in Latin America and the Caribbean over the past decade, particularly toward the end of the decade; our view of the future and the issues that lie ahead; and the implications of these issues for the civil services, administrations, and institutions in the countries of the region.

Let me start by saying that what we saw at the beginning of the decade, starting around 1982, was not just a debt crisis. It was not even just an economic management crisis. It was a crisis of the state. This crisis of the state was the result of forces that had been in the making for decades and, of course, the result of the external environment. What we saw during the 1950s, the 1960s, and the 1970s was a continuous expansion of the state and of its activities. There was increasing regulation, and the state touched practically every sphere of life—every sphere of activity. And economies became increasingly closed, not necessarily closed to ideas, but certainly increasingly insulated from the international economic environment, and from international trade because of the policy of import substitution.

This expansion ended in a fundamental crisis of the state, which, burdened by its large size and extensive activities, lacked the financial resources to meet its day-to-day obligations. The result was a very inefficient apparatus that put tremendous demand on public resources, and a lack of conviction among the population that these resources were well used.

The events of the past ten years have at least partially reversed this situation. A number of countries have resolved their external debt problems. But that was merely

the tip of the iceberg. Many countries have been engaged in a massive reform of the state—countries as varied as Argentina, Bolivia, Chile, Mexico, Uruguay, and, more recently, Colombia, Ecuador, Jamaica, Paraguay, Venezuela, and other countries of Central America. The fundamental element in this massive reform has been, of course, the reduction of the state itself through a cutback in expenditures, a cutback in the number of employees, a substantial reform of public enterprises, and, in some countries, a massive attempt at divestment, particularly in Argentina, Chile, and Mexico.

Simultaneously, there has been a movement toward decentralization of government. This movement was the result of the awareness that the central apparatus had become too big and was retarding the development of lower levels of government. Therefore, countries as varied as Colombia, Mexico, and others are engaged in a substantial process of divestment—divesting activities in social sectors to state and local governments, along with the financing for these activities.

So, there have been three basic trends in domestic management: first, the reduction in the size of central governments; second, privatization and, thus, increasing reliance on the private sector not just for the provision of goods, but in many cases for the provision of services, such as electric power, ports, and toll roads; and finally, the beginnings of decentralization of government. Along with these changes there has been in many cases a revision of the entire regulatory framework. And in some cases where there has been a substantial divestment of monopolies to the private sector, in such areas as telecommunications and electric power, a new regulatory framework has been adopted. Where the regulation of private activity had been particularly extensive, what is taking place is essentially the restructuring of the state.

In my view, what has happened in the past ten years is the beginning of the process. Some of the easy work has

been done—the work on macroeconomic and external trade issues—but the more difficult task still lies ahead. The reduction in the size of the state does not imply that the state should be weak. The functions that remain in the hands of the state must be performed effectively and efficiently. In my view, the leaner state must be a very strong state. The worst thing that could happen is that, at the same time that the size of the state is reduced, its capacity to provide social services and perform regulatory and other functions is reduced. That is clearly not what the reform of the state should be about.

A fundamental problem in Latin American and Caribbean countries, and probably in many other developing countries, has been that as the state expanded and its resources were spread thin, its capacity to provide the services that only government can provide was substantially weakened. That remains a fundamental issue.

I travel a great deal to the countries of Latin America. Typically in a country, I meet with people in the Ministry of Finance in the morning and with people in the Ministries of Education and Health, the environmental organizations, and so on in the afternoon.

The difference between the morning and the afternoon is like the difference between night and day. In the morning, I come across some of the ablest people in the country, people with tremendous experience in substantial issues; in the afternoon, I come across some of the weakest people in the government. My point is that despite the broad change in government, there is a fundamental issue of capacity, there is a fundamental issue of institutions, and there is a fundamental issue of priorities. If the state is going to establish its relevance for the people, it must do so by improving the quality of the services that it provides and that touch the lives of the people, particularly the poor people.

One of the unfortunate aspects of the Latin American economies is the poor distribution of income and assets. A study that we have done in the World Bank shows that not only is the distribution of income very skewed and adverse in the Latin American countries, particularly in Brazil and Venezuela, but that in many of the countries income distribution has worsened in the

years of the crisis. We need to ask what the role of the state is in this—a question that goes back to the issue of the capacity of institutions. The fundamental goal is to broaden human opportunity, even where some of the basic reforms, such as land reform, cannot be undertaken immediately. Thus, the state will have to improve its delivery of social services. By improving the quality of social services, and by investing its resources in these services, it will build the capacity of its institutions.

A second issue is the need to increase the available fiscal resources for these services. This brings me directly to the question of civil service and civil service reform.

Typically, the countries of Latin America have not had career civil services, except Chile, Mexico and perhaps Costa Rica. Other countries have had a very volatile structure, with career civil service typically only in foreign offices. Thus, if there is to be policy continuity, and if institutions are to be improved, then a part of the civil service reform must be to establish a durable and permanent civil service structure, based not on political nominations, but on merit, competition, and stable expectations.

A second part of the civil service reform must be to improve training, not just in social services, but in other aspects of government. In the Latin American and Caribbean countries, people are brought into government with very little experience in the issues that they are required to deal with.

Finally, the issue of compensation needs to be addressed. Inflation has taken a heavy toll on the compensation of public servants; many must take two, three, or even four jobs just to make ends meet. Now that the number of civil servants has been reduced in many countries, governments need to consider improving the quality of compensation in order to attract and retain high-quality people in the civil service.

These are just a few words about some of the issues that we see as critical in civil service reform. I have no doubt that in the course of the next day or two, much more light will be shed on such issues by people who are more competent in this area. I would like to thank you again for coming.

Civil Service Reform in Developing Countries

Ibrahim F. I. Shihata

I would like to welcome you to the World Bank's Conference on Civil Service Reform in Latin America and the Caribbean. At the Bank, we are beginning to realize that without effective government administration, structural adjustment programs and other economic reform initiatives are seriously handicapped. I choose to link economic and administrative reforms not because I work in an institution concerned with economic development, but because I believe that development is one indivisible whole. A country's income is not likely to increase, for example, while poor institutional conditions continue to exist. Even if that were to happen, it would not represent real development but transient wealth without sustainable roots.

In my presentation today I will look briefly at the types of problems faced by civil administrations in developing countries and then outline the elements of a reform program.

Problems faced by developing country civil services

You all know the most serious symptoms of administrative dysfunction: surplus employment, cost overruns, and poor performance. Some of these are the result of external factors, some of internal factors, but most are the result of a combination of both.

I am referring to three principal external factors. First is the increasing number of young people joining the labor force. Second is the poor economic growth rate, which means that the formal labor market cannot provide these young people with jobs. And third is the political expectation of many people that the state will always act as an employer of last resort. Together, these three factors have led to surplus employment in the civil service. It is important to note that they cannot be resolved rapidly, yet any reform program that does not take these external factors

into account is doomed to be overtaken by these same factors in the future.

Among the internal factors, most come under the heading of personnel management. For instance, many countries have adopted inappropriate policies for recruitment, such as the automatic hiring of graduates. Career development policies often are rather elementary and link promotion prospects to seniority rather than to performance criteria. Rigid policies on wages and compensation have constituted a fiscal drain on the state because governments have been unable to adjust wages. Perhaps as damaging has been the secondary result—their contribution to the failure of the civil service to attract and retain the most qualified and committed people for the job. Less easy to discern and define among the internal problems is the general philosophy of the civil service, in other words, the image the institution has of itself. Public administrations in many developing countries have failed to develop a professional ethic of political neutrality and a service-minded approach to their relations with the public. It is these internal factors that have contributed most to the low quality and inefficient performance of public administrations.

An approach to civil service reform

The principal elements of a comprehensive process of reform are, first, the elaboration of a clear vision of the role of the civil service and, based on this optimal role, the development of a comprehensive reform plan; second, the rationalization of rules and regulations for the civil service; third, the design of modern management systems; and fourth, the implementation of the program.

First, we need to define a comprehensive strategy. This begins with a rethinking of the role of the state

generally. Development theory at present firmly supports removing the state from the day-to-day running of the economy and allowing market forces to take over many of the old responsibilities of the state. Although this is a rather vague notion, it can be refined. For the civil service, it means retrenching the state from the provision of certain services, now best left to the private sector, and it means streamlining the ministries and regulatory agencies, particularly those responsible for the oversight of the economy. (For the state enterprise sector, it means less active participation of the state in the economy by limiting state enterprises to the provision of utilities and certain sectors of national interest.) Once the role of the leaner state has been defined, the mechanics of the new government need to be worked out, along with a plan to achieve this goal. This is what I mean by a comprehensive reform framework: a plan that outlines the specific reform measures needed, illustrates the linkages between them, and explicitly relates the relevance of short-term measures to long-term goals.

It is important that the reform effort have the full commitment of the political leadership. Bank experience has shown that effective implementation depends initially on the active participation of the most senior members of government. It is also important for the civil service management and rank and file to be involved in the process, to establish domestic ownership of the program.

The second step is a legislative effort. It involves rationalization of existing policies and rules and implementation of new legislation, to the extent necessary for the introduction of the reform program. For instance, the administrative laws that regulate the internal workings of the civil service, such as personnel regulations, might need to be amended to allow for the downsizing effort and to install flexible personnel management practices that are geared toward the recruitment of high-quality employees and that will, in terms of compensation and promotion, reward efficient performance. The other set of rules and policies that will need to be overhauled are those the civil service is charged with implementing. These range from foreign investment laws to the issue of building permits.

The third element of a reform process is the design of systems and programs that are appropriate to the needs of the new administration. The most successful of these systems have been based on private sector management approaches and have benefited from the flexibility gained and from the more up-to-date systems in use. These include:

- A *modern data collection and dissemination system*, which ensures accuracy and includes rules governing the confidentiality of information.

- A *financial system for budgeting and expenditure*, which includes budget planning and preparation, the control of expenditures, and a tender and contracting system.

- An *accounting and auditing system*, which ensures sound financial auditing.

- *Modern central personnel management systems*. These would include a *strategic planning system* at the ministry or agency level to forecast future staffing requirements over a period of, say, five years—and the consequent job reclassifications and specification of inputs—and to avoid a buildup of surplus staff, and a *personnel recruitment and management system* to recruit and promote qualified staff, particularly to high-level positions. This system may differ as to the degree of centralization of the personnel function. It appears that systems with some degree of centralization are more appropriate for developing countries generally. Another system would be a *human resources management system*, which ensures that the required skills will be made available and will be developed continuously through training programs designed to broaden experience and improve efficient performance, and through relocation programs. Finally, a *control and oversight system* would monitor staff performance and provide rewards and sanctions based on the efficiency of performance.

The main objective of these management systems is to ensure sustained and efficient staff performance and the achievement of the civil service's goals, as defined in the general strategy.

The fourth and final element of comprehensive reform is the implementation of the reform plan. This should begin with a determination of the numbers of employees and kinds of skills needed in each ministry and agency. This should then be followed by a survey of the work force (age, grade, position, and the like), including a determination of the skills available. The next step is to implement the elements of the reform program, including installation of the modern management systems that, by now, have been modified to fit local needs and are ready for use. Such reform measures would have three objectives: to halt the increase in the size of the work force, to reduce its financial burden on the state, and to revamp the work force so that available skills and staffing levels meet the service's needs, all within the scheme of a new service-oriented, professional, developmental bureaucracy.

I can suggest a number of measures to control the size of the work force. These include a freeze on new hiring and salary increases, the elimination of automatic hiring programs (for example, of graduates), the enforcement of retirement age, and the elimination of ghost workers. Voluntary exit programs may be introduced at this stage. These need to be carefully designed to minimize the danger of adverse selection, that is, the most efficient workers

leaving first because they most readily find alternative employment in the private sector. One way to avoid this would be for the employer to retain a veto right. Another design issue for voluntary exit is the size of the compensation to be paid to exiting workers. Of course, the principal aim is to minimize the fiscal burden on the state. As a final measure, involuntary retrenchment measures might be implemented. In view of the enormous human and political costs frequently associated with these programs, great care must be taken in their design.

The second goal of a reform program is cost-cutting, that is, the reduction of the financial burden on the state. This will be partly achieved by the decrease in the size of the work force. It can be further effected by introducing the modern personnel management and auditing systems prepared in an earlier phase of the reform process. For instance, the restructuring of existing wage and compensation policies might help both to reduce the wage bill and to improve the performance of the work force.

The third and final goal is the most important, and the most difficult to achieve. It is the elusive goal of changing sometimes monolithic institutions into lean and responsive administrations committed to developmental and social goals. In some countries this will require a radical transformation in the values and traditions of the institution, in others merely a revival of dormant professional ethics. Specific measures that can help are personnel management systems modeled on those prevalent in the private sector, which encourage efficient performance and reward accordingly. Other measures aimed at raising the prestige of the institution might also help attract better-qualified candidates for management positions. Performance-based criteria should be introduced not only into wage and compensation determination, but also into promotion and career development. In some environments, it might be more appropriate that these criteria be group-determined rather than individually based.

Civil Service Reform in Africa: Cultural Context

Abdul Magid Osman

The need for civil service reform

Civil service reform may be defined either in a restricted sense as the reorganization of public service management or, broadly, as the human dimension of administrative reorganization—to deliver public services more efficiently and effectively.

For this seminar, we will use the broad sense. Civil service reform should be considered a way to ensure the implementation of policies that provide for the well-being of the population through sustainable economic and social development. The reform is a necessary—but not sufficient—condition to ensure development both in interventionist states, such as Malaysia and Singapore, and in states whose policies are less interventionist, such as Botswana or Hong Kong.

Economic and social development require three conditions:

- Stability in the sense of respect for the rule of law.
- A climate of freedom that gives economic agents in the public and private sectors enough leeway for decision-making. (Business decisions are, unfortunately, very sensitive to political conditions and, above all, to the uncertainty of erratic government policies.)
- Assurance of a certain macroeconomic stability. (In Botswana, for instance, the stability of fiscal and monetary policies has played an important role in the country's economic success.)

Unfortunately these conditions are not in place in most of Africa.

If there is an active private sector, however, sustained economic and social development requires that government provide even more:

- The first requirement is an infrastructure network. Even if infrastructure operations are assigned to the private sector, the government will always bear responsibility,

especially for the allocation of resources. Poor resource allocation is considered one reason for the unsatisfactory economic performance of the African continent and, in this area, it would not be realistic to expect the market to substitute for government.

- The second need is for minimal basic services, such as health and education.
- The third need is for better governance through greater accountability, transparency, and public participation, which requires a civil service that can relate to the various social groups.

Although civil service reform is associated mainly with staff reduction, it involves much more. Let us look briefly now at the historical and cultural background against which these reforms are taking place.

Historical and cultural background

Although the historical and cultural background of each country is different, certain common elements deserve special attention.

It should be stated at the outset that this historical perspective does not imply fatalism. Instead, it demonstrates that political factors have impeded success so far. Conflicts between tribal groups and the play of special interests often preclude any concerted attempt at reform.

Many of the problems African countries face are rooted in the legacy of colonialism. It is accepted as fact that pre-colonial African societies had a code of conduct, albeit unwritten, that provided guidelines for the behavior of their leaders. African societies also had institutionalized mechanisms for control and for popular participation, even though such participation was limited to certain social groups. This arrangement corresponded to feudal societies on other continents, particu-

larly in Europe, where popular participation was restricted to certain social classes.

Furthermore, pre-colonial African societies had highly decentralized political, economic, and social activities. Centralization was introduced with colonialism, which by definition presupposed an omnipresent state and a structure of vertical domination. The participation of nationals was violently suppressed. The state became an instrument of domination and humiliation, alien to African society. It comprised foreigners and a few nationals at the middle level, referred to as the “assimilated,” who, even after independence, were rejected by the population. There was no possibility whatsoever of popular participation, and the model of decentralization was abolished. Against this background in which tribal chiefs were used as instruments of the colonial power for pacifying the populace, it is no surprise that African countries have not developed a culture of management; their access to management organs was denied.

After independence African societies began to question the role of government. The need for national capacity-building moved to the center stage of international cooperation only when economic and social crises became intolerable. But we must bear in mind that the “new” public administration was wholly based on the colonial model, and the role of the new administrators was only to maintain the existing system. Maybe no other solution was possible in the absence of experienced managers. Gradual decentralization should have been adopted—as it was in Botswana—but this gradualist approach was seldom used.

Post-independence public administrations replicated the lack of accountability of the colonial administration, set up to dominate and oppress. The colonial administration had, however, a high degree of accountability to hierarchical superiors who, in some cases, were in the colonial metropolis. This feature has taken the form of clientelism in post-independence administrations.

The system had some measure of openness and economic transparency only where the colonial bourgeois population was large and had different economic interests than those of the African populace. These differences forced the administration to serve as independent arbiter on behalf of the colonial bourgeois. But usually the system had neither transparency nor economic and political openness toward nationals. After independence—and in the absence of a large national middle class that could demand, at least, economic transparency and openness—post-independence African administrations exhibited even less transparency.

The initial enthusiasm and mobilization of the people was not used to promote popular participation. The

struggle for independence gave the elites who assumed power a legitimacy to govern. Leaders emerged from the struggle against foreign domination. Except in Namibia and Zimbabwe and some earlier cases in British Africa, the process of handing over power was not followed by elections. Under these circumstances, the governing elites felt no responsibility to be accountable.

The inherited system of administration is artificially maintained through technical assistance. If technical assistance were fungible, the volume of assistance would be dramatically reduced without prejudice to national capacity.

In many cases, government is used as an instrument for the enrichment of individuals and related ethnic groups. This is an elegant way of referring to corruption. Corruption is detrimental to reform, but its eradication is not a precondition for progress. In many cases countries that have corrupt, elitist governments still manage to achieve notable economic and social development.

Obviously, however, corruption—and, above all, capital flight—form a terrible scourge. Capital flight badly hurts the chances for sustainable development. The striking feature of corruption is the impunity with which it is practiced and the appropriation by public officials of all instruments of power—means of communication, courts, and public administration—which curtails economic freedom and predictability. The fight against corruption cannot be the explicit centerpiece of any civil service reform, but reform should increasingly expose, punish and thus curb corruption through the improvement of systems.

Why government should introduce civil service reforms

We would like to believe that government has decided to be accountable, transparent, and open—economically and politically—and establish a system based on the rule of law. By this logic, government decides to promote civil service reform, having become aware that better governance and civil service are needed to make the best use of available public resources.

In Latin America these are often the operative motives, but, unfortunately, the same is not true of Africa. There, reforms are associated with structural adjustment—as a condition of structural adjustment or because the donor community has concluded that full implementation of structural adjustment requires development of a broader national capacity, of which civil service reform is an important component.

Because there is often no political consensus favoring civil service reform, many reform programs:

- Are limited to the management of human resources—controlling budgets for state personnel and defining administrative and technical careers.
- Lack the commitment typical of the early stages because it fades when the conditionalities have been met or the composition of government changes.
- Lack continuity and depth because national management officials are either absorbed in project management—hired for that purpose by donors—or they are simply unmotivated and choose to “abandon” the civil service and even the country.

The inability to retain good national managers undermines national and international efforts and drains resources for reform programs, which then become unsustainable. Even in countries such as Zimbabwe, which has wage levels that are relatively high for the region, some institutions have a turnover of qualified staff of more than 30 percent. This is the case at the University of Harare. And at the University of Lusaka, several departments do not have even one professor native to Zambia. This situation is not limited to universities, but affects other institutions, some of which have direct responsibilities for the management and implementation of economic adjustment—as in Mauritania and Mozambique.

The desire to secure implementation of their projects and programs leads many donors to provide technical assistance. In some countries, the situation has become so absurd that the amount spent on technical assistance is three times greater than the total wage bill for the public sector.

To resolve the problem of compensation for civil servants, domestic and external constraints must first be overcome. Donors are reluctant to grant budgetary assistance, for fear of corrupted elites and increased dependency. Governments are reluctant to widen the gap between the highest and lowest salaries—preferring the shortsighted solution of retaining managers with inducements that make it difficult or impossible to introduce a system of merit. Governments often prefer to recruit foreign technicians because it is easier to find international financing for expatriates than to budget allocations for hiring nationals.

Some of the donors' fears are justified. Simply increasing wages of national managers cannot produce the desired change, especially without other, more substantive measures to improve public sector performance.

Regarding corrupted elites, when the state becomes the primary source of wealth-building, wealth-seeking becomes the main preoccupation of the political class—and public servants are not immune to this process. So how can we create a class of managers that can resist the influence of special interest groups associated with the parties in power? There is absolutely no doubt that when the accumulation of wealth is separated from power, the

bureaucracy becomes more accountable and more independent. And as the bureaucracy becomes more independent and, above all, accountable to the judicial system, the influence of special groups can be gradually reduced.

However noble, the separation of power from the accumulation of wealth will, in our view, be impossible to achieve until some conditions are met internally—apart from pressures by donor countries. One condition is building national capacity in technical, administrative, legal, and political fields.

This is why the professionalization of managers and technical cadres—including in the judicial field—and the introduction of a system of merit are so important. These measures do not in themselves guarantee greater transparency or even greater accountability to the public that uses the services. But their introduction is a precondition for better public administration. The measures also help to enlarge the middle class, improving the prospects for better governance.

Although the creation of a professional class is not enough, it enables civil society to be more demanding—for citizens to defend their own rights, not merely through the ballot box. The demand for greater accountability, transparency, and legality does not arise from an abstraction, nor is it imposed from outside. It results from social pressures and the need to reduce the arbitrariness of monarchs or governments. It arises because groups have different interests and strive to protect those interests.

Professional associations and trade unions have always had ways of communicating their concerns to governments and of demanding explanations about processes and procedures. Such organizations systematically push for greater openness and fairness, and thus greater accountability. But none of this pressure exists in Africa. Political parties do not represent different social groups and there are no other politically oriented organizations. So the question is, what, besides riots, can force governments to be concerned about performance and about their reputations with regard to the population?

Too much attention has been given to the state as a tool for reform. Reform in Africa cannot depend only on the introduction of new techniques, on a bureaucratic elite, or even on a large and dynamic private sector. The process must be based mainly on the strengthening of civil society through closer interaction between the state and other social and political forces—such as professional associations, trade unions, nongovernmental organizations, and community-based organizations. Moreover, the bureaucratic elite and the private sector will only strive toward reform when they operate in a society that can control the bureaucracy and demand of it greater transparency and respect for legality—or for the values established by popular convention.

Modernization does not have the luxury of centuries to unfold, as it did in Europe. At the same time, modernization cannot take place only on the surface. Above all, it should not be imposed from outside. The process must have its roots in an internal dynamic based on popular traditions, which continue to be transmitted through generations, and constitute an element of pressure for change, for greater transparency of procedures, for a bureaucratic elite that is more accountable, for a private sector that is more sensitive to the national interests, and for greater respect for legality, even when it means a system of values rather than legal instruments as such.

More important, this process must create a dynamic in which the population—and not the donor community, as too often happens—will be the main protagonist in its development. For example, technical assistance has insisted on the accountability of external flows toward the donors, but that has not resulted in a strengthened national capacity for creating a system that is accountable to the people in the country.

The integration of civil service reform into a larger process—the strengthening or re-creation of the civil society—has tremendous consequences. Without integration, initiatives and new systems cannot be sustained. This larger process must include redefinition of the government's role, reform and strengthening of the judicial system, decentralization (horizontally and verti-

cally), and an increased role for nongovernmental organizations.

Conclusion

The United Nations Development Programme is ready to cooperate with the recipient states and donor community in the search for new alternative approaches to civil service reform.

The foregoing description may appear excessive, because in the final stages of colonialism—particularly after the Second World War—the colonial powers did make an effort to improve basic services and to promote national participation. But the colonial period was much longer than the past thirty years of “repentance.”

I wish to stress that we do not intend to question the role played by structural adjustment programs in the introduction of reforms, many of which have been genuinely national. We recognize the merit of structural adjustment programs in producing radical change in attitudes. A few years ago, it was impossible to conceive of policies that today are widespread, such as exchange rates determined by market forces or the primacy of the private sector over the public sector in production. Structural adjustment has given a new dimension to the role of government and revealed the need for more far-reaching reforms.

Civil Service Reform: The African Experience

Mamadou Dia

The advantage of being the fourth speaker is that it gives me the privilege of building into my presentation some of the key elements brought up by the previous distinguished speakers. From Vice President Husain my presentation would capture the need for civil service reform to be seen as a way of dealing with the crisis of government; from Vice President and General Counsel Shihata I would pick up the need for a systemic approach to civil service reform; and from Dr. Osman, that culture and history should be taken into account in designing a civil service reform program in Africa. These three themes will resonate throughout my presentation, which could be titled "The Need for a Governance Approach to Civil Service Reform."

Introduction

In many countries of Sub-Saharan Africa (SSA), development efforts are threatened by the ineffectiveness of the civil service. This crisis assumes more significance when the civil service is required to play a central role in planning and managing fundamental changes in the economy as part of structural adjustment programs. At the end of 1991 there were fifty-seven Bank-supported operations in Africa—Structural Adjustment Loans (SALs), Technical Assistance Loans (TALs), and Social Dimensions of Adjustment (SDA)-related projects.

With SALs, the Bank focused on two key components: retrenchment to reduce the wage bill; and reform of pay and employment policy to create incentives for greater efficiency and productivity in civil service. With TALs, it focused on building institutional capacity and on the physical implementation of projects and reform programs.

Results have been mixed. Regarding retrenchment, the gross figures indicate a considerable downsizing effect. But on the qualitative side, both the fiscal and efficiency

impacts were substantially less than expected. In a sample of fifteen countries with retrenchment, eight recorded increases in their wage bills (for example, Senegal). Even among those registering reduced wage bills, severance payments generally drained the budget substantially, often exceeding or equaling the short-term savings from downsizing (for example, Ghana).

TALs also showed relative success in the delivery of technical inputs to solve short-term physical implementation and technical problems. However, the resulting overreliance on substitute technical assistance (long-term expatriate advisers) was ineffective in building long-lasting and self-sustaining institutional capacity. The major cause of these failures is that civil service reform programs, and SALs and TALs, have generally ignored the macro-institutional or macrogovernance environment and its impact on civil service efficiency.

The patrimonial administrative environment in Africa

After independence, most successor regimes supported the concept of a strong central government that would ensure economic equity to all citizens. Without the necessary checks and balances, this resulted in the emergence of highly centralized and all-powerful patrimonial states characterized by:

- *Lack of accountability.* In most African countries with single-party (and even some with multi-party) systems, the state generally emphasizes exercise of power and control rather than service to the civil society. Three institutions that could provide checks and balances and enhance accountability—legislatures, interest groups, and the mass media—are also significantly weak.
- *Lack of the rule of law.* The courts in African countries are by and large dependent on the executive branch, and

thus, generally placed within a ministry or department of justice. Furthermore, laws which generally were formulated during the colonial period are not deeply rooted in the popular understanding. Finally, it is common practice in many SSA countries for the makers and enforcers of laws to consider themselves above the law.

- *Patrimonial pay and incentive systems.* In the patrimonial state, political and personal loyalty are rewarded more than merit. Politicians and bureaucrats use the state to reward themselves and their supporters. Public bureaucracy thus becomes a very attractive form of employment and a source of bureaucratic rents—hence the resistance to retrenchment programs.

- *Disabling regulatory burden on private sector development.* The combination of the patrimonial state and the absence of the rule of law puts the average entrepreneur at the mercy of the political elite and of bureaucrats. Thus, entrepreneurs use their wealth either to buy into the elite echelons and thereby gain access to rents—becoming accomplices or fronts for bureaucratic capitalism—or to protect the wealth.

- *Distorted resource mobilization.* The patrimonial system leads to tributary and regressive tax and customs systems that spare the rich and powerful (through exemptions, evasions, and so on) and drain the poor. Studies indicate that the developmental impact of improved resource mobilization and tax administration is far greater than the traditional retrenchment program included in the SALs, and that it comes at a substantially lower social and political cost. In one example, the loss from the regressive policies amounted to 9 percent of gross domestic product (GDP).

- *Bureaucratic budget management.* Despite the existence of economic and financial allocation criteria, budgetary authorizations and appropriations, as sanctioned by cabinets and legislatures, generally reflect the relative power of the bureaucratic elite rather than the economic priority of funded programs. Serving the military and vocal interest groups takes precedence over supporting important economic projects and programs.

The civil service reform package

Design of a reform program that would take into account the above issues would be in two phases. A first, upstream phase would focus on assessing the institutional environment to determine the patrimonial profile of a country; high, low, or in-between. This phase would be most appropriately addressed as part of the upstream economic and sector strategy work. A second, prescriptive phase would determine the nature of the reform package and

lending instruments suitable to a country's profile. Depending on the patrimonial profile, three alternatives could be considered: the comprehensive institutional approach for countries on the high end of the patrimonialism scale; the enclave technical approach for countries on the low end; and a hybrid of the previous two approaches for countries in between.

Comprehensive institutional approach

The aim of the comprehensive approach is to effect the structural and functional changes needed to correct patrimonial distortions in the institutional environment, the incentives framework, and the performance of core government functions. The different components of the reform are those described above in the analysis of the patrimonial environment. Sectoral Adjustment Loans (SECALs) would be used to support the above reform. The comprehensive approach would be appropriate not only for a country that is on the high end of the patrimonialism scale (for example, Zaire) but also for a country starting anew (Eritrea). The major benefit is the building of long-lasting and sustainable institutional capacity in the public sector. The major drawback is that the approach tackles complex and difficult issues—incumbents, institutional reform, governance—that will take a long time to resolve.

Enclave technical approach

In countries with a low patrimonial profile, problems hampering civil service efficiency are more managerial and technical than environmental. Patrimonial distortions are either nonexistent or are being resolved. The aim therefore is to build and reinforce organizational, managerial, and technical capacity to improve the performance and productivity of existing institutions. Botswana provides a good example of a successful enclave. A variation on the enclave approach is the removal of tax and customs administration from the civil service. Tax and customs administration becomes the function of an independent agency or authority, managed by nationals who are not civil servants, but rather are contract employees whose pay and conditions of service are linked to performance. This approach has been adopted in Ghana and Uganda. A similar enclave operation is being prepared in Cape Verde. Free-standing TALs constitute appropriate lending instruments in this case. Loans should include performance evaluation systems, however, to link employment and pay to merits.

Unfortunately, the enclave approach has sometimes been used in environments with patrimonial distortions.

The purpose was to build fences to insulate organizations from the distorted institutional environment in order to implement specific donor-financed projects; to carry out specific core government functions (such as customs); or to ensure the delivery of specific public services. The resulting enclave entities take the form of donor-financed project management units (PMUs); public enterprises; management contracts with expatriate experts (for example, DGTEX in Côte d'Ivoire, French management of Air Afrique); and even direct tutelage by bilateral donors of certain key government economic or financial functions, in exchange for their assistance (for example, customs). The common denominator in all the above enclave entities is that they are completely donor-driven and donor-dependent—and unsustainable. Ethiopian Airlines, which by all accounts is Africa's leading airline, is an interesting exception. It provides quality service that compares favorably with international standards, despite an unfavorable macroinstitutional or macrogovernance environment. A major difference is that it relies on local management instead of a transplanted expatriate team.

These contrasting examples of the enclave approach lead to two conclusions. First, with regard to enclave institutions that are donor-driven and that rely on donor assistance for their effective functioning, the short-term benefits do not really constitute a solution to the institutional capacity-building problem of the borrowing countries. Second, with regard to the successful endogenous enclave institutions, it would be necessary to distill the main lessons from this experience with a view to adapting them for use in other contexts.

Hybrid approach

The last approach is applicable to countries with an average patrimonial profile. It builds on the strengths of the preceding comprehensive and enclave approaches, with a few twists. The *comprehensive component* would be bottom-up instead of top-down. The starting point would be the identification of one or a few core government functions that are critical to the improved performance of economic and public sector management, but that are not performing well (for example, resource mobilization). The assessment phase would analyze the macrogovernance and other structural root causes of this poor performance and recommend an appropriate reform program. Recommended changes in the macroinstitutional environment or in macrogovernance, and in pay and employment, would then be considered—as a means to achieve improved performance in the targeted core government functions, not as an end in themselves.

The *enclave component* would focus on the production aspects of service delivery. The approach would be to shift production and management responsibilities from the public to the private and other (volunteer non-governmental organizations [NGOs]) sectors, rather than to build fences around ad hoc enclave organizations. This would be more in line with the redefinition of the role of the state, with more focus on provision and less on production. In contrast to the donor-driven enclave approach, the institutions and staff used for the management and delivery of public services should be local rather than expatriate (AGETIP in Senegal, Ethiopian Airlines). Cost recovery through users fees would be built in to reduce dependence on donors and to ensure long-term sustainability. The resulting hybrid adjustment operation would therefore include two major components:

- A *sectoral adjustment component* to support the removal of patrimonial distortions in the institutional environment, creating an enabling and accountable institutional infrastructure for improved performance of targeted core government functions. Improving targeted core government functions will require structural changes in the role of the state and its key institutions, rendering it more responsive to, and less oppressive of, the public interest; functional-behavioral changes, through alterations to the induction and incentive systems, linking them to performance; and technical-managerial changes to remove distortions in the performance of core government functions.
- A *technical assistance component* to facilitate the use of the private sector, local communities, and voluntary organizations (NGOs) for the delivery of public services (health, education, agriculture, and so on). This could include contracting out or management contracts. This could also include technical assistance to help implement the adjustment component.

Government commitment and participation

It is clear that the outlined changes are likely to shift the burden and costs of the reform to the elite, who were the main beneficiaries of the patrimonial state and its accompanying spoils and rents. As a result, government commitment to such reform programs is likely to be strong only in new regimes that have just come to power (through democratic or other processes) and that will be looking for ways to distance themselves from their predecessors. Regimes that have been in power long enough to benefit from the patrimonial system are likely to resist the reform. In these cases commitment must be fostered through forceful leveraging from donors.

Sequencing

The design, development, and implementation of the proposed administrative adjustments operations will clearly be a labor-intensive and long-term process. This raises the issue of sequencing and comprehensiveness. Clearly, the choice of a comprehensive program that covers all three levels of reform, or a more scaled-down, hybrid program

that focuses on only one or two components, will depend on where the administrative profile of the country fits on the scale of patrimonialism. The ultimate goal is to move away from a patrimonial bureaucracy where the emphasis is on control and the exercise of power as instruments of exchange, to an administration where emphasis is on the delivery of services needed for development and on providing rewards or sanctions that reflect merit and performance.

Public Bureaucracies in Developing Countries: Ten Paradoxes

Moises Naim

Civil service reform is one of many burning issues in development that are long on diagnostics and short on prescription. It is often quite easy to identify public bureaucracies that are not working and to note how such defective public sector organizations hinder development and perpetuate poverty. However, good ideas about how to upgrade devastated bureaucracies are much more scarce. Increasing salaries, recruiting better people, fighting corruption, enhancing training, tightening controls, improving accountability, installing a merit system, decentralizing, streamlining procedures, privatizing, or even “reinventing government” are some of the good ideas that, if effectively implemented, could improve performance in the public sector. Unfortunately, in many developing countries, such means of reaching utopia—that is, a more efficient government—are themselves utopian.

In most developing countries, public sector organizations have been so severely damaged by decades of abuse, neglect, congestion, and corruption that many have great difficulty performing the tasks for which they were created. In some cases, their “core” tasks tend to be simpler to perform than those that are commonly prescribed as solutions to their organizational problems. Upgrading the capacity of an institution often requires more skills and resources than those needed just to run it.

For example, establishing career plans, restructuring, or streamlining operations may indeed upgrade these institutions. But the impediments to the successful adoption of such means are so enormous that they make such solutions no less utopian than the ends at which they are aimed.

Writings on civil service reform in developing countries often suffer from this “utopian-means,” offering prescriptions that, while obviously good ideas that merit attention, are typically very difficult to implement. A good idea that is very difficult to implement is, after all, not that good an idea. This should not be taken to mean that proposals about civil service reform should be confined to

those few simple and relatively modest changes that public bureaucracies are capable of implementing. Outside pressures, resources, and change agents have often been powerful catalysts for positive reform. The point is that prescriptions about civil service reform have to be based on a deeper understanding of the determinants of public sector malfunction in developing countries than we seem to have today.

The performance problems of public bureaucracies result from a complex blend of political, economic, cultural, and organizational factors, thus limiting the effectiveness of solutions that are inspired by only one of these facets but ignore the others. For example, eliminating political influences in the recruitment and promotion practices of a public hospital may be a necessary condition for improving its performance. But without also changing the hospital’s organizational culture, increasing its resources, and overhauling and modernizing its standard operating procedures and managerial practices, depoliticization alone is not enough. It may even lower performance.

Conversely, making more money available for a public hospital without making sure that the additional funds will not be appropriated to unions, private vendors, and the web of small groups that under the protection of politics manage to steer decisionmaking in their favor, would also be useless. The same holds for managerial prescriptions that fail to take into account how the absurd and wasteful managerial practices often found in public bureaucracies are rational responses to the political, cultural, and economic environment in which the organization has to operate.

Ten paradoxes

The search for novel and useful approaches to upgrade the public sector will have to incorporate explanations for

some of the recurrent paradoxes that are common to almost all of Latin America's public bureaucracies. The following ten paradoxical characteristics of the region's public sector offer interesting avenues for further exploration into the nature of the problems.

The first paradox is the debilitating effect that expansion of the state has on state power. For decades, Latin American states sought to improve their performance and that of their public sector by expanding their scope of activities and through constant additions to the list of tasks for which they were directly responsible. Contrary to their intentions, this rapid and intense diversification effectively weakened the public sector. This phenomenon is now well documented. The social debacles that resulted from public sectors that were too busy managing steel mills, airlines, and hotels to pay adequate attention to health or education have been well analyzed.

The second, closely related paradox is that, often, the more overstaffed an agency is, the more congested it tends to be. Many agencies seem to suffer from a chronic incapacity to offer timely and adequate responses to the needs of the public. Such congestion is frequently dealt with by increasing staff size. But adding staff seldom results in more operational slack. Such agencies are normally overwhelmed by requests to do things for which they lack the necessary resources and capacity.

The third paradox is that the more regulations, rules, and legal frameworks—*reglamentos*, in Latin America—there are, the less control there is, and the weaker that control tends to be. The system is, of course, more rigid, but at the same time, easier to undermine. In the quest to control corruption, the public sector has been burdened by so many controls and restrictions that its operating capacity has been severely impaired. At the same time, such excessive controls are rarely effective as tools to reduce corruption.

The fourth paradox is that the higher the responsibility of an individual, the less authority he or she has. The lack of proportion between responsibility and authority is often appalling. By authority I mean not only power, but the resources and tools that people need to perform their functions. This issue is related to congestion and to the increasing inability of many of the region's public institutions to achieve the goals for which they were originally created. An audit of Latin American public agencies would probably reveal that a large number of them cannot, for a variety of reasons, effectively perform their central tasks. Tragically, there is evidence that this incapacity is more frequently found in agencies charged with delivering the public services more intensely utilized by the poor.

The fifth paradox is that, although governments have been finding the coordination of their activities increas-

ingly difficult, throughout the 1970s and 1980s they enacted more and more policies whose implementation—and success—crucially depended on interagency coordination. The less governments are capable of coordinating themselves, due to weak interagency coordination or almost nonexistent central coordination capacity, the more prone they seem to be to adopt policies that are dependent on interagency coordination—sharing information, closely monitoring each other's functions, and effectively taking their interdependencies into account in their decisionmaking.

The sixth paradox is that the state seems better able to attract and assign talented public servants to the easier jobs than to the tough ones. It is easy to get a competent public administrator to manage a state-owned enterprise, for example, but difficult to get a competent person to work in the Ministry of Education or Ministry of Health. Thus, throughout Latin America there is a great contrast between the heads of the ministries of finance or economy, or the chiefs of state-owned enterprises, and the people in charge of the most crucial and difficult tasks of providing education, health, and social services.

It is easier to be successful as the president of a state-owned company than as the head of a municipal garbage collection department. Again, this has a great deal to do with the lack of proportion between authority and responsibility. The president of the state-owned enterprise has more resources, people, tools, and institutional backing than the manager in charge of collecting garbage in a Latin American city.

The seventh paradox is that turnover rates seem to be inversely proportional to hierarchical levels. The higher in the hierarchy an individual is, the greater the probability that he or she will have a short tenure. There seems to be a dual system in which turnover is much higher at the upper and middle levels than at the lower levels.

The eighth paradox relates to the decentralization that the Latin American and Caribbean region has been undertaking, along with the rest of the developing world and even the post-communist states. Decentralization in Latin America is happening in different stages and is driven by two different forces—managerial and political. Managerial decentralization occurs when, after analyzing a public function, it is decided that the way to improve capacity and performance is to decentralize. Although this measure is often valid and effective, it is also frequently hampered by faulty implementation. Typically, a new organizational chart is drawn. Then the logo, institutional symbols, titles, and job descriptions of the organization are changed. And the illusion of a new organization is created. But out in the field and in daily operations, the organizational culture continues exactly as it was. In fact,

altering patterns of behavior and routines that people have been following for years, and for which in many cases there are powerful—and implicit—political and economic motives, is very difficult.

As a consequence of the periodic attempts at decentralization, the region has highly fragmented public sectors. Truncated decentralization episodes have left organizations with organizational charts that blend old organizational forms with various changes implemented in successive decentralization efforts—resulting in a hybrid that no one had planned. These organizations can be likened to an old house in which once you start peeling the paint off the wall, you discover several layers reflecting different attempts to remodel and modernize the house. Similarly, once you peel away the layers in most public agencies in the region, you find different organizational charts—the results of different attempts, begun as new governments and new managers came in, to give new life, new meaning, a new name to the organization. Each attempt at reform is superimposed on the previous one. And many reform attempts are abandoned halfway through because conditions have changed or the person who initiated them has left his or her position. Normally, organizational changes take much longer than the tenure of those responsible for them.

The other force driving decentralization—one that is more recent and much more intense and important—is political. Many countries around the world, including in Latin America, are moving toward a new federalism. Every region and city has constituencies seeking greater autonomy from the traditional center. This movement toward decentralization and regionalism has been rapid as a result of the deepening of democracy in the region. Democracy always increases participation and the need for people to have a greater say at the local level. As a result of these changes, the region is moving away from a highly centralized national and administrative organization to one that is much more decentralized and in which power is in the hands of governors, mayors, councilmen, and city officials who have been directly elected by the citizens of that locality.

In the long run, decentralization is bound to have a positive net effect, but there is increasing evidence that in the short run it is weakening the capacity of the state to deliver public services. There is increasing evidence, for example, that the decentralization of educational services decreases their effectiveness in the short term. It is easy to imagine that this is also happening in other areas. Decentralization does, of course, have consequences for the fiscal aspect of reform; the experience of Brazil in this respect is well known. The decentralization of public finances there has made it difficult to bring the country's fiscal stance under control.

The point then is that although decentralization may have positive political and administrative impacts, it is difficult to implement. In the short run countries may see the performance of their public bureaucracies decline as a result of badly implemented decentralization programs.

The ninth paradox is that despite ample opportunities to learn from past experiences, public organizations, overburdened with repetitious tasks and problems, tend to repeat mistakes. There is much evidence that public organizations in the region, and probably elsewhere as well, suffer from profound learning disabilities. In order to understand what causes the public organization's impaired learning capacity, it is important to go beyond denouncing it.

The tenth and last paradox is what I have referred to as the paradox of the forgotten price. One of the main goals of the macroeconomic reforms and attempts at economic liberalization that are taking place around the world is getting the prices right. These reforms aim at setting an exchange rate to reflect market realities, getting the prices right for goods and services, and getting the interest rate right. But there is one price that people pay little attention to—the price paid to those in charge of getting the rest of the prices right.

The background materials for this conference provide useful statistics on wage compression in the civil service and the lagging salaries for higher-level public servants. Reforms have worsened salary conditions in the public sector. Historically, there has been a gap between public and private salaries, but reforms have wrenched open that gap. Economic reforms increase opportunities in the private sector and therefore increase the demand for managers, thus pushing up their salaries. At the same time, reforms in the public sector call for fiscal austerity, which tends to erode salaries, since inflation is normally higher than wage adjustments. So, at the same time that reform creates all sorts of incentives in the private sector for competent managers, it inhibits salary opportunities for competent managers in the public sector.

Conclusion

As noted above, there are three general ways of tackling some of the problems implicit in these paradoxes. The first is the managerial-technocratic approach: if there is salary compression, analyze it, look at the statistics and the comparators, and develop an appropriate framework to correct the distortions. The second approach, which for lack of a better name can be called the economic approach, is driven both by fiscal considerations and a preoccupation with competitiveness, and the need to inject more competition into private and public sector sala-

ries and labor markets. The third is the political approach, which essentially asks what the political determinants of the problems are and what determines whether there is the political will to achieve effective reform in the public sector.

To conclude, it is perhaps useful to note several issues that will concern us in the future. It is easy to predict that in the same way that the mid- and late 1980s and early 1990s became the era of macroeconomic reforms and economic shocks in Latin America, the late 1990s and beyond will be the era of institutional shocks and institutional reforms. As is often noted, the easy part has been accomplished. The decree-driven reforms that have been carried out nearly everywhere were politically traumatic and socially painful, but administratively very easy; all that is needed to devalue the exchange rate or liberalize prices is the stroke of a pen.

To upgrade education or improve the delivery of health care services will require a much more complicated process of reform. We have hypotheses and some experience in this area, but we lack strong theoretical frameworks that can guide us through the maze of institutional

reform. To undertake this kind of institutional reform—and here I will indulge in some “utopian-means” prescriptions—it is important to begin to attract more talent to activities related to civil service reform, not to mention a desperate need to upgrade the quality of the agencies in charge of public sector human resources.

This approach will not be sufficient, however, if more and better knowledge does not become available. And more and better knowledge will not become available unless: (1) the managerial-technocratic approach, the economic approach, and the political approach to these problems are integrated; and (2) greater efforts are made to develop more comprehensive frameworks and more reliable instruments to deal with these problems. This, in turn, will depend on a coherent, systematic, and sustained effort at consciousness-raising—convincing our governments that investment of effort in macroeconomic reforms will be wasted if similar effort, talent, and funding are not invested in the institutional reform of the state. And this will require attracting and retaining the best talent available to deal with the complex tasks on which all the states in the region will embark in the coming years.

Civil Service Reform in Japan

T. J. Pempel

The Japanese civil service has consistently demonstrated several traits that make it an appealing object of study to administrators in other systems. Several attributes deserve highlighting. The Japanese civil service has continuously attracted high-quality personnel. Japanese civil servants generally perform at high levels of competence throughout their civil service careers, and their activity pattern is characterized far more by action, initiative, and creativity than by inaction, inertia, and routine. Japan's civil servants enjoy high prestige throughout the country, and competition for civil service positions is intense.¹

In addition, the Japanese civil service is widely recognized for the efficiency with which it performs its functions. It is frequently seen as among the most powerful and effective organizations in Japan and as a major contributor to the nation's internal cohesion and its long-term economic growth, although there is some disagreement over its specific contributions.

Perhaps most intriguing about the Japanese civil service, however, particularly in the light of its high quality, is its relatively small size,² its generally low cost of operation, and its frequent administrative reforms, including downsizing.

As I will attempt to demonstrate, there is a connection among all of these attributes. The continual reform measures, and the fairly constant efforts to limit the size of the civil service, have led far less to defensiveness and self-protective adherence to routine by Japanese civil servants than to self-confidence, esprit de corps, and willingness to work with exceptional vigor. Rather than undermining efficiency and morale, administrative reform has enhanced them.

Two characteristics of Japanese administrative reform deserve particular attention. First, the annual Japanese budgetary process builds in an ongoing, inconspicuous process of reform by agencies and ministries. Second,

there has been a series of more visible, periodic efforts to examine and reorganize the civil service, efforts that fit more traditional definitions of administrative reform.

Annual constraints on agency spending

The annual budget limits set by the Japanese Ministry of Finance (MOF) provide one of the most important controls on Japan's administrative and civil service costs. The MOF has been able, throughout most of the postwar period, to establish and maintain limits on the total national budget and on the annual budget requests of each agency.

Japan's constitution provides that the cabinet prepare the national budget. But in accord with the Finance Law, and in practice, the MOF performs most budgetary work and oversight. Japan's budgetary process runs on an annual cycle. Just after the beginning of each fiscal year (April 1), Japan's agencies and ministries are required to lay out their budgetary requests for the next fiscal year. What is most important about this process for our purposes is that each agency must keep its requests within total spending limits set by the MOF and may not request an increase that exceeds a percentage that the MOF specifies.

Once these broad outlines are submitted, generally in September, officials from each agency must defend their proposed figures before the MOF's Budget Bureau and its budget examiners on a line-by-line basis. Further negotiations follow, including some that involve elected officials, but the end results rarely stray far beyond the MOF limits.

From 1960 to 1964, the MOF set generous limits. Agencies were permitted to request up to 50 percent more money for the next budget year than they were currently receiving. In 1965 the permitted increase was

reduced to 30 percent, and from 1968 to 1975, with one exception, it was 25 percent.

Japan's strong economic growth, at 10 to 11 percent or more annually, made these generous annual increases possible and also made it easy for the MOF to meet them through the natural growth in tax revenue. Yet the limits allowed the MOF to control the expansion of the budget of each ministry and agency and, thus, to control the overall budget and ensure, until 1965, a balanced budget.

The cap for budget increases was tightened further during the second half of the 1970s, to about 15 percent, and since then, the restrictions have been vastly more stringent as part of the much broader administrative reform effort. During most of the 1980s and early 1990s the MOF cap on requests for budget increases has generally been about 1 to 2 percent a year, and for several years it was zero or slightly negative (Kato 1991, table 2.1).

The Ministry of Finance adheres quite tightly to its outer limits on budget requests. An agency whose budgetary needs for a program or programs would drive its budget beyond the MOF cap must therefore identify other activities that it is willing to cut back within the MOF limits. The budgetary process thus compels each agency to continuously reassess its missions, organization, and personnel use at least once a year. The tight budgetary constraints go a long way toward overcoming any tendency among agencies to expand their activities and budgets without reassessing the value of past or ongoing activities. Japan's budgeting process has made certain basic administrative reforms automatic.

The process works for two related reasons. First, the Ministry of Finance has long had, and continues to maintain, nearly absolute control over the basic outlines of the budget, including the annual budgetary cap. Japan's elected officials have traditionally been willing to defer to the MOF on budgetary matters. Thus, the Ministry of Finance serves as an outside policeman, effectively forcing agencies to continually assess and streamline their roles, missions, and spending patterns.¹ That the impetus for reform comes from the outside makes the reform more palatable. Furthermore, because the MOF applies the annual budget cap equally to all agencies, it creates an air of fairness and nondiscrimination that contributes to the agencies' acceptance of the cap.

Second, the details of implementing agency budgets are left to the agencies. Ministry of Finance officials are quick to discuss options for policies, personnel utilization, and budget allocations with agency officials, but they rarely seek to impose specific programmatic solutions that would involve expanding program A at the expense of program B, or cutting bureau C to allow for an expansion of bureau D. The MOF simply sets the outside budgetary

limits; how these limits are met is left primarily to the agencies themselves.

This approach plays effectively to the deeply entrenched sense of agency solidarity and loyalty that pervades the civil service. Virtually all high-ranking civil servants spend their entire careers within a single agency (with occasional temporary detachments). As a consequence, an individual's principal loyalty is to the agency—rather than to such abstract principles as “an effective civil service” or “fiscal responsibility.” And because of their long tenures, agency officials are in the best position to know their agency's most (and least) pressing needs and roles, and thus where to expand and where to cut in order for their agency to remain within the overall MOF guidelines.

Periodic administrative reform programs

In addition to the ongoing MOF oversight of ministries and agencies through fiscal controls, the Japanese civil service has been subject to periodic national reform measures on several occasions. The first such effort during the postwar period involved the imposition of reforms by the American occupation forces. Because the changes were induced by an external agent, they are not easily replicated in most “normal” situations and therefore will be treated only briefly. At the same time, the reforms were congruent with, and have been paralleled by, subsequent domestic initiatives. In this sense the occupation reforms at least deserve mention as an early element of the set of norms and goals that have pervaded Japanese reform efforts over the past four decades. The other two efforts, begun in 1961 and in the early 1980s, were initiated and implemented by the Japanese government but were compatible with many of the occupation reforms.

U.S. occupation reforms

Broad reforms of the Japanese civil service were undertaken under the U.S. occupation (see Pempel 1987). Following the initial structural changes, the Americans unleashed a substantial and somewhat separate effort at systematic downsizing that was ultimately implemented by the Japanese government. The proposed downsizing was part of a larger effort to reduce government expenditures at a time when Japan's economy was only beginning to recover from the devastating effects of the war and inflation was rampant. Personnel costs had soared between 1931 and 1951 as the number of personnel in Japan's national government jumped from 591,000 to

1,400,000 and personnel in the prefectural and local governments increased nearly fifteenfold, from 90,000 to 1,300,000.

The reforms targeted about 30 percent of the bureaus in each agency for elimination, along with some 300,000 government positions. The most substantial cuts came in the National Railways Corporation, the postal services, and the National Telegraph and Telephone Corporation. The proposed cuts conflicted with protective provisions of the existing civil service regulations. To bypass the protective legislation, the government set legal limits on the number of personnel that each agency and ministry could employ. As a result, the process was highly controversial and widely seen as unfair and politically motivated by those who lost positions, and by the public sector unions more generally.

For our purposes, at least two things about the U.S.-initiated actions are noteworthy. First, a substantial downsizing took place despite the countervailing pressures of civil service regulations and the then strong public sector union movement. Second, an important tool in making the changes possible was the establishment of legal limits on the number of personnel that each government agency could hire. The second step had an effect similar to that of the annual budget increase caps: it allowed agencies to determine their own priorities in personnel use and organization within strict, externally determined limits on totals.

The agency-by-agency cap on personnel prevailed until the late 1960s. Throughout this time, it worked against any broad national personnel shifts and made it difficult to respond to changing needs by, for example, reducing the number of government personnel in agriculture so as to expand the number in science and technology. But the reforms in the 1960s replaced the individual caps with a more comprehensive law fixing the total number of national government personnel and allowing agency numbers to be fixed through the simpler process of an ordinance, building far more flexibility into the system.

The "first" administrative reform effort

In November 1961 another major administrative reform effort began at the initiative of Prime Minister Ikeda. With the support of all political parties except the Japan Communist Party, Ikeda created the (First) Provisional Council on Administrative Reform (sometimes known as FPARC), an external advisory body overseen by the Administrative Management Agency, which was then under the Office of the Prime Minister.

The council, which met for three years before issuing its final report, was given a broad mandate for change.

Among other things, it was charged with helping to stem the increases in personnel that had begun almost immediately after the occupation reforms had been enacted. It was also charged with encouraging the Japanese ministries to take advantage of new innovations in technology and management that had been adopted in the private sector. The council also undertook reforms designed to encourage administrative flexibility, simplify procedures, and improve coordination among governmental agencies. Most of the council's proposals were directed toward the civil service as a whole rather than individual ministries or agencies.

The council made a wide range of proposals. Many were adopted, but many more foundered for lack of support from both the civil service and the broader society. Of the measures that were carried out, several warrant special attention. The first proposal accepted, in September 1964, was to freeze all vacancies for an eighteen-month period. Agencies were required to file quarterly reports listing their vacancies with the Director General of the Administrative Management Agency. Any exceptions to the policy against filling vacancies had to be approved by the Director General.⁴

In 1966 and 1967 the freeze was expanded, and by the end of 1967 some 15,000 vacant positions had been created. About half of these were allowed to be filled to meet new needs, for a net savings of about 7,500 positions.

The freeze was hardly popular in the civil service, but it enjoyed a degree of support because it was evenhanded with regard to all agencies and it achieved reductions without explicit dismissals (in contrast to the controversial firings under the occupation-initiated policies). And because the freeze required agencies to meet their changing priorities through internal reorganization and reallocation of existing personnel, it met the objective of preventing expansion of the civil service.

A shortcoming of the freeze on positions, however, was that vacancies and reallocations could not be easily utilized across ministry lines because of the laws fixing the number of personnel for each agency. To overcome this shortcoming, the Law Concerning the Number of Personnel in Administrative Agencies (the *Sôteiinhô*) was passed in 1967. This law simply limited the total number of government personnel and allowed the use of much more easily adjusted government ordinances to allocate the national quota among agencies and ministries, consistent with changing social needs. At the same time, when the law took effect, the personnel strength of each government agency was fixed at the number it had following the freeze of vacancies, institutionalizing the reductions. The law fixed the total number of nonmilitary government personnel at just over 506,000 (exclusive of em-

ployees in public corporations, who made up an additional 340,000).

Another important element of the reform was the cabinet's decision in December 1967 to eliminate one bureau from each of the government's main agencies or ministries. Which bureau to eliminate was again a decision left to each agency. The measure was considered irrational because it removed a bureau from each agency regardless of its size, and it completely disregarded changing social needs and how these might be reflected in different agencies (Japan, *Gyōsei Kanri Iinkai* 1968, pp. 56–57). Yet it was widely accepted in the bureaucracy, again primarily because of its evenhandedness and because the important implementation decisions were left to the agencies. The measure led to a reduction in the number of central government bureaus from 120 to 102.

Still another feature of the reform was the automatic 5 percent cut in each agency's personnel over the period 1969–71. These cuts were achieved almost exclusively through retirement, death, and other forms of natural attrition. All the positions cut went into a central "position pool" from which agencies needing additional personnel could request supplements to their existing personnel structures. The agencies had to compete for the positions with all other agencies, however, and all agency requests were evaluated in comparative terms. About half of the pooled vacancies were reallocated to meet new needs. The automatic cuts led to a total reduction in personnel of about 2.5 percent and a substantial reallocation of authorized personnel among agencies.

A series of modifications during the 1970s expanded some of these measures, generally through further reductions in the allocations of personnel to individual agencies and their movement to the central personnel pool. These measures not only curtailed the increase in national government personnel, but cut the total number of personnel from nearly 900,000 in 1967 to 887,000 in 1983, a reduction of some 12,300 people.⁵

Virtually all government agencies saw some reduction in their personnel during this period. Several areas had substantial increases, however, such as national universities and national hospitals, and new agencies were created, including the Environmental Agency, the Land Agency, and the Natural Resources and Energy Agency. Among the agencies losing substantial numbers were the Ministries of Agriculture, Forestry and Fisheries, and Construction, and the Prime Minister's Office.

Thus, capping the total number of civil servants did not prevent the Japanese government from accommodating changing social needs. It met those changing needs through internal reallocation rather than simple expansion.

Administrative reform in the early 1980s

Japan's most ambitious reform efforts are those that began in the early 1980s. These were linked to efforts to reduce sharply Japan's growing reliance on deficit financing and to reinforce the country's commitment to small government and to market incentives. Until the 1970s Japan's government expenditures (including both local and national government agencies) had been stable, at about 20 percent of its gross national product (GNP), but during the 1970s they expanded to nearly 35 percent of GNP. The bond-dependency ratio rose sharply in the mid-1970s, and massive debt-servicing costs became an accepted part of the annual budget.⁶

The key instrument advancing Japan's administrative reform was the Second Provisional Administrative Reform Commission (SPARC), created by then Director General of the Administrative Management Agency (and later Prime Minister) Nakasone Yasuhiro in March 1981. Picked to head the SPARC was Doko Toshio, a business elder who had earlier served as chairman of Japan's most powerful business lobbying group, the Federation of Economic Organizations (Keidanren). Doko's austere lifestyle and reputation as a man of high moral character lent particular credibility to his role and frequently left his critics open to charges of selfishness and lack of concern for the national well-being. Staffing the commission were many close allies of Nakasone, which gave it added political clout. Throughout the commission's deliberations, both Nakasone and Doko provided particularly valuable assistance in promoting its goals and deflecting its opponents.

The commission met over a three-year period, during which time it issued five reports containing proposals on reform. It encouraged the implementation of its proposals while it was still in session, a strategy that allowed it to continually assess the acceptability of its proposals, and to adjust its positions and proposals to the changing responses of the media, the government, and the public.

The commission's first set of proposals, issued in July 1981, focused on fiscal measures, including reductions in government subsidies, in personnel and government expenditure, and in the number of public corporations. Its second set of proposals targeted a rationalization of the government approval process. In July 1982 the commission issued its third set of proposals, which outlined a comprehensive philosophy of administrative reform. The philosophy called for the establishment of a Comprehensive Administration Agency and the privatization of many public corporations. The fourth report described tasks to be completed after the commission finished its term. And the fifth and final report laid out the commission's basic

philosophy and set out guidelines for maintaining ongoing administrative reforms in a host of areas, including agriculture, energy, science and technology, education, diplomacy, and taxation.⁷

The commission's reports made rather sweeping proposals. But some pertain specifically to administrative reform. First among these are their proposals for fiscal reform aimed at reducing the national deficit. Central to deficit reduction was the zero growth ceiling for the national budget initiated in 1982 (see section on annual spending constraints). Under the aegis of administrative reform, the growth rate of expenditure in the General Accounts Budget was reduced to 1.8 percent in fiscal 1982, to 0 percent in fiscal 1983, and to -0.1 percent in fiscal 1984 (Itoh 1993).

Several other reforms were also instrumental in the deficit reduction. First, a 3 percent national sales tax was introduced, a step that was pushed by the Ministry of Finance and endorsed by the political leadership.

Second, in 1984 parts of the Prime Minister's Office and the Administrative Management Agency were combined to form the Management and Coordination Agency. This new agency gained oversight responsibility for a range of managerial and administrative reform activities at the level of the national government. It has since acquired responsibility for instituting the ongoing administrative reform efforts.

Third, a series of privatizations took place. These involved several of Japan's largest (and costliest and most inefficient) public corporations, including the Japan National Railways (JNR), Nippon Telegraph and Telephone (NTT), and the Japan Tobacco and Salt Corporation.

Fourth, the public pension system and the health insurance program were overhauled. These reforms made important contributions to reducing the national deficit and slowing the increase in government expenditures. The public pension reform consolidated a variety of pension programs into a two-tiered plan that combined a basic minimum government pension for all citizens with a wage-related supplementary pension.

In addition to any inherent merits they might have had, the privatization of public corporations and the simplification of the health insurance and public pension programs went a long way toward reducing the demand for more government personnel.

Beyond such measures, the commission reaffirmed the principle that "there should be no recruitment of people to perform tasks and projects which are suitable for consignment to the private sector..." and the country's broad commitment to the goal of strictly controlling the total number of employees (Japan, Provisional Commission on Administrative Reform 1984, p. 121).

Perhaps the most important contribution to the institutionalization of administrative reform in Japan has been the publicity given to the efforts of the SPARC and to later reform efforts. There appears to be a widespread public commitment to maintaining a relatively small civil service and to regularly examining the inner workings and the overall rationale of the civil service. Administrative reform will likely continue to be a regular item on Japan's political agenda.

Administrative reform and civil service quality

In the introduction I suggested that Japan's ongoing administrative reform efforts and its cap on personnel and budgetary expansion have had the somewhat surprisingly positive effect of enhancing the quality, loyalty, and performance of the country's civil servants. Assessing such characteristics as quality, loyalty, and performance is obviously both complex and subjective. But at least the outlines of the links of these characteristics to administrative reform efforts can be sketched.

One logic of bureaucratic power suggests a materialistic imperialism model: agency heads seek to expand their budgets, the number of personnel they control, and any other tangible resources. According to this logic, power is contingent on an expansion of the material resources controlled; the happy bureaucrat is the one whose material resources are expanding.⁸

The Japanese experience suggests a very different logic. As material resources become scarce, those who control them become more powerful and gain greater psychological satisfaction and greater status. In Japan, because there are relatively few senior civil servants, holding a senior government position adds to one's personal prestige. Tight competition for positions and promotions prevails in the Japanese civil service. Thus, merely getting a position carries with it tremendous psychological reward. So does being promoted earlier than one's colleagues and competitors, which conveys a message that an employee's superior perceives him or her as being of greater quality. Good performance throughout one's career ensures quicker promotions, better career positions, and, ultimately, a better post-career position.⁹ These results are not without material rewards, but far more significant are the rewards in administrative power and psychological gratification.

Meanwhile, the rigid MOF limits on annual budgets and on personnel expansion stimulate vigorous competition within agencies to retain personnel and other resources, which in turn leads to harder work and a greater

sense of mission. And the limits on total growth in government personnel build in competition among agencies that further contributes to creativity in the civil service.

The personal and interagency competition in the Japanese civil service introduces many attributes of the marketplace. But the system's material stakes are relatively limited; the psychological reward structure is primary.

There is a reinforcement mechanism that works throughout this process. Attracting high-quality individuals with a strong work ethic, a dedication to national service, a capacity for deferred gratification, and a willingness to be satisfied with psychological rather than material well-being helps fuel and reinforce the power of the entire reward structure. But the process feeds largely on itself. Once such individuals are in place and in competition with one another, and once the entire civil service is infused with such a reward structure, administrative reforms of the type Japan has made can have a positive, rather than a negative, role in improving the quality of the civil service as a whole. It is impossible to imagine such a system working in any positive way if the primary motivation for an individual to join the civil service is simply to acquire a stable, undemanding job, long-term security, and a lucrative government pension at the end.

Lessons

The Japanese experience with administrative reform offers several lessons.

- An outside agency should be the initiator and arbiter of reform efforts. This was made clear in several cases: the Ministry of Finance's control over annual budget caps; the U.S. occupation forces as the agent of personnel cuts in the late 1940s and early 1950s; the first and second administrative reform commissions; and especially Doko and Nakasone as the key agents of reform in the mid-1980s.
- Agencies should be allowed discretion in achieving broad reform goals. Again, the annual budgetary limits demonstrate this point. So too did the requirement in the mid-1960s that each agency cut a bureau, with the choice of bureau left to the agency. Another example is the series of mechanisms under which agencies were required to make 5 percent personnel cuts but allowed to reallocate personnel internally in accordance with their determinations of the relative importance of competing roles and missions.
- It is important to treat ministries and agencies fairly. This was demonstrated through several reforms: the requirement that each agency, large or small, cut one bureau; the application of the freeze principle equally to all

agencies; and the MOF's annual budget caps, set equally for all agencies.

- There is a need for some discretion in reallocating positions among agencies. This was shown most clearly in the pooling of vacancies during the 1960s. By allowing agencies to compete for the vacancies, the government was in a position to reallocate personnel numbers from agencies whose missions were decreasing in importance to those whose missions were increasing in importance.
- Psychological incentives are an important motivating force. The continued appeal of a civil service career to some of the country's most talented university graduates, despite frequent downsizings and caps on budgetary and personnel expansion, suggests that administrative reform and quality performance and personnel may be mutually reinforcing.
- It is important to institutionalize administrative reform and to integrate the goals of downsizing and privatization as permanent features of the entire civil service. It is far easier to implement administrative reform once a positive track record of reform and of fairness in its implementation has been established. In Japan this has clearly depended heavily on a political and economic system that is deeply committed to the principles of small government and the private sector. At the same time, the Japanese experience shows that such principles are not incompatible with effective and personally rewarding public service.

Notes

1. For most of the postwar period, there have been roughly fifteen to twenty candidates for each senior civil service position; during the late 1970s and early 1980s there were more than thirty candidates per job, with a high of 42.7 reached in 1978.
2. Japanese government employees accounted for 7.9 percent of total employment in 1990; this compares to 15.5 percent for the United States, 19.1 percent for the U.K., 22.6 percent for France, 15.2 percent for Germany, and 30 percent or higher for the Scandinavian countries (OECD 1991, p. 74).
3. This point is made by Reid (1992) with regard to the Chilean case.
4. See "On Strengthening the Policy to Keep Vacancies Unfilled," Cabinet decision, September 4, 1964, Ministry of Finance.
5. It is important to note that while the number of national government personnel shrank, there was a parallel expansion in the number of local government officials, from 1.8 million in 1958 to 2.5 million in 1970 to more than 3 million in 1977. Many "less critical" national activities and programs were devolved to local governments, allowing the national government to concentrate on higher priorities.
6. According to the Japanese Economic Planning Agency's *Yearbook of National Account Statistics*, as cited in Noguchi 1987

(p. 196), debt servicing costs rose from 0.12 percent of GNP in 1966 to 0.39 percent in 1970 to 0.62 percent in 1974 to 1.56 percent in 1978 to 2.94 percent in 1982.

7. For the complete report, see Japan, Provisional Commission on Administrative Reform 1984.

8. An important articulation of this logic can be found in Niskanen 1971.

9. In Japan most civil servants retire from government in their early to mid fifties and then go on to careers in related fields. Government agencies take primary responsibility for most post-career placement. As a result, the jobs individuals are capable of securing are closely linked to their talents as civil servants and to their agencies' evaluations of their comparative worth. This structure provides an important incentive to employees to work diligently and maintain loyalty to their agencies.

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Selected Discussion Points

Moderator: Shahid A. Chaudhry

Mr. Chaudhry thanked the morning's keynote speakers and welcomed comments in the next twenty-minute open discussion period.

A. Aratia: I will use as a takeoff point for my comments Professor Pempel's theme: lessons to be learned. One lesson seems to be the importance of psychological motivators—certainly one of the reasons for the success of the Japanese experience. Another lesson seems to be the usefulness of an outside agency as a catalyst for change, for getting the reform process off the ground. I wonder whether there isn't a conflict between these lessons. It seems to me that unless there are motivating elements within the system itself, civil service reform activities will remain ad hoc interventions prompted from time to time by outside agencies.

T. J. Pempel: I think I am stealing a point made by Mr. Shihata when I say that in addition to having an outside agency as the behind-the-scenes force, it is essential that the agency being reformed have a psychological commitment to and involvement in that reform. The Japanese experience has shown the efficacy of giving reforming agencies a great deal of autonomy in internal restructuring, budgetary allocations, promotions, and so on.

S. Chaudhry: To go a step further, what about the role of multinational agencies or donors in civil service reform? How meaningful or relevant are these interactions?

M. Naim: First, on the psychological dimension of civil servants, it's hard to argue against the notion that little will be achieved unless the social status of civil servants is increased. You do this by recruiting talented young professionals early in their careers and giving them a lot of opportunities to do things. But this raises questions. For one thing, how do you do it? And why has this worked in

Japan and not elsewhere? What other factors determine the success of this approach? It is hard to predict what the consequences of this approach will be in a specific national context.

Second, the issue of outside agencies. External multilateral agencies are wonderful catalysts, disseminators of comparative experiences, and so on. And governments are constantly creating separate entities charged with reforming the public service and the state—there is hardly a country that has not had several presidential commissions, blue ribbon commissions, charged with such reform. The problem is that after the first impulse toward change these entities often become part of the bureaucracy, and once they become permanent they lose some of their effectiveness. Perhaps it is important when involving an outside agency to limit its tenure.

A. M. Osman: In Viet Nam economic adjustment and the move to a market economy are giving rise to government and political perception of the need to change the role of the government and reform the civil service. The realization has grown internally, and this is important. Once this basic understanding exists in a country the dialogue with multilateral agencies and donors can be more productive. But when the progression is reversed—that is, outsiders telling a country how it must reform without there first being an awareness in the country of the need for reform—then it becomes very difficult. So multilateral donors must be patient enough to build this internal consensus.

M. Dia: This is essential. Without commitment, without ownership, you cannot have success with civil service reform or any macropolicy reform. There is really no tradeoff between leveraging and ownership.

In the selection of countries for reform programs, it is important to have a country where there is some type of

political disruption, where you can build on new governments that are disassociating themselves from the old. It is difficult to build commitment among people benefiting from the status quo. There has to be a challenge to the system. This has been the case in Zambia, Mali, Madagascar. The key element is building the process workshops and the iterative process. The program and the process have to go together.

T. J. Pempel: It is interesting that the Japanese civil service is able to get the best and the brightest. There is something about public service in Japan that makes it a very desirable thing to do. I don't know whether this is true in other countries. I'm not even sure all other countries seek out the best and the brightest.

The Volcker commission asked organizations like Phi Beta Kappa, Beta Gamma Sigma, and Pi Alpha Alpha (the public administration society), as well as honor students, what they felt about public service and what would prompt them or keep them from choosing careers in public service. It was clear that the vast majority of these best and brightest had no interest in public service. Reasons they gave were the nature of assignments, the kinds of challenges they would be given, and the opportunities for self-fulfillment—salary was way down on the list. There is something in how the public service is perceived that works against getting the best and the brightest to enter it. I think it's a problem not only in the United States but worldwide.

S. Chaudhry: Recent debate in the World Bank has centered on issues of governance. I would hope that in our discussions on civil service reform if an aspect of governance or economic management or the status of civil society comes up, we would flag it as an important issue. I know from experience that it is possible to focus too much on purely technocratic solutions.

I would just pose Dr. Dia a brief question. In the context of internal, top-down reform, what has been the African experience?

M. Dia: At the beginning World Bank efforts in civil service reform were focused mainly on fiscal stabilization as a linkage with IMF programs. The degree of leveraging from donors was quite high. I think that is now coming back to haunt us. Countries have spoken of our revolving door policy, the waterbed effect. They have found ways to subvert reform because they were not committed to it.

So we've learned that program design has to be almost an indigenous process, with the Bank and other external organizations participating as partners and facili-

tators. This raises questions about program design, costs, and measuring results. How does the new, qualitative goal of building commitment square with the old, quantitative goal of achieving measurable results—numbers of projects, transfers of resources, maximization of inputs? How can you measure the building of commitment, which may take a long time?

I think this is a challenge—and a cost—we have to accept. Our ultimate objective is the impact we can have on civil service reform, not the maximization of inputs or transfer of resources, and we have to keep firmly in mind that an essential part of reform is building that commitment. This is new for us—we are in the design stage. I think in a few years we will be able to offer some insights.

S. Chaudhry: I would like to ask Dr. Osman to comment on the issues of political will and good governance, and how they are related.

A. M. Osman: The issue of commitment is a tricky business. You can do all the workshops, you can attract the presidents and the ministers, and the question remains: how will you maintain the commitment? In some developing countries the list of pressing issues on the agenda is so long. ...It is very easy to get the initial commitment, even from the president's or prime minister's office. And we tend to believe that by having consensus at that level we have guaranteed success. But we find out that it is not enough. The workshops are not enough. You must build in a system of accountability. Sometimes, however, we build in external accountability—toward the donor community and multilateral agencies—but not internal accountability, which is essential to continued commitment. We are looking for ways to solve this problem, because all too often, we think we have commitment, we have a letter from the president, and four or five months later we find the commitment is not there.

S. Chaudhry: Before we break I would like to ask Dr. Naim to give us a final word. He comes from Venezuela. I have always been intrigued by the fact that every time I have visited Venezuela all the ministers, and all the top-level civil servants, have changed. This happens every six or nine months! How does one reconcile the desire for stronger democratic governments and better-qualified leaders in Latin America with such political realities? How does this political instability square with the goal of achieving a more professional civil service? Can you give us your thoughts on that?

M. Naim: Two factors in Venezuela's recent history explain the volatile situation you have described: oil and democracy. Oil generated a lot of income and hence a buffer that spared politicians and society from having to be concerned about achieving a more effective state apparatus. Affluence and abundance do not coexist well with efficiency, effectiveness, and productivity.

The second factor has to do with the fact that Venezuela only achieved democracy after suffering a string of dictatorships during most of the 1970s. Politicians were willing to make all sorts of concessions to preserve democracy, and they had the oil money to finance those concessions. They didn't have to deal with the hard choices and complex tradeoffs policymakers usually face.

Overarching Issues

Public Sector Human Resource Management in Latin America and the Caribbean

Gary J. Reid and Graham Scott

Public sector human resource management policies and practices in many Latin American and Caribbean (LAC) countries need significant improvements. Conversations with professionals and managers within core government ministries in many Latin American countries reveal deeply

felt dissatisfaction and frustration both with the performance of public agencies and their employees and with the legal and institutional framework that appears to undermine individual efforts to manage public agencies and their employees effectively.

Overview

Most Latin American public sectors are bedeviled with counterproductive civil service policies and practices that impede their efforts to recruit and retain highly qualified employees and motivate them to perform to the best of their abilities. Low levels of compensation, especially for positions demanding greater skills, undermine efforts to recruit and retain qualified employees. Excessively rigid procedures and practices impede the ability of public managers in LAC to significantly affect the performance of their employees. Such rigidities may be found in policies and practices governing promotions, assignment of salary upgrades, as well as the transfer, demotion, or release of non-performing employees, sometimes including constitutional guarantees of job tenure except in the event of gross malfeasance.

Finally, the institutional structure within which public sector managers must operate in LAC often is so full of red tape and overlapping responsibilities that it is extraordinarily difficult to take any significant actions, let alone effectively manage complex programs and large numbers of employees. Ex ante audits of all expenditures prior to authorization create long delays in both managerial actions and compensation of vendors, thereby both undermining the ability of those managers to obtain services from the private sector and causing them to face prices for those services that have been increased to reflect the uncertainty regarding when and if payment will be received and the expected lags between service delivery and receipt of those payments when they are forthcoming.

This litany of concerns about the structure and performance of civil service systems in many LAC countries highlights the need to take significant steps to restructure and energize those systems. Accordingly, this study offers two distinct types of recommendations. First, the study offers recommendations on how these systems might be fundamentally restructured, dramatically altering their orientations from that of controlling inputs (personnel actions) to that of holding managers accountable for the performance of those inputs in the production of the agency's outputs. Since such fundamental change is likely to be difficult in the short run, the study also offers a variety of recommendations for improving human resource management capacities within the existing legal framework found in most LAC countries. These latter recommendations address salary restructuring as well as various other core personnel policies, such as recruitment, promotions, employee performance reviews, and so on.

Fundamental restructuring

Civil service systems in virtually all LAC countries are designed to prevent mismanagement. The key feature of such systems is their focus on controlling input (personnel) usage. This is reflected in centralized pre-control of such things as expenditures, employment slots, hiring, firing and promotions actions, salary scales, salary adjust-

ments, employee performance review procedures, and so on. These centralized pre-controls over human resource management decisions are intended to prevent managers from making bad decisions—to prevent managers from employing too many people, staffing their units with the wrong occupational or skill mix, hiring unqualified persons, paying unjustifiably high or unfairly low salaries, promoting persons for the wrong reasons, and so on.

An alternative to a civil service system built around central controls over *inputs* is one built around holding managers accountable for the *outputs* their units produce. Under this latter alternative, central authorities (for example, the Minister of Finance) and the top management of an individual line agency must agree *ex ante* on what outputs that agency will produce during a given budget cycle and what will constitute satisfactory evidence of the quantity and quality of outputs produced. Such a performance contract between the head of a line agency and the central authorities also identifies the overall budget envelope available to that agency. While management may also be subject to various additional procedural and other constraints (for example, non-discrimination requirements in hiring, public notification requirements when positions are to be filled, and so on), these are kept to a minimum in order to allow management sufficient autonomy to materially affect the quality of personnel employed and overall agency performance. In exchange for this autonomy, management is (1) required to periodically provide the evidence of agency performance stipulated in the performance agreement, and (2) subject to rewards and penalties on the basis of the agency's performance compared to what was promised in the performance agreement.

Reform within an existing legal framework

When such fundamental restructuring of the human resource management framework proves infeasible in the short run, a variety of more modest devices can be found for enhancing competitive pressures in core personnel policy areas, including salary setting and salary adjustments, tenure protection, recruitment, promotions and career planning, employee performance evaluations and training.

Salary structure

Data reported in this study provide striking evidence that the salary-setting regimes that typify LAC public sectors fail to assure that public sector compensation bears a

consistent relationship with the opportunity costs of working in the public sector. Those salary regimes rely upon technical rather than economic criteria for assigning base salaries. Because of this, they cannot ensure a consistent degree of competitiveness between public and private sector salaries across types of positions. This is true for the proposal by the Presidential Commission for Reform of the State (COPRE) for assigning managerial salaries in Venezuela's public sector and the newly adopted salary scale for the National System of Public Administration (SINAPA) in Argentina's public sector—among the most sophisticated to be found in Latin America. The poor functioning of the public salary regimes is evident in the widespread dissatisfaction expressed by civil servants, political appointees, and even private sector executives aware of salient features of them.

Public sector salaries need not equal their private sector counterparts—because of the greater tenure protection usually afforded public sector employees than private sector employees in LAC and because of the weak fiscal position of most LAC governments. But if a simple rule is to govern the setting of public sector salaries, a reasonable recommendation would be that public sector salaries should bear a uniform relation to those available for comparable private sector positions. Such a policy would provide two important advantages. First, it would focus the debate about the appropriate level of public sector salaries upon the single most important determinant of the competitiveness of those salaries; namely, the opportunity costs (that is, domestic private sector wages for comparable positions) to public employees of working in the public sector. Second, it would provide a simple, objective, measurable basis for setting salary differentials within the public sector; namely, in proportion to differentials found in the domestic private sector.

Salary supplements

The equity and transparency of salary policies in most LAC countries is compromised by the proliferation of salary supplements. Except in Trinidad and Tobago and in Honduras, salary supplements account for a significant share of total public employee compensation—as much as 84 percent of total compensation in Argentina, 80 percent in Uruguay, 74 percent in Chile and 32 percent in Venezuela.¹ Interestingly, although some of the supplements—for instance, household supplements—bear little or no relationship to employee productivity or job demands, many supplements are linked to these factors, even if only crudely.

The primary problems raised by salary supplements are not so much their proliferation as the reduced trans-

parency of salary setting procedures and their outcomes and the lack of accountability for their impacts upon agency performance. Accordingly, the following recommendations are suggested:

- Allow discretionary salary supplements only when managers responsible for assigning those supplements are held accountable for the performance impacts (upon their units) of their assignment of those supplements.
- Strengthen personnel and financial information systems to ensure capacity to provide reliable and timely reports on the pattern and impacts of salary supplements.

Salary policy enforcement capacity

Three factors often undermine the ability of central authorities to enforce centrally mandated salary policies. The factors are the strength of the incentives for line agencies and their managers to circumvent those policies, the ease with which managers can circumvent the policies, and the risks of being detected and punished for noncompliance.

Incentives to circumvent salary policies are strong because of the inability of typical public sector salary scales in Latin America to assure a consistent and competitive relationship between public and private sector salaries for comparable positions. In Venezuela, El Salvador, and Uruguay, the avenues for circumvention of salary policies are ample and varied and appear to represent those available in many LAC countries. The methods include a multiplicity of salary supplements, the capacity to generate new job titles without effective checks by central authorities, the ability to promote employees without timely and effective review of such promotions by an independent body, and the possibility of hiring some employees outside the career civil service (for example, allowing fixed term or fixed price contracts for personal services) without adequate means of holding those managers and their agencies accountable for the performance of such employees or the unit for which they work. Weak capacities for personnel and compensation monitoring, such as those found in Trinidad and Tobago, Venezuela, El Salvador, and Uruguay, appear to be typical among LAC countries, thereby significantly reducing the risks faced by line agencies and their managers who circumvent centrally imposed salary policies.

Other core personnel policies and practices

If core personnel policies are to elicit effective and efficient performance by public sector employees, they must be designed to enhance competitive pressures throughout the personnel system. By contrast, policies that create

monopolies—such as designating a single agency to provide all training or to handle recruitment—undermine competitive pressures. Policies that restrict competition for public employment slots in other ways—for example, prohibiting recruitment for a position or restricting the recruitment pool to internal candidates—reduce the competitive forces required to assure that the public sector has access to the best employees it can afford to hire. Guarantees of the right to career advancement and iron-clad tenure guarantees dramatically undermine the competitive pressures that can be brought to bear on public employees to perform well. Employee evaluation procedures that create strong incentives for evaluators to assign virtually all employees the same, highest rating inexorably undermine efforts to reward employees on the basis of performance. Trivial investment in training sends a signal that the institution does not value skills and reduces the attractiveness of public sector employment—makes it less competitive. Failure to hold agencies and their managers accountable for their employees' performance or their own resource allocation decisions, including how well they target their training resources, also undermines the system's ability to impose competitive pressures on managers.

These anticompetitive consequences of civil service policies and practices can be avoided. The experience of agencies such as the Superintendencia de Valores y Seguros and the Superintendencia de Bancos e Instituciones Financieras in Chile and the Banco Central de Venezuela demonstrate that public agencies can enhance competitive pressures on the civil service. This can be done, for example, by recruiting from external as well as internal sources, eliminating *de facto* or *de jure* promotion guarantees, eliminating monopoly control over particular elements of the human resource management system, and so on.

Tenure guarantees. To protect public employees from excessive political pressures, civil service systems in LAC typically provide strong tenure protection to career civil servants. In Argentina, Chile, El Salvador, Guyana, Trinidad and Tobago, Venezuela, and Uruguay, and undoubtedly many other LAC countries, the vast majority of public employees are career civil servants who can be removed only for severe disciplinary infractions. When Ecuador recently prepared a plan for civil service reform at the municipal level of government, the cornerstone of the proposed reform was just such tenure guarantees. Less frequently, career civil servants can be dismissed in the event of a major restructuring of the agency within which they are employed—for example, in Guyana and Venezuela—although this power is rarely employed.

The drawback of such tenure guarantees is, of course, that employees covered by them need do no more than avoid committing severe disciplinary infractions—such as consistently refusing to show up for work—to retain their positions. If such guarantees are coupled with poor or nonfunctioning procedures for linking employee rewards (for example, assignment of tasks, responsibilities and managerial authority, annual salary increments, training opportunities, promotions, or other awards or bonuses) to performance, such employees will have little incentive to proficiently execute their assigned tasks. Only personal pride in one's work remains as a possible motivator under such circumstances, and that too is likely to be compromised when the more self-motivated workers find their efforts undermined or compromised by the indifference of their less self-motivated colleagues.

Tenure protection in most LAC countries is granted to those employees whose job demands are least susceptible to being distorted by political pressures—namely, non-managerial employees—while the positions least likely to enjoy tenure protection are precisely those most susceptible to political pressures—namely, higher management, such as positions of “exclusive confidence.” Venezuela is perhaps the clearest example. This arrangement couples all the drawbacks of tenure guarantees with few of their benefits. A wiser policy would restrict tenure guarantees to those employees whose positions require a regular exercise of judgment that could be readily compromised by political pressures—namely, management and highly skilled professionals. Administrative and other clerical personnel and semi-skilled and unskilled labor need not be provided tenure guarantees.

Recruitment, promotions, and career planning. Many LAC countries restrict competitive recruitment procedures and pools to entry level positions and higher level management. At the same time, promotions policies often, either de facto or de jure, are based primarily or exclusively upon seniority. Career civil service recruitment and promotions policies in Chile and Argentina provide the clearest examples. These restrictions undermine the competitive pressures that can be brought to bear upon existing public employees seeking promotion. The experience of agencies such as the Superintendencia de Bancos e Instituciones Financieras and the Superintendencia de Seguros y Valores in Chile, as well as the Banco Central de Venezuela, illustrate that opening recruitment at all levels to the competitive pressures of external candidates and preventing promotions from being based primarily or solely on seniority, can significantly improve the quality of a public agency's personnel.

Employee performance evaluation. Employee evaluation systems in many LAC countries fail to force managers to reliably sort their employees on the basis of performance. The typical employee performance evaluation system in LAC poses the following perverse incentives to managers charged with evaluating the performance of their employees. Because those managers can confer benefits on their employees (namely, salary increments and improved prospects of promotion) without facing any negative consequences for themselves or their agency (for instance, a loss of resources) by bestowing high performance ratings on their employees, they have strong incentives to give high ratings to all employees. Conversely, if they give an employee a low rating, they stand to gain nothing tangible (since their own salaries, promotions and other rewards for performance do not depend upon how accurately they appraise their own employees' performance), while they run the risk that the poorly rated employee might either file a complaint (which could harm the manager's own performance review by his superior) or simply undermine the performance of his unit by slacking or even actively sabotaging the unit's activities. In short, systems such as the SINAPA system in Argentina and the system prescribed in the *Nuevo Estatuto Administrativo* in Chile encourage evaluators to assign all employees the same rating, rather than to reliably sort them according to their actual performance.

Some employee evaluation systems found in LAC do reliably sort employees according to their performance. Both the simple, subjective procedure employed by the Superintendencia de Seguros y Valores (SVS) in Chile and the elaborate, objective procedure employed by the Banco Central de Venezuela (BCV) appear to reliably evaluate employee performance. These procedures force evaluators to rank order employees, rather than to simply assign them to pre-specified performance rating categories, thereby forcing managers to discriminate among employees. More important, evaluators in these agencies are in turn evaluated on the basis of the overall performance of their units, and they can influence that performance by how accurately they rank employees—two factors that strengthen their incentives to reliably evaluate and rank employees. These conditions are precisely the reverse of those found in most public sector employee evaluation systems in LAC, in which evaluators know that their safest strategy for both protecting themselves and their agency is to assign all employees the same high rating. The latter scenario exists under the SINAPA performance evaluation procedures in Argentina, those found within Venezuela's core civil service and those prescribed in the *Nuevo Estatuto Administrativo* in Chile. The former appears to exist in the SVS in Chile and the BCV in Venezuela.

Training. Training provides an important opportunity for public sector personnel systems to both augment the attractiveness of public employment and improve the capacities and performance of their personnel. Unfortunately, human resource management practices in most LAC countries fail to take advantage of this opportunity for at least three important reasons. First, governments in LAC underinvest in training. Venezuela's central government devotes less than one-half of one percent of its personnel expenditures to training, or roughly one-third the fraction spent by that country's private sector employers. The same is true in Chile and appears to be typical in many LAC countries.

Second, personnel management systems fail to hold managers accountable for the results of their training

resource allocation decisions. Pre- and post-training skills tests are unheard of. Nor is employee performance on the job monitored in ways that permit assessment of whether training allocations actually improve employee performance. But most telling is that managers are neither rewarded for improving their units' performance through their use of training, nor penalized for their use of training resources that fail to yield performance improvements.

Finally, training rules often create a state-run or state-sanctioned monopoly for providing training to current or potential public employees, thereby undermining the competitive pressures that could be enlisted if training were contracted on a competitive basis.

Introduction

This study is intended to show how to improve the performance of public employees by establishing positive competitive pressures to encourage them to carry out their responsibilities effectively and efficiently.

The literature

Assessments of public employment or civil service problems typically identify symptoms as problems and then recommend that the symptoms be eliminated. These include employment levels, instability (turnover rates or average tenure), salary compression, and the ratio of administrative to line staff or of service delivery to administrative personnel. Two problems plague such assessments and recommendations, however. First, although it is relatively easy to identify outliers along any particular dimension of public employment—incredibly high public employment levels, strikingly high turnover rates, tiny salary compression ratios, inexcusably high administrative-to-line staff ratios—it is extraordinarily difficult to identify and defend a context-specific optimal magnitude for each such dimension. Second, recommendations that the symptoms be changed generally fail to address the underlying causes. Thus, for instance, a common response to shockingly high turnover rates among public employees is to call for tenure guarantees, restrictions on hiring to specified positions from outside the civil service, and guarantees of the right to advance up the civil service career ladder. But these prescriptions fail to address the underlying causes of high turnover rates, provide only temporary relief, and can have debilitating side effects. Moreover, high turnover rates are not necessarily a bad thing. They may reflect an efficient and competitive labor market.

And restrictions on labor mobility may undermine the productivity of the public sector work force by reducing employees' incentives to perform.

The study approach

Unlike most of the literature on civil service reform, this study looks at the behavioral antecedents—a few key policies and practices in civil service structures in LAC that are pivotal to performance. These include compensation and the means by which compensation levels for specific positions are set, recruitment policies and procedures, promotion practices, employee performance review procedures, annual salary adjustment determination, training, tenure guarantees, and occasional attention to policies governing the use of personal services contracts and related arrangements to circumvent pay and employment constraints that apply to the career civil service.

The approach is not comprehensive; no attempt is made to provide ready tabular summaries of the incidence of particular policies or practices in any of these spheres. Nor are the authors able to rigorously test empirical hypotheses regarding how particular human resource management policies or practices affect the performance of human resources in the public sector; it was not possible to gather systematic data over time for a given agency or across similar agencies in different countries measuring performance. Such data would be required to estimate econometric models of the determinants of the performance of human resources, in which human resource management policies would constitute an important subset of the explanatory variables.

Instead, given the data constraints, the study sorts packages of public sector human resource management policies and practices on the basis of the agencies' reputations for effective human resource management and then proposes an analytic framework that can explain these reputational differences and point out concrete ways to improve the human resource management by public agencies in Latin America.

As already noted, the hypothesis that best explains the differences in human resource management reputations encountered in the public sectors of the countries examined here is that the more thoroughly a human resource management system takes advantage of and enhances competitive pressures on all agents in the system, the more effectively and efficiently it performs. In short, just as competition improves the functioning of private markets, it improves the functioning of public sector labor markets.

The main contribution of this report is to use this simple framework and hypothesis to illustrate why some public sector human resource management policies and practices work and others don't—yielding bloated, inefficient, and ineffective bureaucracies. In addition, this study

offers concrete suggestions as to how to substantially strengthen human resource management policies in many LAC countries. This can be done where a government is willing to take steps that are technically straightforward, but politically somewhat more difficult. No suggestion, however, requires politically impossible steps, such as the firing of large fractions of their public employees.

Four sections follow. The first section proposes a strategy for fundamental reform of the typical legal and institutional framework governing human resource management within the public sector in many LAC countries, while the following two sections identify improvements that could be made in the typical existing institutional framework without requiring major changes in the legal framework. The next section examines compensation-setting policies and practices in detail. The following section considers the remaining core personnel policies, including recruitment, promotions, annual salary adjustments, employee performance reviews, tenure guarantees, and training. Brief attention is also given to contracting for personal services as a device for circumventing many of the previously discussed personnel policies. The final section summarizes findings and recommendations.

Fundamental Restructuring

Public sector human resource management policies and practices in many Latin American and Caribbean countries need significant improvements. Conversations with professionals and managers within core government ministries in many LAC countries reveal deeply felt dissatisfaction and frustration both with the performance of public agencies and their employees and with the legal and institutional framework that appears to undermine individual efforts to manage public agencies and their employees effectively.

- Levels of public employment are widely believed to be excessive among all but the managerial ranks.
- Tenure protection afforded public employees within the *Carrera Administrativa* or its equivalent is blamed both for undermining employee performance incentives and for disabling efforts to downsize public agencies even as tightening resource constraints reduce the capacity of LAC governments to support so many employees.
- The absence of such tenure protection for most top managerial employees is often believed to be crippling the managerial capacity of many public agencies.
- Powerful public sector labor unions are blamed for posing significant obstacles both to downsizing efforts and to creating more flexible and effective incentives for employee performance.

- Low public sector salaries are uniformly viewed as a principal deterrent to the recruitment and retention of highly qualified and motivated employees, especially among the professional and managerial ranks.
- Rigid salary-setting rules and procedures, coupled with extremely weak capacity to monitor and enforce those rules, are widely suspected both of further undermining the public sector's capacity to compete with the private sector for highly qualified employees, and of causing public sector managers to find innumerable creative means of circumventing those constraints.
- Other important civil service policies—for example, the requirement of competitive hiring procedures (*concurso*)—also appear to be widely disregarded—a practice that both reflects the inability of those civil service systems to function as intended and undermines confidence in those systems.
- Such widespread circumventions of salary-setting and hiring rules and procedures, including the practice of employing *contratados* to circumvent hiring and salary constraints, are also credited with undermining confidence in both the machinery of government and the civil service itself.
- Requirements that all organizational units within the public sector undertake annual performance reviews of

each of their employees also often appear to be either generally disregarded or executed in a way that fails to discriminate between high-performing and low-performing employees, thereby undermining any ability to link either training to identified skill deficiencies or promotions to performance.

- The inability of governments to provide timely, reliable, consistent, transparent and complete information identifying actual employment and remuneration levels covering *all* types of public employees and *all* forms of remuneration also appears to be undermining the credibility of both those governments and their civil service systems, as well as their ability to manage those systems.

The difficult task, of course, is to identify the precise changes that are required. It is convenient to take two separate cuts at this task: one proposing a strategy for fundamental reform of the typical legal and institutional framework governing human resource management within the public sector in many LAC countries; and the second identifying improvements that could be made in the typical existing institutional framework without requiring major changes in the legal framework. Accordingly, this section briefly sketches a strategy for shifting the basic orientation of the public sector human resource management framework from that of preventing mismanagement to that of fostering efficient management by increasing competitive forces within the public sector. The remaining sections examine means by which the existing legal and institutional framework could be modified in less sweeping ways but with the same end in view; namely, increasing competitive forces within the civil service in order to strengthen the capacity to effectively manage human resources.

The status quo: input controls to prevent mismanagement

Civil service systems in virtually all LAC countries are designed to prevent mismanagement. The key feature of such systems is their focus on controlling input (personnel) usage. This is reflected in such things as centralized pre-control of all expenditure decisions, centralized assignment of employment slots, centralized pre-approval of hiring, firing and promotions actions, centralized imposition of salary scales, centralized pre-approval of salary adjustments, centralized specification of details of employee performance review procedures, and so on. These centralized pre-controls over human resource management decisions are intended to prevent managers from making bad decisions—to prevent managers from employing too many people, staffing their units with the

wrong occupational or skill mix, hiring unqualified persons, paying unjustifiably high or unfairly low salaries, promoting persons for the wrong reasons, and so on.

The logical extreme of this civil service model would eliminate all discretionary managerial authority over personnel actions. Pre-specified and centrally determined rules would identify precisely what positions could be filled, what salaries could be paid, and the like; while all individual personnel decisions such as hiring, promotions and firing would be made not by line managers but by central authorities. Such an arrangement would prevent line managers from abusing their authority simply by eliminating that authority. It would also prevent line managers from managing. Information costs would prevent such a system from efficiently tailoring human resource management actions to particular personnel and labor market conditions. Such efficient tailoring requires the sort of detailed, context-specific information that can be monitored and assessed most effectively by line managers.

No Latin American civil service system achieves this extreme a version of central control over input usage decisions. Instead, those systems typically include both explicit and implicit grants of managerial discretionary authority over personnel actions. For example, while tenured positions are rationed centrally, managers can often circumvent those constraints either by hiring consultants or by defining a position that does not readily fit any of the existing pre-defined civil service positions. The fact that such exercises of managerial discretion are either authorized or tacitly condoned probably reflects a combination of determined efforts by line managers to wrest some discretionary authority from the plethora of central controls, coupled with either tacit or explicit recognition on the part of central authorities that managers need to be able to exercise some personnel management authority if they are to effectively manage their human resources.

But within personnel management systems in which input usage is controlled while the effectiveness with which outputs are produced is not, any relaxation of the controls over input usage brings with it important risks. Managers who can exercise greater authority over the human resources at their disposal can, if they choose, abuse that authority if they are not held accountable for the outputs they are supposed to produce with those human resources. They can overstaff or hire unqualified personnel simply to keep politically important clients satisfied. They can dispense wages, promotions and other perquisites on the basis of favoritism rather than employee performance and the like. These risks are well understood by the public as well as by public managers, politicians, heads of finance ministries, heads of central personnel offices—in short, by all affected parties—

throughout LAC. And since the managers of most public agencies in LAC are not held accountable for the effectiveness with which they produce outputs, it should come as no surprise that those managers are rarely granted significant discretion over resource management decisions—human, financial or other.

An alternative: output accountability to foster effective management

An obvious alternative to a civil service system built around central controls over *inputs* is one built around holding managers accountable for the *outputs* their units produce. Under this latter alternative, central authorities (for example, the Minister of Finance) and top management of an individual line agency must agree *ex ante* on what outputs that agency will produce during a given budget cycle and what will constitute satisfactory evidence of the quantities and quality of outputs produced. Such a performance contract between the head of a line agency and the central authorities also identifies the overall budget envelope available to that agency. While management may also be subject to various additional procedural and other constraints (for example, non-discrimination requirements in hiring, public notification requirements when positions are to be filled, and so on), these are kept to a minimum in order to allow management sufficient autonomy to materially affect the quality of personnel employed and overall agency performance. In exchange for this autonomy, management is (1) required to periodically provide the evidence of agency performance stipulated in the performance agreement, and (2) subject to rewards and penalties on the basis of the agency's performance compared to what was promised in the performance agreement. This alternative has been successfully implemented in New Zealand (see, for example, Scott and Gorringer 1989; Scott, Bushnell, and Sallee 1990; McCullough and Ball 1992; Bushnell and Scott 1988).

As explained by Scott and Gorringer (1989), this output-oriented approach requires four basic types of changes in the framework governing public management, including management of human resources. First, it requires that chief executives "be made more directly accountable to ministers for the output and efficiency of their departments" (Scott and Gorringer 1989, p. 82); that is, that they commit their agency *ex ante* to providing particular levels of services of a specified quality within a given budget period, provide reliable evidence of their agency's performance in producing those services, and be subject to both personal and agency-level rewards and punishments on the basis of the demonstrated performance of their agencies.

Second, it requires that those chief executives be given much greater discretion in the management of the resources at their disposal; that is, the control emphasis must shift from inputs to outputs. Third, a distinction must be drawn between "the outputs of services a department produces and their outcomes, or success in achieving social goals" (Scott and Gorringer 1989, p. 82). Managers are to be held responsible for producing outputs, while responsibility for deciding which outputs to produce in order to achieve desired outcomes or social goals is to rest with the politicians. As Scott and Gorringer note, "the performance of bureaucrats [is to be] judged on whether they produce the outputs of services agreed to, and whether they do so efficiently. Politicians [are to be] judged on whether they buy the right services to achieve social goals like wealth, justice and the relief of suffering" (Scott and Gorringer 1989, p. 84). Finally, the system of financial accountability is to be "based on accrual accounting of inputs and on output measures" in order to improve incentives for efficiency within the sector (Scott and Gorringer 1989, p. 82).

Making the transition to output accountability

The transition from an input-oriented to an output-oriented framework for governing both financial and human resource management poses its own set of challenges. These include: creating incentives for affected agencies and their employees to support the transition; and specifying and monitoring outputs. In addition, to create incentives for the transition, it may prove useful to allow dual personnel management regimes to coexist during the transition.

Creating incentives

A successful transition requires that key affected parties fulfill their revised responsibilities. Accordingly, incentives must be created for each of those key affected parties—managers and their agencies, public employees more generally, and core input-control agencies whose mandates will be significantly revised.

Agency managers. In the transition to an output-oriented personnel and agency management framework, managers face significant transition costs and risks. They must clearly specify the outputs for which they will be held accountable. They must reorganize and restaff their agencies to effectively and efficiently produce those outputs. Even so, their budgets may shrink. They may be subject to penalties for poor performance. To make it

worth their while to shoulder these transition costs and risks, it is important to provide these managers with concrete incentives. Perhaps the most significant incentive is the increase in their authority over personnel and financial resources that is available to them when they satisfy all the requirements imposed upon them by the output-oriented framework. In addition, they can be offered a specified portion of the revenues they generate from improved cash management; for example, all earnings from their cash accounts in excess of a benchmark level of earnings set by central authorities (for example, the Ministry of Finance or the Central Bank) on the basis of average daily cash balances and expected market interest rates. And, of course, effective and efficient production of the promised outputs can lead to larger contracts (that is, an increased budget) in subsequent budget periods.

Public employees. Public employees face risks of job losses, reduced job security and penalties for poor performance. Good managers, who will have greater latitude in personnel actions than under the input-control framework, can counter these risks by providing better working conditions, including better salaries and training, performance bonuses, more challenging work assignments, and so on.

Core input-control agencies. Core input-control agencies, such as the central personnel office and the controller general, may easily view a transition to an output-oriented management regime as a threat. Because of their historical mandate to exercise pre-control over personnel and fiscal actions, they may distrust a switch to a regime that shifts the locus of control from inputs to outputs. They may also view such a change as a threat to their authority. These reservations will be compounded by the degree of uncertainty regarding their mandates under an output-oriented personnel and financial management re-

gime. To overcome such reservations, it is important both to clearly define the revised mandates of these agencies and to provide them with technical assistance for the transition process, including strengthening their post-evaluation capacities.

One device that can facilitate the creation of these transition incentives is to strengthen the input-control human resource management regime—making it more difficult to circumvent its constraints—at the same time that agencies are given the option to switch to an output-accountability personnel and financial management regime. Strengthening the input-control regime should decrease its attraction relative to the output-accountability regime. Management is then offered the option of switching to the output-accountability regime; that is, of gaining greater managerial autonomy in exchange for providing accountability for the outputs it produces. This strategy requires that the legal framework governing the civil service be revised to permit individual agencies to shift their personnel from civil service status to a status that more nearly parallels—or is identical to—that of private sector employees.

Identifying and monitoring outputs

Agreements negotiated between the management of a given agency and central authorities determine both the key outputs to be produced during a given budget period and the evidence by which compliance with that agreement will be assessed at the end of the budget period. Management remains responsible for monitoring output in accord with the terms of the agreement. This process makes it possible to hold agencies and their management accountable for the effectiveness and efficiency with which they produce contractually specified outputs. At the same time, it saddles the political process with responsibility for deciding how much to produce of which outputs.

Reform within an Existing Legal Framework: Compensation

Public employee compensation systems in LAC vary considerably in their details, yet some features are widely shared. Three key aspects of these systems are worth examining: an inconsistent relationship between skill levels and compensation relative to private sector comparators, salary assignment based largely on non-economic criteria, and weak enforcement of centrally imposed salary-setting restrictions.

The first part of this section shows the current symptoms, the second shows how—and posits why—they have developed, and the third discusses why the symptoms have been difficult to correct.

An inconsistent relationship between skill levels and compensation compared with the private sector

Those seeking to reform civil service employee compensation in Latin America face systems marked by an inconsistent relationship between public sector salaries and their private sector counterparts. Base salaries are—without apparent exception—assigned using technical criteria, rather than on the basis of the opportunity costs faced by current or potential public employees or worker produc-

tivity. The same is true, generally, for salary supplements. These inconsistencies are apparent in data from Trinidad and Tobago, Uruguay, Chile, Venezuela, and Argentina.

Data from Trinidad and Tobago and Uruguay reveal public sectors that tend to increasingly undercompensate their employees as responsibility levels and skill requirements rise (see tables 8.1 and 8.2). For instance, while a computer operator makes roughly 125 percent as much in the public sector as in the private sector in Trinidad and

Tobago, permanent secretaries receive only about 64 percent of the compensation of a chief executive officer in the private sector. In Uruguay, trades workers in the public sector earn about 94 percent of what journeymen earn in the private sector, while a division director in the public sector earns only 37.5 percent of what a manager earns in the private sector. (Salary comparisons for these two countries, especially for Trinidad and Tobago, are among the most meaningful in this report, because the

TABLE 8.1

Trinidad and Tobago: public versus private sector annual salaries

(dollars)

Position	Base salary	Allowances	Total remuneration	Public sector remuneration as percentage of private sector
<i>Managers</i>				
Public: Permanent secretary	25,852	4,941	30,793	
Private: Chief executive officer	32,471	16,002	48,473	63.53
Public: Chief planning officer (grade 68)	23,726	1,101	24,827	
Private: Administrative director	27,346	4,947	32,293	76.88
Public: Chief technical officer (eng. grade 68)	23,726	1,101	24,827	
Private: Top engineering executive	23,753	7,574	31,327	79.25
Public: Director of fin. and accounts (grade 65)	20,349	1,101	21,450	
Private: Finance manager	21,176	6,353	27,529	77.92
<i>Professional/technical</i>				
Public: Chief engineer (grade 62)	17,839	1,101	18,940	
Private: Chief engineer	28,376	6,447	34,824	54.39
Public: Admin. officer, level V (grade 61)	17,269	1,101	18,370	
Private: Operations manager	18,353	5,224	23,576	77.92
Public: Accounting exec. level II (grade 58E)	14,931	1,101	16,032	
Private: Chief accountant	20,471	3,660	24,130	66.44
Public: Cost accountant	11,384	1,101	12,485	
Private: Cost accountant	20,154	3,677	23,831	52.39
Public: Accountant level II (grade 35G)	11,384	1,101	12,485	
Private: Accountant	15,529	1,412	16,941	73.70
Public: Computer programmer	12,449	1,101	13,550	
Private: Computer programmer	11,118	1,117	12,235	110.75
Public: Computer operator level III (grade 39C)	10,478	1,101	11,579	
Private: Computer operator	8,888	359	9,247	125.22
<i>Administrative/support</i>				
Public: Clerk level IV (grade 30C)	8,945	1,101	10,046	
Private: Senior accounts clerk	8,550	1,085	9,635	104.27
Public: Clerk level I (grade 14)	4,947	1,101	6,048	
Private: Computer data entry clerk	6,459	542	7,001	86.39
<i>Blue collar</i>				
Public: Foreman grade I (class 1)	7,540	1,101	8,641	
Private: Production foreman	10,296	1,859	12,155	71.09
Private: Shift supervisor	10,933	1,395	12,328	70.10
Lowest public sector wage rate (14 year old boys and learners, skilled, and semiskilled; class 54)	—	—	4,193	
Lowest private sector wage rate (minimum wages order, 1991)	1,814	—	1,814	231.15

— Not available.

Source: For private sector (except minimum wage figures), Price Waterhouse, 1992. For public sector, Republic of Trinidad and Tobago, 1992.

TABLE 8.2

Uruguay: public versus private sector annual salaries

(dollars)

Position	Base salary	Allowances	Total remuneration	Public sector remuneration as percentage of private sector
<i>Managers</i>				
Public: Division director ^a	4,275	2,253	6,528	
Private: Manager	—	—	17,402	37.51
<i>Professional/technical</i>				
Public: University trained professional	5,607	612	6,219	71.37
Technical-professional	3,534	613	4,148	47.59
Private: Section chief	—	—	8,715	
<i>Administrative/support</i>				
Public: Administrative	2,994	613	3,607	89.98
Specialized	2,860	613	3,474	86.66
Auxiliary services	2,304	705	3,009	75.07
Private: Qualified technician	—	—	4,009	
<i>Blue collar</i>				
Public: Trades	2,010	750	2,760	
Private: Foreman	—	—	7,139	38.66
Journeyman	—	—	2,931	94.18
Worker	—	—	2,202	125.35
<i>Memorandum</i>				
National minimum private ^b	658			

— Not available.

Note: Private sector salary data are from June 1989. Public sector data are for July 1989. All figures converted to 1992 U.S. dollars (U.S. consumer price index) for comparability.

a. As reported in World Bank 1991, table VI-20.

b. Based on normal minimum wage less the workers' contribution to social security.

Source: World Bank 1991.

data allowed reasonably close matching between specific public and private sector positions.)

In Chile, top-level public sector managers earn between 63 and 70 percent of the average for chief executives and general managers in the private sector, while mid-level public sector professional and technical staff earn between 27 and 135 percent of the overall average for professional and technical workers in the private sector (table 8.3). Mid-level administrative and support personnel in the public sector earn between 17 and 61 percent of the overall average compensation for administrative positions in the private sector. The higher ratios in all these cases apply to public sector employees governed by the *fiscalizador* salary scales and the lower ratios reflect public employees governed by the less generous unified salary scale. (*Fiscalizador* positions handle finances.) These

comparisons could be made more reliable if the public and private sector comparators were more specific.

In Venezuela, the average public sector managerial salary equals about 16 to 67 percent of private sector managerial salaries, depending on the level of managerial position in the private sector (table 8.4). Average professional and technical salaries in the public sector range between about 27 and 71 percent of typical professional and technical salaries found in the private sector—depending again on the skill and responsibility level of the private sector comparator. Public sector administrative and support positions receive, on average, between about 27 and 84 percent of various private sector comparators; while semiskilled public sector labor receives between 48 and 74 percent of the wages earned by private sector comparators. These comparisons could be more accurate if the public sector figures reflected positions that could be matched to the available private sector occupational categories, rather than simply identifying averages for broad public sector career paths.

In Argentina, top-level managers governed by the 1.428/73 salary scale earned only 24 percent of the salary of a chief executive officer in the private sector—or about 74 percent of a director of budget and finance in the private sector (table 8.5). Public employees located at the modal category within the 1.428/73 salary scale earned between 24 and 51 percent of plausible private sector comparators; while those at the bottom of that salary scale earned between 53 and 89 percent of private sector secretaries or receptionists, respectively. As with the Chile data, these comparisons could be made more meaningful if specific positions in the public sector—instead of the less homogeneous salary grade groupings—were used to make these comparisons.

A recent World Bank study provides additional evidence on differences in public versus private sector salaries for a particular subset of positions: teachers (Psacharopoulos, Valenzuela, and Arends 1993). Public teacher salaries ranged between 65 and 16 percent of private sector comparators near the end of the 1980s in twelve LAC countries (see table 8.6).

In sum, although public sector salaries often fall below those available in the private sector in these LAC countries, this phenomenon is not uniform across countries or types of positions—and is often marked by wide variation. Although more precise data could help with many of the comparisons, the variations in the relationship between salaries for comparable public and private positions likely would still hold. The negative relationship between the ratio of public to private salaries and levels of responsibility and skill requirements is quite noticeable in the Uruguay and the Trinidad and Tobago data, and to a

TABLE 8.3

Chile: public versus private sector annual salaries*(dollars)*

Position	Base salary	Allowances	Total remuneration	Public sector remuneration as percentage of private sector
<i>Managers</i>				
Public: Top political appointee (grade A)	4,415	18,236	22,651	70.36
Top civil serv. director (grade 1B)	4,066	16,282	20,348	63.20
Civil service, middle manager (grade 9)	2,446	7,670	10,116	31.42
Lowest professional manager (grade 18)	1,223	2,804	4,028	12.51
Private: Chief executive and general managers	—	—	32,195	
<i>Professional/technical</i>				
Public: Top-level professional (grade 4)	3,478	11,692	15,170	134.91
Mid-level professional (grade 13)	1,798	5,215	7,013	62.37
Bottom-level professional (grade 23)	872	2,196	3,068	27.29
Private: Professional/ technical	—	—	11,245	
<i>Administrative/support</i>				
Public: Top-level administrative (grade 9)	2,446	2,415	4,861	61.55
Administrative/support (grade 17)	1,321	1,723	3,045	38.54
Administrative/support (grade 25)	762	1,053	1,815	22.97
Bottom-level administrative (grade 31)	553	771	1,324	16.76
Private: Administrative	—	—	7,899	
<i>Blue collar</i>				
Private: Specialized employees	—	—	6,830	
Specialized laborers	—	—	4,319	
Nonspecialized	—	—	3,437	
Service workers	—	—	3,316	

— Not available.

Note: All salary figures are 1990 year-end figures converted to 1992 U.S. dollars (U.S. consumer price index) for comparability.

Source: For public sector, Escala Unica de Sueldo 1990; for private sector, Instituto Nacional de Estadísticas.

less obvious extent in the Venezuela data. Senior civil servants in all those countries regularly point to low managerial salaries as a key impediment to their ability to staff higher managerial-level positions with qualified persons.

As noted earlier, the inconsistent relationship of compensation for public sector positions compared with their private sector counterparts in most LAC countries grows out of the use of technical—instead of economic—criteria for salary setting.

An understanding of the two key processes—setting base salaries and assigning salary supplements—examined here helps clarify the inevitability of the inconsistencies between public and private sector compensation.

Salary assignment based on non-economic criteria

Setting base salaries

Procedures in all LAC countries reviewed in this study virtually guarantee that public sector base salaries will fail

to bear a consistent relationship with the opportunity costs faced by current or potential public employees. Two basic steps are used to assign base salaries to positions. First, each position is classified according to some set of criteria. Second, each classification is assigned a base salary using some additional set of criteria. Although both tasks are important, assignment of a salary is crucial, because it determines whether any systematic relationship will exist between public salaries and their domestic private sector comparators and thus how competitive public sector positions can be compared with employment in the private sector.

Venezuela. The Comisión Presidencial para la Reforma del Estado (COPRE) in Venezuela recently proposed a very sophisticated methodology for classifying managerial positions and assigning salaries to them (Viera 1992a). Although the proposal is more elaborate and sophisticated than most, its structure captures the basic elements and design of these systems as they exist throughout most of LAC.

The proposed Venezuelan salary assignment system

TABLE B.4

Venezuela: public versus private sector annual salaries

(dollars)

Position	Base salary	Allowances	Total remuneration	Public sector remuneration as percentage of private sector
<i>Managers</i>				
Public: Minister/executive director	9,753	11,654	21,407	29.54
Private: President	49,694	22,780	72,474	
Public: Sectoral director general	8,201	6,635	14,836	42.38
Private: Director of finances	25,052	9,954	35,007	
Public: Unit chief	6,319	3,909	10,228	53.40
Private: Director of internal audit	12,737	6,415	19,152	
<i>Professional/technical</i>				
Public: Top prof./tech., grade 32-10	9,356	2,866	12,222	105.83
Private: Chief systems analyst	8,562	2,986	11,549	
Public: Mid-level prof./tech., grade 24-5	5,493	1,682	7,175	97.61
Private: Internal auditor	5,568	1,783	7,351	
Public: Bottom prof./tech., grade 15-1	3,145	963	4,108	90.48
Private: Computer operator	3,448	1,093	4,541	
<i>Administrative/support</i>				
Public: Top administrative, grade 26-10	4,726	1,448	6,173	63.41
Private: Executive secretary, bilingual	7,344	2,392	9,735	
Public: Middle administrative, grade 14-5	2,329	713	3,042	54.81
Private: Cashier	4,178	1,373	5,550	
Public: Bottom administrative, grade 1-1	1,120	343	1,463	47.10
Private: Receptionist	2,382	724	3,106	
<i>Blue collar</i>				
Public: Semi-skilled labor	1,491	995	2,485	50.55
Private: Chauffeur II	3,723	1,194	4,916	

Note: All salary figures in annual U.S. dollars, converted at an exchange rate of 66.85 Bs./\$US.

Source: For private sector, decree 2.039, 1992; Escala de Sueldos y Primas para Cargos de Alto Nivel, Organismos de la Administración Pública, Oficina Central de Personal, 1993; República de Venezuela. For public sector, Encuesta de Compensación 1992.

has two steps: classifying positions and assigning salaries to them.

Position classification consists of specifying:

- Title
- Functions and purpose of the position
- Responsibilities
 - Managerial responsibilities (for example, magnitudes of budget, personnel budget, value of equipment, numbers and types of employees supervised directly and indirectly)
 - Institutional responsibilities (formal relations that the holder of the position is responsible for maintaining, inside the agency and across agencies)
 - Policy and program responsibilities (external public policy or service effects of the unit managed by the holder of the position)
- Skill requirements
 - Complexity of demands placed on the holder of the position (types of challenges to be faced, com-

plexity of thought processes required, extent of autonomy, and discretion that must be exercised)

- Technical and managerial knowledge and capacity required for the position, including key indicators of such knowledge and capacities, such as formal education and experience.

While this level of detail is perhaps greater than is found in many other position classification systems in the public and private sectors, the categories are typical: title, functions, responsibilities, and skill requirements.

Salary assignment is accomplished by giving weights to the position responsibilities and skill requirements. The Venezuela proposal first rank orders a subset of the responsibilities and skill requirements identified in the position classification exercise and then assigns salary increments across rankings along each given dimension of 5, 20, or 25. The proposal ranks skills along two dimensions (conceptual and technical and integrative), and identifies seven ordered levels of conceptual and technical skills

TABLE 8.5

Argentina: public versus private sector annual salaries

(dollars)

Position	Base salary	Allowances	Total remuneration	Public sector remuneration as percentage of private sector
<i>Highest-ranking positions</i>				
Public: Max.: Escalafón 1.428/73 (cat. 24)	10,842	39,797	50,639	
Private: Chief executive officer	—	—	210,035	24.11
Director of administration and finance	—	—	101,603	49.84
Director of budget and finance	—	—	68,803	73.60
Director of personnel	—	—	50,596	100.08
<i>Modal positions</i>				
Public: Mod.: Escalafón 1.428/73 (cat. 16)	2,591	6,236	8,828	
Private: Chief financial analyst/planner	—	—	36,143	24.42
Chief accountant	—	—	32,370	27.27
Personnel manager	—	—	25,946	34.02
Senior systems analyst	—	—	25,326	34.86
Budget/financial analyst	—	—	17,354	50.87
<i>Lowest-ranking positions</i>				
Public: Min.: Escalafón 1.428/73 (cat. 1)	1,807	4,904	6,710	
Private: Secretary	—	—	12,648	53.05
Receptionist	—	—	7,564	88.72

— Not available.

Note: All salary data based on September 1991 data converted (U.S. consumer price index) to 1992 U.S. dollars for comparability.

Source: For public sector, Ministerio de Economía. For private sector, Informe de Remuneraciones, Anual.

and five additional ordered levels of integrative capacities. In addition, the proposal ranks responsibilities along (1) managerial and (2) policy and program responsibilities. Seven levels of managerial responsibilities and four levels of policy and program responsibilities are identified. Integrative capacities rankings carry 20 percent salary increments, conceptual and technical skill rankings carry 25 percent increments, managerial responsibility rankings carry 25 percent salary increments, and policy and program responsibility rankings carry 5 percent premiums.

Although this procedure provides a ready methodology for assigning salaries to positions once the position

TABLE 8.6

Latin American countries: teachers' mean earnings as a percentage of a comparator group

(percent)

Country	1979	1989
Argentina	93	75
Bolivia	74	65
Brazil	92	88
Peru	—	88
Uruguay	109	78
Colombia	137	165
Costa Rica	—	133
Chile	—	121
Ecuador	—	124
Honduras	131	141
Panama	110	111
Venezuela	135	122
Average	110	109

— Not available.

Source: Psacharopoulos, Valenzuela, and Arends 1993.

descriptions have been drawn up, it has two drawbacks. First, the 5, 20, and 25 percent salary premiums for each step up one of the job classification dimensions are arbitrary. The document justifies these increments by citing a neurophysiology "law of the minimum threshold of human perception" (the Weber-Freshnner law), which asserts that humans cannot distinguish changes in stimuli of less than 15 percent. Supposing both that such a claim is true and that it applies to salary increments (as opposed to changes in stimuli the measurement of which, unlike salaries, is not reported to be the subject of the experiment), it remains entirely unclear where the 5, 20, and 25 percent figures came from—none of them reflecting the 15 percent figure that was used to justify a fixed, arbitrary premium for movement up rankings along a given dimension.

More fundamentally, however, this *technical methodology* for assigning salary differentials across positions provides no means of assuring that salaries so assigned will bear a consistent relationship with the opportunity costs faced by workers who might fill those positions. This methodology could only by accident yield a salary scale that rewards responsibility or skill requirement increments by the same fraction that they are rewarded in the private sector across all responsibility or skill requirement levels. To illustrate, although an increment from level 1 to level 2 of the managerial responsibility scale brings a 25 percent salary increment, as does an increment from level 2 to level 3, it is entirely possible that an increment from level 1 to level 2 would receive a 25 percent increment in the private sector, while an increment from level 2 to level 3 could expect a 40 percent premium. If no fixed relation-

ship holds with the private sector, this salary scale will undermine the ability of the public sector to staff those positions whose salaries happen to fall further below their private sector counterparts (level 3 in the hypothetical example) than do other public sector position salaries (level 2 in the example).

Argentina (SINAPA). The same flaw can be seen in Argentina's recent revision of its public sector base salary assignment policies under its new Sistema Nacional de Profesión Administrativa (SINAPA). The SINAPA position classification procedure and salary assignment algorithm is very similar to the proposed Venezuelan procedures. Positions are classified based on responsibilities and skill requirements, including both task demands and level of autonomy demanded by those tasks. On the basis of thirteen responsibility categories and seventeen skill categories (eleven task demand categories and six autonomy level categories), each position is classified into one of six possible levels, labeled A through F. Each position classification has five salary grades (base through 4) (see tables 8.7 and 8.18). Base salaries are computed by multiplying the appropriate cell index by the current period multiplier, thereby allowing ready adjustment of the salary scale to reflect factors such as inflation or a policy to increase salaries across the board. Salary increments along the horizontal axis of that salary scale are attained on the basis of the employee's history of annual personnel performance evaluations, while vertical movements (across levels) within the salary scale are achieved by meeting the position-specific responsibility and skill requirements for a higher-level position and being promoted to it.

The index magnitudes were constructed to assure that the ratio of the salary of the highest-paid to the lowest-paid employee covered by that salary scale (the compression ratio) would achieve a pre-specified magnitude—in this case, 10.5. The particular pattern of across-level and across-grade salary increments were constructed to assure 9 percent increments for each grade step (horizontal movement in table 8.7), while satisfying this overall requirement of a compression ratio of 10.5. Preliminary versions of the SINAPA salary scale imposed 50 percent increments for promotions across levels F through C and 60 percent increments for promotions between levels C and A. The more recent version which was adopted under Decree 994/91, relinquished this increment simplicity to achieve the overall compression ratio of 10.5 (the overall compression ratio in a preliminary SINAPA salary scale proposal was 10.28).

Assignment of salary increments on the SINAPA salary scale has nothing to do with differentials in the opportunity costs faced by employees holding positions at

those different skill and responsibility levels. Instead, the increments have been constructed to achieve a pre-specified compression ratio.

Other salary scales. The COPRE and SINAPA systems' lack of a consistent relationship with the opportunity costs of labor is not unique. The complexity and transparency of the procedures for establishing base salary scales vary across countries, but all countries examined in this study suffer from this shortcoming because they rely upon *technical* rather than *opportunity cost* factors to construct their salary scales:

- In addition to SINAPA, Argentina's previous and other public salary scales (the previous salary scale covering core personnel in the central government under decree 1.428/73, as well as those still governing teachers, various public enterprises, the judiciary) are also based on technical considerations, rather than opportunity costs.
- Existing central government salary scales in Chile, El Salvador, Guyana, Honduras, Trinidad and Tobago, Uruguay, and Venezuela are based strictly on technical considerations. (Throughout this section "central government employee" denotes people employed in central government agencies subject to the governing civil service statute. In Venezuela, this set includes seventy-one central government agencies, although some employees within those agencies are exempted from the Ley de Carrera Administrativa—for example, uniformed military personnel, teachers, and university administrators.)
- Trinidad and Tobago is currently employing a consultant to revise its civil service salary scale. The approach being taken is very similar to the Venezuelan and Argentine approaches described above. Points are to be assigned to various dimensions of position descriptors and those points are to be used to rank order positions. Salary differentials are to be assigned so as to assure that the overall salary structure will exhibit a normal distribution. The assignment of points and the imposition of a particular functional form on the overall distribution of salaries are

TABLE 8.7

Argentina: SINAPA salary scale, June 1991

Level	Base grade	Grade 1	Grade 2	Grade 3	Grade 4
A	900	954	1,050	n.a.	n.a.
B	606	660	720	n.a.	n.a.
C	408	444	484	527	n.a.
D	260	296	322	351	382
E	150	164	178	194	212
F	100	109	119	130	141

n.a. Not applicable.

Source: Sistema Nacional de Profesión Administrativa (SINAPA), Annex I to Decreto 1994/91, Argentina.

based on or reflect technical considerations rather than opportunity costs. Such a system cannot assure that salaries for all positions will bear a consistent relationship with opportunity costs.

Assigning salary supplements

Salary supplements are a significant fraction of many public employees' compensation in the typical LAC country—as much as 84 percent of total compensation in Argentina, 80 percent in Uruguay, 74 percent in Chile, and 32 percent in Venezuela. The above reported shares of total compensation accounted for by salary supplements in Argentina, Uruguay, and Chile reflect maximum shares—possible or observed—in the existing salary structure, while the shares reported for Venezuela and Trinidad and Tobago are averages based on salary scale data and actual expenditure data reported in annual budget documents. To put this in perspective, although the maximum share of total compensation that can be accounted for by supplements in Uruguay is 80 percent, the observed average is only 20 percent. So, salary supplements as a portion of compensation appear to be higher in the former three countries than in the last two. Data limitations prevented reporting precisely the same measures for all five countries. Although such supplements sometimes better link public sector salaries to economic factors—to counteract the fundamental flaw of the technical algorithms used to assign base salaries—they also tend to reduce the transparency of salary determination and can yield arbitrary salary assignments.

In Uruguay, for instance, public employee wages consist of a basic wage, defined by the applicable personnel roster *escalafón*, plus any of more than fifty situation-specific compensations and fringe benefits. The compen-

sations and fringe benefits attach to such things as longer work weeks (thirty-six, forty or forty-eight hours, rather than the thirty-hour base), full-time dedication and representation expenditures, night work, unhealthy occupations, seniority, being a member of an organized household (*hogar constituido*), family allowance, and so on (World Bank 1991).² Although some of these situation-specific compensations obviously are tied to the demands placed on the worker—for example, the bonuses for working more than the thirty-hour base and the unhealthy-occupations premiums—many have no obvious link to job demands; they reflect, instead, equity or special interest considerations. In addition, in practice these situation-specific compensations narrow the range of compensations. The seniority premium, a fixed premium per year of service, inexorably raises the remuneration of more-senior employees, regardless of their performance or the demands of their positions. The premium for members of an organized household is inversely proportional to the wage level, thereby partially counterbalancing the wage pyramid embodied in each of the salary scales. The family allowances are fixed premiums per child.

The situation-specific compensations account, on average, for roughly 20 percent of central government employee compensation and can easily exceed 80 percent of an employee's total compensation.³ Given their large share of total compensation and the fact that many of these benefits bear no relation to job demands or employee performance, it is not surprising to find that actual compensation packages vary less across employment grades (levels within the salary scales) than do the base pay rates found in those salary scales. For instance, in the absence of all situation-specific compensations, the overall ratio of highest to lowest salaries—the compression ratio—in the central administration stood at 13.2 (table 8.8). When

TABLE 8.8

Uruguay: potential weekly pay compensation comparisons in the central administration, July 1989

(dollars)

Classification	Base pay			Pay including three special benefits		
	Minimum	Maximum	Ratio max/min	Minimum	Maximum	Ratio max/min
University-trained professional	157	1,143	7.3	190	1,211	6.4
Technical-professional	134	858	6.4	170	926	5.5
Administrative	88	651	7.4	128	719	5.6
Specialized	88	205	10.2	128	964	7.5
Trades	86	144	7.4	127	706	5.6
Auxiliary services	94	165	4.0	135	450	3.3
Overall	86	1,143	13.2	127	1,211	9.5

Note: Minimum compensation including benefits assumes no seniority, while maximum compensation including benefits assumes 30 years of seniority. The three benefits are seniority, established household, and child care. All figures reflect potential compensation packages rather than actual remunerations received and assume a 40-hour work week and 4.29 weeks per month. Figures are monthly compensations expressed in U.S. dollars based on the July 1989 exchange rate of 611.2.

Source: These comparisons are taken from World Bank 1991, tables VI-12 and VI-14, pp. 84-85.

three of the most significant of these situation-specific compensations are included—seniority, established household, and health care—this ratio is reduced to 9.5. Within job descriptions reserved for university-trained professionals, the base pay compression ratio was 7.3, but this ratio falls to 6.4 when these three benefits are included. These data and the details of the salary-setting provisions in Uruguay's public sector reveal a public pay-setting policy that could be made more transparent and more clearly linked to the quantity and type of work being performed by eliminating or curtailing the use of many of the situation-specific compensations.

Like Uruguay, many LAC countries—such as Argentina, Chile, and Venezuela—allow a wide variety of salary supplements. Trinidad and Tobago, on the other hand, relies little on salary supplements.

Venezuela. In Venezuela, salary supplements represent almost 32 percent of budgeted personnel expenditures on public employees not covered by collective contracts in the 1993 budget, and 40 percent for those covered by collective contracts (see table 8.9). Moreover, a significant fraction of those salary supplements are not clearly linked to the quantity or quality of work supplied by an employee. Only 3.7 percent of personnel expenditures were explicitly allocated as “premiums for service,” despite the fact that such “premiums” are allowed to augment base salaries by up to 80 percent for professional staff and up to 60 percent for technical staff. Up to almost 39 percent of allowable service premiums could simply reflect seniority, while the maximum salary supplement resulting from an employee's performance evaluation cannot exceed 21 percent of base salary—or roughly 26 percent of allowable premiums for service. Although overtime accounts for another 11 percent of budgeted personnel expenditures in Venezuela, non-performance-linked salary supplements appear to account for approximately 11.9 to 20.4 percent of total personnel expenditures in Venezuela in 1993, exclusive of employees covered by collective contracts. Performance-linked salary supplements appear to account for between 11.5 and 20.0 percent of such expenditures.⁴

Argentina. Argentina's salary supplements are also typical of LAC countries. Although each salary scale that governs personnel compensation in the central government carries its own set of salary supplements, two examples illustrate the significance of such supplements in determining total compensation—the military salary structure and the D.L.1.428 salary structure, which covered the lion's share of central government employees until replaced recently by the SINAPA salary structure (discussed above).

TABLE 8.9

Venezuela: central government personnel budget, 1992

Personnel expenditure category	Amount (bolívars)	Percentage of total (less collective contracts)
Total personnel expenditures	105,889,578,318	
Total personnel expenditures, less collective contracts	88,868,463,107	100.0
Base salary	60,528,484,459	68.1
Permanent employees	58,687,912,457	66.0
Temporary employees	1,840,572,002	2.1
Salaried employees	691,163,816	0.8
Wage employees	1,149,408,186	1.3
Premiums	8,006,264,882	9.0
Premiums for seniority, performance, education	3,329,094,597	3.7
Other premiums	4,677,170,285	5.3
Overtime and related compensations	9,799,789,702	11.0
Annual bonuses	5,501,338,410	6.2
Aid contributions to personal savings and retirement plans	5,032,585,654	5.7
Collective contracts expenditure categories	Amount (bolívars)	Percentage of collective contract expenditures
Collective contracts	17,021,115,211	100.0
Total wages	10,208,712,133	60.0
Bonuses and other compensations	6,812,403,078	40.0

Source: World Bank data.

Military salaries consist of a base plus four categories of supplements—allowances, seniority, residency, and special premiums. Combined, these supplements dwarf the base salary. Base pay accounts for, on average, roughly 16 to 23 percent of total compensation (see table 8.10); while allowances account for 24 to 34 percent, seniority accounts for 2 to 32 percent, residency accounts for 24 to 20 percent, and special premiums are roughly 15 to 21 percent.⁵

A similar yet more complex picture emerges when the salary scales covering many other central government employees are examined. As of 1988, for instance, while *escalafón* 1.428 had been designed to cover most central government employees, at least 17 other wage regimes covered employees in various central government agencies and more than sixty types of salary supplements existed. This plethora of salary scales and supplements contributed to increase variations across agencies in total compensation accorded identical positions and to compress the salary structure. To eliminate these wage distortions, the government issued decrees 2.192 and 2.193 in 1986. These provided salary enhancements on technical grounds designed to counteract the salary compression introduced by the existing salary supplements. To illustrate, in March 1991, salary enhancements based

on decree 2.192 in the Instituto Nacional de Tecnología Agrícola Agropecuaria (National Institute of Agriculture Technology) were 342 percent of base salary (including *dedicación funcional*) for employees at the top of the INTA salary scale, 126 percent for those near the middle of the scale, and only 61 percent for those at the bottom (Republic of Argentina, Ministry of Economy). These enhancements accounted for 21.1 percent of total reported compensation for a prototype top-level employee in INTA, 23.2 percent for a prototype mid-level employee, but only 13.9 percent for a prototype employee at the bottom of the salary scale (see table 8.11). Total enhanced base salary, including all position-linked salary enhancements as of April 1991, accounted for 27.2, 41.6 and 36.8 percent, respectively, of total reported compensation for these three prototype employees. Salary supplements other than these position-specific enhancements accounted for 72.8 percent of total reported compensation for the prototype top-level employee, 58.4 percent for the middle-level employee, and 63.2 percent for the prototype employee at the bottom of the salary scale. Salary supplements reflecting level of responsibility and job demands—for example, whether the position-holder held a university title, level in the hierarchy, and whether the position was a scientific, technical or supervisory position—accounted for almost 30 percent of total compensation for the highest position, but only about

TABLE 8.10

Argentina: military salary components as percentage of gross salary, October 1991

Position	Base wage	Allowances	Seniority premium	Residency premium	Special premiums
Lieutenant general	15.9	23.8	31.7	13.9	14.7
Major general	16.0	24.0	31.2	14.0	14.8
Brigadier general	16.3	24.4	30.1	14.2	15.0
Colonel	16.8	25.2	27.7	14.7	15.5
Lieutenant colonel	17.7	26.5	23.9	15.5	16.4
Major	18.7	28.0	19.7	16.3	17.3
Captain	19.8	29.7	14.9	17.3	18.3
First lieutenant 1	20.6	30.9	11.4	18.0	19.1
First lieutenant 2	21.3	31.9	8.6	18.6	19.7
Second lieutenant	21.9	33.0	5.5	19.3	20.3
Sergeant major	17.1	25.6	26.5	15.0	15.8
Sergeant principal	17.9	26.8	23.2	15.6	16.5
Sergeant adjunct	18.7	28.0	19.7	16.4	17.3
Sergeant I	19.4	29.1	16.5	17.0	18.0
Sergeant	20.6	31.0	11.3	18.0	19.1
Corporal I	21.5	32.3	7.6	18.8	19.8
Corporal	22.2	33.4	4.4	19.4	20.6
Volunteer I	22.7	34.1	2.3	19.8	21.1
Gendarme	22.2	33.3	4.5	19.4	20.5

Source: World Bank data.

12 percent for lower positions. Supplements reflecting government program priorities—including program priority, exclusive dedication, investment dedication, and regional adjustments—accounted for 10.2 to 19.6 percent of total compensation. Seniority factors (time in position and seniority), in turn, accounted for between 1.4 percent and almost 4.0 percent of total compensation. A productivity factor could account for around 7.7 to 9.2 percent of total compensation for these positions. Other supplements accounted for another 20.9 percent of total compensation, on average, including 18.7 percent dedicated to providing meals to employees. In short, salary supplements account for a sizable fraction of total compensation under both of these typical salary regimes in Argentina. While a sizable fraction of those supplements appear to be linked to levels of responsibility and skill requirements, a large portion would appear to have little to do with such factors: the 18.7 percent of salaries attributable to meals.

Chile. Chile's set of salary supplements is perhaps as extensive as that found in Argentina. Salary supplements

TABLE 8.11

Argentina: salary components in Instituto Nacional de Tecnología Agropecuaria, April 1991

(percent)

Compensation component	Highest-ranking position (grade A1-15)	Modal position (grade E1-10)	Lowest-ranking position (grade C2-4)
Enhanced salary base	27.2	41.6	36.8
Base salary	2.5	7.3	9.2
Functional dedication	3.7		
Special benefit		11.0	13.8
Art. 4, D.2.192/86	21.1	23.2	13.9
Salary supplements	72.8	58.4	63.2
Responsibility/job demands ^a	29.6	12.5	12.1
Government program priority ^b	10.2	15.7	19.6
Productivity	8.0	7.7	9.2
Seniority factors ^c	4.0	1.7	1.4
Other supplements	20.9	20.9	20.9
Meals	18.7	18.7	18.7
Household/domestic benefit	1.0	1.0	1.0
Miscellaneous ^d	1.1	1.1	1.1
Total compensation	100.0	100.0	100.0

Note: Supplements for Law 20.340/73, meals, and miscellaneous are imputed at agency averages, and hence are estimated as constant average percentages across position prototypes. All other figures reflect position prototype compensation levels.

a. Position and function, university title, hierarchy compensation, and supplemental Law 20.340/73, which provides salary enhancements to stimulate scientific, technical, and supervisory functions.

b. Priority program, exclusive dedication, investment dedication, regional adjustment.

c. Time in position, seniority.

d. Undesirable assignments, eradication, Función SCD, cash shortages.

Source: World Bank data.

exist for, among other factors, handling cash, having to visit clients as part of one's job, overtime, change of residence, travel expenses, seniority, possession of a professional degree, *asignación familiar y maternal* (family and household allowances), and D.L. 3.551 (Chile 1980b), which provides additional compensation on the basis of professional qualifications and responsibilities.

These salary supplements can be divided into three categories based on personal characteristics of the employee or his or her personal situation that have nothing to do with the quantity or quality of work performed or skills required for the position; based on job demands, the responsibilities or skill requirements of the position; and related to performance, reflecting the quantity or quality of work performed. Those reflecting personal characteristics appear to be fairly limited in magnitude. These include change of residence and *asignación familiar y maternal*. Change of residence compensation is restricted to one month's salary, while *asignación familiar y maternal* is part of the basic social security system. Similarly, performance-related supplements appear to be insignificant. Overtime in each and every program is limited by the budget law each year. Aside from this, performance-related salary supplements do not appear to play any important role in Chile's central government.

Salary supplements reflecting job demands, on the other hand, are sizable. The largest of these are supplements resulting from D.L. 3.551, which account for 9.4 to 45.5 percent of total compensation in non-*fiscalizador* positions. Salary enhancement based on whether a position is a *fiscalizador* position are also significant, accounting for between 8.5 and 67.7 percent of total compensation. Total job-demand-related salary supplements range from 32.7 to 68.2 percent of total compensation for non-*fiscalizador* positions and between 38.4 and 73.9 percent for positions responsible for financial transactions (see table 8.12; Chile 1989b).⁶

Trinidad and Tobago. Trinidad and Tobago is an exception to this pattern. The only allowance available to central government employees—and, indeed, only to a subset who hold posts classified as “traveling”—apart from health and the national insurance scheme, is a transport allowance of approximately \$1,101 per annum.⁷ Aside from overtime, salary supplements in, for example, the Office of the President, the Office of the Prime Minister and the Ministry of Finance and Economy accounted for less than 2.5 percent of total personnel expenditures in 1989 (see table 8.13). Of these, roughly four-fifths (about 2 percent) reflect contributions to the national insurance scheme, leaving less than 0.5 percent of personnel expenditures as variable salary supplements.

Honduras. Honduras is also an exception to the pattern of heavy reliance on salary supplements. The central government salary scale in Honduras includes 39 grades and 22 steps in each grade—858 cells in total. Salary increments across steps and grades are, as noted above, fixed by simple technical criteria, which, of course, results in salaries bearing no consistent relation with opportunity costs posed by private sector labor markets and faced by current or potential public employees.⁸ Despite this weakness, the Honduran salary structure includes only a single salary supplement option, namely, eligibility for below-market mortgage loans—an arrangement that undoubtedly favors workers nearer the top of the salary structure, who are more likely to be in a position to purchase rather than rent their housing.

Assessment of salary scales and supplements

The information reported above illustrates two important aspects of salary-setting practices in most LAC countries. First, both base salaries and total compensation fail to bear a consistent degree of competitiveness with domestic private sector comparators. Second, the plethora of salary supplements, which could be employed to correct distorted base salaries, do not appear to do so. Instead, coupled with weak accountability for performance, those salary supplements make salary-setting practices less transparent and less subject to competitive tests of their efficacy.

TABLE 8.12

Chile: unified annual salary scale components, December 1989

Grade	Career group	Base salary	Adjustments	Supplements	Total remuneration (US\$)
F/G	Fiscalizadores	16.0	10.1	73.9	68,993
A	Autoridades de gobierno	19.5	13.1	67.4	58,136
1B	Fiscalizadores	18.9	12.9	68.2	54,825
1C	Jefes superiores de servicio	19.9	13.8	66.3	51,380
1C	Dir. sup. profesionales	21.2	14.7	64.1	48,311
1C	Dir. sup. no profesionales	33.2	19.5	47.4	30,862
8	Fiscalizadores	22.6	19.9	57.6	37,371
8	Directivos profesionales	23.6	20.9	55.6	28,783
8	Profesionales	24.2	20.8	55.0	28,018
8	No profesionales	50.7	16.6	32.7	13,379
14	Fiscalizadores	29.3	19.9	50.8	19,922
14	Jefaturas	34.7	18.2	47.1	12,308
14	Profesionales	25.6	20.4	54.0	16,685
14	No profesionales	46.0	16.1	37.8	9,279
23	Fiscalizadores	47.4	14.8	37.8	4,129
23	Profesionales	28.4	18.5	53.1	7,875
23	No profesionales	41.7	16.1	42.2	5,365
25	Fiscalizadores	47.7	13.9	38.4	2,975
31	No profesionales	41.8	15.2	43.0	3,397

Source: Chile 1989b.

TABLE 8.13

Trinidad and Tobago: personnel expenditure composition, 1989

Office	Base salary, wages, and COLA	Overtime	Allowances	National insurance scheme	Miscellaneous
Office of the President	94.5	0.0	3.8	1.5	0.2
Office of the Prime Minister	91.6	6.2	0.1	2.0	0.0
Minister of Finance and Economy					
Comptroller of Accounts	97.5	0.2	0.2	2.1	0.0
Inland revenue	97.1	0.3	0.1	2.2	0.2
Customs and Excise Division	70.4	19.1	1.7	1.4	7.4
Overall average percentage	86.8	8.2	0.7	1.9	2.5
Average percentage net of Customs and Excise division	94.7	3.0	0.2	2.1	0.1

Source: Republic of Trinidad and Tobago, Auditor General, 1989.

These patterns raise at least three important questions whose answers can help to identify practical steps for improving both base salary-setting practices and the use of salary supplements. The three important questions are:

- Why do LAC governments generally employ technically based base salary-setting algorithms despite the fact that these algorithms cannot readily ensure equally competitive salaries across different types of positions?
- Why do salary supplements proliferate in LAC civil services, yet still fail to correct the disparities in competitiveness of public salaries across types of positions?
- Why do salary supplements undermine transparency and accountability?

Base salary setting. The inconsistent relationship between public and private sector base salaries is an artifact of the technical basis typically employed to assign base salary differentials across positions (see above). These technical criteria are employed to calibrate salary scales for two basic types of reasons: horizontal and vertical equity, and to prevent personal or political patronage or favoritism from undermining either of these types of equity.

When top-level public managers in LAC countries are asked to suggest how base salary policies might be improved, they almost without exception advocate not only that base salaries be raised, but—equally important—that those base salary structures be updated so as to ensure that positions with comparable responsibilities and skill requirements receive comparable levels of pay and that compensation rises with responsibilities and skill requirements. Salary scales that assign salary increments based on pre-specified assessments of differences in responsibilities and skill requirements address precisely this concern, regardless of whether the increment assignments are based on technical or economic criteria. Moreover, use of such an objective algorithm for assigning base salaries ensures that personal or political patronage or favoritism will not undermine either horizontal or vertical equity.

Why then do top government officials throughout LAC routinely accuse the salary-setting policies based on such salary scales of failing to assure equal pay for equal work? The answer to this question turns out to also account for the proliferation of salary supplements.

Salary supplements. Under a salary scale such as Chile's Escala Unica, created in 1974 (Chile 1989b), Argentina's D.L. 1.428/73 salary scale (Argentina 1973) or Argentina's recent SINAPA salary scale, the salary differentials between levels or grades are based on technical criteria that do not necessarily reflect skill- or responsibility-specific salary differentials observable in domestic labor markets. As a consequence, public managers find that some of their available positions are relatively more difficult to staff than are others. If for instance, the technical criteria for assigning salary increments for job responsibility fall below increments for those same responsibility differentials in the domestic private sector, pressures are likely to increase within the bureaucracy to augment the salaries of such positions. A complete revision of the salary scale could prove costly, time-consuming, and potentially risky with regard to its uniformity (its claim to fairness) and its fiscal sustainability. Consequently, a politically more feasible response is likely to be the creation of a special "responsibility" enhancement or supplement.

An extreme version of such a response to a salary scale that fails to reflect the opportunity costs of particular types of positions is to proliferate salary scales, as occurred in Argentina between 1973, when the D.L. 1.428/73 salary scale was created, and 1991, when the SINAPA salary scale was imposed. For instance, among six of Argentina's salary scales in 1991, salaries for the highest-ranking positions varied by a factor of more than 2.2, while these varied by a factor of 2.9 among modal positions and 2.1 among entry-level positions.⁹ Tellingly, the core salary scale, *escalafón* 1.428/73, provides, with

few exceptions,¹⁰ the lowest salaries among Argentina's salary scales. This is consistent with the suggestion that a primary motivation in the creation of Argentina's plethora of salary scales has been the desire of the governmental units to provide more competitive salary levels than were allowed under the 1.428/73 core. Chilean officials responsible for administering the central government's Unified Salary Scale (*Escala Unica de Sueldos*) also noted, when interviewed, that they regularly face significant pressures to convert individual agencies to the *fiscalizador* salary scale, which allows more competitive salaries than does the *Escala Unica* (see table 8.12).

A scenario such as this is consistent with the data cited earlier on salary supplements. It also matches the casual empirical observation that the longer a salary scale has been in place, the wider is the variety of such salary supplements and the greater is the level of audible discontent within civil service ranks about the fairness of salary setting. This scenario provides a plausible explanation for why discontent with the "unfairness" of salary-setting policies under such technical-based salary scales is so widespread, why targeted salary supplements proliferate under such salary scales, and why discontent mounts as the variety of salary supplements increases.

Base salary recommendations. Supposing this assessment correctly identifies the dynamic by which these salary scales have failed to achieve the end for which they were designed—equal pay for equal work—how can the problem be corrected?

To avoid corruption of salary setting, salaries offered for all public sector positions must bear the same relationship to their private sector counterparts—regardless of whether that is 40, 80 or 120 percent. But how can this be accomplished? It cannot be accomplished on a priori grounds, as the failure of the strictly technical approaches demonstrates. Instead, empirical evidence on salaries offered in the domestic private sector is essential. Fortunately, such data are often readily available (see above). Once such data are obtained, two obvious options exist for using them to guide public sector salary setting:

- *Alternative 1.* Match public and private sector position descriptions and require that salaries for all such matches bear the same relationship—each public sector position must offer a salary that is the same fixed fraction of its matched private sector counterpart.
- *Alternative 2.* Apply the same responsibility and skill requirements position descriptors to private sector positions and public sector positions. Then estimate hedonic price equations on the private sector sample in which these descriptors are the right-hand-side variables and observed total compensation is the left-hand-side variable. The esti-

mated descriptor coefficients can be employed as imputed weights for assigning salaries to each public sector position on the basis of its position descriptors.

These two methodologies are not novel in other applications. Alternative 1 is known as the "comparables" methodology when it is employed to assess housing values for such applications as identifying the taxable base for real estate taxes or deciding how much to bid on a piece of real estate. Alternative 2 is simply an econometrically sophisticated version of the "comparables" methodology in which market "prices" are imputed for each of the key dimensions of the product being studied (for example, housing, labor services). A large body of experience and literature exists on the use of both methodologies.

Alternative 1, the "comparables" approach, is the simpler one to apply because it does not require econometric work. Its weakness is that it is sometimes difficult to identify sufficiently comparable positions. But even given this limitation, the approach can readily be used to set average or base compensation levels for broadly defined positions for which reasonable comparators can be identified in the private sector. Finer salary discriminations across positions can be achieved using, for example, technical criteria, annual personnel evaluations, or managerial discretion (managerial discretion can be used only if managers are adequately held accountable for the performance of their units [see below]).

Alternative 2, the hedonic regressions approach, assures that any public sector position that can be described along the same dimensions (responsibilities and skill requirements) deemed important by those designing the salary scale can be reliably assigned a salary that reflects the wage those responsibilities and skills could, on average, command in the domestic private sector. Its drawback is that it requires considerably more sophisticated resources to implement.

Both methodologies require regular updating with reasonably current information on private sector labor market compensation levels. Fortunately, such data appear to be readily available in many LAC countries. For instance, such data were readily obtained from private sector firms who monitor private sector salaries in Argentina, Trinidad and Tobago and Venezuela. Alternatively, the government can itself gather such data. Comparisons reported above between public and private sector salaries in Chile and Uruguay are based, in part, on government survey data on private sector salaries. The data currently being reported by those government surveys do not always provide as fine a set of private sector position classifications as would be desirable, but it is obviously feasible to enhance such surveys to assure that they do provide an adequate level of occupational detail.

If either of these two empirically based methodologies were used to set salary scales—and the scales were updated regularly—the plethora of salary supplements in countries such as Argentina, Chile, and Venezuela could be significantly reduced. More important, the pressures to create new salary supplements would be significantly diminished. This should increase the transparency and fairness of public salary setting.

Salary supplements recommendations. The primary problems raised by salary supplements are not so much their proliferation as the reduced transparency of salary-setting procedures and their outcomes and the lack of accountability for their impacts upon agency performance. Accordingly, the following recommendations are suggested:

- Allow discretionary salary supplements only when managers responsible for assigning those supplements are held accountable for the performance impacts (upon their units) of their assignment of those supplements.
- Strengthen personnel and financial information systems to ensure capacity to provide reliable and timely reports on the pattern and impacts of salary supplements.

Weak enforcement of centrally imposed salary-setting restrictions

Salary-setting policies are, of course, never fully effective. The extent to which individual line agencies and their managers will circumvent centrally mandated salary policies will depend upon (1) incentives to circumvent those policies; (2) means of doing so; and (3) risks of being detected and punished for failing to adhere to centrally mandated salary policies.

Incentives to circumvent centrally mandated salary policies

The previous analysis of the inconsistencies and non-competitiveness of typical public sector salary regimes in LAC suggests that most line agencies and their managers have strong incentives to circumvent the salary regimes.

Means of circumventing salary policies

There are many ways to circumvent such salary-setting policies—for instance, by resorting to contracts for personal services, instead of hiring into the career civil service; generating new position descriptions and filling them with temporary appointments more rapidly than the central personnel agency can review and appropriately classify those new positions; maintaining unreliable and diffi-

cult-to-decipher personnel, payroll, and expenditure accounts; and using grounds other than performance to advance employees up the salary grades or steps.

Risks

At issue are the risks of being detected and punished for failing to adhere to centrally mandated salary policies. Central authorities can influence the odds of being detected through the quality and reliability of key financial and personnel information monitoring systems. The expected penalty depends on the enforcement capacity of key central administrative enforcement agencies such as the controller general, the treasurer, the budget office, and any administrative courts.

Industrial countries rely on sophisticated, computerized information monitoring systems in budgeting, accounting, personnel, financial transactions, asset, facilities, and materials management. World Bank experience confirms that for developing countries attempting to set the stage for serious reform the capacity for integrated financial and resource management systems is key. (Nunberg 1990, 1991; Nunberg and Nellis 1990; de Merode 1991). Lending operations in Argentina, Bolivia, Brazil, Chile, Ecuador, Guyana, Jamaica, and Venezuela have all supported strengthening of information systems in order to provide such capacity (see table 8.14).

Although these capacities are the backbone of any system that effectively monitors and enforces such things as staffing levels and composition, compensation packages, and overall resource usage by line agencies, these capacities are often dangerously weak in the public sectors of many LAC countries.

Trinidad and Tobago. The managerial capacity of the central government of Trinidad and Tobago suffers from problems that are widely recognized by its managers. Perhaps the two most important are, first, an inability to reliably monitor key indicators of the government's resource usage, the activities undertaken with those resources, and key outcomes of those activities and, second, a salary structure in which highly skilled public employees earn only 50 to 70 percent of what they could command in the private sector, while very low-skilled public employees may earn substantially more than they could obtain in the private sector (see above). Weak information monitoring capabilities undermine the government's capacity to enforce any expenditure or employment constraints it might try to impose. The salary structure further undermines this weak enforcement capacity and creates strong incentives in the line agencies to circum-

vent any constraints the government might try to impose on staffing decisions.

The most fundamental weakness of the public management capacity of the central government is its inability to reliably track the minimal information required to ascertain just what government agencies are doing, the quantity of resources they are using, and what they are accomplishing. The little expenditure information that is monitored is widely reputed to be unreliable, and it takes inexcusably long periods before it is made available to those who could use it. This indictment applies with most force to the government's expenditure monitoring, including its payroll system. It is widely believed by public managers in line ministries and in ministries charged with maintaining the institutional framework for managing human resources—including the Ministry of Finance and the Ministry of the Public Service—that the payroll system is unable to reliably and in a timely manner enforce agency-specific employment and payroll constraints or employee-specific employment constraints, such as limits on sick leave and annual leave.

This incapacity to monitor resource use and outcomes is illustrated by the recent Voluntary Termination of Employment Program. That program, which began in 1989, and was followed by a freeze on all new hires beginning in 1991, resulted in 1,053 voluntary terminations, at a cost of \$9.3 million, or approximately \$9,000 per separation. Despite this, the government continues to budget for large numbers of vacant positions in each agency. Furthermore, line agencies are widely suspected of filling many officially "frozen" vacancies by having underqualified existing employees serve as "acting" holders of those positions. This maneuver sidesteps the normal hiring or promotion process conducted by the relevant Public Service Commission. These actions are also completely unmonitored—the government has no systematic information on the number of vacancies, the fraction of those filled by "acting" appointments or how long such "acting" appointments endure. In short, the total absence of timely and reliable information on vacancies and "acting" appointments prevents any arm of the government from exercising effective control over this practice.

TABLE 8.14

Selected developing countries: civil service reform elements

<i>Improve information system</i>	<i>Undertake diagnostic work</i>	<i>Reduce employment</i>	<i>Restructure employee incentives</i>	<i>Restructure management incentives</i>
<i>Latin America</i>				
Argentina	Argentina	Argentina	Argentina	Argentina
Bolivia	Bolivia	Bolivia	Bolivia	Chile*
Brazil	Costa Rica	Chile*	Chile*	Jamaica
Chile	Haiti	Costa Rica	Costa Rica	Peru
Ecuador	Jamaica	Guatemala	Dominica	
Guyana	Peru	Guyana	Haiti	
Jamaica	Uruguay	Haiti	Jamaica	
Venezuela		Uruguay*	Peru	
<i>Other developing countries</i>				
Bangladesh	Bangladesh	Benin	Bangladesh	Bangladesh
Central African Republic	Central African Republic	Cameroon	Benin	Central African Republic
Ghana	Congo	Central African Republic	Cameroon	Gambia, The
Mali	Gambia, The	Congo	Central African Republic	Ghana
Mauritania	Ghana	Gabon	Congo	Mali
Senegal	Guinea	Gambia, The	Gabon	Mauritania
	Guinea-Bissau	Ghana	Gambia, The	Senegal
	Mauritania	Guinea	Ghana	Togo
	Niger	Guinea-Bissau	Guinea	Turkey
	Senegal	Laos	Mauritania	Uganda
	Sri Lanka	Mali	Niger	
	Thailand	Mauritania	São Tomé and Príncipe	
	Togo	Nepal	Senegal	
	Uganda	Niger	Sierra Leone	
		São Tomé and Príncipe	Thailand	
		Senegal	Togo	
		Turkey	Tunisia	
		Uganda	Uganda	
			Zaire	

Note: Entries reflect World Bank-sponsored reforms during 1981-91, except those followed by an asterisk (*), which were done independently of the Bank.
Source: World Bank.

Uruguay. The Government of Uruguay's capacity to enforce salary-setting rules is weakened by a proliferation of salary supplements and job titles coupled with a weak capacity to monitor the use of those supplements and promotions to those job titles. (The proliferation of salary supplements has already been documented above.) Regarding job titles, as of 1991 no fewer than 755 existed in the central government ministries, exclusive of the military, teachers, police, judiciary, and foreign service (see table 8.15). Job titles are most numerous among the university-trained professional, administrative, and specialized ranks, but are most concentrated in the technical professional and "other" ranks, which have roughly one job title for every nine employees. Job titles are least concentrated in the administrative and auxiliary services ranks, which have only one position title for every 36 to 37 employees.

It is an open question whether reducing the number of job titles in the name of increasing transparency would enhance, compromise, or leave unaffected the performance of the employees filling those positions. The proliferation of job titles could easily result from managers seeking to tailor pay and screening requirements to the markets in which they must search for personnel. In short, the plethora of job titles may be a consequence of a rigid set of salary scales, coupled with the more than 50 possible devices (situation-specific salary supplements) that can be used to augment the base salaries by carefully penning a job title and its attendant job description. Although some may decry the Byzantine picture that emerges from this process, it does not necessarily follow that the public employees hired in this context perform their tasks less efficiently than would those hired under a simpler and less readily circumvented civil service pay structure.

Promotions and quarterly inflation adjustments have contributed to a worsening public sector wage structure. Promotions have reflected seniority. With a fixed set of salary grades and a stable set of employees, this has led to a gradual compression of employees in a progressively

higher but narrower band of salary grades (see table 8.16 and figure 8.1). Although the median in the distribution of employees across pay grades in 1985 held a position in pay category 3, that median moved up to pay category 4 by 1988 and to pay category 5 by 1990. It is readily apparent that central government employment has become steadily less represented among the lower pay categories and more concentrated in the higher pay categories. In 1985, for instance, 67 percent of central government employees were in the three lowest pay categories, while by 1988 only 32.5 percent were in the three lowest pay categories—and by the end of 1990 only 5.3 percent could be found in those pay categories. Although the two highest salary categories accounted for 0.7 percent of central government employment in 1985, their share increased to 1.7 percent by 1988 and to 4.6 percent by the end of 1990—more than a 6.5-fold increase over the five years.

This compression of public employees within the higher grades suggests that public managers in Uruguay are employing grade and step increases to circumvent the salary constraints imposed by a salary scale that is not competitive with wages within the domestic private sector. The unwarranted promotions are possible because of a weak capacity of the central personnel office to enforce promotions standards.

Venezuela. Evidence from interviews with government officials in Venezuela points to important weaknesses in the government's ability to reliably monitor and report on the level and composition of its work force and the full costs of the government payroll. Such ability is, of course, essential. In addition, reliable, timely, publicly available information on public employment levels and their costs is essential if citizens are to effectively hold their government accountable for its activities and spending.

It appears that wage rates that can be offered for highly skilled positions in the public sector in Venezuela are considerably below their private sector counterparts. In addition, the central government has attempted to trim the public sector by placing restrictions on filling vacant slots within career civil service positions (*planta*). So, a high-level public manager who wants to hire a high-level professional or manager will be tempted to fill such a position by contracting someone on a short-term contract. This arrangement bypasses the normal review processes and takes a while to show up in the government's accounting records. Furthermore, poor information monitoring by the central government appears to permit repeated contracting of a given person, thereby making such "short-term" contracts virtual long-term contracts. Although such contracts do not provide the non-salary

TABLE 8.15

Uruguay: position titles

Classification	Number of titles	Number of positions	Positions per title
University-trained professional	169	2,795	16.5
Technical/professional	93	881	9.5
Administrative	157	6,020	38.3
Specialized	151	3,644	24.1
Trades	97	1,391	14.3
Auxiliary services	74	2,775	37.5
Other	14	128	9.1
Total	755	17,634	23.3

Source: World Bank 1991, tables VI-15, p. 86.

benefits available to career civil servants, a manager can set a salary high enough to compensate for this omission and be competitive with private sector remuneration for comparable positions.

Although this scenario suggests that such contractors (*contratados*) can provide an effective and sustainable means of circumventing central government constraints in order to improve agency performance, it is equally easy to imagine that such circumventions might reduce agency performance by providing politically useful sinecures or patronage—often referred to in Venezuela as “clientelist” benefits. Because of these risks, it is important to design constraints, reporting requirements, grants of authority, assignment of responsibilities, and managerial incentives that encourage the performance-enhancing types of managerial maneuvers reflected in the first scenario, while discouraging the performance-compromising types of managerial behavior reflected in the second scenario. In Venezuela, whether one or the other scenario occurs appears to depend almost exclusively on the morals and objectives of managers, rather than on existing government policies or practices.

El Salvador. In El Salvador, the central government is unable to monitor and control the number and composition of authorized positions, to control expenditures on employee compensation, and to assure compliance with constraints on public employee hiring decisions—for instance, quality constraints as well as restrictions on rehiring people who have enrolled in the public employment retirement incentive program created by decree 111.

TABLE 8.16

Uruguay: Central government employees by salary category, 1985–90

Salary category	Employment structure (percent)		
	12/31/90	4/29/85	2/29/88
1	3.2	0.6	0.8
2	28.0	2.9	1.0
3	35.8	29.0	3.5
4	15.3	25.1	10.4
5	5.6	21.8	50.3
6	4.9	10.4	11.4
7	2.6	3.7	9.6
8	2.0	2.0	4.5
9	0.4	1.7	2.4
10	0.9	1.1	1.5
11	0.7	1.7	4.6
Total	100.0	100.0	100.0

Note. The lowest salary category (1) ranged as high as US\$91 as of 4/29/85, but only as high as US\$69 by 12/31/90. The highest salary category (11) began at US\$731 as of 4/19/85, but its minimum had dropped to US\$412 by 12/31/90. All salary figures are real monthly U.S. dollar equivalents at the 12/90 exchange rate of 1,551.4. Source: World Bank 1991, table VI-7, p. 77.

FIGURE 8.1

Uruguay: Central government employees by salary category, 1985–90



Personnel records are created by each operational unit (ministries and autonomous institutions) and by the Directorate of Personnel Administration in the Ministry of Finance. Operational units typically devise their own unique employee identification codes. No common code identifying an employee exists across all agencies. Consequently, it is difficult, if not impossible, to link personnel records from one agency with those from another agency. This weakness poses a number of problems for the government. First, it is impossible to control multiple-position holding or greater-than-full-time employment in the public sector by a single employee. Second, it is impossible to enforce the five-year ban on holding a public sector position after accepting a voluntary retirement package under the decree 111 voluntary retirement program. Third, it is impossible to construct a personnel information system capable of tracking employment histories for purposes of facilitating human resource management efforts. At a minimum, the government needs a reliable means of linking information on any given public employee with information from any other sources on that same employee, regardless of the employee's position or operational unit, or whether the employee's public sector work history is continuous.

Chile. Chile is unique among LAC countries in its capacity for management and reform. At the time that sustained public administration restructuring efforts began in Chile, that country already possessed two of the three key aspects of such capacity: information and tools. Chile's capacity to reliably monitor public employment and resource use in its various ministries and to enforce

centrally determined policies was—and still is—unrivaled in LAC.

Chile's effective monitoring and enforcement capacity allowed the government to impose enforceable, binding personnel constraints, while the lack of typical civil service job protections in Chilean law throughout most of the retrenchment period assured that ministries had adequate authority to make mandated cuts. Other countries contemplating programs to achieve reductions in force for maintained central government functions must, then, first establish a solid monitoring and enforcement capacity.

Summary

These illustrative assessments of the weak capacity of many central governments in LAC to enforce centrally imposed salary-setting restrictions highlight important lessons. In particular, they illustrate the importance of three factors: the strength of the incentives (potential benefits) line agencies and their managers have to circumvent salary-setting policies, the means available to circumvent them, and the risks of being detected and punished for noncompliance.

Because of the inability of typical public sector salary scales in LAC to assure a consistent and competitive relationship between public and private sector salaries for comparable positions, most line agencies and their managers in LAC face significant incentives to circumvent salary policies. The avenues for circumvention in El Salvador, Venezuela, and Uruguay are ample and varied and appear to represent those available in many LAC countries—including a multiplicity of salary supplements, the capacity to generate new job titles without effective checks by central authorities, the ability to promote employees without timely and effective review of such promotions by an independent body, and the possibility of hiring some employees outside the career civil service (for example, allowing fixed-term or fixed-price contracts for personal services) without adequate means of holding those managers and their agencies accountable for the performance of those employees or their unit. Finally, weak personnel and compensation monitoring capacities, such as those found in Trinidad and Tobago, Venezuela, El Salvador, and Uruguay, are not atypical among LAC countries, thereby significantly reducing the risks line agencies and their managers face in attempting to circumvent centrally imposed salary policies.

Reform within an Existing Legal Framework

Hiring, firing, promotions, annual salary review and adjustment decisions and the assignment of responsibilities and training are core tools for personnel management. Although the base salary scale, including all the non-discretionary salary supplements, set important limits on the ability of line agencies and their managers to offer competitive compensation packages to their personnel, the policies governing hiring, promotions, and other rewards to employees within those constraints are pivotal determinants of the capacity of management to effectively harness the human resources at its disposal. Judging from the nearly universal condemnation that is heaped upon the civil service in most LAC countries, it would appear prudent to begin with the working hypothesis that these core personnel policies and practices are generally not well designed.

In line with this, this section first summarizes the typical pattern of such core personnel policies and practices found in the countries examined for this study, with an eye to identifying features likely to account for the low esteem in which the civil service is held. The section then focuses on a few public agencies with widely recognized reputations for effective management of their human resources, with an eye to identifying why and how these

agencies have managed to differentiate themselves from the others.

The hypothesis that sets apart inefficient from efficient civil services is *competitive pressures*. LAC civil service systems with reputations for inefficiency and ineffectiveness have policies that undermine competitive pressures in the public sector labor force. The few examples of public sector agencies or personnel systems with reputations for efficiency and effectiveness, on the other hand, include a wider variety of personnel policies and practices that increase the competitive pressures faced by managers and the employees they manage. Examples of personnel policies and practices that reduce competitive pressures are:

- Procedures that guarantee job tenure
- Restrictions on recruiting to position from outside the civil service
- Recruitment procedures that ensure monopolistic control over recruitment and employee selection
- Promotions procedures that in effect make seniority the major determinant of promotions
- Employee performance evaluation systems that discourage—or threaten retaliation to—evaluators who assign low performance ratings to employees who perform

poorly—employee performance evaluation systems driven by *competition among* budgetary units for salary enhancements rather than creating *competition within* individual program units for personnel resources

- Employee performance evaluation systems that are not used, for whatever reason—for example, they are too rigid, too elaborate, too complicated, or have no means to induce the designated evaluators to reliably execute their mandate
- Rules that create a state-run or state-sanctioned monopoly for providing training to current or potential public employees
- Rules that fail to hold managers accountable for the results of their training resource allocation decisions
- Allocations of training resources that are not competitive with those available from private sector employers
- Compensation levels that fail to link compensation to the opportunity costs faced by current or potential public employees
- Periodic (for example, annual) salary adjustments determined by factors other than performance, such as seniority
- A lack of systems that provide information on personnel decisions, usage, and performance and enable administrators to summarize and evaluate those decisions and their consequences
- A lack of systems that provide information on program-specific costs, thus making it difficult or impossible to evaluate the cost-effectiveness of programs and personnel uses.

Typical patterns of core personnel policies and practices

Chile

Although Chile's public sector made impressive strides in downsizing, privatizing, and decentralizing between 1974 and 1990, it has not made similar progress with its core personnel policies. Core personnel policies, procedures, and practices in Chile's central government ministries, *intendencias* (provincial governments), and *gobernaciones* (local governments), including the centralized and decentralized public services established under each of these three authorities, are governed by the New Administrative Statute (Chile 1989c). Those core personnel policies include a multitude of provisions that significantly undermine competitive pressures in the civil service.

Recruitment. Hiring from outside the civil service is allowed for entry-level positions only (New Administra-

tive Statute, Title II, Para. 1, Art. 15). Lateral entry is permitted only when people meeting minimum skill requirements are not available in the civil service (*ibid*). So, it is virtually impossible to hire to position; thus, competition for available positions is minimal. On average, staff quality is probably compromised by this restraint of trade.

Promotion. Competition for vacant positions is restrained further by the policies governing promotions. A promotion is, by law, granted to the agency employee—among those who meet minimum skill requirements for a vacancy—whose employment rank (salary grade and step) most nearly equals without exceeding that of the available slot (New Administrative Statute, Title II, Para. 4, Arts. 48–54). Because the evaluation system that determines employment rank fails to sort personnel by performance (see below), promotions are, in effect, based on seniority.

Personnel evaluation system. The New Administrative Statute (Chile 1989c: Title II, Para. 3, Arts. 27–47) prescribes a personnel evaluation system for all civil servants, but it is so elaborate, rigid, and reflective of military criteria that officials from several ministries claim that virtually no agency uses it. The little evidence available on the system's use reveals that virtually all employees received the top rating. Both outcomes should come as no surprise once one is familiar with the rules governing the system. Perhaps the most significant rule governs the grounds on which an employee may be dismissed on the basis of poor performance evaluations. The statute provides four overall performance rating categories: distinction, normal, conditional and deficient. An elaborate system of assigning points for each of five dimensions (loyalty, tact, ability to get other employees to perform effectively, training and efficiency and dedication) virtually guarantees that every employee who at least shows up at work regularly and does not actively sabotage the agency's activities will be awarded a rating of normal or distinction, because all employees begin with enough points to place them in the normal ranks and can fall below that rating only by incurring "demerits." That these evaluative dimensions reflect criteria more obviously applicable to military personnel than to many other civil service positions is, perhaps, not terribly surprising, because the military drafted these guidelines. This undoubtedly contributes to the reluctance of many agencies to apply them.

Managers, who are assigned the task of evaluating employees, know that should their evaluations place an employee in the conditional category more than once in five years, the employee will face a significant risk of being dismissed (see below). A rating of deficient is cause for dismissal. Furthermore, managers face no penalties for

giving high ratings, but do face the risk of creating ill will and possibly outrage among their employees if they give low ratings, because of the risk of dismissal. More specifically, because line managers face no negative consequences for themselves or their agency (such as using up limited salary funding) from bestowing high performance ratings on their employees, they have strong incentives to give high ratings to all employees. Conversely, if managers give employees low ratings they stand to gain nothing tangible (because their own salaries, promotions, and other rewards for performance do not depend upon how accurately they appraise their employees' performance). They do, however, run the risk that a poorly rated employee might file a complaint (which could harm the manager's own performance review) or undermine the performance of the unit by further slacking or actively sabotaging the unit's activities.

Thus, it is extremely unlikely that any employee will be rated lower than normal. A performance evaluation system that fails, as this system does, to sort employees on the basis of their performance undermines the ability of the personnel management system to target rewards to high-performing employees. As a consequence, annual salary adjustments largely reflect time in position.

Training. Resources for training are extremely limited. To illustrate, in 1992 the central government allocated less than 0.5 percent of its personnel expenditures—roughly \$28 per employee—to training activities within the Secretariat of the Presidency and the Ministries of Economy, Finance, and Education (see table 8.17). Although no data on training expenditures by private sector firms in Chile were available, comparable data in Venezuela reveal that private sector firms spent 1.33 percent of personnel expenditures on training in 1989—or almost three times the fraction that these four key ministries in Chile spent (Instituto de Estudios Superiores de Administración [IESA] 1990).

By law, training resources are allocated for three purposes in Chile: to prepare workers for promotions, to correct skill deficiencies, and to reward high-performing employees. Training for promotion is assigned, by law, according to position on the salary scale. Given the existing personnel evaluation system, training for promotion is allocated according to seniority rather than performance or potential. Training to correct skill deficiencies for an employee's current position is to be assigned by *concurso*—for example, by examination. Regrettably, no data are available on how well targeted such training is or whether or to what extent it reduces skill deficiencies. Voluntary training is to be assigned by top-level managers based on evaluations of the merits of the candidates. Once again,

an absence of information on the targeting and outcomes of such “voluntary” training precludes the government or any independent body from reliably assessing the efficiency with which these resources are allocated. The government does not finance basic education and degree programs as training—except limited funding for graduate training in specialized fields.

Tenure protection. Members of the permanent civil service have secure tenure. They can be dismissed only under one of three conditions: the agency within which the employee works is restructured (for example, because of budgetary constraints) and the restructuring eliminates the position; the employee receives a rating of deficient (4 on a scale of 1 to 4), or a rating of conditional (3 on the same 4-point scale) three times during any five-year period or twice in a row; or the employee is sanctioned with a *destitución* disciplinary action. Such a disciplinary sanction can be imposed only if the employee fails to report to work for three consecutive work days without justification; participates in labor strikes against a public agency, commits acts of destruction against the public sector, or incites to destroy or disrupt the activities of public agencies; or is condemned for a criminal offense. A *destitución* sanction is surely extremely rare and certainly not a tool for maintaining competitive pressures to perform. Given that the few agencies that perform annual employee performance evaluations uniformly rate all employees as distinction (1 on the 4-point scale), the use of poor ratings to dismiss employees is nonoperative. Last, eliminating an employee's position through agency restructuring requires payment of one month's salary for each year of service, up to six months (New Administrative Statute, Art. 148). Although this restructuring justification was surely heavily used during the 1974–88 retrenchment, it is probably no longer widely used.

Tenured civil servants constitute about 94 percent of the authorized civil service positions (*planta*) in Chile's

TABLE 8.17

Chile: Training expenditures, 1992

Ministry	Training expenditures per employee (US\$)	Training expenditures as a percentage of personnel expenditures	Training expenditures as a percentage of total expenditures
Secretariat of the Presidency	11.72	0.23	0.074
Ministry of Economy	34.78	0.39	0.033
Ministry of Finance	48.00	0.72	0.315
Ministry of Education	13.81	0.27	0.013
Weighted average	28.31	0.45	0.038

Source: Ley de Presupuestos del Sector Público, Año 1992 (Law No. 19.103), República de Chile, Ministerio de Hacienda, Dirección de Presupuestos.

central government, exclusive of health care positions.¹¹ The balance of the civil service positions, 6.4 percent of total central government employment, are positions of "exclusive confidence" (*cargos de exclusiva confianza*)—political appointments. Holders of these positions serve at the pleasure of the president or his representative; they enjoy no tenure protection nor are their working conditions governed by the civil service statute. These positions of exclusive confidence include division chiefs and department chiefs or their equivalents in the ministries or the regional ministerial secretariats, and also superior chiefs, sub-directors, regional directors, and department chiefs or their equivalents within the public services (Law 18.834, Art. 7; see Chile 1989c). The *planta* also does not include people hired under personal service contracts. These are limited by law to 20 percent of authorized civil service positions in each agency or program.¹²

Chile's relatively heavy reliance on nontenured positions to fill many of its higher ranks raises the important issue of the trade-offs that attend tenure guarantees. As noted elsewhere in this study, tenure guarantees provide one means of assuring a stable public work force. They also provide one weapon for protecting public employees from arbitrary dismissal for reasons other than poor performance; for example, for "political" reasons. At the same time, tenure guarantees dramatically reduce competitive pressures for existing public employees to perform effectively and efficiently. An integrally related issue in Chile, as in most LAC countries, is that nontenured appointments through arrangements such as the *cargos de exclusiva confianza* circumvent the normal salary scale constraints. In so doing, they provide a means by which the government can offer compensation packages more nearly competitive with those available in the domestic private sector. Because of this, the option of hiring a significant portion of the government's managerial ranks under such nontenured terms can provide the government with an important source of competitive pressures for recruiting highly qualified employees and motivating them to perform well. For such a device to achieve this end, however, other means besides tenure guarantees must be found to assure the continuity of such appointments and to protect the process by which such appointments are made from being corrupted by patronage.

Chile's experience in this regard is instructive. Despite the central government's fairly heavy reliance on political appointees, higher-level managers express few concerns about their quality and reliability. This is striking because in other countries, such as Venezuela, which rely considerably less on such nontenured appointments to fill the higher managerial ranks, the instability of those ranks is routinely decried as a major cause of the poor

performance of public agencies (see, for instance, COPRE 1989.) Although the explanation for Chile's apparently successful use of nontenured appointments in the higher managerial ranks is surely complex, perhaps an important element of that explanation is the stability of the minister-level appointments, which, in turn, shoulder the responsibility for making the lion's share of the remaining nontenured appointments. Because ministers tend to hold their appointments for a long time in Chile, even under the post-Pinochet democratic government, so do their appointees. If this hypothesis is valid, it suggests that any advice about how deep nontenured appointments ought to run within the public sector must be couched as conditional upon the stability of the highest-level political appointments. Where cabinet-level appointments tend to endure, extending nontenured appointments to cover up to 5 or 10 percent of the public sector work force may still yield positive net benefits; whereas in countries in which cabinet-level appointees have expected half-lives measured in months, it may be necessary to restrict nontenured appointments to the top 0.1 percent or less of the civil service in order to attain positive net benefits from those appointments.

A second risk faced by an increased reliance on appointments outside the normal civil service recruitment guidelines is that such appointments will be made on grounds of patronage instead of performance qualifications. Two means of mitigating this risk are: (1) to subject such appointments to the same rigorous review process required for tenured appointments; and (2) to make such appointments (or a subset of such appointments) for fairly lengthy fixed terms, while shielding them from removal from office except under the same sorts of extreme conditions as apply to Chile's civil servants.

Chile summary. Pressures for employees to perform within Chile's central government are reduced by aspects of the central government's core personnel policies. Recruitment policies eliminate competition for career civil service positions from private sector labor markets, except at entry level. Employee performance review policies and practices, coupled with the statutory requirement that vacancies be filled by the next highest-ranking career civil servant in the office where the vacancy exists as long as that employee meets minimum qualifications, result in promotions based almost solely on seniority. Employee performance evaluation policies that create strong incentives for line managers to not evaluate their employees or to give them all the highest permitted rating rob the evaluation process of its ability to sort employees according to performance. This, in turn, yields annual salary adjustment practices that award increases according to

seniority, rather than performance. Training resource allocation policies fail to force managers to compete for scarce training resources on the basis of the resources' ability to produce desirable outcomes. Tenure guarantees for the vast majority of civil servants further undermine the ability of the civil service system to bring competitive forces to bear on its career bureaucrats.

The one feature of Chile's civil service system that appears to provide some of the beneficial effects of competitive forces is its relatively heavy reliance on nontenured political appointments to many higher-level managerial positions. Given the relative stability of the government's highest-level political appointees—ministers—and an apparently relatively trustworthy recruitment and selection process for these appointments, this corps of appointees appears to enhance the functioning of Chile's public bureaucracy.

Argentina

Argentina's civil service system appears to have many of the same problems as Chile's.

Recruitment. Argentina has undergone a number of changes in its recruitment processes over the years. As early as 1943, decree 16.672/43 established minimum recruitment and screening guidelines, including minimum qualifications standards. These guidelines and standards were apparently largely circumvented during the 1946–55 Peronista period. The Civil Service Statute of 1957 (decree 3.577/57) reestablished the 1943 guidelines and standards, while decree 10.115/59 ratified these standards, set forth a system of open public competition (*concursos*) for new positions, and created a unit (Instituto Superior de la Administración Pública) for monitoring recruitment activities and their results. Apparently, these competitive recruitment and screening procedures operated for roughly a decade. In the 1970s and much of the 1980s little attention was apparently given to competitive recruitment and screening procedures. Reforms initially introduced in 1984 and ultimately enacted in 1987 aimed at re-imposing competitive recruitment and screening procedures. But by 1989 these reforms still covered only data processing personnel and the *Cuerpo de Administradores Gubernamentales*, the latter of which is reviewed below.

In 1991, the *Sistema Nacional de la Profesión Administrativa* (SINAPA) was created (Argentina 1991). By March of 1992 the regulatory framework developed for SINAPA included a detailed set of competitive recruitment and screening procedures (Argentina 1992). Key features of the procedures are as follows:

- Each jurisdiction (for example, ministry or autonomous institute) establishes a selection organ, consisting of three members—human resource specialist, technical specialist with expertise in the area for which recruitment is required, and a manager with the rank of national or general director or the equivalent—plus an observer from any relevant labor union.
- This selection organ specifies job skill requirements, selection criteria and their weights, and screening procedures and identifies and recruits professional and technical personnel required to conduct the recruitment and screening.
- Recruitment pools:
 - Levels C through E (middle to lower-middle ranks) are subject only to searches in the jurisdiction—ministry or Office of the Presidency—that has a vacancy.
 - Levels A and B (upper ranks) are subject to a “general” search covering all civil servants (SINAPA).
 - Executives (appointees at the level of national or general director or their equivalent) and level F positions (entry-level positions) are subject to an “open” search—that is, encompassing external as well as internal candidates.

This SINAPA recruitment regime has the advantage of building safeguards against monopolistic control of the recruitment process by a single party, such as line managers—requiring instead that a selection organ be staffed by three interested parties. It has the disadvantage, found also in Chile and Venezuela, of restricting the pool from which recruits can be drawn. Only top-level political appointees and entry-level positions may be recruited from a pool that includes qualified personnel available in private sector labor markets. This looks very much like the Chile model. Because the SINAPA system is new, the problematic effects of this restriction on the recruitment pool have not yet become apparent. There can be little doubt, however, that in the long run this restriction will lead to the same reduction in the ability of the public sector to attract qualified personnel as has occurred in other countries that have imposed similar restrictions—including Chile and Venezuela. It will also, as in those countries, spawn efforts by ministers and other people responsible for the effective functioning of public agencies to circumvent these recruitment restrictions. Such efforts can, in turn, undermine the moral fabric of the civil service system.

Promotions. Procedures for advancement under the SINAPA regime assure objectivity—protection from patronage—at the expense of competitive pressures. Promotions are, by law, granted strictly on the basis of performance evaluations and the type and quantity of

training received in the previous twelve months (see table 8.18). Each promotion requires two to four consecutive "outstanding" performance evaluations or three to six consecutive "good" performance evaluations, plus specific amounts and types of training. Although such a set of objective criteria might appear reasonable, the result of these criteria and the employee performance review procedures is very likely to be a promotions regime that in fact assigns promotions on the basis of seniority rather than performance. This is because Article 42, Title IV, Annex I of decree 993/91, establishing the SINAPA system, requires that every civil servant obtain a rating of "good" or better in each year's performance evaluation process in order to remain in the permanent civil service. Because the penalty for failing to attain a "good" rating is severe—the loss of one's job—the agents who conduct those performance evaluations assign ratings lower than "good" only under extraordinary circumstances.¹³ In other words, virtually all civil servants can be expected to receive at least a "good" rating every year. When this is coupled with the promotion criteria (table 8.18), it follows immediately that promotions will be based on seniority.

Personnel evaluation system. SINAPA requires annual evaluations by an evaluation committee, whose membership is to be determined by the Secretaría de la Función Pública de la Presidencia de la Nación, which must include a member of the Civil Service Union (UPCN) as an observer. The staffing of these committees by people other than an employee's immediate superior provides an important check on the tendency of employee performance evaluations to gravitate toward the upper ratings, but the statutory requirement that a rating of "good" or better be attained in order to retain one's status as a permanent civil servant severely compromises the ability of this procedure to sort employees according to their performance.

Salary adjustments. One element of the salary adjustment policies forces employee performance evaluators to sort personnel according to performance. Besides level and grade changes based on an employee's history of performance evaluations, training received (see above and table 8.18), and the various supplements employees may receive a bonus equal to one month's base salary plus any applicable supplement for executive or specific function of the position for receiving an "outstanding" performance rating. But this bonus may not be given to more than 10 percent of the employees evaluated (Decree 993/91, Article 66, Title VI, Annex I).

Use of *personal service contracts* to circumvent hiring and salary-setting restrictions may be significant, but no

TABLE 8.18

Argentina: SINAPA promotion requirements

Level	Grade	Number of consecutive evaluations	Minimum rating in each evaluation	Credits for training
A	1	3	Outstanding	INAP public management course
		5	Good	
A	2	4	Outstanding	Yes
		6	Good	
B	1	3	Outstanding	INAP public management course
		5	Good	
B	2	4	Outstanding	Yes
		6	Good	
C	1	2	Outstanding	Management course
		4	Good	
C	2	3	Outstanding	Yes
		5	Good	
C	3	4	Outstanding	Yes
		6	Good	
D	1	2	Outstanding	Yes
		3	Good	
D	2	2	Outstanding	Yes
		4	Good	
D	3	3	Outstanding	Yes
		5	Good	
D	4	3	Outstanding	Yes
		5	Good	
E	1	2	Outstanding	Yes
		3	Good	
E	2	2	Outstanding	Yes
		4	Good	
E	3	3	Outstanding	Yes
		5	Good	
E	4	3	Outstanding	Yes
		5	Good	
F	1	2	Outstanding	No
		3	Good	
F	2	2	Outstanding	No
		4	Good	
F	3	3	Outstanding	No
		5	Good	
F	4	3	Outstanding	No
		5	Good	

Source: Argentina 1991, Annex I.

data on the incidence of such arrangements are available. Weak monitoring capacities make many officials concerned about this issue.

Training. The National Institute of Public Administration (INAP) was created by law 10.173/73, and given responsibility for providing all training for public employees, including the course on upper-level management skills (*curso de Alta Gerencia Pública*), which is required for promotion to levels A or B. Once again, the government has created a monopoly—in this case for the provision of training services—that undermines competitive pressures. Although such a monopoly may prove cost-effective be-

cause of increased control over the production function, no such monitoring and evaluation of the national institute's cost-effectiveness has yet been undertaken.

Tenure protection. As in virtually all LAC countries, job security protections have always been greater in Argentina's public sector than in its private sector. Even the most basic regime (Régimen Jurídico Básico, decree 1.428/73, now being phased out by the SINAPA regime) includes protection amounting to almost a lifetime job guarantee, the detailed regulations making dismissals for nonperformance all but impossible. To illustrate the strength of these protections, an average of roughly 10 employees per year were dismissed for non performance between 1984 and 1989, out of an average base of roughly 300,000 per year—or roughly 0.003 percent per year. If the 38 employees who were dismissed in 1984 for alleged civil rights offenses in the previous military government, rather than for nonperformance, are omitted, these figures are reduced to 21 dismissals, or roughly 3.5 employees per year—about 0.001 percent).

Argentina summary. Recruitment policies protect public employees from having to compete with their private sector counterparts for openings in all but the highest and lowest ranks. On top of this, promotions to such vacancies, while nominally based on performance, in effect are virtually guaranteed to reflect little more than seniority. The personnel evaluation system creates overwhelming incentives for evaluators to assign only the top two ratings, because to do otherwise is tantamount to dismissal. Data on allocations of resources to training activities were unavailable, so it is not possible to assess the government's commitment to investing in its employees. The one training program that has received the most attention recently—the training program of the National Institute of Public Administration for members of the government's elite managerial cadre, the *administradores gubernamentales*—is a government-mandated monopoly subject to no apparent regular review of its cost-effectiveness. Tenure protection covers most government employees and mirrors protection found throughout LAC. In short, Argentina's core civil service policies—even after the recent reforms—suffer from the same pattern of anticompetitive protections typical of many other LAC public sectors.

Venezuela

Although Venezuela's system differs from those of Chile and Argentina in some details, the outcomes of the systems are similar.

Recruitment. Hiring policies in Venezuela incorporate more competitive pressures than in Chile, but fall short of assuring that civil servants compete on equal terms with the private sector labor market for vacancies in the civil service. Article 19 of the Ley de Carrera Administrativa requires that candidates for career civil service positions be screened in three prioritized groups: current eligible candidates in the agency in which the vacancy exists, current eligible candidates anywhere in the civil service, and eligible candidates from outside the civil service. Only if no qualified candidates exist in the first two groups can an external candidate be considered, because Article 19 also guarantees the right to promotions to all tenured civil servants. So, although competitive pressures in the recruitment process should be somewhat greater in Venezuela than in Chile, they could be enhanced significantly by drawing no formal distinctions between internal and external candidates in the selection process.

The recruitment procedures do include conventional assignment of responsibilities designed to insulate recruitment from the exercise of monopolistic control over the outcome, which could harm the fairness and effectiveness in identifying the most competitive candidate. In particular, although line agency personnel offices are responsible for advertising and for screening and identifying a registry of eligible candidates, they must forward that list to the Central Personnel Office (OCP), which is responsible for maintaining an overall registry of eligible candidates for the National Public Administration. Guidelines for these procedures are laid down by OCP. These registries include all candidates who passed the screening process, ranked by their scores and sorted into three lists: career civil servants (seeking promotions), former career civil servants (seeking reentry), and potential new entrants. Responsibility for selection of the final candidate rests with the president, cabinet, ministers, and the highest managerial authorities of the autonomous agencies of the National Public Administration. This process, then, counteracts the potential exercise of monopoly power in the recruitment process by assigning elements of the recruitment and selection process to other actors (line agency personnel offices, central personnel office, and line agency heads).

Interestingly, a few avenues do exist by which line agencies might circumvent these carefully designed procedures and thereby wield monopoly power in hiring decisions. Should no candidate meet minimum qualifications under the screening procedure (*concurso*), a nonqualified person may be appointed on an interim basis, not to exceed six months. During this six-month period, the personnel office is obligated to administer the appropriate screening test. If no screening test is administered, the

provisional incumbent is automatically granted career status. This provides a potentially important back door into the civil service. Similarly, new appointees are subject to a six-month probationary period, during which their direct superiors are required to evaluate them. Should a superior fail to evaluate an appointee during those six months, the appointee is automatically granted career status. Although the supervisor is subject to an unspecified sanction, this scenario does provide an avenue by which underperforming new hires can attain tenure.

Thus, *promotions* in Venezuela are subject to somewhat more competitive pressures than in Chile, but less than they could be. Civil servants are promised the right to promotions on the basis of their ranking on personnel performance evaluations and training received (Ley de Carrera Administrativa, Art. 19; Reglamento General de la Ley de Carrera Administrativa, decree 1.378 [1982], Arts. 146–7). Unfortunately, because compliance with the personnel performance evaluation requirements appears to be weak (see below) and resource allocations for training are small, it is probably true that promotions are governed largely by seniority, especially because seniority is specified as the tiebreaker criterion when merit and training differences do not exist.

The *personnel evaluation system* is elaborate, but appears to be rarely used to inform promotion and annual salary adjustment decisions. OCP is responsible for creating a personnel evaluation system, which line agency personnel offices are responsible for administering. OCP officials report that thirty-four of the seventy-one agencies subject to their authority currently use the personnel evaluation scheme designed by OCP. Conversations with personnel outside OCP, however, suggest that the OCP personnel evaluation procedure is not widely used and is viewed as unwieldy.

The OCP employee evaluation system began in 1986 and was modified in 1989 and 1992. It began with fifteen evaluative categories from which each agency was allowed to select categories it deemed appropriate. Under the current arrangement, OCP fixes twelve categories (with input from management in each government agency), from which each agency must employ three specified by OCP and is free to choose five others from the remaining nine. Employees must be evaluated at least twice a year, although some agencies do so as many as ten times a year. Along each dimension (category), four ratings (levels of assessed performance) are possible. Weights for each dimension are assigned by the person making the evaluation and can range between 1 and 8. These weighted rankings are summed to obtain an overall evaluation, which is used to rank employees. Given the separate explicit specification of weights and ratings, it is

clearly feasible to alter weights to reflect management or policy priorities.

The results of these rankings are used as follows:

- Employees are assigned to one of six ranges of evaluation (three considered good and three considered poor).
- Employees are rank ordered. Then each unit decides how much *bono* (one-time bonus) to distribute to each employee on the basis of this rank order.
- *Compensaciones de paso de escala* (that is, salary increments to be added to the employee's base salary) are determined by these rank orderings.
- Finally, *primas* (salary supplements based on the annual performance evaluation, whether the employee possesses a university degree, whether the employee possesses a post graduate degree, years of experience, and training received over the previous twelve months) are determined, in part, by these rankings as well. Employees rated excellent receive a *prima* equal to 21 percent of their base salary, while those rated very good receive a *prima* of 10 percent of base salary.
- In addition, promotions (*ascensos*) are conditioned on these rankings (see above).

Annual salary adjustments, then, include additions to the base salary and nonrecurrent bonuses. Each ministry or other administrative unit receives a fixed sum in its budget each year for the *bonos*. Base salary increments and *primas*, on the other hand, are financed not by these discretionary funds but by budget growth. Consequently, just as in Chile, managers have strong incentives to assign high performance evaluation scores to their employees, in order to assure them access to the *bonos*, the *compensaciones de paso de escala*, and the portion of the *primas* based on those performance reviews. In addition, because promotions depend upon those performance evaluations and because managers face no extra costs if they inflate their staff's personnel evaluations but do run the risk of upsetting their employees if they assign them low ratings, those managers have strong incentives to give all employees very high evaluations. In short, the incentives facing evaluators when assigning performance ratings to their employees match those in Argentina and Chile. As a consequence, it would be surprising to find much variation in employee performance evaluations. This, in turn, means that annual salary adjustments, as well as promotions, will tend to reflect nonperformance criteria—especially seniority.

Training. Expenditures for training averaged 0.45 percent—with a median of 0.18 percent—of total personnel expenditures among the central government's ministries in the 1992 budget (Venezuela 1992). In 1992, the spending ranged from a low of 0.0013 percent in education to a high

of 2.69 percent in the Ministry of Development (Fomento). These figures compare unfavorably with the private sector, which devoted 1.33 percent of personnel expenditures to training in 1989. The figures also compare unfavorably with expenditures devoted to training in Venezuela's public enterprises, which averaged 2.85 percent in 1989 according to a survey conducted by IESA (1990).

Although training is supposed to be assigned on the basis of, first, employee performance and promise for promotion and, second, employee skill deficiencies in their current positions, there is no available evidence as to whether the limited training resources are targeted according to these criteria. The little evidence available on the targeting of training expenditures shows that in 1991 they were concentrated in narrowly defined skill areas (30.2 percent of all training expenditures) and in professional and technical areas (51.4 percent), and in 1992 they were concentrated in training activities of short duration (roughly 55 percent in sessions of 8 to 20 hours and about 35 percent in training activities of 21 to 40 hours). Whether these concentrations are optimal is not clear. No systematic procedures appear to exist for evaluating the targeting or outcomes of training activities.

Tenure protection. Roughly 51 percent of Venezuela's 417,000 public employees in the seventy-one agencies subject to the *Ley de Carrera Administrativa* in 1991 are provided tenure protection (see table 8.19). Another 47 percent of those employees are wage laborers hired daily, although union contracts covering the vast majority of these wage laborers apparently make them virtually de facto tenured employees.

Only 2.2 percent of the central government employees did not enjoy substantial tenure protection. Of those, roughly 4,000 were higher-level management employees (0.9 percent), while about 5,000 (1.2 percent) were hired under individually negotiated short-term contracts.

Although nontenured appointments in the higher managerial ranks in Venezuela are less than half as numerous, as a fraction of total employment, as in Chile, tenured and nontenured officials in the public bureaucracy and officials of multilateral aid agencies who regularly work with the government uniformly lament the disruptive effects of constant turnover among high-level managers in the public sector. As in Chile, the nontenured appointments provide a vehicle for introducing greater competitive pressures into the staffing process—by opening the recruitment pool to include people outside the civil service—and by circumventing the uncompetitive salary structure imposed by the civil service salary scale. In Venezuela, however, it is not clear that these enhanced competitive pressures improve employee quality and per-

formance enough to counteract the disruptive effects of rapid turnover, brought on by the frequent turnover of the highest-level political appointees and their immediate subordinates—ministers and vice ministers.

Venezuela's civil service system encompasses at least four types of tenure according to the type of contract under which a worker is hired (*Ley de Carrera Administrativa*, Title 1, Arts. 2–5):¹⁴

- Career civil servants
- Political appointees (*funcionarios de libre nombramiento y remoción*), including:
 - Ministers, secretary general of the presidency, chief of the Central Office of Coordination and Planning (CORDIPLAN), and the remaining functionaries of similar rank designated by the president and the governors of the federal territories
 - Highest-ranking directors and administrators of the autonomous organisms of the National Public Administration, the directors general, directors, judicial consultants, and other similar functionaries of the same rank in the service of the president, the ministries, the autonomous organisms or the governors of the federal territories
 - High-level posts, primarily supervisory and managerial positions (extending down to division chiefs or their equivalent), but also all administrators and inspectors in the Customs Agency
 - Positions of confidence—a broadly defined category that includes employees at all levels of responsibility and skill whose functions include activities such as auditing and inspection; valuation; processing of patents, trademarks, licenses, and exonerations; administration or custody of currency accounts or documents through which the National Treasury

TABLE 8.19

Venezuela: Public employment tenure composition, 1991

Employment status	Number of employees	Percentage
Tenured	211,574	50.8
Administrators	134,747	32.4
Professionals	67,327	16.2
Unclassified	9,500	2.3
Nontenured	8,998	2.2
Higher management	3,919	0.9
Contracted	5,079	1.2
Wage labor	195,873	47.0
Total	416,445	100.0

Note: Tenure composition based on 71 agencies subject to the *Ley de Carrera Administrativa*.

Source: *Informe Estadístico: Distribución de Cargos y Costo de la Administración Pública Nacional, Año 1991*, II Cuadro No. 16 (p. 47) (see Venezuela 1992), and information provided by OCP officials indicating that published measures of contract employment appear to understate true levels by approximately 25 percent.

(*Fisco Nacional*) confers privileges on taxpayers; and border control and the armed forces. This category also includes chiefs or equivalent positions responsible for procurement or disbursement; handling of cash; treasury functions; regulation and control of payments; public relations and information; cryptography, information systems, and reproduction; handling of confidential documents and materials; and labor procurement. Last, all positions within the Office of the Presidency are positions of confidence (*cargos de confianza*).

- Contractors
- Day laborers.

Although career civil servants enjoy life tenure, political appointees serve at the pleasure of the president or his designated representative, consultants (*contratados*) serve under fixed-term contracts with individual government agencies, and day laborers (*jornalados*) work only on daily contracts with individual government agencies.

It is not difficult to justify these four types of job tenure provisions that reflect differing demands on the employees. Political appointees are the highest-level appointees who serve to link the agencies and the career civil service to the agenda of the current government. The career civil service provides the permanent body of civil servants protected from the winds of political patronage. Their loyalty should rest with either the overall career civil service or the agencies within which their current and future careers lie. The consultants provide an avenue through which agencies can hire persons with unique skills for projects of fixed duration—skills which it would be economically unsound to hire on a permanent basis, since they are not required with enough frequency to warrant such an employment arrangement. Finally, day laborers provide a similar flexibility for staffing activities needing temporary infusions of large quantities of readily available unskilled or semi-skilled labor. In short, on its face, Venezuela's set of employment tenure arrangements answers well to the need for such tenure options to reflect the variety of demands placed on the public sector labor force.

But when one speaks with managers or line employees within Venezuela's central government ministries, one does not hear praise for the ability of this employment system to match job tenure arrangements to labor market conditions and work requirements. Instead, one consistently hears concerns reflecting, among other things, its failure to tailor tenure protection to task demands:

- Extreme instability among the ranks of the political appointees is severely undermining the ability of some ministries to manage their operations, especially agencies in the Office of the Presidency, such as CORDIPLAN.

- The inability of many ministries to purge themselves of redundant employees among the career civil service ranks has tied the hands of management, greatly diminishing their ability to manage their agencies.

- The practice of hiring persons into unclassified but tenured positions is suspected of sometimes providing a back door entry into permanent public employment status for insufficiently skilled or credentialed people.

- Contractor arrangements are widely suspected of being regularly abused; for example, rather than serving as a means of obtaining specialized skills for specific, time-limited tasks, frequent renewal of such contracts is suspected of providing a way to hire line personnel outside the tenure and salary constraints of the career civil service.

- Day laborer hiring is also widely suspected of providing political patronage and de facto job tenure, at least for the duration of a given administration.

- Job protection guarantees negotiated into many collective contracts have made it as difficult to adjust the levels of wage labor—47 percent of central government employment—to changing needs for such labor as it is to adjust the levels of administrative and professional staff.

Whether these concerns are based in fact has not been adequately addressed. But the widespread suspicions suggest, among other problems, that the variety of tenure protection available in Venezuela's civil service is not appropriately targeted. Managerial and many other ranks appear to be inadequately protected from the ever-changing winds of political agendas, thereby undermining the continuity and commitment to agency missions necessary for effective management; permanent tenure appears to be too widespread in many nonmanagerial ranks, compromising administrative efficiency; short-term contracting appears to be used to circumvent personnel policy constraints rather than to avoid over-investing in transferrable human capital skills that cannot be fully employed within the public sector; and spot market hiring of day laborers appears to have relinquished its major advantage—day-to-day flexibility regarding unskilled staffing levels.

Venezuela summary. As in Chile, many aspects of the core personnel policies and practices undermine rather than enhance competitive pressures needed to improve performance in the civil service. Recruitment policies do not limit the pool from which recruits can be drawn as dramatically as in Chile, but the policy of ranking all existing civil servants who meet minimum skill requirements above any external candidates restrains the competitiveness of recruitment. Furthermore, the reluctance of many line agencies to regularly undertake the employee performance reviews mandated by OCP means that, in many agencies, seniority is the main factor in employee

rankings that play a pivotal role in decisions on the filling of vacancies. In addition, managers who do conduct annual employee performance evaluations have incentives to consistently give the highest ratings, thereby undercutting the ability of that process to reliably sort employees according to their performance and foster competitive pressures. Rules for allocating and monitoring the results of training activities also do not appear to provide strong incentives to allocate those limited resources efficiently.

Tenure protection—*de jure* and *de facto*—also appears to undermine competitive pressures upon existing employees to work effectively and efficiently. The existence of some 4,000 nontenured higher-level management positions, exempt from the recruitment pool restrictions that apply to career civil service positions and from the noncompetitive salary scale governing the career civil service, does enhance competitive pressures within those nontenured ranks. But the extreme instability at the government's highest levels—ministers and vice ministers—seriously compromises the advantages of the additional competitive pressures among nontenured higher-level management by dramatically increasing turnover. Contract positions provide another avenue around the anticompetitive restrictions affecting the career civil service, but monitoring and accountability mechanisms are so weak that it is impossible to know whether the use of contract labor for staffing the professional and managerial ranks enhances efficiency or is simply another form of patronage.

Examples of successful public sector human resource management

Examples of successful public sector human resource management policies and practices in LAC are not numerous, but they do exist. The Superintendencia de Valores y Seguros (SVS) and the Superintendencia de Bancos e Instituciones Financieras (SBIF) in Chile and the Banco Central de Venezuela (BCV) and the Contraloría in Venezuela have reputations for effective and efficient personnel management policies and practices. An analysis of a few of these examples of effective human resource management within the public sector can serve to highlight how these units manage to harness competitive pressures to enhance the performance of both their agencies and their employees.

Superintendencia de Valores y Seguros

The Superintendencia de Valores y Seguros (SVS) is highly regarded among high-level civil servants in Chile

for its effective human resource management policies and practices. Every aspect of their human resource management policies and practices introduces greater competitive pressures than can be found in the civil service systems reviewed above.

The precursor of SVS was created in May 1931 and was named something like Superintendencia de Sociedades Anónimos, Bolsas, Compañías de Seguros. In 1980 this entity was transformed into SVS, in part to reflect the more general role being played by the agency in regulating securities and exchange markets—essentially the same role as the Securities and Exchange Commission in the United States. SVS used to have 151 functionaries, but had 162 by 1992. Its total number of permitted positions is fixed by law, as is the case with all other agencies of the central government.¹⁵ This is where the similarities end, however.

Recruitment. Two key elements of recruitment in SVS contribute to its success in hiring highly qualified workers.

First, the recruitment pool is always the entire domestic labor force. SVS advertises positions in newspapers, at universities, and so on. They also seek applicants through informal channels. Applicants submit resumes, which are screened by the immediate superior and other members of a hiring committee. The top three candidates are selected for interviews. After interviews, the top choice is forwarded to the General Secretary, who reviews the files and decides.

Second, SVS can recruit at any grade, unlike the central government agencies governed by the New Administrative Statute. Furthermore, while anyone hired for a particular position is required to meet the minimum credential requirements, just as in agencies governed by the New Administrative Statute, the Superintendent is allowed to *exempt* candidates from particular qualifications standards whenever he can make a case that they are qualified for the position.

Personnel evaluation system. SVS evaluates employees informally, basing promotion decisions on informal processes. This arrangement appears to be well-suited to their situation—a small number of employees (162 positions), relatively clear employee performance standards, and a highly mobile cadre of workers (see tables 8.20 and 8.21).

Compensation. All employees' salaries are governed by a salary scale for positions with financial transactions responsibilities (*fiscalizador*), which means that SVS employees command salaries higher than for many of Chile's public employees, but not fully competitive with

the private sector (table 8.22). SVS partially compensates for these below-market salaries through its training policies and through the skills development employees gain there. Rapid accumulation of human capital skills as an SVS employee appears to make SVS positions attractive enough to land bright, young workers, who remain within SVS for relatively short times. Turnover rates ranged between 8.6 and 13.0 percent in 1987–92 for SVS, while the average number of years of tenure at the date of departure was 1.3 years for the lower-ranking employees. Stability of SVS tenure is greater among the higher-ranking employees. Employees at grade 7 or higher average eight years of tenure at departure.

SVS is trying to obtain one privilege—held only by the Superintendencia de Bancos e Instituciones Financieras (SBIF)—that would enable it to supplement the salaries it pays. SBIF by law is granted a fixed percentage of fees (*rentas*) it levies on the banks and financial institutions it serves (Law 18.091, Art. 17). SVS has drafted a report that identifies the costs of providing each service in order to justify a fee structure and convince the government to allow it to impose such fees and keep a percentage of the revenues.

TABLE 8.20

Chile: Superintendencia de Valores y Seguros: Employee turnover rates

Year	Number of positions	Number of departures	Turnover rate (percent)
1987	158	18	11.4
1988	162	15	9.3
1989	162	21	13.0
1990	162	18	11.1
1991	162	16	9.9
1992	162	14	8.6
Average	161.3	16.8	10.5

Source: República de Chile, Superintendencia de Valores y Seguros.

TABLE 8.21

Chile: Superintendencia de Valores y Seguros: Employees' tenure at departure

Employee group	Years of tenure at date of departure		
	Average	Maximum	Minimum
Managers, grades 2–5	8.0	11.2	3.3
Professionals, grades 6–7	7.9	10.6	5.7
Prof./Fiscaliz., grades 9–13	1.3	2.8	0.1
Overall, grades 2–13	4.2	11.2	0.1

Note: Simple regression of months of tenure on grade at date of departure reveals that tenure rises by 11.24 months per grade (standard error of 1.745; t-statistic of 6.44; R² 0.69).

Source: República de Chile, Superintendencia de Valores y Seguros.

Training. Expenditures on training are set in the annual budget law. Approximately 70 percent of SVS's training budget is dedicated to highly technical training outside the country—such as with the U.S. Securities and Exchange Commission. (The law stipulates, however, that training funds cannot be used to finance work toward an advanced degree.) The heavy concentration of training expenditures on external training reflects the need in that discipline to keep abreast of new developments through international seminars. The remaining 30 percent of the SVS training budget is spent for external training in Chile, typically provided by Chilean universities. None is spent in-house. By relying on external providers for training services, SVS can shop around for the best training programs, rather than being stuck with the services of a single, monopolistic training services provider.

In addition, if employees arrange to pursue a degree outside the country, SVS will provide a percentage of the employee's salary while they are enrolled, in order to encourage such investments by their employees, in exchange for an enforceable pledge (in writing) that the employee will return to SVS for an equivalent number of years of work after completing the degree program. SVS claims that it has had no trouble enforcing this requirement. They estimate that about three to four employees per year have such leave-of-absence or partial-salary-compensation arrangements. The funds for these arrange-

TABLE 8.22

Chile: Superintendencia de Valores y Seguros: Salary comparisons, December 1990

Grade	Gross SVS annual salary (US\$)	Percentage of private sector comparator	Percentage of EUS fiscalizador salary ^a	Percentage of EUS non-fiscalizador salary
Top rank (1/1/1B)	27,410	85.1	98.1	124.9
26th percentile (6/7/8)	16,922	77.9	101.3	143.7
48th percentile (12/12/15)	10,381	92.3	96.4	159.7
78th percentile (18/20/25)	4,181	43.7	145.6	213.6
Bottom rank (23/25/31)	1,703	21.6	136.2	119.3

a. EUS Escala Unica de Sueldos.

Note: Grades are matched by percentile in the distribution of grades within each salary scale. Numbers in parentheses indicate the grade selected from the SVS EUS fiscalizador and EUS nonfiscalizador scales, respectively. Private sector comparators are managers (top rank), simple average of manager and professional and technical (26 percent), professional and technical (48 percent), simple average of professional and technical and administrators (78 percent), and administrators (bottom rank).

Source: República de Chile, Superintendencia de Seguros y Valores; Escala Unica de Sueldos; Instituto Nacional de Estadísticas (for private sector comparators).

ments come from SVS's salary budget. The percentage of salary provided is determined by management on the basis of factors such as the costs to the employee of pursuing the degree, including travel, tuition and living costs; availability of other funds; and an assessment of the potential performance improvements to SVS if that employee receives the proposed training. Training funds are allocated by the Secretary General based on recommendations from supervisors. In addition, the superintendent allocates some funds directly.

Tenure protection. All employees are employees of exclusive confidence (*empleados de exclusiva confianza*), which means that none has guaranteed tenure, thereby dramatically enhancing the competitive pressures on SVS employees to perform. The pressures are reinforced by the recruitment and promotions procedures, which, as noted above, force existing employees to compete with external candidates for promotions.

SVS summary. SVS core personnel policies create considerably greater competitive pressures than exist in the regular civil service. Recruitment is more competitive in SVS, because all recruitment efforts canvass as large a candidate population as possible and because hiring to position is permitted at all levels. Promotions are more competitive because of these recruitment policies and practices and because guaranteed job tenure is not provided. Compensation packages are more competitive—compared with the private sector—than in the regular civil service. But this greater competitiveness comes not so much from the higher base salaries—because those are constrained by the *fiscalizador* salary scale the SVS must use—but because of the heavy investments SVS makes in human capital acquisition among its employees. Furthermore, because on-the-job experience at SVS confers marketable skills, it is easier for SVS to attract competitive employees. Greater ability to match salaries to those in the private sector could further improve the competitiveness of the SVS in the recruitment market, as it does for the Superintendencia de Bancos e Instituciones Financieras; SBIF is allowed to supplement its base salaries with funds accumulated from some of its user charges. This is, of course, facilitated by the insulation of the SVS from the political pressures that often buffet line ministries in the central government.

Central Bank of Venezuela

Like SVS, the Central Bank of Venezuela (BCV) enjoys a reputation for effective human resource policies and prac-

tices. As with SVS, the key to the success of BCV's personnel policies and practices appears to be that they enhance competitive pressures in all aspects of the personnel system.

Recruitment. Like SVS, BCV is free to recruit to position.¹⁶ Because of this, although BCV has an elaborate procedure for screening internal candidates for promotion to vacancies, those internal candidates must also compete against external candidates. Despite the gap between BCV salaries and those found in the private sector, top officials in BCV report that they are able to compete effectively for top candidates. BCV salaries are more competitive than in government agencies governed by the *Ley de Carrera Administrativa*, but below those available in the private sector. BCV officials attribute this competitiveness largely to the attractive human capital acquisition prospects available to recruits. As with SVS in Chile, these attractive skills enhancement prospects result from an active and serious training program and from on-the-job skills acquisition.

Promotions. BCV has an elaborate employee evaluation system (see below) that feeds into its promotions review process. They maintain a registry of eligible candidates based on the permanent employee evaluation files, which ranks all employees on the basis of their annual performance evaluations. Employees are considered for promotion on the basis of this ranking—the top three ranked employees are considered when an opening exists.

Personnel evaluation system. The BCV has an extremely complex employee performance review process. Annual performance evaluations are a weighted average of monthly evaluations of performance and quarterly evaluations of potential. Those evaluations are based on the following dimensions:

- Results (productivity)—measured by six factors
- Duties (compliance)—measured by six factors
- Potential—measured by eight factors.

Each of these three dimensions is evaluated on a short-term, medium-term, and long-term basis. Then, the factors within each dimension are combined into weighted sums, which are recorded in a computerized record-keeping system, and these are combined into an overall performance evaluation and an overall potential evaluation each year.

Interestingly, despite the extraordinary complexity of this system, and the substantial amount of time that must be spent by managers complying with the requirements for monthly and quarterly evaluations of all employees, the system does appear to function—that is, these evaluations do appear to be regularly completed and employed

in salary review and promotions screening decisions. This contrasts sharply with the personnel evaluation practices found in the SVS in Chile, which were quite informal but apparently equally successful at ranking employees by performance. The fact that two such different systems appear to be roughly equally effective suggests an important insight: the success of an employee performance review system may be more dependent upon the institutional culture within which it is embedded than upon the technical characteristics of that system.

This is not to deny that technical features of an employee performance review system are important. Rather, while certain technical features can undermine the effectiveness of any performance review system, it is also probably true that there is not a single design of such systems that must always be employed to assure success, as is attested by the differences between the apparently equally effective practices in Chile's SVS and Venezuela's BCV.

An example will help to illustrate the point that some technical features can fundamentally flaw personnel evaluation procedures. Personnel performance evaluation systems that do not force evaluators to rank order employees cannot function well because they fail to accomplish the key purpose of such a system, which is precisely to rank order employees according to their performance. Consequently, systems such as the SINAPA system in Argentina and the system prescribed in the New Administrative Statute in Chile, which encourage evaluators to assign all employees the same rating, are useless precisely because they fail to separate the better-performing employees from the rest of the pack. One device to force evaluators to discriminate between employees is to require evaluations to rank order employees, rather than to simply assign ratings; that is, require that no two employees receive the same overall rating. In addition, it is important to provide evaluators with incentives to accurately and reliably rank employees by performance. Evaluators with a stake in the overall performance of the agency and the ability to affect that performance by how accurately they rank employees will have stronger incentives to reliably evaluate and rank employees than will evaluators who know that their safest strategy for both protecting themselves and their agency is to assign all employees the same high rating. The latter scenario exists under the SINAPA performance evaluation procedures in Argentina and the New Administrative Statute regime in Chile. The former appears to exist in the SVS in Chile and the BCV in Venezuela.

Compensation. BCV regularly obtains data on salaries for comparable private sector positions as input into its

own salary-setting policies. Because the personnel evaluation system sorts employees according to their performance, managers in BCV report that annual salary increments reflect quality of employee work, instead of simply seniority. In short, BCV policies and practices on compensation—monetary and nonmonetary—assure that the bank is reasonably competitive with the private sector for qualified employees and create detectable competitive pressures for employees to perform well.

Training. BCV invests heavily in training, according to BCV sources. Unfortunately, it was not possible to obtain data on precisely how large an investment the bank makes in human capital annually.

Tenure protection. BCV employees were covered by the private sector labor law, rather than by the civil service statute until 1991, when BCV was made subject to the civil service law. The key difference appears to be in regard to firing of employees. Under the old regime, BCV could fire at will, although such firings could be contested. Because the difference between firing with cause and firing without cause doubles the legally required severance payments, BCV prefers to fire with cause. The new organic labor law clarified this distinction. Now BCV has a *Manual on the Application of the Disciplinary Regime*, prepared by its Human Resources Management Division (Central Bank of Venezuela 1992). This roughly fifty-page document tells how to prepare a case for firing an employee with cause.

When pressed on whether the new labor law changed the incidence of firings at the BCV or the fraction of firings that are contested, BCV officials couldn't provide data, but maintained that few employees have been fired—before or after the change. Tenure protection at the BCV, which equaled that available in the domestic private sector, now equals the tenure protection afforded other public sector employees. Officials say that the revised law may have made it easier to fire employees, by clarifying conditions under which an employee can be fired with cause. Any long-term effects of this change on the competitiveness of BCV's personnel system remain to be seen.

BCV summary. BCV, like SVS in Chile, has personnel policies that provide substantially greater competitive pressures on all agents in its sphere than can be found within the more conventional civil service policies imposed by, for instance, the New Administrative Statute in Chile, the civil service law in Venezuela, or the SINAPA regime in Argentina. Recruitment is open for all positions, not simply entry level and top management. Promotions are competitive as well, not an automatic right

conferred by seniority. The top three internal candidates are considered, but must compete against external candidates. Screening procedures appear to require input from numerous actors, reducing the risk of monopoly control of recruitment. The personnel evaluation system is complex, but appears to assure that employees are sorted by performance. Furthermore, rank orderings from these evaluations are a key input into promotions reviews, annual salary reviews, and assignment of training opportunities.

Compensation is not on a par with the private sector. This differential is partly mitigated by substantial training opportunities in BCV and the opportunity to significantly enhance one's skills on the job. Finally, tenure protection was, until 1991, identical to that in the private sector. Recent changes in the organic labor law have driven a wedge between BCV and private sector tenure protection; and it remains to be seen how deleterious this change will be over the long run.

Conclusions and Recommendations

Public sector human resource management policies and practices in many Latin American and Caribbean countries need significant improvements. Conversations with professionals and managers within core government ministries in many LAC countries reveal deeply felt dissatisfaction and frustration both with the performance of public agencies and their employees and with the legal and institutional framework that appears to undermine efforts to manage public agencies and employees effectively.

- Levels of public employment are widely believed to be excessive among all but the managerial ranks.
- Tenure protection afforded career public employees is blamed both for undermining employee performance incentives and for disabling efforts to downsize public agencies even as tightening resource constraints reduce the capacity of LAC governments to support so many employees.
- The absence of such tenure protection for most top managerial employees is often believed to be crippling the managerial capacity of many public agencies.
- Powerful public sector labor unions are blamed for posing significant obstacles both to downsizing efforts and to creating more flexible and effective incentives for employee performance.
- Low public sector salaries are uniformly viewed as a principal deterrent to the recruitment and retention of highly qualified and motivated employees, especially among the professional and managerial ranks.
- Rigid salary-setting rules and procedures, coupled with extremely weak capacity to monitor and enforce those rules, are widely suspected both of further undermining the public sector's capacity to compete with the private sector for highly qualified employees and of causing public sector managers to find innumerable creative means of circumventing those constraints.
- Other important civil service policies—for example, the requirement of competitive hiring procedures (*concurso*)—also appear to be widely disregarded—a practice that both reflects the inability of those civil service

systems to function as intended and undermines confidence in those systems.

- Such widespread circumventions of salary-setting and hiring rules and procedures, including the practice of employing consultants to circumvent hiring and salary constraints, are also credited with undermining confidence in both the machinery of government and the civil service itself.
- Requirements that all organizational units within the public sector undertake annual performance reviews of each of their employees also often appear to be either generally disregarded or executed in a way that fails to discriminate between high-performing and low-performing employees, thereby undermining any ability to link either training to identified skill deficiencies or promotions to performance.
- The inability of governments to provide timely, reliable, consistent, transparent and complete information identifying actual employment and remuneration levels covering *all* types of public employees and *all* forms of remuneration also appears to be undermining the credibility of both those governments and their civil service systems, as well as their ability to manage those systems.
- Finally, the institutional structure within which public sector managers must operate in LAC often is so full of red tape and overlapping responsibilities that it is extraordinarily difficult to take any significant actions, let alone effectively manage complex programs and large numbers of employees. Ex ante audits of all expenditures prior to authorization create long delays in both managerial actions and compensation of vendors, thereby both undermining the ability of those managers to obtain services from the private sector and causing them to face prices for those services that have been increased to reflect the uncertainty regarding when and whether payment will be received and the expected lags between service delivery and receipt of those payments when they are forthcoming.

This litany of concerns about the structure and performance of civil service systems in many Latin Ameri-

can countries highlights the need to take significant steps to restructure and energize those systems. Accordingly, this study offers two distinct types of recommendations. First, the study offers recommendations on how these systems might be fundamentally restructured, dramatically altering their orientations from that of controlling inputs (personnel actions) to that of holding managers accountable for the performance of those inputs in the production of the agency's outputs. Since such fundamental change is likely to be difficult in the short run, the study also offers a variety of recommendations for improving human resource management capacities within the existing legal framework found in most LAC countries. These latter recommendations address salary restructuring as well as various other core personnel policies, such as recruitment, promotions, employee performance reviews, and so on.

The basic thrust of all the recommendations is to increase the use of competitive pressures upon public managers in order to improve performance. Accordingly, a fundamentally restructured civil service system should replace input controls with accountability for productivity; that is, reward management for cost-effectively producing agreed-upon outputs and sanction management for failing to do this—as has been accomplished in New Zealand. This approach requires that managers be granted considerable autonomy over individual personnel decisions—comparable to that enjoyed by managers of domestic private sector enterprises—in exchange for being held responsible for the effects of those decisions upon the productivity of their units or agencies.

Should such fundamental restructuring of the human resource management framework be infeasible in the short run, LAC governments should resort to a variety of devices for enhancing competitive pressures in all core personnel policy areas, including salary setting, recruitment, promotions, employee performance reviews, and so on. By contrast, policies that create monopolies—such as designating a single agency to provide all training or to handle recruitment—undermine competitive pressures. Policies that restrict competition for public employment slots in other ways—for example, prohibiting recruitment to position or restricting the recruitment pool to internal candidates—reduce the competitive forces required to assure that the public sector has access to the best employees it can afford to hire. Guarantees of the right to career advancement and ironclad tenure guarantees dramatically undermine the competitive pressures that can be brought to bear on public employees to perform well. Employee evaluation procedures that create strong incentives for evaluators to assign virtually all employees the same, highest rating in-

exorably undermine efforts to reward employees on the basis of performance. Trivial investment in training sends a signal that the institution does not value skills and reduces the attractiveness of public sector employment—makes it less competitive. Failure to hold agencies and their managers accountable for their employees' performance or their own resource allocation decisions, including how well they target their training resources, also undermines the system's ability to impose competitive pressures on managers.

These anticompetitive consequences of civil service policies and practices can be avoided. The experience of agencies such as the Superintendencia de Valores y Seguros and the Superintendencia de Bancos e Instituciones Financieras in Chile and the Banco Central de Venezuela demonstrate that public agencies can enhance competitive pressures on the civil service. This can be done, for example, by recruiting from external as well as internal sources, eliminating *de facto* or *de jure* promotion guarantees, and eliminating monopoly control over particular elements of the human resource management system.

Notes

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1. The above reported shares of total compensation accounted for by salary supplements in Argentina, Uruguay, and Chile reflect *maximum* shares either possible or observed within the existing salary structure; although the shares reported for Venezuela and Trinidad and Tobago are *averages* based on salary scale data and actual expenditure data reported in annual budget documents. To put this in perspective, although the maximum share of total compensation that can be accounted for by supplements in Uruguay is 80 percent, the average is only 20 percent. It is, then, not surprising that these shares are higher in the former three countries than in the latter two. Data limitations prevented reporting the same measures for all five countries.

2. The information in this section on Uruguay's public sector compensation practices comes largely from World Bank 1991.

3. See World Bank (1991) p. 83, wherein it is noted that "[t]he combined effect of the established household and health care benefits represents 43 percent of a minimum wage without seniority in the auxiliary services job group; with seniority of 30 years, the combined social benefits can exceed 80 percent of that minimum compensation."

4. The lower estimate attributes all overtime and 12.5 percent of actual service premiums to "performance-linked" sal-

ary supplements. This assumes that the average performance rating achieved by public employees was "very good" on a option scale, with "very good" the second-from-the-top rating. The upper estimate attributes 75 percent of service premiums, all overtime, and all annual bonuses to performance-linked salary supplements. The 75 percent attribution assumes that all training and prior education are performance-linked, but that 25 percent of service premiums are attributable to seniority (between twelve and thirteen years of service), which is assumed to not be performance-linked. In both cases, "other" service premiums and contributions to personal savings plans are assumed to be non-performance-linked.

5. Allowances were set at 150 percent of base wage; seniority premium was two percent of monthly wage times the number of years served; residency premium was 35 percent of monthly wage, and special premiums averaged 37 percent of monthly wage, ranging from 10 percent for the Navy to 110 percent for the Gendarmerie.

6. "Escala Unica de Sueldos," as of December 1989 (Chile 1989b).

7. All dollar amounts are U.S. dollars.

8. Step within grade level receive fixed salary increments of roughly 4 percent per step. These are assigned at fixed amounts within each usually five-grade range, and these increments become progressively larger across those five-grade ranges. For instance, within-grade-level increments in the first five grades are 15 lempiras per month (approximately US\$33 per annum) or approximately 4.0 percent of the median grade-and-step salary in these five grades; grade-level increases in the second five-grade range are 25 lempiras; etc. At the top of the salary scale, step increments have reached 125 lempiras per month (approximately US\$277 per annum), which is still very near 4 percent of the median salary step in the grade 39 category. Inter-grade salary increments are assigned according to a similar algorithm. These rise from 10 lempira increments (per month, or approximately US\$22 per annum) across the lowest five grades to a 180 lempira increment (per month) between the penultimate and top grades (approximately US\$400 per annum). On a percentage basis, these increments rise from just shy of 4.9 percent at the lowest grade to 9.9 percent for the rise to the highest grade.

9. The salary scales being compared include 1.428/73, Docente, Docente Universitario, Judicial, INTA, and Militar.

10. Only certain scientific and technical agencies consistently pay lower salaries than those provided by *escalafón* 1.428/73.

11. This figure is calculated from 1989 data found in law 18.827 (1989a), which respecified the *planta* for every central government agency in order to endow a large number of non-tenured appointments made during the Pinochet regime with tenured career civil service status. Health care positions were excluded from the calculations because of the difficulty of transforming part-time positions to full-time equivalents.

12. All personal service contracts are required by law to expire December 31 of each year. The annual budget law sets explicit limits by program on the number of persons and total expenditures allowed through such personal service contracts.

13. This hypothesis could be readily corroborated by examining data on the distribution of annual performance evaluations. Unfortunately, Argentine authorities were unable to provide such data.

14. In addition, Title I, Article 5, of the Ley de Carrera Administrativa (Venezuela 1975) explicitly omits from its coverage six categories of public employees, each of which is subject to a different set of labor laws. These include:

- Employees of the national legislature
- Employees of the foreign service, who are covered by their own body of labor law
- Employees of the judicial branch, the public ministry and the supreme elections council
- Members of the national armed forces
- National universities directors, academics, teachers, or researchers
- Day laborers contracted within the national public administration, who are covered by the Labor Law.

15. Decreto Ley 3.538 (Chile 1980a) is their Ley Orgánica. D.F.L. No. 411 (Chile 1981) is their administrative law.

16. BCV personnel policies are governed by the Organic Labor Law (Venezuela 1991), rather than by the Ley de Carrera Administrativa (Venezuela 1975).

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Administrative Reform in Developing Countries: Some General Observations

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Like any other kind of reform, administrative reform, to be effective, must be based on an in-depth understanding of the conditions in the country undertaking reform. Developing countries face some similar administrative problems, however, and the experience of other countries is therefore useful to them. Administrative reform is especially important for the many developing countries that have embarked on economic reform. The effectiveness of economic reform often depends on reform of the institutions entrusted with implementing it—to prevent its being held hostage by inept or corrupt institutions.

This chapter first briefly addresses the experience of developing countries that have undertaken comprehensive economic reform programs in the recent past. It then reviews the principal problems afflicting civil administrations in most developing countries and presents a number of solutions that have been applied in comparable situations.

Recent economic reform experiences of developing countries

Developing countries began the 1980s under extremely difficult economic conditions. The decline in the prices of primary commodities, which constituted the principal exports of some countries, and the increasing external debt burden on others—at a time when governments continued to expand their economic activities—led to budget and external balance of payments deficits. Balance of payments problems, resulting in a substantial rise in domestic prices and capital flight, became common in developing countries. Many developing countries became sources of substantial net financial transfers to industrial countries. And many found themselves with no alternative but to adopt stringent economic reform measures, most of which were supported by fund-

ing from the International Monetary Fund and the World Bank.¹

Economic reform or structural adjustment policies were initially designed to solve macroeconomic problems, the most important symptoms of which are high inflation and balance of payments problems. They were also designed to introduce other structural adjustments to set economies on a new course of sustainable growth. Reform measures usually included reducing public expenditures and increasing revenues, providing scope for domestic and external competition, and allowing prices to reflect the real economic value of goods and services. Other reform measures aimed at improving the government's performance in the provision of social services, and developing the infrastructure and institutions needed for a market-oriented economy, particularly in the financial and banking sectors.

In countries that adopted structural adjustment policies and pursued them without regressing, economic growth rates started to increase a few years after the start of the program. The highest rates of economic growth can be found in middle-income countries that proceeded with their reforms on an accelerated schedule (World Bank 1992a). Conversely, countries that did not adopt adjustment policies experienced extremely modest or diminishing growth rates. Accordingly, the budget deficits of countries that achieved considerable progress in reforms during the 1980s declined—from an average of 5 percent of GDP to 3 percent in middle-income countries, and from 8 percent to 5.5 percent in low-income countries (World Bank 1992a). Progress was also achieved in trade liberalization, particularly in middle-income countries. The exchange rate declined in real terms in both successfully adjusting and nonadjusting countries, with a decrease in the gap between the official and the black market exchange rates.

The countries that achieved the most success in reforms were those that managed rapidly to reduce or elimi-

nate budget deficits by adjusting unrealistic prices, reducing subsidies, expanding the tax base, and improving tax collection. These changes were accompanied by the establishment of realistic exchange rates and positive real interest rates while phasing in the liberalization of external trade. These bold steps resulted in macroeconomic stability, which substantially enhanced the credibility of the reform process and enabled governments to pursue reforms of the capital and labor markets. These reforms are essential to ensure a greater degree of flexibility for market forces under specific and previously determined rules. At the same time, they help in eliminating distortions in—or in privatizing—public sector enterprises to alleviate the heavy financial burdens that these enterprises often impose on the state and to improve the efficiency of their operations.

The importance of pursuing a “second generation” of reforms soon became obvious to the countries that adopted structural adjustment programs. Second-generation reforms relate essentially to the creation of the most appropriate conditions for investment in general, and for private investment in particular.² The countries undertaking second-generation reforms sought to form solid economic, legal, and social institutions. They allowed the central bank the autonomy it needed to resist the inflationary financing of the budget. They required commercial banks and other financial institutions to operate in accordance with regulations that would ensure their financial viability under proper oversight. They introduced or strengthened a legal and regulatory framework characterized by streamlined procedures and limited restrictions, especially with respect to firms entering and exiting the market. They established or reorganized relevant agencies to ensure the correct implementation of essential regulations, to establish mechanisms for settling disputes without delay or distress, and to enforce a new taxation system that would curtail and effectively penalize evasion. And they strengthened the administrative agencies responsible for implementing most of these reforms, and ensured that the judicial system was sound and efficient.

These second-generation reforms may initially entail a reduction in investment, both in volume and as a share of GDP, but their continued implementation can increase the level of investment over time. The length of that period of time may depend on the initial degree of economic imbalance and the depth and comprehensiveness of reform measures. The initiation of reform creates stress and uncertainty in the investment environment; this usually results in an increase in the cost of capital (interest rates) and in the cost of imported capital goods (due to a lower exchange rate). Existing investments that depend for their profitability on government subsi-

dies or protection may collapse in the face of new competition. The existence of credit limits at the start of the reform period may also increase the difficulty of financing new investments.

Some countries have managed to achieve rapid increases in investment, such as Chile, the Republic of Korea, Singapore, and Thailand. In Mexico private investors responded to the new situation after six years; in some countries, however, such as Bolivia, there was virtually no response.³ This was also the case in countries that retreated from the reform process after an initial attempt, such as Cote d'Ivoire. Perhaps the difference among these experiences lies both in the government's ability to generate confidence in its commitment to the continued implementation of the reform measures and in its success in improving the budget and balance of payments situations. Also important is the government's continued investment in infrastructure and human resource development, particularly education and health care. Such measures as reducing government expenditures, privatizing parts of the public sector, and introducing changes in government institutions create widespread confidence in the seriousness and efficiency of the government's effort.⁴

Countries that benefitted from the mistakes of others paid particular attention in designing their reform programs to the integration, sequencing, and continuity of reform measures and took special care to prepare the public to accept the temporary sacrifices required so that reform could be pursued without delay or retreat. They also sought to develop an appropriate environment for the growth of private investment by pursuing second-generation reform measures. Latin American countries that followed this strategy experienced far less increase in unemployment and decline in production than expected. The new environment soon created opportunities for private investment that investors seized after an initial period of hesitation. Moreover, the credibility of reform programs increased as they became more comprehensive and their pace quickened. Public opinion responded favorably to reforms that were credible and serious, despite subsequent economic pressures, but was suspicious of reform steps that were hesitant and far apart.

Some developing countries—for example, African and Middle Eastern countries—have population growth rates that exceed those in other developing countries but economic growth rates that over the past few years have been lower than the developing country average (table 9.1). Many of these same developing countries suffer from higher unemployment rates and a worse income distribution. These factors increase the social cost of economic reforms and the associated political difficulties. But they

should not be regarded as obstacles to reform. On the contrary, to rid themselves of these problems, these countries have no alternative but to achieve high rates of economic growth through reform.

Achieving high growth rates requires primarily the creation of an environment in which investments respond to new economic situations rapidly, which depends in turn on a balanced macroeconomic framework in which investors can be assured that their profits will not vanish as a result of inflation. High growth rates also require sound microeconomic conditions under which investors can be confident that their investments will be processed without excessive restrictions and in accordance with price and wage systems that reflect the real value of goods and services, and that they can operate without major non-commercial risks. That is, there is a need for economic conditions that allow the expansion of investment opportunities, for legal systems that protect ownership rights and enforce contractual obligations, and for government and administrative agencies that enjoy a minimum degree of stability and efficiency—hence the importance of administrative reform to the success of economic reform.

Typical aspects of administrative dysfunction in developing countries

Government bureaucracies in developing countries face numerous problems. Some of the problems are the result of structural conditions that cannot be remedied by administrative reform alone. Others arise as a result of government policy toward the civil service, including the nature of the decisionmaking processes, the efficiency of the institutions responsible for policy implementation, and the programs established by these institutions. Alleviating these problems depends on the government's

ability to pursue long-term strategic planning and the availability or efficiency of data collection and dissemination systems, staff training, and capacity for evaluating and monitoring implementation.

Although this chapter focuses on administrative reform and its technical aspects, a broader perspective is essential. If structural disequilibria are not addressed, administrative reforms alone inevitably have a limited effect. Moreover, some of the methods adopted as part of civil service reform may be impractical or economically and politically costly in the absence of more comprehensive economic and social reform. The following sections outline the typical problems faced by the civil service in a typical developing country.

Surplus employees

Most government agencies in developing countries suffer from surplus employees. This phenomenon is the natural result of one or more of the following factors:

- A high rate of population growth that exceeds capital accumulation and economic growth rates
- A declining economic growth rate, a failure of centralized planning to achieve its goals, and global economic recession, all leading to an increase in unemployment rates
- An education system ill-suited to the needs of the labor market
- A political expectation that the state is the employer of last recourse
- Social values that attach a high premium to personal relations and patronage in recruitment and promotion.

Each of these problems has a serious impact on hiring levels regardless of the administrative system. And solving them requires a long-term commitment on the part of the reforming government.

In all developing countries the civil service grew substantially between the early 1960s and the late 1980s. The growth of public employment came in response to the demand for services after decolonization, particularly in health and education, and to alleviate the unemployment caused by stagnation in agriculture and the private sector.⁵ The public sector continued to grow despite the downturn in global economic growth beginning in the mid-1980s and the failure of many development programs to achieve the expected growth rates. Table 9.2 shows the high government employment ratios in several developing countries.

During the same period the unemployment rate rose substantially in developing countries. In Middle Eastern countries unemployment is extremely high on average, between 10 and 20 percent (table 9.3), and it is concentrated among young people. The high unemployment rates

TABLE 9.1

Average annual growth in population and GDP, by region, 1965–90

Region	Population		GDP	
	1965–80	1980–90	1965–80	1980–90
Middle East and North Africa	2.8	3.1	6.7	0.5
Latin America and the Caribbean	2.5	2.1	6.0	1.6
Europe	1.1	0.1	—	2.1
Sub-Saharan Africa	2.7	3.1	4.1	2.1
East Asia and the Pacific	2.2	1.6	7.3	7.8
South Asia	2.4	2.2	3.6	5.2
All developing countries	2.3	2.0	5.9	3.2

— Not available.

Source: World Bank 1992b.

contribute to the complexity of both administrative reform and economic reform.

In addition to real surplus employment, some civil service administrations carry on their employment rolls unfilled positions, ghost workers, and unnecessary temporary and seasonal positions, as well as workers who are still employed even though they have reached retirement age. All of these "surplus" employees increase the payroll and could be terminated without great political repercussions.

Inappropriate recruitment and other personnel policies

Linked to the issue of surplus employment is the issue of recruitment practices. Civil service administrators have

TABLE 9.2

Ratio of government employment to total employment in selected developing countries, various years

Country	Ratio of government employment to total employment
<i>Latin America^a</i>	
Argentina	2.6
Chile	2.3
Mexico	14.7
Uruguay	7.8
Venezuela	17.2
<i>Middle East^b</i>	
Algeria	26.5 (55.7)
Egypt	17.0 (30.2)
Jordan	17.5 (44.7)
Morocco	6.3 (8.0)
Tunisia	— (23.4)
Yemen	— (15.9)
<i>Africa^c</i>	
Liberia	16
Mali	33
Nigeria	43
Senegal	45
Zambia	37
<i>OECD^d</i>	
Belgium	16.8
France	15.4
Germany	14.6
Italy	14.4
Portugal	9.9
Spain	12.3
United Kingdom	19.5

— Not available.

Note: Figures in parentheses are the ratio of public (government and public sector) employment to total employment.

a. Data for Argentina, Chile, and Uruguay are for 1990, and exclude enterprises, teachers, the military, and municipal and provincial public employment.

b. Data are for 1984–90.

c. Data are for 1981.

d. Data are for 1987.

Source: World Bank 1993; Venezuela 1989; Pissarides 1992; Lindauer 1988; and Junquera 1986, as cited in Venezuela 1989.

often resorted to recruitment systems that are inappropriate to the absorptive capacity of the national economy or to the needs of the civil service; some systems, for example, guarantee the appointment of graduates to civil service positions. In many countries the education system has produced graduates in several specializations and at low academic levels in numbers that far exceed the needs of the national economy. A government guarantee to recruit graduates frequently results in long lines of graduates waiting to be appointed. After a wait of several years graduates are appointed according to their seniority, regardless of merit. Mandatory service, whereby students who benefit from a state-financed education must repay part of their debt through government employment, is another recruitment system that can lead to surplus employment, often to the detriment of both the state and the workers.

There are often extreme rigidities in the processes and policies relating to the recruitment, promotion, and termination of staff. These are frequently subject not only to the principle of seniority, but also to excessive legal guarantees and administrative and judicial control. Judicial review bodies are often more concerned with the literal application of legal provisions than with exercising

TABLE 9.3

Unemployment rates in selected developing countries, 1989

(percent)

Country	Unemployment rate
<i>Latin America</i>	
Argentina	6.7
Bolivia	8.4
Brazil	3.5
Chile	5.9
Colombia	9.1
Costa Rica	3.2
Guatemala	3.2
Honduras	5.9
Mexico	6.4
Panama	20.3
Paraguay ^a	6.3
Peru ^a	5.3
Uruguay	8.0
Venezuela	5.1
<i>Middle East</i>	
Algeria ^a	19.7
Egypt ^a	15.0
Jordan ^b	18.8
Morocco ^a	12.1
Tunisia ^c	16.4
Yemen ^a	26.0

a. Data are for 1990.

b. Data are for 1991.

c. Data are for 1984.

Source: World Bank data.

the flexibility required to ensure efficient performance. This has resulted in many ineffective employees attaining high-level positions from which it is difficult or impossible to dislodge them. It has also deprived the civil service of youthful leadership and much-needed vitality. These rigidities can complicate administrative reform by limiting it to a review of the status of employees and their salary scales, and not of the policies and processes that ensure efficient performance.

Multiplicity of agencies and positions and inadequate delineation of functions

Often a multiplicity of ministries and agencies are responsible for a single sector. This results in policy inconsistencies and conflicting methods of implementation. The problem is compounded by inadequate delineation or overlap of the functions and mandates of these ministries and agencies. For example, there may be a ministry for the economy and external trade, another for finance, a third for planning, a fourth for international economic cooperation, and a fifth for supply and domestic trade. This proliferation of agencies seems to have resulted from a conviction that the optimal solution to any major problem is to create an independent ministry or supreme agency to deal with it. But it often leads instead to the institutionalization of the problem and not its solution, at the cost of considerable effort and funds.

There has been a proliferation also in the number of senior posts or, rather, in inflated titles inappropriate to the posts involved, as an indirect method of increasing salaries. This has resulted in a significant diminution of the standing and prestige of truly senior posts.⁶

Wage compression and decline in real wages

Civil service salaries in general have declined and those of senior officials have become compressed relative to the minimum pay. There has been a constant decline in the real value of wages because wage increases have not been commensurate with inflation rates.⁷ This has led to low employee morale and declining standards of living, and many public employees supplement their incomes by moonlighting during working hours or collecting financial considerations from the public for performing their normal duties. Petty bribes are often viewed as a legitimate gratuity in functions that entail regular dealings with the public. The decline in real wages has also resulted in negligence or poor performance, with the more qualified workers quitting government service. All this has led to a substantial decline in the social status of public servants and to an inability to attract efficient and qualified workers.

Wage compression is the reduction in the difference between the highest and the lowest salary paid by the administration, generally through greater increases in lower salaries and thus at the expense of the higher salaries.⁸ Wage compression makes it difficult for a civil service both to attract and to retain high-level staff. In some developing countries wage compression has increased significantly, as a result of a combination of factors, including trade union negotiations, equity concerns, and egalitarian socialist policies.

At the same time, there has been an increase in supplementary financial benefits, under such misleading classifications as "incentives" and "duty allowances." Nonfinancial fringe benefits, such as housing, favor high-salaried workers who need these benefits least and represent an inefficient allocation of government resources (Lindauer 1988). These supplementary benefits have masked the real salaries paid to civil servants, particularly those in senior posts. They have also established expectations that divorce an employee's entitlement to an incentive or bonus from any improvement in his or her productivity or performance.

Shortages of employees and skills in certain fields

Civil services, despite their large size and their surplus employment in many areas, often suffer from severe employee shortages in remote locations or in areas that have to deal with substantial numbers of the public, with resulting overcrowding and delays in performance. The employee shortages may be due to shortages of buildings or equipment, to employees' reluctance to accept jobs in remote locations, or to deliberate corruption.

Lack of strategic vision

Countries often lack a strategic vision of the role of the civil service—that is, a clear concept of the bureaucracy as a politically neutral institution with high professional standards and as an administrative body assigned specific tasks to serve developmental and social goals.⁹ The civil service, in accordance with such a vision, would act according to objective principles—in its decisionmaking process, in its dealings with the public, and in its internal procedures for recruiting, promoting, and terminating staff—and it would be governed by established control and auditing systems. In many developing countries, however, the role of the bureaucracy has expanded along with the role of the state, which has, in some cases, expanded at the expense of the private sector and of individual liberties.¹⁰ Accordingly, the role of the civil service has become barely supportive—sometimes hos-

tile—to the development process, and has been marked for the most part by restrictions and complexities as well as fierce centralization.

In addition, the political neutrality of the civil service is frequently undermined by ethical conflicts. The principle of avoiding conflicts of interest has not been fostered in the civil services of many developing countries, and some employees engage in activities that are inconsistent with the nature of their work or the requirements of their public functions. Examples include a civil servant holding a managerial job in the government while retaining a seat in the legislature, a position whose functions would include oversight of government administrative operations; maintaining both a senior position in a government ministry and membership on the board of a company subject to that ministry's oversight; and accepting gifts from persons with whom the employee has official dealings.

Inadequate infrastructure

Many countries have given insufficient attention to maintaining government buildings and to providing enough equipment and office supplies relative to the vast increase in government employees. This has created overcrowding in agencies that deal with the public, which forces individuals requiring assistance to resort to intermediaries or bribery.

General proposals and remedies

Some or all of the problems enumerated in the preceding section may be found in a variety of combinations in different developing countries. It is therefore useful to consider solutions to these problems which have been identified in the practice of countries, both industrial and developing, that have managed to improve the performance of their civil service.

Downsizing (eliminating surplus employees) has figured prominently in all administrative reform programs in both developing and industrial countries, but it would be a mistake to consider this as the core of administrative reform. It is only one step in a country's reform program, which should be concerned with formulating a comprehensive strategy for the fundamental functions of the civil service in the light of that country's circumstances. The reform program should determine the policies, systems, and rules for the civil service, and for the reform program itself, and work out a process of optimal organization and sequencing in implementing them.

The following proposals are only general. Each country, facing different political, economic, and socio-cultural

conditions, needs to develop a reform program that responds to its own particular problems.

A clear strategy

The government should have a clear understanding of its role in society, and in the economy in particular, and in the light of that role determine the functions and duties of the civil service. If a state is committed to economic reform, and to limiting its role in the production process, it must restrain the paternalistic attitudes of government and limit its intervention in all areas. This perspective should shape the general approach to reforming the civil service and inform the determination of those functions that the civil administration should be expected to assume or retain, those that can be left to the private sector, and those that the private sector could be assigned to undertake on a contractual basis with the oversight of the relevant public entity.

A strategic vision with respect to the role of the government and the civil service would help in designing a more rational model for the cabinet structure at the top of the system, including the number of ministries and their mandates. This would reduce the areas of conflict in policies and decisions and ensure that responsibility is shouldered in each ministry by a small number of undersecretaries who, along with the minister, form a cohesive group capable of policy planning and implementation.

In addition to defining the role of the civil service and of government, a strategic framework for the reform program is required. This framework would identify the different elements of the program and the link between them and establish a time frame for reform. The pace of the reform process may be found anywhere along a spectrum ranging from radical, systemic transformation to slow, incremental reform.¹¹ Whatever the time frame elected for the different elements of reform, a comprehensive framework is needed in which short-term measures are designed explicitly to support long-term objectives (de Merode 1991). A long-term strategic perspective can also reduce the political difficulties resulting from the implementation of certain elements of a reform program, such as downsizing. Retrenchment may be more acceptable, both to the displaced workers and to the general public, when it can be placed within the context of a wider administrative reform program. Moreover, some of the benefits achieved by certain programs (for example, reduction of the wage bill due to downsizing) can be maintained only if they are combined with other measures (for example, hiring freezes).

The elaboration of a comprehensive framework for reform assumes full commitment by the government, in-

cluding both the legislative and the executive branches. This is critical because reform is essentially a political process relating to the scope and exercise of state powers. Such a process requires a gradual but radical transformation in inherited behavioral patterns and, indeed, a change in the public's perception of the role of the civil servant. Successful administrative reform has been characterized by active participation in the reform process by the head of state, followed by cabinet members and eventually the entire civil service.¹² A successful reform has typically involved the participation of many officials in working groups that designed the new systems and oversaw their implementation. Commitment by the executive and ownership of the reform program are critical elements in the reform process, particularly for its long-term sustainability.¹³ Foreign technical assistance and foreign models may be used to the extent that they are sensitive to the requirements of a situation.¹⁴ Reform processes entrusted entirely to foreign consulting firms that produced ideal models and left them to the government to apply have rarely succeeded (Nunberg 1990). In some situations, the involvement of a foreign aid agency or foreign consultants can provide useful legitimacy to specific programs or, inversely, can provide a scapegoat for government-directed criticism.

Rationalization of policies and rules

A strategic vision for the role of the civil service does not evolve from a vacuum. It reflects the prevailing social culture and the political course adopted in managing the economy. Hence, administrative reform must be based on a clear understanding of the policies that the state wishes to pursue, and not considered merely a temporary solution to crises. These policies need to be established clearly in the process of defining the role of the civil service.

One of the principal functions of the civil service is to ensure the proper application of the state's laws and regulations. Many developing countries continue to pursue conflicting policies. Regulations are often complex and sometimes inconsistent. They tend to be numerous and diffuse, and difficult to comprehend not only for the public but for the employees responsible for implementing them. These conditions must be rectified before or at the inception of an administrative reform program, or the reform process will lose much of its usefulness. Weak implementation of laws and regulations, resulting in the flouting of rules and in corrupt practices, is common among developing countries. An attempt to ensure respect for rules and regulations might not succeed unless it is preceded by the rationalization and simplification of the vast number of regulations enacted over the years pursuant to disparate

policies and ideologies. The experience of many countries shows that governments are better able to achieve their objectives by minimizing restrictions and creating incentives. And participation in the process of rule-making by those subject to the provisions of the law eventually helps in the rules' sound application. Before submitting draft bills or issuing public decrees and regulations aimed at regulating a good or service, for example, it is therefore useful to set up organized forums for consultation with the producers, consumers, and intermediaries concerned.

Systems and programs

Along with legislative and regulatory reforms, successful experiments in administrative reform have relied on the installation of modern management systems in a number of areas. For this purpose, it may be sufficient to establish the ground rules and the general guidelines and leave the details to be worked out by each ministry or independent agency. Such systems should be in keeping with the abilities of those who will be managing them. They would include the following:

- A *strategic planning system* at the ministry or agency level that forecasts future requirements over a period of, say, five years, and the consequent job reclassification and specification of inputs, and that avoids a buildup of surplus staff.
- A *modern data collection and dissemination system* that ensures accuracy and includes rules governing the confidentiality of information. Disclosure of information is an issue with which developing countries have been overly concerned, and its objectives and dimensions may need to be reviewed.
- A *decisionmaking system* that clarifies the process for making decisions in a ministry or agency and ensures that such decisions rely on objective analysis rather than personal preferences.
- A *financial system for budgeting and expenditure* that includes budget planning and preparation, the control of expenditures, and a procurement and contracting system.
- An *accounting and auditing system* that ensures sound financial auditing.
- A *human resources management system* that ensures that the required skills will be made available and will be developed continuously by training programs designed to broaden experience and improve efficient performance and by relocation programs.
- A *control and oversight system* that monitors staff performance and provides rewards and sanctions based on performance.
- A *personnel recruitment and management system* that is effective in recruiting and promoting qualified staff, par-

ticularly to high-level positions. This system may differ in the degree of centralization of the personnel function.¹⁵

Personnel recruitment and management systems with some degree of centralization have been more successful in certain developing countries than those without centralization. Systems that have been successful tend to have been applied through effective coordinating mechanisms and to have allowed some delegation of authority, within the parameters of central guidelines, to the personnel departments of administrative units, in accordance with the importance of each function and the available capacity in each department.

Centralization of personnel management should not mean, however, that the government applies civil service procedures to public sector enterprises. Such enterprises should be allowed the same flexibility as private sector corporations, and their work procedures should be governed by the same rules that are applied to private joint stock corporations. Moreover, centralization should not preclude allowing administratively autonomous units from applying their own staff regulations, provided that this approach is objectively justified and that these units are subject to strict accountability and auditing systems that prevent the unjustified expansion of such exceptions.

The recruitment system may differ also in the methods of selecting candidates and in how much it relies on closed-shop recruitment for technical, high-level, or sensitive posts.¹⁶ Some developing countries, such as the newly industrialized countries of Asia, have used closed-shop systems to fill senior technical and management posts as well as those involved with formulating public policy. For developing countries anxious to fill management positions, adopting some elements of the closed-shop system may be advisable. Such a system can be faulted for supporting the position of the elite in society and the consequent failure to ensure equal opportunities. But the high-quality civil servants the system produces can introduce greater efficiency in, and enhance the prestige of, government agencies (Nunberg 1992). And some of the disadvantages of the closed-shop system can be mitigated by additional policy measures. For instance, a number of civil services have experimented with a middle course, relying essentially on a well-trained elite for senior posts while extending appointments to other individuals who, although not recruited through the elite stream, demonstrate efficiency and experience.¹⁷ Adopting such a training system for cadres to occupy senior and sensitive posts should not result in a lack of attention being given to the quality of lower-level staff or the development of serious training programs for them (Nunberg 1992).

Several countries have adopted another approach to training senior employees. In addition to participating in early training programs, a number of middle managers who have demonstrated special skills are selected to receive special training that qualifies them for senior posts (along the same lines as the staffing system common in the armed forces of most countries). Although this approach has not always been successful in industrial countries, it has proven to be particularly useful in developing countries when the selection criteria are based on efficiency rather than on political or personal considerations. This system requires lengthy, rigorous training in the skills required for specific posts, flexibility in utilizing graduates in different areas, and competitive salaries to ensure that such managers remain in the service.

The main objective of these different management systems is to ensure sustained and efficient staff performance and achievement of the civil service's goals. Another objective is to guard against rigidity, or the transformation of the civil service into an institution that serves the interests of its employees or constrains socioeconomic development. In developing such programs, the more successful experiments have relied as much as possible on private sector management approaches, benefiting from their flexibility and more up-to-date systems. Successful reforms have also benefitted from the approach that gives priority to quality of service and responsiveness to customer requirements, relies in its treatment of staff on real incentives rather than on administrative disciplinary action, and includes mechanisms for terminating weak performers or redundant staff.

Steps in implementing administrative reform programs

It is not enough for the government to have a clear strategy of administrative reform and the systems and programs to be adopted by the civil service. The systems and programs cannot be implemented automatically. Their success depends to a large extent on the methods and efficacy of implementation and the sequence of steps that are taken. A number of reform programs in which the World Bank has been involved through structural adjustment loans followed a sequence that started with downsizing the civil service through retrenchment of surplus employees after quantifying the redundancy. Such a sequence may be appropriate if it is based on a clear strategic vision and a consensus on the broad lines of the reform program after the methods required to improve performance have been ascertained. The implementation of such a program involves a number of operations that should be undertaken in stages and initially in one important ministry, such as the Ministry of Finance. If it proves

successful, the first operation could become a model and a source of lessons for the other ministries. The following steps may be recommended:

- Determine the number of employees needed for each specialization and function to enable the ministry concerned to perform its assigned functions in accordance with the administrative reform strategies and the operational systems agreed upon. This should preferably be carried out under the oversight of a committee that includes responsible authorities from several ministries as well as individuals from outside the civil service.
- Carry out a survey of the civil service (age, qualifications, experience, grade, performance level),¹⁸ review the functions performed, and assess comprehensive compensation (including allowances, incentives, and other benefits).
- Reconcile the numbers and specializations needed with those that exist by first taking steps to reduce the number of employees without resorting to summary dismissal. These steps could include freezing automatic graduate recruitment;¹⁹ pursuing attrition by not filling jobs that become vacant; preventing moonlighting; prohibiting the extension of employment for those who have reached retirement age (in exceptional cases, use could be made of scarce expertise under temporary contracts); introducing voluntary early retirement schemes with limited incentives while reserving management's right to deny such retirement to retain the more efficient employees; and suspending automatic salary increases and promotions.
- Once these approaches are exhausted, consider if necessary, the involuntary retrenchment of remaining surplus employees. Most civil service systems allow the government unilaterally to lay off redundant staff, but in practice, governments do not take such action except in the case of individual dismissals. Terminating hundreds or thousands of employees simultaneously is a complex operation that is difficult to undertake without a number of appropriate safeguards to ensure its fairness and to mitigate its adverse effects. For this reason, this issue is addressed separately in the next section.

Once the number of employees in a ministry or agency has been reduced, the next step is to improve performance and reduce costs. This requires implementing the functional reviews referred to in the previous section, focusing on the functions assigned to the agency as a whole or to each position. At the same time, attention should be given to streamlining legal procedures and approvals (rationalizing the decisionmaking process) and implementing new data processing, management, budgeting, accounting, training, and oversight and control systems.

Also important is putting in place the correct incentives for improved performance, including a new salary

scale and matrix designed to prevent excessively wide gaps between salaries in the civil service and those in public enterprises and private corporations. Supplementary remuneration that has lost its original purpose should be canceled, and the number of grades in the management structure may need to be reduced. And the wage compression that has characterized salary scales in many developing countries should be alleviated by increasing the gap between the highest and the lowest salaries.

One possible innovation is "broad banding," which sets a range of salaries for each grade rather than a point on a scale. Each band should cover a relatively wide salary range that would permit salary increases regardless of the length of time spent in a grade—alleviating "grade creep" problems—and salary differentiation according to performance. Each employee's grade under the new scale should be determined on objective grounds, enhancing general confidence in the reform process. This grading exercise is usually carried out by a committee formed mostly of individuals from outside the agency concerned. The committee typically establishes a point system to measure, for each post, the know-how, the accountability, and the problem-solving ability required, taking into account the relative demands of the different grades throughout the civil administration to ensure equity. Salary supplements for hard-to-find skills or locality pay to encourage staff to move to remote regions might also be used to increase the efficiency of the civil service.

Performance-based criteria should be introduced into the determination of salary increases and promotions. In some cultures criteria based on the performance of groups (for example, the notion of the quality circle) may be preferred over those based on the performance of individuals.

Other complementary measures could be introduced to foster the new values in the civil service and to infuse dynamism in the work environment. This can be achieved by providing opportunities for young employees to make their way up the ladder, to receive ongoing training, and to benefit from technological advances at a pace that they can keep up with and that is appropriate to the conditions prevailing in the civil service. And keeping abreast of the experiences of other countries and innovations in management science is essential.

Involuntary retrenchment of surplus employees

In many countries administrative reform has been accompanied by the summary dismissal of large numbers of employees—as many as tens of thousands at a time in

Argentina, Ghana, and Poland, for example. Such large-scale dismissal has not only important human dimensions, but economic and political ramifications that must be carefully handled. It may also have a significant impact on the credibility and acceptance of the reform program. It is therefore important that a government, before taking this step, be satisfied that the benefits in terms of improved civil service performance are likely to outweigh the negative economic or political consequences.

The larger the number of surplus employees involved, the more likely that their dismissal, without generous and prompt compensation, would give rise to new social and political problems, especially in developing countries that lack comprehensive unemployment benefits. Liberal compensation for a large number of retrenched workers could easily exacerbate budget deficits (except in the rare cases in which a program is financed by external grants or long-term loans that can be serviced without placing an onerous burden on future budgets).²⁰ Substantially increasing the deficit through compensation payments may have an inflationary effect that would deprive economic reform of one of its most vital accomplishments and that may have negative effects on the response needed on the supply side—that is, increased investment. Moreover, increasing an already high unemployment rate would aggravate social tensions and jeopardize the stability needed to attract additional investment. Thus, any government that must consider the involuntary retrenchment of a large number of civil service employees needs to weigh carefully the requirements of fiscal and political stability against the anticipated socioeconomic benefits of reducing the number of employees and improving performance. These socioeconomic benefits can be quantified relatively easily in the case of public enterprise reform, but they may be difficult to gauge in civil service reform.

The relatively low salaries of government employees in most developing countries limit the financial burden of downsizing. The assumption is that each retrenched employee would be paid compensation proportional to his or her rent, which is the present value of the difference between his or her expected income stream while in public sector employment and his or her expected income stream in the best alternative employment. The compensation payment should not exceed the present value of the worker's expected salary payments between the date of dismissal and his or her normal retirement date. The goal would be to design a redundancy scheme that minimizes the overcompensation paid to workers with low rents and retains productive workers.²¹

It may be possible to avoid having to pay substantial compensation upon retrenchment through a number of means. For example, redundant employees could be

grouped in a central agency able to maintain accurate data on their qualifications and experience. Only those within a few years—say, no more than three years—of normal retirement age would be forced to leave the civil service, a process that would be repeated each year of the program—say, for five years. Some of the remaining employees would be redeployed to administrative units that are short of staff in certain specializations, or to geographic locations with staff shortages. Other employees could be offered the option of retraining, while continuing to receive their salaries, for positions in the formal or informal sector; the government would assist in making the arrangements for the training but would not conduct the training itself.²² Once the employees are appointed to their new posts, their government service would be terminated.

Another option would be to help retrenched workers start up small-scale projects in the private sector with financing from the banking system, particularly development banks and external aid agencies, after which the workers' government service would be terminated.²³ Or government service could be terminated immediately against compensation made up entirely or partially of shares in profitable public enterprises undergoing privatization or of other income-generating assets. And the program could permit the early retirement, for financial compensation, of as many additional employees, regardless of age, as budgetary considerations will allow each year. In all cases, a limit would be set on how long an employee could remain in the central agency without electing one of the options offered. And any such program must be implemented with extreme caution and tailored to the demands of the local labor and credit markets.

Public perception plays an important role in the success of involuntary retrenchment of redundant employees. The benefits of retrenchment will dissipate quickly unless it takes place within a credible long-term framework. And its political acceptability may depend on the perception that it is being undertaken as part of a large-scale reform program. Dismissal should be based solely on objective criteria, and any subsequent recruitment should be based on real needs. In more general terms, the perception of government employment should be changed so that it is no longer seen merely as a means of income distribution, but as employment in which effective remuneration is given in exchange for essential services.

Unless governments exercise due caution, the constant increase in population and graduates may bring about a resumption of the growth in the number of civil service employees, regardless of needs, leading to increased pressure on the budget and declining performance levels in the civil service. This in turn would undermine public

confidence in administrative reform and, at the same time, weaken the government's ability to effect credible economic reform.

The role of the World Bank

The Bank began structural adjustment lending operations in 1980 to support the balance of payments of countries embarking on economic reform programs. The importance of complementary reforms in other areas soon became evident. Although the Bank had long-standing experience in financing public sector projects in developing countries, and in studying strategies for public sector reform, civil service reform was not considered part of its mandate. But in the 1980s the Bank recognized that the success of economic reform in some countries depended on fundamental reform of civil administrations and, more generally, of the systems of governance through which the state manages its resources.

In a paper on governance that I submitted to the World Bank's Executive Directors in December 1990, I proposed that the Bank's work in support of adjustment programs could include assisting borrowers in developing appropriate systems for managing their resources. But that does not mean that the Bank may interfere in political matters that have no clear relationship to economic growth. Among the areas related to governance in which the Bank could offer assistance at the request of a member state, I argued, is civil service reform. In that paper I stated that:

The Bank has long been involved in institution building and human resource development and is increasingly called upon to enhance its activities in these areas. Concern for an efficient and honest civil service represents another aspect of this involvement. It is axiomatic that the effective management of a country's economy depends not only on the policies it follows but also on the institutions which translate these policies into action. Support of civil service reform may in certain cases take the form of assisting a country in reorganizing its administrative structures or studying its decisionmaking processes. It may even go into the restructuring of its entire civil service with a view to introducing efficiency or eliminating or reducing corruption in a situation where the deterioration of civil administration has reached unusual dimensions. The direct relevance of a sound and efficient civil service to the success of state enterprises as well as private

sector development is well established. Civil service reform may thus be assisted by Bank loans both in the form of project or nonproject lending. If such assistance is deemed by the Bank to be required for the implementation of economic reform and the promotion of investment and is provided at the request of the country, it obviously cannot represent an unauthorized interference in the country's political affairs.

The World Bank has greatly expanded its activities in administrative reform in the past few years through research and through the financing of reform operations in an increasing number of countries.²⁴

Mechanisms for civil service reform financing

The World Bank provides financing for civil service reform through several mechanisms:

- The Bank finances studies and other preparatory work needed for administrative reform and reform-related training through grants under the newly established Institutional Development Fund (IDF). The IDF is financed through the allocation of part of the Bank's net income.²⁵
- The Bank finances administrative reform studies and operations through technical assistance loans under standard borrowing terms from the Bank or from the International Development Association (IDA), which grants long-term concessionary loans to low-income countries.
- The Bank provides balance of payments support to countries implementing agreed on reforms through structural adjustment loans, sectoral adjustment loans, or loans to support civil service reform. The terms of adjustment loans permit a country, once a loan agreement becomes effective, to withdraw part of the loan proceeds after presenting a certificate indicating that its imports within a given period exceed the amount of that portion of the loan. A second (and in some cases a third) tranche of the loan may be withdrawn by the borrower once it satisfies the Bank that it has completed the reform measures agreed upon and after it has presented another certificate concerning its imports. In such cases the loan is considered to finance the balance of payments (imports) and the country is free to use the amount received from the Bank for that purpose, as well as the counterpart local currency generated as a result.
- The Bank provides loans for specific projects or sectors which include an amount earmarked for financing the reform of an aspect of the civil service related to the project or sector concerned. In this case, administrative reform would be one of the project components financed by the loan.

World Bank loans do not specifically finance severance payments to retrenched government employees. The Bank's purpose is to finance investments for productive purposes, and, as a general rule, Bank financing is supposed to be used to meet the foreign exchange requirements of projects. Under the Bank's adjustment loans, however, the foreign exchange received by the borrowing government enables it to generate counterpart local funds that could be used for such purposes as financing severance packages. The Bank presumes in such cases that loan proceeds are spent on imported inputs and does not question the government about the subsequent use of loan proceeds.

Conclusions of World Bank studies

World Bank studies of civil service reform programs in a number of countries have arrived at some common conclusions about what contributes to the success of such programs (Nunberg 1990). The most important of these conclusions are as follows:

- Partial reforms to reduce the size of the civil service and its costs have not been very successful. And it is futile to increase salaries to widen the gap between the lowest and the highest salaries (salary decompression) in the absence of longer-term reforms.
- Administrative reform is essentially political, and its success hinges on the capacity and willingness of a country's political leadership to adopt the necessary measures. Experience has proven that the political concerns raised by administrative reform are often exaggerated. Reform measures, including the substantial reduction of surplus employment, have been adopted in a number of countries without great political distress, thanks to the absorptive capacity of private sector labor markets and governments' sound practice of designing the programs in consultation with employee representatives. In developing countries that have a high ratio of government employment to total employment and a high unemployment rate, however, the social costs of implementing civil service reform programs may be higher.
- Measures to reduce employment by methods less drastic than involuntary retrenchment, such as voluntary exit mechanisms and early retirement schemes, have not led to substantial reductions in the number of employees and thus may not be an effective alternative.
- It is critical that the reform process gain a high degree of credibility. Reform measures should be serious and evenhanded, not only to ensure the success of the reform but to ensure public acceptance and sustainability.
- Programs to retrain and relocate redundant employees and to finance small businesses for them may be useful in

gaining political acceptance for reform, but they have had only limited economic success. Thus, any new programs of this kind need to be planned and implemented cautiously.

- Such provisional solutions as external borrowing to top up the salaries of employees in a project or institution or earmarking foreign aid to increase staff salaries do not provide a sustainable solution to the problem of attracting and retaining qualified staff. On the contrary, they may delay the necessary long-term adjustments to policies, systems, and work programs for the civil service.
- Combining technical assistance and structural adjustment lending is useful in financing administrative reform. Technical assistance has a longer time frame, and structural adjustment loans, because they are larger and are usually linked to reforms in other areas, may have a greater impact on the readiness of governments to implement reform.
- Despite the modest results of administrative reform operations to date, it is useful for the World Bank to continue to finance them in view of the importance of an efficient civil administration to the success of development programs and socioeconomic reforms.

Conclusion

This chapter emphasized the close relationship between economic and administrative reform. And it argued that developing countries can draw on the reform experiences of both industrial and developing countries in formulating and implementing their own reform programs.

The chapter also argued that there is almost no viable alternative to comprehensive reforms, which include formulating appropriate policies, establishing capable institutions, and then tailoring programs and projects as may be required for implementation. The triad of policies, institutions, and programs should be reflected in the legal and regulatory framework of each country in the form of simple, readily applicable rules and procedures.

A government undertaking administrative reform needs first to establish an overall strategic vision of the role of the civil service, and then, based on this vision, determine the most appropriate structures and functions for ministries. The government can then implement the reforms in accordance with a comprehensive plan for radical transformation or incremental change, depending on its implementation capacity. The plan should be executed based on reliable data and under the oversight of a central committee, with participation by civil service employees.

The chapter briefly reviewed the steps that lead to successful administrative reform and the procedures that

should be pursued in a specific sequence. It indicated where within this framework the involuntary retrenchment of large numbers of employees can take place, and the safeguards needed for such an operation.

Finally, the chapter briefly described how the World Bank could assist developing countries with administrative reform, especially as the Bank gains more experience in this field—a field that it has only recently begun to see as a critical element of comprehensive and sustainable development.

Notes

This chapter is based on an earlier paper by the author written in Arabic and presented to the First Arab Ministerial Meeting on Administrative Reform and Development, held in Cairo, Egypt, on December 6–7, 1992.

1. For a discussion of the rationale for the Bank's adjustment lending programs and the elements of such programs, see World Bank 1988 and 1990.

2. The World Bank's interest in the development of the private sector led to the establishment in early 1988 of the Private Sector Development Review Group. The report of the Review Group surveyed the Bank's work in the field and proposed a conceptual framework and recommendations for expanding the Bank's work. These recommendations led to the development of the Private Sector Development Action Program. For a more detailed discussion of the Bank's efforts in this area, see Shihata 1991.

3. For a discussion of the response of private and public investment to external shocks, macroeconomic adjustment, and structural reform, see Serven and Solimano forthcoming.

4. The link between an effective government bureaucracy and a dynamic private sector has been noted in much of the literature on the growth of East Asian economies. See, for example, Sweden 1992, Porter 1990, Wade 1990, and Johnson 1982.

5. For a description of the process in the context of African countries, see Lindauer 1988.

6. In Egypt, for example, there is a large number of officials who are not ministers but who are nevertheless graded as ministers and unofficially addressed as "Minister" and an even larger number of officials graded and addressed as "Undersecretary" whose functions have nothing to do with their titles.

7. In Africa real wages have declined even after adjustment for nonfinancial fringe benefits. See Lindauer 1988.

8. Wage compression is measured as the ratio of the basic starting salaries of the highest skill categories to the basic starting salaries of the lowest skill categories. In Ghana the ratio was as low as 2.5 to 1 in 1984, before the start of the economic recovery program. See Nunberg 1990 and Lindauer 1988.

9. See Dia 1992 for a discussion of the need in certain African countries for the creation of a responsive and development-oriented civil service, particularly in the senior administrative corps.

10. In many developing countries private enterprise has been regarded for two or three decades with a great deal of suspicion. As a consequence, government employees have often created restrictions and complexities for private investors and applied restrictions with great vigor.

11. See Nunberg 1992, which relied on case studies of public administration reforms in eleven OECD and newly industrializing countries and situated these reforms along a continuum of change between two poles. Australia, New Zealand, Sweden, and the United Kingdom adopted the model of systemic, radical transformation while the Asian countries, Germany, and the United States took an incrementalist approach.

12. Reform management, particularly as it moves away from cost-cutting to long-term strategies, needs the support of the political leadership, the management level of the civil service, and, for long-term sustainability, of the rank and file of the civil service (de Merode 1991).

13. See Dia 1992 for a discussion of the three elements necessary for ownership—that the commitment of the political leadership be broad-based and active, that the technical structure be committed and instrumental in the reform process, and that the program be easily quantifiable in order to be accepted by the local population.

14. In particular, there is a need for appropriate technology; overly sophisticated systems may lead to delays in implementation because of a lack of local institutional capacity. Greatest success has been found when technology is designed by foreign or local consultants working together with the concerned personnel (see Nunberg 1990).

15. Nunberg (1992) distinguishes two models for the organization of personnel policy and management. First, the centralized system coordinates the three functions of policy, oversight, and financial control and often places them near the top of the hierarchy of the line ministry. This model shows a high degree of professional standardization and high political visibility. Second, the decentralized model allows decisionmaking autonomy for line managers within broad policy guidelines set by the center. This model depends on sophisticated systems of financial management in order to keep central control over running costs.

16. There are two principal types of recruitment systems. First, the closed, highly selective, hierarchical system, referred to as the "mandarin system," can be found in a number of industrial countries, such as France, Germany, and Japan. This system is based on the principle of training outstanding students in specialized higher institutes (L'Ecole Nationale d'Administration in France, for example), then appointing them to fill sensitive positions, such as posts in the technical bureaus of ministries. These cadres benefit from continuous training and can be seconded to work in other departments or even in private corporations or international organizations for specific periods to acquire additional skills. They are then appointed to senior and sensitive posts once it is established that they are qualified for such posts. The World Bank operates a similar system called the Young Professionals Program. The success of this system is premised on the creation of an elite cadre of civil servants whose positions afford

them high social status. Second, the more flexible lateral entry system recruits directly from the marketplace, using competitive salaries to attract highly skilled applicants. This system, used in Australia, New Zealand, and the United States, is intended to produce a better fit between the position and the employee's skills and requires greater devolution of recruitment responsibility to line management (see Nunberg 1992).

17. The Council of State (Conseil d'Etat) in Egypt uses a comparable system in which appointment is limited to the top graduates from the various Faculties of Law. Appointees are required to have two higher diplomas before they are entitled to a first promotion. The Council then assigns them on a rotating basis to the service of various departments and makes second appointment opportunities available to them. It also allows subsequent recruitment of others who have the qualifications required for technical posts. This approach may be marred in practice by the little attention paid to ongoing training and external fellowships and by the linking of promotion almost exclusively to seniority in the job.

18. The survey should be undertaken in the context of a long-term strategy to implement or upgrade a computerized monitoring system. The results of such a survey would be eroded quickly if they were not combined with such a system, given the rapid entry and exit of employees (see Nunberg 1990).

19. Many developing countries that have frozen automatic graduate recruitment have maintained their commitment to students already in training (see Nunberg 1990).

20. But the evidence in Svejnar and Terrell 1991 shows that redundancy schemes have very high rates of return because of the nonrecurrent nature of compensation payments as opposed to the recurrent nature of labor savings.

21. For a discussion of the issues involved in the design of redundancy pay programs and the optimal sequencing of the elements of these programs, see Diwan forthcoming.

22. Government retraining programs for displaced workers have shown uneven success. In general, existing training institutions are not equipped to provide training for informal sector employment, and in most cases the administrative costs have outweighed the minimal benefits gained. In Ghana, for example, there was limited demand for the retraining programs offered by the Programme of Actions to Mitigate the Social Cost of Adjustment (Nunberg 1990). The retraining schemes established in Mexico seem to have been more successful, at least in helping some groups of displaced workers find new employment (Revenga, Riboud, and Tan 1992). Revenga, Riboud, and Tan (1992) argue that the cost-effectiveness of retraining programs is linked to the length of the program and the overall state of the labor market. The success of programs is also related to strong monitoring and evaluation systems.

23. Credit schemes to enable displaced workers to start up small businesses have not been very successful in practice (Nunberg 1990). The schemes have tended to accumulate debt and to upset the domestic credit market. Compensation payments may be generally sufficient as seed capital, but there is no guarantee that they will be used for that purpose. If domestic credit markets are undeveloped, credit schemes could be re-

stricted to facilitating the access of entrepreneurial workers to credit—for example, by subsidizing banks' transaction costs. In any event, credit schemes should be conducted in accordance with sound banking practices; loans should be made only for well-thought-out projects and to individuals whose success can be expected with a reasonable degree of confidence.

24. Between 1981 and July 1991 thirty World Bank projects included civil service management components. Eight of these projects were in six Latin American countries, and nineteen projects were in fifteen African countries (Nunberg 1992).

25. The IDF is a US\$25 million grant facility created by a Board decision of June 16, 1992. During the first half of fiscal 1993, the Bankwide Screening Committee set up to screen grant requests approved twenty-nine requests for a total of US\$8.2 million. Europe and Central Asia received 32.8 percent of the grant funding, followed by Africa (17 percent), South Asia (16.8 percent), Latin America and the Caribbean (15.4 percent), East Asia and the Pacific (13.2 percent), and the Middle East and North Africa (4.9 percent). Requests for IDF grants must demonstrate that the activities to be financed by the grant cover upstream institutional development and capacity building. Approved requests have been mainly in the categories of public sector reform and economic management.

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Public Sector Retrenchment and Severance Pay: Nine Propositions

Ishac Diwan

Public sector restructuring operations sometimes cannot proceed without providing compensation to workers who stand to lose their jobs in the process. But like all public policies that require targeting, labor compensation schemes face agency costs under conditions of incomplete information about workers' characteristics. This raises two issues: How can severance schemes be devised to minimize those agency costs? And how can reform programs be devised that minimize the need for redistribution? The discussion in this chapter focuses on the first issue, but also has important bearings on the second.

For a severance package to compensate for the losses of exiting workers, its value must be set proportional to the "rent" the workers receive by holding onto their public sector jobs. Because different workers are characterized by different rents, a uniform severance offer that does not hurt the workers with high rents would allow the workers with low rents to increase their payoffs. This overpayment could be eliminated, and agency costs reduced, if severance offers could be tailored to each worker, to compensate each according to his losses. This can be only partially achieved by proper indexation because, in general, workers' types cannot be observed with precision. But a judiciously designed severance mechanism and sequence of wage adjustments and layoffs can help reduce agency costs further.

The chapter's main findings rest on three types of imperfections:

- *Information rents.* To the extent that they cannot discriminate sufficiently, severance payments will overcompensate some exiters. Exit schemes that offer workers a choice among several exit options—as opposed to compulsory schemes—are then desirable because they lead to self-selection, which reduces information rents.
- *Adverse selection.* Voluntary schemes can suffer from adverse selection problems when they lead to the exit of the most productive workers. These problems can be miti-

gated by the indexation and randomization of the severance offer. In extreme cases mandatory (and purely random) programs become optimal.

- *Free riding.* Voluntary severance packages are prone to coordination problems. The workers remaining in the restructured sectors may benefit more than society at large from the operation, in which case workers exiting under voluntary schemes would need to be compensated for giving up the extra gains. This leads to wasteful (or above-target) compensation, a problem that can be resolved by reducing the wages of the remaining workers.

The issue of compensation gives rise to interesting considerations about the sequence and timing of wage cuts and labor shedding that provide a rationale, based solely on distributional arguments, for implementing the changes gradually. The last part of the chapter discusses how gradualism can lead to improved targeting, for two reasons. First, a policy of attrition first generates voluntary exit, thus allowing better targeting of compensation. And second, a rise in unemployment requires larger compensation because firing becomes more costly when it takes place at a speed greater than that at which the labor market can absorb new entrants.

This chapter is organized around nine propositions. It begins by describing the setup of the analysis. Throughout the chapter, the emerging principles are illustrated by drawing on recent experience with severance pay contracts in industrial, developing, and reforming countries.

Setup

Let w denote the current wage and v the marginal productivity of labor in the public sector, and m the value of the alternative market wage. In evaluating w and m , it is important to consider the total value of the current compensation, including explicit benefits, such as pensions, health

insurance, housing, and the provision of otherwise rationed goods, as well as implicit benefits, such as status, ease of shirking, access to profitable business opportunities, and job security. Some of these benefits are difficult to value.

From the worker's perspective, the desirability of public sector employment depends on how compensation in the public sector, w , weighted by the perceived probability of default on job security, $1 - P$, compares with compensation in the private sector corrected for costs related to the unemployment spells associated with the unprotected labor market (except in the section on free riding, P is set to zero in this analysis). The rent, R , that is created by holding on to a public sector job is then given by:

$$(10.1) \quad R = (1 - P)(w - m)$$

The value of the severance package, S , that is needed to ensure that the income of a laid-off worker will not fall is given by:

$$(10.2) \quad SR$$

It is useful to express the net market wage, m , as a linear combination of the market wage, w_m , income received when unemployed, w_u , with $w_u < w_m$, and the weights given by the probability of being employed at any moment in time when working in the unprotected labor market. Thus:

$$(10.3) \quad m = (1 - d)w_m + dw_u$$

Under which conditions can the public sector workers' rents, R , be strictly positive? There are three types of possibilities:

- Public sector wages will exceed market wages when labor unions are more powerful in the public sector than in the private sector.
- There may be good reasons for the public sector to set efficiency wages—that is, wages that are optimally above market-clearing wages. Reasons for doing so include to provide incentives for greater effort; to provide workers in high-risk locations an implicit insurance contract; and to reduce labor turnover and encourage workers to accumulate firm-specific human capital by guaranteeing long-term employment with an increasing wage schedule over time.
- Finally, w may be more than m (but not necessarily w_m) because of unemployment that prevents exiting workers from finding a new job immediately.

The existence of positive rents for some workers does not necessarily imply that wages are too high throughout the public sector. Instead, the public sector wage schedule is often compressed after a negative shock (on the optimality of this policy, see proposition 8). In these circumstances some public sector workers (those with a negative R) may find better alternatives in the private sector and exit voluntarily before retrenchment begins.

The optimal response to negative shocks affecting productivity in the public sector generally entails both a reduction in wage schedules and layoffs. Here I examine layoffs, assuming that wages have already been adjusted. I assume for simplicity that the public sector's objective is to minimize total fiscal losses under the constraint that no single worker can be hurt. The qualitative results are more general, however. They are derived formally in a companion paper (Diwan 1993) under more general assumptions about the socially acceptable level of expropriation and the objective of the public sector.

The loss involved in keeping a worker employed in the public sector is denoted by $L = w - v$. An interesting case for our purposes arises when $L > 0$ —that is, when the marginal productivity of labor is less than the public sector wage ($v < w$). In such circumstances layoffs with compensation may be desirable if they are not too costly—that is, as long as $S < L$.

Optimal level of exit in mandatory programs

Proposition 1. With perfect targeting and no unemployment, the golden rule is to dismiss all workers who would be more productive in the private sector. Under imperfect targeting, the optimal level of exit is lower; it decreases with the size of the overpayment ($R - S$) and the extent of unemployment.

Perfect targeting

In the extreme case of perfect information S can be set equal to R . In this case $L < S$ as long as $v < m$. This implies that firing is profitable until the marginal productivity of labor in the public sector and that in the private sector are equalized, by laying off workers who are more productive in the private sector and retaining those who are more productive in the public sector. In the extreme case of perfect targeting the decision on whether to lay off workers is unaffected by the value of the current wage, w , because w is paid out anyway, whether directly, through wages, or indirectly, through severance pay S . The most attractive layoffs arise in the activities that employ workers who would be more efficient in alternative employment, and not necessarily in the activities that experience the largest losses.

Imperfect targeting

Generally, different workers will have different rents, R , because they have different characteristics. With hetero-

geneous workers, a uniform compensation package S will be fiscally costly because it must be set at a level that compensates the workers with the largest rents. Such a package will overcompensate most laid-off workers. Even with more sophisticated targeting methods, complete discrimination is unlikely to be feasible, and $S > R$ will hold for some workers. Reforms are then constrained by fiscal considerations: the fiscal costs of offering compensation to all workers who are more productive in the private sector would be too high. The higher the overpayment, $S - R$, the more restraint in firing pays. This may well explain why most reorganization programs attempt to relocate redundant workers to other occupations before considering severance pay, even if this requires the provision of relocation expenses and retraining.

With imperfect targeting, the existence of unemployment at the outset of reform decreases the desirability of retrenchment. In the presence of high unemployment m is lower because it takes a longer search period, d , for laid-off workers to find a new job. The public sector would have to compensate exiting workers for the high search costs so that they are not hurt.

The desirable size of severance pay generally will differ from the compensation mandated under existing labor contracts. Indeed, most severance packages offered in large reorganizations have been larger than the legally mandated compensation pay (see, for example, Galenson 1989 and Svejnar and Terrell 1991). The mandated, or *ex ante*, severance pay schemes sometimes attached to labor contracts are usually advocated to reduce labor turnover and to create incentives for the accumulation of firm-specific human capital (see, for example, Lazear 1990).

Indexation

Proposition 2. In the presence of heterogeneous workers the indexation of S to the differences among workers allows the compensation of each worker according to his losses. This reduces the fiscal cost of firing, and thus more firing becomes desirable. Particularly useful is to index S to the public sector wage, job security, expected time needed to find a new job and size of the new wage, gender of the exiting worker, and years of past service.

Different workers are characterized by different rents, R , because they have different characteristics $i = (\omega, d, P, \omega_m, \omega_u)$. When time is factored in, two additional variables matter: the worker's remaining years until manda-

tory retirement (or "years of denied service," denoted by n) and the worker's discount factor (denoted by r).

To reduce fiscal costs without hurting any exiting worker, S needs to be indexed to the differences among workers so that each can be compensated according to his losses. This can easily be achieved for differences in ω and in n . Severance packages almost always control for ω by expressing severance pay as a multiple of current monthly wages. To control for n , however, S will have to be forward-looking and proportional to the present value of the rents that would accrue to the worker if he remained in the firm for n periods.¹

Many severance packages offer compensation based on years of service (or on both years of service and years of denied service, as in the Bulumulla package).² There are several possible explanations for this. First, legally mandated compensation in labor contracts may be the constraining factor. Second, more senior workers may be more senior claim-holders in the firm, either because of explicit last-in, first-out rules in employment contracts, or because of insider-outsider union behavior (when this is the case, $1 - P$ in equation 1 would be increasing with seniority, implying that R also increases with seniority). Third, years of service may be used as a proxy for age, but severance packages often control for both age and years of service.

Other sources of heterogeneity are not as easy to deal with. For differences in d and in m , indexation is possible because these variables can be observed in real time (only when unemployment compensation schemes do not exist do severance contracts need to compensate exiting workers for the job search period). Perfect indexation to these variables would lead to suboptimal search and work effort, however. Unemployment compensation programs reduce the incentives for displaced workers to find a new job quickly. These incentive effects can be mitigated when unemployment compensation decreases over time (for a survey of optimal unemployment assistance programs in developing countries, see Hamermesh 1992). Severance payments can also be linked directly to the wage differential ($\omega - m$) once a new job has been found. But this would create incentives to find a low-pay, low-effort job. An optimal solution, then, is to index only part of the severance pay to this differential, with the remainder fixed, or dependent on other variables.³

Further targeting gains can be made by indexing S to observable "tags" that are correlated with workers' unobservable characteristics i . Four potential tags are occupation, location, age, and gender. The effects of the first two tags are conceptually obvious, but the relations between the cost of exit and age and gender can be more complex. Older workers usually receive more compensa-

tion, perhaps because they are likely to suffer the pain of reform without reaping much benefit (that is, if w_m is expected to increase over time, older workers will tend to be characterized by a lower m). Older workers also tend to have larger discount factors, r , and may be more averse to risk. Finally, severance schemes may simply aim at prompting a disproportionate number of older workers to exit (as in early retirement programs), either because these workers are unlikely to join the ranks of the unemployed or because they generate larger losses during adjustment, perhaps because they are perceived to be less flexible.

Indexing severance payments to gender could also be useful in some circumstances, but this strategy does not seem to have been used. The net effect of gender on rents is unclear. To the extent that the private sector discriminates against women more than the public sector does, it will be necessary to compensate them more than men in public sector divestitures. But liquidity-constrained young women may find that the severance payment is sufficient to start a family, which may be why they first entered the labor market. (This is reported to have happened during the recent IBM retrenchment in the United States; see Peach 1992).

In sum, while indexation can help in distinguishing among workers with different rents, it is unlikely to distinguish among them completely. As a result, compensation schemes will be more costly than strictly necessary: to avoid unduly hurting workers with high rents means improving the payoff for workers with low rents. These information rents stem from the inability of the public sector to discriminate given publicly available information; such information rents are likely to arise during major economic reforms, when heterogeneity can be significant. In the presence of positive information rents, welfare gains can be generated if additional information allowing the public sector to discriminate more finely is made available.

Voluntary exit programs

Proposition 3. Voluntary programs can end up being cheaper, because of their self-selection properties.

Self-selection mechanisms can help reduce the costs of retrenchment under conditions of imperfect information about individual workers' rents. Define a voluntary exit scheme with value S as the severance pay offered to volunteer exiters. The intuition for the desirability of voluntary schemes relies on self-selection. Faced with an offer of value S , workers with sufficiently small information rents, R , will choose it and those with a large R will

not (R refers to information rents and S is netted out of "indexable" characteristics). This allows a better match between R and S , and S can be lower than in compulsory programs, yet achieve as many layoffs.

With heterogeneous workers, a voluntary severance offer with a value of S would generally elicit only partial exit. A worker would be willing to give up his current wage and face the threat of unemployment when S is larger than his own rents R . The number of workers who will elect to exit in response to a uniform offer depends on the distribution of R among the work force. To see this, rank all workers by ascending R . Workers who choose to exit given a uniform severance pay S are those with $R < S$. The last worker to leave voluntarily will be characterized by $S = R$, and his wealth will not increase beyond its initial level. Workers on both sides of the distributions—exiting and remaining workers—will be left with some information rent ($S - R$), and the workers with larger R will choose to remain. The higher the value of S , the more volunteers will come forward. All workers will volunteer when S is set equal to the R of the worker with the highest rents. Volunteers would tend to have small n and d , and large r , P , w_m , and w_u .

Voluntariness is not synonymous with a lack of expropriation. Rather, the advantage of offering workers a free choice from a restricted set of options (in the analysis above, exiting with S , or remaining in the public sector at the new wages) derives from the information generated by such a scheme. Thus, rather than a guarantee of no expropriation, voluntariness should be seen as a means to spread the burden of reform as fairly as possible in the sectors being restructured (or in the least politically costly way). The extent of expropriation is determined elsewhere, during the negotiation leading to the setting of the post-shock wage and compensation schedules (it is also possible to index the extent of expropriation according to observable characteristics).

Many recent severance schemes in both industrial and developing countries have been voluntary. In some countries, such as Sri Lanka, state policy requires that severance programs be voluntary. In other countries programs vary depending on the sector. In a study of public sector retrenchment in the transport sector, Svejnar and Terrell (1992) report that five of the six countries reviewed had implemented voluntary schemes (Brazil, Chile, Ghana, Sri Lanka, and Yugoslavia, but not Mauritius). And two of those five countries (Chile and Ghana), in addition to the voluntary programs to reduce redundancy in the railways, used mandatory programs in the ports. In Europe most restructuring programs have used voluntary severance schemes offering severance pay that exceeded the mandatory compensation plans.⁴ In

the United States large corporations usually lay off workers under voluntary programs, presumably to avoid legal problems related to discrimination.⁵

A menu of options

Proposition 4. A menu of options can help achieve finer discrimination. Useful options are exiting, remaining at a lower wage, exiting with a subsidy to the new employer, receiving cash or an annuity, and exiting with a retraining option.

Information rents are likely to remain with the offer of two options—exiting with compensation S or remaining employed at w —which would only halve the distribution of rents. As the number of options offered increases, however, the public sector can achieve a finer discrimination and, thus, a closer relation between S and R . But such gains exist only when (1) the selection of a menu item by a worker generates additional information about its rents R , and (2) the options offered cannot be traded in a well-functioning market because the one with the greatest market value would simply dominate the others.

With imperfect compensation, not all the workers who would be more productive in the private sector should be offered voluntary exit in exchange for a compensation package. But these workers' shift to the private sector would clearly be Pareto-improving if it could be achieved at sufficiently low costs, without affecting the voluntary exit program, and while respecting the P.C. Often, the offer of a subsidy to would-be-employers can achieve these three aims simultaneously.⁶ But to avoid creating moral hazard and preventing workers with higher R from exiting voluntarily with compensation, a subsidy scheme must ensure that the subsidized worker would not be able to command more than $(m + w - v)$ in the marketplace. An excellent example of a menu with a subsidy-to-employers option is provided by the "mandatory" Spanish government-backed severance program of 1985–88 (Lopez-Claros 1988). The program offered a restricted menu of three items:

- Early retirement (chosen by 25 percent)
- A cash severance payment plus unemployment compensation for eighteen months (chosen by 40 percent)
- A guaranteed $0.8w$ with free retraining, and subsidies for firms that hire the worker permanently (chosen by 35 percent).

A second potentially useful exit option is allowing workers to decide whether to be paid in a lump sum or in annuities.⁷ The procedure is meaningful under two

conditions. The first is that the capital market is not efficient, because if it is, the option with the larger present value will dominate the other. The second is that workers with smaller rents are known to value one of the options more. This may be the case for the workers with greater entrepreneurial skills because they are likely both to have smaller rents and to value liquidity more than workers without an entrepreneurial bent (perhaps because positive net worth is a precondition for access to an inefficient capital market). Entrepreneurs with these characteristics would prefer a cash severance payment with a small present value to an annuity option with a greater present value (taking default risk into consideration).⁸ But cash offers may also be preferred by workers who are liquidity-constrained for other reasons, such as poverty. When investment leads to aggregate externalities, it is useful to guard against overuse of severance pay, restricting the cash option to workers with valuable projects and disbursing cash conditional on an actual investment.⁹

A third potentially valuable option is the exit-with-retraining option (in contrast to retraining for relocation within the public sector). But this option is valuable only when the training market is not competitive. Laid-off workers often lose their accumulated human capital. Those who seek retraining to increase their productivity in the new environment tend to end up with smaller rents R (because training increases their market wage m). By offering two options— S_H and S_L and training, with $S_H > S_L$ —the public sector in effect commits itself to training only those exiters who accept a package with a small severance payment. In doing so, the public sector is able to "tag" the workers with good learning abilities (and, thus, smaller rents).¹⁰

Interpreted in this way, the exit-with-retraining option is likely to be controversial. It can be argued that if the state has a monopoly on training services, it should exercise this monopoly independent of retrenchment. Or it can be argued that the state should not behave as a monopolist because the social benefits of increased human capital are likely to be higher than the social costs, creating a reason for public subsidies instead.

Other options whose inclusion in a severance package creates value are not easy to find. As a matter of policy, offering various benefits such as health insurance, life insurance, and outplacement services should not be encouraged unless it generates useful information that can lead to finer discrimination. The private sector can provide many of these services more efficiently and, although the public sector may provide others more efficiently, they need not be bundled with the severance package.

Retrenchment restraint in voluntary programs

Proposition 5. Restricting the quantity of exits through voluntary severance leads to fiscal gains because compelling a marginal worker to exit requires an increase in S , which affects the severance cost for all previously laid-off workers.

What are the determinants of the optimal size of S in the context of a voluntary layoff? Under perfect information, fiscal losses are minimized when setting $m = v$. But in voluntary programs an increase in S leads to additional exits and to an increase in the total cost of severance. As a result, the optimal strategy entails rationing exits, as in a typical monopoly case, to take into consideration the effect of the layoff of marginal workers on the total compensation costs. Some remaining workers will still generate losses, but laying them off through voluntary means would lead to higher losses because all the previously laid-off workers would need further compensation.

This strategy of “exploiting the slope of the demand curve” may not be consistent in some circumstances. In such cases rationing exits is profitable only if the public sector can commit to such a policy for the future. This may not be credible because after a limited retrenchment operation is over, the public sector would benefit from offering a second program to lay off the remaining redundant workers. The second operation would have to occur at a higher severance value S_2 , because the remaining workers are characterized by $R > S_1$. But if a second operation is expected to take place at S_2 , S_2 would also have to be offered in the first round. Otherwise, workers with low R would prefer to wait and exit at S_2 , rather than at S_1 , thereby increasing their information rent. Although a simple promise not to undertake a second retrenchment program may not be credible, the limited availability of external assistance for severance pay and the fixed costs associated with such operations will impose some restraint.

Adverse selection

Proposition 6. Voluntariness becomes more costly when adverse selection becomes a problem. In the extreme case, mandatory programs are preferable.

A potentially important disadvantage of voluntary exit programs is adverse selection, in which the public sector

loses its best workers. This problem can be resolved in part by proper indexation of the severance package (or the use of vetos) so that it is less attractive (or not offered at all) to the more desirable workers. Adverse selection becomes a less tractable problem in the presence of imperfect observability of a worker's public sector productivity, v . The gravity of the problem depends on the relationship between productivity in the public sector and that in the private sector, and on the resemblance—or lack of resemblance—between the private and public sector wage schedules. To examine this, allow both w and v to vary according to type of worker and assume that those variables are observed by the worker but not by the public sector. The adverse selection problem arises when the first workers to exit—those with the smallest rents R —are also those who generate the smallest losses in the public sector.

Unwanted “brain drain” will occur when the overpayment offered by the public sector is larger relative to the private sector wage for low-skill workers than for high-skill ones and productivity in the public and private sectors are positively correlated. A simple example illustrates the problem. Assume that the wage schedule in the public sector, w , is simply flat, but that wages are perfectly correlated with productivity in the private sector—that is, that $v(i) = m(i)$ for all i . In this extreme case those who would be the first to choose the severance package would be the most productive workers. The gains from the exit of the first workers will thus tend to be small or even negative, reducing the profitability of the operation. These are restrictive circumstances, but they are not implausible. The private sector is generally more likely to index compensation to skills, and the public sector is more likely to base pay on seniority.

The adverse selection problem would be small, however, when productivity in the public sector and that in the private sector are not correlated, either because of differences in the skill mixes required or because of taste differences (public-service-minded people versus profit-oriented people), which imply different disutility for effort. The labor reallocation under these conditions might even represent a net social gain if “energetic” individuals are relatively more productive in the private than in the public sector. In the extreme case self-selection would benefit the public sector—when private sector wages are constant across types while public sector wages increase across types. Wages are unlikely to behave this way over the entire range of types, but may over some subsets of types.

When adverse selection is perceived to be an important problem, limited corrective action may be profitable. Vetoing the exit of workers deemed valuable is

useful, but such a strategy is helpful only to the extent that the characteristics used to identify such workers are observable. Similarly, while wage decompression will help lessen the problem and is generally desirable before making voluntary severance offers, it is useful in addressing adverse selection only when it leads to changes in wage schedules that increase the link between performance and pay.

The only mechanism that seems to stand up when productivity is not precisely observable—and thus when adverse selection is an intrinsic problem—is randomization. Gains over a standard severance offer can generally be achieved by designing a severance package with a high value so as to elicit a response from a large number of workers, and then rationing the severance package through a lottery. By contrast, a non-random strategy will usually be suboptimal because it will lead to too many or too few exits. If S is set too high, too many workers will want to exit, requiring new hires in the future (because of the concavity of the production function). And firing and then rehiring is costly because of the overpayment to exiters. But if S is set too low, only the wrong type of workers will volunteer. Setting S low enough so that not all workers are interested in participating in the lottery amounts to partial randomization, which is desirable if it leads to the exit of a sufficient number of workers with large L 's. The extreme case is one in which S must be very high to generate a positive response by such workers. Complete randomization then becomes desirable, and the exit scheme loses all its voluntariness.

Free riding

Proposition 7. It may be desirable to reduce the wage of those who remain employed if retrenchment improves the value of their jobs.

Voluntary exit schemes may also suffer from a “free-rider” problem when the remaining workers are able to internalize part of the gains generated by the retrenchment operation. For example, public sector firms may go bankrupt when they generate large fiscal losses in the absence of corrective actions, and become unable to meet their employment obligation in the future. To the extent that reorganization increases the probability of survival ($1 - P$), the expected payoff of the non-exiting workers would increase. In such circumstances workers will take into account the higher probability of survival ($1 - P'$) and would not leave unless a high severance $S' = (1 - P')(w - m) > S = (1 - P)(w - m)$ is offered.¹¹ And unions can

negotiate larger wages after labor redundancy is reduced and the fiscal situation brought under control, leading to a similar problem. Pure voluntariness under these conditions may hurt all workers because the desirability of efficiency-improving policies is eroded. The reasons for this inefficiency lie in the lack of coordination introduced by complete voluntariness.¹²

Is there a way to reduce the scope of this problem? Clearly, offering less than S' will not do. No worker will exit if retrenchment is expected to be succeed, while all would if it is expected to fail. So there is no equilibrium in this case. The way to reduce the overpayment due to free riding is to tax those workers who remain, with the tax set equal to the gain arising from the enhanced probability of the firm's survival. To implement this tax it is sufficient to reduce the wages of the remaining workers (holding everything else constant). That wages may need to be reduced should not be surprising, at least for occupational categories with redundant labor. But the important point is that the gains to the remaining workers should be taken into consideration during the negotiations on the overall wage adjustment required during restructuring.

Workers who have been promised a public sector job in the future illustrate an extreme example of the free-rider problem. In some countries all graduates are guaranteed a government job. But if their numbers exceed the job openings, they must queue on a waiting list. It seems reasonable to expect that the further down a person is on the list, the lower the severance pay he or she is willing to accept to forgo the employment opportunity. In the notation defined above, it is sufficient to replace w by $E(w)$, the expected lifetime wage of the graduate in line. The longer the expected waiting period, the smaller the expected lifetime wage is. But because the expected waiting period becomes shorter as employed workers retire, the “value” of remaining on the list rises and with it the welfare of those in line.

Increasing the welfare of those in line may be a desirable social goal. But excessive gains for certain segments of the population may be socially undesirable because they reduce what is left for distribution to the rest of the economy. In this context the worst case of free riding occurs when workers further up on the list are retired through a voluntary scheme, which increases the value of remaining in line. To eliminate the list on a purely voluntary basis, the severance package must be the same for both redundant workers and workers in line. But this would lead to enormous fiscal costs. To reduce the costs it may be useful to offer less valuable exit options to those in line than to those already employed (that is, to index S to seniority).

Gradualism or big bang

Proposition 8. If downsizing the work force is required, it may be desirable to go through a process of attrition before offering a severance contract.

Often, the initial response to downsizing the work force takes the form of wage compression because of wage rigidities associated with the need to cut the fiscal deficit. In the analysis above, it was assumed that the wage adjustment precedes layoffs. I now argue that this sequence of events is desirable, and that it is usually beneficial to allow time to pass before beginning layoffs. The reason is that as wages are reduced (at least in some occupations), the workers with rents small enough would exit voluntarily if no severance pay is offered. But they would not do so if they had a chance to exit with severance pay. When many such voluntary quits are expected (because wage reduction needs to be deep, or many workers have small rents), the optimal solution may be to abstain from offering severance pay until sufficient voluntary exits have been achieved, even though this attrition phase imposes inefficiency costs of its own.

How long should attrition last? Consider more carefully a strategy that begins with attrition and then offers a severance package several years later. Workers with the smallest rents have an incentive to move to the private sector even when they expect a severance package in the future because they will benefit more from the higher wages in the private sector. Thus, the waiting period needed to generate voluntary exit must be long enough to make exit preferable to waiting for the severance pay for a sufficiently large group of workers, but not so long as to lead to undue fiscal losses from the temporary employment of redundant workers. The return to some layoff restraint is likely because the workers who exit voluntarily under such a sequence of policies are also those who would retain the largest information rents if a severance package was offered immediately.

The discontinuity introduced by layoff restraint in the initial adjustment phase has implications for the desirable first- and second-phase policies. It can explain the emergence of wage structure inefficiencies in the period immediately after a negative shock (for a review of the evidence, see Horton, Kanbur, and Mazumdar 1991, and Stevenson 1992). For example, initial wage compression makes sense under a strategy of layoff restraint, but wage reduction is limited at the lower end of the wage schedule by a minimum-wage constraint. Similarly, a reduction in average hours worked per worker can be seen as a means of temporarily preserving job security while cutting costs.

An implication of this is that, with initial wage compression, wage adjustments become desirable at the time of retrenchment. The wages of some types of workers, usually the more highly skilled, may need to be increased to reduce turnover. In addition, if the initial adjustment is characterized by a decline in hours spent on the job, it may be optimal to increase the time spent on the job and to increase total wages while simultaneously reducing hourly wages.

Finally, by the time severance pay is offered, the public sector would be characterized by extreme overstaffing. So exit programs, when they take place, will tend to be large.

Proposition 9. When the labor market is characterized by congestion effects, slowing retrenchment reduces compensation costs.

Any meaningful analysis of the effect of retrenchment operations on unemployment has to both extend the analysis to a dynamic general equilibrium framework and take into account the way in which the labor market functions.¹³ An interesting hypothesis that has recently received attention is the notion that increased unemployment causes congestion effects (or a duration dependence), implying that the probability of leaving the ranks of the unemployed at any moment in time decreases as the unemployment rate rises (for a recent review of this literature, see Meyer 1990). In this view the layoff of a marginal worker generates negative externalities for those already unemployed by complicating their job search. In my notation the congestion hypothesis means that the expected unemployment spell during transition is given by an increasing (and convex) function $d(U)$, where U is the number of unemployed. The net wage $m(U)$ is then decreasing in U .

Such a characterization of the labor market lends itself nicely to the definition of a transitory unemployment equilibrium during reform. It is easier to examine the case with perfect compensation. We know that in this case, the public sector should offer severance $S = (w - m)U$ and allow exit until the marginal productivity of labor is given by $v = m(U)$. The public sector's layoff decision, E , is then indirectly affected by U because m itself is decreasing in U . From an aggregate perspective, the number of unemployed will be an increasing (concave under our assumptions) function of the number of exiters, E (that is, $U(E)$ is well defined with $U_E > 0$). So, the extent of firing is determined by U , and U is determined by the extent of firing. To put it differently, when firing is fast, it takes laid-off workers longer to find a new job, and the compensation needed increases. As a result, there is a tradeoff between the speed and the cost of retrenchment,

and the public sector should retain redundant workers longer if they must be compensated for long search periods. This is particularly true when job switching is an inefficient process, when market wages w_m are low (both conditions arise when the supply response lags), and when the compensation system in the public sector is inefficient and leads to large information rents.

In this framework the process of job switching will be endogenously spread over time. After the initial burst of firing that raises unemployment to U^* , the economy will fire at the speed at which the labor market absorbs new entrants (which is itself dependent on U^*). The size of the initial burst of firing depends on both U^* and unemployment at the outset of reform, U_0 . When U_0 is initially much lower than U^* (as in Eastern Europe), a big bang takes place initially. But when unemployment is high at the outset (as in the Middle East and North Africa), the initial burst of firing will be small, or it will be delayed until unemployment falls sufficiently.

Another set of concerns relates to whether the unemployment equilibrium that results is socially optimal. Although it is true that it takes longer to find a job when U^* is higher, in the aggregate, job switching is faster when layoffs proceed quickly. Thus, arguments that emphasize the social costs of unemployment should be carefully considered. But layoffs clearly reduce the welfare of those initially unemployed by increasing the congestion effect, especially when the initial level of unemployment is low relative to U^* —that is, in the midst of a big bang.

What are the policy implications? First, and because layoffs hurt the unemployed, the use of early retirement programs (which minimize the effect of retrenchment on the labor market) and of severance programs conditional on new investments (to create new jobs) may be desirable. Second, it is important to protect the unemployed during transition, possibly by providing them with generous unemployment compensation.¹⁴ If unemployment compensation schemes cannot be developed for lack of fiscal resources or because of institutional weaknesses, real reforms will have to proceed at a slower pace.

Conclusion

This chapter has covered a great deal of ground. Thus, rather than summarizing the arguments that it has developed, it is more useful here to pull the various pieces together to form a complete picture.

The chapter showed that the actions associated with restructuring and retrenchment operations should follow a certain sequence. Inevitable wage cuts and attrition should come first to ensure that workers who have better

alternatives outside the public sector (at the new wages) exit voluntarily. If necessary, the wage structure should be allowed to become “compressed,” even when this leads to temporary inefficiencies. After a period long enough to achieve sufficient attrition, the second phase can start—simultaneous adjustment of the wage schedule and layoff of redundant workers. Wage adjustments should aim at increasing the compensation of scarce types of staff toward its “efficient” level (some hiring may also be needed in staff categories that have been decimated).

At the same time a menu of severance benefit options from which workers can voluntarily choose should be offered (but workers should be retrained and redeployed, to the extent that it is cost-effective, rather than laid off). When the efficiency gains generated by retrenchment are partially captured by the workers who remain employed in the public sector (as occurs with waiting lines), it is also desirable to continue to reduce the public sector wage schedule. The menu options should include voluntary retirement, cash offers, annuities, retraining programs, and guaranteed wages backed by subsidies to new employers. The level of compensation for each option should be based on years of service, last wage paid, and years of denied service (it may also be useful to reserve a role for age, gender, and the new wage). The formulas for the options should be computed so as to make it desirable for workers to exit even when they can expect a lengthy search before funding a new job, but not generous enough to improve appreciably the current welfare of those who choose to exit.

It is also useful to make it less desirable for workers in some occupations to exit, and to retain a veto power over workers' choices. In some circumstances randomization of the severance program is desirable, and in extreme cases of moral hazard—such as those that arise when there are long waiting lists for public sector jobs—voluntariness would have to be restricted to workers with a certain level of seniority. The programs should remain open for several years to generate a sufficient number of exits.

Notes

1. The Bulumulla package is a good example. This uniform package offered recently in Sri Lanka to all public sector employees is based partially on Y (but also on seniority) according to the formula $S = (w \text{ end month}) \times (55 - \text{age}) \times (\text{age}/55) \times (\text{years of service}/30)$. See Fiszbein 1992.

2. For example, the severance program mandated by legislation in the United Kingdom calls for a payment of half a week per year of service for workers age eighteen to twenty-one, one week per year of service for workers age twenty-two to forty-one and one and a half weeks per year of service for workers age forty-two to sixty-four.

3. This type of scheme is offered in Czechoslovakia, where $w - m$ is paid out for three months after layoff, $0.8(w - m)$ for the next three months, and $0.5(w - m)$ for another three months, after which compensation is ended (Jackman, Layard, and Scott 1992). Another example is the voluntary program offered by the British Steel Corporation in 1979 in which the compensation mandated by legislation was increased by 50 percent to bring the total to a maximum of $0.9(w - m)$ for 52 to 130 weeks (depending on age at termination and other factors). See Kassalov 1985.

4. For example, Galenson (1989) reports that a 1984 survey of 2,000 British establishments found that 824 had reduced their work force the year before, 578 had used natural attrition, 311 had redeployed their workers, and 289 had used early retirement, 162 voluntary schemes, and 206 compulsory programs (of which 102 fired those most recently hired). Large firms with strong unions used voluntary programs, and small firms with weak unions used compulsory programs. See also Booth 1987.

5. See Lawrence 1988 on downsizing experiences in the United States during 1986–87, and the annual survey of the American Management Association.

6. If the subsidy is large enough to guarantee a wage of w , the PC holds. For the private sector to pay such a wage, it must receive a subsidy at least equal to $w - m$. In turn, the maximum subsidy that the public sector can provide while still improving its welfare is given by the loss $(w - v)$ generated by those workers if they remain in the public sector. Thus, the operation is desirable when $m > v$ —that is, when those workers are more productive in the private sector.

7. A severance scheme offering these two options is the Jamaican Railways restructuring in which the present value of the annuity was greater than the cash payment (Galenson 1989).

8. More generally, the payment of annuities has the added advantage of controlling for the risk of early death, which is valuable in the absence of a well-functioning insurance market. Annuities also allow better monitoring of whether a laid-off worker is hired again.

9. The Guinea voluntary departure scheme restricted the cash offer to those who had a project acceptable to a commercial bank (Galenson 1989).

10. This interpretation of the retraining option is consistent with a program offered in 1979 by the British Steel Corporation in the United Kingdom. In effect, this severance plan offered a choice between a package with retraining and a package without retraining on the following terms: $0.9(w - m)$ for 104 or 130 weeks (depending on age at termination), but for only 52 weeks for those who take the retraining option (Kassalov 1985).

11. That workers are rational enough to entertain such considerations is attested to by the voluntary program in Ghana, which is based on last wage received. It has been noted that there has been a rush of volunteers after each pay raise. See Alderman, Canagarajah, and Younger 1992.

12. The inability to internalize gains in the presence of asset markets is a well-known phenomenon. Two applications with important policy implications are the curse of the raider during a takeover (Grossman and Hart 1975) and the buyback boondoggle in the context of market-based external debt reduction (Bulow and Rogoff 1989).

13. A recent paper by Aghion and Blanchard (1993) does this by providing a model of transition based on efficiency wage considerations.

14. But if the unemployment compensation is provided to all the unemployed, old and new, S^* falls and U^* rises unless the contribution of each firm to the compensation fund is proportional to the number of workers it lays off.

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Adjusting Staffing Levels and Upgrading Compensation



Downsizing the State: The Argentina Experience

Pablo Antonio Fontdevila

By 1989 Argentina's public sector presented all the symptoms of an oversized and bureaucratic organization, unable to generate policies and undermined by a chronic deficit. In addition, certain economic policies and legislation had created in the public sector an environment where corruption—and even looting—took place.

The public service enterprises that had emerged during the 1950s were obsolescent, with deficits in some cases of millions of dollars a day. And as public services grew more inefficient, the personnel rolls continued to swell and the economy continued to deteriorate.

During the 1960s and 1970s the state became a vehicle for solving the deepening social crisis, with public employment used as a means of putting the unemployed back to work. By 1980 employment in Argentina's public sector had escalated to 780,000 agents, and would increase to about 900,000 in the next nine years. In addition the number of public sector personnel in the provincial and municipal states grew, increasing to some 750,000 agents in 1983, and to more than 1 million in 1989. Thus, between 1983 and 1989 public employment countrywide grew by about 400,000 employees.

At the same time fiscal income dropped in Argentina and there was a growing deficit in public sector finances. Salaries suffered a similar deterioration, dropping to only 3.1 percent of the gross domestic product (GDP) in 1989, from 5.8 percent of GDP in 1973.

Accelerated changes occurred in the hierarchy of the salary structure, which was compressed dramatically from a ratio of ten to one between the highest and lowest salary classifications in 1960–70, to a ratio of four to one by the end of the 1980s.

By 1989 a drastic restructuring of personnel and pay policies in Argentina's public sector was unavoidable. The Laws for Administrative Reform (No. 23.696) and Economic Emergency (No. 23.697) provided the necessary legislation framework to confront the state reform.

To effect the much-needed downsizing of personnel, adequate and accurate employment information was essential. This would provide the basis for creating a personnel system based on the best utilization of agents' skills, education, and training; developing incentive systems, both in terms of pay and promotion; and exploring possibilities for utilizing efficiency compensations. It was also important to be able to identify personnel capable of executing reforms in the public administration, and of managing the public service once the main reform measures were taken.

In the late 1980s two measures were taken to reduce personnel levels. First, in 1987 a program of voluntary retirement was initiated. Nearly 10,000 public administration agents retired under this program. The reduction could have been greater, but retirement was refused to more than 6,000 agents for "service reasons." (Though it can be easy to do without administrative personnel, the loss of specialized personnel jeopardizes the quality of services.)

The second measure was the adoption of a vacancy freeze. This measure had a strong impact, particularly in public enterprises, whose work force has not grown since the measure was taken.

But these measures were insufficient because they left virtually unchanged a landscape marked by financial crisis.

The reform program

The state reform plan initiated by President Menem included as its main objectives:

- Privatization of all state enterprises
- Decentralization of health and education services to the provinces
- Rationalization of personnel and pay structures in the central administration

- Elimination of superfluous state organizations
- Establishment of a policy for the overall strengthening of management capability, to facilitate development of a smaller but more efficient and ethical public sector.

The Menem government supported a macroeconomic strategy designed to eradicate hyperinflation and to strengthen public sector participation in the economy.

Public enterprises

In 1989, personnel in the state public enterprise sector numbered 330,000. Downsizing in this sector was to be achieved by transferring the enterprises to the private sector. It was anticipated that the same number (330,000) of personnel would leave the public sector and be incorporated over a three-year period into future concessionary enterprises.

The most outstanding examples of downsizing were in the state steel mill SOMISA, where around 4,000 jobs were eliminated (50 percent of the total); in Yacimientos Petroliferos Fiscales, where personnel was reduced from 35,000 to 11,000 agents; and in Fabricaciones Militares and Ferrocarriles Argentinos, where the downsizing is still in progress. The transfer of personnel to private or concessionary enterprises proved to be a nontraumatic procedure that, in general, guaranteed employment (in many cases under better labor conditions) to former public sector workers.

However, over-employment in some public enterprises meant that they were not feasible candidates for privatization. Thus, voluntary retirement programs and dismissals were effected in companies with excessive personnel. Compensation was agreed, based on current law in Argentina, at a ratio of a month's salary per year of seniority, plus one or two months for advanced notice. Aside from this general guideline, incentives were offered that increased the indemnification by 20 to 50 percent in order to encourage voluntary participation. The personnel reduction process was financed through the support of international financial assistance programs as well as through state resources.

In summary between 1989 and 1992 about 180,000 workers left public enterprises. It is estimated that by the end of the privatization process another 150,000 workers will be transferred to the private sector.

Decentralization of health and education services

The second key strategy for reducing the number of public workers in state administration was the relocation of health and education services to the provinces. This relocation included transfer of infrastructure and resources,

as well as education and medical assistance personnel, to the provincial jurisdictions.

One of the major obstacles to establishing goals for downsizing in these sectors was the lack of reliable statistics. For decades the primary indicators of personnel levels were line-item figures that did not permit differentiation between occupied and vacant positions. Nor did they permit reliable estimates of the number of agents employed, because the calculations were done based on average remuneration. This information should improve with the installation of reliable systems for collecting data in the provinces.

This caveat notwithstanding, it is estimated that 170,000 agents were transferred and consequently dismissed from the state public service. But it should be acknowledged that such relocation does not eliminate teachers, doctors, paramedical staff, and administrative personnel in schools and hospitals from the overall rolls of public agents; they simply fall under provincial jurisdiction.

Due to the lack of serious attention to personnel needs, the provincial jurisdictions have yet to determine the level of adjustment to be applied in the field of education and to develop a strategy for strengthening and improving the quality of teaching.

Cutbacks in the central administration

A third strategy for public sector downsizing involved rationalization of personnel and pay structures in the central administration, which includes all the executive ministries as well as certain specialized or technical entities.

The program identified the following successive steps (established by Decrees 435/90, 479/90, 1482/90, 1575/91, and 2476/91):

- Vacancy freeze
- New regime of identifying redundancies
- Elimination of organizations
- Cutbacks on political posts
- Limits on temporary positions and service appointments
- Early retirement
- Voluntary retirement
- Redesign of administrative structures
- Reduction of work force
- New salary scales and administrative career path.

Dissolution of organizations. Under State Reform Law No. 23.696 and Economic Emergency Law No. 23.697, the executive dissolved organizations that duplicated the operations of others or that controlled economic activities and deterred market liberalization. The sugar and mate (a kind of tea) regulatory organizations were eliminated, as well as the National Institute for Reinsurance,

the National Grains Committee, the National Meat Committee, the National Institute for Equine Activities, and more than a hundred other national and local offices at the upper levels of public administration.

By law the dissolution of organizations made "available" some 1,800 employees. The system of availability provides that the public official discontinue his or her service for six to nine months, after which, if not relocated, the official is released from employment and receives his or her indemnification. In these cases the official is prohibited from reentering the public administration for five years.

Cutbacks on political posts. The reduction of political posts was designed to set an example. With a view toward future personnel reductions, the government drastically reduced the number of state secretaries and undersecretaries. The secretariats were reduced from forty-seven to ten, the undersecretariats from ninety-seven to fifty-four (thirty-three in the ministries and twenty-one in the executive). With time this measure proved to be excessively damaging to the government's policymaking and was revised. The state secretariats increased to forty-nine in 1993 and the undersecretariats to ninety-nine.

The executive branch has, however, issued a decree banning further increases in the number of political posts. The creation of any new secretariat, undersecretariat, or other office in public administration will require the elimination of a similar office. In the same spirit, slots for temporary advisers have been limited to four for each ministry or state secretary and three for each undersecretary. The government has also provided that board members of decentralized bodies that have no executive tasks revert to ad honorem status.

It should be emphasized that there are fewer than 550 public officials in political posts in the whole of the state public administration—that is, only 0.2 percent of the total number of employees.

Temporary personnel. Nonpermanent personnel was also eliminated by decree. This group comprised personnel whose temporary, discretionary appointments had lost any justification after the completion of temporary assignments. It is generally estimated that most temporary public officials had their contracts extended for more than a year beyond the original appointment—and in some cases for more than five years. Also making this group a likely target for cutbacks was the suspicion that it was composed of friends, relatives, and sympathizers of those in power—a kind of political favoritism—and that most did not fulfill the requirements of their temporary employment because they had other jobs.

In retrenching this group alone, 20,430 posts were eliminated as of January 1, 1992. Because of the characteristics of the affected personnel the social impact was insignificant. This is confirmed by the fact that only ninety-two of those retrenched registered for the training courses that had been established to incorporate them into the tax collection organizations.

Retirements. Early retirement was applied to all public officials with about two years or less of active service left. This meant a reduction of 16,698 employees.

Voluntary retirements, which totaled 22,962, were carried out in a manner similar to that described for public enterprises, with the difference that university-educated professionals were explicitly prohibited from participating.

Redesign of administrative structures. All national government jurisdictions were required to present an organizational chart that demonstrated compliance with:

- Consolidation of all administrative functions in one national office
- A maximum of three "lower-level" structures, that is, national offices per secretariat, offices per national office, and so on
- Elimination of international cooperation areas and their concentration in the respective chancellery's national office
- Consolidation of all areas with job overlap
- Thirty-four percent reduction of posts in the centralized administration; forty percent in the decentralized; and maintenance of a ratio of one to three of support to professional staff.

To guarantee compliance with these rules the Executive Committee for Administration Reform (CECRA) was established. It included secretariats for the technical coordination of the Ministry of the Economy, the Ministry of Public Works and Services, the Civil Service, Legal and Technical Offices, and the General Secretariat of the Presidency. The CECRA was to supervise and give technical assistance to the restructuring program and to give final approval to new structures.

To accomplish this task, the Secretariat of the Civil Service called upon the support of the General Office Organization, which is experienced in the design of administrative structures. Furthermore, the civil service secretariat provided a highly qualified team of around eighty officials from the governmental administration corps to support in such tasks as public policy management. These officials were drawn from among the ministries and secretariats.

Besides improving organization, the reform of administrative structures also produced a reduction of 3,600 positions because of vacancies that were financed but not occupied. It also eliminated about 23,000 unfinanced va-

cancies, which had accumulated through long-term freezes on filling vacancies and across-the-board, required reductions in the work force.

The administrative reform implemented in the central and decentralized administration generated a net reduction of about 86,000 positions; to this figure must be added the roughly 210,000 personnel transferred with the health and education systems to provincial jurisdiction. Argentina's public sector has thus seen a decrease in core personnel from 550,000 employees to about 230,000.

Human resources policy. The retrenchment of so many public officials had to be compensated with a strategy for strengthening teams that would be involved in the creation and implementation of public sector policies in areas of nontransferable responsibility.

Thus, the Secretariat of the Civil Service took on the responsibility of developing an integrated human resources policy for the public sector. And through the General Office of Public Sector Service (Dirección General de Servicio Civil) and the Administrative Support Unit for the Administrative Reform (UARA—Unidad de Apoyo a la Reforma Administrativa), formed by a small group of government administrators, it designed the National System for the Administrative Profession (SINAPA—Sistema Nacional de la Profesión Administrativa), whose basic objectives include:

- Establishing a salary scale in keeping with the degree of complexity of positions
- Creating explicit selection mechanisms governing entry into the civil service
- Awarding promotions on the basis of training and performance evaluation
- Making job security conditional on performance evaluation
- Offering special remuneration for executive duties performed
- Conferring rewards for outstanding performance
- Decompressing salaries to achieve a ratio of 10 to 1 from highest to lowest.

The establishment of SINAPA helped greatly in obtaining precise information about the numbers of public employees, at least in the central administration.

The information SINAPA used as a baseline had been generated in a census initially taken during 1977; but keeping the data updated had grown more difficult with time. In addition this was information that had been manually processed or provided by duplicating computerized tapes from payroll centers. Developments in computer science, the boom in personal computers, and the resulting reduction in the price of hardware—and, by contrast, the high cost of data processing in a large com-

puter center—all dictated the need to change over the public administration jobs register to a system that would allow the transfer of information on magnetic tapes and accessibility from any organization.

Thus, a system of data collection for the budget has been created. It compiles all data for administrative personnel, without including public enterprises (already privatized or franchised); and it will soon include official banking.

It is important to mention that the different public administration organizations were able to join SINAPA only after complying with the personnel reductions established through the administrative reform decrees.

Reform of the provincial administration

Argentina's system of federal government has been in place since the enactment of its constitution in 1853. Alternations between constitutionally elected governments and de facto governments, and successive economic crises, have led to a kind of merge of the national and provincial governments. This has led to the subtle centralization of many activities that originally had been decentralized.

In 1980 the need for decentralization was confronted. The administration of schools was transferred to the provinces—but without the transference of sufficient resources. Parts of the drinking water services and drainage infrastructure were also transferred to the provinces—again, without sufficient technical support. Thus, the move turned out to be a way to reduce expenses rather than a true decentralization. This failed attempt at decentralization proved instructive. The transfer of schools administration to the provinces has proceeded at a slower pace than the privatizations in order to allow an orderly absorption of the schools and teaching staff.

In much the same way, and at the same time, national hospitals have been transferred gradually to the provinces and municipalities. These shifts were done with the understanding that health and education services should be administered at the provincial (and preferably at the municipal) level so as to afford users a measure of direct control.

Current reform measures

At this stage the reform process, as well as the downsizing, are far from complete. In a federal system such as the one in Argentina, the administrative reorganization of the provincial states is the most important step to ensure that the reform process will continue.

Therefore, the Secretariat of the Civil Service, which participated intensively in the first stage of the reform, is overseeing the incorporation of various provinces into credit systems in order to improve the management of state administration. In addition, technical assistance from central administration staff is available for all measures necessary to the implementation of provincial administration.

Reliable data systems need to be put in place to enable constant supervision of employment levels, both national and provincial/municipal. And established career development systems need to be implemented in the provinces, both to professionalize provincial administration and to create at the provincial level the capacity to offer instruction to the municipalities. These measures offer the only reasonable path to effective decentralization.

Another issue remains in provincial reform: how to deal with the provinces' bloated and unruly bureaucratic apparatus. During the 1980s public employment growth in the provinces was explosive—on the order of 50 percent. In a deteriorating economy the state apparatus was becoming a safe haven from growing unemployment. This led to a growing budget deficit and to greater indebtedness, which, in the context of an inflationary economy, drove the provincial banks to bankruptcy.

After the 1989 reforms and with the support of significant growth in tax revenues, the majority of provinces made adjustments, mainly in reducing recurring expenses. In most instances this permitted the provinces to balance their accounts.

Other transformation measures, still pending as of 1992, are being carried out with the support of the Secretariat for Civil Service. Through bilateral agreements, a program for the modernization of the provincial public sector is under way. This program provides for:

- Privatization of public enterprises
- Deregulation of professional and economic activities
- Improvement of tax revenue collection
- Modernization of the budget administration system
- Strengthening of public management
- Rationalization of provincial banks.

Technical assistance for the program is a cooperative effort of the Argentine government and the International Bank for Reconstruction and Development (IBRD), which has already made a loan of US\$370 million for this purpose and is currently negotiating a similar loan with the government.

In the course of the provincial administrative reforms, what has become the goal of personnel reduction? As a result of the privatizations under way, roughly 45,000 employees will move to the private sector in the provinces.

But the greater problem is the rationalization of employment in administrative offices and other decentralized entities. This process has high economic and social costs. Current growth in the Argentine economy does not permit rapid absorption of officials leaving the public sector, and dismissals lead to a disproportionate increase of the informal economy and unemployment, and to excessive concentration of people in Buenos Aires.

The central government, by Decree No. 676/93, has created an assistance fund for the provinces through the issue of a Bond for the Creation of Private Employment (BOCEP). The fund, which is to help the provinces establish voluntary retirement programs, is being financed with US\$500 million gained from the privatizations. The provinces are to repay this money, over a period of five years, using 50 percent of the net savings in wages. The real innovation introduced by BOCEP is that the former employee who receives the bond can hand it over to a private entrepreneur employing him, who can then immediately obtain a loan from the Bank of Argentina to extend his capital. The system is meant to facilitate, through a low-interest loan, the relocation of former public employees. It is estimated that about 200,000 public officials from Argentina's twenty-three provinces, and from Buenos Aires, will leave public employment through this voluntary retirement program.

Conclusions

In conclusion it can be said that:

- Experience in Argentina has shown that it is possible to effect profound changes in the public sector, given the political will and the necessary capacity, and capitalizing on previous experience.
- Rationalization of the public sector is a complex, risky process requiring the transformation—into a smaller, but more efficient form—of critically deteriorated economies with a low capacity for absorption of labor.
- Dismissals have not only a high economic cost but an adverse effect on the social situation generally. Such measures require complementary strategies.
- An economic growth program must accompany the state's efforts to rationalize employment.
- A more modest but more efficient state can only be achieved through an integrated strategy for strengthening public sector human resources, including modernizing management techniques, offering training, improving methods of entry selection, and providing economic incentives.

Downsizing: Jamaica's Experience, 1992–93

Marie Slyfield and Paulette Morgan

This chapter examines the public service restructuring exercise undertaken in Jamaica during the 1992–93 financial year. The chapter first highlights three related initiatives that provided the immediate context of the restructuring process—and that would have influenced, to a considerable degree, the nature of the process and the results obtained. The discussion then centers on specific elements of the strategies pursued and the response to these strategies. In conclusion we comment on some of the helpful and hindering factors encountered in the implementation process.

Context

Although administrative reform had been an important feature of the Jamaican government's program since 1984, the updated policy enunciated in 1991 placed high on the action agenda for the next three to four years both a review of the role and structure of government and intensification of efforts to modernize civil service management systems and practices. Supporting these initiatives was a general commitment toward development of a more market-oriented economy, with the government withdrawing from commercial activities and removing, as far as possible, restrictions on production and movement of goods and services. The public bureaucracy would be required to play the critical role of facilitating this development and would have to be appropriately reorganized and staffed for more cost-effective provision of public services.

Three major initiatives formed the immediate context for the restructuring exercise. These were the World Bank–assisted Financial & Program Management Improvement (FPM) Project, ongoing since the 1991–92 financial year; an April 1982 study and report on govern-

ment structure, by a distinguished committee of advisers; and, of particular urgency, the move by the government to reduce the burden on the 1992–93 budget.

FPM project

The FPM project activities being progressively implemented in the ministries had special relevance for the restructuring effort, particularly in the areas of corporate planning and program budgeting. First, the introduction of a corporate planning methodology is meant to assist ministries in defining more clearly their missions, objectives, and priorities; in identifying relevant programs and performance indicators; in developing appropriate administrative structures for cost-effective program delivery; and in developing management information systems for effective monitoring of program implementation.

Second, program budgeting involves introduction of a methodology to assist with preparation of an informative budget based on clearly defined objectives and expenditures of government programs, projects, and activities. This, together with introduction of a standardized program classification for similar activities under recurrent and capital budgets and appropriate adjustment in the financial accounting system, is meant to permit clear specification of the purposes of fund allocations, easier identification of programs spanning several ministries, and clearer definition of priorities in allocating scarce funds.

At the time of the restructuring exercise, ministries were mostly in the early stages of applying the corporate planning methodology, with a few having reached a relatively advanced stage. As for program budgeting, four ministries had prepared their 1992–93 budgets in the program format, and five other ministries were preparing to do the same for their 1993–94 budgets.

Report on government structure

This study was the product of extensive consultation with private sector interest groups, unions, professionals, and voluntary social organizations. As such, the recommendations may be considered to reflect public sentiment on such issues as the need for drastic restructuring of the government apparatus. (As a point of interest, the appointment of the report committee followed shortly the announcement of the government's decision to reduce the number of ministries from seventeen to fourteen, effective January 1992.)

Concerning overall restructuring, the report recommended starting with identification of priority structures, personnel, policy, and external relationships; next, it recommended reduction of the number of ministries to the constitutional minimum of eleven. Further recommendations included decentralization of service delivery points; procedures simplification and reduction of red tape; transformation of management culture through training; reduction in the proliferation of statutory/parastatal organizations and associated rationalization of the fragmented personnel systems, including differential salary scales (as between the central civil service, statutory bodies, and other parastatals).

Reduction of the burden on the budget

Commencement of the 1992–93 budget formulation process was accompanied by directives from the Executive that short- and medium-term strategies be devised to reduce the burden on the budget and improve efficiency in the operation of government agencies in keeping with the government's commitment to reduce the budget deficit.

Under the broad objective of ensuring availability of funds for essential public services, the required short-term strategies included:

- Implementation of a public sector recruitment freeze, effective January 1992
- Continued review and implementation of service delivery improvement initiatives in eight prioritized government departments: Inland Revenue, Customs and Excise, Post and Telecommunications, Town Planning, Registrar General, Registrar of Companies, Registrar of Titles and Stamp Duty, and Transfer Tax
- Review of ministry program priorities to ensure appropriate alignment with the government's overall policy priorities
- Elimination of capital works projects not contributing to economic growth.

The short- and medium-term budget reduction strategies reflected activities that had previously been planned

as part of the overall reform. However, with the shortening of the original timetable, this initiative provided the single strongest push for urgent restructuring.

Approach and response to restructuring

The political directorate provided leadership for this exercise, with the process being closely monitored by a subcommittee of the cabinet. Progress reports had to be presented at the weekly cabinet meetings.

Monitoring, participation, and communication

The implementation process was the subject of weekly meetings of the Permanent Secretaries Board that focused on sharing problems and helping each other achieve the best for their respective ministries. The process involved:

- Review of programs
- Review of organization and restructuring
- Identification of posts to be abolished and persons to be redeployed or separated
- Abolition of posts.

An advisory committee, including members of the Ministry of Public Service (MPS) team responsible for directing the program and representatives of the staff associations and unions involved, also met weekly to share information and to identify problems arising at the operational level and ensure follow-up.

Emphasis was placed on special programs for persons who would be separated from their jobs. These included the active involvement of the unions, staff associations, and the private sector through a steering committee that would develop programs to minimize the trauma of separation. Programs addressed the issues of job placement, counseling on personal coping skills, financial problems, and career and job hunting/interviewing techniques. Guidance to ensure success in self-employment was also available. Special task forces were put in place to ensure speedy processing of separation benefits and advances on pensions. A hot line—to provide information and take follow-up action—was put into operation. In addition, the media were used extensively as another method of communicating information to displaced workers.

Downsizing via severance payments

The program began with the cabinet's approval of the following objectives:

- Identifying underutilized resources and eliminating redundant positions, nonessential programs, unnecessary work, duplication of administrative functions, and other administrative waste

- Increasing resources for essential programs, primarily through the implementation of cost-recovery initiatives.

The political directorate initiated the downsizing program through a cabinet decision approving the exercise. An immediate freeze on recruitment was put into effect, with exceptions in certain circumstances.

The ministries were requested to review their mission and objectives, including those of agencies falling under their purview, and to rationalize overlaps and duplications. Programs were put into priority order and staffing levels determined for improved efficiency. Posts were then identified for abolition. It should be noted that vacant posts considered essential in the revised organization were retained, though in some cases not funded. Suitable officers were then identified to occupy positions being retained.

In determining which employees to release, the following order of priority was applied:

- Reemployed pensioners
- Persons who voluntarily request early retirement
- Temporary employees
- Contract officers.

This order was determined in accordance with Regulation 25 of the Public Service Regulations (1961), which allow for the selection of the best officer to fill the retained post to effect greater efficiency or economy.

The actual selection of persons to be displaced was the responsibility of each ministry, which had to submit to the MPS reports reflecting posts to be retained or abolished and persons to be displaced. As for vacant but essential posts, it was the responsibility of the agency wishing to fill the post to request that it be released, to provide justification for the critical need for the post, and to advise whether it had been funded.

By survey it was determined that of the work force to be affected in the downsizing exercise, excluding vacant positions, a 20 percent reduction (for example, about 8,000 persons) could be achieved. This target was not achieved through severance and attrition during the period June 1, 1992 to March 31, 1993.

Employment in the central government system is centralized in the office of the services commissions. This agency enforces nonreturn of officers who have been displaced. The statutory agencies can only be controlled by post allocation, operation of freezes, the integrity of their recruitment policy, and budgetary allocation.

The exercise ultimately meant a downsizing of the

work force that involved permanent as well as temporary employees. Payments to these employees are set under:

- *The Pensions Act.* Employees who had permanent status in the central government service and in some statutory organizations would benefit under Regulation 27 of the Act, which makes them eligible for a pension for life as a result of abolition of office and/or reorganization of the public service. Persons who had already attained the age of fifty-nine years and who would have been retired through the normal process were not included in the restructuring exercise.

- *The Employment (Termination and Redundancy) Act.* Employees (permanent and temporary) of statutory organizations not covered by the Pension Act would benefit under this Act. And temporary employees in the central government service would benefit under a resolution of the Act.

The public service does not have the flexibility of setting severance payments to reflect opportunity costs facing targeted employees leaving the service and seeking employment within the private sector.

The government service in Jamaica has always offered a certain amount of security of tenure. Many who could have taken jobs in the private sector at much higher levels of pay opted to accept lower salaries in exchange for this security. However, the downsizing exercise has eroded this security, and some employees whom the government service would have retained have resigned to take up private sector jobs.

Downsizing via attrition

In January 1992 a freeze was placed on all existing vacant positions and on any position that subsequently became vacant. Unfreezing of any position had to be referred to the MPS, which would give its approval under certain conditions:

- The post was essential to continued operation
- The post was to be retained in the revised structure of the organization
- The post was funded in the budget.

It should be noted that there were essential areas that were exempted from the downsizing exercise, including police and security, teachers, medical professionals, revenue-earning departments, and town planning and land surveying departments. These areas were not, however, exempt from the freeze, and here, too, operation of posts had to have the approval of the MPS.

Persons who entered government service with the basic entry qualifications and who subsequently improved their academic background during their employment were more likely to remain in the service. University graduates,

on the other hand, used government employment as a stepping-stone to more lucrative private sector jobs. Though it seems desirable, no estimation has been done on the rate of employment adjustment subsequent to the downsizing exercise.

While maintaining the freeze on recruitment, the commitment to reduction by attrition was also sustained. Budgetary allocations for personal emoluments took into account vacancies that existed at the time the budget was being drawn up. (Critical vacant positions might be funded, but funding of the budget generally will depend on expected revenue intake.)

Financing the program

The Cabinet gave approval for the provision of 565 million Jamaican dollars (Ja\$565 million) for payment of retirement benefits, retraining, and counseling. This was to be funded by revenue collected through the strengthening of tax administration and increases in user fees.

Reduction of expenditure was to be achieved mainly by the recruitment freeze and budgetary allocation. No vacancy was to be filled by the Public Service Commission unless the MPS advises that the vacant position had been exempted from the freeze.

Ministries are being assisted in refocusing their programs after restructuring and in identifying training needs for the remaining employees. Training is being provided by the College of Public Management or bought from other training institutions. This process is still in its early stages and it is expected that economies in operation will quickly be achieved through strong emphasis on training.

Conclusion

Downsizing on this scale in the limited time allowed could have resulted in social upheaval and possible loss of political support, given the relatively high rate of unemployment. The fact that this did not occur may be attributable to a number of factors. First, the nature of the process was highly consultative, involving the political directorate, managers, staff, and union representatives. Second, the logic of the corporate planning and program budgeting methodology, to the extent that it was operative in the ministries, might have sent a signal of rationality and fairness in the process. These methodologies might also have assisted the more advanced ministries in reordering their priorities in the face of the inevitable budget cuts.

Third, special provisions and facilities put in place by the government in partnership with the private sector promoted the "human face" of the process. These included placement services, financial assistance to start up economic projects, and accelerated settlement of separation benefits. Public calls for reducing the size of the bureaucracy had also become a regular feature of daily life.

On the other hand, although the budgetary constraint provided a sense of urgency for the downsizing effort, there was not enough time to complete the necessary groundwork to achieve the companion goal of increasing efficiency, which in some cases had to be sacrificed. Additionally, the absence of an adequate human resource data base was an impediment to sufficiently informed and timely decisions on personnel to be retained, redeployed, or separated.

Compensation Upgrading in Caribbean Public Services: Comparative Needs and Experience

Richard Kitchen

Civil service compensation is a global conundrum. The problem: the output of civil servants is generally not marketable; how, then, to attach a price to the labor that produces it? This distinguishes civil servants (and such other professionals as teachers or doctors) from private sector employees, whose output is sold in (generally) competitive markets.

There are two approaches to determine civil service compensation. The first is the trial-and-error method of seeing what salaries are required to attract and keep the required caliber of employee. This approach, however, tends to be *ex post*, and to work only at the margin of employment. The second method is to use some form of comparability with the private sector as the yardstick for determining civil service compensation scales. Although arguments are made (notably by civil servants) for comparability with the private sector, such exercises generally result in civil service compensation being set below that of equivalent private sector compensation.¹

Lower compensation for civil servants compared with the private sector is justified by drawing on capital market theory and the notions of risk and expected return. Civil service employment offers more job security than does private sector employment. Private sector employees will therefore require higher compensation for the greater redundancy risk they face. (They may also receive higher compensation to reward higher productivity and longer hours, but these are separate arguments.)

Figure 13.1 depicts compensation per hour worked at a fixed degree of effort.

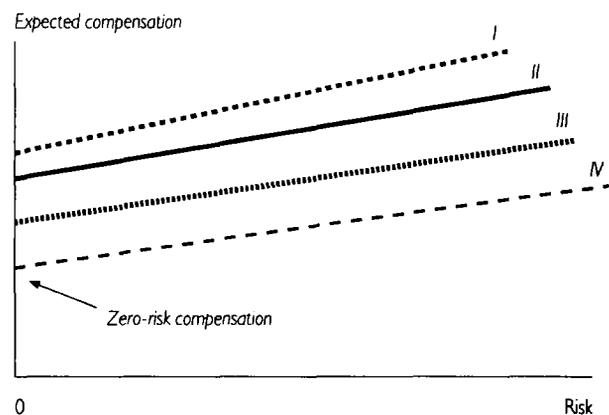
History of civil service reform in the Caribbean

Civil service reform (CSR) is not a recent phenomenon in the Caribbean.² In Jamaica, for example, forty-five reports

were prepared on the subject between 1942 and 1980 (Priestly 1983). The impact of these reports was small, however. As Priestly commented:

Since administrative investigation has been a marked feature of Jamaican public affairs over the past four decades, the question arises of assessing its impact and results. It becomes clear from the reports that the general outcome has not been impressive; civil service problems have proved stubborn and persistent in the perspective of time. Why this should be so cannot be explained solely on the basis of the reports. For

FIGURE 13.1
Compensation and risk



Roman I, II, III, and IV refer to different grades of employment. As the risk of employment increases from zero, so does the expected compensation package. Private sector employment carries various risks, depending on the sector. For example, employment that depends on an exhaustible network resource, such as mining, would be relatively high-risk. So too would certain kinds of contract employment and self-employment, which run the risk of unemployment at some stage. The civil service job, with guaranteed employment for life plus a pension, is nearly a zero-risk job. A possible measure of the risk of employment in the civil service may be the frequency of redundancies compared with the level of employment, for each grade.

example, the amount of detail given in the reports about the actual implementation of reform proposals is usually limited. (1983)

Around 1980 CSR gained new impetus. There was a growing belief that administrative performance was a key element in managing public resources and investments, and hence in the economic development process. In 1980 CARICAD conducted nine top management workshops in the English-speaking Caribbean countries³ and found that:

In all cases serious administrative obstacles to improved performance were found, and there was a general consensus on the need for administrative reform in order to achieve higher standards of performance. (CARICAD 1981)

A CARICAD Roundtable in 1981 took the discussion further, and found that the subject of incentives for administrative change "was one of the most important areas of discussion and one of the least examined and researched in practice." It called for "moving away from traditional methods of rewarding seniority and stability and moving towards rewarding initiative and innovation" (CARICAD 1981). At the same Roundtable, Armstrong "felt that to spur productivity and also to neutralize the drain of personnel away from the public sector, governments needed to look a little closer at the present conditions of service with a view to bringing them on par with the private sector in the region" (CARICAD 1981).

Meanwhile, similar problems were being encountered in the larger countries of the region. The realization that poor civil service performance hindered the implementation of structural adjustments programs led the World Bank to fund its first comprehensive administrative reform program, in Jamaica.⁴ The World Bank (1984) noted that:

Several major trends contributed to a severe weakening of the civil service during the last decade. Compensation for managerial, professional, and technical (MPT) civil servants was severely eroded. During 1972 to 1982 the consumer price index (CPI) increased over 470 percent, over the same period salaries for the three highest professional grades in the civil service rose between 41 and 87 percent, while salaries for government-employed casual labor increased some 359 percent. This trend reflected an incomes policy designed to reduce inequities in income distribution, but had the effect of contributing to the exodus of experienced professionals from the civil service or from Jamaica

itself ... and resulted in persistently high vacancy levels in key posts in government ministries. As the civil service deteriorated, the number of GOJ statutory bodies and public enterprises continued to grow. Most of these bodies ... have been able to raise staff salaries even while incurring financial losses, which served not only to weaken government finances but also to drain trained people from traditional ministries.

In the larger economies CSR started in Trinidad and Tobago in 1986, and in Guyana about 1990. However, in the smaller Organization of Eastern Caribbean States (OECS) the process is still lagging behind. In a report produced for the OECS Secretariat, CARICAD (1991) analyzed the partial (and even comprehensive) reform efforts made in the 1980s, and developed a framework for presenting future comprehensive administrative reform efforts in the OECS countries. Some member states are now introducing further reforms.

Civil service compensation in the Caribbean

The most significant cases of poor compensation and declining real incomes in the civil service are in Guyana and Jamaica, two countries that suffered periods of sharp economic decline in the 1970s and 1980s. Other countries, notably Trinidad and Tobago with its oil wealth, and Barbados, have maintained a comparatively well compensated civil service. Among the smaller islands, compensation practices have varied, but have included some cases of declining conditions for civil servants—in the Turks and Caicos Islands, for example (Wood and Scutt 1992).

Not surprisingly, considering the decline in compensation, both Guyana and Jamaica have experienced substantial declines in civil service employment, notably in the professional and technical ranks. The number of unfilled posts has been substantial, and thus parts of the civil service have been unable to operate effectively. The core ministries—Finance, Public Service, and the Public Service Commission—have become ineffective, with a harmful effect on line ministries, which are dependent ministries in the Caribbean.⁵

Statistical data on the civil service in some Caribbean countries (table 13.1)—even though fragmentary—present a clear picture of low compensation for the managerial, professional, and technical staff ratios (as indicated by low compression ratios), and occasionally high compensation at the lower levels. For comparison, table 13.2 presents trends in compression ratios in four African countries, where the ratios had, in some cases, fallen to unacceptable levels by the early 1980s.

TABLE 13.1

Compensation indicators, selected Caribbean countries, various years

Indicator	Country	Measure	Date	
Compression ratio	Guyana	6:1 ^a	1992	
	Trinidad and Tobago	8:1 ^b	1992	
	Turks and Caicos	7:1	1983	
	Turks and Caicos	4:1	1992	
Vacancy rate	Trinidad and Tobago	Medium ^c	1992	
	Guyana	28-45%	1992	
	Jamaica	High ^c	1983	
	Jamaica	High ^c	1992	
Salaries ^d				
	Professional			
	Low grade	Trinidad and Tobago	50-70	1992
	High grade	Trinidad and Tobago	231	1992
Low grade	Guyana	20-30	1992	
Low grade	Guyana	50-66	1992	
Personnel emoluments as a percentage of total recurrent expenditure	Turks and Caicos	44	1983	
	Turks and Caicos	56	1992	
	Grenada	52	1992-93	

a. The ratio of the midpoint of the monthly salary for the highest salary grade to the midpoint for the lowest.

b. The ratio of permanent secretary compensation (base salary and allowances) to the lowest public sector wage rate (base salary only). The lowest wage is paid to fourteen-year-old boys and to learners, skilled and semiskilled, class 54.

c. Governments do not collect systematic information on the number of unfilled vacancies, nor on those filled by acting appointments.

d. Public sectors wages as a percentage of private sector wages.

Source: Various unpublished World Bank and ODA documents.

In Haiti employment levels contrast sharply with the large number of vacancies in other Caribbean countries. An internal World Bank report (1987) noted that:

The official number of public employees is 32,400. The actual number, however, may be as high as 57,000. There is no current register of civil servants, at either the level of the Public Service Commission or the individual ministries. ... In addition, many officials have been paid both salaries and "expenses." ... Frequently ... one budgeted salary [is used] to pay two or more employees—because of their political connections—who are not expected to perform on the job, or, indeed, to appear at the ministry. Other common practices include the payment of salaries to people who do not exist at all, [with] the funds in fact going to those politically favored.

Experiences of compensation reform

Jamaica

The administrative reform program (ARP) in Jamaica, the first of its kind sponsored in the Caribbean by the

TABLE 13.2

Trends in salary compression in selected African countries, 1970-83

(ratios)

Country/level	1970	1975	1980	1983	Percentage change in salary compression 1975-83
<i>Malawi</i>					
Undersecretary/ unskilled	—	33.0	30.0	29.8	-9.7
<i>Nigeria</i>					
Permanent secretary/unskilled	29.9	17.6	15.4	9.2	-47.7
<i>Sudan</i>					
Deputy under-secretary/unskilled	13.0	13.1	10.8	8.3	-29.0
<i>Zambia</i>					
Undersecretary/ lowest salaried	19.2	14.5	10.3	6.9	-52.4

— Not available.

Source: Lindauer, Meesook, and Suebsaeng 1986; Matahaba and others 1993.

World Bank, was comprehensive; however, in this chapter we discuss only matters of compensation.⁶

In the 1970s civil service salaries had fallen substantially in real terms. From 1972 to 1982 the consumer price index rose by 470 percent; over the same period the salaries of the three highest grades rose between 41 and 87 percent, while the salaries of government-employed casual labor rose by 359 percent. Many MPT-grade civil servants left for the private sector or emigrated, giving rise to a large number of vacancies, and ineffective administration. In order to strengthen administration, the government set up many statutory bodies, offering salaries substantially above civil service grades in order to attract able people from outside the civil service. The result was a further exodus from the civil service, this time to the statutory bodies, thereby further weakening the civil service. Finally, civil service salaries and recruitment came under pressure as a result of government expenditure cuts inspired by IMF programs. The public sector then had two (or three) distinct tiers of compensation: public enterprises and statutory bodies; and the civil service.

But even the best-paid public sector posts tended to lag behind the private sector. Recognizing the large gap between the two groups of public sector employees, the government granted pay increases in 1983 and 1984 favoring the MPT grades. For example, starting pay of permanent secretaries was increased by about 50 percent, while salary increases for unskilled civil servants were kept to around 25 percent over the two-year pe-

riod. Much of the cost was funded from savings realized by leaving vacancies unfilled following resignations and retirements.

Another large, across-the-board pay increase was granted in 1985; and further special salary increases for MPT grades were introduced in 1986 in another attempt to reduce the imbalance in compensation between civil servants and employees in other parts of the public sector.⁷ The eventual target—though not officially stated—was to reduce the differential of other public sector employees over civil servants to no more than 15 percent, from a differential that was broadly thought to be about 50 percent. The Ministry of the Public Service (MPS) was given the responsibility for monitoring and establishing salaries throughout the public sector. To do this, the MPS computerized pay data and conducted periodic surveys to update the data.

In spite of these (and subsequent) measures, compensation remains a key problem. Attempts are still being made to move salaries in the civil service closer to those in the statutory bodies, where salaries remain significantly (30 to 50 percent) higher than in the civil service. Private sector salaries generally exceed those in the statutory bodies.⁸

Salary increases have been partly financed by reduction in the size of the civil service.⁹ Downsizing initially preceded compensation upgrading but is now being implemented alongside improvements in compensation. Improved compensation has allowed the civil service to attract better-qualified candidates. However, as salaries are not competitive with the private sector (or even the statutory bodies), the civil service is still the employer of last resort, except for those individuals with a very low risk tolerance.

The problem of retention in the civil service has still not been solved. As career advancement in the civil service is still based on seniority rather than performance, high performers tend to get frustrated and leave. There appears to have been no attempt to introduce merit-based pay or promotion systems, perhaps because such a move would face strong opposition from the civil service association. In the absence of this type of reform, improved salaries will not lead to improved efficiency. (However, there is now a fast track for new graduates in the civil service to make entry more attractive. The United Kingdom introduced a similar scheme some twenty-five to thirty years ago.) Moreover, there is a tendency for younger civil servants to avail themselves of training opportunities offered by the civil service and then to leave shortly afterward for a job in the private sector.¹⁰ A civil service graduate (with a master's degree) was quite blunt: "The ARP has not solved the salary problem."

Trinidad and Tobago

Public sector reform started under the NER government in 1986; the World Bank was an active player, but less so than in Jamaica. The new government did not trust the civil servants who had served the PNM governments over the previous thirty years and set up many new units, staffed by contract officers who were paid more (but not substantially more) than existing civil servants. In the civil service the government stopped merit increases, and cut public service salaries by 10 percent (see section on pay cuts, below). A Voluntary Termination of Employment Programme (VTEP) was introduced in 1989 to reduce the well-staffed civil service. However, salary cuts meant that the private sector could easily pick off the best civil servants; more than 1,000 left the service and the VTEP backfired. It was recently terminated.

Pay remains a delicate subject in Trinidad and Tobago—the civil servants and their union maintain that the government owes them money (the courts declared the pay cuts illegal, but the government simply did not pay). Nonetheless, by Caribbean standards civil servants are well off.

There are staffing problems in the civil service, though not nearly as severe as elsewhere. The VTEP resulted in a significant number of vacant posts at the upper and middle professional levels. As in Jamaica, vacancies have been filled by shifting underqualified staff on an acting basis. Such appointments, which are not normally recorded or approved by the Service Commission, amount to disguised pay increases, with a dilution in quality.

Civil service pay scales, including benefits and allowances, are too low at the high levels and too high at the low levels. At the higher levels public sector managers receive 50 to 70 percent of the compensation in private sector counterparts, while at the lower levels compensation is more than double that in the private sector. This means that low-level posts are attractive and employers cling to them. The result is an imbalance in employment, with vacancies at higher levels and excessive employment at lower levels.

The need for new salary scales is apparent, but the fiscal position of the government implies that any adjustments in compensation should be fiscally neutral. One suggestion is that for all grades compensation should be fixed at 60 percent of the private sector equivalent, thereby implying a 40 percent risk adjustment factor for the private sector. Given the previous legal action and salary cuts, and trade union opposition, it seems that such uniformity can only be achieved gradually, by freezing pay at the lower grades for some years.

Another suggestion is to allow line agencies to offer salary enhancement to what they consider key positions

or staff—provided that such enhancement is self-funding, that is, through employment reductions in the agency. Still another, more comprehensive, proposal is for an integrated pay and personnel management system to combine (on computer) data on pay and personnel records, to ensure comparability of pay and qualifications throughout the civil service.¹¹

Guyana

The recent political and economic history of Guyana is similar to that of Jamaica in the 1970s, although the policies and economic decline in Guyana continued a decade longer than in Jamaica, producing an even deeper decline in the public service. Administrative reform is therefore a recent phenomenon—it started with a UKODA-funded project in 1990, following the government's announcement in 1988 of an economic recovery program. The project, which focused on the restructuring of ministries, resulted in a reduction of the number of ministries from eighteen to eleven.

The civil service in Guyana is characterized by low salaries, high vacancies (especially in the MPT ranks), and compressed salary scales. Between 1986 and 1991 real wages in the central government fell by almost 20 percent, with even greater deterioration in the MPT grades. Salaries in these grades are particularly low, as indicated by a compression ratio of about 6:1.

Moreover, civil service salary scales are extremely low when compared with those in public corporations and the private sector. Average salaries for support staff and low-level technical staff in the public corporations are one-and-a-half to two times their level in the private sector. And senior civil servants can earn three to five times more in some public corporations, and even more in the private sector.

Because of low public service pay civil servants have left the service, and, in numerous cases, emigrated. As a result, 35 percent of approved positions in the ministries are vacant, and 39 percent in constitutional agencies (CAs) and regional administrations (RAs).

As in Jamaica and Trinidad and Tobago the government, in an effort to upgrade pay and fill vacancies, has filled posts with "acting-up" staff not qualified for the jobs. Also, staff in some ministries (Finance, Foreign Affairs, and Office of the President) have received special salaries and allowances outside the formal grading system. This has led to unequal treatment of employees, causing resentment and a decline in morale.

In July 1991 the government introduced a system of market supplements for key professional and technical positions; selected higher-grade officials receive 50 per-

cent pay supplements, while the lower grades receive 30 percent. Selection for supplements was based on the difficulty of recruitment for the posts and on the academic qualifications and experience of the holder. Pay supplements thus reflected both market (for example, private sector) salary levels and recruitment difficulty.

Individual ministries, CAs, and RAs recruit personnel without approval of the Public Service Ministry or the Public Service Commission, and offer salaries higher than the official scale. Temporary staff are also hired at similarly higher rates of pay, or on contract. All these devices distort the notion of a structured pay system. However, they do compensate in an unstructured way for the inadequacies of the pay scales and provide a crude de facto, if not de jure, merit-based pay system. Nonetheless, it plays havoc with the budgeting of salaries and wages.

The current World Bank-funded Public Administration Project, which is to reform the public service salary and employment structure, involves both salary increases and increasing the compression ratio (see table 13.3). Excluding special appointments, the compression ratio would rise from 6:1 to 10:1. The spreads between the minimum and maximum within grades would also be increased substantially. The government has largely agreed to implement the new salary structure.

Under the new system, the total cost of public service employment would rise from \$6.69 million¹² to \$9.75 million—an increase approaching 50 percent. This assumes a substantial filling of vacant posts. It is proposed that the increase be financed largely by an IDA credit over a four-year period, plus some contribution from the IDB. In addition, a proposed recruitment program to attract qualified staff both locally and from abroad is expected to cost another \$1.8 million.

CSR in Guyana is at an early stage, and it remains to be seen how it evolves. The direct refinancing of compensation upgrading by IDA and IDB credit is something that was absent in, say, the case of Jamaica, and removes the fiscal constraint on the government. It is probably the realistic approach, given the weak state of the

TABLE 13.3

Current and proposed public service salary scales, Guyana

(monthly salary at midpoint in grade, U.S. dollar equivalent)

Grade	Current	Proposed
Grade 1	31	39
Grade 16	189	351
Special	440*	632

a. Estimated.

Source: World Bank.

Guyanese economy, and of the government budget. However, it does involve taking on debt to fund activities that are not directly productive, which is perhaps unsound. It would be preferable to fund such activities from bilateral grants.

The Eastern Caribbean

Various attempts that have been made at classification and compensation reform are summarized below. This section draws heavily on CARICAD 1991. Most reforms have been internally driven with the notable exception of Grenada, where the World Bank and the IMF were influential.

St. Lucia. A UNDP project in St. Lucia undertook, among other things, a job classification study for 1,700 civil service posts, which was completed in 1989. Since 1991 the Department of Personnel has been trying to merge the full public service into the new civil service salary structure. However, the measure has met with some resistance from unions and managers alike, and as of 1992 no progress had been made in implementing a merit pay system based on performance appraisal.

Dominica. In the 1980s a range of CSR initiatives took place in Dominica; these have had little effect, however, at least in terms of compensation and job classification, although two of the projects (by CARICAD and CIDA/ECEMP) focused on these topics.

St. Vincent and the Grenadines. An earlier CARICAD plan for public service reform in St. Vincent and the Grenadines was followed in 1987 by a CIDA/ECEMP-designed administrative reform program aimed at overall improvement of the public service. However, the human resources management phase of the program was pursued before the other components, leading to resistance by rank and file public servants who seemed to feel that the reclassification/compensation exercise did not benefit them as expected.

Another comprehensive ARP is now being implemented, in a more structured and sensitive manner, but it is not yet clear what the outcome will be.

St. Kitts/Nevis. Administrative reform has been slow to take off in St. Kitts/Nevis. Early initiatives were abandoned by the ministries and permanent secretaries because of the 1989 election. The process started again in 1992. One of the main recommendations growing out of the work of CIDA/ECEMP was to implement performance appraisal and a limited system of promotion. It was ad-

vised that both pay and promotion should be merit-based, and that pensions should be improved. (Currently, to qualify for a pension a civil servant must have served at least twenty-five years, although those taking early retirement at age 50 receive a pension if they have served ten years. A proposal to reduce the qualifying period from twenty-five to fifteen years is being examined. Broken service and study leave do not count for pension rights.) A major issue in St. Kitts/Nevis is the retention of good people in the civil service; a good salary and fringe benefits package is needed.

Grenada. Grenada's civil service reform plans since 1987 have emphasized downsizing, with plans for phased reductions of the 1,000-strong employment roll. Grenada has, relatively speaking, one of the largest civil services in the OECS, with 52 percent of the 1992-93 budget going to salaries. New personnel policy guidelines have been developed and a reclassification/compensation plan has been tabled, in addition to new performance appraisal systems.

The Public Service Union is opposed to redundancies, wanting downsizing to occur only through retirement and natural wastage. Civil servants, too, appear deeply suspicious of other aspects of the program, which remain to be implemented.

Turks and Caicos Islands. A British colony, Turks and Caicos Islands has suffered sharp salary compression in the civil service over the past decade, from 7:1 to 4:1. Poor retention rates and anecdotal evidence also suggest a real decline in incomes over the period. However, wages and salaries currently account for 56 percent of the recurrent budget. The current proposal is for "a pay reform programme which should aim to decompress the salary structure and reduce the percentage of recurrent budget on wages and salaries" (Wood and Scutt 1992).

This implies a greater increase in salaries for the higher grades than for the lower grades and a significant reduction in numbers, presumably in the lower grades. This is to be achieved partly by the privatization or contracting out of services, a reflection of the United Kingdom's current common practice of "market testing" exercises. Wood and Scutt (1992) also talk of "repositioning of public sector pay levels in relation to rates paid in the private sector." This is reminiscent of U.K. government policy toward its own public service—to shift people from the public to the private sector in an effort to make them more productive. However, the legendary ability of the U.K. civil service to resist change has been effective at all but the lower levels, where contracting out and tendering have been effective.

Pay cuts

Although the emphasis is on compensation upgrading in CSR programs, two significant examples of *downgrading* can be cited. In one case—Trinidad and Tobago—merit increases were cut by 10 percent in 1987. The civil service union took legal action, but although it won a decision that previous salaries be reinstated, the government continued to pay 10 percent less. This 10 percent is still legally payable, plus a further 2 percent increase awarded by the courts, which has never been paid. In the other case, the Barbados government also cut civil service salaries in 1991. Here too, the civil service association took the case to court, but lost.

Trinidad and Tobago and Barbados are probably the two most affluent states in the English-speaking Caribbean. The salary cuts came in periods of recession that followed earlier periods of strong economic growth. The standard of living of civil servants was good; indeed, one civil servant expressed the view that in Trinidad the civil service was well paid even by developed country standards, and that the upper and mid-level grades lived quite comfortably.

Conclusions

Civil service compensation in the Caribbean remains a persistent and obstinate problem. Even in countries such as Jamaica where a comprehensive administration reform program has been in place for a decade, the situation appears to have improved little. The reasons for this vary from country to country. However, common problems include:

- The lack of a systematic basis for establishing salary scales in the civil service relative to those in the public enterprise (and statutory body) sector and the private sector
- Persistent fiscal pressure on governments, which works against the establishment of systematic manpower planning and pay
- The strength of civil service associations and trade unions
- Resistance by civil servants to comprehensive reform packages and to merit-based pay
- Political resistance to reforms because of concerns about higher costs or increased independence of the civil service.

Notes

1. Comparability between the civil service and the private sector is in any case difficult to establish for many grades of civil servants.

2. Nor is it a new phenomenon elsewhere. For a useful survey of thinking on administrative reform prior to 1980 see Caiden 1978.

3. The nine countries were Antigua, the Bahamas, Belize, Dominica, Grenada, Montserrat, St. Lucia, St. Vincent, and St. Kitts/Nevis.

4. For detailed discussions of the World Bank-funded program, see Kitchen 1989 and Mills 1990.

5. Line ministries in the Caribbean are those responsible for individual sectors, such as education or public works. They are distinguished from the core ministries (or agencies), the Ministry of the Public Service, the Public Service Commission, and the Ministry of Finance—which service the line ministries. This distinction is widespread, although specific practice varies from country to country.

6. For a more detailed discussion, see Kitchen 1989 and Armstrong 1989.

7. Pay was not the only issue in compensation. Pensions administration was in a poor state, with payments due to many retired civil servants far in arrears. An action team for pensions administrations was set up in 1984, and many of its recommendations have been implemented.

8. Some statutory bodies try to match private sector salaries. For example, the Urban Development Corporation determines its own salary increases, based on salary surveys of the Jamaica Employers Federation, and then has them ratified by the Ministry of the Public Service (MPS). JAMPRO salaries are fairly competitive with the private sector, as are those of the Tourist Development board, even though it works through the MPS. (The rationalization is that it earns foreign exchange.) The salaries of the Planning Institute of Jamaica, though, are substantially lower than those of the other bodies mentioned.

9. For example, 700 white-collar redundancies have recently been made in the civil service. This downsizing is uneven, though. The Ministry of Agriculture is said to be largely devoid of staff, rendering it ineffective.

10. In some cases civil servants will break bonds. The problem is not just pay, but a lack of opportunity to use their potential.

11. Standard software packages can be purchased, rather than designed from scratch, and tailored to the requirements of the buyer. One estimate of the installation costs (to cover about 100,000 employees) is US\$3 million, and they could run as low as US\$1.5 million.

12. All dollar amounts are U.S. dollars.

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Pay and Employment Issues in the Brazilian Civil Service

Hélio Zylberstajn

In recent years civil service reform has been addressed at the three levels of government in Brazil. But the efforts of federal, state, and local public managers have failed to create a more rational and efficient civil service structure. Instead, the delivery of public services and goods has deteriorated, becoming chaotic.

This chapter focuses on some issues related to the failure of civil service reform in Brazil. In the first section, recent figures on civil service employment and pay are examined to identify trends and to compare public service and total formal sector employment. The second section examines some recent legal and institutional changes and what they reveal about civil service employment. The third section focuses on prospects and recommendations for employment and pay policies.

Civil service employment and pay: recent trends

Size of civil service employment

The most recent employment figures from Brazil's federal administration (1989) show that civil service employment has grown systematically (table 14.1). In the 1980s, due to recession and economic stagnation, the formal private sector was unable to create enough jobs to absorb a growing work force. Macedo and Chahad (1990) point out that expanded government took up some of the slack. Public service employment increased approximately 65 percent in the 1980s at an average annual rate of about 5 percent. Civil service employment remains at low levels, however, compared with total population.

Unfortunately data are not available for the early 1990s. One consequence of the Collor administration's civil service reform efforts has been the disruption of

statistical services covering employment. This made it impossible to compare civil service employment with the remaining formal sector. Instead, comparisons are made between civil service and the whole formal sector, including the civil service. But, given the fall in public sector revenues, the civil service today likely employs about 5 million, or 3 to 4 percent of the population (table 14.2).

Expansion of employment in Brazilian public administration has not been uniform across geographic regions, or levels of government. Macedo and Chahad (1990) and Saldanha and Maia (1988) observed that expansion was most intense in the northeast and the north—the country's less industrialized and poorer areas—and at the state and local government levels. In fact, the federal administration employs just 20 percent of civil servants (Saldanha and Maia 1988). These authors conclude that most of the recent employment expansion in the civil service has resulted from political patronage.

TABLE 14.1

Ratio of civil service employment to total population, Brazil, 1979–89

Year	Total population (millions)	Civil service employment (millions)	Ratio of civil service employment to total population
1979	118.6	3.1	.026
1980	121.3	3.3	.027
1981	124.1	3.5	.028
1982	126.9	3.7	.029
1983	129.8	3.8	.029
1984	132.7	4.1	.031
1985	135.6	4.3	.032
1986	138.5	4.6	.033
1987	141.5	4.9	.035
1988	144.4	5.1	.035
1989	146.3	5.0	.034

Source: Macedo and Chahad 1990, based on government figures.

Employment regime

Political patronage influences the way civil servants are hired. In principle, public employees should be hired under procedures specified in the civil service statute. This means that once they are hired, they fall under the rules of that statute and become *estatutarios*. To evade these requirements, politicians hire civil servants under the private sector labor law (consolidation of labor laws, or CLT). Those servants are known as *celetistas*. In 1989, the year of the last available survey by the Ministry of Labor, 41 percent of civil servants were under CLT jurisdiction.

A second source of employment data figures provided under Law 4923 show that 2.3 million civil servants had been hired under the private regime as of January 1993 (table 14.3). Of those, 62.5 percent work for local governments.

The same source reveals that only 900,000 worked in state capital cities. Of those working for local governments, only 10 percent (145,000) were hired by state capital cities. This means that a very large portion of CLT employment in the civil service is in small city governments. In short, for every 100 civil servants, there are 40 *celetistas*, 25 of whom work for local administrations. Of these 25 *celetistas* that work for local administrations, 20 work for small local governments. So, the more decentralized the level of government, the less it is likely to hire *estatutarios*.

The reason may be that by hiring *celetistas*, public managers achieve greater flexibility. *Celetistas* may be hired through more flexible procedures than *estatutarios*. In addition, *celetistas* may be fired without cause, although firing is very rare in the Brazilian public

TABLE 14.2

Civil service employment by employment basis and region, Brazil, 1989

(number, percent)

Region	Total	Private sector labor law	Civil service statute	Other
North	313,424	124,259	177,782	11,383
	100.0	39.6	56.7	3.6
Northeast	1,237,883	559,841	582,877	95,165
	100.0	45.2	47.1	7.7
South	697,727	384,677	302,531	10,519
	100.0	55.1	43.4	1.5
Southeast	2,205,916	763,346	1,188,726	253,844
	100.0	34.6	53.9	11.5
Center-west	505,072	209,688	282,872	12,512
	100.0	41.5	56.0	2.5
Total	4,960,022	2,041,811	2,534,788	383,423
	100.0	41.2	51.1	7.0

Source: Ministry of Labor; RAIS-1989.

sector. Finally, *celetistas* are covered by social security instead of by civil service pension systems. This means when *celetistas* retire, they do not burden local government budgets.

The proportion of local government CLT employment is larger in the south and southeast, the most developed areas. Since civil service employment has grown at greater rates in the other regions, one may conclude that CLT hiring is still popular through the country's municipal administrations.

Age structure and schooling

On average, civil servants in Brazil tend to be older than private sector workers. For instance, 40 percent of civil servants are 40 years or older, while this age group makes

TABLE 14.3

Employment of civil servants under private sector labor law (CLT), by governmental level and region, Brazil, January 1993

(number, percent)

Region	Total	Federal	State	Local	Other
Total	2,322,332	386,381	483,305	1,452,596	16,506
	100.0	16.6	20.8	62.5	.7
<i>Capital cities</i>					
North	98,029	41,995	40,993	14,660	381
	100.0	42.8	41.8	15.0	.4
Northeast	327,520	77,688	191,025	56,824	2,383
	100.0	23.7	58.3	17.4	.7
South	90,230	29,842	44,306	15,171	911
	100.0	33.1	49.1	16.8	1.0
Southeast	210,614	99,699	72,489	36,681	1,785
	100.0	47.3	34.4	17.4	.8
Center-west	176,669	78,392	75,824	21,694	759
	100.0	44.3	42.9	12.2	.4
Total	903,102	327,616	424,637	145,030	6,219
	100.0	36.3	47.0	16.1	.7

Source: Ministry of Labor; Law 4.923/65.

TABLE 14.4

Civil service sector and total formal employment by age group and region, Brazil, 1989

(number, percent)

Region	Total	Workers under 40	Workers 40 and above	Workers' age not defined
<i>Civil service</i>				
North	313,424 100.0	207,721 66.3	103,030 32.9	2,673 .9
Northeast	1,237,883 100.0	720,010 58.2	507,822 41.0	10,051 .8
South	697,727 100.0	423,607 60.7	270,680 38.8	3,440 .5
Southeast	2,205,916 100.0	1,259,249 57.1	939,009 42.6	7,658 .3
Center-west	505,072 100.0	327,865 64.9	175,992 34.8	1,215 .2
Total	4,960,022 100.0	2,938,452 59.2	1,996,533 40.3	25,037 .5
<i>Total formal sector</i>				
North	904,372 100.0	676,668 74.8	215,249 23.8	12,455 1.4
Northeast	3,733,136 100.0	2,623,517 70.3	1,076,588 28.8	33,031 .9
South	4,165,822 100.0	3,150,385 75.6	991,480 23.8	23,957 .6
Southeast	13,998,572 100.0	10,298,633 73.6	3,590,772 25.7	109,167 .8
Center-west	1,402,637 100.0	1,037,341 74.0	359,946 25.7	5,350 .4
Total	24,204,539 100.0	17,786,544 73.5	6,234,035 25.8	183,960 .8

Source: Ministry of Labor; RAIS-1989.

up just 26 percent of the total labor force (table 14.4). Even in the north and center-west, regions of recent population influx and economic expansion where the civil service population is younger than the norm for civil service, civil servants as a group are older than the total labor force.

In addition to being older, civil servants, on average, are better educated than private sector workers. The proportion of civil servants with less than eight years of schooling is 28 percent. Though this is a large proportion, it is smaller than in other sectors (table 14.5). On the other hand, 33 percent of Brazilian civil servants have at least some secondary school education, and 23 percent have some college education. This contrasts with the corresponding figures for the total formal sector as a whole: 23 and 12 percent, respectively.

Salary structure

Compared with the total formal sector, extensive experience and better education do not produce a noteworthy salary difference for the civil servant. The pay structures for the two groups are similar (table 14.6). The only striking difference between the two groups is the large number of civil servants with an undefined pay structure: 13.9 percent, against 7.0 percent in the formal sector as a whole. The highest proportion of non-respondents—in both the civil service and the total formal sector—is in the northeast, 29.5 and 15 percent respectively.

Two nonexclusive conclusions may be drawn: First, the human resources administration of the civil service may be unable to meet the annual Ministry of Labor reporting requirements. Or, second, public agencies may consciously omit such data in order to prevent disclosure of salary information. Under either hypothesis the control of compensation policies is, at best, precarious.

Unless the 13.9 percent of civil servants with undefined pay structures are concentrated around some point in the civil service salary structure, the formal sector and civil service structures are similar. This reflects some underpayment for civil servants' higher human capital. It is possible that in more recent years underpayment has been aggravated by the financial crisis.

Historically the minimum wage in Brazil has been very low. It has remained around \$40 to \$60 per month.¹ If the monthly wage equals \$50, 42 percent of Brazilian civil servants make up to just \$1,800 a year, and only 20 percent make more than \$4,200 a year (table 14.6). Those are not encouraging figures given that civil servants include school teachers, police officers, doctors, and health care personnel. In early 1993, the monthly entry-level salary of a doctor in São Paulo—the richest Brazilian state—was about \$200, based on a four-hour working day (*Gazeta Mercantil* 1993). For a nurse, the monthly entry-level salary was \$220, based on an eight-hour working day.

In sum, first, the civil service has grown in recent years, but is still relatively small compared with the total population. Second, the laxity of public sector hiring arrangements is used to evade requirements of the civil service statute. As a result, public sector employment use of the private sector labor law is expanding, mainly at the local government level. Third, civil service jobs require more education and skills than those in the private sector if the effectiveness of the public sector is to be improved. Fourth, civil servants' pay levels are nonetheless very low—lower than pay levels for workers in the private formal sector.

Legal and institutional changes

In the past three years the federal Department of Administration, which manages the civil service, had four secretaries. Similarly, frequent turnover occurs at the top levels of state and municipal government. The effect is a lack of continuity in policy-making and policy implementation. Policies are adopted and discontinued before any evaluation of their effects.

Pay levels and morale

Lack of coherent and permanent human resources policies, combined with extremely low salaries, have severely undermined civil servants' motivation and commitment.

Attitudinal and behavioral surveys among civil servants are rare in Brazil. Anecdotal evidence, however,

points to the low pay and poor morale of these civil servants. For instance in Brasilia, low-level civil servants today work just four hours of a required eight-hour day. The author (among others) has observed this. Salaries are so low that civil servants have to earn a second income to survive.

One inference may be drawn from a recent administrative decision about salary adjustment for federal civil servants. At the end of the first quarter of 1993 there was to be a general salary adjustment for cost of living. After a highly publicized debate with the federal administration, the president selected a more generous offer which was supported by the departments of labor and of federal administration. He gave a general 33 percent increase in base salaries. The other offer, recommended by the department of the treasury, was for a general increase of 10 percent. The magnitude of these proposed increases suggests the dramatic fall in civil servants' purchasing power.

TABLE 14.5

Education level of civil service and total formal sector workers, by region, Brazil, 1989

(number, percent)

Region	Total	Education completed				Education level not defined
		Less than 8 years	Up to 8 years	Some secondary school	Some college	
<i>Civil service</i>						
North	313,424 100.0	86,082 27.5	54,931 17.5	110,670 35.3	53,727 17.1	8,014 2.6
Northeast	1,237,883 100.0	401,284 32.4	153,455 12.4	418,819 33.8	216,611 17.5	5,724 .8
South	697,727 100.0	207,692 29.8	79,280 11.4	189,245 27.1	215,786 30.9	5,724 .8
Southeast	2,205,916 100.0	579,095 26.3	309,584 14.0	716,793 32.5	579,610 26.3	20,834 .9
Center-west	505,072 100.0	123,255 34.9	52,899 10.4	187,248 37.1	91,654 18.1	50,016 10.0
Total	4,960,022 100.0	1,397,408 28.2	650,149 13.1	1,622,775 32.7	1,157,388 23.3	132,302 2.7
<i>Total formal sector</i>						
North	904,472 100.0	377,089 41.7	138,164 15.2	273,423 30.2	94,817 10.5	20,979 2.3
Northeast	3,733,136 100.0	1,682,489 45.1	425,726 11.4	1,075,022 28.8	441,820 11.8	108,079 2.9
South	4,165,822 100.0	2,144,438 51.5	575,861 13.8	881,594 21.2	511,333 12.2	52,596 1.3
Southeast	13,998,552 100.0	7,189,333 51.3	1,858,388 13.3	2,982,672 21.3	1,773,192 12.7	194,967 1.4
Center-west	1,402,637 100.0	541,426 38.6	178,077 12.7	416,873 29.7	187,444 13.4	78,817 5.6
Total	24,204,619 100.0	11,934,775 49.3	3,176,216 13.1	5,629,584 23.3	3,008,606 12.4	455,438 1.9

Note: "Up to 8 years" counts first grade and following grades; "some secondary school" includes secondary school graduates; "some college" includes college and higher-level graduates.

Source: Ministry of Labor; RAIS-1989.

Decentralization and privatization

The federal Department of Administration uses a very centralized model to manage the federal civil service. At the state and local levels, each government manages its public employees. Many services are delivered at the federal level, including health care, college education, highway construction and maintenance, federal police, professional training, unemployment insurance, and social security and workers' compensation. State or local administrations deliver some of those services and others, such as public sanitation.

The 1988 constitution transferred a large share of revenue from the federal government to the state and local governments. However, there was not a corresponding transfer of responsibilities to those two levels. So today, the federal administration has to deliver the same services it was supposed to deliver before 1988, with fewer resources.

To correct this situation, two kinds of policies may be used. One would transfer the lost revenues back to the federal government. The other would transfer the burden of delivering some public services to state and local governments. Apparently, the second solution has a large probability of being selected. This will not be a carefully thought out decision, however. Instead, the choice may simply be the result of the central government's inability to manage its highly centralized civil service system.

For instance, the federal government has recently submitted a bill to the congress that would decentralize the National Institute of Public Health. Under the bill, civil servants in the federal public health system would be transferred to state and municipal administrations.

At the same time, the public sector's inability to invest and expand is opening many public services to possible privatization. Highway building and maintenance, prison administration, basic education, and public trans-

TABLE 14.6

Civil service and total formal sector pay structure by geographic region, Brazil, 1989

(number, percent)

Region	Total	Up to	Pay as a multiple of minimum wage			Pay not defined
			1 to 3 times	3 to 7 times	More than 7 times	
<i>Civil service</i>						
North	313,424 100.0	42,234 13.5	121,995 38.9	55,198 17.6	54,992 17.5	39,005 12.4
Northeast	1,237,883 100.0	191,854 15.5	365,080 29.5	177,011 14.3	138,888 11.2	365,050 29.5
South	697,727 100.0	46,800 6.7	318,435 45.7	182,358 26.2	109,528 15.7	40,606 5.8
Southeast	2,205,916 100.0	135,243 6.1	696,961 31.6	690,415 31.3	470,721 21.3	212,576 9.6
Center-west	505,072 100.0	36,5975 7.2	123,374 24.4	110,935 22.0	203,350 40.3	30,816 6.1
Total	4,960,022 100.0	452,728 9.1	1,625,845 32.8	1,215,917 24.5	977,479 19.7	688,053 13.9
<i>Total formal sector</i>						
North	904,472 100.0	904,472 9.8	88,952 44.8	404,402 21.0	189,508 15.8	78,552 8.7
Northeast	3,733,136 100.0	523,621 14.0	1,615,424 43.3	575,81222 15.4	460,101 12.3	558,178 15.0
South	4,165,822 100.0	263,880 6.3	2,111,312 50.7	1,014,586 24.4	557,847 13.4	218,157 5.2
Southeast	13,998,552 100.0	814,315 5.8	5,771,521 41.2	3,930,183 28.1	2,742,872 19.6	739,661 5.3
Center-west	1,402,637 100.0	110,493 7.9	542,446 38.7	291,645 20.8	363,094 25.9	94,959 6.8
Total	24,204,619 100.0	1,801,261 7.4	10,444,125 43.1	6,001,734 25.0	4,266,614 17.6	7.0

Source: Ministry of Labor; RAIS-1989.

portation are services being seriously considered for transfer to the private sector.

Effects of the 1988 constitution

The 1988 constitution has substantially changed some rules affecting the civil service.²

Executive branch competence. One of the most important changes in the constitution is the distinction that was made between the executive branch, on one hand, and the judicial and legislative branches, on the other, in terms of competence to decide about the structure of federal administration agencies. According to the new constitution, the executive branch is the only branch that cannot independently decide how to structure itself. The president must submit any decision on that matter to the congress. By contrast, the legislative and the judicial branches are free to define the structures and functions of their agencies.

Equal pay for equal jobs. The 1988 constitution also established the principle of *isonomia*—equal pay for equal jobs. This should apply to the civil service as a whole, at each respective level. Thus, civil servants in the federal administration, working under the same job designation, should get the same pay and the same treatment no matter which government branch they work for.

After five years *isonomia* remains just a principle. Equal pay has not been established. Since salary differentials across government branches are large, and since attempt toward equity should raise lower salaries to higher ones, adherence to *isonomia* would mean a large increase in personnel costs. For this reason, the constitutional goal probably will only be reached in the long run.

The single employment regime. Under the 1988 constitution, civil servants are to work under a single regime, the statutory one. This would mean that all *celetistas* would have to become *estatutarios*. This goal has not been reached (see first section of this chapter). For local governments, the single statutory regime appears an elusive, remote goal. Transformation of *celetistas* into *estatutarios* would increase current personnel expenditures and create future burdens, such as retirement pensions.

Job security and "availability." The 1988 constitution allows continuation of the practice of "availability" (*disponibilidade*): civil servants who are considered redundant are labeled "available." They continue making their salaries, but need not report for work.

This principle of job security is often cited as an obstacle to civil service reform. The claim is based on the arguable association between civil service reform and downsizing. Because it prevents downsizing, the argument goes, job security is incompatible with reform.

Retirement. The constitution's treatment of retirement has created serious problems for public finance. First, the document kept length of service as the criterion for retirement. Second, it established the equivalent of length of service acquired in the public sector. Third, it confirmed the level of retirement pension in the civil service at the level of the salary when last employed by the government. The combination of these rules is a strong incentive for early retirement and cause for distortions. Many civil servants, still in their productive life cycle, may retire. Some retired workers are even rehired in a different public sector job.

Public sector unionism. Perhaps the most important change introduced by the new constitution was its extension to civil servants of the right to organize unions and to bargain collectively. Before 1988 civil servants bargained informally with public sector management through "associations," organizations that unofficially performed the role of unions. The labor movement in the public sector was growing rapidly, and strike activity was intense (Rodrigues 1992). Reflecting that reality, the constitution simply formalized the situation and allowed public sector unions to legally perform their role.

Still, the formalization of collective bargaining has brought change. First, public sector unions have increased their density and their bargaining power. Second, they have successfully brought some disputes to the labor courts. Although the labor courts are supposed to have jurisdiction over only private sector workers, the hiring of many civil servants under the CLT regime has enabled unions representing *celetistas* to submit disputes to the labor courts.

Collective bargaining in the public sector in every country is complex. Compared with the private sector, public sector management is less able to resist union demands. This is because the market mechanisms that affect the private sector take longer to work in the public sector. Second, collective bargaining, when used to its limit in the public sector, may be less than democratic. Through collective bargaining, a minority of civil servants may impose their interests on the majority of the citizenry (Wellington and Winter 1971). In Brazil, all this is aggravated by the unions' right to take disputes to labor courts, so that judges' decisions can affect the allocation of public resources normally determined by the government budget.

Reflecting the complexities of this issue, the supreme labor court ruled against the right of collective bargaining for civil servants. It is not yet clear how the constitutional right to bargain collectively, assured to civil servants, will be combined with the resource limitations, and with the need for the three branches of government to remain autonomous.

Prospects for pay and employment policies

Current trends—outlined in the two previous sections—point to suggestions for the design of a successful civil service reform in Brazil.

The first conclusion is that civil service reform should be addressed from a long-run perspective. Recent experience has shown that there are no quick miracles to solve problems created and aggravated during decades. This means that reform is not a one-administration task. It should, instead, be a continuous process negotiated by social actors and included in further reform of the constitution.

Second, the success of civil service reform, particularly the salary problem, will depend on a healthy and growing Brazilian economy. This is not to say, however, that reform should wait for stabilization. On the contrary, both should be addressed immediately.

Third, in light of the size of the country and the already existing trend to decentralize provision of public services, civil service reform should be simultaneously considered for the three levels of government. If the civil service comprises just 3 to 4 percent of the Brazilian population, the main problem is not the size, but the distribution of the public work force among the three levels of government and across regions. Reform should concretely consider transferring civil servants among levels of government and among regions. Certainly this should be a voluntary process.

Fourth, the possibility of privatizing some public sector activities poses a new set of labor issues. For instance, once some services are performed by private agents, it will be possible to compare pay, performance, and working conditions of public and private sector workers. Thus, through collective bargaining and demonstration effects, compensation and other human resources policies in the public sector may become similar conventions in the private sector.

Fifth, connected with the reality that unions and collective bargaining are in the Brazilian public sector to stay (Mitchell 1988) is the need to foster union support for civil service reform. Public sector reformers should take advantage of the unions' permanence and long-term prospectives to counterbalance the problematic constant

turnover among top public sector management. Enlisting union cooperation with civil service reform, however, will require more cooperative attitudes among government and the unions. The unions are most likely to cooperate with reform if bargaining is decentralized and if there is competition within the union movement (Cutcher-Gersensfeld, Bodah, and Patterson 1992). Both conditions may emerge in the Brazilian public sector in the near future. If unions see a change in attitude, they may view civil service reform as something that can benefit civil service.

Sixth, with decentralization and union cooperation, private sector compensation policies could be introduced in the civil service—in particular, a performance-related pay policy, which has been adopted by the civil services of several countries in the OECD (Maguire and Wood 1992). Since salaries are so low in Brazil, real salary increases should be a key part of the reform. Performance-related pay schemes could connect real compensation increases to performance achievements.

Additionally, performance-based compensation could gradually replace salary supplements, which are more than 50 percent of civil servants' pay. Salary supplements are often used as a device to circumvent salary controls and have no relationship to market conditions or job performance. By contrast, performance-related pay could introduce a common interest in performance among management and employees. It would also be consistent with decentralization and promotion of competition within the civil service.

Civil servants may be willing to earn less pay than their experience and education warrant in return for job security. If this is correct, it may be that civil servants prefer job stability to competition. In that case, public sector management should consider adopting performance-related pay for groups rather than for individuals, so that individuals will not feel threatened.

Seventh, civil service reform needs to address issues related to retirement. Reform of social security, also on the structural reform agenda in Brazil, should include some articulation with civil service reform. The fact that civil servants are older than private sector workers means that retirement pensions will put increased pressure on public resources if a single statutory regime is implemented. There is, however, a positive side to this. There are increased opportunities to downsize through attrition or to replace older workers with newly hired ones.

Last, civil service reform will not be completed if it is not accompanied by an aggressive policy to promote civil servant training and basic education. Although civil servants are better educated than private sector workers,

their overall education levels are low. Because the civil service labor force has achieved job security, and thus will be in place for the long term, it is worthwhile to invest in improving existing human resources.

An educated and well-trained labor force should be the basis for improving the provision of public services.

Notes

1. All dollar amounts are U.S. dollars.

2. This section is based on the work of a group of specialists in public administration led by Maria Sylvia di Pietro (1993), who are working in the program for constitution reform at the University of São Paulo.

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Selected Discussion Points

Discussants: Gary J. Reid and Ishac Diwan

The issues of civil service compensation and downsizing were taken up by this roundtable's invited discussants, Gary Reid and Ishac Diwan.

G. Reid: Ishac Diwan and I have divided the responsibilities for commenting. I'll focus on pay and he'll focus on downsizing. The paper that raises salary issues most directly was just presented by Professor Kitchen and I have a number of comments on that.

Probably the most important thesis Professor Kitchen put forth is that there is no systematic basis yet for establishing civil service pay scales—and that this is a major problem. I agree that it's hard to see what systematic justification is behind civil service pay scales. Nonetheless, I think a lot of civil service pay scales do have elaborate systematic bases. And I have an alternative proposal that I think makes sense.

The sort of standard civil service pay scale that you run into in Latin America—and I don't think this is atypical for most of the world—is set by what I call “technical criteria.” These follow the same distinction that Moises Naim mentioned earlier about ways to set pay scales—technically, economically, or politically. For technical criteria, some office does detailed job descriptions that include identification of skill requirements and responsibilities. These are sometimes in excruciating detail and sometimes fairly casual. Every job position is described and then—in the more elaborate systems—is assigned points. In this way, salary increments can be determined on the basis of the particular skills and responsibilities borne by a position. The positions are described and are assigned numbers on the basis of the scale, which then is used to assign a salary.

Unfortunately, this technical criteria is set in an economic vacuum. It has nothing to do with the opportunity cost for the individuals you are trying to recruit into those positions—and it may or may not yield a wage that is

competitive with what the person you would want to hire might be able to get in the private sector. And that's a problem. The result of this “systematic” effort is a terribly unsystematic relationship between public and private sector salaries.

In the background paper I drafted for this conference (chapter 8) I cite a number of comparisons of public and private salaries by type of position to illustrate how you get terribly unsystematic relationships. In Trinidad and Tobago, for example, a permanent secretary in the public sector makes about 63 percent what a chief executive officer (a comparable position) makes in the private sector.

On the other hand, although most of the ratios in Trinidad and Tobago range between about 50 and 70 percent, some ratios get up to around 100 to 125 percent. For example, if you compare a computer operator level 3 in the public sector with the equivalent computer operator in the private sector you get a ratio of 125 percent. So that is a little bit above what they can get in the private sector. The comparisons may not be perfect but they are a lot closer than you get when you look at a scholar rank 12 in the public versus private sector because a scholar rank 12 includes a nonhomogeneous set of positions. There is often a systematic basis behind the salary-setting for these scholar positions, but, as I said, it's done in an economic vacuum.

I want to recommend a different approach. The public sector competes with the private sector for workers. If it wants to land workers of a particular quality it has got to provide wages that are competitive with those available in the private sector. The appropriate way to set a public sector salary is to look at private sector comparators for comparable positions and decide how much you and the public sector can afford to pay, given that you have to staff all your positions. Once you have established the amount you can pay, having priced out a roll of possible

positions, you're going to make hiring decisions to pay that same ratio for every position.

Or, alternatively, if you want to make a concession to certain egalitarian standards, then you will specifically allow that ratio to vary systematically across skill levels to reflect your egalitarian preferences. So, for instance, you might say at the lowest end we will pay 70 percent of what is available in the private sector and at the highest end we will only pay 50 percent in order to assure a little more quality in the public sector compared with the private sector at the higher level. So that's an option.

The key point here is that there is an explicit link between public and private sector salaries and any divergence between the two is justified either on egalitarian grounds or on the grounds that the public sector can afford to pay 100 percent; but, because we typically provide job security not found as often in the private sector, we do not have to pay as much. The portion that you do not have to pay will vary with market conditions. What you can do is price it out and decide what the public sector is willing to pay altogether and then maintain this fixed relationship. This is spelled out in detail in my report if you want to see the rationale for moving into this type of system from the standard *escalafon* (scale) based on technical criteria.

If you're starting with the standard *escalafon* and you want to move in this direction you will want to increase some salaries and maybe decrease other salaries. Instead of cutting salaries, I would advise that you freeze salaries at current levels, allow inflation to eat away the ones that are too high, and continue to make increases in the ones that are below your target—until you finally get everybody at your target levels. That's a less painful way of moving in the direction you want to go. But if you're going to use that strategy, it's important that you have it spelled out explicitly in advance and that you set up mechanisms to ensure that you will stick with it. I think you can establish a systematic basis for establishing civil service pay scales along the lines that I just outlined.

I want to raise a subpoint to this: what should the relationship be between public and private sector pay? Each country would have to decide the ratio it finds acceptable, and I can see the ratio varying over time depending on how satisfied a country is with the quality of civil servants it's able to recruit and the fiscal resources available. Throughout all of this salary setting, it is obviously essential that you pay attention to the fiscal constraints of the country; it would clearly be suicide if your public sector could not afford raises.

Another question: optimal compression ratios. I'm completely in agreement with Professor Kitchen that compression ratios are, as I would call them, an epi-

phenomenon or, as he said, something you discover after the fact rather than before. Compression ratios are, from my point of view, irrelevant but we end of paying a lot of attention to them. We focus on compression ratios for two main reasons. First, they are easy to calculate because it is easy to identify the top and the bottom of the public sector salary scale. Second, a compression ratio is something you can put your hand around and say, this is bad and we should change it. But, in fact, there is no optimal compression ratio.

I don't think compression ratios ought to affect your decisionmaking. You ought to be in the game of gathering private sector salary data so you can make the appropriate comparisons. Those data turn out to be pretty readily available. I had no trouble getting them in Trinidad, in Venezuela, in Chile, and in Argentina. I'm sure there are some countries where you can't get the information but it's not as hard as you might think and it is not very expensive. There are private sector firms out there that provide those sorts of services all the time because private sector firms like to have these comparisons for setting their own wages.

I. Diwan: As many people have done today I should start with the buzz word. I am not a public sector specialist but I'll try my best to discuss the papers we heard this afternoon. I want to try to highlight two aspects of downsizing that were discussed. The first has to do with compensation schedules in downsizing and the second with the role of compression ratios in attrition—and there I'll try to contradict a bit what Gary tried to convince you of.

I'll try to stick to these two points, both taken from the paper, "Public Sector Retrenchment and Severance Pay: Nine Propositions" (chapter 10). When I started writing the paper I wanted to call it Three Propositions, so let's hope I can keep to two points this afternoon.

On the first point, I will argue that it pays to develop more sophisticated severance mechanisms and more sophisticated contracts, and to use voluntariness as a means to elicit self-selection. And there I want to draw on an intuition that many Latin Americans have these days, which is that reductions are complex, certainly the reduction options that we've seen. I want to argue that retrenchment and layoffs are very similar to government efforts to reduce not financial debts but other social liabilities, such as job security.

On the second point, I maintain that we shouldn't think of choosing between downsizing and attrition. Rather, we should think of sequencing the two in a way that makes sense. Let me start with the first point.

I want to argue that voluntary measures such as those we heard about for Trinidad, Argentina, and other coun-

tries are useful. But first note that having these be voluntary is not necessarily a commitment to not expropriate worker rights. Rather, workers can be given a choice between various options and still lose out. So it is important to find ways to spread the burden as widely as possible by eliciting information about the extent of the potential losses to particular individuals. Get them to pick what is most valuable to them and, in so doing, minimize the fiscal cost—what needs to be given to them.

Instead of theorizing about this, maybe the best way is to mention a program that Spain offered between 1985 and 1988. The program was a manual of three options offered to workers in the public sector. At any time workers could pick one of the options. The first option was early retirement, a well-known option. It was chosen by the end of the program by about 21 percent of those exiting service. The second option was a payment of cash with employment compensation for eighteen months after the time of exit. This was picked by 40 percent by the end of the program. The third option was a guarantee of 80 percent of the wage at the moment of separation. The government was committed to pay whatever subsidies were needed to private sector employers to hire these employees—and, in addition, this option had free retraining. These employees were retrained and moved to the private sector. Of those exiting, 35 percent chose this option.

Now let's describe some of the characteristics of this menu. First, it is a voluntary choice with a restricted set of options. Each worker picks what fits his or her needs best. In a sense if the public sector knew exactly the characteristics of all workers, the public sector could have chosen for each worker. It is the inability to collect that complex set of information that makes this approach useful. In terms of the options, early retirement is useful in many respects. It minimizes the effect of layoff unemployment. This is useful for various reasons: beyond the fact that unemployment is not good, early retirement also reduces the need to compensate other exitors who would have to wait in line until they could find a job. The larger the unemployment rates, the harder it will be to find a job and the more the job-seeking exitors will have to be compensated. The early retirement option reduces that need. You would expect it to be quite generous because it reduces the cost for the government of the other options.

The second option—the cash offer with unemployment compensation—you would expect to be picked by the entrepreneurs. Those who need the cash to start a business, those who value the equity most. You wouldn't expect it to be picked by those who want guaranteed jobs; the cash would be too little an inducement for them. If the government had wanted to offer only this

option for everybody they would have had to be much more generous. By the way, this option offered unemployment only for eighteen months because, if it were offered for longer, people would keep looking for a job indefinitely. (There are, of course, other methods to address this last problem.)

The third option—the guarantee option—is a costly one. On the other hand, keeping those workers in the public sector would also have been costly and this option, when you think about it, pays only under one condition—that the worker who exits is more productive in the private than in the public sector. If he or she is more productive in the private sector then it certainly is a good deal for the firm, the public sector, and the employee—since the pie is bigger. The pie could be redivided between the three in some useful way, and I think that's what the guarantee option does.

A fourth observation: the program was opened for four years—a long time. This allowed workers to retire at a certain speed. If they retired all at once, unemployment would be too large; in a sense the value of these options wouldn't be high enough. Keeping the program open for a long while allows exits to take place voluntarily and, most likely, at a speed consistent with the rate at which the market can absorb new entrants as well as the newly unemployed. And I think that is a key point in building programs.

A final observation: the third option offers only 80 percent of the previous wage. We expect all three options to actually expropriate from workers about that amount—20 percent. Now if these workers also had the choice—and here they did—of staying in the public sector and if public sector wages were not reduced, nobody would choose any of these options. It would be more valuable to stay in the public sector. Therefore, to spread the burden of the program as widely as possible and to make this program work, the remaining workers' salaries also have to be expropriated to some extent. This can be done through wage reductions but need not be. It can be through the enforcement of higher standards, which is what happened in this case.

Finally I want to deal with the issue of adverse selection—or brain drain. In this program they refused to allow this—that is, the program was voluntary within well-defined boundaries. There are other examples of complex but useful schemes and these are along the lines of indexing payments to various characteristics such as length of service, most recent wage, number of years of denied service, and so on.

But let me move on to my second point: the role of compression ratios in attrition. Here I want to think of attrition in its widest sense, not just freezing hires but also

allowing the wage schedule to compress—which occurs often—by not permitting wage increases and holding on to the minimum wage. This gives you a compressed wage structure over time.

I find this interesting for the following reasons. We observe wage compression often so we need to try to understand why we frequently see it taking place before downsizing and how efficient—or inefficient—that is. What I want to argue is that it makes sense to start with attrition, and after a few years, follow up with a severance package and wage decompression. The idea behind this is simple.

If public sector salaries are going down you would expect many workers who are not enjoying large rents, those who have good opportunities in the private sector, to exit voluntarily—because the alternative is not much worse. On the other hand, if you offer severance to everybody who exits, these same people would wait to get the severance pay and then exit. It makes a lot of sense to go through attrition first to make sure some people exit without having to be paid severance—and offer the severance package later. Of course the cost is inefficiency due to wage compression but at the same time you have a benefit that could compensate for this cost.

**Recruiting and Retaining
Personnel and the Higher
Managerial Ranks**

Senior Civil Service in Argentina: Creating an Elite Managerial Corps

Oscar Oszlak, with Ernesto Gantman

“It is of course essential to the public service that men of the highest ability should be elected for the highest posts.” (Northcote-Trevelyan Report on the Organisation of the Permanent Civil Service, 1854)

In recent years Latin American countries have begun to pay renewed attention to the improvement of their human resources, particularly at the central administration level. The new focus stems from the structural adjustment policies adopted by most governments in the region, which have led to various forms of downsizing, including reductions in levels of public sector personnel.

A lower number of civil servants—and the corresponding reduction in personnel expenses—allows governments to create new employee and management incentives systems (Reid 1992), while introducing new rules of the game regarding recruitment, training, evaluation, promotion, accountability, and employment stability.

Latin American governments have tried in several ways to upgrade the quality of their civil services, including establishing a few *key positions*, an *elite corps*, a *public sector-wide career civil service*, or an internationally funded, parallel *consultants' network*.

The first method seeks to improve performance in public management by relying on the critical role played by small strata of public managers—usually not exceeding 5 percent of the total central administration staff—assigned to key technical-cum-managerial positions (policy design, steering, and coordination positions, highly specialized functional or sectoral posts, and the like). In a way, this system is akin to the “Senior Executive Service” created in the United States under President Carter, although it admits several variants in different countries (for example, the 600 positions under the *sistema de cargos clave* [system of key positions] originally proposed in Bolivia, or the 465 *cargos con*

función ejecutiva [positions with executive responsibilities] in Argentina).

The elite corps approach, patterned after France’s ENA model, has—to my knowledge—only been adopted in Argentina. Members of this corps, the *Administradores Gubernamentales* (AGs), are recruited through a very strict, competitive system after a complex selection process and a specialized training program. Upon entering the corps, AGs, who are assigned to various staff, consulting, and managerial positions in the public service, are responsible to both the Secretary of the Public Service and the official in charge of the unit to which they have been assigned.

A public sector-wide career civil service is a much more costly and difficult system to implement. It requires a radical reduction in personnel levels, and sophisticated management tools to deal with the new rules and procedures established under a meritocratic system. Bolivia is presently establishing a program of this sort; and Argentina, under its *Sistema Nacional para la Profesión Administrativa* (SINAPA), is following a similar course.

Finally, almost every government in the region has introduced, to a greater or lesser extent, a system that employs outside specialists as consultants in middle- and top-level positions (even in high managerial positions), through parallel contracting with international donor or financial agencies. In some countries, as the number of consultants has grown,¹ there have been problems of equity, discrimination, conflicting loyalties, and sometimes serious disruption of day-to-day activities, leading to a search for more permanent solutions.

Argentina is probably the only country in the region currently using all these methods to upgrade its civil service. This chapter examines one of these systems—the *Cuerpo de Administradores Gubernamentales* (CAG)—in order to assess the strengths and weaknesses of this approach to civil service improvement. Almost nine years

have elapsed since this experiment was started—a period which, though not long, is adequate for a preliminary evaluation and possibly for drawing some lessons for similar endeavors. The other institutionalized approaches (for example, career civil service and key positions) are still too recent to assess their success, failure, or potential. And parallel contracting of experts through international organizations is widely regarded as a nonpermanent, undesirable solution. This chapter describes the experience of the CAG, and considers those other civil service regimes as part of its relevant context.

Democracy and public sector management upgrading

Ever since the times of Aristotle, merit has been a guiding principle for selecting the most talented people to manage public affairs (Hood and Jackson 1991). By and large, programs designed to raise the standards of leadership positions in government and business have invoked the principle of merit. Such was the case of U.S. President Jimmy Carter, who reintroduced merit as a guiding principle of the Senior Executive Service created under his administration (Lynn 1981).

However, there are certain political circumstances in which the appeal of this principle becomes paramount. This was the case in Argentina after the Malvinas war, during the country's transition from authoritarianism to democracy. The transition involved an extraordinary effort to reconstruct the cultural and institutional fabric of Argentine society. With the advent of the Alfonsín government at the end of 1983, long decades of alternating political regimes, policy orientations, and public sector management styles came to an end.

State reform during this transition period pursued very limited objectives. Instead of dismantling the state apparatus, there was still hope of improving its capacity and performance. Rising social expectations under stringent economic conditions meant there was more, not less, demand for state-provided goods and services. Privatization carried the stigma of the military-inspired motto "shrinking the state means enlarging the nation," as well as negative associations with some ill-fated experiences under military rule. Decentralization was still a major step farther down a road on which rebuilding federalism and local governments stood as a priority. Streamlining was ruled out: although the democratic government needed to bring highly motivated, loyal, and dependable personnel into the civil service, stability in public employment was still considered a most valued right. In turn, authoritarianism was heavily embedded in

the bureaucratic culture, posing a severe challenge to most reform efforts.

Under these circumstances, it is understandable that reforming the state took mainly the form of long-term, carefully designed initiatives intended to transform rigid organizational structures, improper behavior, and poor administrative practices over long periods of time. Among these initiatives, the creation of the CAG was probably one of the best indications that administrative reform under the Radical Party government was geared toward technical, incremental, and long-run changes, instead of toward the swift, drastic transformations that occurred under the successor Peronist Party government.

The CAG was seen as a way to bridge the century-old politics-administration dichotomy. With the endless sequence of military and civilian governments, top public managerial positions had been filled and refilled at the whim of short-lived incumbent regimes. Since the early 1940s the average tenure in office of ministers, governors, and secretaries of state had been about one year. Turnover in top-level positions in the civil service was comparable to this figure. Ineffectiveness was the natural companion of this discontinuity. Professional standards in public management had little, if any, opportunity to take root in administrative practice.

By placing highly trained and motivated young professionals in key positions of government, a new breed of public managers would be disseminated across the bureaucracy, thus providing both a critical mass of experts and numerous focal points from which new cultural and professional patterns could be diffused.

The philosophy behind establishing an elite corps was quite clear. It was not a matter of training new cadres to do the routine work of government better, but rather of training them to do things not done before, and with a totally new style. The professional profile of the future AGs stressed a service orientation, a basic commitment to solving the country's hard-pressing problems, and an unflinching allegiance to democratic values. Openness, intelligence, and common sense—rather than previous expertise in highly specialized fields—were considered the preferable background for these future agents of change.

The new approach also aimed at solving a structural problem: the absence of legislation allowing the creation of positions subject to free appointment. Under the existing rigid structural arrangement, there was a strict correspondence between directorships and directors: these functionaries could not be assigned to any other functions. Hence, if the government wanted to make a political appointment to fill a position of high responsibility, it was faced with a dilemma: it would either have to dismiss the incumbent director, thus violating the constitutionally guaranteed sta-

bility of public employment; or create new positions and, at the same time, displace the existing directors to “advisory” posts. It was very difficult to find people who could meet the three required conditions: personal and political trustworthiness, professionalism, and experience.

Insofar as the CAG attained a plural political composition and a satisfactory level of training, the system would permit future democratic governments to choose from within the corps personnel to fill certain positions on the basis of personal or political affinity, while preserving the spirit of administrative continuity (Groisman 1988).

Creation of the CAG

The CAG was created on November 23, 1984 (Decree 3687). The new legislation put into effect a system for selecting and training high-level civil servants, but the ultimate goal of the new system was defined as achieving an overall change in the values, systems, and criteria prevalent in the state apparatus (Groisman 1988). Looking back, the CAG was one of the pillars of the state reform strategy followed by the Radical Party administration.²

Soon after the democratic government was installed, a mission of the Secretaría de la Función Pública (SFP), headed by one of its undersecretaries, visited France to gather background information about the ENA system. The French government provided important assistance to the mission, although the idea of imitating the ENA corps was discarded from the outset.

As in the case of France, where the ENA had been created during the period of reconstruction after World War II, Argentina undertook reform of its civil service at the time it was confronting its deepest economic crisis and a difficult return to democracy. The new government found a demoralized bureaucracy, characterized by a generalized evasion of responsibility. To impose new game rules on a state apparatus so heavily loaded with the institutional and cultural remains of endless political regimes was considered an impossible task.

The reform program would require creation of a new civil service regime, characterized by a transparent and objective system of open competition and regular evaluation, as well as by training activities at all levels. (Today’s SINAPA system, introduced by the Menem government, closely follows this blueprint.)

At the opening ceremony of the first AG training course under the Programa de Formación de Administradores Gubernamentales (PROFAG), Jorge Roulet—the first Secretary of the SFP—indicated that Argentina’s public administration was in need of a new breed of civil servant—a servant of the country. The AGs

were to embody this ideal. They were to act as agents of change and as the source of a necessary cultural transformation. In due time, the corps would serve as a model to be extended to the whole civil service. In Roulet’s words, the AGs’ importance derived not only from their mission but from their role as the new model of civil servant: people recruited because of their own efforts and merit, proud of working for the public sector, and imbued with a sense of mission, commitment, and esprit de corps (Roulet 1988).

Members of the CAG would carry out planning, advisory, steering, organizational, and high-level coordination functions at all sorts of institutions of national public administration. The AGs would be assigned specific missions and, upon completion, would rotate to further assignments, thus affording exposure to new managerial responsibilities and a broader experience in public service.

As was pointed out at the presentation of the CAG statute (Decree 2098/87), the corps would break the traditional distinction between political and administrative roles, acting as an interface between the two. Horizontal mobility was intended to overcome the institutional dislocation caused by administrative feuds.

The recruitment of the first candidates was widely publicized in the mass media. The operation was likened to the recruitment process for entrance examinations for Napoleon’s Imperial Guard (INAP 1985). The CAG was intended to grow to and stabilize at around 1,100–1,300 agents—a number insufficient to replace all upper-level managers in the central administration (estimated at about 8,000).

A thirty-month program of instruction was designed for those candidates making the final cut, a number not to exceed sixty. This meant that the target of 1,200 agents would only be attained after at least twenty-five years. In August 1985, at the opening ceremony of the first PROFAG, President Alfonsín pointed out that the visible results of the project would become apparent only in the very distant future. The full functioning of the CAG would take place after the year 2000, meaning the overwhelming majority of the graduates would end up serving future democratic governments instead of his own (Alfonsín 1985). This was an explicit indication of the long-run character of the initiative, which, in this regard, represented a major breakthrough when compared with the traditional style and timing of previous administrative reform projects.

In sum, with the creation of the CAG, it was expected that a critical mass of highly trained and motivated young administrators would start a chain reaction within the public sector, which would lead eventually to the institutionalization of a new culture and style of public management. The value attached to pluralism and profes-

sionalism was to be preserved by an open and competitive system of examination and selection.³ However, the possibility of AGs becoming politically active was not dismissed. On the contrary, it was even conceived that some of them could act as “civilizers” of political parties. Furthermore, when the system became fully operational, it was expected that future governments would place a sizable number of AG party militants in cabinet or other political positions (Stuhlman 1988).

Selection of the AGs

The successful completion of a study program—both theoretical and action-oriented—was established as the only means of entering the CAG. In order to take the PROFAG training course, candidates are rigorously selected through a process that includes two general examinations and a series of interviews and psychological tests.⁴

The selection process is designed to identify candidates meeting the required standards and values: openness, intelligence, common sense, strong vocation, democratic beliefs, and a problem-solving orientation. Prerequisites for admission include Argentine nationality; a maximum age of 35; meeting entrance regulations established by the Basic Statute of the Civil Service; and previous graduation from a university after at least four years of instruction.⁵

The selection process begins with a test that includes exercises in language comprehension, general knowledge, and logical reasoning. A minimum score is established on the basis of the number of candidates. Those passing to the second stage must complete a case study over a fixed time span. Each candidate receives a file containing various sorts of documents, some of which are useful for the diagnostic and problem-solving work required in the case study.

In the initial two calls, the first 180 candidates to pass both tests were admitted to a three-month preparatory course designed to fill any important gaps in their knowledge and various professional backgrounds. However, these prep courses were also used as another stage in the selection process. Candidates coming from the public service received a special leave of absence with full salary, but in certain cases, their superiors considered their application for the CAG competition a signal of disloyalty and even objected to or rejected the request for a leave of absence. The rest of the candidates took the course without receiving any salary.

The contents of the course varied in each case, and included, among other subjects, modules dealing with law, methodology, economics, history, management, written and oral communication, and so on. Grades weighed

60 percent in the total score of the candidate (70 percent in the second course); the remaining 30 percent of the score was derived from an oral interview with members of the Board of the Instituto Nacional Administración Pública (INAP). This interview was structured around a subject chosen at random from a prepared list, and served to assess the candidate’s capacity for analysis, argumentation, and response in the face of unexpected stimuli.

The final selection was governed by the total number of vacancies established for each PROFAG class. A separate order of merit was set for civil servants and non-civil servants, with half of the vacancies assigned to each group.

Upon review, the preparatory course was not found to be worthwhile and was abandoned in the third call for candidates. The training goal pursued by the course was subordinated to the more critical goal, that of rigorous and appropriate screening in the selection process. Competition for scarce vacancies—only one-third of the candidates were to be chosen for entrance into the *real* training program—introduced a level of stress that proved incompatible with the learning process. In addition, the fact that sixty frustrated civil servants (of the 120 candidates to be eliminated) were doomed to return to their agencies after failing to pass the preparatory course became a source of despair and resentment. After describing some of these findings, an INAP report proposed a more adequate methodology to complete this third stage of the selection process (INAP 1987).

A number of intellectual, axiological, and attitudinal variables were weighted in the newly established guidelines. These included, for instance, the candidates’ capacity in terms of comprehension, reasoning, and oral and written expression; their conception of social and political life in terms of allegiance to democracy and solidarity; their attitude toward change, decisionmaking, and teamwork; their possession of a level of knowledge of the sociopolitical reality sufficient to ensure that they could adequately consider the environmental constraints on their work (INAP 1988).

TABLE 16.1

PROFAG candidates, by class and performance

Number of candidates	First Class	Second Class	Third Class
Total registered	2,491	840	2,506
Showed up at first test	1,596	553	1,614
Passed first test	838	321	405
Showed up at second test	723	296	383
Passed second test	184	180	133
Admitted to PROFAG ^a	60	60	75

a. Upon approval of prep course or series of tests and interviews.
Source: Author’s calculations based on data provided by the SFP.

TABLE 16.2

Distribution of PROFAG trainees by class, gender, and origin

Class	Male			Female			Total
	Civil service	Non-civil service	Total	Civil service	Non-civil service	Total	
First	20	13	33	10	17	27	60
Second ^a	20	15	35	11	16	27	62
Third	26	28	54	5	16	21	75

a. Includes two invited participants.

Source: Author's calculations based on data provided by the SFP.

In line with these criteria, the new selection strategy included a questionnaire composed of closed-end questions to evaluate academic qualifications; a half-hour interview with each candidate (after a thorough analysis of his/her curriculum vitae); group workshops to assess candidates' capacity for team work; a written test to evaluate writing skills; and a psychological test to detect any possible pathologies. After this preparatory evaluation was completed, a new interview and a second workshop were conducted before the final evaluation.

Table 16.1 contains statistical data on the various stages of the selection process, classified by class.⁶ The first observation is the striking difference in numbers between those who initially applied and those who actually attended the first test (36 percent, 33 percent, and 36 percent in the three calls)—a finding that casts some doubt on the strength of motivation of the massive number of applicants. The proportion of applicants showing up for the second test was higher. The admittance rate, based on the number of candidates who took the first test, was 3.7 percent, 11 percent, and 4.6 percent in the three calls. The sheer numbers attest to the extremely rigorous and competitive nature of the selection process, and can be considered a fair indicator of the high level of capacity and potential required for admittance to the PROFAG.

Table 16.2 presents a distribution of PROFAG trainees by sex, origin (public or private sector), and class. Among the male participants, those employed in the public sector ranged between 48 percent and 60 percent of the total, while among female participants, the proportion varied between 24 percent and 40 percent, depending on class. Male students predominated over female, particularly in the Third Class (55 percent, 56 percent, and 72 percent, respectively).

The average age in each class, shown in table 16.3, ranged between 29.5 and 32. Additional data on the composition of these cohorts by age may be found in table 16.4.

With regard to academic background, absolute frequencies found among PROFAG trainees can be observed in table 16.5, where the data have been classified according to Class and origin. Law graduates were the most well-

represented group in the First Class, among participants coming from both the public and the private sectors. In the Second Class, accountants, administrators, and economists ranked first on the list, and in the Third Class, engineers and system analysts constituted the most sizable group of professionals. Beyond the relative predominance of one discipline or another, it is worth noting the widely varied professional profile of the future AGs.

As mentioned, calls soliciting PROFAG candidates were widely publicized in the mass media. Part of the promotion strategy consisted of mailing applications to all university graduates registered with professional boards. Except for the Second Class, and despite the low rate of test attendance already mentioned, the response was unusual. At the end of 1992, with only thirty vacancies offered—instead of the usual sixty—the number of applicants reached 3,317, that is, more than 100 applicants for every vacancy.⁷

In view of this massive response, The National Institute of Public Administration decided to do a study to find out what motivates applicants to seek entrance to the corps. An INAP survey conducted among the universe of applicants to the second PROFAG shows that 13.3 percent had already tried to be admitted in the First Class. When asked open-endedly about their motives to become an AG, 35 percent of the candidates indicated "professional interest" as the most salient consideration, followed by "eagerness to debureaucratize" (25 percent), the "possibility of acquiring new knowledge" (15 percent), "access to a stable job" (11 percent), a "desire to serve the

TABLE 16.3

Average age of PROFAG trainees, by class and origin

Class	Civil servants	Non-civil servants	Total
First	32	29	31.5
Second ^a	33	31	32.0
Third	30	29	29.5

a. Includes two invited participants.

Source: Author's calculations based on data provided by the SFP.

country" (8 percent), and a "desire to consolidate democracy" (6 percent) (Alvarez, Antelo, and Groisman 1985).

Interviews recently conducted by the authors with a group of AGs have also considered the question of motivation. Their interest in joining the CAG appears to have been threefold: (1) to try to improve the public bureaucracy; (2) to take advantage of an opportunity for professional advancement; and (3) to find an honorable job. Although not mutually exclusive, these factors are in line with the findings of the previously mentioned survey. One of the interviewees indicated that, broadly speaking and on the basis of frequent talks with past classmates and present colleagues, finding a decent job could be considered the foremost motivating factor among non-civil servants, whereas improving the state apparatus was the predominant driving motive among civil servants.⁵

Elements in the CAG career path

The PROFAG is the chrysalis phase in the process of becoming an AG. And it is so in more than a figurative

sense. As with butterflies, PROFAG trainees progress from a larval phase—election into the program—into a long period of hibernation during which the candidate must complete a thirty-month full-time program of instruction before officially entering the CAG.

Preservice training

Trainees are incorporated as nonpermanent personnel of INAP and assigned a salary currently estimated at US\$920 a month. Those who already are public employees are given a special leave of absence at their institution and continue to receive a salary. If the amount is lower than that received by non-civil servants, INAP pays them the difference.

Although the design of the program has changed in each of the three PROFAGs offered so far, the main areas of instruction have remained almost unchanged: logic and mathematics, sociology and political science, economics, law, public administration, public policy and planning, management technologies, and oral and written communication. Foreign language courses are also offered.

TABLE 16.4

Age and origin of AGs at the time of PROFAG training

Age group	First Class			Second Class ^a			Third Class		
	Civil service	Non-civil service	Total	Civil service	Non-civil service	Total	Civil service	Non-civil service	Total
20–24	1	3	4	1	5	6	0	7	7
25–29	9	13	22	8	7	15	13	15	28
30–34	9	10	19	7	10	17	18	18	36
35 and older	11	4	15	15	9	24	0	4	4

a. Includes two invited participants.

Source: Author's calculations based on data provided by the SFP.

TABLE 16.5

PROFAG trainees by class, origin, and academic discipline

Discipline	First Class			Second Class ^a			Third Class		
	Civil service	Non-civil service	Total	Civil service	Non-civil service	Total	Civil service	Non-civil service	Total
Law	6	8	14	5	6	11	4	8	12
Economics	5	2	7	8	6	14	3	13	16
Political science and foreign relations	3	3	6	0	4	4	1	3	4
Sociology	2	1	3	1	3	4	1	0	1
Other social science	1	2	3	6	3	9	3	3	6
Engineering systems	4	4	8	5	2	7	13	8	21
Architecture	3	2	5	1	5	6	1	3	4
Basic sciences	3	2	5	2	0	2	3	1	4
Agrarian sciences	0	4	4	1	1	2	4	2	6
Health	1	2	3	1	1	2	0	1	1
Secondary Level	2	0	2	1	0	1	0	0	0

a. Includes two invited participants.

Source: Author's calculations based on data provided by the SFP.

A group of AGs is presently designing a program of instruction for the Fourth Class. As in the past, the program includes a six-month internship aimed at providing trainees with firsthand experience of participating in relevant projects or activities of public institutions. An intern's performance is evaluated by a team composed of an outside well-known expert and a representative of INAP's Internship Program. The final evaluation is made by this team and INAP's top authorities.

Successful completion of the training program does not provide any academic credentials. As the first Program Director put it, "the instruction is worth the value that will be attached to those receiving it; its prestige will also be commensurate to that assigned to the future performance of the trainees" (Groisman 1988).

Of the 195 participants trained at the first three PROFAGs, only 173 were finally admitted into the CAG.⁹ Some abandoned the course because of family or personal reasons; others made it to the end but decided to remain in their previous jobs, probably because their salaries were higher than the amount established for the first step of the corps salary system; only a few participants failed to pass the course.¹⁰

Upon admittance into the PROFAG, participants must formally declare that, if they successfully complete the program, they will serve in the public administration for at least six years. In case of early resignation, the AG must pay the government an indemnity of 50 percent of the latest salary received, multiplied by the number of months remaining until the six-year period is completed. The minimum years of service stipulation is intended to retain corps members for a period that at least guarantees a minimum rate of return on the investment.

Salary levels

Obviously, the salary received by an AG should be competitive with the level offered in the private sector for a similar job. It should also be compatible with the salary hierarchy attached to steering, advisory, managerial, and upper-level coordination functions. Salaries depend on grade level and step. The corps's statute establishes three grade levels (A, B, and C) and three to four steps at each level, but there is no relationship between grade level and the hierarchy of the functions performed. Promotion to a higher *step* requires a minimum period of service in the lower step and a performance score evaluation above the minimum established. Promotion to a higher *level* demands not only meeting these requirements, but also completing training and development activities that are to be introduced according to Decree 2098/87. Table 16.6 details the various levels, steps, and their respective maxi-

TABLE 16.6

Years of service at different levels and steps

Level	Step	Maximum	Minimum
A	3	—	—
	2	4	3
	1	4	3
B	3	4	3
	2	3	2
	1	3	2
C	4	3	2
	3	2	1
	2	2	1
	1	2	1

— Not available.

Source: Author's calculations based on data provided by the SFP.

TABLE 16.7

Distribution of AGs by salary level

Level	Salary (U.S. dollars per month)	Number of AGs
C4	3,580	95
C3	3,380	68
C2	3,180	7
C1	2,980	—

— Not available.

Source: Author's calculations based on data provided by the AG Coordination (SFP).

imum and minimum periods of service. In all cases the difference between maximum and minimum lengths of service is one year. If an AG exceeds the maximum period of service at a given step and is not promoted, he/she is subject to dismissal.

Table 16.7 shows the distribution of AGs by level and step. It can be observed that most members have already reached the upper two steps of level C. The system clearly awards nearly automatic promotion by seniority. Unfavorable evaluations appear to be rare and, at worst, may produce a one-year delay in promotion. Until now, no case of removal from the corps has been registered. The distribution may lead to two different conclusions: either members of the different classes have a positive and homogeneous performance; or the evaluation system does not distinguish the quality of performance well enough.

A comparison of the current salary levels of AGs¹¹ with salaries paid to similar personnel in the public administration and in the private sector is presented in table 16.8. Salaries considered for the public sector include only those paid to personnel that have been incorporated into the SINAPA and the Executive Position regimes. These systems were created only two years ago and are still being implemented. When comparison is made with

salaries paid under the "dry escalafones," (salary scales) which still apply to a large segment of the bureaucracy but have not been included in table 16.8, AGs receive several times the salary of the highest grade.¹²

Salaries fixed for Executive (or "critical") Positions are higher than those paid to AGs. However, the monthly salary for levels B and A of the CAG statute have not been set yet. In 1994 many AGs will be promoted to level B. Hence, their salaries might increase substantially. For their part, AGs receive higher salaries than officials belonging to SINAPA, who must also be university graduates and perform similar organization, planning, and control functions (Decree 992/91).

Comparisons with the salaries paid in the private sector are more difficult, due to the wide disparities found in this market. The Price Waterhouse salary survey shows that private sector top managers, in any functional area, receive a much higher income than AGs. If we consider the middle-level managers, their salaries are comparable to those of AGs at the C4 level. However, analysts in the private sector, with several years of work experience and a university degree, are paid a much lower salary than the AGs.

Although salary levels are important, a sense of vocation seems to play a major role in motivating the AGs. Even without a required minimum period of service, our interviewees said that in order to induce them to move into the private sector, it would be necessary to at least double their present salaries. One of the AGs even claimed that it was not a matter of salary: her main motivation was the possibility of reforming the state apparatus.

However, salary level was indeed a major source of concern and lack of motivation when, at the beginning of 1990, the AGs' income dropped considerably. The AGs Association was established at that time to collectively represent its members in salary negotiations and other welfare-related matters.

Inservice training

With respect to promotion-related training, programs have not been defined yet. The CAG Coordination Board is currently designing a permanent program of training. To date the AGs have tried to meet their own training needs in accordance with their professional interests and activities. Many have participated in seminars, workshops, conferences, and courses offered by INAP, the University of Buenos Aires Master Program in Public Administration, and other institutions. A couple of AGs have continued their postgraduate training abroad. According to a recent report, ongoing training, updating of knowledge and skills, and specialization seem to be the most valued goals of the CAG.¹³

Performance evaluation

Performance evaluation of AGs is critical for making decisions about promotions to higher grades or dismissals. If an AG receives a low score for two consecutive years or five alternate years, or reaches a maximum period in a grade but is not promoted, he/she may be liable for discharge.

Initially, the CAG statute required that evaluation scores be given by the Secretary of the Public Service himself, on the basis of reports prepared by the CAG Coordination and AG supervisors at post.¹⁴ This system has been replaced by an Evaluation Board composed of eight members, all of them AGs. Four of the members are appointed by the Secretary of the Public Service and four by their peers. The CAG Coordination is now responsible for field monitoring of AGs' performance. Supervisors are consulted and periodic reports from the AGs are obtained. With this background information, the Board submits a nonmandatory prescoring opinion to the Secretary of the Public Service, who is responsible for the final score. It

TABLE 16.8

Levels of salaries for AGs and other comparator personnel

(U.S. dollars per month)

CAG		SINAPA		Executive positions		Private sector	
Level	Salary	Level	Salary	Level	Salary	Position	Salary
C4	3,580	A2	2,660	I	4,900	Administration manager	7,767
C3	3,380	A1	2,464	II	4,400	Planning and control manager	8,901
C2	3,180	B2	1,820	III	3,900	Personnel administration manager	6,665
C1	2,980	B1	1,660	IV	3,400	Internal audit manager	7,338
				V	2,900	Department chief ^a	3,854
						Senior internal auditor	2,965
						Management control analyst	2,246

Note: Salaries are in U.S. dollars per month.

a. Average salary of department heads in general accounting, operations and management, recruitment, internal audit, budgeting, and economic-financial analysis.

Source: Author's calculations based on data of the SFP, Decree 2807/92, 2712/91, 2129/91, 1512/92; and the Price Waterhouse Salary Survey of February 28, 1993.

would be interesting to find out whether final scores differ from those assigned in the previous evaluation stage—or, put differently, to determine the extent to which the actual scoring attribute is in the hands of the AGs.

The CAG's first years

The CAG began to function as a corps when the PROFAG First Class finished its training in January 1988. High expectations created during the instruction period—the result of frequent reassurances received from the political authorities about the elite character and the transcendent mission of the corps—were soon adjusted to a new reality. As an AG put it, “after being the ‘President’s men,’ the ‘top of the administration,’ we simply became another group of policy implementers.”

Important changes that occurred in the political environment may partly account for this change. The Radical Party had experienced a heavy loss in the 1987 parliamentary elections. The government’s economic plan had begun to meet with increasing difficulties. The anticipated move of the capital city to Viedma—a project in which the AGs were expected to play a leading role—had been abandoned. Nonetheless, the missions assigned to the AGs were carried out rather smoothly and the corps began to be known throughout the public sector.

Expectations about the AGs’ role were much clearer when the Third Class of PROFAG trainees started the instruction period. In 1989 the recruitment of the Fourth Class was suspended after the first test. The Radical Party was defeated at the presidential elections and a change of government had to be anticipated in view of the unmanageable situation created by the hyperinflation of May–June 1989. Initially, the new Secretary of the Public Service was not very enthusiastic about the CAG. The incoming political appointees looked upon the AGs with distrust. “They believed we were all radicals,” commented one CAG member. But in her opinion, the CAG’s overall performance was decisive in maintaining the corps’s legitimate domain and dispelling unsustained preconceptions.

The CAG soon came to be considered by the Secretary of the Public Service as a positive instrument for attaining political goals. Nonetheless, the new authorities decided to discontinue the PROFAG training program. In their view the civil service regime introduced by the newly adopted SINAPA system, with its emphasis on performance evaluation and ongoing training programs, made it unnecessary to increase the number of corps members. As a matter of fact, the AGs were offered reclassification in the SINAPA under a separate new grade system, but the proposal was rejected.

The Justicialista Party government put into effect an ambitious state reform program. AGs found in this program an opportunity to demonstrate their technical competence. Some of them believe that, during the reform process, the corps has gained greater prominence and recognition from the political authorities. AGs have fulfilled a variety of worthwhile assignments, including:

- Monitoring and evaluation of privatizations at the Ministry of Economic Affairs
- Technical assistance to provinces and municipalities
- Mediation in the Deregulation, Decentralization, and Destatization Program
- Restructuring of several ministries and state secretariats of the central government
- Design of a computerized information system for managing organizational structures
- Participation in the Administrative Reform Committees created in each jurisdiction of the public sector
- Elaboration of the SINAPA system
- Coordination and support of the Administrative Reform Control Committee
- Participation in thirty-one delegations of the SINAPA Permanent Career Committee, representing the SFP
- Performance of several advisory, project design, and managerial functions at institutions such as the National Grain Board, the Water and Sanitation State Company, the Central Bank, the Municipality of Buenos Aires, various ministries of the national government, and the National Audit Board.

As the preceding list makes clear, the activity of the AGs has been quite conspicuous. Nonetheless, the recall of the PROFAG Fourth Class—made at the end of 1992—set a ceiling for admittance of thirty trainees. This means that the original target of stabilizing the corps’ size at around 1,200 members has been dropped altogether. The AGs themselves believe that 200 corps members would be sufficient to do their job within the new state emerging after the reform process.

Corps members in the field

The assignment process

The assignment process begins with a request for technical assistance from a state institution. The application form distributed by the SFP includes a list of assistance modalities, such as central ministry advice, project management, program coordination, planning, monitoring and control, normative reform, design of manuals and procedures, information systems consulting, modification and redesign of organizational structures, institutional diagnoses, and

organizational development. Decisions on applications are made by the SFP following a routine evaluation. If assistance is granted, an interview is arranged between members of the CAG Coordination and the requesting party, in order to reach an agreement on the desired profile of the AG (or AGs) to be assigned to the mission. A search is then made among AGs who are about to finish their duties elsewhere, interviews are held with one or several candidates, and a final assignment is made.

To the extent possible, assignments are made on the basis of compatibility with the AG's professional interests. The final decision is made by the Secretary of the SFP, based on the information provided by the CAG Coordination. To ensure rotation, regulations stipulate that no assignment can last more than three years.

Distribution of corps members

Table 16.9 shows the assignments distribution of AGs by institution. The largest proportion is found at the SFP, where their main duty is to implement policies made by this institution. Even those agents assigned to provinces and municipalities are commissioned to carry out programs originated at the SFP and INAP.

Assignments can also be classified according to the type of functions performed. Table 16.10 shows the number of AGs in charge of *substantive* (that is, production of goods, services, and regulations) and *support* (operations and management, human resources management, accounting, budgeting) functions, indicating how many of them fill upper managerial or advisory/implementation positions. The figures suggest a trend that seems to run counter to one of the main goals in the creation of the

TABLE 16.9

Distribution of AGs by institution of destination, February 1993

Jurisdiction	Number of agents	Percentage
Secretariat of the Public Sector (SFP) ^a	67	39.4
Ministry of Economic Affairs	32	18.8
Ministry of Health and Social Action	17	10.0
Ministry of Culture and Education	14	8.2
Ministry of the Interior	12	7.1
Ministry of Labor	7	4.1
Ministry of Foreign Affairs	3	1.8
Presidency of the Republic	7	4.1
Legislative Power	4	2.4
On leave of absence	7	4.1
Total	170	100.0

a. Includes INAP, delegations of SINAPA, and INAP programs in provinces and municipalities.

Source: Author's calculations based on data from CAG Coordination.

CAG: since an overwhelming majority of assignments are in the advisory/implementation functions, it would appear that the original goal of assigning AGs to upper-level management positions has been reconsidered—or that this function has been taken over by the Executive Positions regime.

One way of judging the importance of the role played by AGs is by observing the organizational level to which they are assigned. The CAG Coordination shows a keen interest in assessing the strategic position of corps members within an organization, assuming that it increases proportionately to the level of insertion. Tables 16.11 and 16.12 provide information on this subject for both centralized and decentralized institutions.

Conflicting loyalties

A typical problem encountered in the assignment of corps members is double dependency. AGs are hierarchically linked to the SFP on a permanent basis, while at the same time, they are functionally linked to the institution to which they are temporarily assigned. Members of the corps contend that "this work arrangement avoids both the development of perverse routines and the possibility of AGs being trapped by the very organizational culture they are supposed to change" (Falivene and others 1992). In addition, it is believed that it helps diversify their professional experience and create a generalist profile fitted to multiple work situations.

TABLE 16.10

Distribution of AGs by area of activity and type of function, August 1992

Area of activity	Type of function	
	Management	Advice/implementation
Support	2	52
Substantive	4	62

Note: An AG may perform more than one task in the same or in a different institution. Source: Author's calculations based on data provided by the CAG Coordination.

TABLE 16.11

Distribution of AGs by level of insertion in the central administration, August 1992

Organizational unit	Number of agents
Minister	1
Secretary of State	44
Undersecretary of State	28
Directorship	3
Total	76

Source: Author's calculations based on data provided by the CAG Coordination.

TABLE 16.12

Distribution of AGs by level of insertion in decentralized institutions, August 1992

Organizational unit	Number of agents
Presidency	35
Board of Directors	16
Directorship	19
Total	70

Source: Author's calculations based on data provided by the CAG Coordination.

In practice, however, double dependency may become a source of conflict. Although it is not the rule, conflicts do arise in isolated cases, particularly when the implementation of SFP policies is at stake. Assignments tend to fall into one of two categories: those in which the task consists of carrying out, at a given institution, policies formulated by the SFP; and those in which AGs are more directly concerned with policies made at the agency to which they are assigned. In the first case, it is possible that at the political level the two institutions are pursuing diverging goals, thus making the possibility of conflict greater. In the second case, the SFP usually does not get involved and conflicts are unlikely. In any case, AGs are continuously reminded by the CAG Coordination about the "operational autonomy of the corps." Hence, in situations where the level of conflict between political goals becomes too high, the AGs involved are given a new assignment.

To wind up the discussion on this point, it seems that the Menem government is using the CAG to execute policies made by the SFP itself, whereas the previous Radical Party government foresaw a more diversified technical role for the AGs. According to one interviewee, "the SFP sees the performance of the corps in terms of its rate of political return: what is important is not the technical aspect of the work, but rather the possibility of monitoring and influencing policy implementation in other public institutions."

Values and attitudes in the corps

After two years of training, the different PROFAG classes develop very close ties and strong feelings of solidarity. Upon entering the corps, these feelings are extended to, and shared with, other peer members. Therefore, "a sense of belonging" becomes generalized throughout the entire corps. Members are perceived by outsiders as a closed and elitist group. Their Association serves as "a home and a club," to use an AG's expression.¹⁵

In his well-known study on management ideologies, Bendix (1956) observed that training activities for future

leaders may produce among trainees an exaggerated belief about their true importance. This may or may not be true of the AGs. They do consider themselves an elite corps, but probably not an elitist body in the pejorative sense of the term. They look upon themselves as a highly professional cadre of functionaries who defend their career, training, and purview.

As to the latter, the new Executive Positions created by Decree 2129/91 are seen as competition for the corps, because they narrow the AGs' opportunities of occupying such positions in the future. However, many AGs believe that they could easily and successfully apply for any executive post opened for competition within the new regime.¹⁶

Summary

The CAG is the only experience of upper management training and creation of a critical mass of higher civil servants that has survived successive political changes in the Argentine government. On the average, and measured by any standards of comparison, the level of training and the capacity of AGs is quite high, and their accomplishments varied and substantial. The question is whether the experience has been successful.

The answer lies outside the scope of this chapter and must await a more thorough evaluation. Besides, the time elapsed since the CAG started its normal operation is still too short to permit any conclusive opinion. Nonetheless, it can safely be said that the role of the corps will not be as important as was foreseen in the original project. It is unlikely that its size will ever be more than 1,000 agents, and it is hard to tell how frequently—if at all—new vacancies will be opened in the future.

It appears that the positions filled by AGs in the public sector will be mainly in the area of advice and implementation, rather than in management. The creation of SINAPA and, especially, the Executive Positions regime—with its emphasis on merit, competitive examinations, and adequate pay—seems to limit the corps's prospects of being the unique source of top managers for the public sector. The ascendancy of the Executive Positions system may even mean that AGs are, to some extent, cut out of management functions.

The CAG has gained certain prerogatives: its members are solely responsible for the selection of new trainees, the coordination of the corps, and the preliminary evaluation of AGs' performance. It seems to be an organization that virtually reproduces itself—not necessarily a bad thing, in view of the competence and capacity of its members. And paradoxically, its independence may also

signal a possible loss of status: any institution that is central to a political project is usually brought under strict supervision by those in power.

Future research on the CAG experience should consider a number of issues that have only been touched on cursorily: perceptions about the AGs' role at the institutions to which they are assigned; the extent to which their intervention brings about effective changes in the organizational culture of those institutions, through the transfer of new work styles and methodologies; the dynamics of double dependency, including possible benefits or frustrations; the role played by AGs within political parties; the motivations of candidates entering the corps and the attitudes of corps members during service; and the legitimacy of the CAG in the context of an extended professional civil service.

Whether the corps will become a key, energizing element of public sector management, will be deactivated, or will end up developing its own brand of bureaucratic culture—akin to the entrenched bureaucracy it was meant to eradicate—is still an open question. In any case, monitoring the continuing operation of the CAG may be important for drawing useful lessons that can be applied to comparable experiments in the future.

Notes

1. In Bolivia, for example, more than 800 consultants, representing about 7 percent of the total central administration staff, are being employed under this system.

2. Jorge Roulet, one of the main intellectuals of the Radical Party in the field of administrative reform, who would become Alfonsín's first Secretary of the Public Service, stated during the presidential campaign that it was necessary "to improve the quality and capabilities of the higher civil servants" (Roulet 1988).

3. It was maintained that the number of Radical Party members or sympathizers in the ranks of the CAG was comparatively small (Stuhlman 1988).

4. To ensure transparency and prevent any kind of interference or external influences in the selection process, tests were designed to be completely anonymous. Each candidate is supposed to carefully seal his/her test with a special sticker. The identity of the author of each test is revealed in an open session, once the previously evaluated exams are unsealed by a self-appointed group of candidates.

5. This latter requirement does not apply to permanent staff of the Federal, Provincial, or municipal public administration who can submit, as credits, a full secondary education and certification of having held for at least one year an executive position within the civil service not lower than director. The age limit of 35 did not apply to candidates of the first PROFAG. The ceiling was placed at 45 years of age for civil servants and 40

years for non-civil servants. The exception was made because of the previous lack of opportunities for older civil servants. For the second call for candidates, the age limits were set at 44 and 39, respectively. In the last call, the age limit for candidates coming from the public sector was 40.

6. It does not include the Fourth Class, which is being recruited at the time of writing this chapter.

7. The call for the Fourth Class was made in 1989 and was suspended shortly after the first test. President Menem's administration was not fully convinced of the usefulness of maintaining the CAG. The competition was reopened at the end of 1992.

8. This is quite understandable, considering that civil servants already enjoyed stable employment. The salary level, however, should also be considered as a decisive factor.

9. As a result of the great interest created by the PROFAG, many functionaries were invited to attend the courses without becoming members of the CAG.

10. The CAG statute stipulates that non-civil servants who at any time abandon the PROFAG without justification are liable to repay the government the amount of the salary received over the number of months elapsed since the beginning of the training program.

11. Since categories A and B are still empty, salaries are quoted only for the C level.

12. Before the creation of SINAPA, the highest category on the civil service register (24) was comparable to the A2 level of the CAG. The salary assigned to that category (including bonuses for university degrees and twenty-five-years of seniority) was less than that assigned to the lowest (C1) level of the CAG (one-half during the hyperinflation of February-March 1989).

13. The report details some of the training activities AGs have participated in (Falivene and others 1992).

14. There seems to be a certain degree of dissatisfaction regarding the evaluating role played by political appointees. Several members of the CAG submitted appeals for review of scores received. One interviewee believed that leaving this responsibility up to political appointees risks a total loss of objectivity.

15. In addition to its representational role, the Association publishes a journal containing articles, technical information, and reports on concrete reform experiences. It also organizes workshops and seminars for its members.

16. It is interesting to point out that some AGs specialized in personnel selection have been responsible for developing technical instruments applied in the selection and recruitment of civil servants under the Executive Positions regime (Cambours and others 1992).

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Spain's Experience with Recruiting and Retaining Qualified Personnel

Joan Prats-Catala

Selection and retention of "higher" civil servants in Spain is a complex problem. The first question we face is, what is the role of the highest civil servant? Spain's constitution (1978) makes an interesting distinction between government and administration. The government—a purely political body whose authority comes from parliament—holds the executive power and as such guides the administration. The administration, on the other hand, is mostly a professional body whose members are recruited and promoted on the basis of merit; its authority is guaranteed by law, but is subject to review based on its effectiveness and efficiency in the accomplishment of its tasks. Creating an interface between government and administration—between politicians and professionals—is a third group of public servants who occupy the highest managerial positions. These positions are outside the merit system. Position holders, who must be politically reliable, can be freely appointed and removed. (This discretionary power to make political appointments does not mean that appointments may be arbitrary. It is generally agreed that people holding these highest positions must have appropriate qualifications and, in fact, up to 70 percent of these positions are filled by high-ranking career professionals in the civil service.)

The functions of this upper tier of professional civil servants vary widely. In some cases they may assist political directors in policy formulation or be involved in developing implementation strategies. Most of the time they are responsible for running specific administrative units, applying legislation, preparing legal drafts, and providing technical consultation. Thus, no generalization—such as that of, say, public managers—can adequately describe the role of the highest civil servants, so diverse are their responsibilities.

Regulation of the highest civil service

In Spanish, legal terminology does not exist for the concept "civil service." Nor do we speak of the civil servant. The expressions that have currency in Spanish are *funcionarios publicos* and *personal laboral*. Thus, the whole of Spain's public sector employment can be divided in two parts: *funcionarios* and *laborales*. (This is a common distinction in continental Europe.) Each of these categories is subject to a different legal regime: administrative law applies only to *funcionarios*, labor law to *personal laboral*.

Standing outside this system are the "higher" civil service employees, who fill public managerial positions in agencies, public enterprises, or other public organizations, and who, unlike the *funcionarios publicos*, are not subject to administrative law, but rather fall under the labor laws that govern the private sector. These public managerial positions are part of an open employment system. Position holders belong to a general category of managers competing among themselves, regardless of whether they are currently in the private or public sector. Legislation and working conditions that apply to them—and to their salaries—closely resemble private sector conditions. They are selected, promoted, paid, and fired more or less as private managers are. Even though the civil service does not officially recognize these positions, it must be acknowledged that in recent years there has been a tendency to circumvent administrative law in search of this more flexible employment structure—a tendency that some interpret (and maybe misunderstand) as a simple evasion of the rule of law and the merit system.

Operating in parallel with this semi-autonomous higher civil service, then, are the *funcionarios publicos*. By law these *funcionarios* must hold all the higher positions in any administrative areas that involve the exercise

of public authority. Thus, what have traditionally been the most important administrative functions must remain as the preserve of the senior *funcionarios publicos*.

Selection of higher civil servants

The Spanish civil service is organized in *cueros de funcionarios*, that is, civil servant corps. Highest civil servants are distinguished according to the corps they belong to. The selection mechanism is intended to fill, not a specific, vacant position, but vacancies in a corps. Members of a corps together must fulfill the corps' responsibilities in the civil service—regardless of how individual duties are allocated. Members of different corps, who are recruited and selected separately, compete among themselves for control of important administrative sectors and better-paid positions.

Each corps selects its members on the basis of open public competitive examinations, mostly among young university graduates who are able to devote two or more years to preparing for the exam. The candidate works long days under the guidance of a senior member of the special, preparatory corps (who is paid to oversee the work of those competing in the examination). This preparatory system constitutes a kind of merit system—people selected in this way are usually very competent technically. But critics argue that the system does not gauge such qualities as innovativeness and interpersonal and negotiating skills; that the process of preparation and examination guarantees only certain acquired knowledge, not the skills or raw ability required. And, in fact, a recent doctoral dissertation has demonstrated that the Spanish system of selection guarantees open competition but not necessarily merit. Some suggestions have been made to rectify the system's inability to assess candidates' skills and abilities. The most important might be to switch from the examination to requiring appropriate postgraduate degrees and then making selections on the basis of skills and abilities. This alternative would require cooperation between the government administration and well-reputed universities or schools (on curriculum, for example). In keeping access to the service open and competition-based, it should improve the merit system. At the same time, some regulation of access will be required.

Promotion and retention of higher civil servants

The career path of the higher civil servant is as follows. Each corps occupies positions at various grades in a num-

ber of service departments. Normally, when there is a vacancy, it is filled based on internal competition among the current members of the corps. (Corps members compete on the basis of their *curricula vitae*.) It is only the vacancy produced after the internal call that may be publicly offered for open competition. Thus, entries into higher civil service are always at the bottom level and promotion in the ranks always occurs from within. Obviously, such a system appeals only to young graduates or to members at the lower levels of their corps. Although merit might play some role in the awarding of promotions, it is clear this promotion process overlooks many civil servants of high merit.

A problem with the promotion process is that after ten or fifteen years of service, every member of a higher corps has reached the highest grade of his or her professional career. This erodes motivation and distorts the organizational chart. Nonetheless, it does not affect retention. On the contrary, under the current difficult economic conditions in Spain, public employees are seen as privileged, and even those who left their positions are now trying to come back. Indeed, the challenge for the general director of Spain's civil service is in finding positions for people who are returning to public employment. That there is currently no trouble with retention means either that higher public employees in Spain enjoy attractive working conditions or that they are not competitive in the private sector. Certainly, salary incentives in private companies are higher than in the public sector: public employees who have been in public administration for ten years find that they are earning only 60 to 70 percent of what their counterparts in private companies are earning. Why, then, is there no retention problem in public administration? Because salaries are not the only working condition that affects retention.

The problem in Spain today is that the central government is not interested in addressing these systemic problems of motivation and compensation. Some regional governments, however, especially the government of Catalonia, are very concerned about the situation. From the point of view of the regional government, civil service is an important factor in national competitiveness. So perhaps we need another kind of higher civil service—perhaps one patterned after that of another government. The key in any case is to build workable relationships among government, business, and social agencies. This will require innovativeness and entrepreneurial public management—not qualities that characterize the traditional higher civil service I have described.

Administrative Reform Program: The Case of Bolivia

Alberto Leyton

Bolivia's administrative reform program, conducted in the context of the structural adjustment and implemented through the introduction of a public service system for public administration, constitutes one of the most important chapters for the consolidation of the adjustment process initiated in 1985. This chapter describes the nature and scope of the Bolivian government's policies for administrative reform and institutional strengthening in the field of human resources development within the state's public administration.

Background of economic crisis

At the beginning of the 1980s Bolivia faced one of the worst crises in its history. Ineffective macroeconomic measures, political instability, and institutional crisis were elements that, in a climate of social upheaval, led to acute hyperinflation, which peaked in mid-1985.

Political adjustment

That same year a radical stabilization program was adopted, which included these important measures: adjusting the exchange rate to real levels, increasing the price of public sector goods, and reducing public expenditures to affordable levels. Measures oriented toward broad market liberalization were started at the same time as the stabilization program. These included freely agreed interest rates; elimination of controls on prices and the exchange rate; a lessening of restraints on labor force mobility, import levels, and capital flows; and elimination of subsidies on state goods and services. Programs to strengthen state economic measures were also introduced. And reform of the structure and administration of the tax system was undertaken to stabilize the financial situation and increase fiscal income.

The adjustment program proved to be extremely successful in stabilizing the economy and in reducing internal and external turmoil. By the mid-1980s the trend toward decreasing economic growth was reversed. The average rate of growth rose from 1.2 percent during 1980–85 to 2.1 percent during 1985–87 and 3.1 percent in 1988. Exports became the most dynamic element in economic growth, with an expansion of 18 percent between 1987 and 1990.

The inflation rate, which reached an average level of 1,585 percent during 1980–85, was dramatically reduced to an average of 22 percent in the past eight years. The fiscal deficit was reduced to 3.7 percent of the gross domestic product (GDP) in 1992. Between 1987 and 1991 a policy for external debt renegotiation was started, allowing a stock reduction from 101 percent to 77 percent of GDP.

Beginning in 1990 financial indicators pointed to noticeable improvement in the country's macroeconomic performance. Annual inflation has been reduced to around 12 percent; public and private investment rates have shown signs of recovery; and GDP has grown on average about 3.3 percent annually, which, in the face of a steady growth in population of only 2.1 percent, suggests a reversal in the trend of declining per capita income.

The public sector: problems to be solved

The severe economic, social, and political crisis that affected Bolivia until 1985 also affected its institutional structures, leading to administrative chaos in its ministries and affiliated agencies—bodies that were most particularly vulnerable to political harassment and the breakdown of institutional structures.

Subsequently, as a result of the structural adjustment process introduced in 1985, these institutions proved unqualified to fulfill their roles, which forced political authorities, with international assistance, to use specialized

technical teams from outside the institutions during the adjustment process. International assistance thus came to have central importance in the adjustment program and its implementation in Bolivia. The principal institutions responsible for economic management were assisted by foreign technical assistance programs and projects that developed the guidelines for introducing adopted reforms.

These technical assistance programs evolved, however, to the point of becoming sources of financial support for public sector operations, causing distortions both in administrative policies affecting human resources both in the public and in the existing pay structures. Thus, an approach that has proved vital in fulfilling structural adjustment tasks, and that is being studied in depth and expanded to most ministries, also risks fostering a dangerous dependency that could prove counterproductive in the future.

This is not to suggest that technical assistance projects and, more generally, international assistance programs have not fulfilled their role of giving advice and developing tools and technologies consistent with specific objectives. Indeed, the systems, procedures, and mechanisms developed form the basis for the current operation of the state. However, in the heat of putting these measures in place, institution-building and human resources development were neglected, thus jeopardizing the sustainability and continuity of the reforms.

The scope of structural reforms

The main objective of the structural reforms under way since 1985 was to modify the relationship between the

state and society. Central to this change was the operation of a free market, with less state involvement and greater public participation in economic matters. The reforms involved the transformation of a protectionist state into a regulator state, and of a closed economy into a market economy with greater external openness.

State reform in Bolivia has not been carried out in a comprehensive, integrated way. Rather, the reform has been piecemeal, with particular reforms carried out in accordance with the needs of individual sectors. The four main areas of the public sector involved in the reform were (1) the public enterprise sector, which was subject to privatization programs, market deregulation, and the promotion of private entrepreneurship; (2) the state banking sector, in which measures were taken to eliminate official financial institutions and to redirect banking functions formerly carried out by the state; (3) the public services sector—the largest of the sectors—which includes public institutions in charge of health, education, sanitary infrastructure, roads infrastructure, and the like; and (4) the state bureaucracy (figure 18.1). With regard to the latter, it is worth mentioning that it is the administrative apparatus of the central government, composed of the ministries and other governmental institutions, that is responsible for the main decisions having to do with state administration. This group, whose members are not significant compared with those of public service sector, is the key factor determining the quality of state administration and operation. In this sense, it is in this sector that the establishment of a civil service system—as proposed in the reform program—will be centered.

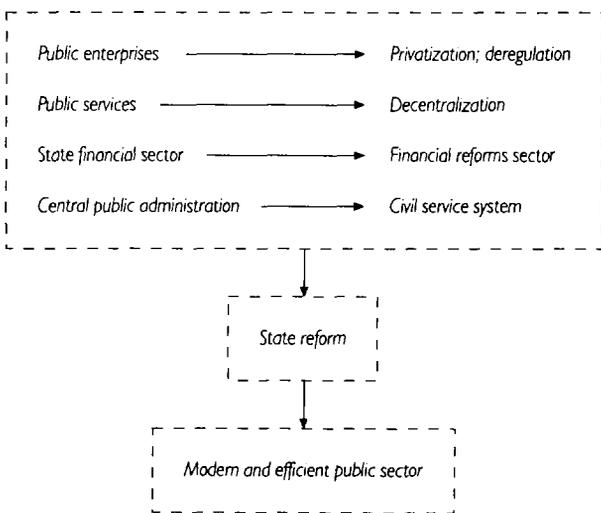
State reform is nothing less than the reorganization of all these areas of the public sector and the creation of a new state institutional structure, reconfigured and with greater clarity about its role and participation in the economic, social, and political life of the country. This implies reshaping the state through a redefinition of its role; restructuring; improving the professionalism of its personnel; and introducing new management technologies. The civil service system to be implemented thus fits into the framework of the administrative reform program.

Function and finance in the public sector

Currently, the central administration is not setting policies for organizational structures or for human resources. On the contrary, improvisation and lack of coordination among public institutions prevails. The result is a split between the routine functioning of the state bureaucracy and the decisionmaking processes that are concentrated in the public authorities and their advisory technical teams.

FIGURE 18.1

State reform in Bolivia



The state bureaucracy, financed with funds from the national treasury and regulated by an obsolete regime incapable of controlling and supervising public officials' performance, wastes its time on administrative tasks of little relevance and looks as if it will be a permanent financial burden on the state, given the fact that there has been no rationalization or streamlining of public employment.

As in other Latin American countries, problems in the operation of the state bureaucracy have deepened largely for these reasons:

- Low motivation of personnel, caused not only by low salary levels, but also by the nonexistence of an administrative career development path that would serve as an incentive
- Ineffective use of public resources, due to the lack of evaluation of obtained results in relation to expenditures
- Corruption, which results from unnecessary steps in the bureaucratic procedures imposed by the state, and from the discretionary power enjoyed by some officials
- Hiring practices in which political imperatives take precedence over technical considerations.

These and related problems have caused a decline in the quality of public services, prompting the need to transfer the main responsibilities for state management to consultants financed by technical assistance projects.

Currently, the state's central administration institutions can be classified in two groups: those that receive support from foreign assistance projects (and consequently from qualified professionals) and those that adhere to the old structure of public administration. The dual system produces discrepancies that impede the consistent application of Human Resources policies.

Table 18.1 outlines numbers and classes of public sector personnel—and their cost—as officially registered and approved under the 1992 Financial Law.

Using the classifications described under the state reform, table 18.2 redistributes public sector costs by public enterprises, public services, state financial sector, and central public administration.

This new classification allows us to identify the number of personnel in central public administration, by field of civil service—a group that represents only 6.7 percent of the entire public sector, but, as mentioned before, concentrates the most important decisionmaking areas in government management. In looking at the state's costs in employing this personnel, it should be noted that only 8.7 percent of the resources allocated for public sector remunerations is directed to the central bureaucracy—that is, just 1.6 percent of the general budget for public expenses and 0.6

TABLE 18.1

Public administration personnel, programmed for fiscal year 1992

<i>Institutional group</i>	<i>Number of persons^a</i>	<i>Annual cost (thousands of Bolivian dollars)</i>	<i>Annual cost (thousands of U.S. dollars)</i>	<i>Average monthly salary (U.S. dollars)</i>
Central administration	125,524	428,659	111,340	74
Regional corporation	4,857	97,771	25,395	436
Departmental prefecture	397	2,152	559	117
Decentralized entity	9,703	105,528	27,410	235
Social security institution	9,972	142,185	36,931	309
Nonfinancial public enterprise	30,344	603,394	156,726	430
Nonbanking financial institution	1,716	56,773	14,746	716
Banking financial institution	1,083	32,871	8,538	657
Total	183,596	1,469,333	381,645	381,645

a. Includes temporary workers.
Source: Government data.

TABLE 18.2

Public administration personnel, by institutional sector, 1992

<i>Institutional group</i>	<i>Number of persons</i>	<i>Annual cost (thousands of Bolivian dollars)</i>	<i>Annual cost (thousands of U.S. dollars)</i>	<i>Average monthly salary (U.S. dollars)</i>
Public enterprises	30,344	603,394	156,726	439
Public service ^a	138,209	648,065	168,329	102
State financial sector	2,799	89,644	23,284	693
Public sector administration	12,244	128,230	33,306	227
Total	183,596	1,469,333	381,645	381,645

a. Includes personnel in the health, education, and security fields, and in other services that have been decentralized to departmental administrations.
Source: Government data.

percent of the 1992 GDP. Table 18.3 gives a breakdown of central public administration personnel by occupational classification.

Another group of public officials is indirectly financed through international assistance that is earmarked for institutional strengthening and technical assistance projects and programs.

Table 18.4 breaks down this foreign assistance—including financing both for project personnel and for line positions in executive institutions that are part of the central administration—by source of funding.

The fund of external financing for 1992—US\$8.1 million—shows a rising trend over the level calculated in 1990—US\$6.6 million. Overall average salary levels turn out to be 2.3 times greater than levels calculated in 1990, reflecting the creation of a privileged professional group in public administration.

It is clear that the management of financial resources for the maintenance of public sector personnel has not been effective. Moreover, the reform policies that apply to the central administration budget are being circumvented as foreign assistance is used to fund the group of professionals that at present carry out the most important operational and administrative functions in the public sector.

Program reform objectives

The overriding objective of the public sector administrative reform program is to recruit and retain the most qualified personnel in the country's service. This means using an integrated system for organizational and human resources administration. This in turn means adopting rational policies—for example, in hiring—rather than the politically motivated policies that currently exist in public administration.

This general objective can be accomplished by pursuing these specific objectives:

- *Downsizing the public sector.* This will require determining the ideal size of public sector organizational structures and staff, in accordance with the state's redefined role.
- *Modernizing the public sector's operation.* This will mean achieving current standards of effective public administration, including transparency in procedures, responsibility for results, performance evaluation, and the introduction of new technologies.
- *Restructuring the public service employment system.* This will mean establishing and maintaining professional standards and a clear structure that governs hiring, promotion, salary determination, the delineation of duties, and the evaluation of performance.

TABLE 18.3

Central administration personnel, by administrative function, 1992

Occupational category	Number of persons	Annual cost (thousands of Bolivian dollars)	Annual cost (thousands of U.S. dollars)	Average monthly salary (U.S. dollars)
Management	1,404	25,413	6,601	392
Professional/technician	2,073	33,610	8,730	351
Administrative support	8,767	69,206	17,975	171
Total	12,244	128,229	33,306	

Note: Does not include temporary personnel, health and education personnel, security personnel, or personnel in self-governing posts.
Source: Government data.

TABLE 18.4

External financing for employment of public sector personnel, 1992

Source of funding	Number of posts funded	Annual cost (thousands of Bolivian dollars)	Annual cost (thousands of U.S. dollars)	Average monthly salary (U.S. dollars)
United States Agency for International Development	288	9,826	2,558	738
World Bank	200	7,462	1,938	808
International Development Bank	79	4,166	1,082	1,142
National treasury, counterpart funds	108	3,770	979	756
United Nations Development Programme	80	3,258	846	881
Switzerland	69	2,363	614	741
Holland	12	355	92	641
Total	836	31,199	8,109	

Note: Data are estimated.
Source: Government data.

Instruments for public sector reform

To achieve these objectives, a civil service system has been created to restructure and integrate the three main fields under its jurisdiction: the administration of organizational structures, human resources management, and salary structure.

The administration of organizational structures

Institutional structures should be designed according to standardized criteria. Approval of an organizational structure should be made contingent on a definition of the responsibilities of the unit. A single manual for job classification will be used to define job responsibilities for the entire civil service.

This manual will serve as a reference and will include organizational charts, unit and division breakdowns, and numbers and ranking of positions. It will also provide an analysis of positions within the institutions, including duties and responsibilities, levels of authority, and minimum requirements for filling these positions.

Human resources management

The human resources management system of the civil service will comprise four subsystems.

- *Contracting.* A contracting manual will establish guidelines for selecting and hiring staff.

Posts that have been approved for inspection into the civil service—and that are not filled by an incumbent in the public service—will be advertised as vacancies. (This will lend the reform program credibility.) Open public announcements will be made to achieve broad participation of the appropriate professional sectors.

Selection of applicants is the responsibility of two committees. One committee *prequalifies* and *qualifies* the applicants. This committee is composed of the person who is the supervisor for the position being filled, a representative of the civil service directorate, and a representative of the international organization participating in the financing of the program. The second committee makes the final *selection*. This committee is made up of a politically appointed official of the hiring institution and a representative from the international organizations.

- *Prequalification* consists of checking the educational background and experience of each applicant against the minimum requirements outlined in the contracting manual.

- *Qualification* involves a more detailed analysis of the professional and personal resources of every applicant. An interview is conducted to assess technical and administrative capacities of each applicant. Based on these evaluations, a short-list of candidates is proposed to the second committee.

- *Selection* of the best applicant on the short-list is based on information gleaned in the previous two steps. A second interview can be scheduled. If necessary, this selection committee can invalidate the process, in which case it must be reinitiated. This committee may not select an applicant who has not been included on the short-list.

Because of a lack of judicial instruments to ensure the transparency of the process, international organizations are requested to participate. The presence of an external element helps preserve neutrality in the process.

- *Service evaluation.* This subsystem establishes instruments to evaluate the performance of civil servants, particularly in terms of their efficiency. Uniform criteria drawn from the qualifications code are to be used for staff evaluation. Evaluations, which will be periodic, will determine whether the civil servant is retained.

- *Training and development.* This subsystem comprises an integrated set of policies, norms, and procedures for the training and development of civil servants. The objective is to develop personnel whose skills and abilities are appropriate and up-to-date and who are motivated—for their own benefit and for that of the civil service. An ongoing program of training will act as an incentive for retaining personnel in the civil service.

- *Control or audit.* This subsystem, which falls under the jurisdiction of the civil service directorate, involves monitoring the correct application of the procedures and manuals already described.

Salary administration

Salary level is undoubtedly one of the most important elements in making public service attractive and in retaining personnel.

The civil service system will establish a hierarchy in the salary structure, gradually making salaries comparable to those in the labor market and reducing the differences that currently exist between minimum and maximum salaries. This will provide incentives for sticking with a career in the public sector.

There will be a single salary curve for the civil service. It will depend upon how jobs have been evaluated and other technical criteria, and will be subject to periodic revision.

The definition and approval of the salary structures will be required for the approval of the human resources budget. Salary levels will be set to reward both the individuals' performance and the nature of the functions performed.

Costs and financing

A study to project the financing needs of the program has been carried out, based on an analysis of the three main program objectives:

- *Downsizing of the public sector.* Although the reduction of the central administration is not an objective of this program, the restructuring of the institutions' organizational structures will affect their size. The magnitude of this reduction will be determined by evaluating each of the institutional structures. (It should be noted that restructuring consists not only of a reduction in staff but of an improvement in quality.)

Preliminary figures used for this study indicate that the central administration is made up of 72 percent administrative and support staff, compared with 28 percent technical and management staff—yielding a ratio 2:5 (five support staff for every two technical staff). The restructuring process will try to alter this ratio to 3:2 (two support staff for every three technical staff). Given these goals we estimate a total staff reduction on the order of 41 percent.

- *Establishing a hierarchical structure in the public service.* The establishment of a hierarchical structure for positions and pay in the public service will depend on a formula that strikes a balance between an affordable wage bill and a salary curve that maintains reasonable incentives for

staff. Salary levels have been determined based on a study that looked at equivalent positions/activities in the private labor market. The hierarchical lineup of positions and salaries was designed to reflect management's authority over operational and support functions—a measure typical of modern business organization, in which higher responsibilities rest with management.

- *Modernizing management.* A more qualitative change in public service is expected to take place, including modernization of management procedures and the more efficient use of public resources. This should lead to more efficient administration and use of government resources.

Considering the likely additional costs incurred in the application of programs we should expect greater budget allocations to cover staff salaries in the new central administration.

The personnel policy necessary to achieve these goals requires a careful projection of the evolution of staff composition and of the wage bill over time. A transition period of ten years has been projected, during which all civil servants will be incorporated into the new system and the current personnel system of the public sector will be eliminated. Three variables are used to calculate the financial projections:

- *Size of the staff.* Reduction and restructuring of current staff is foreseen. Table 18.5 shows a preliminary estimate of the reduction process over a ten-year period.

- *Salary structure.* Table 18.6 shows a comparison between the present and the new salary structure, broken down according to the aggregate occupational classifications used in table 18.5.

- *Cost of the wage bill.* The third variable used to estimate the cost of the program is the cost of the wage bill. Tables

TABLE 18.5

Staff structure, under current system and new civil service system

Staffing level	Management	Technical staff	Administration and support	Total
Number of employees under current system	1,404	2,073	8,767	12,244
Number of employees in civil service	960	3,360	2,880	7,200
Percentage reduction	31.6	-62.1	67.1	41.2

Source: Author's calculations.

TABLE 18.6

Aggregate salary structure, under current system and new civil service system

Salary level	Management	Technical staff	Administration and support
Salary under current payroll system (\$US/year)	4,702	4,211	2,050
Salary under civil service payroll system (\$US/year) ^a	15,730	9,347	3,224
Percentage increase	234.6	122.0	57.2

a. Weighted annual salary based on the structure of the salary curve adopted and the estimate of the total personnel in every category or level.

Source: Author's calculations.

TABLE 18.7

Evolution of the wage bill, under current and new civil service systems, ten-year period

(thousands of U.S. dollars)

Wage bill	Management	Technical staff	Administration and support	Total
Wage bill in the current system	10,752	14,220	29,279	54,251
Wage bill in the new system	21,301	44,301	13,098	78,700
Difference to be financed	10,549	30,081	-16,182	24,448
Percentage increase	98.1	211.5	-55.3	45.1

Source: Author's calculations.

18.5 and 18.6 were used since together they show how much it costs the government to maintain personnel in the present as opposed to the new system. However, the wage bill evolves every year as adjustment policies are introduced. It is thus more relevant to compare the resulting wage bill at the end of a ten-year period. To this end,

TABLE 18.8

Total wage bill for both systems, ten-year period

(thousands of U.S. dollars)

Transition year	Management	Technical staff	Administration and support	Total
Year 0	6,601	8,730	17,975	33,306
Year 1	8,671	11,500	17,947	38,118
Year 2	10,837	14,428	17,843	43,108
Year 3	13,102	17,520	17,654	48,276
Year 4	15,467	20,782	17,371	53,620
Year 5	17,935	24,221	16,984	59,140
Year 6	18,563	27,843	16,484	62,890
Year 7	19,212	31,655	15,857	66,724
Year 8	19,885	35,664	15,093	70,642
Year 9	20,581	39,877	14,178	74,636
Year 10	21,301	44,301	13,096	78,698

Source: Author's calculations.

TABLE 18.9

Projection of increases in the wage bill, ten-year period

(thousands of U.S. dollars)

Transition year	Management	Technical staff	Administration and support	Total
Year 1	0	0	0	0
Year 2	1,426	4,067	-2,188	3,305
Year 3	1,831	5,223	-2,809	4,245
Year 4	2,352	6,707	-3,608	5,451
Year 5	3,020	8,613	-4,633	7,000
Year 6	3,879	11,061	-5,950	8,989
Year 7	4,981	14,204	-7,641	11,544
Year 8	6,397	18,240	-9,812	14,825
Year 9	8,214	23,424	-12,601	19,038
Year 10	10,549	30,081	-16,182	24,448

Source: Author's calculations.

two growth rates of staff salaries are used: (1) 5 percent in the present system, with 3.5 percent corresponding to the devaluation of the dollar (currency used for the projection), and 1.5 percent to real average increase in staff salaries; and (2) 3.5 percent in the new system, corresponding only to the devaluation of the dollar, provided the graded salary structure does not require adjustments beyond those that allow for changes in purchasing power. Table 18.7 presents the resulting wage bill at the end of a ten-year period, as well as the total amount needed to finance the introduction of the system.

The proposed reform presents three problems that must be solved during a ten-year period to allow a successful transition in the central administration from the current system to the civil service system: (1) reducing staff under the current system; (2) incorporating staff into the new system; and (3) obtaining extra funds to finance the wage bill under the new system.

If these two systems function simultaneously over the ten-year period, the cost to the government will be as follows (table 18.8):

To determine the necessary annual financing for both systems, and the proportion of that cost that exceeds the current wage bill projected by the national treasury—and thus the necessary increases in this wage bill—a projection has been made, allowing for changes in fiscal revenues that will result from growth in GDP and an increase in public management efficiency. It was decided to use a model of exponential mathematical projection based on three significant elements: the total level of increase to the wage bill to be reached during the tenth year (US\$24,447,936), the limit at year zero, and the curve point during the fifth year, concentrating more increases during the second half of the implementation period.

These antecedents allow the use of a model synthesized in the following mathematical function:

$$y = Ae \left(\frac{x-2}{B} \right)$$

where x = transition year
 y = increase for that year.

TABLE 18.10

Available financing from the national treasury: current wage bill and projected increases, ten-year period

(thousands of U.S. dollars)

Transition year	Management	Technical staff	Administration and support	Total	Percentage of total cost
Year 0	6,601	8,730	17,975	33,306	100.0
Year 1	6,931	9,166	18,874	34,971	91.7
Year 2	8,704	13,692	17,630	40,026	92.8
Year 3	9,473	15,329	17,999	42,801	88.7
Year 4	10,376	17,318	18,241	45,935	85.7
Year 5	11,445	19,755	18,308	49,508	83.7
Year 6	12,725	22,760	18,138	53,623	85.3
Year 7	14,269	26,488	17,652	58,409	87.5
Year 8	16,149	31,139	16,745	64,033	90.6
Year 9	18,455	36,967	15,284	70,706	94.7
Year 10	21,301	44,301	13,098	78,700	100.0

Source: Author's calculations.

The calculation of the constants A and B was carried out based on the three main elements of the function (years 0, 5, and 10). The following expression was obtained:

$$y = 3,303,505e \left(\frac{x-2}{B} \right)$$

where x = transition year
 y = increase for that year.

Based on this function, the annual increases to be introduced by the national treasury are estimated up to the tenth year when the financing of the program is to be complete. The projections, which have been made compatible with the macroeconomic model of the Bolivian economy, do not result in an increase in the fiscal deficit. The total increase in the wage bill, equivalent to US\$24.4 million, scarcely represents 0.3 percent of the GDP estimated for the tenth year and 0.6 percent of the expenditures budget for the public sector.

Table 18.9 shows the projection of the annual in-

TABLE 18.11

External financing needs, civil service wage bill, ten-year period

Transition year	Financial requirements (thousands of US\$)	Percentage of total cost	Percentage of cost of the new system
Year 1	3,147	8.3	42.9
Year 2	3,084	7.2	20.3
Year 3	5,476	11.3	23.2
Year 4	7,687	14.3	23.6
Year 5	9,633	16.3	22.9
Year 6	9,267	14.7	19.1
Year 7	8,316	12.5	15.0
Year 8	6,609	9.4	10.5
Year 9	3,929	5.3	5.6
Year 10	0	0.0	0.0
Total amount required	57,147	—	—

— Not applicable.

Source: Author's calculations.

creases during the ten years of introducing the civil service. Table 18.10 displays the total availability of resources coming from the national treasury during these ten years—the result of adding the current wage bill, adjusted annually, to the projected increases.

It is apparent that the projected available resources do not cover the annual staff costs for both systems during the ten years (see table 18.8). Consequently, funding needs emerge, and external aid will be necessary to cover them. The magnitude of the annual financing needs—US\$57,147,454 over the ten years—and the percentage that this represents with respect to the total cost of the civil service system each year, are detailed in table 18.11.

The level of financing needed is even lower than the current level of financing from donor organizations for institutional strengthening and technical assistance programs. Thus, the reform program is financially viable, and its introduction imperative.

Selected Discussion Points

Discussants: Arturo Israel and Nélica Gruber

The issue for discussion—recruiting and retaining highly qualified personnel—was addressed by invited discussants Arturo Israel and Nélica Gruber.

A. Israel: It is difficult to comment on all these rich presentations—and within the ten minutes we have been allotted—but I would like to pick up on a couple of points. One point has to do with the need for a minimum mass in the public sector of highly qualified technocracy; that's what it comes down to. This is a corollary of the reform of the public sector and the changes in development strategies that we are following.

Shahid Husain said yesterday that it's not a question of the size but of the quality of the public sector. If you look carefully at the kind of functions that should be abandoned and the kind of functions that must be strengthened in the public sector, you conclude that those that need strengthening are difficult functions that require a high level of technical expertise and a network of highly qualified people at the higher levels. We are talking about the capacity to manage economic and sectoral policies and, in particular, the capacity to regulate the private sector.

One thing that worries me is that we have jumped into a private sector-oriented strategy in many countries, without thinking through the consequences for the public sector and, in particular, for the capacity to regulate adequately private sector activities. To do this requires first-class technical staff, and it requires staff that is capable of dealing with the political establishment and of dealing with, and maintaining its independence from, operators at all levels of the private sector.

This presents a dilemma for many countries in the region. The Argentine case is an interesting one. But in a way it's special to Argentina, which can afford to pay salaries that are not bad by international standards and

that prevent people from going immediately to the private sector. Perhaps a system can be organized there.

We should not forget that the kind of expertise we need is what economists call a "tradable." The kind of staff that should do this work is the kind of staff that can easily get jobs elsewhere. So the dilemma is, what happens in Latin American countries that cannot pay US\$3,000 or US\$4,000 a month to attract and retain the kind of staff that is currently required in the public sector?

There are all sorts of solutions, none satisfactory. Each country will have to find the least undesirable solution. Inevitably, for many countries it will mean creating an elite in the public sector. It will mean differences in salaries between that elite and the rest of the public sector—something politically unsustainable in many cases—and it will mean a different functioning of the political system.

I think that an important task for many Latin American countries may be to acknowledge the need for a highly qualified technocracy and try to get the political establishment to understand that need and support it. They would have to find ways that are viable—whatever their political context—to ensure that capacity is in place.

I think that in the broader context of governance, the role of the media in Latin American countries is particularly important. There is nothing easier to attack than the existence of an elite or a group of people that receives remunerations that are much higher than the average in the public sector. The remuneration or compensation package need not be solely monetary—and here the artistic and political parts of the solution come into play. There are honors, status, stability. Countries have different ways of compensating and making this a viable solution—we have heard several interesting alternatives discussed today.

My last point is that it's true that the best solution is an integral one, as in the Bolivian case. But I don't know whether all countries can wait for an integral solution—whether they might not run into a vicious cycle in so doing. The Brazilian case shows clearly that one precondition for doing something serious in civil service reform is to have an economic system that is working. What can be achieved in a highly distorted context? What can you do about reforming the civil service when inflation is 20 percent, 30 percent a month, with all the distortions that come with that? I don't know.

The vicious cycle comes into play because one of the reasons for having a bad economic situation is bad management of economic policies, bad functioning of the political system, and bad dialogue between technocrats and politicians. One would imagine that if the consequences of certain political decisions could be presented clearly to the political establishment—and were shown to go against their own objectives, no matter what the objectives—perhaps things would be done differently.

N. Gruber: I'm going to speak as a civil servant here—as a direct actor in all the problems we've been discussing for the past two days. I would like to comment specifically on two points: first, the initiatives in the civil service reforms we've been talking about and, second, the professionalization of public management.

I believe that the initiatives and reform measures we've heard about and discussed have not offered a serious analysis of the role of the civil service in Latin America. Nor have they dealt with the need for a public sector that is responsive to the social needs of the community. So I have my concerns. And I have heard others here comment to the effect that we have neither coherent policies nor a systematic approach to reform.

When we speak of reforming the civil service, we are talking about what we call state reform in Venezuela, which is both the transfer of competence and responsibility to local governments and financial adjustments, such as a reduction in public expenditure. We immediately consider the size of the state: the need to reduce the number of positions and to privatize companies—something that is already taking place in many of our countries—and the need to eliminate vacancies. Someone yesterday said that savings generated by downsizing, the elimination of vacancies, and early retirement plans and other measures were insignificant and had little impact on public expenditure. In Venezuela we have found this to be true.

Another problem we have touched on is remuneration—increasing salaries in the public sector. I have seen

no detailed studies of this or suggestions about tying pay increases to the efficiency and productivity of civil servants. Someone mentioned figures that put public sector pay at 60 or 70 percent of the private sector level. But we have not discussed the basis for increasing public sector salaries. Have we improved performance? Are we responding to the needs and demands of our communities?

What we can feel happy about in our study of the civil service and its reform is that we are finally paying attention to human resources in the public sector. For the first time, as far as I can recall—and I've been working for at least ten years as a civil servant—we have made a serious analysis of this issue, at least in Venezuela. Are human resources efficient? Effective? Have civil servants worked for the right objectives and produced the right results? Is reform really a question of reducing the size of the state?

As far as the improvement of management, I think there is a series of steps that is inevitable. I was happy to hear what Argentina has done. Their efforts point to the development of an elite corps of professionalized public managers. But I wonder, what happens to the rest of the civil servants? What happens to the rest of the career agents who have a certain status?

This is a dilemma throughout Latin America. We have a regulated group of agents that is statutory in most cases. They have a right to their jobs—their job stability is guaranteed. And then we have a group of public servants at the very top. They are not required to meet specific prerequisites for their jobs, nor do they have job guarantees. We presume they are competent, as Joan Pratts-Catala said this morning, but their performance is not subject to systematic regulation or evaluation.

In Venezuela we are thinking of creating two types of public administration. The possibility is still up in the air. What do we do with those civil servants who are in charge of promoting reforms, formulating policies, and so forth? And what do we do with the rest of the public administration, which is atrophied and inefficient? We have to support them—they are there. They are the ones who implement public policy. So there seems to be a discontinuity there.

I believe the World Bank could give us a great deal of support in the studies and surveys we need to be able to reformulate projects and adapt solutions for the critical issues coming up in our civil services.

Yesterday we heard a discussion about external agents in the reform process: Who should promote the reform? Who are the key actors? Who should carry out the reform? And we heard mention of external multilateral agencies. I must conclude that civil service reform—and

this supports what Professor Zylberstajn said—must take the long-term view, must be permanent, and cannot be imposed on countries from the outside.

In Venezuela we have observed the contradiction in having a single institution entrusted with both state reform and administrative reform. State reform has been going on for ten years in our country and, to date, has yielded only

one or two measures. Most surveys are simply placed in the circular file or tucked away in desks. I think that unless we can bring together the direct actors or leaders in administrative reform—the institutions—and those who have specific missions or tasks to carry out—the civil servants—we will fail. Unless civil servants participate in the process, they will never be able to promote the reform.

**Strengthening Institutional
Capacity to Manage Human
Resources and Building
Managerial Accountability**

Administrative Reform: The Case of Mexico

Alejandro Carrillo Castro

Management of human resources in the public sector has been a critical and unsolved problem in Mexico for most of its 172 years as an independent state. Although many in Mexico would be willing to draw up a list of performance problems in our civil service, few would be willing to suggest ways to solve these problems. On the contrary, whenever a new political group or individual must assign responsibilities within a specific public institution, department, or unit, it is not unusual to hear, "...since we don't know what Juan or Juana's abilities are... let's put him or her in charge of human resources management." And then Juan or Juana is expected mainly to avoid problems with the public servants' union and to blindly follow whatever instructions might be issued by the treasury.

Although this is an oversimplification, it might help explain why in Mexico there is really no such thing as a human resources management science or art that is systematically applied to solve problems in the public sector, except for certain very specific areas such as the financial, foreign policy, and military sectors.

Every major civil service reform that has been implemented in Mexico has resulted from or been a part of other major administrative and political changes in our public sector structure or objectives. Perhaps this is because effective human resources management has never been considered an important goal in itself—one that would merit a high-level, well-structured program backed by, say, a presidential committee or political party. This was true even in the case of the public administration reform program implemented from 1965 to 1982.

So except for the centralized, vertical policies that guide and limit human resources management throughout the Mexican government—and the specific rules set for the foreign service and the military—every public administration department or unit establishes, tests, modi-

fies, retests, and remodifies its own internal recruitment programs, incentives, and performance assessment policies. And, even though this might not be a bad way of doing things—particularly as compared with a rigid, overly specific, and outdated system—it has not been possible to judge the merits of this more decentralized system because, as mentioned, the reforms have not been implemented independent of other types of structural or political changes in the public sector.

This was true, for example, of the 1980s effort to establish a more efficient control system for the more than 1,200 then-existing public enterprises; equally true of the program to privatize more than 80 percent of these entities in the past five years, as part of President Salinas's state reforms. In both cases, human resources management was considered a means to attain other administrative or political goals, not an important objective worthy of attention without regard to any other specific reform program.

Is this way of doing things a problem? After all, public administration should be a means to attain the political goals a society establishes as desirable. But whenever the only policy for solving human resources management problems is "cut everything in half," you are going to create more problems than you solve.

The main problem for Mexico, then, is that of recognizing that human resources management is an area worthy of individual study by political authorities at the federal, state, and local levels—that it is not one element among many other priorities of administrative reform programs.

Otherwise, we will continue to be governed by ineffective human resources management policies that have been established in piecemeal fashion—policies that are often contradictory and shortsighted, with detrimental results for the public sector as a whole.

Strengthening Government Capacity to Manage Human Resources: The New Zealand Experience

Graham Scott

The major challenge ahead in reforming civil service institutions in Latin America and the Caribbean is to improve human resource management so that it works more effectively and efficiently toward the underlying aims of the agency. This will require attention to difficulties inherent in the specification and assessment of performance in the public sector, and to incentives on managers to attend to the short-term priorities of elected officials at the expense of beneficial long-term outcomes.

The general context for the reform involves excessive levels of public employment, counterproductive human resource management policies, and institutional structures that prohibit significant action and effective management. Key elements of reform strategies to address these problems are: downsizing; improving compensation; recruitment and retention; strengthening institutional capacity for human resource management; establishing a senior management corps; and ensuring accountability for the exercise of decentralized managerial authority.

This chapter describes the reforms of government administration in New Zealand in the past eight years, focusing on how the fourth and sixth of the key elements—strengthening institutional capacity and ensuring accountability—were addressed. Results are evaluated and lessons drawn.

Theoretical underpinnings to public sector reform

The challenge of managing human resources so that they work more effectively toward the underlying aims of a government institution can usefully be analyzed as a problem in agency theory. Within this literature economists have analyzed the problem of minimizing the costs to the principal of constructing arrangements that ensure that agents act in the principal's interests. These costs arise

from many sources, such as self-interested behavior by the agent, the costs of specifying, monitoring, and assessing contracts, and the like.

In the private sector, agency cost analysis helps explain the existence and scope of firms. People agree to cooperate with each other in the production of complex products and services, rather than being self-employed and attempting to contract at arm's length. The result of this association is lower agency costs. Thus, a long-term employer/employee relationship is one efficient solution to the problem of agency costs in cases where the firm produces products that cannot more efficiently be made by piece-work contracts.

Agency theory can provide powerful insights into problems in public administration. It is useful to think of politicians as agents of the citizens who are their principals, and in turn of civil servants as agents of politicians as principals. The problem of civil service reform is, therefore, a problem about the efficient contracting and the minimization of agency costs in the relationship between the two. The problems emphasized in the conference about difficulties in specification and assessment of performance, and distortion of incentives toward short-term priorities, are classic agency problems, but are only two of a very large set of issues that must be taken into account in a comprehensive approach to civil service reform.

The early thinking about civil service reform in New Zealand was influenced by agency theory and other aspects of modern institutional economics, including public choice theory. The literature suggested various solutions to problems of institutional design. Standard solutions to the problems of aligning the behavior of agents with the interests of their principals are: clear definitions of performance requirements; accurate performance evaluation; transparency about decisions and their results; careful choice of agents; and performance-based incentives. There are also structural solutions that affect the allocation of

decision rights, the simplicity and clarity of objectives, and the avoidance of capture of policy or regulatory functions by special provider interests.

The separation of policy from operations, of funding for public services from their provision, and of commercial from social objectives; the use of funding systems such as vouchers, privatization, and contracting in; and the development of internal markets—all are practical suggestions that arise from the institutional economic framework. The influence of this theoretical perspective on the New Zealand reform program, and some of its limitations, are discussed in Scott and Gorringer (1989).

Other theoretical contributions to the New Zealand reform program came from finance theory in developing financial structures, balance sheets, and financial incentive programs for government commercial entities and departments. Modern accounting theory was invoked to solve some difficult problems in the design of new accounting conventions within the context of agency theory.

Management literature was drawn on in a number of areas, particularly consideration of human resource management issues. From these theoretical insights, and from practical necessities and political programs, came principles that underlaid policies of corporatization, privatization, and the reform of core government administration. In each of these areas there are features about New Zealand's reforms—particularly in the core state sector—that are significant internationally.

The political and economic background of New Zealand's civil service reform

New Zealand's civil service reform arose within a particular political and economic situation and was designed and implemented as a response to clearly identified problems. There had been numerous previous attempts promoted by public officials to improve the quality of public sector management, but it was not until the mid-1980s that wider problems and objectives created the environment in which a new initiative could be launched successfully.

There was widespread concern over the poor economic performance of the New Zealand economy, which by the early 1980s had been growing for more than twenty years at an average rate 1 percent below the average of the Organization for Economic Co-operation and Development (OECD). After having been one of the wealthiest countries in the world in the mid-1950s, its gross domestic product (GDP) per capita ranking had slipped to twenty-second place. As a very advanced welfare state, with

heavy protection of industry, extensive subsidies, and a distorted tax system, New Zealand was vulnerable to the turmoil of the 1970s. In particular, New Zealand was very slow to recover from the oil shock, which caused a massive drop in the terms of trade.

While for two decades New Zealand had been diversifying both its products and its markets away from heavy reliance on bulk agricultural produce going to Britain, the degree of adjustment in the economy had been insufficient to permit as satisfactory growth rate. As a consequence unemployment rose steadily from the late 1970s, and there was a buildup in domestic and foreign government debt. The fiscal deficit reached 9 percent of GDP in 1984.

The attempt by the government to deal with the problem through massive state-sponsored investment in energy-related industries turned sour when the world oil price collapsed, so that about \$7 billion worth of debt, or 10 percent of GDP, materialized as a contingent liability on the government's balance sheet. The long history of central control of the economy, tight regulation and protection, and rigid incomes policies had engendered a culture of poor management in both the public and private sectors. There was concern over low levels of efficiency in the government, which owned and controlled organizations producing 22 percent of GDP and more than a quarter of gross capital formation.

In 1984 the Labour Government replaced the National Government in office and launched a radical restructuring of the public and private sectors. All quantitative controls on imports were removed, tariffs were cut, a 10 percent goods and services tax was introduced, and a major reform of the income tax system to lower rates and broaden the base were put in place. A rapid increase in the ratio of government revenue to GDP resulted. The deficit was also drastically reduced by the elimination of all subsidies to agriculture and industry and other cost-cutting measures.

In the public sector all the major commercial functions of government were converted to government-owned companies incorporated under New Zealand's company law statutes, and the large subsidies that had been going to these loss-making government commercial departments were eliminated. Some social services that had previously been provided through cross-subsidy inside these organizations were funded explicitly, for example, rail passenger transport.

One of the effects of the corporatization of these government trading entities was very rapid improvement in efficiency and the exposure of a pattern of poor management and wasted resources. For example, the Electricity Corporation cut the cost of production by 25 percent, moved from loss to profit, and produced a real decline of

13 percent in the price of electricity. In the private sector the changes provoked a painful restructuring of New Zealand industry with emphasis initially on cutting costs and improving management.

These events created an environment that led the government to seek similar improvements in the efficiency of core government activities. The public sector management regime in place was failing and was overdue for reform, as described by Pallot (1991). Key features of the system were:

- A program-based budgetary system
- A 10 percent discount rate in real terms as a minimum return for public sector investment
- Rules about funding new programs from the savings from existing ones
- Detailed instructions about financial management
- Tight controls over inputs
- Poor transparency
- Conglomerate structures mixing policy, regulation, and operations functions; incentives for budget maximization
- Permanent tenure for departmental heads
- Poor incentives for good management.

A further impulse for reform came from the fact that fiscal deficit problems persisted in spite of rapidly rising revenues, especially after the stock market crash, which eroded the corporate tax base and contributed to a rapidly increasing demand for resources in social policy. It became imperative to design management systems that released excess resources from administrative overheads and enabled an efficient targeting of social support toward those in need, rather than the universal provision that had been a New Zealand tradition.

Also in relation to social policy, difficult issues arose about how to manage more effectively government providers of services in health, education, and housing—areas in which many of the advantages of the state-owned enterprise framework that had been used for trading organizations could be secured, but in which social policy objectives also needed to be provided for.

Overlapping all these issues was a general mood for change and reform that pervaded the government and the community at that time (James 1992).

Main features of the civil service reform program

The approach to the reform of New Zealand's public sector is described in Scott, Bushnell, and Sallee (1990). The details of the financial management reform are recorded in Ball (1990), Ball and McCulloch (1992), Pallot (1991), and elsewhere. For the purposes of this chapter

the basic structure of the reform program can be seen from a brief description of its significant features.

Chief executives' contracts and performance assessments

Permanent tenure for the heads of government agencies was changed so that apolitical chief executives were appointed for five-year terms. Their salaries were raised to be in line with the private sector market rates for their skills, although political pressures have subsequently eroded this relationship. Their performance is assessed annually, and there are provisions for bonuses for good performance and for removal for poor performance. Five years of good performance may result in a further contract of three years being offered. The performance assessment for chief executives is done by the State Services Commission, which places considerable weight on the views of the relevant minister and also takes account of the views of other ministers, particularly since a modification was introduced that required chief executives to give due consideration to the collective interest of the cabinet. This came about because there was some concern that chief executives were being motivated to concern themselves exclusively with their own portfolios and neglect the wider interests of government. In the author's view this concern was exaggerated and was no less in evidence under the old regime of permanent tenure (Scott 1993).

It has taken several years to develop a system for assessing the performance of chief executives that is acceptable to all parties, and there is still some development to occur. Recent innovations have been to consult referees, nominated by both the minister and the chief executive, who are in a position to comment on the performance. A written performance appraisal is prepared; the chief executive has an opportunity to comment, and those comments may be entered into the appraisal.

Performance agreements

A performance agreement is prepared between each chief executive and his or her minister, detailing the services that are to be provided in the course of a financial year. These services are described as outputs and are based on the concept that civil servants are responsible for delivery of specified outputs to their ministers. Ministries in turn are responsible for the outcomes—ultimately to the electorate. The performance assessment is done by reviewing delivery of outputs as described in this ex ante performance agreement.

In keeping with the theoretical insights described earlier in this chapter, New Zealand's system places a great deal of emphasis on prior specification of output

requirements and less emphasis on ex post assessments of performance indicators. The latter can, in the author's experience, be a costly, low-value overhead expense if output requirements have not been clearly specified to begin with.

Distinguishing purchase from ownership interests

A critical element in the definition of performance is the distinction between the government's interests in a government agency—as an owner looking for efficient use of resources invested, and as a purchaser looking for the delivery of agreed services. This distinction has proved powerful in encouraging ministers and officials to think about service delivery, on the one hand, and effective resource use, on the other. It also facilitates consideration by ministers of alternative sources of supply of desired outputs, and their relative prices, and decisionmaking about resource use on a basis that is conceptually distinct from the question of how well a particular agency is being managed. Budgetary discussions often involve proposals to shrink the balance sheet of an organization by withdrawing capital from it while expecting service delivery to be maintained through increased productivity.

It follows from this conceptual distinction that accrual accounting is essential to fully assess the ownership interest and to accurately cost the resource use in producing outputs. In New Zealand accrual accounting was simply a technique to support a wider regime, whereas in some other jurisdictions it has been adopted simply on its own merits. The adoption of the purchaser/ownership distinction in accrual accounting also assists in dealing with the problem of running down an organization for short-term results at the expense of long-term capacity to deliver services. It also detects decisions that build up costs for future periods, such as accrued pension liabilities, although in this particular issue the transition from a central, unfolded pension plan for civil servants to funded schemes accounted for in departmental balance sheets is incomplete and still subject to further government decisionmaking.

Audited statements of service performance

The Auditor-General audits not only the ex post statements of account for each department emerging from the system, but also a Statement of Service Performance, which comments on whether the services agreed to were delivered.

One difficult issue that requires constant attention is the specification of the quantity and quality of outputs in the performance agreement. Critics of the system have

suggested that focus on delivery of outputs leads to a loss of subtle qualities of service that are important to the public. There is debate about whether this is an inherent tendency or can be dealt with through more cautious specification of quality in what is to be delivered, or, as a proxy for that, specifications about certain processes that services should pass through in their production or delivery (Scott 1993).

Transfers excluded from chief executive accountability

Chief executives' accountabilities were confined to things they have control over; transfer payments and grants that they are passing on to third parties enter their performance agreements only in that they are required to disperse those funds efficiently.

Freedom from input controls

Chief executives were freed from almost all controls over their inputs. They were given the freedom to buy and sell assets within the department's level of capital. Under the Public Finance Act they are designated as chief financial officers to ensure their liability for the finances under their control and are given extensive formal delegations from the Minister of Finance through the treasury to manage their finances. There are negotiated agreements between the treasury and the departments on significant matters such as managing foreign exchange risk. Departments are required to pay a capital charge levied on the net equity in the balance sheet at a rate that is negotiated as appropriate to the department using the rough application of the capital asset pricing model (with the default rate being the government's cost of borrowing with a margin). Each department negotiates a cash injection profile for the year with a system of interest rate rewards and penalties for deficits and surpluses to the agreed profile. All departmental banking is done with a single commercial bank, and accounts are swept each night for surpluses, which are invested by the treasury in the overnight money market. This move alone saved \$30 million in a year.

Parliamentary appropriations for outputs

The appropriation process operates on an accrual basis with separate appropriations for resources for the purchase of outputs, for injecting capital into the balance sheet of a department, and for transfer payments. There remains a parliamentary control of cash at the aggregate level.

The resources appropriated to the departments include costings of the outputs that have been agreed to in

the chief executive performance agreements. The law requires these outputs to be summarized into broad classes, but the chief executive considers them in much finer detail in the budgetary process. The performance agreement of the Secretary to the treasury, for example, has about 150 separate outputs costed.

In the course of a financial year the Minister of Finance can agree to material changes in the allocation of funds between outputs and to the deletion and creation of outputs, so long as that is consistent with the priorities set by the cabinet and the budget cycle. However, the law restricts the transference of resources between broad output classes, which are specified in the Appropriations Act each year. As noted, however, the chief executive is free to spend the specified amounts of money on whatever inputs are thought necessary to produce the outputs efficiently.

Chief executives as employing authorities

With regard to human resource management, the chief executives were established in law as the employing authority of staff under their control, whereas previously the state services commission had been the employer of all civil servants. The law also created the obligation to be a good employer and to be concerned with equal employment opportunities. There are also requirements to be responsive to the principles of the Treaty of Waitangi, which protects the interests of New Zealand's indigenous Maori population. Chief executives thus became responsible for industrial relations negotiations and the establishment of complete human resource management systems.

Unlike the private sector, trade unionism in the public sector had always been voluntary, and in most departments the management team became partly or wholly employed on personal contracts, even though some might still be members of the union. Departments became free to negotiate performance pay arrangements with staff who still worked under collective agreement, including pay cuts for poor performance in some cases. The State Sector Act, which enabled these changes to a highly decentralized wages system, was passed over the objections of the state sector unions. The government, on the other hand, thought that the long period of trying to negotiate reforms to the state sector labor market regime had fallen well short of arrangements that would permit the reforms to achieve their objectives.

One of the reasons for the reforms was that some key ministers had unsatisfactory experiences with the previously highly centralized system, which involved them personally in complex negotiations with state unions over the details of pay deals. While there is now freedom for

managers with regard to human resource management, there is a general pressure from politicians reflecting public views against general pay increases for public servants. For the past three years there has been no compensation provided in departmental budgets for funding any wage increases management might wish to pay. In the case of the large and politically powerful unions the state services commission is in charge of the negotiations, under broad political direction.

In the case of education there are proposals—strongly resisted by teacher unions—to provide funds in bulk to schools that are managed by elected boards of trustees, which would assume responsibility for human resource management at the local level. Similar moves to decentralize wage fixing in the health sector have been initiated.

Under the old system there were appeal provisions against appointment processes and prohibitions that blocked the employment of outsiders. Such prohibitions have all been removed.

Performance information

All departments have installed some kind of performance management system for staff training, development programs, and the like. The responsibility for these is decentralized except at the senior management level, where a recent initiative has led to the creation of a Strategic Human Resource Management Centre, which is to encourage competency-based approaches to personnel development in order to train top public servants for the future.

A comprehensive system of financial and other performance information was developed, which is reported at different levels of aggregation to different principals. The most disaggregated information is reported to the minister associated with each chief executive. (An even greater level of financial and performance data is used for internal management purposes inside departments.) A recent innovation has been to develop the concept of the "purchase agreement," which is a fairly detailed account of the service delivery that is contracted for by the minister and is available to the treasury, to other ministers, and to central agencies in preparing the annual budget and in considering longer-term financial planning.

At the next level of aggregation, information would be available to the cabinet on an ad hoc basis to furnish additional information for its consideration in preparing the budget.

For parliamentary appropriation, outputs are, as noted earlier, aggregated to the output classes. There are homogeneous categories of outputs entered into the estimates document that accompanies the appropriation bill pre-

sented to parliament. This has produced far greater volumes of information on the required outputs of government institutions. This information is intelligible in terms of what is being delivered, rather than how much has been spent on labor, capital equipment, and so on. For example, the New Zealand Defence Force has about sixty pages in the estimates document compared with about six in the earlier format.

Parliament is also presented annually with a corporate plan for each department, which summarizes both the output and ownership plans that are scrutinized by parliamentary committees near the beginning of the financial year. During the year there is monthly monitoring by the treasury of expenditures on outputs, and investigations of significant exceptions. At the end of the year a full set of accounts and a statement of output delivery are prepared, which are also scrutinized by parliament.

At the highest level of aggregation a full set of accounts consolidating the entire government is prepared (New Zealand is the first country in the world to do this). These documents form part of the information base used to interpret the health of the New Zealand economy and its government—including such indicators as debt accumulation and the buildup of contingent liabilities. The government's financial assets and liabilities are managed in the total context of the government's overall balance sheet in a manner analogous to a large private corporation. Note that the assets and liabilities managed by departments on behalf of the Crown are not in the departmental balance sheets, but are recorded in the Crown's consolidated balance sheet.

Comparability of performance information

In order to facilitate the use of performance information by principals at various levels, the system was designed to facilitate comparisons of efficiency and effectiveness between government activities and between the government and the private sector. Cost accounting conventions adopted are from standard accounting practice. Government departments are required to take account of depreciation, pay the charge on capital adjusted for non-payment of income tax, and also pay indirect taxes in the same way as the private sector. Previous regimes had involved ad hoc accounting conventions and hidden subsidies, which made comparisons almost impossible.

Strategic plans linked to detailed outputs

The whole system of accountability and performance assessment was intended to enable the government to develop and implement strategic objectives with some assur-

ance, which had never before been possible. The whole government system would be able to gear itself to these priorities, and information would be available to assess whether services were being delivered as planned. The question of whether the service delivery was producing the outcomes the government sought in the first place raises another set of issues involving the development of strategy and the quality of policy analysis.

Assessing the results

The following comments assess the reforms with reference to issues that were relevant to the executive, the parliament, and beyond.

It is not easy to judge whether parliamentary restraints on the executive have increased, although the evidence does seem to suggest that it has and will increase in the future. The role of the increased information flows in this regard is difficult to isolate from other influences. It is clear, however, that the key parliamentary committee that reviews the information regards it as an important improvement over previous procedures. The fact that there is far greater transparency about the utilization of resources in government departments has, in the author's experience, affected the incentives and behavior of ministers and departmental managers, even though they may not actually be called to explain all aspects of the performance as reported.

The mechanisms for control of departments by ministers demonstrably give them far greater potential control over services to be produced, resulting in the issuance of clear directions and changes of priorities. There are numerous examples in which ministers, having been presented with information about the services that were being delivered for the first time, decided to discontinue them. The contracting process between minister and chief executive is, however, an interactive one, and although the minister has the final say, the contract is appropriately named an agreement.

The budget process is far more transparent and orderly than it previously was, and there have been significant shifts in patterns of resource use, although it is difficult to attribute these to the financial management system alone. Many other forces were at work.

With regard to improvements in efficiency of resource use, more confident assertions can be made. It is the judgment of many who have been involved that substantial cuts in resources going to departments have not resulted in deterioration of volume or quality of output, and in fact in a great many areas there have been improvements in service quality. With the reforms staffing

levels in the public service have dropped from 88,448 in 1986 to 36,374 in December 1992.

The cash requirements for operating departments were lowered by 3 to 4 percent in 1992. There have been no compensations for cost increases in three years, and cuts on the order of 2 to 5 percent a year have been made in many activities. Reducing the ratio of government expenditure to GDP was a strategic objective for the government, and it is clear that the financial management reforms made a contribution to this. At the detailed level it is observable that there is much better utilization of assets, particularly of working capital. The reforms have been widely accepted by ministers and managers. The latter, in particular, are unanimous in not wishing to go back to earlier systems. Most report that the new system has given them far greater control over the management of their own operations and removed a lot of former frustrations.

The National Party, on being elected in 1990, appointed the former chief executive of IBM-New Zealand to review the reforms. He concluded that the reforms were sound and that remaining difficulties should be addressed by pursuing the program more vigorously with improved performance agreement specifications, better output definitions, stronger incentives, and a heavy emphasis on upgrading the quality of top management in the public service through recruitment, training, and development.

The early evidence suggests that the aggregate information is a very valuable addition to the data needed for effective macroeconomic management.

Future developments

Because the system depends on the control of outputs, it is crucial to keep the pressure on for really effective specification, taking account of subtle questions of quality and service delivery. The early output definitions were often crude, and further work is necessary to refine them. The innovation of the purchase agreement, which permits more detailed scrutiny of what is being delivered, will be a significant addition to the system.

Early emphasis was on the implementation of management systems, but New Zealand has now reached the point where the dialogue between managers and their principals in central agencies will focus more on the strategic positioning of the department in terms of the government's goals and medium-term developments affecting New Zealand.

The Centre for Strategic Human Resource Management, which is being established by the chief executives themselves in concert with the state services commission,

aims to raise the quality of senior management in public service, ensure succession planning, and implement a competency-based approach to human resource management generally at the senior level.

Multiyear appropriations linked to medium-term business plans will emerge as the other developments mature. There are multiyear commitments in a number of areas already.

Issues of strategic management, quality, and innovation are the same for the public sector as for the private sector, and the potential for improvement remains large.

Lessons to be learned and caveats regarding their applicability to other countries

The New Zealand experience is the most comprehensive reform of central government administration in the world to date. This comprehensiveness is due in part to the severity of the problems that New Zealand had to confront and the lack of reform in preceding years. The previous nontransparent system was part of the apparatus for channeling assistance between particular groups—for example, the cross-subsidy between local and long-distance telephone calls. In the early 1980s a proposal by the treasury to change one relatively minor footnote in the public accounts was rejected.

The comprehensiveness of the reform and the speed with which it was implemented were an important part of changing the culture of management in the public sector, which was already under pressure as a result of precedents set in corporatized government activities and in the deregulated private sector. In addition the treasury was totally committed to the reforms, and there was a bipartisan consensus in parliament that they should occur. There were talented managers peppered throughout the public service who were deeply frustrated with the old regime and keen to exercise more management authority and to lead the changes in their departments. Chief executives liked the idea of the removal of controls, but some tried to avoid the imposition of output control by seeking vague definitions of outputs. One even sought to have a major government agency responsible for only one output, which would have meant no control whatsoever. Some ministers objected to the restriction on their freedom to shift money between output classes without the approval of parliament. Such opposition to the reforms were sporadic, but never stopped the momentum for change. The 1990 review by the new government led to the remaining resistance being largely overcome.

There remains a criticism in some academic circles, and by some politicians, that maintaining a distance between ministers and officials somehow undermines collegiality. This is doubtful (Scott 1993).

The implementation process was designed to solve a series of government problems as they came along—it was never sold by officials to politicians as a grand design or simply the application of proper accounting principles. I believe this is an important consideration that contrasts with piecemeal developments in other jurisdictions. The introduction of accrual accounting, for example, can be a valuable tool—or a waste of resources—depending on what the rest of the system proposes to do with the information.

Decentralization of human resource management authority has occurred in varying degrees in a number of jurisdictions, but New Zealand appears to have taken it further than others. This particular element is crucial to improving management performance—to the point that many, if not most, of the benefits of the other reform elements are lost without it. The issue of the relationship between the government and state unions at the time this kind of regime is introduced is therefore critical. The New Zealand experience suggests it is difficult to achieve such changes through negotiation. Important questions of political accountability for departmental activities had to be addressed in New Zealand and remain problematic. While a minister is no longer expected to resign if there is a failure in his or her department, the public and parliament still expect the minister to take responsibility for ensuring that the department is properly managed, even though management authority is delegated. If departments create political problems, they will usually be dealt with politically, and it is a great temptation to ministers to solve specific problems by issuing a general instruction. Over time input controls can creep back into the system in this way.

The New Zealand experience also shows how effective management practice in the private sector can be brought into a public sector environment and easily adapted. The reforms could not have been introduced so quickly without establishing an overall framework that

enabled private sector accounting and management consulting firms to provide necessary services to more than forty government departments simultaneously—central management of that effort would simply have been impossible. A crucial point, however, is for public sector managers to be sensitive in recognizing those points where conventional private sector approaches are not appropriate. This is not readily apparent. The public sector is different in important ways, and there are inexperienced private sector advisers who are not sensitive to this. On the other hand there are many public servants who exaggerate the differences in order to preserve their own uniqueness. The private sector financial managers and accountants who joined the New Zealand government during the reform period produced a rapid upgrade in the skills available, and the system could not run without them.

In conclusion I would say that most of these issues are likely to arise in any country contemplating major civil service reform.

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The Brazilian Experience of Administrative Reform

Nilson Holanda

During the 1980s Brazil's attempts at administrative reform at the federal government level were hindered on a couple of fronts. One problem was the economic crisis that began in Brazil in the early 1980s and that left the state financially depleted. A second important factor, paradoxically, was the misguided attempt at administrative reform initiated by President Sarney in 1985 and reinforced by President Collor in 1990. Instead of improving the efficiency of government, those reform efforts threw the public sector apparatus into disarray, recentralized decision-making, and destroyed the delicate equilibrium of administrative functions that, in an otherwise chaotic environment, had made the government work.

History of administrative reform in Brazil

A brief retrospective of administrative reform in Brazil since 1936 reveals three stages.

Stage one

The first stage, which fits the classic model of public administration (compare Marcelino 1988), began with the creation in 1936 of the Federal Council of the Civil Service System (Conselho Federal do Serviço Público Civil), later transformed into the Department of Public Service Administration (DASP—Departamento Administrativo do Serviço Público). DASP became a very powerful agency and, inspired by the American experience with its Civil Service Commission and Bureau of the Budget, pioneered important work in the modernization of support systems for public administration, mainly in personnel, budgeting, and auxiliary services. Those reforms, however, concentrated on the means rather than the ends of public administration. Also, they were con-

ceived and implemented by a government that was centralized and authoritarian. With the return of democracy in 1945, the reforms lost momentum and the basis of DASP's political power was eroded.

The period from 1945 to 1963 was sterile in relation to administrative reform. A project negotiated and sent to the congress in 1953 by President Getulio Vargas (then a constitutional president) was discussed for more than eight years but never approved.

President Juscelino Kubitschek created the Commission of Administrative Studies and Projects (CEPA—Comissão de Estudos e Projetos Administrativos) to review administrative reform projects and to improve coordination with the congress. The Commission prepared a number of recommendations, but none was approved except the Law of Job Classification of 1960 (replacing the previous law, dated 1936). Kubitschek also initiated special management arrangements through the creation of executive groups that worked in parallel with the traditional bureaucracy in the implementation of his government's objectives (*plano de metas*).

Stage two

The second phase of administrative reforms, which fits the model of administration for development, began in 1967 with Decree-Law 200. This is probably the most important piece of legislation in the past fifty years in the area of administrative reform in Brazil. It defined principles and guidelines for planning, decentralization, and delegation of competence and control, and it tried to organize public administration under a systems approach, with central institutions coordinating the different systems, such as the Ministry of Planning for planning and budgeting; DASP for personnel; and the General Inspectorate of the Ministry of Finance for financial administration, accounting and auditing, and so on.

Decree-Law 200 emphasized the continuous nature of the reform and modernization process and reorganized the structure of federal administration, consolidating mechanisms of planning and coordination that had never worked before.

In this second phase there was a great expansion of decentralized administration through the organization of mixed-economy companies (*sociedades de economia mista*), public foundations, and the like. These entities were charged with diverse functions, not only in the exploitation of productive activities on an entrepreneurial basis (mixed-economy companies) but also in such areas as research, teaching and training, economics, and social and cultural promotion (public foundations).

Within the centralized administration, there was a trend toward flexibility and efficiency through more liberal hiring of employees according to rules of the private sector and on the basis of a generous number of special procedures for contracting technical personnel on a temporary basis—the so-called *funções de confiança*, such as DAS (Direção e Assessoramento Superior) and FAS (Funções de Assessoramento Superior). In 1988, of 570,000 employees in administrative positions, only 6 percent had been recruited according to the public servants law and public contest rules.

The process of reform continued through a large number of complementary laws and regulations. A successful program of debureaucratization was started in 1979, and the first attempts at privatization were initiated in 1981.

Stage three

The third phase of administrative reform began in July 1985 when President Sarney created a new General Commission of Administrative Reform. By that time the Brazilian economy was in deep trouble, after being hit by the oil shocks of 1973 and 1979 and the international financial crisis of 1982. The administration was slow to adjust to those changes, placing emphasis instead on management of the external debt and giving priority to growth over stabilization. The result was a serious increase of inflationary pressures. Those difficulties were compounded by problems in the transition from military rule to democracy.

In this new context administrative reform took on a strong political and rhetorical character, stressing dramatic changes such as the merger or elimination of public companies and institutions and the elimination of public employee privileges (apartments, cars)—the point being to convey to the public the reform program's commitment to austerity and to reducing the size of the state.

At this point the increase in inflationary and political pressures led the government to seek an easy way out of the situation through shock treatments, beginning with the Cruzado Plan of 1986. The administrative reform lost direction, and became an auxiliary element of the stabilization plans. Gradually, it lost priority and received little attention in the political debates over the constitution of 1988.

An important initiative of this period (although partially frustrated) was the creation of the National School of Public Administration (ENAP), modeled on the French ENA (see chapter 30, by Gileno Marcelino, for a discussion of the experience of ENAP).

The constitution of 1988 consecrated the principle of unification of public sector personnel systems, ignoring the rich and varied experience of the previous decades that allowed public managers greater flexibility in hiring employees and contracting services. It also granted stability, or job tenure, for most federal employees working under private labor contract rules, thereby reducing the capacity of the government to promote further reforms in the near future.

In 1990 the new government of President Collor tried—again based on the questionable assumption of reducing the size of the state—to cut down the number of ministries and federal employees. The savings obtained were negligible—but the ensuing disorganization in the public administration was devastating.

Prospects for the future

What, then, are Brazil's prospects for the future? I think we are now ready not only to learn from and move beyond our recent mistakes but also to restore elements of decentralization and flexibility that were lost in the misguided reforms of the past decade.

In November 1992 a modest, down-to-earth counter-reform was introduced by President Itamar Franco, reorganizing the structure of the federal government and correcting some of the more evident mistakes of the Collor reform.

The constitution of 1988 is to be revised in the fall of 1993, providing an opportunity to improve the provisions related to the fiscal and social security systems, the distribution of responsibilities (at the federal, state, and local levels), public administration, and social and economic organization.

In spite of political difficulties the privatization program has advanced a great deal, particularly in basic industries such as steel and petrochemicals. Conditions are being created for the privatization of services in such areas of infrastructure as transportation, power, and basic

sanitation. Right now, for the first time in fifty years, a private railroad is being built in the central-west region.

The revision of the constitution will probably eliminate the remaining restrictions on privatization in the telecommunications and petroleum industries. For the companies that remain in the public sector, new forms of management and control are being tried, mainly through the use of *contratos de gestão* (performance contracts). Also, the trend toward the consolidation of a more effective market economy, through deregulation and reduction of protection, has created a new relationship between the government and private sector that implies a redefinition of the role of the state.

Lessons from the past

What can we learn from the Brazilian experience?

- After decades of slow but continuous progress, we underestimated the forces that conspire against the modernization of public administration, particularly those unleashed by political pressures during the transition to democracy.
- Administrative reform should be viewed as a long-term and strategic proposition, not a shortcut for achieving immediate results and short-lived political benefits.
- Reform should be based on the right assumptions and not on slogans, prejudices, and utopian goals.
- Assumptions should be derived from a systematic analysis of the rich and varied experiences of our (Latin American) countries.
- Administrative reform cannot be the exclusive and endogenous business of the Ministry of Public Administra-

tion. It must permeate the whole public apparatus and, in particular, it should be integrated with the processes of planning and policy formulation at the macroeconomic and sectoral levels.

- Administrative reforms imply changes in three basic elements of public management systems: processes, structures, and human resources. The most important is the human resource element, although there is a tendency to emphasize structural changes, which are more dramatic and can make headlines.

- We cannot improve the quality of human resources in government overnight, but we can achieve great results by creating elite groups in strategic sectors. Therefore, the experience of ENAP should be reevaluated.

Finally, I would like to stress the importance of technical assistance from international organizations, which permits the sharing and evaluation of different countries' experiences in public administration and administrative reform.

The situation in Brazil, for example, would be much worse if it were not for a loan from the World Bank for a Public Sector Management Project (GESEP). This project helped us maintain and improve public management systems in such strategic areas as planning, research, statistics, control of state companies, and the organization of the national treasury department. Though the loan was small, it had a far-reaching and positive impact that we are only now able to understand and assess.

Reference

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Efforts to Improve Executive and Managerial Performance in the U.S. Government

Ben Burdetsky

I am delighted to have the opportunity to participate in this conference on Civil Service Reform in Latin America and the Caribbean. Our discussion of this topic is timely and important; governments worldwide are searching for more effective and efficient ways to manage their programs and operations.

Clearly, managing human resources is one of the critical challenges that government managers and executives face. I will describe the U.S. experience in attempting to strengthen and improve executive leadership and management in its federal government.

I served in the U.S. government from 1950 to 1977, with my last two assignments as Deputy Commissioner of the U.S. Bureau of Labor Statistics and Deputy Assistant Secretary of Labor for Employment and Training. During those years I was also involved with extensive federal-state cooperative programs. Thus, I had direct line management responsibility for major U.S. government programs during a time of great change in programs and operations, and enormous political leadership changes occurring on a regular basis. In the years since, I have been a student of both public and private management, and I hold appointments as a professor in academic departments concerned with both business and public management.

Starting with President Carter's administration in 1977, the federal work force has been under severe attack. There is a widely held feeling that government is too big, too expensive, and too unresponsive, and that serious action is required. Actions that have been proposed to curb government spending and improve service to the public include personnel reductions, program elimination, program mergers, more outside evaluation and control, severe budget reductions, and a variety of other tough measures.

In my travels I have observed many of the same feelings and concerns expressed about government in the

United States being expressed in most countries I have visited. The pressure for change and improved management in government intensifies as economies weaken, as unemployment rises, as taxes increase, and as citizens look for ways to reduce the costs of government, particularly if there is a perception that government workers are performing poorly or carrying out functions that can be eliminated or reduced.

Myths about government accountability

In preparing a brief synopsis of some of the points I might cover today, I listed a few of the reasons that are often given to explain why it is difficult or impossible to measure and evaluate performance in government:

- Government lacks the bottom-line mentality found in the private sector.
- Government's nonprofit, service nature tends to dilute efforts to measure and cost outputs.
- The monopolistic nature of many government services and products can reduce concern about productivity and costs.
- Many government managers and executives believe that there are few, if any, valid output measures that can be compiled and evaluated.
- Government has a tradition or culture of resisting change, including the establishment of a system to measure the effectiveness of government programs.

Another myth is that government appointees resist evaluation and measurement because they do not wish to look bad in the public eye if their programs are found less than effective.

Contrary to these myths, government managers want to do a good job. They want to be respected as competent individuals who care about their programs and opera-

tions, and they want the respect and support of the many publics that they serve. Their performance can be measured and evaluated, and government can be held accountable for its performance. What is needed is leadership, from the top down.

Measuring government productivity

A government's ability to carry out its programs and operations depends on sustained improvement in productivity. Increasing productivity helps control costs, and thus reduce government spending, while improving government services.

Knowing whether productivity is improving requires measuring it. But government managers often plead that their activities are unmeasurable. That argument has long been refuted, however. Government activities, whether service or industrial, are being measured and evaluated.

One system used to measure government output is the U.S. Federal Agency Productivity Measurement System. This system, which was introduced in 1970 after several years of debate, design, testing, and re-testing,

today collects data from 62 federal agencies. These data cover 304 separate organizations and more than 2 million workers, more than 64 percent of the U.S. executive branch civilian work force.

Productivity measures serve as a management diagnostic tool. Because government lacks a profit measure, these measures are the best tools available to gauge its performance over time. Output measures can assist managers in determining budgets and personnel requirements. They enable managers to set up mutually agreed upon performance targets for employees and programs, and can be valuable inputs in designing a program for determining awards and bonuses for outstanding performance. They can be used in determining training needs, and as a vital link in performance evaluation systems. And they can be used to make regional and area comparisons. This system is in place in the U.S. government, but I cannot say for certain is that it is being used effectively as a management tool in all agencies. To function with maximum effectiveness, a system must have the support of top management, and it must include follow-up and evaluation.

Table 23.1 lists a sample of output measures used in the U.S. Federal Government Productivity Measurement System. But each country and each program must estab-

TABLE 23.1

Sample output measures by function

Audit operations	General support services
Installation audits completed	Mail items processed
Transportation documents audited	Graphic units produced
Internal operations audited	Travelers service
Buildings and grounds maintenance	Information services
Acres of fine lawn maintained	Regular reports prepared
Average square feet cleaned	Climatic requests serviced
Minor improvement projects supervised	River stage forecasts made
Communications	Legal and judicial activities
Messages processed	Cases disposed
Telegrams processed	Settlements and decisions rendered
Telephone service calls made	Appellate decisions entered
Education and training	Library services
Undergraduate pilots trained (daily average)	Circulation items loaned
Student weeks of training conducted	Reference questions answered
Miners trained	Periodicals and new journals routed
Electric power production and distribution	Loans and grants
Kilowatt-hours generated	Public works impact program grants approved
Megawatts sold	Rehabilitation loan applications processed
Equipment maintenance	Medical services
Component parts repaired (weighted composite)	Medical care provided (weighted composite)
Vehicle miles driven	Clinical visits made
Engines overhauled and repaired	Outpatient visits conducted
Finance and accounting	Military base services
Invoices paid	Meals served
Insurance claims processed	Pounds of clothes processed (laundry)
Domestic payroll accounts maintained	Deflated dollar value of sales made

Source: U.S. Bureau of Labor Statistics.

lish its own measures of productivity. And governments should start productivity measuring systems on a pilot basis to work out the bugs before installing them governmentwide.

Designing and implementing large management improvement systems

The U.S. government attempted to install several large management improvement programs in the past three decades. Each has been characterized by massive paperwork and complexity, lack of training, inadequate attention to systems implementation, and poor follow-up and evaluation. Let me give you a few examples:

- In 1962 a famous U.S. management guru introduced the U.S. Department of Labor to the management-by-objectives system, in which managers and workers together determine the factors to be used to measure organizational and program performance for the unit and for individuals. The theory underlying this system is that workers' participation in establishing the basis for evaluating their performance will motivate them to perform better and will result in an evaluation system that makes sense.

- Although this system had been successful in several business firms, it never caught on at the Labor Department. It failed because it required enormous paperwork, and because the training provided before its implementation was inadequate. And the system never had the complete, public support of top management. In its place is the traditional annual performance evaluation system, a system that no one likes or respects and that does little to stimulate improvement in performance.

- Another governmentwide system was the Program Budget Management System of the 1970s. This system, which introduced short- and long-range planning governmentwide, led to a morass of paperwork that strangled the system and dampened managers' and workers' enthusiasm for the more thoughtful budgeting and planning that it introduced. A few government executives were able to salvage some elements of the system, however, and program budgeting is still found in the federal government.

- A third governmentwide system that came in with a bang and went out with a whimper was President Carter's Zero-Based Budgeting System. This system required a complete evaluation of budgets and programs from a zero base each year and thus differed significantly from the incremental budgeting system then in effect in the federal government.

The system had worked for President Carter when he was governor of the state of Georgia. But the government of Georgia is far smaller than the federal govern-

ment, and what worked in Georgia did not work in the federal government. The massive paperwork requirements drowned the system.

Change does not come easily in organizations. And in government it may come more slowly and meet with greater resistance than in the private sector. To install a new system, there must be support and commitment from the very top. There must be a carefully planned, time-phased implementation plan. And, there must be follow-up, evaluation, and feedback.

Downsizing the civil service

Downsizing has never been easy in the U.S. federal civil service. Most staff reductions have relied on a "meat ax" approach. For example, when agencies have been ordered to reduce staff by 5 percent, they have usually responded by asking each subunit to reduce positions by 5 percent across the board, with little or no consideration of priorities and goals.

The long-standing rules for Reductions in Force (RIFs) are complex and difficult to administer. They are based heavily on seniority, and, as a result, over the years they have most affected younger workers, women, and minorities—those hired last. Thus, personnel reductions handled through straight RIFs have worked against public policy efforts to improve opportunities for these groups.

Another problem with RIFs is that they allow "bumping." Employees with seniority who are cut from their positions through RIFs can bump down to lower levels. Those bumped can, in turn, bump those below with less seniority. The negative effects this has on morale are obvious.

RIFs can also be expensive to administer. If significant severance payments are required, and they often are, the short-term cash savings may not be enough to meet budgetary goals.

Exceptions to the rules have been granted to allow retention of the highest performers, regardless of seniority. Exceptions have also been granted to allow retention of some lower-seniority women and minorities. These exceptions cause anxiety and a feeling of distrust among those affected by RIFs and among the federal work force in general.

Attrition is the time-honored way to achieve staff reductions, and it works well when the job market is active and jobs are plentiful. But when unemployment is high, people change jobs less readily. Attrition is a risky policy if the goal is to achieve staff reductions in a short time frame.

If the goal is to reduce employment over a longer time frame, other schemes can be used. For example, an

agency may be authorized to fill two out of three or one out of three vacancies during a specified period. While this scheme may be painful to program managers, it does not affect current workers. If the scheme is continued for a long period of time, however, it can seriously diminish a program's effectiveness.

As I said before, downsizing in government is never easy. Managers need to be concerned about employee morale, and they must be assured that politics will not influence the process. The system must be perceived as fair.

Finally, mindless downsizing schemes that do not consider goals, priorities, and performance act as disincentives for all. Treating poorly performing units the same as high-performing units can reduce organizational effectiveness.

Upgrading compensation

Federal pay has always been a hot topic for discussion and for political action. If you have been following the Clinton administration's efforts to cut costs, you know that one of the first targets for reduction is federal employee pay raises for next year, and perhaps beyond. The Clinton administration has offered up the federal workers' expected pay raise to show the public that it is serious about budget reductions. Federal employees feel that they have been singled out—once again—for special treatment because they are in the public eye and have few advocates, and worker morale is very low.

The U.S. government has experimented with several managerial pay systems. Early systems based on the concept of merit pay, or pay for performance, introduced incentive awards programs, suggestion systems, and step increases based on performance. Performance appraisal systems were established by law, but initially there was no link between performance and pay.

A problem with most of the early efforts was that managers were reluctant to differentiate employees by their performance. Few employees were denied increases because of poor performance, and few outstanding performers were given significant pay increases. Studies conducted in the 1970s showed that 99 percent of all workers were rated satisfactory; few were rated either excellent or unsatisfactory.

Following these studies, and with the passage of the Civil Service Reform Act of 1978, the government introduced a Merit Pay System for managers in Grades 14 and 15, the levels just below the newly constituted Senior Executive Service (discussed below). This system, in place from 1981 to 1984, was intended to "increase individual

and organizational productivity and accountability, reward and encourage good performers, increase efficiency and economy in times of tight budgets and improve service to the public while also improving the image of the Federal Employee" (U.S. Office of Personnel Management).

The system allowed considerable flexibility, and most agencies adopted its procedures for lump sum awards, merit awards, and other features. But those covered under the Merit Pay System (GM) were not always treated the same as those covered under the General Schedule (GS). Studies of the system revealed many problems and prompted the government to introduce a new system in 1984.

The new system, the Performance Management and Recognition System (PMRS), saw a return to a highly centralized, governmentwide approach to management pay for mid-level managers. By installing consistency across agencies, it eliminated flexibility, but it established more consistency in treatment for General Schedule managers who are not part of the PMRS. The new system also assured that when comparability adjustments are made, GM employees receive the same increases as GS employees of equal grade. The new system also includes steps to reduce comparability increases and merit increases for employees whose performance is less than satisfactory.

The PMRS has been extended several times, despite consistent complaints about its fairness and its general administration. Two common complaints are that inequities persist between GS and GM managers of equal rank, and that funds to support the program have been subject to budgetary cuts. The Congress has adjusted the system from time to time in response to the criticisms, and has extended it to September 1993. And the Office of Personnel Management established a committee to review the PMRS. The committee issued a report in November 1991 that made several recommendations on structuring a pay system based on performance:

- Plans and expectations should be mutually determined.
- There should be fully defined performance standards for employees.
- Evaluators should compare information about an employee's performance with previously set standards.
- A summary rating of an employee should be compiled for review by an official at the next higher level.
- An employee's rating should have financial consequences, some automatic and some based on independent review.

The review committee also made several recommendations for improving the PMRS:

- The system should be simplified, and non-performance-related factors should be eliminated.

-
- Training with regard the system needs to be increased, and communication with participants and managers improved.
 - The system should be based on consistent policies, but it should also allow flexibility. Agencies should be permitted to expand and adapt the performance award process to their individual needs, structure, and culture.
 - Changes should be made incrementally rather than all at once. Experience has shown that major changes instituted all at once are difficult to absorb and implement effectively.

The committee's report made many other suggestions relating to the need to establish credibility for the system. All aimed at attracting and retaining top-quality managers. The report also recognized that there is no easy solution to the problem of motivating federal managers and rewarding good performance.

Working toward pay comparability

The U.S. government effort to achieve pay levels for government positions similar to pay levels for comparable private sector jobs began in the late 1960s, when the U.S. Bureau of Labor Statistics introduced a Professional, Administrative, Technical and Clerical (PATC) Survey. The survey began by selecting a sample of federal job descriptions for different grade levels in a range similar to the spectrum of private industry jobs. Field analysts compare these descriptions with similar jobs in private sector firms selected in a carefully drawn sample. The survey collects compensation information for each job covered and constructs aggregate pay lines for the private sector and the federal government. The pay lines show the differences between private sector jobs and federal jobs for each grade.

The pay in government jobs has consistently lagged substantially behind that in comparable private sector jobs, especially at the middle and upper levels. And despite efforts to close the gap sizable differences persist.

Many members of the U.S. Congress and many nongovernment observers have expressed skepticism about the efforts to close the pay gap. Some challenge the statistical methodology. They object particularly to the sampling method, arguing that it favors larger firms, where compensation can be expected to be higher. And some hold that federal managers work less hard than private sector managers and do not share the same types of risk.

I believe that the PATC Survey is valid, but I recognize that some will always view it with skepticism. And

the U.S. Congress will always be slow to appropriate funds for pay catch-up, particularly given the public mood and the persistent budget constraints.

Providing manager and executive training

Training and development programs are expensive. Before any system is devised, the needs for training must be assessed. And once a training and development program is introduced, there must be feedback to both participants and administrators. This means that an evaluation system needs to be built into the training program from the outset.

These are obvious points, but many training programs fail because they do not follow these simple guidelines. Management and executive training must be carefully developed and designed to meet the needs of the trainees, the organization, and the government at large.

The U.S. government supports a variety of programs and efforts to train and develop its managers and executives. It established the Federal Executive Institute at Charlottesville, Virginia, in the late 1960s in response to an identified need, and it was expected that large numbers of federal executives would receive training at this excellent facility. Outstanding faculty were hired, a state-of-the-art executive development curriculum was designed, and the institute was opened with great fanfare and promise.

At the beginning there was a great demand among government executives to be selected for this eight-week training program. The demand continued to be high for several years, there was competition for training slots, and the venture into executive training was considered a success.

Interest soon waned, however. It became increasingly difficult to get agencies to nominate employees for the eight-week program, and less-qualified individuals were increasingly being selected for the Federal Executive Institute training. Agencies often sent those they could spare, rather than those who could really benefit from the training.

Why? The reasons are obvious. First, there was only lukewarm interest and support for the program among top management. Presidents and department heads had not come out in full public support for the program. Second, and more important, there was no correlation between a manager's attending the institute and his or her future assignments, promotions, or status. Because the program involved few or no incentives and had minimal top management support, it failed.

This does not mean that the training was bad. It was and is excellent. But, it does not always reach the right people, and it has no specific place in the rewards system.

Federal employees obtain management and executive training through other programs as well. Several federal agencies have their own executive development programs, some of which have national reputations for excellence. Universities and other organizations also provide training to federal employees. The George Washington University, for example, has developed a Contemporary Executive Development Program that has been accepted by the U.S. Office of Personnel Management as a substitute for the Federal Executive Program at Charlottesville, Virginia. The GWU program, which requires attendance one day a week for nine weeks, is an attractive alternative for busy executives reluctant to be away for several weeks at a time. Nearly 1,000 participants have graduated from the program. Graduates are inducted into the school's alumni association through which they build friendships and networks.

Federal employees are also sent for training to such universities as Harvard, Princeton, and Berkeley for as long as a year. They may even be authorized moving expenses and per diem for themselves and their families. This is a very expensive model, and it has more failures than successes. Why? Because too little thought is given to how the training fits into the individual's career plans, and to how the organization will utilize the individual when he or she returns.

The government is providing an enormous amount of executive and managerial training both inside and outside its system for its employees. This executive training is expensive. And people who enter training have expectations that too often go unrealized. Both of these factors lead to loss in credibility for training and for the organization. The keys to countering this tendency are, once again, support of top management for the training, needs assessment to ensure that appropriate training is designed and given to the right people, a link between training and career assignment, feedback, and evaluation of the effectiveness of the training.

Creating an elite management corps

In 1978 the Civil Service Reform Act established a Senior Executive Service (SES) in the federal government. Before, top career officials had been in the grade classification system, at grades GS-16 to GS-18.

The SES is a gradeless system in which salary and career status are linked to the individual, not to the duties of the position he or she holds. Clearly, the system is intended to attract and retain individuals from both inside and outside the federal government. The establishment of the service was intended to help build an esprit de corps among the government's top executives.

The law excludes from the Senior Executive Service employees from certain investigative agencies, quasi-governmental agencies, government corporations, administrative law judges, and several other organizational categories. Several of the excluded organizations have their own senior executive program.

Agencies receive a ceiling each year on the number of executive personnel they may employ after consultation with the Office of Personnel Management and the Office of Management and Budget. Agencies may adjust their allocations throughout a year, but the governmentwide total may not exceed 105 percent of the number initially authorized. Agencies are free to use their approved allocations flexibly.

There are three types of appointments in the SES: career, non career, and limited term/limited emergency. Noncareer appointments may not exceed 10 percent of the total SES appointments in the government and, within each agency, may not exceed 25 percent of the agency's SES appointments.

Appointments to the Senior Executive Service are made through a merit staffing system. Applicants for an SES position apply directly to the agency with the vacancy. Once the agency has determined that an applicant's technical qualifications meet its requirements, the applicant's managerial qualifications are reviewed by a qualifications review board convened by the OPM. Some candidates are selected through agencies' executive development programs, but they too are subject to board evaluation. The board makes its decisions based on several criteria relating to managerial competence.

Each new appointee to the SES must serve a one-year probationary period. If it is apparent after full and fair consideration that a candidate is not acceptable, the candidate's supervisor may initiate action to remove him or her from the SES.

Pay rates for SES employees are flexible, and can be negotiated on an individual basis within overall guidelines. The rate must be at least 120 percent of the first step of a GS-15 but not more than the rate for Executive Level IV (presidential political appointee). Pay rates, once determined, may be adjusted only once a year. They may be adjusted two steps upward within a range, and no more than one step downward.

SES employees may receive performance awards. Career executives are eligible for bonuses of 5 percent to 20 percent of their pay after internal review by an independent board. But each agency is subject to limits on the total amount of bonuses that it can grant. Other cash awards include up to \$20,000 for an SES employee designated as a Distinguished Executive. An SES employee's total compensation from all sources may not exceed that of Executive Level I, which is equivalent to a Cabinet officer.

Other benefits in the SES include continuous accumulation of unused annual leave, moving expenses for an employee's last move at retirement, sabbatical leave after seven years as an SES member, traveling assignments, and training opportunities.

SES members must be evaluated annually and recertified every three years. The recertification of an executive takes into consideration a recommendation submitted by his or her superior indicating whether the executive should be reappointed, and the executive's performance awards, evaluations, and activities. The recommendations, favorable or unfavorable, go up the line for review and approval. An individual removed from the SES may be assigned to a GS-15 position, and may later reapply for the SES on a competitive basis. He or she may also appeal the decision for removal.

All in all, the SES is a well-constructed, positive force for achieving excellence in the U.S. federal government. It combines an excellent accountability system with protection for members who feel that they have been wronged. Members of the SES for the most part believe that they play an important role in ensuring competent, high-quality service and support to the public and to the nation.

The system is not without problems, of course. For example, there are steady complaints of efforts to politicize the system. Individuals with political appointments are often found trying to get career appointments, particularly as elections come along or when a change in administration seems imminent. But several watchdog organizations, including the Senior Executive Association, monitor the program to prevent such problems.

Introducing Total Quality Management

Total Quality Management (TQM) is an essential aspect of any organization's effort to be productive and competitive. The high-performing organizations in this world are those totally committed to improving their services to customers, taxpayers, students, patients,

stockholders, and others with a stake in their products or services.

The concept of TQM has spread through the world. In the United States TQM has taken hold not only in private industry, but in government, academia, the health sector, and virtually every other field of endeavor. The United States experienced a critical turning point in productivity growth in 1969, when the rate of growth in productivity fell to 0.9 percent after twenty years of growth of at least 3 percent a year. Since then numerous conferences have been held and blue chip White House committees set up to find out why growth in productivity slowed and to suggest ways to improve the nation's productivity and its competitiveness.

Leading the way in quality improvement programs were several private corporations and a few federal government agencies: the Ford Motor Corporation, Harley-Davidson, the National Aeronautics and Space Administration (NASA), the Internal Revenue Service (IRS), and several units in the Navy Department. The key ingredient in the success of their programs was worker-management cooperation. Using a team-oriented approach, they studied customer needs, tools and techniques, systems design, production and service systems, and every other facet of their human and technical systems.

As interest in quality and productivity picked up in the federal government, the Office of Management and Budget (OMB) instituted a program called the President's Quality and Productivity Program. One of its features is an annual quality improvement award much like the private sector Malcolm Baldrige Award.

As TQM programs in the United States and worldwide proved successful, the government established the Federal Quality Institute (FQI) to provide leadership and direction for the effort to install TQM throughout the federal government. This effort gives productivity improvement high priority, but it gives equal emphasis to quality, customer satisfaction, and the other ingredients found in a well-developed TQM program. The FQI is staffed by a group of consultants who work closely with agency and department TQM staffs and administrators in planning, designing, and implementing TQM programs. Many of the largest government agencies and some of their subunits have availed themselves of the institute's consultative services. The move toward TQM in hospitals, universities, and government signals a recognition that non-manufacturing entities can introduce quality improvement programs, and that they have elements in their operations and administration that can be measured, evaluated, and improved.

Conclusion

As I began to prepare this paper, I realized that the issues we face in trying to improve government's performance have been with us for a long time. The seemingly slow process of change in government could be discouraging. Yet I am pleased at the progress that has been made since 1955, when I first joined the Labor Department, in developing a high-performing executive corps throughout the U.S. government.

Building a strong executive corps starts with the process of identifying candidates with high potential, finding

interesting and challenging assignments for them, providing them opportunities for growth and development, arranging for rotating assignments, and providing them feedback on expectations and performance. And, of course, there must be a fair and competitive compensation package, and political considerations must be kept out of career systems.

Finally, you must believe that change can come about in government, even if it sometimes occurs more slowly than you would like. The key to the success of efforts to change and improve government is support for the change from the top down. This requires a total commitment to the efforts and a change in culture. I wish you well in your endeavors. I will be watching with great interest.

Chile's MIDEPLAN: A System for Programming and Evaluating Social Policy

Alvaro Garcia Hurtado

MIDEPLAN—the planning ministry of the Government of Chile—is a tool used by the public sector to strengthen its ability to evaluate and implement social programs. It was part of Chile's strategy for increasing the government's capacity to set goals, to plan and monitor progress, and to introduce into government institutions the concept of social responsibility.

Elements of the MIDEPLAN system

The MIDEPLAN system comprises a set of instruments that contribute to the design and programming of government social policy and facilitate control of policy implementation and evaluation. Each instrument plays a part in ensuring that implementation results in effective and efficient actions to overcome social problems.

Two MIDEPLAN instruments provide background information for decisionmaking about priorities and goals, and about programs and projects to be implemented: the survey of National Socioeconomic Characterization (CASEN—*Caracterización Socio-económico Nacional*) and the National Investments System (SNI—*Sistema Nacional de Inversiones*). CASEN and SNI are key tools: the first in formulating the diagnostic, the second in the selection of a viable loan portfolio.

The MIDEPLAN system monitors programs and projects that are selected based on their relevance in fulfilling sectoral goals and with reference to flash studies of public opinion about government social policy. This permits the detection of problems that could hinder the achievement of goals and, if necessary, the introduction of modifications to programs and projects under way.

CASEN contributes to program monitoring, evaluation, and modification through *ex post* evaluation of re-

sults achieved through program implementation. It also measures the policy's impact in redistributing income and in improving the quality of life of the poorest sectors of the country, thus allowing better targeting of programs.

The programming and evaluation system has a national and regional coverage, with some instruments also applied locally, in specific areas and programs. The system is complemented by the work of public sector institutions responsible for social policy. These institutions draw on their own information systems, studies, and evaluations of specific programs, as well as studies performed by other agencies whose work is related to the social policy objectives.

The MIDEPLAN programming and evaluation system consists of the following instruments:

- CASEN survey
- National Investments System
- Follow-up of government goals
- Survey of public perception about government policies
- Monitoring of programs and projects.

CASEN survey

This instrument has the following objectives:

- To measure the impact of social programs on income redistribution
- To evaluate social programs on how well they are targeted to the poorest and other specific target groups
- To assess poverty levels and living conditions of the poor in relation to the status of other income groups
- To diagnose the socioeconomic situation of the country, taking into account its most relevant aspects: demographics, family composition, housing, health, education, employment, and income.

CASEN has a national coverage, with results broken down by regional and communal levels (only for the most

important communities) and by urban and rural zones. The survey, which is conducted every three years, facilitates analysis of the evolution of the socioeconomic situation of the country and compares the effectiveness of various social programs.

Three surveys have been carried out so far, in 1985, 1987, and 1990. In all three the methodology has been the same to ensure comparability of results.

The 1990 survey was conducted on a sample of 24,488 households, with margins of error and confidence of 5 percent and 95 percent, respectively. It was designed on the basis of the Population and Housing Census of 1982. The survey used an aleatory method, and covered a heterogeneous, geographically varied sample. The selection of the units surveyed was simple, and the information obtained was proportional and multiphased. The Economics Department of the University of Chile was contracted for both the sample design and the period of application of the field survey. Statistical processing and information analysis are the responsibility of the Planning and Social Studies Department at MIDEPLAN.

The survey design is carried out in collaboration with representatives of the sectors and institutions involved in the different programs. This is to ensure that information collected is relevant and that achievements are measurable. In addition to being published by MIDEPLAN, CASEN survey results are transferred to the institutions responsible for social policy research centers.

CASEN survey results are expressed in expanded form, using a factor calculated from the National Statistics Institute (INE-Instituto Nacional de Estadísticas) estimates of the population living in households. The 1990 CASEN used income information compatible with an estimate based on the national accounts of the central bank.

Using survey results, it has been possible to establish the scope and characteristics of poverty, to determine the access of the poorest groups to various subsidies and social programs, and to show how these benefits affect their income. Through the identification of factors that influence poverty, such as labor insertion and access to education and training—and the characteristics that distinguish the poorest groups from the remaining income groups—it has been possible to detect deficiencies in the areas of health, education, housing, labor, and social security, and to identify the vulnerable groups in need of specific programs.

The distribution of social expenditures is assessed in accordance with the diagnostic outcomes mentioned above, allowing both the identification of social policy changes necessary to satisfy identified needs and the evaluation of these policies.

The National Investments System

The National Investments System conducts ex ante evaluations of public sector investment projects, including those with private sector participation, provided that the public sector's contribution is at least 58 percent of the amount to be invested.

SNI has been in operation since 1975, when the budget for public investment in government institutions began to be designed according to projects. A common record card (EBI) compiles information on the main descriptive and profitability characteristics of every project. The EBI card is sent to MIDEPLAN via the Integrated Project Bank (BIP), a data base that collects information nationally in a form compatible with the System of Basic Investment Statistics (SEBI—Sistema de Estadísticas Básicas de Inversión). These elements constitute SNI, which provides a continuous flow of information about the various stages of the investment process. MIDEPLAN's investment department is responsible for SNI's operation.

Information generated by SNI is used in joint discussions among MIDEPLAN, the budget office of the Ministry of Finance, and the agency responsible for the budget of the investment project.

The EBI card facilitates project identification during each stage in the project cycle. The project cycle differentiates among pre-investment, investment, and operation stages. Projects can be basic studies, programs, or investment projects. Funding is required for the execution of basic studies and programs. Projects are further broken down into prefeasibility, feasibility, design, and/or execution stages. In each, problems are identified, as well as the goods and services necessary to solve them. Technical solutions that might be required are specified along with their respective costs and benefits. These steps constitute a gradual process of gaining a sense of certainty about the project; by no means should their cost exceed potential benefits.

Each stage must satisfy information requirements for the technical-economic analysis. This analysis determines the appropriateness and timeliness of allocating the resources required by the agency sponsoring the project. Funding from the national budget or other available sources in the public sector, such as foreign aid, is required.

The technical-economic analysis identifies the problems to be solved or the needs to be satisfied, goals that are in keeping with these problems or needs, and possible solutions. It studies all alternatives from the point of view of their technical and economic feasibility, evaluates them, and facilitates the design of the project.

A set of methodologies for project evaluation is available for certain types of projects. These include industrial projects and projects for drinking water, electricity, irrigation, and ports. For social projects—for example, health, education, housing, and justice, among others—there is no evaluation methodology. Projects are therefore analyzed using cost-efficiency criteria.

Follow-up of government goals

The aim of follow-up is to increase the efficiency and effectiveness of programs and projects that carry out government social policy. To this end this instrument must identify and correct, in timely fashion, problems in execution and deviations from goals.

Follow-up is the responsibility of MIDEPLAN (specifically, through its Planning and Social Studies Department), the Ministry of the Presidency (SEGPRES—Ministerio de Secretaría General de la Presidencia), and the ministries, agencies, and other public entities responsible for social policy. Their efforts in monitoring compliance with government goals starts, in practice, with goal-setting. This process uses two set of tools: (1) diagnostics of the socioeconomic situation, whether for the country, for sectors, or for specific locations; and (2) analyses of specific programs and projects. Priority goals of each social sector are identified, based on government social policy, diagnostics, and other sectoral background. These priorities, provided they receive government approval, constitute the basis for national budget allocations among the ministries or agencies.

With the budget framework defined, it is up to the specific sector or institution to develop the preliminary budget plan that is the basis for discussions with the Directorate of Budget at the Ministry of Finance, and MIDEPLAN. For its part, SNI approves specific projects based on whether they fulfill sectoral goals and are financially feasible. SNI-approved projects must accompany the sectoral proposal in the preliminary budget plan that the Ministry of Finance sends to congress for approval.

Goals and their respective programs and projects, the implementation timetable, and the budget for expenditures and investment permit identification of executing units, processes to be followed, and standards to be used to monitor goals.

Implementation of programs and projects is carried out within the selected executing unit. The unit develops a series of activities leading to the production of goods and services (intermediate or final) that can be measured. Monitoring of results is carried out to correct promptly deviations from the agreed plan.

To facilitate monitoring, guidelines for activities have been designed and adapted to the different sectors. These comply with the timetable established for achieving goals. Implementation records for each activity should be accompanied by reports of results—at least financial results—to permit measuring the efficiency of sector operations.

Follow-up not only allows modification of work procedures and programming; it can also affect current or future goal-setting—say, standards for goods and services or amounts to be produced. Follow-up is thus a feedback instrument in social policy.

Survey of public perception about government performance in social policy

Public perception surveys, conducted since July 1991 for all men and women eighteen years and older, yield information on the perceived needs and priorities of the different social strata, which informs the design of policies and improvements of programs under way.

The surveys also reveal public opinion about where responsibility lies for solving social problems. Two surveys have been carried out so far: the first covered only the residents of metropolitan Santiago (a sample of 800); the second had nationwide coverage (a sample of 3,100). The unit responsible for the surveys is the Social Division (DIVISO) at MIDEPLAN. Surveys are conducted in cooperation with the Center for Contemporary Reality Studies (CERC).

Monitoring of social programs and projects

This instrument monitors management processes of social programs and projects at the regional and local levels. Programs are monitored to develop new lines of action and/or to address problems with management or with public perception. The unit responsible for monitoring is DIVISO at MIDEPLAN.

Monitoring is carried out using the following techniques:

- Continuous monitoring of selected programs by a team of regional monitors that compiles information on projects in different localities. Monitoring is based on interviews with users, officials of the executing agencies, and professionals and technicians in the field. It is complemented with statistical information and studies, as well as information gathered through focus groups, seminars with public officials, and field supervisors' reports.
- Flash studies designed to reveal users' perception about programs, problems, and possible modifications.

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- Statistical background information and national studies. These look at programs in context and distinguish local conditions that dictate that program execution be adapted to local needs.

Information from monitoring is reported quarterly, by program, and every six months, in consolidated reports for the regions and nationwide. Flash studies are conducted as needed.

If monitoring reveals problems that go beyond the local or regional level, instruments are applied at the national level to determine the magnitude of the problems, and their causes, so that a line of programs can be developed at the national level.

Integrating the MIDEPLAN system into the programming and implementation of social policy

MIDEPLAN instruments, then, collect background information at the national, regional, and sometimes local level, which is used for social policy programming and implementation. They complement sectoral information, which usually supplies statistics on the production of goods and services, input consumption, and use of resources during specific time periods.

Selected Discussion Points

Discussants: Mike Stevens and Mauricio Camps

The discussion on strengthening institutional capacity to manage human resources and managerial authority and accountability included these comments from Mike Stevens of the World Bank and Mauricio Camps of Mexico's Ministry of Finance.

M. Stevens: I would like to raise three key issues in civil service reform. The first is the issue of commitment, the second the relationship of civil service reform to other reforms in an economy, and the third the link between civil service reform and budgeting. First, commitment to reform. By this I mean leadership from the top down. The problem for many Bank staff is that often we don't find this strong commitment. Instead, we face a reforming government that is concerned with many issues other than civil service reform, which may be quite low on the agenda. And though we may have an entree with one minister, that minister may or may not have the ear of the president or prime minister. Furthermore, civil servants themselves may be resistant to change. So the commitment we do find may be conditional in the sense that there is a commitment to civil service reform up to a certain point of redundancy and retrenchment and then the commitment ends.

The second point is the relationship between civil service reform and larger reforms in the economy. This was demonstrated clearly in the New Zealand experience where civil service reform was not the key thing on the agenda. Rather, the priority for the incoming government in 1984 was to improve the efficiency of the whole economy. This in turn led to measures to improve private sector efficiency. It also led to a review of the public sector, reform of public enterprises, and finally reform of government itself. I see this as the best context for civil service reform.

Unfortunately, we don't always see such a comprehensive approach in the countries we deal with. What we find instead are civil service reform programs that are

isolated, stranded high and dry, while difficulties persist elsewhere in the public sector.

In the New Zealand experience I see pointers for the civil service reform model we are trying to develop within the Bank—a model that enables us to go beyond the tools of compensation and employment upgrading and management strengthening, which have characterized many Bank-sponsored reforms in various parts of the world. Here we go back to the numbers. If you look at some of these programs you find they get stuck at the level of retrenchment. In many countries it is possible to drop as much as 10 or 15 percent of excess staffing from the payroll. And then civil service reform runs aground. In New Zealand we had a reduction in the civil service from 88,000 to 36,000. The missing 52,000 were axed—some just got pink slips. In the bulk of cases their responsibilities and activities were reviewed and their jobs redefined. Institutional rules were changed so that employees could be relocated from the central government to government-owned companies and finally to the private sector. I think this approach—conducting civil service reform in the context of larger reforms in the economy—is one we must look more closely at.

The third point I want to stress is the link between civil service reform and budgeting—a fundamental aspect of multidimensional civil service reform. For me these are two sides of the same coin. We see this in OECD countries that are reforming. And Professor Pempel spoke of it yesterday in the context of Japan's budget cut being crucial to its civil service reform. Several speakers have talked about the need to maximize flexibility in management to improve human resource development—to give managers the flexibility to vary the input mix. "Deep delegation of managers' responsibilities" was the way one speaker put it. I believe you can do this only if you have a strong financial management framework.

I therefore draw three conclusions: first, if there is weak budgeting and financial management you have little

hope of achieving civil service reform. Second, if financial management is effected using traditional input approaches, you can carry out civil service reform to a point—but it will be impossible to change the basic model. And third, if you wish to fundamentally change the civil service model, it seems to me you have to look—as New Zealanders have done—at the whole basis of financial management and change the rules in a radical way to achieve a corresponding change in civil service performance.

M. Camps: There seems to be a general consensus in society, and not only in Latin American and Caribbean countries, that public sector employees are inefficient and corrupt. I'm sure most of you have heard stories like the one about the two young women who are talking and one asks, "Did you know my father doesn't work anymore?" And the other one replies, "Why, did he retire?" "No, he got a job in the government." That's the general consensus: that government work is no work at all. That government employees are inefficient or, worse, corrupt.

What we can gather from the past two days of presentations is that once we have achieved the relatively easy part of establishing administrative reform—that is, once we have created institutional structures, mechanisms, and policies; once we have downsized, or rather rightsized the public sector, as Marie Slyfield said yesterday; and once we have established a comprehensive public personnel management system that comprises recruitment, selection, a promotions system, and retirement enhancement programs—once we have this framework working correctly, we still have to deal with the creation of a *management culture*, as well as transformation of the way the general public sees civil servants and the way civil servants see themselves and their jobs. Or, as Joan Prats-Catala put it, the creation and enhancement of the entrepreneurial capacities of the public sector labor force.

I think this is highly important because current public sector structures cannot support state reforms that are aimed at enhancing competitiveness, particularly in this new world of global competition. We in the public sector must adjust to these changes.

That's why it is important to reflect on Professor Burdetsky's presentation on total quality management systems, or TQM. Professor Burdetsky stated that total quality systems are not a panacea, a prescription medicine that can be taken globally. This is true—we all have different political, social, and economic environments to contend with. But total quality management systems do work efficiently.

Mexico is a good example of how well TQM has worked, especially in one case: the divestiture of Aeromexico. Mexico's divestiture of the airline was imperative for political and economic reasons. Politically, it was diffi-

cult to defend the government's ownership of two airline companies when only 4 percent of the population had ever flown. Economically, it was inefficient to maintain these companies—the numbers showed financial losses, and services were declining. So in 1990 we began the sale of Aeromexico. Now, only three years after the divestiture process, Aeromexico boasts one of the best reputations in the international airlines system, with an 89.9 percent success rate in keeping to its arrival and departure schedules and a 99.8 percent success rate in its baggage handling. These outstanding—and quick—results are due to total quality management systems. It certainly must make us in government stop and wonder whether we haven't been doing something wrong in our administration of companies.

Marcel Proust once said that real discovery consists not in seeing new lands but in seeing them with new eyes. That is what we in the public sector in Mexico have to do right now: see, assess, evaluate, and perform with new eyes. And I think that one of the instruments that will help us in this quest is total quality systems.

Another important issue that we should address if we are to be more competitive is that of governance in terms of the steering ability of government. In Mexico we have developed a program called Solidarity that is aimed at procuring social sector needs. Before we had this program, the state usually assumed a paternalistic stand, providing all resources and infrastructure requirements for the social sector. The government was not only steering, it was rowing the boat! With the Solidarity program, the social sectors have taken on a great degree of responsibility, both in the formulation of global strategies and in decisionmaking for the construction of infrastructure. The social sectors participate with government authorities in the administration of resources, and most important, they contribute to the labor force, allowing the government to stretch its limited budget. The results of this participatory approach have been encouraging. For one thing, people take better care of infrastructure they have helped build because they have a sense of ownership. More specifically, we have been able to bring basic health programs to 7.5 million Mexicans, and safe drinking water and sewerage systems to 11 million. More than 30 million Mexicans now have electricity. None of this would have been possible with limited government budgets. But it was possible with the active commitment of society.

This commitment is also the trademark of total quality management systems in the public sector. And this kind of performance has the additional bonus that the public sees that some of its perceptions about public sector employees (inefficient, corrupt) are not realistic. The public also sees that we, the government, and they, the social sector, can work jointly toward the same goal.

Role of the World Bank in Civil Service Reform

Selected Discussion Points

Moderator: Shahid A. Chaudhry

S. Chaudhry: I would like to start on a somewhat parochial note. For the past five years my colleagues and I have been working on Latin American and Caribbean public sector issues. One of the things we have not done until recently is get involved in civil service reform issues. In part that has been deliberate. Let me explain why. First, in the late 1980s we were worrying about public sector strengthening, and I think the attitude internationally—including the feeling in the Bank—was, why should we try to strengthen government when the agenda is to break up government? One of the arguments driving the debate was that no government or little government was better than big government. So I think that was a restraining factor.

A second factor that was equally important in curbing our involvement was that when the Bank had gotten involved we had not had much success. Most of the Bank's initial involvements in institutional strengthening were in Africa and did not prove very fruitful. Another factor is that in Latin America, the political situation is tremendously complex. I had thought that political regimes were fairly ruthless in the North American context—but in Latin America public bureaucracies are treated with extraordinary ruthlessness. In country after country I saw that competent senior public servants had a high turnover rate. I think this also made us feel that for political reasons the context was not right. What we've done instead is concentrate largely on specific tasks and even single-agency strengthening tasks.

I would like to give you a flavor, then, of what we have been trying to do in Latin America and the Caribbean over the past five years. Starting in the southern cone, we have a project in Chile with the very limited aims of strengthening the income tax system and the customs agency and installing an information system in the congress. In Argentina we have carried out three

projects. One is to work with DGI, Dirección General de Impuestos, to strengthen the tax agency, and this has been very successful. And we have a project to introduce integrated financial management systems and modernize the customs system and information systems in the central bank. In Bolivia we have had success with a project to put in a modern financial management system. We are working in Peru to identify problems with the judicial sector. In Ecuador we have worked solely with strengthening the financial systems of key agencies: the petroleum agency, the telecommunications agency, and a couple of other major public agencies. We are developing a \$50 million project to upgrade the Colombian tax system and to introduce a modern integrated financial management system there.

In Venezuela we have a project to install an integrated financial management system in the central government. We also have approved a project to modernize all 1,500 courtrooms in Venezuela. And we are working with our Venezuelan colleagues on a civil service project.

We have a number of projects in Guyana. One is to reform the Guyanese civil service. Another is development of a new salaries system, as well as modernization of the tax and custom systems. In Jamaica we are working on an integrated financial system, which will have a human resource component, and on a tax administration project.

So you can see that, except in very recent cases, we have not gotten involved in public administration issues.

One objective of this conference was to gather together our friends and colleagues from Latin America and the Caribbean to see how they felt about the issues. And we wanted to get a clear idea of whether public administration reform issues are a priority for the 1990s, because we have a unique opportunity to influence the Bank, as well as the international community, and most important,

political decisionmakers in your countries to focus on these issues. The time is right. We have already talked about the increased emphasis on building the more efficient state. The time is also right because we have the necessary techniques available. And from listening to our presentations and discussions my feeling is that we also have the professional expertise in our member countries to carry out reforms.

Another objective of this conference was to see whether we could develop a network among our Latin American and Caribbean colleagues and between them and the Bank. There is a great amount of expertise that can be transferred across countries and we hope this forum, and others like it, will serve that purpose.

Finally, our hope was to receive guidance from you on appropriate areas for our involvement. For instance, Moises Naim said you need agents of change. But is the Bank the right agent of change in this area? Your guidance would also be welcomed on appropriate ways the Bank, governments, and research institutions can work together. I would also like to solicit the ideas of my colleagues in the Bank.

C. Wescott: Based on the UNDP's experience in this area, I think the answer to whether the Bank should get involved depends on how comfortable you are with the risks involved. When you embark on comprehensive civil service reforms you are in high-risk territory. To return to what Mike Stevens said about the links between economic reform, civil service reform, and economic growth, let's remember that results are hard to predict. In some countries economic reform leads to civil service reform and, together, these lead to economic growth plus other reforms and externalities. We've seen this happening in Botswana, Chile, Malaysia, Mexico, Singapore, and Tunisia, and certainly in the New Zealand experience we've heard about here.

In other cases economic reform leads to economic growth but little civil service reform. Indonesia and China are two cases where we have run up against a brick wall on civil service reform. In other cases economic and civil service reform fail to translate into economic growth. Ghana is a case in point. So investing in civil service reform is like investing in a high-risk mutual fund portfolio. You diversify—invest in a lot of countries—because you certainly can't predict with certainty which ones are going to succeed. But you can predict that some countries likely will succeed, particularly if you give them enough time. In some cases you might have to wait ten to twenty years to see the fruits of your labor. If you are comfortable with this kind of risk then I think you should get into this area.

N. Holanda: I attended a 1989 meeting of the International Association of Schools and Institutes of Public Administration. In his presentation Paul Collins said that the UNDP had \$60 million to invest in management development programs. Someone asked whether the role of schools and institutes in this field had been considered. The answer was no, but at the next association meeting in Malaysia a working group on the role of schools and institutes of public administration in management development was instituted. And the association's membership has increased significantly as the Eastern European countries have become interested in creating schools and institutes to further their reforms.

So we are riding a wave of interest in this movement. (Many of you remember that during the 1970s many of these institutes were closed down.) And the World Bank has gotten involved through its public sector management divisions.

I want to add my voice in saying that I believe the most important way to achieve civil service reform is through professionalization. This must come through schools and institutes. And we need a new kind of institute that builds public service capacity on many fronts: planning, finance, organizational structure, and—quite new for us—foreign affairs. We cannot overlook the importance of international cooperation, of integration. This is something all countries are facing, even the United States, Mexico, and Canada. We must integrate sub-regionally, regionally, everywhere. And the institutes we build must stress, not so much long-term programs of formation and training, but creating opportunities for getting people in the field together.

Excellent senior civil servants are at work throughout Latin America and the Caribbean, but they are isolated from each other. We must create permanent mechanisms—both at the regional and national levels—that allow these people to meet and discuss the kinds of issues and concerns we are addressing at this conference. I think the World Bank could play an important role in this.

S. Chaudhry: I think that point is well taken. I think that in our projects we have perhaps been remiss in not using the national institutes more aggressively as a way of building capacity. Incidentally, we have done this in the tax project in Argentina where all the training is being done by the University of Buenos Aires.

R. Kitchen: I have the impression that the Bank has a lot of public administration experience and technical expertise, and I would encourage it to use it. What I would question, however, is whether such high-risk activities as

Mr. Wescott described should be funded with IBRD loans or even with IDA loans. It might be better to look for grant funding from bilateral or multilateral agencies, say, the EC or UNDP. With high-risk projects there is going to be a significant amount of failure and I'm not sure that countries should take on foreign exchange debt to fund such activities.

S. Chaudhry: I would like to respond to that. Legally the Bank cannot finance many elements of civil service reform, including salary supplements or salary upgrading, severance payments, and so on. What we try to do instead is support substantive changes that involve many reform elements we've talked about—suppression of vacancies, downsizing, elimination of ghost workers, and the like—in combination with salary upgrading and improvement in recruitment and training programs. When you take these and other reforms together, the exercise almost finances itself. In the context of a government's overall expenditures there may be at most a small shortfall that has to be met.

What we have done in Guyana is concentrate the bulk of investment expenditures on two things. One is a complete modernization of the tax collection system for income and corporate taxes and for consumption taxes (Guyana's equivalent of the VAT), which are collected by customs. Our other focus has been on introducing a reasonable financial management system with output indicators. We believe these programs in combination represent a suitable debt-bearing investment.

J.P.P. Machado: There is a new political reality in Latin America. In the late 1980s we made the move to democracy and now in the early 1990s we are moving toward economic liberalism. These are important and difficult changes in our political life—Latin America's history is one of state intervention, not economic liberalism. Latin Americans want to make these changes, in step with the rest of the world, and yet there are strong cultural factors that have to be overcome to implement liberal economic policy. Furthermore, Latin American countries often suffer from structural, political, and economic instability, which causes administrative instability.

Usually when we hear about World Bank involvement we hear about its links with a country's executive branch, with the economic sector, and with public administration. In Brazil, however, the constitution of 1988 radically shifted the balance of power from the executive to the legislative branch, enabling the latter to make amendments to the budget. In October Brazil's constitution will be revised, and the hope is that we will

eliminate the obstacles that stand in the way of Brazilian development, and clear the way for foreign investment, fiscal adjustment, and fiscal reform. My suggestion, then, in view of this political reality is that the World Bank pay more attention to the newly empowered legislative branch.

S. Chaudhry: Along these lines, part of a World Bank loan to Chile was geared toward strengthening the congress's data bases and information systems to enhance its analytical capacity in economics. Perhaps that is the sort of project to support—to bolster the institution's ability to look into some of these issues themselves.

O. Oszlak: First, I would say that the Bank is not so much an agent of change as a facilitator of change.

Mr. Chaudhry has told us about the Bank's many frustrating experiences in Africa. But I've been thinking about the fact that the World Bank probably is the only bank in the world that is risk-free. In this sense it's akin to the public bureaucracy. We all know that any bank involved in disastrous projects would not last long.

Democracy provides a golden opportunity for improving the civil service—if we are able to install a true merit system. In turn, a stable, permanent civil service might be the best insurance against the Sisyphean task of reinventing government over and over, which has been typical of Latin American and Caribbean countries' alternation between authoritarian and democratic systems.

There is great need of an integrated approach to civil service reform, one that combines technical, institutional, and legal aspects with the political and cultural dimensions of reform. It's not just a matter of transferring technologies that have worked from country A to country B. I think it is important to invest where there is commitment, where there are champions of change. Where people go to bed every night resolved to continue fighting the next morning. Otherwise there is no way of producing significant changes in the civil service.

I also think that responsibilities must be clearly defined. Civil service reform is a national responsibility—not the job of international cooperation.

S. Chaudhry: Before we break I would like to ask Gary Reid to sum up for us.

G. Reid: A theme touched on again and again in this conference is that if you want to improve public sector performance you must increase the competitive pressures within the human resource management part of the pub-

lic sector. The New Zealand experience is clearly an example of this and it has come up in other contexts, including the reform currently being undertaken in Argentina. Probably the key to doing this, and this was clarified by Graham Scott, is to devolve sufficient authority or autonomy to managers so that they can have a major impact on the performance of their agencies.

If you do this, however, without ensuring that you have in place an effective system of assuring accountability for performance you'll be in trouble. So you need to do both things. And I think setting in place the system of accountability must be the prerequisite to devolution of authority. In fact, autonomy could be granted as a reward for demonstrating performance accountability.

This will doubtless pose implementation problems. Granting autonomy piecemeal will mean that you will have some, but not all, agencies making their own decisions about hiring and firing, salary setting, promotions, and so on. Unavoidably, there will be salary discrepancies for given positions across agencies. But without accepting this kind of discrepancy it will be difficult to get better performance out of your agencies. This is clearly a tradeoff and one that has to be made on a country-by-country basis.

It strikes me that a sensible strategy for devolving authority is, first, to make the commitment, second, to build a general plan for the long run and, third, to take advantage of opportunities to take steps in that direction. I think the New Zealand approach of decentralizing across the board is likely to be the exception rather than the rule. We ought to try to move stepwise in that direction to the extent feasible under existing political constraints. This, too, poses a risk—the risk that the process will get bogged down during this more gradual implementation, particularly in view of the frequency with which political regimes tend to change in Latin America. Still, I think the risks are worth it and that we ought to move in that direction.

S. Chaudhry: Thank you, Gary. I want to say a special word of thanks to our guests from Latin America, the Caribbean, the United States, and our sister institutions. We appreciate your participation and hope the conference has been useful to you. It has certainly been useful to us. Our plan is to publish the conference papers, as well as an edited version of conference proceedings, and to send these to you. I hope these will prove to be useful references. Thank you very much.

Background Papers

Culture Change in the Singapore Civil Service

Jon S. T. Quah

This chapter describes and evaluates the process of culture change in the Singapore civil service (SCS). The SCS traces its origins back 126 years to the formation of the Singapore branch of the Straits Settlements Civil Service in 1867 (Quah 1978). It has 61,340 employees and consists of the President's Office, the Prime Minister's Office, and thirteen ministries (Singapore 1992, p. 26). Retaining the original structure of four divisions that was recommended by the Trusted Commission in 1947, the SCS has 11,642 Division I officers (of whom 503 have superscale status), 20,247 Division II officers, 20,492 Division III officers, and 8,455 Division IV officers (Singapore 1992, p. 25).

The main thesis of this chapter is that the SCS today is successful because of the culture change it has undergone since 1959. More specifically, the SCS has changed in four important ways: it is no longer plagued by corruption, which has been minimized; it has remained competitive by successfully competing with the private sector for the best talent, by awarding scholarships, and by providing competitive salaries and faster promotion for high-flyers; it has avoided overstaffing by adopting a zero-growth manpower policy and by introducing computerization; and it has become more customer-oriented and concerned with improving the quality of its services to the public.

Before further discussion, it is necessary to define two key concepts: organizational culture and culture change. Edgar H. Schein has defined organizational culture as "a pattern of basic assumptions ... that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to these problems" (Schein 1992, p. 494). According to John R. Schermerhorn, Jr. (1939, pp. 304–05), organizational culture, that is, the observable culture, consists of "values or underlying beliefs that influence behavior and actually give rise to" the observable

culture. Thus, the culture of the SCS refers to the pattern of basic assumptions or values that influence the behavior of its members. Similarly, this paper will adopt Harrison M. Trice and Janice M. Beyer's (1993, p. 395) definition of culture change, which refers to "planned, more encompassing, and more substantial kinds of changes than those which arise spontaneously within cultures or as a part of conscious efforts to keep an existing culture vital. Culture change involves a break with the past; cultural continuity is noticeably disrupted."

To demonstrate the four ways in which the SCS's culture has changed since 1959, we must first identify its main features during the colonial period.

The culture of the colonial SCS

Singapore was a British colony for nearly 140 years until it attained self-government peacefully on June 3, 1959, when the People's Action Party (PAP) government assumed office. During the colonial period the SCS exhibited the following four basic characteristics, which influenced the behavior of its members.

No concern for national development

The colonial SCS did not play an important role in national development because it was preoccupied with enforcing colonial rule in Singapore and with the economic exploitation of the region's natural resources for the benefit of the home government in Britain (Quah 1978b, p. 429). This meant that the colonial SCS devoted its attention to the traditional "housekeeping" functions of maintaining law and order, building public works, and collecting taxes. In other words, the SCS, as an instrument of the British colonial government, was designed to handle regulative and routine matters, but was not

equipped to expedite the implementation of socioeconomic development programs. Consequently, although the colonial authorities did create five statutory boards, their activities did not contribute significantly to the colony's development (Quah 1987, pp. 125–26).

Neglect of administrative reform

As a result of the SCS's inactive role in the colony's development, administrative reform was neglected and was only introduced after World War II. The first administrative reform was initiated in 1947, when the SCS was reorganized and divided into four divisions on the recommendation of the Trusted Commission. The second administrative reform was the establishment of the Public Service Commission (PSC) on January 1, 1951, "to keep politics out of the SCS and to accelerate the latter's pace of localization" (Quah 1982b, p. 50). The third administrative reform was introduced in 1955 following the change in Singapore's constitutional status from a crown colony to a ministerial form of government under the Rendel Constitution. Accordingly, the colonial secretariat was abolished and the SCS was reorganized into eight ministries (Lee 1976, pp. 360–61).

Corruption as a way of life

The SCS was afflicted by corruption during the colonial period. Corruption was first made illegal in Singapore with the enactment of the Penal Code of the Straits Settlements in 1871. The Prevention of Corruption Ordinance, which came into force on December 10, 1937, was concerned with "the prevention of bribery and secret commissions in public and private business" and "intended to strike at an evil (corruption) which is generally recognized as widespread and of long standing" (Quah 1978a, p. 3).

Rampant inflation during the Japanese occupation gave rise to widespread corruption among civil servants who found it difficult to live on their fixed salaries. Conditions deteriorated during the postwar period, low salaries and postwar inflation increased civil servants' incentive to be corrupt, and poor supervision by their superiors provided them with many opportunities for corrupt behavior with a low probability of being caught (Quah 1982a, pp. 161–62). In short, corruption had "become a way of life for many people" in Singapore during the postwar period (Yoong 1973, pp. 55–56).

In 1950 the Commissioner of Police, J.P. Pennefather-Evans, reported that graft was rife in government departments. A few days later the Chief of the Anti-Corruption Branch (ACB) of the Criminal Investigation Department (CID), which was responsible for

tackling corruption, indicated that the problem of corruption had become worse. These reports on the prevalence of bureaucratic corruption prompted criticism of the ACB's ineffectiveness and the colonial government's "weak and feeble attempt" to fight corruption by Elizabeth Choy, a member of the Second Legislative Council, on February 20, 1952. She recommended that the government take stronger measures to eradicate corruption by removing the ACB from the police force and expanding its size, and by strengthening the Prevention of Corruption Ordinance (Quah 1978a, p. 14).

The ABC was ineffective for two reasons. First, it was a small unit of seventeen members and had to compete with other sections of the CID for limited manpower and resources. Second, it was unable to deal impartially with the widespread corruption within the police force as not all the senior police officers involved in protection rackets were prosecuted (some even escaped punishment because of insufficient evidence). The ACB's failure to curb corruption in the colonial SCS in general, and the police force in particular, led to its dissolution and the establishment of an independent anti-corruption agency, the Corrupt Practices Investigation Bureau (CPIB), in 1952 (Quah 1978a, pp. 14–15).

The CPIB's task of weeding out corruption in postwar Singapore was not easy as the problem was not confined to the police, but had also spread to other parts of the public bureaucracy. For example, a major reason for the Singapore Improvement Trust's failure in public housing was the corruption of its senior expatriate officers and local junior officers in contracts procedure, planning and development control, and the allocation of housing units (Quah 1975, pp. 281–90).

Civil servants in service to the colonial government, not the people

When it assumed office in June 1959, the PAP government inherited a civil service consisting of nine ministries with a total of 28,253 employees (Quah 1984, p. 289), who had "a colonial mentality and were insensitive to the needs of the population at large" and who were "hostile towards and afraid of the PAP" (Quah 1975, p. 325). PAP leaders had serious misgivings about the SCS since its localization had not resulted in a national bureaucracy for two reasons: the local successor-bureaucrats shared many of their expatriate predecessors' values; and the SCS remained a stronghold of the English-educated and was thus not representative of the local population, especially the Chinese-educated. Furthermore, senior civil servants had shown insensitivity to the changing political realities in Singapore (Seah 1973, p. 615).

Changing the culture of the SCS through attitudinal reform

For there is no other way to preserve what we consider good in the past other than by exorcising all that was bad in it. (Lee 1959, p. 3)

When PAP leaders assumed office in June 1959, they realized that the colonial bureaucracy they inherited had to be transformed to ensure that their socioeconomic development programs would be efficiently implemented. As the colonial SCS was not concerned with national development, or with being responsible to the needs of the local population, the PAP leaders sought to change the mindset of the SCS and its members so that they could contribute to national development.

The Political Study Centre

More specifically, to rectify the deficiencies of the colonial SCS, the PAP government subjected the SCS to “intense psychological pressure” because it believed that “the values of the [colonial] civil servants were irrelevant, if not dysfunctional, in the context of mass politics” (Seah 1971, p. 86). Accordingly, it launched a systematic campaign to change the values of the civil servants. The attitudinal reform of the SCS was initiated with the formation of the Political Study Centre on August 15, 1959, slightly more than two months after the PAP government assumed office.

In his opening speech Prime Minister Lee Kuan Yew stated explicitly the purpose of the Political Study Centre:

The purpose of this [Political] Study Centre is not only to stimulate your minds but also to inform you of the acute problems which confront any popular elected government in a revolutionary situation.... Once the problems have been posed to you, you will be better able to help us work out the solutions to them, by making the administration more sensitive and responsive to the needs and mood of the people.... I ask you to join us in this task—that having defined and analyzed the problems that confront us, [we may] work more effectively together ... to establish a liberal, just and happy society. (Lee 1959, p. 3)

In the same speech, Lee stressed that the civil servants were responsible for ensuring efficiency and honesty in the SCS as “the elected Ministers have to work through you and with you to translate our plans and policies into

reality.” As such, they should give their best in the service of the local population by ensuring the existence of “an honest and efficient government which works in the interests of the people” (Lee 1959, pp. 2–3).

On August 17, 1959, the Political Study Centre launched its first course, a two-week part-time and non-residential training course for senior civil servants (including permanent secretaries), designed to change their attitudes and make them more aware of the local contextual constraints. Apart from attending lectures, the participants also interacted with the PAP leaders in discussion sessions. After training all the senior civil servants, the Political Study Centre conducted similar courses for administrative officers, school principals and teachers, and civil servants in the professional grades (Seah 1971, pp. 161–62).

In spite of the short duration and part-time, non-residential nature of its courses, the Political Study Centre attained its objectives as “there was a gradual transformation in the understanding and perception of the civil service of political matters and the issues which concerned the electorate and influenced Government policy” (Bogaars 1973, p. 80). Indeed, senior civil servants who had attended the Centre’s courses had become more politically aware and sympathetic toward the PAP government’s programs (Seah 1971, pp. 163–64). The success of the Political Study Centre can be attributed mainly to the absence of any fundamental rift between the PAP leaders and the senior civil servants since all of them had a common background: English-educated and middle class. This similarity in background removed any “conflict, hostility or misunderstanding” between the groups and enabled each to be more empathetic toward the other’s strengths and weaknesses (Chan 1973, pp. 5–6).

In addition to the Political Study Centre, PAP leaders employed four other methods to change the attitudes and behavior of the civil servants.

Participation in mass civic projects

Civil servants were encouraged to participate in mass civic projects during the weekends as they would be working alongside the political leaders and, at the same time, be involved in national construction. The aim of these weekend activities was twofold: to enable the civil servants and political leaders to get to know each other better; and to change the civil servants’ dislike for manual work by providing them with opportunities for engaging in manual activities. In other words, these weekend projects were aimed at exposing the civil servants to other values and improving their personal relationships with the political leadership. Attendance at these weekend activities was quite good—even though attendance was

not compulsory—because the civil servants were afraid of being victimized for their absence (Seah 1971, p. 86).

Recruitment of Chinese-educated into the SCS

During the colonial period the SCS was criticized for being a preserve of the English-educated, and therefore not representative of the local population. To rectify this imbalance, the PAP government in 1960 widened the scope of recruitment into the SCS by selecting twenty-six Nanyang University graduates for the education service and subordinate administrative grades. Apart from invalidating the claim that the SCS was an English-educated stronghold, this move was also “an attempt to woo the political support of the Chinese-educated in the country by improving their job opportunities” (Seah 1971, p. 87). Thus, the second method employed by the PAP leaders in the resocialization of the English-educated civil servants was to reduce their predominance in the SCS by recruiting Chinese-educated graduates.

Disciplinary control

The PAP government introduced tougher disciplinary measures against civil servants found guilty of misbehavior. For example, the Financial Procedure Ordinance of 1960 included the provision that civil servants make good on any financial loss incurred by the government as the result of their mishandling of public funds. In 1961 the Central Complaints Bureau (CCB) was formed to provide the predominantly non-English-educated public with the opportunity of making complaints against those civil servants who had been rude or unfair in their dealings with the public. If a complaint was valid, disciplinary action would be initiated against the guilty party. Civil servants were encouraged to be courteous and impartial toward the public and the CCB was instructed by the political leaders to take disciplinary action against those civil servants who spoke “disparagingly of the Government in a manner calculated to bring the state into disrepute,” as well as those who were either rude or discourteous to members of the public in speech, writing, or action (Seah 1971, p. 616).

Selective retention and retirement of senior civil servants

Finally, the PAP government relied on a policy of selective retention and retirement to transform the attitudes of the civil servants. Those expatriate civil servants who were competent and due for retirement were encouraged to stay on while their incompetent and inflexible colleagues were retired prematurely. The impact of this policy,

combined with the reduction in the variable allowance, resulted in a high turnover rate among the senior civil servants. The emphasis on efficiency as the sole criterion for retaining or retiring a senior civil servant was reinforced by the deemphasis on seniority as the basis for promotion. Prime Minister Lee Kuan Yew had indicated his disdain for seniority in 1961: “I am in favor of efficient service. The brighter chap goes up and I don’t care how many years he’s been in or he hasn’t been in. If he’s the best man for the job, put him there.”¹ Accordingly, local civil servants who were competent were promoted to more responsible positions regardless of their seniority (Quah 1975, p. 331). This policy remains in force today and is responsible for the relative youthfulness of many of the present permanent secretaries.

In sum the PAP government’s efforts in attitudinal reform “were aimed at breaking what it regarded to be an isolationist and anachronistic outlook of the Civil Service” (Seah 1971, p. 88). It needed the support of the civil servants to implement its programs. However, it also knew that it had to first demonstrate to the civil servants that it was firmly in control before they would give their support.

Reducing corruption

In addition to obtaining the support of the civil servants, the PAP leaders knew that they had to minimize bureaucratic corruption to enable the public bureaucracy to attain the goals of national development. As corruption was a way of life and perceived by many to be “a low risk, high reward” activity, the PAP government’s mission was a challenging one: to make corrupt practices publicly known and to change the public perception of corruption to “a high risk, low reward” activity.

The PAP government’s anti-corruption strategy was based on the following logic of corruption control: since corruption is caused by *both* the incentives and opportunities to be corrupt, “attempts to eradicate corruption must be designed to minimize or remove the conditions of both the incentives and opportunities that make individual corrupt behavior irresistible” (Quah 1989, p. 842).

Eliminating opportunities for corruption

Since the PAP government could not afford in 1959 to raise the salaries of the civil servants, it began by strengthening the existing legislation to reduce the opportunities and increase the penalty for corrupt behavior. A clear manifestation of the government’s resolve to curb corruption was provided by then-Minister for Home Affairs, Ong Pang Boon, when he moved for the second reading

of the Prevention of Corruption Bill in the Legislative Assembly on February 13, 1960:

The Prevention of Corruption Bill is in keeping with the new Government's determination to stamp out bribery and corruption in the country, especially in the public services. The Government is deeply conscious that a Government cannot survive, no matter how good its aims and intentions are, if corruption exists in its ranks and its public services on which it depends to provide the efficient and effective administrative machinery to translate its policies into action.... Therefore, this Government is determined to take all possible steps to see that all necessary legislative and administrative measures are taken to reduce the opportunities of corruption, to make its detection easier and to deter and punish severely those who are susceptible to it and engage in it shamelessly. (Quah 1989, p. 84)

The Prevention of Corruption Act (POCA), enacted on June 17, 1960, had five important features that eliminated the weaknesses of the previous ordinance and gave the CPIB additional powers for performing its duties. First, the POCA's scope was broader, as it had thirty-two sections in contrast to the twelve sections in the previous ordinance. Second, corruption was explicitly defined in terms of the various forms of "gratification" in section 2, which also identified for the first time the CPIB and its Director. Third, to increase the deterrent effect of the POCA, the penalty for corruption was raised to imprisonment for five years and/or a fine of S\$10,000 (section 5). Fourth, a person found guilty of accepting an illegal gratification had to pay the amount he had taken as a bribe in addition to any other punishment imposed by a court (section 13) (Quah 1978a, pp. 10–11).

The fifth and most important feature of the POCA was that it gave the CPIB more powers and a new lease of life. For example, section 15 gave CPIB officers powers of arrest and search of arrested persons. Section 17 empowered the Public Prosecutor to authorize the CPIB Director and his senior staff to investigate "any bank account, share account or purchase account" of any person suspected of having committed an offense against the POCA. Section 18 provided for the inspection by CPIB officers of a civil servant's bank book and those of his wife, child, or agent, if necessary (Quah 1978a, pp. 11–12).

The government ensures the POCA's effectiveness by introducing, whenever necessary, amendments (in 1963, 1966, and 1981) or new legislation (in 1989) to deal

with unanticipated problems. In 1963 the POCA was amended to give CPIB officers the power to require the attendance of witnesses and to examine them. This amendment was introduced to enable the CPIB officers to obtain the cooperation of witnesses to help them in their investigations. The first amendment (section 28) indicated that a person could be found guilty of corruption even though he did not actually receive the bribe, as the intention on his part to commit the offense would be sufficient grounds for his conviction. The second amendment (section 35) was directed at those Singaporeans working for their government in embassies and other government agencies abroad—Singapore citizens would be prosecuted for corrupt offenses committed outside Singapore and would be dealt with as if such offenses had occurred within Singapore (Quah 1978a, p. 13). In 1981 the POCA was amended for the third time to increase its deterrent effect by requiring those convicted of corruption to repay all the money received in addition to facing the usual court sentence. Those unable to make full restitution would be given heavier court sentences (*Straits Times*, October 26, 1981).

On December 14, 1986, the Minister for National Development, Teh Cheang Wan, committed suicide twelve days after he was interrogated by two senior CPIB officers regarding a complaint of corruption against him by a building contractor (Quah 1988, p. 242). One of the results of the Commission of Inquiry that followed was the enactment of The Corruption (Confiscation of Benefits) Act of 1989, which was passed by parliament on March 3, 1989. This Act was designed "to provide for the confiscation order against the defendant in respect of benefits derived." In the case of a deceased defendant, the court would issue a confiscation order against his estate (Republic of Singapore 1989, pp. 107 and 110). Finally, a deceased defendant is considered

to have derived benefits from corruption if he had, at any time ... since the beginning of the period of six years ending at the date of his death, held any property or interest therein disproportionate to his known sources of income, the holding of which cannot be explained to the satisfaction of the court. (Republic of Singapore 1989, pp. 128–29)

The CPIB is the anti-corruption agency responsible for enforcing the POCA's provisions. It has grown from eight officers in 1960 to its present seventy-six officers, comprising forty-nine investigators and twenty-seven noninvestigative staff (CPIB 1990, p. 3). The CPIB performs three principal functions:

- It receives and investigates complaints alleging corrupt practices in both the public and private sectors.
- It investigates malpractice and misconduct by public officers. (In practice, the CPIB's role is to assist the ministries in the investigation of civil servants for malpractice and breaches of discipline that are related to corruption.)
- It examines the practices and procedures in the public service to minimize opportunities for corrupt practices (CPIB 1990, p. 2).

Unlike Hong Kong's Independent Commission Against Corruption (which has more than 1,000 officers), the CPIB does not need a large staff because its location within the Prime Minister's Office and its legal powers enable it to obtain the required cooperation from both public and private organizations. The CPIB is also responsible for screening appointments to the SCS. Furthermore, the CPIB conducts three types of activities to prevent corruption: its officers give talks on the POCA to recruits and serving officers in the SCS during their induction and inservice courses; it provides advice to public organizations on how to prevent corruption; and its research unit conducts research on those areas and procedures that are vulnerable to corruption in the SCS and recommends the necessary preventive measures (Quah 1984, pp. 297–98).

To supplement the CPIB's role in preventing corruption, the Ministry of Finance issued a circular in July 1973 to all permanent secretaries instructing them to review and improve the measures taken to prevent corruption among their staff by reducing the opportunities for corrupt practices. The permanent secretaries were requested to make their officers aware of the government's commitment to eradicating corruption, and to advise them to report any case of corruption. They were also asked to introduce six anti-corruption measures in those departments that are vulnerable to corruption: improving work methods and procedures to reduce delay; making supervision more effective to allow senior officers to check and control the work of their subordinates; rotating officers periodically to ensure that no officer or group of officers remains too long at a single operational unit; carrying out surprise checks on the work of their officers; providing the necessary security arrangements to prevent unauthorized persons from having access to a department's premises; and reviewing anti-corruption measures once every three to five years with the aim of introducing further improvements (Quah 1989, p. 845).

Reducing the incentives for corruption

The PAP government was finally able to implement the second prong of its anti-corruption strategy—the reduction of incentives for corruption through the improve-

ment of salaries and working conditions in the SCS—thirteen years after coming to power, after Singapore had achieved economic growth. In March 1972 all civil servants were given a thirteen-month nonpensionable allowance comparable to the bonus in the private sector (Quah 1984, p. 296).

Speaking before the parliament on March 22, 1985, Prime Minister Lee Kuan Yew justified the increase in salaries of the political leaders and civil servants. He contended that political leaders should be paid top salaries to ensure a clean and honest government. If they were underpaid, they would be more likely to succumb to temptation and indulge in corrupt behavior. Lee said that Singapore needed a corruption-free administration and an honest political leadership to preserve its most precious assets. He concluded that the best way of dealing with corruption was “moving with the market,” which is “an honest, open, defensible and workable system,” instead of hypocrisy, which results in duplicity and corruption (*Straits Times*, March 23, 1985).

The government had to improve the salaries and working conditions in the SCS for another reason: to stem the outflow of competent senior civil servants to the private sector by offering competitive salaries and fringe benefits to reduce the gap between the public and private sectors. Accordingly, the salaries of civil servants in Singapore were revised upward in 1973, 1979, 1982, and 1989 to reduce the brain drain to the private sector and the gap between salaries in the two sectors. (To avoid repetition, the details of these salary revisions will be provided later in the discussion on competitive pay.)

Competing with the private sector for the best talent

To ensure that it recruits the “best and brightest” in Singapore, the SCS has adopted three policies that enable it to compete with the private sector for the best talent in the country: selective recruitment through the provision of attractive undergraduate scholarships for top students; competitive pay for high-flyers; and accelerated promotion for high-flyers.

Selective recruitment of scholars

The Public Service Commission is perhaps the most important central personnel agency in Singapore because it is responsible, among other things, for recruiting high-quality personnel into the SCS. The SCS relies solely on interviews to select qualified candidates for Division I and II appointments in the SCS. To be eligible for entry, a candi-

date must satisfy these criteria: citizenship, age, education, experience, medical fitness, and character (for example, no criminal conviction). The PSC serves as the gatekeeper to the SCS by ensuring fair play and impartiality in recruiting and by selecting candidates for Division I and II appointments on the basis of merit (Quah 1982b, p. 51).

To compete for the best candidates in the labor market, the PSC offers attractive undergraduate scholarships to students with excellent results in the Cambridge General Certificate of Education Advance Level examination to study at local universities or prestigious universities abroad. After graduation, these scholars are bonded to serve the SCS for a fixed number of years, depending on the duration of their scholarships. The most prestigious scholarship, the President's Scholarship, was awarded to 119 President's Scholars from 1966–90 (PSC, various years). In recent years the PSC has enhanced the competitiveness and prestige of its scholarships to meet the challenge posed by those private organizations offering equally attractive scholarships to bright students.

The PSC also competes for qualified personnel in the open market by conducting career talks for graduating students of the two local universities a few months before their final examinations. To increase their competitive edge vis-à-vis the private sector, the PSC and some government departments conduct special briefing sessions for selected honors-year students—before examination results are known—to entice them to join the SCS (Buang 1991, p. 33).

Competitive pay for high-flyers

In its report, *Leadership for America: Rebuilding the Public Service*, the Volcker Commission stressed that “the commitment to perform cannot long survive, however, unless the government provides adequate pay, recognition for jobs well done, accessible training, and decent working conditions.” (The Volcker Commission 1990, p. 33). The PAP government shares this view and since 1972, it has attempted to provide competitive salaries and favorable working conditions for civil servants. The first salary revision occurred in 1973, when the salaries of senior civil servants were raised substantially to reduce the gap with the private sector. A second salary revision was initiated in 1979 for the same reason (Quah 1984, p. 296).

In 1981 the Research and Statistics Unit of the Inland Revenue Department conducted a survey on the employment and earnings of 30,197 graduates, or 81.5 percent of the working graduate population according to the 1980 population census. The survey found that graduates in the private sector were earning, on average, 42 percent more than those in the public sector. In the PSC's view, this finding explained why many senior civil servants had left

the SCS for more lucrative jobs in the private sector. Indeed, from 1978–81 seventy-five administrative officers resigned from the SCS. The government reacted by substantially revising the salaries of senior civil servants in April 1982 to reduce the twin problems of disparity in pay between the public and private sectors and the brain drain to private firms (Quah 1984, pp. 296–97).

The most recent and most substantial salary revision for the SCS was announced by the Minister for Trade and Industry Lee Hsien Loong in parliament on March 17, 1989. This latest revision was necessary for two reasons: the size of the administrative service had declined by 30 percent, from 260 officers in 1975 to 183 officers in 1989, as a result of resignations; and the salaries of the senior civil servants were no longer comparable to those in the private sector (Lee 1989, pp. 2–4). Lee noted that:

- The most successful of those who left the administrative service were earning 40 to 100 percent more than contemporaries who stayed.
- In every age group below 40, the most outstanding administrative officer was earning 150 percent less than a person of the same age in the private sector.
- The salaries of the top three officers in banks, oil companies, multinational corporations, local manufacturing companies, and law firms exceeded by many times the gross salary of a substantive permanent secretary at superscale C.

Since “low salaries and slow advancement are major factors in low recruitment and high resignation rates” in the administrative service, Lee indicated that the PAP government's fundamental philosophy was to “pay civil servants market rates for their abilities and responsibilities. It will offer whatever salaries are necessary to attract and retain the talent that it needs” (Lee 1989, p. 5). Accordingly, he recommended a substantial salary increase of 7 percent for superscale officers and an increase of 13 to 20 percent for timescale officers. The revised salary package also included an increase in the existing end-of-year nonpensionable variable bonus from one month to one and a half months; and a new discretionary performance-based bonus of up to two months of salary for superscale officers, in order to relate benefits to individual performance (Lee 1989, p. 8).

As a result of the 1989 salary revision, senior civil servants in Singapore have perhaps the highest salaries in the world compared with their counterparts in other countries (see table 27.1). For example, the gross monthly salary for the top administrative position (Staff Grade V), S\$42,026 (or US\$26,266), is extremely high by international standards. Indeed, the basic monthly salary for Staff Grade V, S\$32,425 (or US\$20,140 or [Australian dollar] A\$28,196), is much higher than the top monthly salary of a GS-18

employee (the highest salary scale in U.S. government service), which is US\$7,224 (or S\$11,631) (Wright and Dwyer 1990, p. 6), or the top monthly salary of A\$18,278 (or S\$21,020) in the New South Wales Public Service.²

On the other hand, as Lee pointed out in his ministerial statement, the gross monthly salary for Staff Grade V is still modest compared with the salaries of the top executives in the private sector in Singapore. This can be seen in table 27.2, which shows that the Staff Grade V gross monthly salary is less than the highest salary for bankers, sharebrokers, lawyers, doctors and surgeons, accountants, multinational manufacturers, architects, local manufacturers, and oil company executives.

Lee concluded his March 1989 speech in parliament by promising that the government "will continue to carry out regular surveys of private sector salaries to stay competitive. As the economy grows, and private sector incomes rise, we will regularly adjust civil service salaries to keep in step. Paying civil servants adequately is absolutely essential to maintain the quality of public administration which Singaporeans have come to expect" (Wright and Dwyer 1990, pp. 21–22).

Accelerated promotion for high-flyers

Civil servants are promoted by the PSC on the basis of official qualifications, experience, and merit. Eligible can-

didates for promotion are interviewed by PSC members and selection boards. An officer's merit is determined by his/her performance in grade, as well as by an assessment of the officer's ability to carry out the responsibilities and duties of the next highest grade. More specifically, three factors are taken into account by the PSC when considering officers for promotion: their supervisors' confidential reports on performance and service; the recommendations of their supervisors and ministerial or departmental committees; and an assessment of ultimate potential (Kang 1988, pp. 29–30).

In recent years those who have resigned from the administrative service have complained "that promotions came too little and too late" (Lee 1989, p. 3). Promotion speed in the Administrative Service depends on two factors: the officer's Currently Estimated Potential (CEP); and the time norms for promoting officers with that potential. In other words, the higher an officer's CEP, the shorter the time norm, the faster his speed of promotion. However, promotions in the administrative service have been slow in the past few years because of the permanent secretaries' conservative evaluation of the CEPs of their officers, and the slow time norms for promotion (Lee 1989, p. 13).

Accordingly, the government has supplemented its 1989 salary revision with accelerated promotion for

TABLE 27.1

Monthly salary levels of superscale officers in the Singapore administrative service

Grade	Salary code	Monthly variable component			Gross salary in U.S. dollars
		Basic salary (S\$)	(MVC) (S\$)	Gross salary (S\$)	
Staff Grade V	1001	32,425	9,601	42,026	26,266
	1002	28,950	8,572	37,522	23,451
	1003	28,100	8,320	36,420	22,763
Staff Grade IV	1004	27,825	8,239	36,064	22,540
Staff Grade III	1005	23,225	6,877	30,102	18,814
	1008	21,100	6,247	27,347	17,092
Staff Grade II	1010	20,125	5,959	26,084	16,303
	1017	19,550	5,788	25,338	15,836
Staff Grade I	1020	17,025	5,041	22,066	13,791
Grade A	1025	14,550	4,308	18,858	11,786
Grade B	1035	12,300	3,642	15,942	9,964
Grade C	1045	10,175	3,012	13,187	8,242
Grade D I	1050	9,100	2,694	11,794	7,371
Grade D	1055	8,100	2,398	10,498	6,561
Grade E I	1057	7,550	2,235	9,785	6,116
Grade E	1060	7,000	2,072	9,072	5,670
Grade F	1065	6,450	1,909	8,359	5,224
Grade G	1070	5,900	1,747	7,647	4,779
Grade H	1075	5,350	1,584	6,934	4,334

a. US\$1.00 = S\$1.60.

Source: Public Service Division, Singapore.

TABLE 27.2

Average 1987 monthly income of the top three executives, selected large Singapore companies and professional firms

(average monthly salary in Singaporean dollars)

Profession	Average salary for all companies within group			Highest salary within top group
	Top	2nd	3rd	
Bankers	141,206	30,700	22,044	196,833
Sharebrokers	122,430	33,989	28,515	214,833
Lawyers	102,297	100,113	69,510	157,150
Doctors and surgeons	92,917	59,524	50,985	99,258
	72,235	59,534	56,801	75,256
Multinational manufacturers	63,748	31,809	28,915	81,681
	50,004	23,750	17,306	59,260
Local manufacturers	49,779	26,028	22,160	80,900
Oil company executives	34,739	25,446	21,141	56,194
	28,767	17,531	8,620	40,417
Car dealers	28,216	18,778	13,890	32,537

Note: The current Permanent Secretary Superscale A average monthly salary is \$23,565, while for Superscale C it is \$16,033. Private sector salaries do not include unquantified side benefits, which could add another 15 percent.

Source: Lee 1989, p. 25, Annex C.

high-flyers because "promotions are a much more selective and discriminating method to reward good officers than pay [raises] alone" (Lee 1989, p. 12). To hasten promotion the government has shortened the promotion time norms so that officers will be promoted to their final ranks by the age of 45 instead of 50. Furthermore, all able officers should reach the rank of principal assistant secretary two years earlier than was the norm, by the age of 30, meaning that their rank would be attained within eight years of joining the administrative service, about the time of expiry of their scholarship bonds. For more senior positions, the permanent secretaries of the larger ministries and the chief executive officers of the major statutory boards can be promoted beyond superscale Grade C to Grades B, A, or even Staff Grade posts (Lee 1989, pp. 13–14).

Since seniority is not an important criterion for promoting high-flyers in the administrative service, it is not surprising that the majority of the fifteen permanent secretaries are in their forties. Their average age is 48, with the Head of the SCS being the oldest permanent secretary at 62 years old.

Preventing overstaffing

In 1980 Peter F. Drucker identified "overstaffing" as the "third deadly sin of public administration." He wrote:

It is even worse to overstaff than to overfund [because] the one certain result of having more bodies is greater difficulties in logistics, in personnel management, and in communications. Mass increases weight, but not necessarily competence. Competence requires direction, decision, and strategy rather than manpower. (Drucker 1980, p. 104)

Unlike Indonesia, Malaysia, the Philippines, and Thailand, whose civil services have grown rapidly,³ Singapore has succeeded in preventing overstaffing—the SCS has only increased by 2.2 times, from 28,253 employees in 1959 (Quah 1984) to 61,340 employees in 1992 (Ministry of Information and the Arts 1992). Indeed, overstaffing has been avoided because of the introduction of computerization in 1981 and the zero-growth manpower policy in 1988.

The Civil Service Computerization Program

The first computer was installed in the SCS in 1962 and was used for the national census, national statistics, and

the SCS payroll. In 1979 the Management Services Department conducted a Computerization and Mechanization Survey of the SCS and found that 105 major information and operational systems were candidates for computerization (Chuang 1983, p. 5) which could greatly improve the service's efficiency. The National Computer Board (NCB) was formed on August 15, 1981, to promote, implement, and guide the development of information systems in the SCS. The Civil Service Computerization Program (CSCP) was introduced by the NCB in September 1981 to improve both efficiency and productivity in the SCS by promoting the widespread use of computers among civil servants.

As a result of the CSCP, computerization has made extensive inroads in the SCS and enabled it to enhance efficiency by reducing manpower costs. The CSCP has been successful because it "generated [s]\$2.71 in returns for every dollar spent on computerization and reduced the need for 5,000 posts in the Civil Service by automating manual and repetitive tasks and streamlining operations" (*Straits Times*, January 15, 1993). The SCS became fully computerized in 1990, with 107 mainframes and minicomputers, and 10,000 personal computer professionals. The budget for computerization has increased from S\$114 million in 1985 to S\$150 million in 1990 (*Straits Times*, January 15, 1993). Computerization in the SCS has also resulted in significant improvements in public services, including shorter waiting times and faster turnaround and response.

Zero-growth manpower policy

In 1986 the government launched a manpower reduction exercise to reduce staff levels in the SCS by 10 percent over five years. This objective was not unrealistic because of the rationalization of departmental functions and activities, streamlining of work procedures, more extensive mechanization, automation and computerization, privatization, and contracting-out of work. As part of the exercise, all public sector organizations were asked by the Ministry of Finance to form manpower scrutiny teams that would review their activities in an effort to improve manpower utilization and achieve a greater reduction in staff requirements. The purpose of each scrutiny was to assess whether the activity was necessary, and, if so, whether it could be done at lower cost and with less manpower. Training courses were organized by the Management Services Department and the Auditor-General's Office to provide the local scrutiny teams with the expertise required to review staff requirements.

A major consequence of the manpower scrutiny exercise was that it led to the zero-growth manpower policy.

In 1988 the government decided that ministries should work toward zero growth in total staff strength from the financial year 1986 level. Also in 1988 the PSC began regulating recruitment to match attrition in order to achieve the zero-growth target in the SCS. The Budget Division calculated the ceiling recruitment figure each year for the various ministries and informed them that no provision would be made for additional manpower requirements arising from new functions and services or increases in workload—as these needs were expected to be met by retraining and redeploying existing staff. Within the limits of the recruitment target, then, ministries were allowed to redistribute available vacancies across cost centers and programs (Lee 1989, p. 12).

In sum, unlike other civil services that are afflicted by the problem of overstaffing, the SCS has managed to keep trim and lean because of the introduction of two mutually reinforcing policies: computerization and the zero-growth manpower policy.

Improving service to the public

In his address at the opening of parliament on February 22, 1991, President Wee Kim Wee announced the establishment of a Service Quality Improvement Unit (SQIU) under the Prime Minister's Office (PMO) "to monitor and improve upon the standard of public administration" and "to maintain the highest possible standards in our public services" by obtaining feedback from Singaporeans to improve the service provided by government departments and statutory boards (Wee 1991, p. 3). The creation of the SQIU was another manifestation of Prime Minister Goh Chok Tong's consultative style of government.

The SQIU, whose name was shortened to the Service Improvement Unit (SIU), was established in April 1991. The SIU has a five-member political supervisory panel and a seven-member management committee, chaired by Ngiam Tong Dow, permanent secretary in the PMO and the Budget and Revenue Division in the Ministry of Finance. The SIU's responsibility was to "assess the current quality-of-service recommendations or suggestions on how this service level can be upgraded and improved" (Rajamanikam 1991, p. 18).

To assist the SIU in performing its duties, ninety superscale officers were appointed as Quality Service Managers (QSM) in the SCS and statutory boards. Senior officers were selected as QSMs to guarantee the public direct and immediate access to decisionmakers who could deal effectively with complaints or channel these to the proper ministries or officers concerned. High-quality ser-

vice and responsiveness were recognized as essential as Singaporeans have become more demanding and are now more likely to compare the service they receive from the public sector with that of private firms (Rajamanikam 1991, pp. 18–19).

The SIU introduced its telephone hotline on April 5, 1991, and received a total of forty calls, with complaints ranging from the lack of parking space to the state of cleanliness in public areas (*Straits Times*, April 6, 1991). By the end of the first week, the SIU had received about 150 calls, with 25 percent dealing with housing matters and 10 percent focusing on immigration matters (*Straits Times*, April 14, 1991). The good public response to the SIU during its initial week indicates that the government's decision to establish the SIU was correct.

The contemporary SCS: a new wine in a new bottle

In August 1991 Prime Minister Goh Chok Tong advocated that the SCS be run like a private sector company to provide more efficient and cheaper services for the people. However, the SCS should eschew the profit motive and "try to make costs as low as possible, so service remains cheap and affordable to the public." Civil servants should be "people-oriented" and realize that they are providing a service to the people (*Straits Times*, August 6, 1991).

More recently Ngiam Tong Dow, permanent secretary of the Ministry of Finance, urged the SCS to depart from "established procedures and mindsets, and reposition itself to help Singapore advance into the Super League" by using its computer resources to carry out "business re-engineering" (defined as a complete rethinking and reorganization of the SCS's operations) to make the quantum leap (*Straits Times*, October 9, 1992).

The SCS has changed greatly as a result of the culture change introduced by the PAP government after its assumption of office in June 1959. First, instead of the peripheral role in national development they played during the colonial period, the SCS and the statutory boards have major roles in today's development process. Second, as a result of the government's success in attitudinal reform and its effective, two-pronged anti-corruption strategy, corruption has been minimized. Third, unlike other civil services, the SCS has managed to compete successfully with the private sector for the best talent in the country by means of its selective recruitment of scholars, its competitive compensation, and its accelerated promotion for high-flyers. Fourth, instead of being overstaffed like other civil services, the SCS remains trim and lean because of com-

puterization and its zero-growth manpower policy. Finally, the creation of the SIU in April 1991 is clear indication of the PAP government's commitment to improving the quality of service provided by the SCS.

The Singapore civil service today is a far cry from what it was during the colonial period because of changes in the basic assumptions or values that influence the behavior of its members today. Indeed, the contemporary SCS is not a new wine in an old bottle, but rather a new wine in a new bottle because of the many external changes in the Singapore context and the major internal changes in the behavior of SCS members during the past thirty-three years of PAP rule.

Notes

1. *Malay Mail*, July 9, 1961, quoted in Seah 1971, p. 88.
2. Information provided by Dr. Michael Wood, Public Service Commissioner for Western Australia.
3. See Quah (1990) for an analysis of the growth of these public bureaucracies.

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Civil Service Reform in Africa

Clay Wescott

This chapter reviews the experience of African governments in civil service reform over the past two decades and draws three lessons: act strategically; attract and motivate top professionals; manage for results.¹ The goal is not to cover the subject exhaustively, but to stimulate discussion.

Civil service reform: basic concepts

What civil service reform is

Civil service reform (CSR) streamlines and reengineers government so that there is a significant increase in the quantity, quality, and cost-effectiveness of public services. The goal is systemwide improvement in government operations to better carry out policies agreed on through a legitimate political process. Types of improvements include:

- Rethinking the purpose and scope of government, eliminating duplication and nonessential functions, and exploring alternative options for service delivery.
- Improving systems for recruitment, career planning, participation in decisionmaking, and sense of duty toward the public welfare, thus making the best possible use of staff while providing them with job satisfaction.
- Reducing corruption.
- Instituting effective personnel controls, and redeploying or terminating redundant employees.
- Improving compensation to attract and retain a critical mass of outstanding civil servants.
- Improving budgeting and financial management, and adopting performance management systems that continuously improve productivity and results of government work.

And what it is not

Having an efficient and effective civil service is no guarantee of economic growth with equity, nor is it necessarily

a precondition. Economically successful countries range from Hong Kong, with one of the least interventionist governments in the world, to interventionist South Korea, where governmental effectiveness is a critical success factor. Singapore's government intervenes less in economic matters than most western European governments, while the Taiwan government is more interventionist than the French in the 1950s (Wolf 1991).

Chile slashed the size of its civil service by nearly 60 percent in the 1970s; the much leaner government that remained had a horrific human rights record, but successfully managed the transition from socialist chaos to what is now one of the world's fastest growing market economies (*Wall Street Journal*, January 25, 1993, p. 1). Hong Kong provides a different model, where the police force was extremely corrupt until the mid-1970s, while the economy boomed (Klitgaard 1988). Similarly, corruption in the Singapore Customs Service until the early 1980s did not prevent record economic performance (Klitgaard 1988). And more recently, mainland China had one of the world's fastest growing economies in 1992, despite administrative opacity, capriciousness, and a traditional and overcrowded civil service (*Economist* 1992).

Thus, civil service reform is possible under authoritarian regimes. Effective systems of public administration were developed in Chile and South Korea under military regimes, and in Malaysia, Mexico, and Tunisia under single-party governments. Indeed, democracies may be less administratively efficient than other types of regimes because more actors must be consulted, and because patronage and exemptions have to be spread to a larger group (Schmitter and Karl 1991).

Why undertake civil service reform?

If civil service reform is neither a necessary nor a sufficient precondition for economic development, then why

do it? The main reasons are to ensure sufficient capacity for high-quality policy formulation and execution; and to assure that essential services and facilities, such as education, security, health, water, sanitation, transport, and communications, are provided dependably and equitably.

Inefficiency can mean high government deficits and poor quality of public services, which are incompatible with economic growth with equity. Reducing budget deficits includes both raising more revenue and cutting expenditure. Both strategies require reform: more effective systems and personnel for tax collection, and sharp increases in the productivity of inadequate public funds.²

Sometimes this realization may come after significant economic reforms have been carried out. For example, Indonesia in the 1970s and 1980s achieved monetary stability and rapid economic growth, despite an inefficient civil service and a slow and capricious legal system. In the 1990s many leaders realize that further gains in international competitiveness will only be possible with administrative and legal reform (UNDP 1993a).

Some assume that as economies become more market-driven, the size and importance of government will shrink. Yet in many African countries there is a conviction that even in a more market-friendly economy, governments still have a major role to play in economic management.³ This conviction is partly selfish (officials unwilling to give up power); partly benign (concern for mitigating the adverse effects of adjustment on the poor); partly based on economic theory; partly cultural and historical (patrimonialism [The Carter Center 1989], non-existence of an important private sector, legacies of control-oriented and centralist colonial structures and managerial styles, and so on); and partly a reflection of the importance of donor funding, which makes up more than half of the gross domestic product (GDP) of some African nations, and is mainly distributed through government agencies. The net result is that civil service reform is promoted to reduce budget deficits, and to improve public sector economic management, including the management of foreign assistance.

How to do it: the case of Botswana

There have been nearly as many different types of civil service reforms as there are governments that have undertaken them. Last year the United Nations Development Programme (UNDP) carried out brief studies of improvements in civil service effectiveness in five countries that were among the leaders in increasing their human development rating between 1970 and 1990: Botswana, Chile, Malaysia, Mexico, and South Korea (UNDP 1992).

Although many of the reforms may be specific and unique to the countries making them, some lessons can be drawn as to the general policies that have promoted successful civil service reforms. This is not to say that the economic successes of these selected countries are due mainly to their civil service reforms. It is more likely that they succeeded by doing lots of things right, while avoiding big mistakes.

The Botswana experience brings out many common themes also evident in the other four countries. First, there was a *clearly formulated vision of change*, linking civil service reform to broader economic policy changes. This vision was then carried out under strong leadership and with commitment at the highest levels of government (Economic Development Institute and UNDP 1992).⁴

The government's strategy was translated into five policy decisions for the development and management of the public sector. First, "efficiency and effectiveness were made the overriding goals." Thus, the public sector had to be staffed with competent personnel, "adhering to simple and clear rules and procedures to guide all administrative actions and management decision-making."

Second, there was a priority on building strong national top and middle-level management. Third, the gap in local expertise was filled by using expatriates and seeking technical assistance from donor agencies. Fourth, there was a commitment to train local staff to replace expatriates, while making sure to fit skills with needs. And fifth, there was the realization of scarcity, a chronic shortage of human and management resources, which "necessitated prudent, pragmatic and even frugal policies designed to eliminate redundancy and to pursue objectives as economically as possible, keeping costs down and concentrating on the essential." As a result, "Botswana has built an enviable reputation as having one of the most effective public sector managements in Africa, and indeed among developing countries" (Raphaeli, Roumani, and MacKellar 1984, pp. ix, 37).

Botswana has refrained from a policy of "localization" for its own sake. On this issue, Botswana's experience is different from most African countries. It experienced very little colonial subjugation, being mostly ignored by the British administration that oversaw the protectorate. Therefore, it did not perceive European management aid as colonialism and did not reject it at the time of independence.

A second overall theme in the Botswana reforms is the importance of *communication of the strategy to citizens, and agreement on objectives, performance indicators, and working relationships*. Three main forums exist for dissemination of government policy: the *kgotlas*, freedom squares, and primaries. The *kgotla* is the oldest and most important of the three. Already prevalent in the 19th

century, *kgotlas* are general village meetings called in order to inform the people and discuss issues. In the past the village leader had already concluded policies with his main advisers, and the public had little chance to change decisions made. The people got accustomed to seeing their leaders in agreement and not witnessing political debates. This is still true to a great extent today. Holm and Molutsi (1990, p. 328) describe their findings in the Democracy Research Project: "one manifestation of this domination [state's power domination over communication] is apparent in the traditional *kgotla*, which is now used primarily for explaining government policies....thus, a community's reaction to a particular proposal tends to have a spontaneous but ineffective quality." They found that in almost all cases the discussions deal with implementation issues in a given village rather than questions of alternative policies.

However, the citizens have become so accustomed to these informational gatherings, that it has become necessary for the government to run a series of *kgotlas* on all issues that have grass-roots impact. "To do otherwise would seriously compromise a programme's legitimacy," write Holm and Molutsi (1990, p. 334). "This means that policy makers must anticipate public opinion, or take the risk that local resistance will be considerable."

Freedom squares were started to accommodate party politics. They are organized by a political party of a group of political activists, often to protest current policies. Often as a consequence of the protests, the Botswana Democratic Party (BDP) leadership might change its policy, if it sees the opposition gaining support. Holm and Molutsi (1990, p. 335) write that the BDP decided to provide free secondary education "because the BNF [The Botswana National Front—the main opposition party] was calling in freedom squares for the abolition of these fees and gaining considerable popularity thereby." Freedom squares are where people receive most of their information regarding political party activities and position issues.

Party primaries give the public a chance to voice its opinion on local politics. They were primarily created to replace old politicians who had lost touch with their constituencies. Although old politicians are often replaced with new ones from within the ruling BDP party, primaries do pressure politicians to act with the interest of their constituencies in mind. Holm and Molutsi (1990) report that a number of local councilors lost in the 1989 primaries either because they did not hold *kgotlas* or they could not demonstrate achievement of any community improvements. Overall, the *kgotla* focuses on local policy implementation questions, the freedom squares concentrate on matters of interparty conflict, and the primaries provide for intraparty struggles.

Furthermore, civil society is starting to play a larger role in politics and forcing the government to reform public policies. Many interest groups, some better organized than others, including teachers, trade unions, civil servants, environmentalists, businessmen, farmers, women, journalists, and lawyers, are increasingly demanding the government to pay attention to their interests. Several independent weekly newspapers are also adding pressure for government reform (Holm and Molutsi 1990).

The highly consultative decisionmaking process assures that policymakers in the different ministries receive informed directives to make policies:

The practice of having a caucus of the members of Parliament from all parties at which senior officials and professionals can discuss key issues, whether or not there is an immediate requirement for parliamentary action, assures that politicians are exposed to the analysis of professionals, and the constraints and opportunities the nation faces, and the professionals and civil servants can hear the concerns and constraints expressed at the representative political level. (Raphaeli, Roumani, and MacKellar 1984, p. 20)

All this communication between the government, the population, and technical experts assures that the government's policies are in line with the desires of the population and that the population understands the stakes of reforms.⁵ It also helps to inform the regime what key interest groups demand from the reforms in return for their support. Reforms shift income from one group of people to another; vested interests, power alignments, and coalitions will determine whether or not a reform program will succeed. In Botswana the major groups have been kept happy with land and income increases (while bushmen have been marginalized).

A third overall theme is to *minimize corruption*. Botswana's bureaucrats have the reputation of being honest. Corruption does not seem to be part of the bureaucratic routine. Roger Charlton, analyzing Botswana's low level of corruption, remarks, "Where Botswana departs more radically from other African states is in the uncharacteristically modest life-styles and moderate personal consumption patterns of Botswana's political and administrative elite" (Charlton 1990, p. 10). Botswana tend to be disinterested in conspicuous consumption, opting instead for investments in long-term projects, especially cattle ranching (Charlton 1990).

But perhaps the most important factor explaining the low level of corruption is Botswana's legal and judicial system. Ruled by a president who is a Western-trained

lawyer (as was his father), Botswana has developed independent and powerful judicial bodies, and laws that are enforced fairly and equitably.

Another reason for the low level of corruption is that civil servants' pay although low by Western standards, is relatively high compared with the rest of the population and with other African countries. This is the case even though the ratio of net earnings of top civil servants to the lowest class of wage workers fell from 36:1 to 16:1, during the period from 1966 to 1987, mainly due to a rise in minimum wage (Charlton 1990). Civil servants do not need to take on a second job to survive. Thus, they do not have conflicting interests and are not concerned with a second job during office hours.

Another factor is that merit criteria for civil servants are strongly enforced. Civil servants are expected to have a certain level of education and the necessary experience to be employed. There is a formal employment chart detailing the minimum education needed for each position level. Thus, bureaucrats cannot use employment or promotion to pay for favors. Finally, Holm believes that the low level of corruption is simply due to the Botswana culture, which is very rule-bound. Botswana believe that if "that's the rule, you should follow it," says Holm (Holm 1992).

Furthermore, the Ministry of Finance and Development Planning is, among other things, responsible for maintaining a system of effective control and management of all public finance. Civil servants are directly accountable for expenditures within their sectors. One of the government's most significant contributions to development is:

...a well-manned and industrious civil service in which financial discipline is maintained by strict accountability and for which the words "can be held pecuniarily responsible" have a real meaning. The warrant, sub-warrant and virement system enables the Government to trace the misuse of public funds to the officer ultimately responsible. There is also an unfettered and independent audit which reports to the National Assembly which is genuinely concerned that the public money should be properly used. (Raphaeli, Roumani, and Mackellar 1984, p. 36)

In addition the accounting officers are held personally responsible for the correctness of their recording of expenses on each monthly statement.

A fourth overall theme is *human resource management systems to recruit, reward, and retain outstanding civil servants*. In order to push for localization, in 1971 the government appointed a Presidential Commission on Local-

ization and Training, and started to systematically monopolize all university graduates, giving second priority to the local development of the parastatals and the private sector. Thus, the civil service is made up of the best-educated Botswana, and this is one of the main reasons for its excellent performance.

Promotion within the civil service is directly linked to performance. There is a very regularized promotion system, in which the performance of civil servants is evaluated at regular intervals by the Central Civil Service Commission, which has a supervisory position (Holm 1992). As in the hiring process, strict merit criteria are employed. Civil servants who show the ability to move up the ladder, but do not have the necessary education, can receive training.

As Botswana have become better educated, the criteria used to select civil servants have become more selective. As a result, the younger civil servants entering the government today are often much better educated than their superiors. This has caused tension between the two generations, and many older bureaucrats have been asked to resign to leave room for the better educated and trained civil servants. It had been the plan of the government from the start to replace the first group. That is one of the main reasons the retirement age of the civil service was set at forty-five.

This sort of recycling is also taking place in the political parties, where younger MPs have asked their seniors not to seek renomination. Parliament members have also been seeking a more active role, and in 1989, they added their first policy analyst staff position to their list of personnel (Holm and Molutsi 1990). Furthermore, as members of parliament are becoming better educated, they are putting pressure on cabinet ministers to take better control of the civil servants in their ministries.

In each of the six development plans the highest emphasis was placed on education and training. Botswana's expenditure on education rose 2.7 percent of gross national product (GNP) in 1960, to 9.2 percent by 1986 (UNDP 1992, p. 148), a huge increase when one considers the rise in GNP. Simultaneously, its combined primary and secondary schools enrollment ratio rose from 46 percent in 1970 to 86 percent in 1987 (UNDP 1992, p. 130), one of the largest increases in the world. Primary school was made free and recently secondary school became free as well. Several universities were created as well as training schools.

Additionally, there are many different training programs to improve the quality of the civil service, such as: on-the-job nonformal, expatriate training; external part-time and correspondence programs; external institution programs, which can be local, in other Southern Africa

Development Coordination Conference (SADCC) countries, or overseas. There are training programs for all levels of the civil service. The stated objectives of these different programs is to improve the motivation, performance, and productivity of civil servants (Botswana 1987). Localization is always a long-term objective.

In 1987 the Directorate of Public Service Management issued a Training Plan as well as a Training Management Handbook to be used as guidelines for all the institutions involved in training. The emphasis has been to strengthen existing programs and facilities rather than build new ones. There has also been an attempt to provide more training in-house and in Botswana, and to limit foreign training to SADCC countries (rather than overseas), when possible.

The Botswana government has been fostering management development through on-the-job training by qualified supervisors (Raphaeli, Roumani, and MacKeller 1984). These are either teachers of workshops, or Botswana or expatriate supervisors. On average a generalist civil servant will receive in the course of a twenty-five-year career, one two-week induction course, one twelve-week basic course, five three-week refresher courses, and two four-week tailor-made department-oriented courses, or about one and a half weeks of training a year (Botswana 1987).

There is a formal program of localization. But due to the shortage of educated or trained counterparts, localization is not applied rigorously. Furthermore, expatriates often do not find the time in their work to train local counterparts. In theory, any position filled with an expatriate is up for localization. A World Bank report on public sector management in Botswana describes the process of localization:

...ideally, an "understudy" or "shadow" post is created for the local who will be with the expatriate for a number of months to determine his/her professional strengths and preferences in relation to that post. Thereafter, the local person is sent for academic or specialized training, usually for a period of two years. Upon return, the local person spends six months to a year as counterpart to the expatriate while receiving on-the-job training. At the end of that period, the counterpart relationship is reversed and the expatriate becomes an adviser to the local who has taken full responsibilities. (Raphaeli, Roumani, and MacKeller 1984, p. 67)

Although the percentage of expatriates in all levels of the civil service has dropped from 61 percent in 1964 to 23.5 percent in 1982, the number remains very high because of

the growth of the bureaucracy. Of the senior and middle-level staff, the number of expatriates grew from 438 in 1964 to 713 in 1982 (Raphaeli, Roumani, and MacKeller, Table II, p. 44).

Several external institutions prepare Botswana for the civil service or for entry into the University of Botswana, including the National Health Institute, the Botswana Agricultural College, and the Botswana Institute of Administration and Commerce (BIAC). BIAC provides training to non—university graduates with supervisory management studies for elementary manpower development. More advance studies for middle and senior management training across the private and public sector are offered by the Institute of Development Management (IDM) (Botswana 1987).

In summary, civil service reforms in Botswana are part of a clearly formulated vision of change, which has strong citizen participation in its formulation and implementation. The reforms have stressed minimizing corruption and improving human resource management systems to recruit, reward, and retain outstanding civil servants. The strategy has been one of constant, incremental improvements on many fronts.

Donors had an important support role, but as part of a national strategy formulated by the government in consultation with citizens. For example, UNDP's project BOT/87/009 provided support, along with a Netherlands Trust Fund, to build capacity at the University of Botswana to run a Master of Public Administration program; at the Institute of Development Management for training in inventory management; and at the Botswana Institute of Public Administration and Commerce for training in accountancy supervisors.⁶

Lessons for civil service reform in Africa

Botswana is a successful case of an African country building up an effective civil service, along with rapid economic development with equity. Botswana did this while avoiding the serious problems that have plagued other African civil services, such as corruption, ineffective service delivery, sub-minimum-wage compensation, and the recruitment and promotion of unqualified staff. The question is, what can African countries that already have all of these problems learn from Botswana and other countries that have successfully avoided them?

The question is difficult to answer empirically because the reforms in Botswana and the other successful cases took fifteen to twenty-five years to bear fruit. Like the construction of a medieval European cathedral, civil

service reform may need to span two generations of leaders, subject to setbacks that appear fatal at the time, but that if managed effectively, can be overcome. Part of the reason for the long timeframe is that dysfunctional elements of civil services, such as lack of accountability and transparency, lack of rule of law, regressive taxes and budgets, and patrimonial recruitment and promotion, are crucial mechanisms to keeping authoritarian regimes in power. Regressive taxes spare elite supporters from paying taxes. Bureaucratic budgets reflect the relative powers of bureaucratic elites rather than the broader public interest. Discretionary import licenses and other economic controls can be targeted to obedient partisans. Patrimonial recruitment and promotion can reward loyalists with jobs, bureaucratic influence, and fringe benefits. The lack of rule of law, transparency, and accountability allows regimes to continue these practices and avoid effective scrutiny and sanction from the broader public (Dia 1993).

With these caveats, there are at least three lessons for African civil service reformers: act strategically, hire and retain the best, and manage for results to improve governance.

Act strategically

Civil service reform is a long-term process of change management. Successful reformers understand the relationship among the different reform components, and combine them into a coherent strategy. The reform process requires successful tactics: plotting and sequencing the necessary steps. Even more important and rare is the vision to formulate grand goals, in consultation with other key stakeholders. The particular goals and tactics vary for each country. Successful countries find coherent solutions to the problems they face in reaching their goals.⁷

This point transcends the question of comprehensive versus incremental reform. Botswana's five-point strategy was the basis for incremental reforms. A comparable global and integrated strategy has provided the foundation for administrative reforms in Tunisia since 1970. Tunisia learned this lesson from its own experience; the initial reform period 1970–74 produced few results because of political opposition, stemming from the failure to define a strategy based on a consensus among key stakeholders before initiating reforms.⁸

In both cases the important thing was a strategic vision understood by key stakeholders, and formulated locally, although foreign ideas were used freely. These cases point out the importance of the principle of intentionality: that sustainable reform is more likely to occur if leaders plot in advance where they want to go, and what steps they need to take—and in what order—to get there.⁹

A related point is that having a strategy for implementation is just as important as a grand vision. Tunisian reforms between 1975–80 focused on the political mandate of decentralization and deconcentration. Yet despite decrees requiring the transfer of officers from central ministries to the regions, these ministries had neither the staff nor the competence to carry them out. The next period of reform from 1980–86 also suffered from the weak executing capacity of reform units set up within each ministry, despite the adoption of a reformed public service statute in 1983. Starting in 1986 new reforms took into better account the views of both the affected officials and the users of government services. The role of the central reform leadership became more that of facilitator, while individual government units affected took on execution responsibilities, including monitoring, evaluation, and midcourse correction. Reforms were also scaled down so as not to create unrealistic expectations given constraints in executing capacity. There was also a recognition that change management is a skill that needs to be mastered, and pursued with considerable energy.

It is useful to have two institutional focal points for carrying out a CSR strategy: a group to do the technical work of policy formulation and implementation, and a high-level body to build political consensus to make difficult decisions. For example, the Tanzanian CSRP is being executed mainly by the Civil Service Department of the Office of the President, through a number of committees and task groups. Overall coordination of the CSRP is the responsibility of the Inter-ministerial Technical Committee, including all principal secretaries, and is chaired by the Chief Secretary, who is head of the civil service and secretary to the cabinet. The role of this committee includes review and clearance of policy documents for submission to the cabinet, and communicating cabinet decisions to ministries (Tanzania 1993).

The Zambia Public Service Reform Programme is executed by the Manpower Department of the Cabinet Office, with high-level support from the Secretary of the Cabinet. The Zimbabwe CSRP is executed both by the Ministry of Labour, Public Service, and Social Welfare, and the Public Service Commission. However, a new unit is being formed in the Office of the Secretary of the Cabinet for high-level coordination. In Madagascar, the *Ministère de la fonction publique* carries out the day-to-day business of managing the civil service, while the newly formed *Commission nationale de réforme* is charged with formulating, implementing, and evaluating change programs.

Although many of the programs listed above have coordination mechanisms, not all reforms need to be coordinated. This is important to consider because coordi-

nation requires scarce administrative capacity. Certainly, some reform components need to be coordinated. For example, effective payroll and personnel records systems are linked; effective government accounting requires the use of the same account codes used in the budget. In other case, reform components are additive, such as improving debt management and a voluntary departure program; in these cases coordination is less essential (Leonard 1989).

The importance of building stakeholder consensus around a coherent strategy has implications for donors. Successful civil service reform, such as the cases of Botswana and Tunisia cited above, has relied on important donor support. However, the role of donors was in the background: providing inputs and advice as needed, but not providing intellectual leadership. Civil service reform is an art, not a science. Committed reformers within the concerned government know best what they need, and how to get there. The role of donors should be mainly facilitation: identifying committed reformers (or potentially committed ones) at the highest level, and then empowering them to design and carry out needed changes.

It must also be borne in mind that consensus-building and strategic implementation in reforming countries has failures as well as successes along the way. Civil service reform touches on many sensitivities, and is thus a high-risk enterprise. Donors and governments should not be afraid of failure. If the basic preconditions are met, countries should plunge ahead with the reforms they think they need. There is no way of telling in advance whether they will succeed. Reformers need to be courageous, and "just do it."

Donors should assume a long-term commitment in their facilitation role, without any assurance of eventual success. For example, the reforms described in Botswana took place over more than twenty years. The only reasonably certain prediction is that if well-conceived reform programs are under way in many countries, some are bound to succeed. Like a mutual fund investing in high-risk equities, many donor investments in civil service reform will yield unimpressive results, but a small number of winners will make the whole portfolio shine.

Attract and motivate top professionals

Studies show that a great obstacle to reform is the poor implementation capacity of African governments. This is partly because in many countries, the civil service has difficulties attracting, motivating, and retaining the most capable employees, in all job groups, especially the top professionals.

A pattern has developed over the past two decades in Africa. As countries' public debt rose to high levels, gov-

ernments, to reduce expenditure, cut real wages of government employees. As a result, civil servants' remuneration often fell below subsistence level. The civil service lost many of its best employees, who left for the private sector or simply left the country. Those who stayed had to resort to other means to make ends meet. A World Bank study on West Africa concluded:

Overstaffed bureaucracies afflicted by eroding salary scales, pervasive demoralization, corruption, moonlighting, and chronic absenteeism are often unable to carry out the essential economic policy and management tasks that are a key part of emergency economic recovery programs. (Nunberg 1987, p. 96).

Although this situation has been deteriorating for many years, there have recently been signs of a turnaround in countries in transition toward more representative, accountable government. Some professionals are being attracted back to their countries by the progress of the democratic movement in their countries. For example, many former South African exiles are returning because of the prospect of a more representative government, even though that government still isn't a reality. In other cases, Africans living overseas are being persuaded that there are better opportunities for them in their own countries rather than in European or North American countries, many of which presently are going through a recession. Some are not willing to return to the government itself, but return to an African university, think tank, or consulting firm where their services are contractually available to the government.

Similar opportunities exist for better motivating top professionals. Some are being motivated as the democratic movements in their countries gather momentum. In Eritrea, for example, top government officials receive food rations and basic housing, but no salary. Yet they are very highly motivated by the transition to democracy in their country. Others will be motivated to work for government organizations that have a new focus on broadly based development, rather than the previous focus on extracting resources from the masses to benefit small numbers of the elite.

Despite the inherent appeal of democratization to some top professionals, there are structural problems that are making it difficult for emerging democracies to offer competitive packages. Benin, for example, has recently adopted a representative system of government as democratic as any in Africa. Yet civil service reforms have had to focus initially on redressing the imbalances caused by the previous marxist regime, such as the increase by more

than five times in the size of the public service during the 1970s and 1980s, the recruitment of many with false credentials, and the heavy burden of salaries on the budget (75 percent of recurrent expenses in 1991). Because of the importance of these steps, other measures to attract and motivate officers with uncommon skills have not yet been systematically addressed, except for some measures to attract competent women, such as improved maternity leave and pension rights.

Cape Verde is another nation that has recently made a transition to democratic government. Although in a better financial position than Benin (personnel expenses were 51 percent of recurrent expenses in 1991), real salaries declined by about 50 percent during the 1980s. Reforms being carried out between 1991 and 1996 will, if successful, help to attract and better motivate staff. They include selection of top managers based on personnel management skills, a policy to fill 50 percent of all vacancies through internal competition (and 50 percent through external competition), a new decompressed salary scale, and separate scales for specialized areas such as health.

The importance of attracting and motivating high-quality staff transcends political ideology. For example, one of the critical success factors for East Asian economic dynamism has been meritocratic bureaucracies, helped by the Confucian tradition of historically autocratic China (Johnson 1987). African states such as Burkina Faso have recognized the importance of fostering a meritocracy, at least at the level of their statutes and procedures. Beginning at the time of Independence, officials trained at state expense have been bonded for ten years, and offered generous car and housing provisions as other motivating factors. Since the mid-1980s, retaining staff has not been a problem because of high unemployment. Yet during the same period, motivation has remained a serious problem, and is being addressed by revising pay systems so that they better recognize and reward merit, by restructuring organizations based on current responsibilities, and by basing promotions on merit and competence rather than politics. In the same vein, Mauritania recently set up a Commission nationale des concours as an independent agency to carry out testing of civil servants.

Other strategies for attracting and motivating top officials include increased salary compression (that is, increasing the wage gap between the highest and lowest paid, for example, in Botswana, Lesotho and Zambia), and "scarcity" or "retention" allowances for professionals with uncommon skills (for example, in Gambia, Lesotho, Tanzania, Zambia, and Zimbabwe). Because of political problems with raising low salaries, Tanzania offers thirty allowances, which include, allowance for housing, fuel,

transportation, servants, health care, education, babysitting, overtime, uniforms and fifteen types of allowances for police and prison personnel. In Tanzania direct monetary allowances constitute about 50 percent of the basic salary/wage in a few grades (SS.2, GS.10, RP.9, and RP.8). The top 500 civil servants in the SS grades also receive furnished government quarters with cutlery, transport, electricity, water and sewerage services, and use of telephone. If monetized, total fringe benefits to this group can be more than ten times the size of the basic monthly pay (Nyirabu and Mudzonga 1993).

Another dimension to the problem of attracting and motivating top-quality staff is the need for civil services to reflect the diversity of their populations. South Africa is a typical case. Of 7,258 officials in senior positions in the public service (including people employed by the departments and administrations as indicated in the Public Service Act, 1984), an estimated 96 percent are white (*Finance Week*, August 22–28, 1991, pp. 21–22; *Business Day*, November 6, 1991, as cited in Mokgoro 1992).¹⁰ Although 61 percent of South Africa's public employees are nonwhite (73 percent if the self-governing territories and TBVC states are taken into account [van der Merwe 1992]),¹¹ most are in low-level jobs. Women of all races face similar obstacles. Although 46 percent of public servants are female (van der Merwe 1992, p. 173), they hold less than 5 percent of senior positions (Mokgoro 1992).

Aside from being morally indefensible, this unrepresentation seriously undermines the legitimacy of the South African public administration, and thereby its effectiveness in delivering services. Progress to redress this imbalance, without unduly expanding the size of an already large public sector, will be a crucial challenge determining the success of the transition to majority rule.

Many argue that the key to attracting and motivating high-quality professionals is competitive compensation. There is no question that in many African countries, inflation combined with rapid rises in public employment and stagnant or declining revenues have led to compensation well below the minimum needed for the basic necessities of life in an urban center. Part of the problem here is that African urban formal sector wages are on average more than twice as high as in other sectors. Since government officials typically work in urban centers, their cost of living is tied to the urban formal sector wage structure. African governments have a much greater burden trying to pay such wages than governments in East Asia, where the urban formal sector premium is closer to 20 percent (Page and Petri 1993).

However, merely paying competitive compensation does not solve all motivational problems. For example, South Africa's Commission for Administration sets public service salaries between 5 and 15 percent below the mar-

ket price, since this is compensated for by security of tenure and market-related pension benefits. These salaries have generally kept up with inflation, unlike those in many other countries throughout the continent. Yet despite these good salaries, government organizations are beset with public incompetence, gross corruption, and misappropriation of funds (Schroenn 1993).

Manage for results

Africans, like citizens in other parts of the world, want more services from their governments, without having to pay more taxes. They are fed up with the poor performance of their governments, as evidenced by growing piles of garbage in urban centers, potholes on roads, declining quality of health and education services, and corruption. For example, the Nigerian government recently postponed its plans to raise petrol prices from their absurdly low level of US\$.11 per gallon because of feared unrest—thus violating an agreement with the International Monetary Fund (IMF). The government had intended to channel the new funds to a new program to benefit the poor, but the citizens mistrusted that the funds would be used as intended (*Economist* 1993).

There are two issues here: efficiency (delivering a given result for the minimum cost) and effectiveness (delivering the result intended). Tunisia has ongoing efforts in both areas. For example, a functional review was recently completed in the Office of Personnel of the Ministry of Agriculture which identified all tasks, their frequency, and the length of time to complete each. Based on this, one-third of the staff were found redundant, and redeployed to regional offices. Based on this and other successful pilots, functional reviews will be carried out this year throughout the government. In another exercise, Tunisia has recently identified public services that will be converted to commercial operation. The goal is to use competition with private contractors to stimulate government operations to deliver higher-quality outputs, at lower cost. Uganda (see box 28.1) and Zambia also are undertaking reforms aimed at improving results. Burkina Faso has successfully used quality control circles in the national hospital, pension fund, and tax bureau (Dia 1993). Zimbabwe's regime in the first decade of independence achieved four results critical to political success: remaining in office, handling social conflict, passing stabilization measures, and protecting the most vulnerable groups (Lindenberg 1989).

Although these and other initiatives are promising, countries need to proceed carefully. One case in South Africa is instructive. In a provincial administration, a bonus scheme was applied to employees coding informa-

tion from dockets into a computer. Norms of performance were set by work study groups, and workers surpassing the norm received a bonus, normally 25 to 35 percent of monthly pay. The system failed on many counts. It en-

BOX 28.1

Civil service reform in Uganda

The Uganda civil service grew substantially during the 1970s and 1980s, but was increasingly underfunded. During this period there was also loss, through disappearance and emigration, of significant numbers of skilled personnel. The imbalance of revenue and needed expenditures for both salaries and operations exacerbated a decline in morale and performance.

The Report of the Public Service Review and Reorganization Commission, supported by UNDP/MDP, established a policy framework for far-reaching reform of the civil service. Changes were recommended in structures, personnel and financial management, and planning processes, as well as a shift to Results-Oriented-Management (ROM). The program includes substantial reduction in the size of the civil service and a rationalized structure, aiming to improve performance and yield savings that can be used for incentive programs. The recommendations have been cleared by the Cabinet in the form of a white paper.

Guided by the white paper, Uganda has already reduced the number of ministries to eighteen, and is undertaking ministerial reviews (four have been completed so far) that will reduce payroll costs, allocate tasks more rationally, privatize appropriate functions, decentralize operational tasks to local governments, and increasingly focus on policy, planning, and monitoring at the center.

The reviews are consultative, with open communications between consultants and ministry leadership, foreshadowing the proposed action planning cycles and ROM. A group of consultants meets with a review team of key department heads within each ministry, in weekly workshops. They examine the particular ministry's mandates (mission statements), objectives (that if met would fulfill the mandates), functions to achieve those objectives, performance indicators, and working relationships.

couraged cheating, sloppy completion of tasks, and slacking off after the minimum work required to receive a bonus was completed. The scheme required employing additional supervisors. Employees resisted phasing out the scheme, since they came to regard bonuses as part of their basic salary. The system has since been abolished in nearly all departments (Schroenn 1993).

Many structural adjustment program (SAPs) negotiated with the World Bank and the IMF imply that African governments are too large. Sometimes this is clearly true, such as the case of Egypt where the civil service has 24 percent of all formal sector employees.

Yet in most other African nations, government employment is not overly large by world standards. The problem is that official receipts are insufficient to pay competitive salaries to government employees, and even so salary payments are major contributors to public deficits. Furthermore, because of recruitment and promotion practices based on criteria other than merit, the average technical skills of officials are inadequate.

Lessons to be gleaned from successful reformers on the question of size of the public sector are mixed. Chile cut its public service by nearly two-thirds, and yet ended up with a better record of service delivery, often through new private or semiprivate service providers. Botswana and Tunisia, on the other hand, have steadily increased the size of their public service, but have held the line on public service as a proportion of total employment.

World Bank-supported reforms in Africa often try to use civil service staff reductions to achieve fiscal savings, but the results have been disappointing. Senegal, for example, agreed to lay off two employees for every new one hired. But by laying off mainly low level staff, and hiring high-level staff, the program increased the overall wage bill.¹²

In the case of Botswana, government, including central administration and regional and local governments, has greatly increased in size, from 15,000 employees in 1971 to approximately 60,000 in 1989 (Marinakos 1992, p. 21). (An additional 10,000 employees worked for public enterprises in 1989.) Despite the increase in size of government, the total civil service wage bill has been held to reasonable levels, at 26 percent of actual government recurrent revenue in 1990, in comparison with 41 percent for Kenya, 45 percent for Namibia, 51 percent for Tunisia, 53 percent for Zambia, and 77 percent for Benin (UNDP/MDP 1993, p. 85). Government employment as a percentage of total formal sector employment is comparable to that in Scandinavian countries, which have the highest rates of government employment among industrialized countries.¹³

This calls into question part of current conventional wisdom: that big government is always a drag on eco-

nomics development. Botswana shows that a relatively large government can effectively promote economic development with equity if there are sufficient government revenues to cover the costs, and if measures are taken to ensure that high-quality staff are attracted to the public service and that they are well-trained and motivated to provide high-quality service delivery.

One way they do this is by reducing corruption. By some accounts the average unauthorized payment required to secure a large contract in a developing country increased from about 5 percent at the start of the 1980s to 15 percent by the end of the decade. By contrast, both Botswana and Tunisia have well-established, independent judicial systems, with fair prosecution of wrongdoing, including that by senior officials. Other African countries are moving in this direction, however slowly. Even Nigeria, one of the worst offenders, recently set up a Transparency Committee at the highest level to reduce corruption in that country. The recent launching of a new international organization, Transparency International, may give some support to African corruption fighters. It will be looking for both private and public sector organizations to subscribe to a code of conduct, and then to restrict for state contracts to companies that have signed the pledge (Holman 1993).

Appendix A

The administrative reform debate: comprehensive reform versus management improvement

The massive administrative reform effort undertaken in the context of structural adjustment programs over the past decade has brought the issue of civil service effectiveness to the forefront of the management development debate.¹⁴ It has forced both practitioners and scholars to reconsider many of their most cherished assumptions, such as their trust in the ability of modernizing elites to use the public sector as the principal engine of development. It has also shifted attention from the creation and strengthening of individual development organizations (institution building) to enhancing the political process of governance and policy formulation, increasing the use of market mechanisms as an instrument of development policy, and emphasizing the broader sociocultural environment as a key determinant of the sustainability of development efforts.

Most experts agree that the centralized, hierarchical, bureaucratic administrative model has failed in much of the developing world (Esman 1988). Proponents of new approaches to institutional development argue that

well-intended efforts to improve public organizations have had perverse effects on incentives, encouraging rent-seeking, freeloading, and other unexpected outcomes (Goldsmith 1992). They advocate decentralized models of management development that make use of alternative arrangements for the production of public goods and the delivery of development services, as well as for cost-recovery and maintenance (for example, market-oriented public services industries and modern or "traditional" local administration unit; Wunsch 1991). Others argue that grass-root community organizations are best able to mobilize the support of the poor (Salsman 1991).

Most scholars and practitioners would agree, however, that the development process requires strong, centrally directed, hierarchical bureaucracies (at least for certain functions), and some (Werlin 1992) would even argue that decentralization cannot work without strong central control. They also would "regard the career civil service concept as a non-debatable necessity for any state whose leaders seriously aspire to promote social and economic development" (Esman 1991, p. 43), and agree that "traditional, mainly centralized civil service management models provide the best starting point for many of the least developed country administrations" (Nunberg 1992, p. 38).

With respect to a strategy for civil service reform, some stress the need for a top-down, politically driven reform process. Thus, Werlin (1992), citing the example of countries such as Korea, argues that reforming central bureaucracies is primarily a problem of political will and government capacity to effectively use persuasive and manipulative (rather than coercive and corrupting) forms of power.

Esman, on the other hand, advocates a bottom up approach to administrative reform as more effective than the comprehensive, systemwide management development and reform strategies which, he claims, disrupt familiar routines and threaten established centers of power without demonstrating convincingly their efficacy. He prescribes, instead, incremental, confidence-building measures, such as training, and new technologies (for example, microcomputers) introduced with staff participation and focused at the level of individual programs or organizations (Esman 1991).

The World Bank argues that the choice of a comprehensive or incremental approach depends on the particular conditions existing in a country, the level of initial resistance to reform, and the reform process itself (Nunberg and Nellis 1990). Changes in administrative technology (whether incremental or comprehensive) may crowd out strategic policy concerns, because they are perceived to be of more immediate usefulness and as

less threatening politically than overt examination of existing strategies (Nunberg and Nellis 1990). The same can be said of training, which is always welcomed by government officials. Unless strategic concerns are addressed, however, the impact of these politically neutral measures is bound to be short-lived, as was the case in Liberia where extensive training efforts were wasted because of the persistent patrimonial administrative system (Werlin 1992).

Thus, even if there is something to be said in favor of demand-induced management changes and a cautious approach to comprehensive reform of governmentwide systems, it is clear that administrative reform requires a strategic management approach, such as is being pursued under UNDP's Management Development Programme. It also requires, of course, a wide perception that existing problems cannot be solved through an incremental approach, and willingness on the part of senior politicians to commit some of their political capital to systemwide reforms (Esman 1991).

UNDP also advocates an approach that combines comprehensive and partial reform strategies. One report makes the case that, in order to be an effective vehicle for capacity-building, technical cooperation requires a "minimally congenial administrative environment and motivated, stable public employees." It thus concludes that civil service reform should be a principal focus of technical cooperation (UNDP 1993b).

At the same time, the report does not expect substantial improvements in the public sector work environment in the medium term. Therefore, it calls on donors to follow a parallel track of assisting in the continued downsizing of government, and in building capacity outside of the public sector. It also advocates alternative administrative reform strategies based on more partial approaches, such as creating reform islands or enclaves (UNDP 1993b). The creation of some sort of senior executive service might be part of a reform island strategy.

As a matter of fact, the comprehensive and partial reform strategies advocated above should complement each other. What is needed is an interactive process between comprehensive civil service reform, on the one hand, and the building or strengthening of management capacity in specific ministries and agencies, on the other. This management capacity-building is needed both at the level of the agency or agencies responsible for the management and monitoring of the civil service reform process, and at the level of individual ministries responsible for carrying out the new rules and procedures.

At the level of individual ministries, management capacity-building should take the form of creating or strengthening management units that not only can moni-

tor and assist the civil service reform process but also are able to promote and help carry out improvements in organizational structure and processes, program planning and management, budgeting and financial management, management information systems, and so on, within the existing administrative framework. The introduction of sustainable management improvements, of course, requires not only the support of the political leadership (at the individual minister's level) but also the cooperation of senior managers and, eventually, of the rank and file. This cooperation can be secured only through a participatory "process consulting" approach to technical assistance, such as that used by MDP missions.

Notes

1. This chapter was written with help from Sonia Bujas (consultant), Magid Osman, and Gus Edgren for the Public Administration Working Group of the Special Programme for Africa (SPA). The views expressed are those of the author.

2. Compare with SIDA, *Making Government Work: Guidelines and Framework for SIDA Support to the Development of Public Administration*, Stockholm, May 1991.

3. This phenomenon is not restricted to Africa. For example, despite market-oriented reforms in the United States during the 1980s, the size of the federal civil service increased 9 percent during the period, and the amount of spending reached historic heights.

4. The importance of this theme is widely understood, beyond the five cases discussed here. For example, a strong consensus emerged on this point at a high-level workshop last year in Viet Nam.

5. The design and implementation of the Tribal Grazing Land Policy is a good example. See Roe 1993.

6. The UN system also had a role in supporting reform in the other successful cases. For example, CHI/77/001 provided experts in municipal administration and finance, systems for staff development and training evaluation, and advice on restructuring central government agencies in response to the Chilean government's decentralization policy. MAL/77/012 helped the Malaysian Ministry of Public Enterprises adopt a performance evaluation system. Two international management specialists were funded for two years, along with nine months of funding for specialized consultants and twelve months of short-duration overseas training.

7. Having a coherent solution (different for each country) to each key development function is equally important for success in economic policy. See Page and Petri 1993.

8. Tunisia was also one of the leading countries in improving its human development rating between 1970 and 1990. (See the UNDP *Human Development Report 1993*.)

9. For more on strategic processes for implementing policy reforms, see White 1990. On the importance of clarifying purpose and involving multiple leaders, see Lipnack and Stamps, 1993, pp. 336-45.

10. Statistics on the private sector are roughly comparable. According to a 1992 survey of seventy-one companies, more than 98 percent of all senior managers were white, and 91 percent of middle managers ("Little Time to Level the Playing Fields," *The Star*, March 31, 1993, p. 23).

11. Figures are for 1990.

12. Information is derived from a slide presentation by Mamadou Dia at the World Bank, July 9, 1993.

13. Botswana had 14 percent of its formal sector employment in government (1985), in comparison with 16 percent for Sweden, 15 percent for Denmark, and 13 percent for Norway (1988). Other developing countries with similar rates in 1985 are Argentina (14 percent) and Mauritius (14 percent) (Marinakakis 1992).

14. The appendix was written by consultants Patrick Demongeot and Souleymane Balde.

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Civil Service in Mexico

Mauricio Camps and Carlos Noriega Curtis

In light of the profound changes under way in global trade—including the creation of regional trade blocs—Mexico has moved to modernize its economy. The starting point was the early 1980s, when the country was immersed in a severe economic crisis and burdened by extensive government involvement in the economy. In the past decade, the government has reviewed the fundamentals—reassessing the role of the state—and begun to implement structural reforms. The road taken has not been easy and has demanded the commitment of all sectors of society.

This chapter sketches some of the major changes and comments on a broader scale on how the global changes affect the public sector labor force.

The economic environment, 1982–92

The acute crisis Mexico faced in 1982 called for macroeconomic improvements that would stabilize the economy—with the elimination of growth-inhibiting distortions. So, the centerpiece of the economic strategy was to find nonrecessive control of inflation. And, indeed, in the past decade, there have been important achievements. Annual inflation, the most unfair of taxes, dropped from almost 200 percent in 1987 to 11.9 percent in 1992. In 1993, inflation is expected to fall to 7 percent. These inflationary levels are the lowest in the past two decades. Moreover, this reduction in inflation has been achieved while maintaining economic growth. Real GDP grew 1.2 percent in 1988, 3.5 percent in 1989, 4.5 percent in 1990, 3.5 percent in 1991, and 2.6 percent in 1992. It is expected to grow about 2.7 percent in 1993. These growth rates consistently have exceeded average population growth.

The healthy transition from extreme instability toward inflation rates more in line with those of Mexico's trading partners has been the result mainly of deep fiscal

and monetary adjustments. The massive adjustments undertaken in public finance have moved the country from a deficit of almost 17 percent of GDP in 1982 to a surplus of 0.5 percent of GDP in 1992—the first surplus in fifty years. (These figures exclude revenues from the divestiture process, discussed below.)

The fiscal achievements were based on three pillars. First, prices and fees for public goods were set at their market-clearing levels. Second, central government spending was carefully managed, keeping down bureaucratic costs and reorienting priorities toward the most pressing social needs. Third, the state began divestiture of the parastatal sector. In addition, renegotiation of external debt and reduction in domestic debt—by using revenues from divestiture—have enabled the government to cut total public debt from 62.4 percent of GDP in 1988 to 24.9 percent of GDP in 1992. This figure is substantially lower than the 1991 average—59 percent—for countries of the OECD.

As an outgrowth of improved public finance, in the past decade the financial sector has moved toward liberalization, with interest rates freed to respond more to market conditions and capitalization criteria set in line with international standards. The growing autonomy of monetary policy has helped in the abatement of inflation, assuring that credit growth is orderly. But the deep adjustments in fiscal and monetary policy, although indispensable for economic stabilization, were not enough to ensure the reduction of inflation, given a context of strong indexation. The economy was burdened with structural segmentation and underdevelopment that inhibited efficient resource allocation.

To reach a consensus on disindexation of prices and wages—and to fairly distribute the adjustment costs among labor, farming, and business—the president of the republic and the representatives of the three sectors signed the Pact for Economic Solidarity on December 1987. This consensus-building effort has been continued

under the present administration as the Pact for Stability and Economic Growth.

In the initial stages, strong corrections were made to public sector prices and tariffs, while the other sectors compromised, granting previously negotiated moderate price and salary increases. In the first, difficult, phases of the pact, as confidence in the economic program was slowly building among the sectors, the time span between wage and price increases began to widen—from three to six months initially to just over a year. As the macroeconomic and structural reforms gain consistency and as inflationary levels moderate, microeconomic changes also are needed. Reflecting this need, in October 1992 the pact was modified—becoming the Pact for Stability, Competitiveness, and Employment—to emphasize productivity, quality, and competitiveness by private enterprises and labor unions. But the transformation of stability into sustained growth and development still requires deep institutional changes in the public and private sector.

Reform of public administration

Mexico's economic adjustment requires substantial changes in public administration at the federal, state, and local levels. Changes in the structure of the public sector have had three goals. The first is to enhance efficiency—optimizing the structures and systems of administration, evaluation, and personnel management—in order to better use the state's resources. The second goal is to deregulate the operation of public sector institutions. The third is to make available motivational and training programs to ensure that public sector personnel are oriented toward service and that they can perform their tasks.

These broad guidelines can be discussed as two closely related aspects. On one hand, some reforms are implemented to redefine the role of the state in social organization. The divestiture of public enterprises is important, not only because of its impact on public finances, but also for its contribution to the rationalization of the number of public sector employees. This restructuring allows centralized public institutions to respond more efficiently to social demands.

On the other hand, there are also sizable transformations in the management and development of public personnel—involving the view of role civil servants should play in the economy's modernization.

Divestiture

Public enterprises and their role can be seen as a reflection and a reaction to a country's historical development.

In Mexico, public enterprises were born out of diverse circumstances, among them the government intent to control, promote, or organize certain functions. So, to stabilize the Mexican economic system, the state created the central bank (Banco de Mexico) in 1925. Other enterprises were born because of state decisions to acquire the responsibility to exploit strategic natural resources—to guarantee national sovereignty and procure public services of national interest. The outstanding example of this was the nationalization of the oil industry, giving birth to an important decentralized public conglomerate called PEMEX (1938). In addition, for many years, the state created entities to channel resources and subsidies to underdeveloped economic sectors. Between the 1950s and the 1960s, as the government increased its involvement in market regulation and focused on providing social needs, enterprises like the National Company of Popular Consumption (CONASUPO), the Mexican Institute of Social Security (IMSS), and the Institute of Security and Social Services for the Public Sector Workers (ISSSTE) were born. Last, in the second half of the 1970s, to prevent industry shutdowns and subsequent unemployment the government took over some private sector enterprises. The addition of new firms to the parastatal sector was no longer part of an industrial strategy, but a massive rescue operation.

Development of a consensus for privatization. From the 1920s to the first half of the 1980s, government policies and actions evolved and flourished in a context where increased state involvement was seen as synonymous with more justice. By the end of 1982, the government owned 1,155 entities, including all commercial banks, and employed almost 1 million people, equivalent to 5 percent of total employment. With hindsight, it is clear that some of the decisions were not the right ones, and a bigger state is not necessarily more capable. In Mexico, more state meant in many instances a diminished ability to respond to pressing social needs, leading to a weaker state. So, although the productive activity of the public sector increased, the state's ability to address problems such as health, investment in agriculture, nutrition, housing, environment, and justice was fast declining. Thus, it became of paramount importance to increase citizen involvement and improve state provision of social services—to realize Mexico's strength through unity, progress, and social justice. As a result, in 1983 the government began the sale, liquidation, merger, and transfer of public sector entities, an effort that has been continued with an special intensity in the present administration.

The entire privatization strategy has been based on the view that divestiture does not mean disappearance of

the state, but rather a strengthening of capacity to fulfill its social mandate. Within this framework, divestiture has proceeded with prudence and common sense—seeking to minimize risks and mistakes that could produce high economic and social costs. The rules for privatization were carefully designed to ensure complete transparency of the process and establishment of a stronger, more competitive economy. All sales have been through public offerings, keeping all sectors of society fully informed of the developments, through major publicity campaigns that have used television and newspapers.

The privatization of telephone and banking services. Although each privatization has unique features, two examples can help to illustrate the complex range of political and social considerations—the recent sale of the national telephone company (TELMEX) and of the commercial banks that were nationalized in 1982. Because of the strategic importance of TELMEX, its sale involved a careful and complex financial strategy. The goals were to ensure a successful operation, to protect worker rights, and to ensure that control would remain in Mexican investors' hands. The government contemplated a comprehensive restructuring that would include fiscal reform, a new labor contract, debt renegotiation, and a new fare structure. This strategy led to a privatization on very favorable terms. On the regulatory side, the new company is obliged to comply with a franchise agreement that imposed minimum targets for research and development and investment. Installed capacity had to grow at a rate of 16 percent in the first year and 20 percent in the following four years, with explicit requirements for geographical distribution and type of service. The agreement also set quality standards, such as the complete digitalization of the network.

Because the operations of commercial banks have a significant effect on macroeconomic stability and long-term growth, the divestiture had to proceed prudently. The selection of new owners for these financial institutions was done in two stages, first considering the seriousness, experience, and moral character of the prospective buyers and then taking into account the highest bids. Another important part of the divestiture was the opportunity to choose competitive structure that should be established, particularly the structure of oversight controls. In most cases, the oversight controls have been established after privatization by a responsible and clearly identified group of shareholders combined with a large base of small investors. In addition to strengthening the capital base of the institution, having a large number of investors broadens the involvement of all sectors of society within this important financial branch. Although there

were only 8,000 shareholders before the 1982 nationalization, over 130,000 stockholders now have access to the banking sector. The privatization of Mexico's eighteen commercial banks has raised almost \$12 billion for the government, which still holds stock in some banks, totaling 8.88 percent of the capital of the commercial banking system. This percentage is to be sold later, as market conditions allow.

Benefits of privatization. On the whole, divestiture has allowed a reduction in the public sector parastatal entities, from the 1,155 operating in 1982 to 214 now. Total revenues from sales, between December 1982 and December 1992, amounted to \$21.3 billion. Because this income is a one-time benefit the government has had to handle the proceeds prudently—to use them to obtain permanent benefit for public finances. So, in 1990, with the proceeds of the first placement of TELMEX shares, the government created a contingency fund, established to face adverse external conditions, such as the drop in international oil prices anticipated as a result of the Persian Gulf War. Once the war was over, the government decided to channel a sizable part of the fund to reduce the public debt—and thus free up future spending for education, health, and other basic infrastructure. As a consequence of divestiture, the participation of state-owned enterprises in total production has declined from nearly 25 percent of GDP in 1983 to 14.1 percent of GDP in 1990. In terms of employment, almost 250,000 public sector employees have been transferred to the private sector.

Reorganization in the federal sector

Coupled with the profound transformation of the parastatal sector, in recent years there have also been important efforts to rationalize and simplify the institutional structures of the centralized public sector.

In 1992, the Ministry of Budget and Programming was merged with the Ministry of Finance. This important restructuring meant a significant reduction of the bureaucratic personnel in the central sector. The merger also meant a rationalizing and strengthening of the structure of the Ministry of Finance—with a tighter focus on coordination of income and spending policies and in monitoring the federal budget.

At the same time, the Ministry of Urban Development and Ecology was replaced by the Ministry of Social Development—its main mandates environmental protection, the promotion of urban and regional development, and conduct of the National Solidarity Program. This important governmental program is an excellent example

of how the state has changed its approach—to better fulfill its mandate. Before the modernization efforts of the last decade, state decisionmaking was centralized. Under the solidarity program, social groups are actively and responsibly involved in the formulation of strategies, decisionmaking for the construction of infrastructure projects, and administration of infrastructure resources. This program also focuses on the needs of people living in extreme poverty. In the last three years, more than 7.5 million Mexicans have begun to be covered by basic health care programs, 11 million have benefited from the introduction of drinking water and sewerage systems in their communities, and more than 13 million now have electric energy.

The Ministry of Public Education now coordinates the National Council of Science and Technology. This change has allowed the government to incorporate under one sector the attention and promotion of cultural, educational, and research policies, combining efforts that otherwise were dispersed. The government can respond in a more qualified fashion to the continuing need for improvements in education.

Other ministries that have undergone important structural changes during this administration are the Ministry of Agriculture and the Ministry of Commerce and Industrial Promotion. The government has also created the National Commission of Human Rights, which is responsible for the safekeeping of universal human rights in Mexican territory.

Reforms of public personnel management

The deep transformations of centralized and parastatal entities of Mexico's public administration have had important effects—quantitative and qualitative—on the public sector labor force. The changes have affected the career of a civil service in Mexico through the legal regime that regulates the working relationship between the state and its employees; the bureaucracy's size and distribution; and reforms to the public personnel management systems.

The legal framework

The first major effort in postrevolutionary Mexico to formally establish a civil service was the 1931 Federal Law of Jobs and Employment. The law specified that the working relationship between the state and its employees would be ruled by subsequent civil service laws. In accordance with this, in 1934 a presidential agreement governing the orga-

nization and operation of the civil service was signed. This agreement defined the civil service, including within it all employees working for the executive branch, except the heads of the ministries and all first-level employees. This agreement set the rules and guidelines for the rights and responsibilities of civil service personnel on such matters as holidays, vacation periods, promotions, and awards.

This first effort also authorized public sector workers to form associations to defend their rights, but prohibited the use of strikes or labor shutdowns. The agreement, which was in effect for only eight months, lapsed before it was widely followed.

It was not until 1938, through the issuance of the Public Administration Employees Statute, that a more complete legal framework was set for the working relationship between the state and its workers. The statute had many outstanding features, including the distinction between *basified* and *nonbasified* workers. The first group may be considered as members of a civil service and covered by the benefits and responsibilities in the statute. The statute also itemized the obligation of the state to establish, in each bureaucratic unit of the centralized public sector, promotional and upgrading systems based on job-related skills, experience, years worked in the institution, and overall performance. The statute also established workers' rights to join a union, and created a union federation, to which every union in the centralized public sector had to adhere.

The next important step was the creation, in 1960, of chapter "B" of article 123 of the constitution—through which the rights of public administration workers were elevated to constitutional rank. This way, the working relationship between the state and its labor force was clearly delineated, stating the difference between the bonds between the government and its employees and the private sector and its labor force. Chapter B establishes the framework of bureaucratic rights to workday time limits, salaries, seniority- and skill-based promotions, the formation of unions, social security systems, and mechanisms for settlement of work-related disputes. Subsequently, chapter B was regulated through issuance of the Public Administration Employees Federal Law. It was not until 1972 that further additions were made to chapter B, establishing the public sector workers' rights to obtain housing using preferential credit and the state's obligation to contribute to a National Housing Fund, created to assure the financing. Another important legislative action was the issuance of the Incentives, Promotions, and Civil Rewards Law, created to reward worthy public sector employees for outstanding job performance.

The key to the development of the social security system for the public sector labor force was the creation,

in 1959, of the Social Security and Services Institute for public sector employees. The institute gives full support to the protection of rights and services for government workers.

In Mexico, the state grants its workers, as constitutional rights, all the guarantees that make a modern public personnel management system. Still, the system lacked a regulatory mechanism to protect against abuses, thus hindering at times the constitutional mandate. For this, and to assure the permanent character of the civil service, the Interministerial Commission on Civil Service was created by presidential agreement in 1983. This commission consists of the general comptroller and the heads of the ministries of the interior, finance, public education, labor, and social procurement. The general secretary of the Federation of Unions of Public Sector Employees also participates in this group.

This legal body is intended to foster an environment conducive to better performance by bureaucracy, thus strengthening the state's effectiveness. Specifically, the commission's two main responsibilities are to promote programs in the centralized public administration that establish standardized public personnel management systems for a career civil service and to advise, as necessary, on a federal level, about correspondence between the rules, systems, and procedures of the career civil service.

The bureaucracy

A key objective of the current administration is to accomplish more with fewer, but better-paid, employees. In this spirit, from 1988 to 1992 important progress has been attained toward streamlining and downsizing the public sector labor force. At the beginning of 1988, 1,206,006 public sector employees worked in the centralized public administration. Distribution of the labor force was also of interest; while the Ministry of Public Education in 1988 had 793,058 employees—62.9 percent of the total centralized public sector labor force—the Ministry of Tourism had only 3,117 workers (0.2 percent).

A first step to reduce the excessive levels of public employment was an austerity agreement, signed in January 1988. It provided, among other things, for the reduction of 13,000 executive positions and the more effective use of human and material resources. A voluntary retirement program was also put into effect, reducing the public work force by another 50,000 employees. And to ensure a fair and effective distribution of the public sector labor force, the assignment of job positions is now done by sectors, giving priority to the sectors of greatest importance to society, such as education, health, national secu-

rity, and justice. Under these policies, from 1988 to 1992, 60,410 job positions in nonpriority sectors were cut—4.3 percent of the federal labor force. The latest figures show 823,889 workers employed in the centralized public sector. This sizable downsizing has saved public sector spending. It also enables the government to establish comprehensive personnel management programs that can enhance the efficiency of the remaining employees.

Reforms to the public personnel management systems

A qualified, service-oriented, and committed public sector labor force is key to the success of Mexico's structural change. Without competitive governmental workers, able and willing to contribute their best skills and efforts to the solution of complex and deeply rooted problems, modernization efforts cannot be assured of success. Knowing this, the current administration has consistently worked to improve all aspects of the civil service system, including recruiting, training, on-the-job performance assessment, compensation and promotion programs, disability, and retirement.

The government has given particular emphasis to training, considering it an invaluable tool for transforming the labor force. The importance of training for government workers is established in the National Development Plan for 1989 to 1994, which says training should be conceived as a global modernization strategy. This is further stressed in the National Program for Training and Productivity, which defines what the public sector should do to guarantee the proper institutional correspondence and continuity of training programs. This way, beginning with the presidential term of 1988, the government issued General Guidelines for Training Actions for the Public Sector Labor Force, focusing on detecting and pinpointing the global needs for training actions in the public sector. This set of rules was complemented with the issuance of the Specific Action Guidelines for Public Sector Employees Training. These two normative bodies emphasize, nationally as well as institutionally, the importance of implementing on-the-job and for-the-job training strategies: the first strategy is aimed at enhancing the skills needed by a worker to perform in his or her current position; the second focuses on training that will prepare the employee for promotion to higher positions, by providing the knowledge needed when the opportunity arises.

Another useful strategy has been the establishment of "internal training instructors," employees who have successfully completed a training program and can instruct other workers, thus creating a multiplying effect, contributing to a reduced cost per beneficiary of these sometimes-expensive training programs while upgrading

the knowledge and skills of coworkers. These steps have increased the quantity and quality of the public sector training in this administration. By the end of this administration a complete set of laws on training is to be integrated, conferring permanence on the National Training System for the public sector labor force.

To maintain competitive salary levels—and thus continuously stimulate enhanced job performance—the government has established comprehensive wage tabulators. These are based on the responsibilities and skills required for each position in the public sector, in an attempt to guarantee governmentwide equity in salary setting. These strategies are complemented with fringe benefit packages.

A permanent source of concern and attention for the government is to guarantee the well-being of a worker's family in case of a sudden death or work disability. Acting on an express proposal of the Interministerial Commission on Civil Service, the executive branch issued an agreement expanding the coverage of life insurance policies for public sector employees to completely cover total disability and some cases of partial disability. Premiums for this insurance are paid by the public sector institutions and entities and the benefit amount is pegged to the worker's salary, thus avoiding real depreciation. In addition, workers who add minimal contributions to the premium paid by the government can obtain up to three times the benefit.

To provide for retirement, the Interministerial Commission on Civil Service promoted, through the executive branch, a law to create—through the Social Security and

Services Institute for Public Sector Employees—the Savings for Retirement System for government workers. Funding for this system is on deposit in banking institutions and provided by the public sector institutions and entities on behalf of employees—with the deposits equivalent to a percentage of each worker's salary. This retirement system allows the workers to take out loans in the case of temporary disability or unemployment.

Human resources management in the public sector poses all the challenges found in the private sector—plus special challenges presented by the nature of the services rendered to the community and by the political sphere in which public sector institutions must operate. Both challenges must be faced squarely in the design and reform of the institutional structure—if Mexico's modernization effort is to succeed. Achieving the state reforms described above, combined with reforms to public sector personnel management systems, is not an end in itself, but a way to strengthen the state and its capacity to effectively respond to pressing social needs.

This transformation requires the deep commitment of public sector employees—which is why it is important to assure a working environment conducive to the modernization and improved efficiency of the public sector labor force. The path to these changes is not quick and easy, but there is the conviction we are going in the right direction. With the consensus and cooperation of the public and private sectors, Mexican society is preparing to successfully face the challenges of a competitive modern world.

The National School for Public Administration: An Experiment in Forming Management Teams

Gileno Fernandez Marcelino

Brazil's administrative reform can be divided into three periods.

The first began during the thirties after the Vargas Revolution with the implementation of the *classic model of administration*, thus named for consolidating ... the Brazilian public service's administrative practices, based on principles and theories of such authors such as Taylor, Fayol, and Weber. The second, from 1964 to 1985, was conducted during the military regime, when the *model of administration for development* was directed essentially to state intervention in the economic and social fabric of the country. The third period, which began with the political transition in 1985 and the accession of President Sarney's civilian government, continued with the administrative reform of the Collor government and is not yet concluded. (Marcelino 1988)

In the first period, from 1937 to 1945, an effort was made to restructure the government apparatus, and particularly, to simplify administrative systems and budget activities to increase efficiency in the federal public service (according to the Weberian model). Emphasis was placed on reforming the means of government—that is, administrative activities—rather than the ends—substantive activities (Warlich 1974). The reformation was broadly based, covering the administration of personnel, resources and the budget, structural revision, and rationalization of methods.

In 1938 the reform was institutionalized with the creation of the Public Service Administrative Department (DASP—Departamento Administrativo de Serviço Público), a federal institution that was given the task of rationalizing the public service and that eventually

became an instrument of presidential control of the federal administration.

DASP, which focused first on the personnel system, tried with some success to institute a merit system in Brazil. Nonetheless, at the beginning of the democratization process in 1945, the first supernumeraries were appointed to the civil service. This marked the beginning of the 104 special job registers, which remained in effect until 1985 and deviated significantly from the model of a rationalized personnel administration established by DASP. Thus, the reform, instituted during a political dictatorship, the New State, was the servant of an autocratic system.

With the end of the New State, administrative reform suffered a period of stagnation, gaining new impetus during the 1950s when a plan for national development, the so-called Plan of Aims (*Plano de Metas*) was fostered by the Kubitschek government. The idea grew out of an increasing awareness of the inefficiency in state administration.

After 1964, when the authoritarian, military regime was established, the *classic model of administration* gave way to a *model of administration for development*, which was mainly an instrument for the expansion of the Brazilian interventionist state. This model was characterized by an expanded network of indirect (decentralized) administrative agencies aimed at furthering the aims of development, thus avoiding clogging the direct (centralized) administrative agencies.

This strategy caused a split in the state administration. The indirect administration, although functional in some sectors, generally proved unyielding to the political and administrative imperatives of the executive and legislative branches and the needs of society. There was thus a dichotomy between the modern technocratic state—organizations of the indirect administration—and the formal, backward bureaucratic state—the direct administration (Marcelino 1988).

In the 1980s these indirect agencies bypassed the centralized public service to achieve a more flexible, efficient state administration. In exercising this increasing autonomy, they came under fire for having too great a responsibility for public expenditure and excessive privileges.

For the most part the indirect agencies comprise private corporations (about 55 percent), foundations or civil corporations, and concessionaires of the public sector. Basically, the state was pursuing the flexibility that commercial and civil legislation provides—and that administrative law lacks—for decentralization.

In 1967 Decree-Law No. 200 was issued, representing “one of the more important legal instruments of the attempts at Brazilian administrative reform, establishing concepts and principles [that still characterize] the public administration, and introducing profound alterations in the organization and operation of the administrative state inherited from the Second Republic” (Marcelino 1988). The law instituted a vigorous policy of decentralization, which ranged from federal to local governments and from the private sector to the union.

In the indirect administration, public companies and public-private companies were created to govern economic activities that for strategic reasons need to remain in government hands. The Secretariat of Planning was created to consolidate and coordinate federal government programming and financial planning.

The transition to democratic governments

The legacy of the authoritarian governments was an organizational model characterized by centralization through a complex bureaucratic apparatus. One of the purposes of the New Republic (1985–90), when civilian power was restored, was to remedy this situation through the proposed administrative reform and state reorganization.

The path to a democratic regime was made especially difficult by administrative distortions, including “the image of the public service as a breeding ground for privilege and inefficiency; the 104 special and emergency job registers created during the military government, with 396 wage levels, 97 types of bonus and 100,000 employees who entered public service without sitting for public service examinations; and of tasks which interfered with the reform” (Brazil, Ministry of Public Administration 1988).

During the New Republic government administrative reform was understood as a dynamic process that should permeate the whole administrative machine to achieve greater efficiency and satisfy the requirements and ambitions of Brazilian society. The reform, which

embodied principles the new government considered essential for the reorientation of the public administration, explicitly called for the following (Brazil, Ministry of Administration 1985):

- restoration of universal and unrestricted citizenship, to guarantee citizens their rights
- democratization of administrative practices throughout the government through
 - reduction of bureaucratic formalities, and increased transparency
 - control of the executive by the legislative branch of government and by society
 - development of new measures for organizational decisionmaking, execution, and control
- decentralization of administration in order to put decisionmaking close to the site of action and curb the federal administration’s growth
- revitalization of the public service and valorization of the public servant
- improvement of performance patterns to achieve the most efficient use of resources.

On September 3, 1986, the Sarney government issued its Explanation of Motives (*Exposicao de Motivos*), a document that spelled out the guiding principles and implementation criteria of its reform:

- rationalization and containment of public expenditure
- formulation of new human resources policies
- rationalization of the federal administration structure.

The Secretariat of the Ministry of Public Administration (SEDAP) was created to oversee the reform, including the operations of DASP, which performed the tasks of centralizing personnel policy and management, rationalizing administrative methods and procedures, and administering planning at the governmental level. Also created was the Executive Group for Reform of the Public Administration (GERAP) (Decree No. 93.212), which consisted of the minister for administration, the president, the civil chief of staff, and the ministers of labor, finance, and planning. GERAP’s objective was to carry out studies that would contribute to the creation of institution administrative planning.

Thus, there was an effort to return to the classic model of administration and to reconfirm the organizational structure to avoid duplication of functions and entities. To this end a first version of the Federal Public Administration Organic Law, which would replace the Decree Law 200, was elaborated.

With respect to human resources, explicit objectives were to raise the status of public service and to upgrade the cadres of civil servants. This was to be done through instituting a merit system, developing a career system, and restructuring the remunerations

scheme, as well as through evaluating the performance of civil servants.

SEDAP sought to achieve its human resources goals through the reform of the Center for Forming Public Servants Foundation (ENAP) and the Center for Development of Public Administration (CEDAM). Although SEDAP was not very successful in implementing its human resources, the basic principles it promoted were accepted by constituent legislators and were written into the 1988 constitution in the form of a single legal regime and a public service career system.

Reasons for the creation and evolution of ENAP

Following the developmental model of administration, Latin American states have turned more emphatically to intervention in the economy and society. The unleashing of the state's bold, entrepreneurial tendencies has led to disarticulation of traditional structures of production and acceleration in the development of the productive potential of Latin American economies.

In this way the state has expanded and diversified its area of activity, revealing the need to manage an ever-more-complex institutional structure, especially in the international economic area.

During the 1980s in Latin America the economic crisis revealed problems in public administration, particularly the poor quality of essential services such as health, education, housing, and the like. The political systems in transition, in their efforts to satisfy or appraise the hopes and dissatisfactions of society, revealed the deficient administrative capacity of the Latin American state apparatus. As a result, a new strategy to achieve reform was considered: "programs for the systematic development of personnel, with the objective of preparing executives, planners, and specialized professionals" (Marcelino 1991). In almost all of Latin America, and particularly in Brazil and Argentina, efforts were made to create an institutional infrastructure for the education and development of specialized human resources for the administrative system. The qualification of high-level civil servants, mainly for directive and advisory duties, was considered a central point in the reformulation of the state.

Thus, in Brazil, the Sarney government, in its efforts to restructure the state, emphasized the need for reform of public administration through the development of human resources. The improvement of the public service personnel cadres—through the institution of a career system, including programs for developing human resources—was considered a nondeferrable aim.

This first step was the creation of the procedure began with the National School for Public Administration (ENAP) for the formation, improvement, and professionalization of civil personnel at the postgraduate level. The school would lead the way in shaping a cadre of highly qualified civil servants, committed to democratization of the administrative system and to carrying out the new functions arising from the state's reconstruction process.

ENAP's mission included correcting innumerable dysfunctions and distortions of the state apparatus, including:

- inflexibility of the public apparatus, which impeded its ability to adapt in times of crisis and uncertainty
- lack of managerial and technical capacity for elaboration, implementation, and evaluation of public policies
- inability of government administration to delegate authority and functions in order to meet public demands for services at various levels
- gap between the bureaucratic apparatus and citizen participation
- lack of a personnel policy that would enhance valorization of the public servant through provision of incentives and improvement of qualifications.

These problems required ample effort in the formation of public sector managers who were technically capable and adequately prepared to make basic decisions in keeping with nationally set criteria (Kliksberg 1988).

One of the great challenges of the administrative reform of the New Republic would be to transform the complex, centralized Brazilian administrative apparatus into "a reduced, organic, efficient entity, receptive to the demands of society" (Marcelino and Souza 1991). And this would be done by renovating organizations using the specialized skills of these better-trained civil servants—agents of reform and modernization.

ENAP was to prepare public servants to perform the federal government's highest managerial tasks. In the words of its first director: "This school should contribute to the professionalization and valorization of the country's public servant, by creating an elite corps, highly capacitated, as much in terms of profound theoretical formation (of a pluralistic and interdisciplinary character) as in the assignment of practical training, through apprenticeship in official or private entities and through debate and reflection on concrete problems of the Brazilian administrative reality, based research and case studies" (Holanda 1987).

For ENAP's purposes, the "generalist" trained in administration would be trained to command, to give direction and advice, and to manage all aspects of general administration.

In a first stage, however, ENAP would stimulate the organization of centers of reflection and research that could contribute to the knowledge of Brazil's economic, political, and administrative conditions, thereby furthering the creation of an administrative technology and culture, adapted to the country's needs.

To fulfill its ambitious and its overriding mission—to become a school of government—ENAP was to be organized as a nonconventional school with the following characteristics:

- center for recruitment and development of high-level directors for Brazilian public administration
- maintenance of high ideals in the selection of candidates for admission, in the quality of the teaching and training offered, and beyond these in the preparation of graduates exceptionally qualified to carry out the exact functions of state administration
- interdisciplinary and multivalent formation, with a view to training generalist administrators who are open-minded, flexible, and capable of meeting efficiently and creatively the complex challenges of public management
- training that is specific and practical and that is based on an understanding of Brazilian society and of problems in Brazil's system of public administration
- concentration on analysis and evaluation of public policies, to enable the administrator to better deal with problems of the large modern state—that is, its intransigence and inefficiency in the face of conflicting objectives and the increasing lack of proportion between the economic, social, and political challenges of today's world and the government's capacity to respond to them.

Committed to the analysis of social and economic problems, ENAP would be a center for reflection, a laboratory of ideas, and a crucible for the forging of new technologies for public administration. "Its efforts were to have been concentrated not only on content, but, above all, on the student as an integral being. With these characteristics it was easy to understand the difficulty and complexity of conceiving and, mainly, implementing the programs of formation of this school" (Souza 1992).

The selection process for the first class in public policy and government management at ENAP took place from January to July, 1988, with a total of 69,989 candidates applying for the 120 vacancies available. The invitation to apply was directed to Brazilian citizens who had completed university, with 50 percent of vacancies reserved for public administration personnel.

ENAP's first training program was constructed in three stages, which followed sequentially over eighteen months: foundation, apprenticeship, and a comprehensive phase to synthesize knowledge and application. The

foundation stage was devoted to the study of theoretical and practical problems in formulating and evaluating public policies. Teaching methods included group activities, research, analysis, and debate. The apprenticeship stage consisted of supervised apprenticeships in agencies of federal, regional, state, and municipal public administration. The comprehensive stage required the development of a final paper on the improvement of a sector of public administration.

Problems immediately surfaced, as described by Souza (1992): "This first course developed in a climate of tension, created, mainly, by the lack of a structured career for the graduates, and by administrative discontinuity, provoked externally by the extinction of SEDAP and internally through four changes of directorship, (which reflected) negatively in the teacher-trainee area."

During the Sarney administration, as a result of changes at the macro level and the abolishment of SEDAP—and the consequent subsuming of FUNCEP into the Secretariat of Planning, Budget, and Coordination (SEPLAN)—a transformation took place at the micro level and the ENAP program was modified to meet different imperatives. The second entrance examination for ENAP took a new form. Two examinations were administered simultaneously: public examination and functional promotion, with the latter examinations designed to select candidates to fulfill the functions of finance and control analyst (as members of the permanent cadre of the Ministry of Finance).

The curriculum structure for this second class was organized in general and specialized training stages that occurred over twelve months. The first stage offered the minimum curriculum of the public policy and government management course. The second stage was devoted to specialized training, with courses tailored accordingly.

With the Collor government's administrative reform (1990), ENAP became a foundation, maintaining its institutional mission of advancing instruction and research to further the modernization of the public sector. In the words of its then-president and fifth director (in less than two years): "The strengthening of the school was a goal in the context of state reform, having in mind the development of the process of modernization of the federal administration and the implementation of actions which assure the stability of highly capacitated cadres to carry out public functions" (ENAP 1991).

Since this period, ENAP's program, in addition to stressing the development and improvement of university-level professionals, has included:

- promotion of cooperation with personnel in central and sectoral agencies as well as with education centers of other administrative agencies

- emphasis on the development, propagation, and application of education technologies adequate to the needs of public administration
- emphasis on the development of educators, to increase the school's capacity to respond to the needs of public administration and to facilitate integration with cooperating institutions, without prejudice to the specific clientele of the permanent program.

With the measures adopted by the new government in 1990—the New Brazilian Plan of the Collor administration—ENAP once again underwent structural modification. Changes in personnel policy and public sector management brought immediate consequences for the school, which had to absorb FUNCEP and undergo a reorganization that would enable it to encompass all the functions of that institution.

After two years of the Collor government and six months of the Itamar government, the school had experienced a profound structural transformation and five directorships. And, after much struggle on the part of the school's directors and, especially, the students in the first class, the career of Specialist in Public Policies was abolished, and its functions assumed by the position of Budget Analyst (Law 8126/91).

With the Itamar government's Law of Reorganization of the Executive Power (Law 8490), SEPLAN was recreated and allocated the remaining members of the career rolls of Specialist in Public Policies and Specialist in Governmental Management. Of the 103 specialists originally appointed, 76 remained after the reorganization.

An evaluation of the evolution of ENAP

In evaluating ENAP's brief discontinuous history, we can single out a few factors that marked its evolution—and its eventual failure.

Leadership

Constant changes in the directorship of the school did not allow the development of a strong leadership actively engaged in the formulation of a doctrine of implementation and in the execution of the institution's objectives and program. This left the school vulnerable, not only to pressures from other institutions but also to changes arising from the political-institutional instability of the country.

The Sarney government's lack of direction and leadership, which led to ideological conflicts, ineffective coa-

ditions, and deterioration in the links between administrative agencies, harmed ENAP. It was no longer clear who the school's clientele was or what the public administration's requirements were—and therefore what the school's mission should be.

Doctrine

ENAP was created without a clearly defined doctrine. Although the values, objectives, and operational methods of its main model, the French ENA, were adopted during the project, they were not effective as applied, mostly because adaptation of the model to a vastly different sociopolitical-administrative reality was so complicated.

The lack of clearly stated values—a statement of mission—left ENAP vulnerable to frequent modifications to its objectives. The lack of clarity in its doctrine also impeded the development of *esprit de corp*, which, coupled with a strong doctrine, could have given the institution some political weight.

Program

The school's innovative and daring program for developing managers was difficult to implement for several reasons. One problem was that the teachers did not participate in the initial conception and eventual daily routine of the school. Their lack of direct involvement was reflected in their failure to incorporate into their teaching elements of the school's doctrine and mission, thus hindering pedagogical activities and the development of students. A second problem was that the disparate academic and professional backgrounds of the students were not adequately explored with a view not only to enriching the experience of class members (which it did), but also to achieving the goals of the program.

Links

ENAP was unable to establish strong links with educational and research institutions that could be of assistance with personnel and with project development. A contributing factor in this was that teachers were employed informally on a personal basis, rather than through official and institutional channels, thus losing the opportunity to establish institutional links. The school's lack of strong leadership and a clear doctrine meant that its mission, objectives, values, and rules were not internalized; nor were they transmitted and incorporated into other institutions. A result of this was the difficulty in creating—and the later abolishment of—the career of manager.

Corporatism

That ENAP was created to institute an administrative elite made it a threat to members of the bureaucracy, provoking defensive corporatist reactions from those anxious to defend their privileges.

ENAP graduates, because of their comprehensive education, were capable of carrying out the most varied tasks in federal administration, making them qualified to displace many politically appointed personnel. This made ENAP a target for corporatist pressures. The school, which had not established strong links, particularly to the executive and legislative branches of government, was vulnerable to these pressures and suffered repeated changes to its structure and objectives.

Clientelism

The creation of ENAP, with its commitment to the merit system, its sense of public duty, and its incorporation of new values into the administrative culture, constituted more a political than a technical proposal. But the establishment culture was one in which the directing elite behaved like "myopic feudal lords, captives of an intra-organizational ideal in which loyalty to the house and to the values of the internal culture take precedence over the needs and demands of outside society." Thus, the school's progressive ideas threatened the traditionally patrimonial and clientel power structure.

Conclusion

ENAP did not achieve its aim of instituting administrative reform through the development of an elite cadre of

leaders. This was partly the result of internal factors—lack of a clear doctrine, weak leadership, and so on—and partly the result of outside interference, which repeatedly forced the school to change course.

Because it did not achieve its founding objectives, ENAP was not institutionalized. But a new opportunity for the school has appeared with the federal government's creation of the National Program for Training, a program to build capacity in the civil service. It will be ENAP's responsibility to develop this program, a mission that should allow it to become the school of government it was meant to be and to rid itself of the identity crisis that has plagued it since its creation.

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The Reform of Argentina's Federal Tax Administration Office

Constancia Tiboni

Civil service reform in Argentina's federal tax administration office (DGI—Dirección General de Impuestos) took place in the context of a larger institutional strengthening plan carried out since December 1989. Included in the institutional strengthening was the reform of the public sector, initiated to reform a government administration that had become oversized after almost forty years of regulation, trade union pressure, and excessive hiring practices. The main elements of the reform were deregulation, privatization, restructuring, and downsizing.

The tax administration offices—DGI and the National Customs Service (ANA—Administración Nacional de Aduanas)—were excluded from the general reform plan. Instead, because of the importance the government placed on legitimate resources—that is, tax revenues—special reform plans were devised for these offices.

This chapter describes the public employment picture in Argentina before 1989—and discusses DGI's particular situation in that context. It then describes the actions carried out since 1990 to upgrade human resources in public administration.

Public employment

Although public employment comprises many different groups with different labor regimes, that these groups share many common elements permits discussion of a public sector employment regime. One overriding and distinctive characteristic of public employment is its stability—that is, job security.

Until the mid-1940s public employment in Argentina represented 9.5 percent of the labor demand of the EAP. By 1951, when goods and services enterprises had been taken over by the state and public activities had been expanded, public employment had reached 17.8 percent of labor demand.

Since 1957 it has not been possible to fire a central administration employee, except in (infrequent) cases of summary dismissal. This restriction has expanded public employment at a rate of 2.7 percent a year. Furthermore, this rule has been complemented by a *de facto* stability that has arisen out of the desire to avoid conflicts. For these reasons there has never been a planned reduction program for public employment.

Because the government's capacity to reduce employment levels was restricted, revenue crises have been managed mainly by freezing vacancies and reducing real salaries. From 1983 to 1988 public administration salaries on average declined by 34 percent.

Salary adjustment affected more than real salaries. In the context of high inflation the government's wage policy used lump sum increments or minimum wage increments that significantly reduced the differential between categories. (Lump sum increments, which mean greater percentage increases for low-level salaries, result in a flat compensation curve that offers few incentives for outstanding performance.)

Low real salaries were compensated by other non-monetary benefits, which tended to reinforce the glut in employment. Among these benefits was shorter workdays (thirty hours a week against forty hours a week in the private sector). In 1988 excess employment in public administration was calculated at about 25 percent.

Labor relations in DGI were governed by this regime, although DGI had always had its own collective work agreement, with specific regulations within the general regime:

- The union can oppose any recruitment effort on reasonable grounds (C.C.T. No. 46/75, art. 7).
- Summary trial or dismissal is to be carried out by agents assigned by the union (C.C.T. No. 46/75, art. 47).
- The union has the right to designate employees to be promoted within their career path on the basis of merit (C.C.T. No. 46/75, art. 75).

- Employees enjoy automatic promotion (regardless of ability, performance, or training) every one to three years, depending on their seniority.

As was true elsewhere in public administration, DGI vacancies and promotions were frozen for more than ten years (1981–92). Thus, employees had no incentive to get further training or improve performance.

Real average salaries grew between March 1986 and February 1987, then decreased again between July 1987 and May 1988. Because of hyperinflation, 1989 year-end real salaries reached their lowest levels with a 50 percent decline compared with March 1989.

As mentioned, salary adjustments reduced the differential between categories. The overall decline between 1986 and 1989 for high-level categories was 27 percent, against a 6 percent decline for lower-level categories.

Adjustment in the central administration

By the end of 1989 salaries for DGI employees, as well as for all civil servants, were at their lowest levels in ten years. DGI's productivity, in terms of revenue collected, collapsed. A committee assigned to analyze the situation at DGI concluded that to upgrade performance in tax collection, changes in human resources management had to be carried out.

In the larger picture the central administration undertook restructuring by decree, to reduce the number of offices. This was complemented by mandatory reduction of employment levels in almost all central administration institutions. A few institutions—including hospitals, educational institutions, and security forces—were exempted.

DGI and ANA were exempted from both the restructuring and the downsizing programs. Nonetheless, the organizational structure of DGI was altered: the number of operational offices remained constant, but nonoperational offices were reduced by a 50 percent.

Over time low salaries and salary compression had led to greatest expansion in administrative and support areas. So adjustment measures were felt most sharply in these areas. Operational offices, on the other hand, were maintained because they were considered key to reestablishing a decentralized organization. Information gathering and enforcement had been consolidated to such an extent that by 1989 the wide range of internal offices had become almost useless. Decentralization was seen as a means to increase control capacity and to improve taxpayer services. In tandem with decentralization, however, increases in human resources would be required.

Civil service reform in DGI

Reductions in employment levels had to follow specific rules designed to minimize conflicts. Firing was out as a means of downsizing. (It should be noted that the adjustment program had been severely criticized by the opposition parties as well as by internal factions in the government.)

To achieve its downsizing goals the government instituted a special departure regime, consisting mainly of monetary compensations for employees leaving the public sector. But the system had a perverse effect. On the one hand, because compensation depended on years of service in the public administration, young agents had no incentive to leave. And on the other, older agents, who would have retired or left the service even in the absence of this program, received large compensations.

In contrast to the larger downsizing efforts, all requests by DGI employees for early departure were refused, in accordance with its exemption from the reductions in employment levels. Only in cases of proved malfeasance were agents cut from DGI's employment rolls.

As mentioned, the union contract had hampered any initiative to improve the quality of the work force. The Collective Work Agreement was therefore reviewed. Eventually a new contract was approved—with Labor Ministry arbitration—which had important provisions affecting human resources management, including:

- introduction of a new career path
- introduction of a new disciplinary system
- reduction of union participation in managerial decisions
- introduction of a single work schedule
- elimination of guaranteed job security.

The new career growth plan introduced modifications made necessary by extensive introduction of technologies and consequent changes in functions.

Union participation in the public sector was reduced in two key ways: the union would neither participate in recruitment nor have a say in the promotion process. The promotion system was rationalized: automatic promotion was eliminated, and employees could only be promoted on the basis of merit after an examination (C.C.T. No. 15/91, art. 56).

Low salaries and a flat compensation curve made DGI recruiting difficult and worked against the retention of qualified professionals. In addition, lost job security needed to be compensated. Therefore, DGI's new work agreement increased salaries for all employees and widened the compensation curve (table 31.1).

Following these improvements in compensation, DGI was able to carry out its reforms to improve productivity. To improve the quality of its work force DGI designed a training program, which was carried out by DGI's training department and by the University of Buenos Aires. Program courses focused mainly on auditing and on automated systems, in support of the nationwide introduction of automated systems of collection and administration. It is expected that by the end of the program, nearly 1,700 agents will be trained in those two areas.

TABLE 31.1

DGI compensation, Argentina, before and after 1992

(in U.S. dollars)

Function	Salary level through December 1991	Salary level beginning January 1992	Percentage increase
Director	1,821.8	3,658.9	100
Staff adviser	1,063.2	1,957.4	84
Division chief	1,388.2	2,281.6	64
Supervisor	1,478.0	2,230.5	51
Auditor	812.4	1,227.9	51

Note: Salaries do not include reward bonuses. These are monthly payments that are part of DGI's incentive system. The system is tied to increases in revenue collection and, secondarily, to the grade employees obtain in a semiannual examination. Depending on the results of that examination, the reward bonus can range from 10 to 50 percent of the employee's salary.

Source: Government data.

To support the decentralization effort, nearly 4,000 students (in many cases not yet graduated) have been hired to work as auditors' assistants. This initiative has enabled DGI to increase the number of audits it conducts each year, depending on the kind of audit.

Conclusion

The quality and efficiency of DGI's work force deteriorated throughout the 1980s because of a permissive work agreement and a dramatic decline in salaries. These conditions were symptoms of the absence of a national strategy for human resources management.

Because DGI functioned almost as an autarkic office, it was able, with important government support, to develop and carry out a long-term management program outside of the larger public sector reform.

Through a number of initiatives—improvements in compensation, salary decompression, a training program, increased coverage in auditing—the quality and efficiency of DGI staff and operations have been improved. Nonetheless, the work force has still not reached the desired standard. Thus, the training program and salary adjustments should not be isolated or temporary actions. Rather, these should be part of a permanent plan for upgrading the quality of DGI's performance.

The Impact of Sociocultural and Governance Factors on Institutional Reform

Thakoor Persaud and Waleed H. Malik

"... officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions....with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations." (Articles of Agreement, IBRD, Articles III and IV, Section 5 and 10, February 16, 1989.)

"... participation, ownership, and involvement [of the poor] lead to more effective and sustainable development. First and foremost, it is the government's responsibility to ensure that its citizens are fully involved in the development decisions which affect their lives.... We need to take account of the linkages between poverty and governance issues—accountability, transparency, and adherence to the rule of law. We have to recognize that corruption, unjustified military spending, and civil strife often divert government's attention and resources from development." (Plenary address of Mr. Sven Sandstrom to International Development Conference on "Overcoming Poverty: Global Priority," January 12, 1993.)

Over the past four decades, interpretation of the World Bank's proper role in relation to its borrowers has undergone a significant change. This has been an evolutionary process (table 32.1)—the result of world events and of an increasing awareness that growth and development are intricately linked by noneconomic elements that cannot be ignored without negative consequences to the system.

During the early decades of Bank operation, the prevailing view in most borrowing countries was that if there were deficiencies in the system, the government had to take an active role in addressing them. Consequently, several countries nationalized many institutions, created parastatal ones, and used their legislative powers to provide incentives and penalties and to influence various sector activities aimed at increasing output, creating employment, and assisting in development. In their relations with the Bank and other lenders and donors, many countries established several areas which were defined as "off limits." These included population (for example, birth control, family planning), education (curricula, teaching methods), civil service reforms (salary, qualifications, job security), the electoral system, nuclear and environmental issues, privatization of state enterprises and military expenditures.

For many years, the Bank and other lenders and donors took these conditions as given and devised various ways of working within this constrained framework. Because most of the countries' existing institutions were weak and ineffective and the Bank was not ready to embark on a comprehensive reform process so early in its lending program, special project units were created. Apart from providing a bypass to existing bottlenecks and assisting in the efficient implementation of various demonstration projects, such units were expected to be later absorbed by their parent ministries or agencies and become the nuclei of the improved organizational structure needed to continue future operations and effect reforms at the national level.

Although relatively successful as pilot and demonstration projects, it became apparent that many of the early-generation Bank projects were too ambitious in scope (christmas tree projects), and perhaps not cognizant enough of the operational complexity of achieving and sustaining project goals. For most early-generation pro-

TABLE 32.1

Evolution of the role of the World Bank

Focus	Rationale	Instrument
Demonstration of viable models	Need to demonstrate viable alternatives; "off-limits" areas of intervention	Special project units; individual projects
Macroeconomic changes	Limited impact of project approach; need to address macroeconomic issues via existing institutions	Structural adjustment loans (SALs); subsector reforms
Improving sector policies and investment	Sharpen focus on sector institutions, policies, and so on, to promote greater efficiency	Sectoral adjustment loans (SECALs) and policy reforms
Social development	Need to include human, economic, sociocultural, and other such factors in the development process	Technical assistance for judicial, legal, human resource, and other reforms

jects, apart from counterpart funding and logistical problems, there were serious interagency rivalries and conflicts among various ministries and the staff of the special project units (who were generally perceived as an elite group with better salary and working conditions, usurping the power of established agencies). Several of these problems proved to be rather intractable as the needed institutional, financial and other reforms and modifications which the Bank expected to occur never materialized. Thus, although the project units had some initial success, it was not long before the same legal, institutional, and administrative inefficiencies that plagued the established entities surfaced in the project units.

As institutional deficiencies worsened and expectations on the role of special project units did not materialize, the Bank began to refocus its attention on basic structural impediments within the existing framework. This approach was marked by the elimination of special project units with greater focus placed upon existing institutions and assistance to improve subsector and overall macroeconomic policies. Structural adjustment lending began in 1980 with the additional goal of ameliorating the acute balance of payment crises in many developing countries in the late 1970s. Gradually, structural adjustment lending was expanded and deepened through sector adjustment operations which included technical assistance to improve the operational efficiency of existing agencies. These changes were based on a growing awareness and conviction that the policy environment is as important, as the physical and institutional framework in inducing growth and development.¹

After the negative impact of various institutional rigidities and weaknesses on many of the initial technical assistance efforts became apparent, the focus shifted to more basic questions regarding justification of the appropriateness of existing institutional, administrative, financial, legal, civil service and other such systems, along with issues surrounding governance and accountability questions.²

It now appears that most of the areas which were once considered off limits to lenders and donors are now slowly being opened to closer scrutiny.³ As stated during a recent symposium, "concern over corruption and waste of resources inevitably arises in discussions of improved governance," and "donors have a responsibility to ensure that the human dimension is not lost in pursuit of the equally essential process of economic reform."⁴ To a large degree, evolution of this new attitude is due to a variety of factors, including the worsening economic performance of most developing countries over the past two decades, their large debt overhang, a move toward democratically elected governments in many countries, and more recently, the disintegration of the Soviet Union and superpower alliances which, for decades, influenced how aid and support were provided.

Although the international environment has changed greatly in the past few decades, there are important and deeply rooted sociocultural, political, economic, budgetary and financial, and other elements that have not changed much; these must be taken into account before any workable diagnostic and prescriptive measures can be reached. To a large extent, recognition of the importance of these factors is reflected in the charter of the newly formed European Bank for Reconstruction and Development (EBRD). The EBRD preamble explicitly calls for "the fundamental principles of multiple democracy, the rule of law, respect for human rights and market economics among borrowers."⁵

The issues raised in this context include the following: How does one convince city council members to vote for improved property tax collection or increases in such taxes when these members are the owners of most of the lands which would be so taxed? Similarly, for a police commissioner, customs director, or other such officials, the prevalent systems in many countries provide a "market" for various choice positions, equipment, and facilities to go to the highest bidder. How can those who benefit from these arrangements be convinced to relinquish their

lucrative positions? And why would a mayor or city treasurer be interested in reforming financial accountability in the system when the existing system allows them greater flexibility and discretionary actions? In addition, why would a judge or a judicial employee be interested in streamlining court procedures when these complexities allow them to control the system for their own personal benefit. On a broader and more important level, what incentives would a politician be left with if jobs, contracts, housing units, subsidies, and so on, are awarded by qualifications and merit, through a transparent and neutral system? The following analysis is an attempt to highlight some of these factors and discuss their implications for lenders and donors. Although it abstracts and greatly simplifies some very complicated relationships, it does provide a representative picture of the most salient elements involved in the process.

Sociocultural factors

In order to gain a better understanding of what is occurring in many developing countries today, it is useful to briefly review the sociocultural context within which changes are being proposed and effected. For decades, Bank staff and other lenders and donors have focused their attention almost entirely upon quantitative aspects of project design and implementation. Part of the reason was because of the "off limits" area mentioned above; however, another important reason was that quantifying the problem in this way eliminated many of the subjective elements of the analysis. Thus, for example, in reviewing the operation of an entity, one can say that it has an overhead ratio which is high when compared with similar entities elsewhere. Similarly, for arrears, it can be stated that the current rate is too high. In such cases, the technical recommendation naturally follows; these figures have to be improved over a set period. In establishing improvement targets, not much is mentioned about the underlying causes of these figures. For example, to get overheads down, expenditures and/or staff must be reduced. What do these entail? How feasible is it to expect such actions? Until recently, a type of "black box" approach existed in this area under which the dynamics of the process needed to effect desirable changes were not explicitly subject to any detailed scrutiny.

When discussing countries or regions, there is the tendency to think in terms of homogeneity among the population, geographical areas, and statistics—population size, GDP, health indicators, growth rate, physical conditions. In general, most of the developing countries were created arbitrarily, resulting in political areas comprising

people of different regions, nationalities, racial and tribal groups, traditions, religions, and languages. Some of these differences are more pronounced than others, but, as evidenced in several regions today, each has the potential to ignite protracted and debilitating conflicts. This is an important factor which is often overlooked in understanding development issues and implementation of reform programs in a country.

In many societies, sociocultural practices require that group members assist each other at the expense of outsiders. In an environment of limited economic opportunities, population differences can become a powerful criteria for reinforcing such zero-sum decisions. Consequently, upon getting into office, whether by democratic or other means, jobs and other benefits would generally be awarded to those affiliated with the group in power, with existing staff either shunted aside or fired. It should be noted parenthetically that such a situation has also occurred in industrial countries.⁶ While this practice in the industrial countries may have weakened through legal prohibitions over time and is now only applied to high-level political positions, it permeates the system in developing countries and may reach as low as the janitorial level. In several countries, years of conflict resulted in uneasy truces founded on some type of power-sharing mechanism. However, even after decades of co-existence, it does not take much to rekindle old animosities. In other cases no accommodation is made and the group in power dominates and yields no concession to others, irrespective of ability, efficiency, or other such considerations. Finding examples of such cases involves no more than picking up a newspaper today.

Although some institutions in the developing countries were initially created with a genuine intention of addressing the needs of the population, indications are that they were invariably conceived in an ad hoc manner to mirror systems elsewhere, with no serious consideration given to their overall cultural, geographical, or economic applicability. Consequently, several studies analyzing the laws, rules, and regulations of various entities have documented many contradictions or inconsistencies. One basic problem found in most developing countries today is the proliferation of redundant entities which are highly overstaffed with inappropriately qualified employees at all levels. In reviewing many of these entities, several common features appear both within and among various countries. The staffs are generally not appropriately qualified and the few who do have some of the needed skills are poorly paid with a high turnover rate. Most employees have more than one full-time job and absenteeism is very high as they seek to divide their time among these jobs.⁷ There is an acute

quantitative and qualitative deficiency of basic office facilities (desks, chairs, working space, typewriters, telephones), and the existing stock of vehicles and equipment which are not misappropriated are poorly maintained. A common practice in some countries has been to have outgoing staff remove all documentation and institutional memory records as they leave. Thus, apart from the tendency to use subjective and nontransparent criteria to create and overstaff institutions in the system, the level of skills deficiency, weak institution memory, low salaries, and poor facilities add to the problem. A review of the situation in many countries also shows another factor which helps to perpetuate the system—the high financial and political cost of retrenchment. Even if political and union pressures can be overcome, in order to legally terminate employment in the civil service and other areas, a separation package amounting to a large multiple of the annual salary may have to be paid along with other benefits. The tradition has therefore been to increase the payroll as each incoming group appoints additional staff. It should also be recognized that leaders are well aware that swelling the openly unemployed ranks in a country can aggravate a volatile situation and lead to demonstrations, violence, and even changes in government.

Governance factors

In terms of accountability, in most of the borrowing countries, the system of checks and balances, monitoring, and control through such devices as budgeting and audited statements of operations is woefully deficient. Part of the reason for this can be attributed to poor staff quality. However, in most cases, factors involving control and access to records, the dominance of the public sector, lack of transparent procedures, and little or no penalties for noncompliance all work to foster waste and corruption.⁸ In many countries, the existence of a one-party system over decades, in the absence of independent media scrutiny, adds to the accountability problem. To a large extent, such waste and corruption are products of the system. If, as surveys in several countries indicate, the official monthly salary is not enough to meet even basic food needs of an average family for a few days, one has to seek other ways of earning enough for survival. It should be stressed here that not all employees succumb to temptations and questionable practices in order to survive; many of them strive to keep the system functioning in spite of overwhelming odds. There are also those who, after trying for a while, enter the private sector or migrate to other countries and thus further contribute to the “brain drain”

problem, which, in some countries is now a major impediment to reform and development.⁹

Most of the questionable practices, which possibly began as a necessity for survival a few decades ago, have now grown into an art form in many countries, despite intensive exhortations and actions by leaders for a return to honest government and better services. Corruption and exploitation of weaknesses in the system is not a recent phenomenon, nor is it restricted to the developing countries. As recent headlines from several countries show, corruption has permeated systems to an incredible degree. Still, in comparisons between industrial countries and developing countries, the pervasiveness of corruption, the degree of public acceptance, and the economic impact differ substantially. Also, for most cases in the industrial countries, misappropriated resources are likely to remain in the country as savings or investments, while for the developing countries, indications are that most of the misused funds obtained by high-level officials find their way overseas. In terms of prosecution, penalties, asset reclamation, and the like, the industrial countries and developing countries again differ greatly in their approach.

The growing chorus for privatization, market orientation, institutional reforms and accountability at all levels of government is based upon the premise that individuals acting in their own self-interest would promote the “invisible hand” effect of improved economic welfare for all. In most of the developing countries today, many individuals are acting in their own self-interest; however, they operate within a highly bureaucratic and distorted system within which they strive to maintain their well-entrenched positions and associated benefits. For example, a private businessman can enter into a partnership with a few influential officials and develop a system to produce housing units, process foodstuff, originate finance, and the like, at a substantial economic profit. Under such circumstances, why would there be an interest in seeking out or allowing the entry of other competing, lower cost systems in the country, even though such systems can dramatically reduce costs and have a significant impact upon sector employment and output? Before any significant progress can be made in dealing with most governance issues and institutional reform programs, reformers have the unenviable task of convincing various groups throughout the system that they have to adopt a more long-term focus and that reform is not a zero-sum process under which some gain only if others lose.

In the majority of countries with such problems, the collective force of such special interest groups is powerful enough to thwart most well intended but poorly organized efforts aimed at eliminating their privileged positions and establishing a competitive framework. This is a key point

to understand when considering the chances of any proposal to effect free market institutional changes. There are many powerful individuals who receive immense gains from their entrenched positions in the existing system and they will not voluntarily yield their positions unless they are threatened by a superior force or can be persuaded to accept alternative incentives. In a different but somewhat related way, there are similarities in many industrial countries where, for example, redundant military bases, weapons systems, subsidized tobacco, and other farm programs cannot be easily terminated because lobbyists and those who currently benefit from the system would lose jobs, suffer short-term dislocations, and withdraw support from the politicians advocating such changes.

As more and more countries move to democratically elected systems, the length of time in office becomes another important factor influencing the nature and dimension of policy decisions. Most central governments are elected for four or six-year periods, while local administrations may hold elections more frequently. Several countries prohibit multiple terms for positions such as president, governor, or mayor. Since the gestation period for most national development programs could extend well beyond an election term, this generally poses a conflict for those who place priority on achieving substantial or visible results during their term in office. The situation is further complicated by the fact that during the pre- and postelection period, most of the senior-level staff are distracted by election tasks or job uncertainty. Consequently, many important, ongoing and new operations suffer delays until the election results are clear and a new administrative term begins.

Another factor to note is that most of the developing countries are functioning in a crisis management mode where the day-to-day requirements of governments do not leave time and resources for intermediate or long-term programs. Therefore, little or no resource can be devoted to such important but less visible areas as maintenance of plants and equipment, transport facilities, environmental effects of settlement or industrial activities, and the like, although there is clear recognition of the high economic rate of return of such investments. In this regard, developing countries have the same problem as many cities in the industrial countries which are struggling with widening budget deficits and a host of underfunded maintenance and capital investment programs.¹⁰ The Bank and other lending and donor agencies have long advocated greater attention to maintenance investments. Until recently, their lending policies in this area were not clearly observed and most lenders and donors did not follow up and insist that borrowers focus on maintenance issues. Even now, the

tendency is to yield to borrowers' insistence upon financing for new operations.

While factors such as those described above can provide strong incentives for politicians to take the least controversial route in managing their economies, the democratization process, along with lack of other viable options, has led some policymakers to advocate significant institutional reforms and adopt austerity measures. Even though many countries have achieved a great deal, the results of these actions are still not clear. There are cases where reform proposals have drawn a great deal of criticism, protest, and sometimes violence from groups who feel threatened by their adoption. Many governments have been thrown out of office as a direct consequence of efforts to change the system. As a lesser form of reaction, in one country, fourteen government ministers were impeached and removed from office over a ten-year period because they advocated or supported proposals for such policies as increasing the price of petroleum and floating the exchange rate. Apart from intimidating policymakers, such actions also paralyze the legislative system as attention is diverted to the impeachment and debate proceedings.

To some degree, such a situation is similar to cases where individuals who lose their jobs strive to maintain their preloss consumption pattern, with the expectation that their income loss is temporary and they will not have to make any painful changes to their lifestyle. In an analogous manner, countries accustomed to low oil prices or a tradition of populist governments, are not inclined to change their spending habits when they encounter revenue declines. When both policymakers and the population believe that individual losses are temporary and will soon return to previous conditions, achieving changes in public expenditure or individual consumption patterns is almost impossible. In the petroleum-dependent countries, such expectations have been occasionally bolstered by periodic surges in oil prices which tend to reinforce expectations of such occurrences and make it more difficult to accept adjustment measures. After almost a decade, it appears that most countries in the region have finally accepted the need to adjust to a changing environment. However, in some countries, this acceptance is still being resisted, especially if the adjustment process does not take into account the negative impact it has on those who suffer disproportionately from it.

The focus of this paper has been in areas which are not explicitly taken into account in Bank-borrower relations. As it shows, the underlying issues transcend any specific discipline. However, unless an appropriate framework is established to include consideration of the areas mentioned here, an uphill task would be made even more difficult.

Notes

1. See, for example, "Issues of Governance in Borrowing Members: The Extent of their Relevance under the Bank's Articles of Agreement." Memorandum of the Vice President and General Council, November 1990. World Bank, Washington, D.C.

2. For an elaboration of governance issues, see "Managing Development: The Governance Dimension," Discussion Paper (June 25) World Bank, Task Force on Governance, Washington, D.C., 1991; and *Governance: Experience in Latin America and the Caribbean*, LATPS Occasional Paper Series, World Bank, Washington, D.C., 1991.

3. Measures that enhance capabilities of government implementation are recognized in what the World Bank's *Report on Adjustment Lending II* calls the "political economy of adjustment."

4. This is drawn from "Democracy and Development," an address given by the Chairman of OECD/DAC at the International Symposium on Democratization and Development Assistance, October 8-9, 1991, Ministry of Foreign Affairs, Japan.

5. This is drawn from Articles of Agreement of the European Bank for Reconstruction and Development (EBRD), Articles I, II and VIII, May 29, 1990.

6. In the United States, for example, it was not until 1883 that the United States Civil Service Law was enacted to end a widespread patronage system.

7. Ministers in several countries usually have more than one job. This raises both conflict-of-interest and efficiency questions.

8. See note 4.

9. The issue of a "brain drain" arises frequently in North-South debates. However, its nature, origin, and pattern of occurrence go much deeper than such debates indicate. In some countries, the "push" factors can quickly become dominant. For example, when jobs are not awarded on qualification and merit, this frustrates qualified candidates who are bypassed and deprives the institution of qualified staff. Even for qualified staff who are selected, an important push factor is the low salary level that is steadily eroded by inflation. When crime, violence, and other such security threats are added, incentives increase for leaving the country, especially if this is accompanied by "pull" factors of better working conditions. Once the cumulative effects of these factors result in migration, and émigrés establish a livelihood elsewhere, efforts at expatriate recruitment tend to have limited success.

10. Washington, D.C.'s water system, for example, suffers an estimated 24 to 40 percent unaccounted-for water loss, with much of the distributional network being more than 100 years old.

Transforming the State: Issues in Public Administration Reform in Poland

Barbara Nunberg and Luca Barbone

Poland's continued success in economic transformation will depend crucially on the capacity of the state to play its role effectively in formulating essential policies and implementing programs. The country's recent break with its communist past dramatizes the need for a radically

different style of institutions to deal with the new demands of a market economy and democratic society. This implies the virtual reinvention of the Polish state and the creation of a modern public administration staffed with well-trained, efficient civil servants.

Context of Reform

That Poland is some distance from these objectives is demonstrated by the government's growing inability to deliver critical services and perform functions assigned to it in the course of economic and social reform programs. Structures and processes of government once suited to tasks designed by the old regime are no longer appropriate, but many are still in place. As government administrative modernization lags behind private sector development, the best and brightest public servants seek better working conditions and financial incentives outside state institutions. Those who remain may be ill-prepared to fulfill their mission. Financial and human resources for government administration are limited and must be allocated more rationally.

Despite important initial efforts on some fronts of public administration reform, including decentralization and early work on civil service legislation, the agenda for public administration modernization remains largely unaddressed. This agenda must be taken up with great urgency not only because effectiveness of government work is sharply reduced by outdated machinery, but also because pressure to solve public pay and employment problems can be withstood only at extremely high political and social costs, as evidenced by recent events that led to the dissolution of parliament.

The government has assigned a high priority to administrative reform. As a first step, it created an Office of Public Administration Reform in the Council of Ministers

to provide leadership on this vital issue. It also took important initiatives in many key areas, ranging from decentralization, to budgeting, to the reorganization of ministries and agencies. Nevertheless, progress on a number of key fronts has been slow, and reform needs to accelerate. This report seeks to provide an empirical basis for the policy actions government will need to undertake in the near future and to offer some guidance for the direction of reform, based on comparative international experience in this area. An attempt is made throughout to balance short-term transition demands with long-term institutional development requirements. The report avoids blueprint prescriptions but tries to raise issues and suggest concrete steps that might be useful inputs to the Polish authorities' consideration of this topic.

Challenges in state restructuring

A major task in Poland's transition to a democratic, market-oriented society is the adaptation of public sector institutions to the requirements of the new order. Most fundamentally, the structure and organization—often called the “machinery of government”—need to be radically altered. This task is complex. In Poland, it implies the elaboration of a legitimate constitutional and legal framework. It also requires the extinction of obsolete institutions whose *raison d'être* has disappeared, as

well as the creation of new organs and systems to carry out new functions. Inappropriate and inefficient internal procedures and decisionmaking processes need reform. These structural and organizational reforms form the basis for the development of systems to manage and motivate public servants and the creation of a professional civil service.

The agenda for restructuring government in Poland requires resolution of some fundamental issues. First, a definition of the scope of political and economic decentralization is necessary. Shifting important responsibilities away from the center and toward final users of public services has profound implications for the remaining structure and decision process at the center. Second, absent a clear orthodoxy dictating which institutional model should be adopted to perform key economic functions, a methodology for determining which institutions should survive and then, among those, which should be strengthened, needs to be developed and applied to the restructuring exercise. Finally, government decisionmaking processes need to be improved to produce cogent, coordinated policies, implying both the development of better policy formulation capacity in individual ministries as well as the designation of a single entity in government to build consensus and coordinate disparate policy perspectives into a coherent policy output.

Significant progress has already been achieved in Poland in addressing this reform agenda, though clearly much improvement is still needed. This section analyzes progress made so far in state restructuring. First, for those unfamiliar with recent Polish experience, we provide background on the institutional legacy from the communist era. Next, modifications in this structure under the current regime are described. Finally, we offer a brief assessment and suggest some directions for further reform.¹

Current status of the Polish state machinery

The 1952 Polish constitution, shaped under the direct influence of the doctrines and practice of the 1936 "Stalinist" constitution of the USSR, set out the rules underlying the organization of the state machinery. This constitution, in effect until the Round Table negotiations in 1989, consolidated the existing system of socialist authoritarianism and centralized economic planning and management by stabilizing the political system dominated by the Communist Party.

The system enshrined in the 1952 constitution also had the effect in Poland (as elsewhere in Eastern Europe) of blurring or eliminating the dividing line be-

tween the public administration and the ruling party bureaucracy. Guided by the ideological principle of "democratic centralism," the constitution emphasized a hierarchical administrative structure in which mid- and lower-tier units enjoyed little discretion and were subject to comprehensive supervision by the central committee of the party.

The parliament essentially rubber-stamped decisions. Government work, in turn, was coordinated by the ministerial-level organ peculiar to all former socialist economies, the Council of Ministers. Unlike a prime minister's cabinet, the Council of Ministers was (and nominally still is) charged with a number of administrative activities including the selection and management of key high-level government positions, and the coordination of human resource policies in the central administration. But the policymaking power of the Council of Ministers was extremely limited, since policy was effectively the prerogative of Party structures. As in other formerly socialist countries, this created a crucial lacuna at the heart of government whose effects are still being felt.

The state was also extremely centralized, with little autonomy left to local branches. In economic decisionmaking, the post-1948 system followed the standard central planning model. The Central Planning Office was charged with the elaboration of the targets of the five-year plan and, together with the line ministries, with the annual calculation of material balances and the allocation of inputs for SOEs. The SOEs played a dominant role in the delivery of social services, providing health facilities, vacation resorts, housing, child care, and so on. SOEs also absorbed redundant labor, thus furnishing social assistance and unemployment insurance. An extremely important role was played by the Ministry of Labor in setting wages and other working conditions for the nonmaterial economy, comprising the general government in its most ample definition.

Toward the end of the 1980s, reforms were undertaken to foster more decentralized economic decisionmaking. These reforms assigned more decisionmaking responsibilities to SOE managers and workers' councils (ironically, presenting an obstacle to reform in later years). At the same time, the role of directive central planning was curtailed through a progressive reduction in the number of inputs to be allocated centrally. Correspondingly, several line ministries were consolidated into a single Ministry of Industry (1987).² Despite these incipient attempts to enhance the efficiency of the state machinery, the overall political and economic situation continued to deteriorate rapidly, and Round Table discussions led to the implementation of the economic transformation program in 1989.

Modifications since the collapse of the communist regime

Constitutional changes. One of the key institutional achievements of the new Polish regime was the constitutional amendment of April 1989, approved by the Sejm a few days after the signing of the Round Table Agreement. The amendment gave legal expression to the sections of the accords concerning the political system and to the compromise achieved there. It legalized political opposition activities. The constitutional amendment also had impact on the structure of the government. It allowed the creation of a second parliamentary chamber (the senate); the removal of constitutional hindrances to a democratic reform of the electoral law; the establishment of the office of the president of the Polish Republic; and the creation of the National Council for the Judiciary.

The dismantling of the structure of the "socialist democracy" continued with further amendments in December 1989 (elimination of ideological provisions relative to the socioeconomic regime), in March 1990 (introduction of local self-government), and in September 1990 (introduction of direct election of the president). But the 1952 constitution, so amended, still lacked some principles common in Western democracies, in particular the concept of separation of powers. Supreme power was attributed to the Sejm. This issue was further clarified with the passage by the Sejm (August 1, 1992) of the Constitutional Law on Reciprocal Relationships between the Legislative and Executive Power and on Local Self-Government. This law (the so-called "small constitution") laid the basis of a truly Western democracy by establishing the principle of separation of powers. More specifically, the small constitution enumerated the following organs of the state: the Sejm and the senate in the field of legislative power, the President of the Republic and the Council of Ministers as executive power, and independent courts as judicial power. Compared with the previous constitution, the small constitution diminished the powers of the senate, strengthened the position of the Council of Ministers to which the Sejm may delegate some legislative power, and weakened the position of the President of the Republic.

Legal changes. Work to adapt the legal system to the new economic and political order began in earnest, partly facilitated by the existence of a rich, albeit somewhat outdated, legal tradition going back to the pre-World War II period. This work led to a quick settlement of issues concerning property rights, the commercial code, bankruptcy, rules affecting foreign investment, and so on. Progress has been slower in areas where the lack of a preexisting tradition (and the complexity of the subject

matter) required greater elaboration. Only recently has the tax code been completed, and legislation establishing regulatory authority in several important areas (particularly in energy) has lagged behind. And important piece of legislation and regulation establishing competitive procurement of goods by the state is still under discussion.

Changes in the structure of the state. Reforming the state involves creating a new administrative structure to deliver public services and set policies under which private sector initiative can develop. Government thus withdraws from the productive activities in which it was once engaged, and the preexisting functional structure must shift accordingly. State transformation consists of the abolition of old structures, the assignment of new missions to individual agencies, and profound cultural changes in bureaucratic behavior. It also requires new mechanisms to arrive at consensus among different political players and to make the state bureaucracy function on the basis of professional criteria. Getting all these conditions right is not an easy task, and certainly not one for which a blueprint is readily available. In fact, an analysis of the wide variety of institutional structures in most industrialized countries to perform key economic functions suggests that there is no clear orthodoxy which can be easily applied to Poland to dictate the type or number of state organizations that should be in place to carry out economic reforms. Absent an ideal model of the reformed state, and given the practical difficulties of organizational change, it is likely that reforming the state in Poland will mean carving out new structures from existing ones.³

The above complexities notwithstanding, it is clear that profound modifications have already occurred in the structure of the state administration in parallel with the above constitutional and legal changes. An early priority in defining the scope of political, economic and administrative decentralization was given by the implementation of the Local Self-Government act. This act has led to the creation of approximately 2,500 *gminas* (communes), the direct election of city councils, and the attribution of a number of spending and revenue-raising responsibilities to local governments.⁴ The explicit purpose of decentralization was to divert power from the center, especially from the ministries previously charged with oversight of local public activities. In the process, a number of units in the central government structure have lost their role or have seen it reduced. Decentralization continues to be a high reform priority. Currently a proposal for the creation of the *powiat* level of government is under discussion. The *powiat* would replace the present administrative *rejons* in the rural areas and would increase the power of the *gminas* in urban areas. Sub-

stantial devolution of spending and administrative powers would be accomplished, as powiats would be given responsibility over large portions of the administration of health, secondary education, and several other functions now exercised at the central level.

Within the central administration a few agencies and ministries have been abolished or substantially restructured, including the Censorship Office and the Ministry of Internal Trade (partially absorbed by the Ministry of Industry). On the whole, though, reforms have resulted in the creation of new organs rather than in a reduction of the number of agencies. The Ministry of Privatization was created in 1990 to carry out the task of devolution of the productive apparatus. Regulatory functions have been enhanced through the creation of the Antimonopoly Office. A program for reform of tax administration has so far helped strengthen relevant departments in the Ministry of Finance and a separate Customs Council has been established.

In a number of cases the internal organization of the agencies of the state administration has been reexamined. The Ministry of Industry has undergone a process of internal restructuring that, among other things, resulted in the abolition (at least on paper) of its "vertical" organizational structure, with the exception of matters related to energy.⁵ Functional audits are being prepared in the Ministry of Agriculture and the Council of Ministers. Anecdotal evidence suggests, however, that there is ample scope for further reform of the administration. As will be argued below, misallocation of human resources rather than overstaffing is the main the central administration problem. Many public employees still work in agencies whose mission is questionable. In other agencies, insufficient employees and lack of capacity to carry out functions essential to a modern state suggest that further transformation needs to take place. The recent debate on defining the role and nature of the line ministries and of the central planning office, on the one hand, and the extreme weakness of the operations of the ministries of health and of education, on the other, reflects the complexities of this organizational dilemma in Poland.

First steps have been made in changing public sector financial management. The most important reform may have been the 1991 passing of the organic budget law, which established a framework for budget preparation. Still, the system is far from ideal. Despite the improved preparation (mostly by the Central Planning Office) of annual and "multiyear" economic assumptions, short-term thinking continues to dominate. No satisfactory mechanism is in place for the preparation and monitoring of a public investment program (still largely influ-

enced by the old "Central Investments" instrument). Individual agencies' ability to prepare, discuss and execute budgets or at least to formulate fundable programs is inadequate. Public procurement procedures, a necessary requirement for a modern state in a market economy, are also inadequate.

Relations between SOEs and the state. A crucial area where more progress is needed is the relationship between the central authority and the SOEs. Initially, the government's approach to SOEs was based on indirect methods, thought to provide incentives for profit-maximizing behavior by SOE managers. Tax incentives were also offered to stimulate commercialization and eventual privatization of enterprises. The SOEs continued to be under the nominal supervision of their "founding organs," while commercialized enterprises awaiting privatization would become the ward of the Ministry of Privatization. The voluntary method of commercialization, however, met with only limited success, and the unwillingness to enforce penalties for noncompliance with compulsory payments substantially decreased the credibility and effectiveness of the indirect control policy.

The uneven experience with indirect controls calls for greater reliance on direct ones. But in practice, the exercise of the treasury function by the state was hindered by the inappropriate legal framework and the thinness of the staff of the funding organs. While initially it was considered appropriate to create a state treasury as a central organ exercising authority over the SOEs, the current approach emphasizes a more diversified and decentralized strategy. The government has identified the enterprises it intends to keep under public ownership for the time being (either because of strategic considerations or because of the social and economic difficulties that may prevent privatization). These enterprises will generally remain under the enhanced control of the Ministry of Industry. For the remaining enterprises, the recently approved state enterprises pact provides an avenue for commercialization and privatization with enhanced workers' participation. Commercialized enterprises would be supervised by boards, and ultimate ownership control would be exercised through a variety of arrangements (in the case of agribusiness, for instance, through the Agricultural Property Agency, a semiautonomous body). This pragmatic approach, which no doubt will require fine-tuning, may attain the desired economic objective, that is, privatization of the productive apparatus, without creating the kind of centralized control function that elsewhere has often proven an obstacle to devolution and whose attributions may never have been agreed upon by parliament.⁶

Assessment: providing a focus for reform

The preceding discussion provides a picture of uneven progress in adapting the structure of the state to its new tasks, despite the considerable accomplishments of the past three years. The *constitutional and legal changes*, though far from complete, have at least provided the foundations for a democratic society, clarified the roles of separate state powers, and laid a framework for economic reform and private sector activity. Nevertheless, considerable work remains. While political and constitutional issues are beyond the scope of this report, we note that in certain regulatory areas affecting economic activity (telecommunications, but particularly energy) progress has been slow—despite several legislative and regulatory changes—and reform should accelerate.

Decentralization has been, on the whole, rather successful, but greater challenges lie ahead. On the one hand, local governments have yet to receive all of the attributions intended for them. The complete devolution of primary education, coupled with the still unsettled intergovernmental fiscal system, may cause strain on the administrative capacity of these governments in the near future. In addition, plans for further decentralization of state functions may lead to considerably greater shifts of fiscal power and responsibility to local administrations. The fiscal and administrative consequences of such shifts should be carefully assessed before further reforms are launched.

Regarding the reform of the *state administration* proper, we note that the actions of the last two years have often occurred in a somewhat haphazard and decentralized fashion, without a clearly spelled out overall strategy. There are advantages and disadvantages to this approach. The major advantage is that progress in adapting the state structures can be made without depending on decisions and directions stemming from a central bureaucracy which may not yet exist or be sufficiently strong to carry out the task. But the decentralized approach may not ensure that adequate and uniform criteria are applied in all cases. More fundamentally, there are a number of problems cutting across all of government that cannot be confronted in isolation. As we will discuss below, employment and pay management reform, as well as the creation of a modern civil service, are tasks requiring strong central direction.

There can thus be great merit, as the reform of the state is about to enter a new phase, in establishing a clear focal point to formulate and coordinate administration reform policies. A strong mandate could be given to a

single agency to carry out or facilitate the execution of the two-step institutional audit procedures discussed earlier. This agency could set out a process of systematic review of existing institutions as well as an assessment of their tasks. Equally important, this agency should begin to give direction and initiate reform in areas such as pay and civil service management.

The choice of institution and the nature of its mandate depend on the evolution of the political process, and appendix A describes several alternative arrangements currently adopted by advanced market economies. We note that within the Council of Ministers, considerable progress has been made in creating what could form the basis of a future public administration agency. For the Council of Ministers (URM) to fulfill this role, however, it will be necessary to confront another problem which delays decisionmaking and implementation. This problem involves the weakness of the institutional role of the prime minister. The prime minister, as President of the URM, does not currently control her own organizational unit to handle administrative and political affairs. Instead, the prime minister must mediate through the Minister-Head of the URM who runs the administrative apparatus. A sensible reform meriting serious consideration would be to create a chancellery of the URM, subject to the prime minister and directed by a secretary of state—Secretary to the Council of Ministers—appointed by the prime minister. Within the framework of the chancellery, two cabinets, one political and one economic, both with personnel appointed by the prime minister, would coexist. A third section of the chancellery would provide legal and organizational services for the prime minister and the government and perform tasks mandated by the prime minister, parliament or the URM. The remaining administrative section of the URM would become a new Ministry of Public Administration, fulfilling the role discussed above.

The creation and strengthening of a coordinating unit which can serve as government's focal point to manage the administrative reform and provide the institutional basis for the establishment of a more permanent organ to run the public administration is a crucial step that must be given urgent priority. It will make it easier to improve coordination of an enormous task, and might thus permit acceleration of the public administration reform agenda on all fronts. This agenda must be taken up with great urgency not only because effectiveness of government work is sharply reduced by outdated machinery, but also because pressure to solve public pay and employment problems can be withstood only at extremely high political and social costs, as evidenced by recent events that led to the dissolution of parliament.

Government Pay and Employment: Empirical Basis for Reform

Creating a state with the capacity to assume the tasks of the transition and to play a vital role in the emergent market economy depends critically, as was discussed above, on getting the functional responsibilities and organizational structure of government right. The need for rational allocation of staff to carry out redefined state functions presents another crucial imperative for administrative reform. The prerequisite to rationalizing the public service is an accurate understanding of the present deployment of personnel throughout government and of the kinds of incentives currently in force for public employees. Several important issues will need to be resolved before reform can occur. What is the appropriate size of the public service for the new Polish state with regard to both functional requirements and fiscal responsibility? What kind of remuneration and overall incentive structure should be installed to ensure a professional civil service at affordable cost? What mechanisms and institutions need to be established to determine these and other public employment policies and to manage the system? How can central government employment be separated from that of newly decentralized government and from noncore functions such as education and health, thus enabling the establishment of a civil service with its own compensation arrangements and conditions of service?

The following discussion takes a first step toward clarifying the picture of current public pay and employment conditions in Poland, identifying key issues and constraints, and making some initial policy recommendations. We examine recent public employment trends and then review the main considerations regarding incentives and remuneration, focusing both on the fiscal aspects of wage bill management as well as the need to provide appropriate incentives to good public service performance. Then, the institutional capacity for establishment management is examined. Finally, we suggest ways to begin to improve the current situation.

Employment trends

This section addresses three basic questions: What constitutes "the public sector" in Poland and which part of that is "central government"? How are public employees distributed among the various branches of general government? How do these numbers and distribution compare to international standards?

Before the implementation of the 1990 reforms, most employment in Poland was in the public sphere.

Most productive firms were in the hands of the state. Agriculture was largely private throughout communist rule; thus, the overall share of private sector employment in total employment was somewhat higher than in neighboring socialist countries. Still, it amounted to only 47 percent of the total labor force by 1989. The reforms implemented since 1990 markedly altered this picture, however. Overall employment declined substantially (by over 12 percent between 1989 and 1992). This decline is essentially explained by a sharp decrease in total public sector employment, comprising state employees in the public budgetary and nonbudgetary spheres.⁷ Together, these two categories of government employment declined by over a third over the same period. In contrast, the private sector not only increased its share of total employment in relative terms (from 44 to 55 percent), but also increased it absolutely, absorbing, to some extent, public sector redundancies. By 1992, private sector employment was estimated at 8.2 million people—an increase of nearly 8 percent over 1989.

The significant reduction in public employment is mainly attributable to the precipitous fall of nonbudgetary sphere employment by nearly 39 percent during 1989 to 1992, reflecting rapid privatization and the productive crisis of the SOE sector. Job losses in the budgetary sphere (henceforth referred to as general government) have been almost negligible. Indeed, at some 2.5 million employees as of 1993, the general government has remained relatively stable since 1989, increasing by less than 5 percent. Within the general government sphere, employment declines varied considerably by sector. Areas such as arts and culture, science and technology, physical culture and tourism, in which privatization or sharp funding cuts occurred, showed the sharpest decreases. Aside from these sectors—often in private hands or semiautonomous public institutions in many nonsocialized countries—general government employment numbers are mainly driven by three large institutional blocks: the state administration, the education sector, and the health sector. Though large absolute (but not relative) declines took place in education and health between 1986 and 1992, state administration increased during the same period.

Public employment: international comparisons

Is Poland's government overstaffed by international standards? Cross-country comparisons have only limited utility, as classification methodology varies with national institutional characteristics. Nevertheless, table 33.1 pre-

sents some roughly comparable cross-national data. Assessing general government employment more broadly, Poland's public service does not appear to be excessively large. Indeed, at just over six public employees per hundred population (or 13 percent of the labor force), Poland compares favorably with all of the OECD countries shown in table 33.1, save Japan.⁸ Equally favorable is the comparison of the narrower definition of central government employment.⁹ There are fewer than eight civil servants per thousand population in Poland, a figure lower than all of the OECD countries shown in table 33.1, except Japan and Germany.

Despite the serious comparability problems, international comparisons nonetheless strongly suggest that in the aggregate Poland's government is not overstaffed. This does not mean that surplus does not exist with regard to particular sectors or agencies possibly necessitating ultimate downsizing. In Poland, more acute public employment problems may be those of staff quality and distribution of skills—particularly those in scarce supply—throughout government. An understanding of these more nuanced issues requires, as a first step, further analysis of the component parts of general government employment. The next section examines trends in the main public employment sectors.

Redefining public employment

Defining the parameters of the new civil service and redimensioning the public sphere more generally will require that distinctions be drawn among various parts of government that have been, up to now, undifferentiated. This could well turn out to be a complicated, drawn out

TABLE 33.1

Public sector employment in selected countries

Country	General government employment		Central government employment	
	As a share of population	As a share of labor force	As a share of population	As a share of labor force
Australia	10.57	21.36	0.93	1.88
Canada	8.98	17.35	0.88	1.70
Denmark	14.93	26.63	3.06	5.46
France	8.92	20.61	3.69	8.51
Germany	6.96	14.44	0.50	1.04
Japan	3.05	6.02	0.41	0.80
Poland	6.21	13.21	0.78	1.66
Sweden	16.77	31.45	2.90	5.44
United Kingdom	9.35	18.77	0.99	1.99
United States	6.79	13.46	1.24	2.45

Source: Government of Poland; and World Bank data.

process, as the currently constituted budgetary sphere includes various sectors which may ultimately be privatized, contracted out, or spun off into semi-autonomous state agencies. Four major public employment constituencies will require particular attention in this definitional exercise: central administration (13.3 percent of government employees), local government (3.4 percent), education (45.1 percent), and health (35.2 percent). Employment trends and issues in these sectors are discussed below. In the section we briefly review trends in each of these subsectors. More in depth treatment for education and health employment is beyond the scope of this paper.

Employment trends in the central administration

The central administration has undergone some reorganization since the late 1980s when early economic reforms started to take hold. Trends in aggregate employment numbers reflect the thrust of these organizational changes, revealing two distinct phases: first, a considerable contraction between 1986 and 1988, when the consolidation of the line ministries into the Ministry of Industry occurred; and second, an increase in staffing in the post-1990 period. Preliminary numbers for 1992 indicate that the size of the central administration, at about 85,000 employees, is now at its highest point, having increased substantially over the previous year. It is possible that this increase may be explained by reclassification of personnel from elsewhere in the public sector rather than by a net rise in government employment, though precise data are not yet available to confirm this conjecture.

Although not sufficiently disaggregated to draw firm conclusions, the data, combined with anecdotal information, also suggest that significant reallocation of human resources toward the agencies charged with the new functions of the state may have already occurred. For example, the increase in overall central administration employment can be largely explained by recent programs to strengthen tax administration and expand the tax police. In addition, new agencies or ministries have been given higher staffing levels (Antimonopoly Office, Ministry of Privatization, Ministry of Justice), which add up to a considerable increase in overall numbers. Although employment has been substantially reduced in other areas, such as censorship and planning, these cuts did not alter the overall upward trends in central administration employment.

Without agency-specific functional audits, it is not possible to assess the appropriateness of current staffing levels for any given government entity. Some key ministries, such as Finance, Health, and Education, have main-

tained constant employment numbers or experienced slight reductions over the last three years. It is possible that these ministries are understaffed, inhibiting their capacity to perform essential functions. In some other ministries and agencies (such as the Ministry of Industry), overall staffing levels should be reassessed in view of reduced responsibilities.

What cannot be substantiated by the aggregate data (in the central administration in particular, but probably elsewhere in the "budgetary sphere" as well) is the reported exodus of high-level professionals with important policy and technical skills to the private sector. We touch upon this phenomenon in the following section's discussion of wage policy. Beyond anecdotal accounts, however, available data do not permit systematic analysis of the nature of turnover that might have taken place in various parts of the administration. Lack of disaggregated information about the quit, attrition or recruitment rates for different levels of the public service prevent empirical documentation of shortages among particular professional or bureaucratic groups. Nor is it possible to know if, for example, higher-quality staff vacated positions which were then filled by less competent replacements. Given the large increase in employment in some units that was just noted, however, it is conceivable that whatever loss of qualified professionals may have occurred was limited to selected—albeit possibly critical—units (such as the Ministry of Finance).

Employment impact of decentralization

The likely impact of present and prospective decentralization programs on public employment and pay requires urgent attention. Local employment is large and, with new administrative reforms, almost certainly bound to increase. So far, the institution of the gminas was accompanied by a large transfer of personnel (about 75,000 employees in 1992) from the central government to the local level. There remain, in addition, some 32,000 employees in the deconcentrated voivodship, fully charged to the central budget. These numbers probably underestimate overall local government employment, since a number of municipal services are rendered through municipal companies (water, sewerage, transport, child care), which are not included in employment data.

Future decentralization actions may also alter this picture. It is planned that primary education will become a gmina responsibility by 1994. Current proposals for reform would entail a substantially larger transfer of spending responsibilities to existing and future local governments. But, overall, the potential staffing implications of these reforms are as yet unknown.

Local governments engage in personnel and wage bill management practices similar to those of the central administration. Their autonomy is largely limited either by controls over complement or by centrally set remuneration scales. Plans for enhanced local government responsibilities will create new problems which will need to be addressed. Decisions will have to be made as to which public servants currently employed by central government should be placed under local government auspices. For instance, what would be the institutional and financial implications for local governments of decentralizing education sector employees, such as primary or secondary teachers? Which quality standards should be set locally and which norms determined centrally? Answering these questions will involve thorough assessment of local governments' capacity to manage increased responsibilities. It will also depend on major government decisions about overarching decentralization policies.¹⁰

Employment in the education sector

Teachers and school administrators make up the most substantial part of public employment. In the education sector, more disaggregated data are needed in order to establish appropriate staffing norms, to identify redundancy and/or shortages, and to undertake manpower planning for the future. The World Bank's Education Sector Study identified approximately 558,000 teachers for 1990 to 1991, of which about 357,000 are in primary education.¹¹ Polish Department of Statistics data for first quarter of 1992 showed 601,300 teachers, again mainly in primary education. While overall budgetary sphere employment figures in the education sector increased between 1988 and 1992 by over 13 percent, the last year saw a decrease in teachers by 30,000 (including 10,000 retirees).

Redundancy in the education sector is suggested by the very low student-teacher ratios, particularly in primary education (about 18 compared with 16 in 1991/92), due to relatively low teaching contact hours (18 per week compared with 25 for Europe) and to a proliferation of single-subject teachers and part-time teachers. Proposed reforms in the education sector are likely to reduce the overall demand for teachers, to introduce more cost-effective and flexible use of existing teachers. Efforts to rationalize the allocation of teachers may require measures such as retrenchment or early retirement. The Teacher Act of June 10, 1992 raised the obligatory teaching load from 18 hours per week to a minimum of 25 for technical teachers and 23 hours for others, plus 5 additional hours to be assigned as necessary, with a maximum allowable load of 40 hours per week under a "pay-

ment for overtime" policy. Implementation of the law is currently being negotiated between the administration and teachers' union.

Separating the management and pay of teachers and school administrators from other government civil servants will involve drawing distinctions between schemes of service and pay conditions, and, as just mentioned, making a decision as to whether further decentralization should result in decentralized management of pay and work conditions. Serious reform attention will need to focus on streamlining and improving management practices in the education sector.¹² In-depth analysis should include a review of: the functional attributions of the central administration in light of current decentralization and the need to undertake central functions such as assessment and evaluation, planning and research and accreditation of private providers; the deployment of staff, with particular attention to the need for adequate administrative staff at the central level; the need to retrain a large number of teachers and administrative staff; and the working conditions and incentives necessary to attract and retain a motivated teaching force.

Health workers

Health is the other sector which comprises a large share of budgetary sphere employment and will require extensive reform. The main problems identified in the World Bank's health sector study were qualitative in nature (training, licensing, human resource management, remuneration levels).¹³ Concerns of supply and geographic distribution of staff were also flagged (for example, doctors per 10,000 people is 41.8 in Warsaw but only 9.9 in Siedlce voivodship). Part of the problem stems from the proliferation of institutions providing health care services. The main actor is the Ministry of Health and Social Welfare (MOH) but also other ministries, public enterprises, medical cooperatives and a small private sector provide health services. Unfortunately, there is a dearth of information on parallel services provided outside the MOH, which makes it difficult to assess the actual capacity of Polish health services and future needs. In addition, health sector statistics tend to overestimate actual employment, double counting retirees, individuals with more than one position, and the like.

While the number of health workers increased markedly in the 1980s, the number has begun to drop off slightly, falling from a high in 1990 of 867,600 to 804,300 in 1992 (a decline of just 7 percent). For some types of workers, ratios compare favorably with OECD norms. There are, for example, 2.3 health workers per 100 (mid-way in the OECD range of 2.0 percent to 4.1 percent)

and the population-doctor ratio (21.4), dentist (4.8), nurse (54.4), and midwife (6.3) all fall within the OECD mid-range. But certain types of shortages exist: there are chronic shortages of nurses and auxiliary and primary-level health care workers in relation to doctors and beds. Nurse-doctor ratios (2.5 compared with 0.8 to 7.7 for OECD, in 1987) and nurse-bed ratios (0.9 compared with 0.31 to 1.26 for OECD, in 1987) are low by advanced industrialized standards. There are more specialists than generalists and few public health specialists, health managers, administrators and health economists. There is a shortage of general practitioners, and a surplus of specialists in many areas but a shortage in others. In mid-1992, there were 301,400 health personnel: 85,300 doctors and 216,100 nurses and other employees. Health care workers also earn low wages, almost at the bottom of the relative wage scale (women constitute 80.3 percent of health care workers).

Public service pay and wage bill issues

In the past three years, aggregate wage bill management has been subject to the overall budget constraints imposed by Poland's economic situation. Wage bill control has been largely attained, and Poland does not compare unfavorably with other countries undergoing similar fiscal strain. Wage expenditures in 1992, as a percentage of GDP (at about 6 percent) or as a percentage of total expenditures (around 15 percent) or in relation to goods and services (around 15 percent), are not alarming from a comparative perspective. Nonetheless, the trend for the period between 1989 and 1992 for all of the above (as well as other indicators) is one of increase. The public sector wage bill is clearly becoming more burdensome as a relative share of the national budget. Indeed, wage expenditures as a percentage of total expenditures have increased by almost 36 percent during that period. Perhaps more significant is that personnel expenditures rose as a percentage of total revenues by over 39 percent.

This relative increase in the wage bill over the 1989 to 1992 period was occurring as average wages for the public sector were falling. Public sector wages (both SOEs and the general government) rose substantially in 1987 and 1988 and then began falling in real terms. These developments resulted from the interaction of several factors: the government's attempts to maintain budgetary sphere wages at some constant relativity to state enterprise salaries; macroeconomic stringencies; the bargaining powers of groups of public employees; and some limited incentive structures and managerial discretion.

Traditionally, remuneration levels in the public administration had been kept low relative to those prevailing in the state enterprise "productive" sector, resulting as of 1988 in average wages for the budgetary sphere that amounted to approximately 73 percent of the average wage in the six (key) sectors of the national economy. This policy was reversed toward the end of the decade, when in an effort to "correct" these inequities between budgetary and nonbudgetary spheres of government, a law was introduced setting new targets for overall compensation levels of public employees. The stated purpose of the law was to attain, by 1992, an average level of remunerations equivalent to 106 percent of remunerations in the state enterprise reference group. This was to be accomplished in annual increments which would raise the average by three points (1989=97 percent, 1990=100 percent, 1991=103 percent, and 1992=106 percent). It is unclear as to whether the budgetary implications of what would have amounted to a substantial increase in real public sector remunerations had been carefully assessed, but judging from the initial jump in budgetary sphere wages, the policy was adhered to during the early reform period.

The policy was suspended in the second half of 1991 (although the Constitutional Tribunal ruled that such suspension was illegal), and suspended again in 1992 and 1993. The basic law remains in effect, however, and there is no alternative mechanism envisaged as yet. In the absence of policy decisions in this area, growing dissatisfaction within the central administration and the other components of the public sector is leading to increasing social tensions, as well as a loss of morale among employees, while it is stimulating flight of the best qualified toward better opportunities in the private sector.

The net effect of these policy shifts has been across-the-board wage erosion in the public service. Erosion is more acute in some parts of the budgetary sphere than others, however. Indeed, differentials between the two major government employment sectors are echoed in the overall lack of wage uniformity within the budgetary sphere. Clearly, there have been ministerial winners and losers, reflecting not only deliberate government policy but also the considerable managerial discretion which characterizes Polish public sector pay practice at individual ministry levels.

The 1989 public sector salary policy also contained guidelines setting relative sectoral wages. Despite the lack of compliance with the overall wage targets alluded to above, these guidelines, based on unclear criteria, were generally respected. The relative wage policy that emerges on the basis of the actual data shows not insignificant average wage differentials across sectors (25 percent be-

tween lowest and highest). In 1991, the state administration and higher education enjoyed the highest wages (113 and 108 percent of average budgetary sphere); the lowest were reserved to social welfare workers and nonuniformed defense and security employees. In the second half of the same year, the relative wage policy was further modified to benefit a "core" group of state administration employees. The budgetary allocation for wage increases in the second part of the year was used, apparently with total executive discretion, to raise significantly the remunerations of about 19,000 government employees working in a number of agencies (mostly in Warsaw) where private sector competition was exercising a threatening pull effect. This is illustrated in table 33.2 which shows that the average wage in the "core units" was 191 percent of the average budgetary sphere. Considering that the wage increase took place in the second part of the year, it is apparent that the wage differential within the public sector has increased substantially.

To the extent that dispersion of salaries across sectors or ministries in the budgetary sphere is increasing, this may indicate, as this report has already suggested, a de facto staff reorganization taking place which reflects some implicit assumptions about more and less valued government functions and professional skills. Although this situation displays some traits of a healthy labor market within government, it also poses problems for essential but perhaps devalued functions which will find it difficult to attract high-quality staff in the present climate. Functional audits and skills inventories combined with better forward planning instruments recommended above can help correct potential distortions in this internal market.

The ability of any given ministry to attract good professionals to government jobs may thus be decreasing for less esteemed ministries. Anecdotal reports suggest that the problem is widespread and is affecting even those

TABLE 33.2

Relative wages in the public sector

Employment category	1991	1992
Total budgetary sphere	100.0	100.0
Education and training	100.6	100.1
Higher education	108.7	110.5
Culture and art	94.2	93.3
Health	99.7	99.0
Social welfare	90.3	90.8
State administration	113.1	110.5
o/w core units		191.5
Administration of justice	98.0	98.7
Nonuniformed MoD	90.3	90.1
Nonuniformed MoL	90.3	91.5
Other	97.5	95.3

Source: Government of Poland, Ministry of Labor.

ministries that have fared better with regard to remuneration. Although the recent pay raise referred to above may have temporarily mitigated this brain drain, interviews throughout government point to several instances in which staff with scarce skills are drained out of government to private sector jobs, sometimes severely affecting the policymaking ability of key ministries.

The issue of staff retention is related not only to dispersion among sectors within the budgetary sphere, but also to the question of salary compression between top and bottom bureaucratic or professional levels. Table 33.3 presents two snapshots of compression ratios between top and bottom level salaries in government. Using the official salary scale and grading system, the "theoretical" ratio of top to bottom salaries is very flat at 4.5:1, a ratio considerably lower than in most other countries. Using a sample of some actual bureaucrats' salaries across the budgetary sphere, the compression becomes extreme, with top officials earning barely more than twice the lowest employee's wage. Again, it is not clear as to whether this compression has been exacerbated of late; and, due to lack of data, the ratio cannot be compared to private sector patterns. Thus, further investigation would be needed to determine whether this is a factor pushing skilled professionals out of government posts at the high levels. If so, one policy option for government to consider (without increasing the overall size of the aggregate wage envelope) would be to shift the wage pyramid to reflect a salary distribution weighted more heavily to the top levels—these currently receive less than 30 percent of the pie—to ensure higher levels of remuneration for top bureaucratic echelons.

TABLE 33.3

Compression ratios for average salaries in the central administration

Position	Salary (thousands, actual)	Compression ratio	Compression ratio (theoretical; based on salary scale)
Central administration			
Director	6,322		
Deputy director	5,371	1.18	2.25
Advisor	4,782	1.12	2.17
Section chief	3,820	1.25	2.00
Principal specialist	3,572	1.07	2.10
Senior specialist	3,035	1.18	2.24
Specialist	2,815	1.08	2.00
Senior inspector	2,926	0.96	2.12
Inspector	2,416	1.21	2.13
Other	2,807	0.86	2.40
Compression between top and bottom	2.25	4.49	

Source: Government of Poland, Ministry of Labor.

It should also be noted, however, that anecdotal accounts not only reported drainage at the top level of the bureaucracy, but also at the level of secretarial support, especially as regards staff who possess computer skills. The result may be some grade inflation whereby skilled secretaries were elevated to inspector and specialist levels in order to offer them better pay. Clearly, a serious effort to redesign the grading system to reward scarce skills appropriately to prevent brain drain and, at the same time, to conform to appropriate and accurate descriptions of job duties will be required in the immediate future.

Analysis of wage erosion, dispersion and compression tells only part of the story. Remuneration in the Polish public service also includes a range of nonwage allowances. These, coupled with a high degree of managerial discretion, account for considerable remuneration variability. As the following discussion of some detailed features of the present remuneration shows, public service incentives are not currently based on rational or meritocratic criteria.

A large part of the pay package is inertial, determined by job grading and length of tenure. The average employee may receive a basic wage and, in the case of the five highest managerial categories, a functional allowance (worth up to 15 percent of base). All workers also receive a thirteenth month salary. For workers with more than 20 years of seniority, a five-year anniversary special bonus is paid, starting at 75 percent of base wage, and topping at 300 percent of base wage. Finally, employees are entitled, upon separation (historically, an unlikely event), severance pay of up to six months, depending on seniority.

The base wage is divided into 21 categories, ranging at present from Z11.0 million to Z15.4 million. It should be noted that the lower end of the scale is determined more or less by the movements of the national minimum wage (currently at Z11.6 million). There appears also to have existed at one time a "job compression" principle, aiming to maintain the ratio at no less than 3:1. The current ratio, as illustrated earlier, is considerably above that threshold.

In addition to these allowances, individual managerial discretion can be exercised in the allocation of bonuses. Since budgetary allocations depend on the number of authorized positions, not all of which are filled, managers can distribute, as they see fit, unspent funds among existing workers. It is unclear, however, to what extent all or part of the unspent funds can be used for this purpose, or whether there are specific rules limiting the discretion of managers. There appears to be little if any linkage between the allocation of basic pay or these allowances and job performance.

Agency managers' autonomy is also somewhat constrained by indirect controls. Promotions are de facto limited by the Council of Ministers' control of the complement of departments. This limits the number of department directors and deputy directors—the highest paid positions in the administration. In addition, the overall complement of positions is customarily agreed upon in consultation between the individual organ or ministry and the Ministry of Labor, which in turn consults, at least on an informal basis, the Ministry of Finance. Aside from this, however, there do not appear to be other forms of control over the grade composition of the labor force.

Institutional management of government pay and employment

Government pay determination and administration involve a number of institutions in a complex system which is a hybrid of both the former centralized communist structure as well as features that have evolved during the reform period.

Pay determination. The Budget Office of the Ministry of Finance, with the endorsement of the Council of Ministers, provides an overall budget constraint for the aggregate wage envelope. Year-to-year wage guidelines are elaborated through a process involving the Council of Ministers, the Ministry of Finance, the Ministry of Labor, the KERM, and the relevant trade unions (especially active in the education and health spheres). In the last two years, the budgeting of the wage bills has been done on an incremental basis; the Ministry of Finance makes the key decision as to how much the salary mass will increase over previous years. The Ministry of Finance's main aim of late has been to abolish automatic indexation in the wage sphere and develop a new approach to collective negotiation arrangements. Finance is also involved, with the Ministry of Labor, in decisions about the distribution of the total wage package among various ministries in the budgetary sphere. And, of course, the Ministry of Finance transfers funds directly to ministerial agents to administer the payroll.

The Ministry of Labor, once the principal administrator of wage policy for the entire society, continues to play an extraordinarily (relative to Western administrative models) important role in defining remuneration policy, pay scales and allocation of the wage fund among ministries and other budgetary units. Thus, although a standard salary scale, in principle, exists for most of the budgetary sphere, in practice, norms are developed in consultation or negotiation among the Ministry of Labor, the individual state organ and the relevant representatives of collective labor. This system was conceived as covering all budgetary sphere employees, that is, central

and deconcentrated administrative units, teachers, and health workers. The nonbudgetary, state enterprise sector was excluded as were the military and security forces and political positions in ministries.

Establishment management and payroll administration. The establishment management, payroll administration and overall personnel functions appear to be extremely decentralized and, by and large, rudimentary, by Western standards. Each ministry or agency has a personnel department which keeps records—for example, general information on age, social background, education and qualifications, references, general health information, results of written examination and interviews. Personnel departments vet promotion applications submitted with appropriate documentation from individual ministers, and, in theory, they review applications for individual salary increases. But, at most, this review function is a check for possible abuse; virtually 100 percent of proposals submitted are approved.

Records are kept manually. They are not fed into a larger personnel management information system; nor are they linked systematically or electronically to the payroll. Instead, changes in status are recorded and reported on paper. Traditionally, personnel records tended to be maintained for control purposes under the ancien régime. Thus, personnel management, as previously practiced in Poland, retains an unacceptable political taint. Modern personnel management techniques are not practiced. With the exception of instruction in the application of periodic legal modifications, or recently, for example, in the calculation for remuneration purposes of the newly introduced personal income tax, personnel officers have received virtually no training in this area.

The actual administration of the payroll is also very rudimentary. Essentially, the Ministry of Finance distributes the payroll to each ministry which in turn makes its own decisions about distribution (circumscribed as above). Wages are provided in cash; the main secretary from each department signs out a lump sum for the payroll from the cash vault. No systematic check on employee identification takes place, though there appears to be a widespread impression that fraud is not a problem.

Conclusions and recommendations

In order to equip the state with the necessary capacity to perform the tasks required for the economic reform program and to prevent a dangerous erosion of public consensus, the government will have to address the troubling issues of government pay and employment raised in this

section in the very near term. The challenge is threefold: to define and circumscribe what is to be the civil service, restricting its composition to those staff who are carrying out essential core functions; to set up the right incentives through the establishment of a remuneration package which is fiscally responsible but adequate to attracting and retaining qualified personnel; and to set up the institutional infrastructure to manage the stock and flow of personnel establishment on an ongoing basis.

Public sector wage policy

Regarding wage policy the following picture emerges from the preceding discussion: an urgent need to overhaul compensation of public sector employees, which has not been addressed in a systematic fashion, thus leaving in place the old system; a significant wage compression across central government; a significant differential between emergent private sector remuneration levels and certain jobs or professional skills in the central administration; and an absence of adequate systems, trained professional personnel managers, and infrastructure for efficient payroll administration. This picture indicates the need for serious policy reform and modernization of establishment management practice. This should be accomplished in consultation with all interested parties, but is no doubt going to be a controversial exercise. A number of steps will in any case be required to bring about improvements in the remuneration area.

First, the old wage determination system, based on the 1988 law, should be replaced by a new one, better adapted to the needs of the new public sector. Within the overall budget constraint (which is unlikely to be substantially softened in the near future), separate wage policies should be adopted for the main components of the public sector identified in the previous section. The main institutional actor in elaborating and carrying out this reformed wage policy would once more be the Ministry of Public Administration, as discussed. Many of the extensive pay determination responsibilities now housed in the Ministry of Labor would thus be abolished.

Second, a modern, computerized payroll system linking a similarly modernized personnel management information system with the budget function must be developed as a high priority. This system will need to be linked immediately with the results of the employment census recommended above, so the two should be conceived jointly. The successful administration of this system will depend not only on the institutional choices referred to above, but also on extensive training of staff located in both central and decentralized ministerial personnel functions.

Third, the capacity to formulate sound pay policy on an ongoing basis will need to be developed (probably with considerable technical assistance and training) and installed in the institutional infrastructure described above. Even in the very short term, some important data will need to be collected in order to begin to build an adequate information base for policy reforms. For example, as a first step toward setting realistic pay levels for civil servants, government should consider carrying out an initial pay survey to analyze central government remuneration levels in relation to selected comparators in the emergent private sector, other relevant parts of the public sector, and, as appropriate, the nongovernmental sector. In addition, a pay and grading study should be undertaken. This would propose concrete steps for several reforms to rationalize the current pay structure. Likely actions to be considered would be: folding bonuses and allowances into the basic wage; correction or systematization of the dispersion of wages among different sectors of the budgetary sphere; design of new classification and grading systems for the newly defined civil service, and similar exercises for the parts of government that remain in the budgetary sphere.

Finally, new rules and a legal framework for pay determination will have to be developed. This involves determining the role of various parts of the government apparatus, including organs of the bureaucracy and the legislative spheres, as well as the role of organized labor. This and other aspects of the pay and employment policy process will need to be codified, at their most general level in the civil service enabling act, and in detail in smaller codes and regulations. The elaboration of this legal framework is essential, but it should clearly follow the prior steps enumerated above in the reform sequence.

Reform of public employment

Careful examination of the available data on Polish public employment suggests a picture which is more complex than earlier, more casual observations indicated. Using available international comparators, overstaffing for the budgetary sphere is not alarming, and a more narrow focus on the core administration conveys still less redundancy in the aggregate. This does not mean, however, that redundancy is not a problem. The issue appears, however, to be one of rational distribution and allocation of staff, by sector, agency, function, professional skills and administrative responsibility. Some organs and sectors may need drastic downsizing (education is an obvious target) or substitution of existing staff by personnel with more appropriate professional skills. Others may require additional staff, which might, in part, be

transferred from elsewhere in the public sector. But internal reassignment might be inadequate to staff some of the new government institutions and agencies that are being developed now. Some skills may be better contracted on an as needed basis from the emergent private sector, or, as discussed in a subsequent section of this report, might be developed through pre- or in-service public service training.

Several policy implications can be drawn from the above analysis. One important conclusion is that reform attention should not focus excessively on downsizing objectives per se, because the overall dimensions of the Polish public service largely conform to international standards. A second finding, however, is that allocation and distribution of staff appears to be inefficient—and in an extreme state of flux, as reflected in conspicuous shifts of personnel (both rising and falling) for the budgetary sphere as a whole. And for some agencies and sectors, severe redundancy or scarcity issues will need to be addressed.

There is a clear need to improve the quality and coverage of information on public employment. A comprehensive information base should be formed in order to take the immediate steps of defining which organs and staff are to be included in the new civil service, which are to be spun off into other forms of government, and which are to be privatized, liquidated or downsized. This information base would also provide initial input into a forward looking manpower planning strategy, once the institutional capacity is present in the civil service management structure to do this; and it should feed uninterruptedly into an establishment management system which will need to be set up as the foundation of the civil service management structure as soon as possible.

This task should be the main priority of the previously discussed Ministry of Public Administration. A substantially strengthened Public Administration Reform Unit in the Council of Ministers could become the embryo for such an institution, absorbing some of the tasks now performed by the Ministry of Labor, and thus filling a major institutional void. The immediate agenda of this strengthened unit would revolve around three kinds of data collection exercises. The first is a *public service census or survey* to determine how many and which kinds of employees are working where in the public service. This census should also gather social background data, including age, gender, and educational and professional characteristics, as well as salary and length of service. Results of this census would be checked against payroll data to reveal possible irregularities such as the existence of ghost workers or double employment.

The second exercise would stem from the recommended *review or audit of central government*. An overarching review of functions of existing organs would inform decisions about which structures should remain in the machinery of government. This umbrella exercise would then lead to a series of audits, analyzing each ministry or agency in depth, and determining the appropriateness of staffing levels and skills to the tasks and organizational objectives of the agency. Such reviews have been carried out in numerous countries, employing widely used management consulting techniques. In Poland, similar activities are under way with respect to the Ministry of Agriculture and the Council of Ministers, but they should be generalized and extended in scope.

The third activity, possibly undertaken in conjunction with the functional audits, would be a *skills inventory and training needs assessment*. This would be a detailed cross-government analysis of skill profiles and deficiencies in individual sectors or agencies in the context of overall functional requirements. Both this exercise and the functional review might focus initially on a few key agencies or sectors in order to highlight priority tasks. This would feed directly into the preparation of a manpower plan for acquiring essential skills, either through recruitment, transfer within government, contracting out, expatriate technical assistance or training. It would provide the basis for the formulation of a training strategy for the public service. Along with the public service census, it would also serve as the eventual foundation for a manpower planning system which government will need to install as part of its reform program for civil service management.

Even before gathering more complete information, some initial consideration should be given to developing at least a rough approach to the task of separating out parts of the public sector as a first step to developing discrete conditions of service for different branches of government. For example, as discussed earlier, large sections of what constitutes budgetary employment at present (for example, physical culture and tourism, or finance and insurance) are unlikely candidates for inclusion in the civil service. Various other sections of public employment could be separated from the civil service as well, including teachers and health workers, among others. Preparatory analytical work, examining the legal, financial, and implementational implications of at least the gross categories of public employment should be undertaken to produce concrete proposals which would define the parameters of the civil service and establish different conditions of pay and employment for those state employees who do not become part of the civil service proper.

Civil Service Management Reform

The tasks outlined above will not be easy. More daunting still is that they constitute only a first step toward the monumental challenge of creating a civil service on the ruins of the former communist bureaucracy. This section focuses on civil service management aspects of public administration reform. First, we outline the main elements of civil service management that must be in place to meet both the urgent demands of the transition as well as the longer-term expectations for the development of a modern, effective, and responsive bureaucracy in Poland. The discussion then turns to the present state of the Polish public service, providing background on the origins of current practice and diagnosing critical problems in crucial administrative areas. This diagnosis leads to conclusions and recommendations of next steps, bolstered by some international examples (see appendix A). Based on this discussion, a concluding section will offer a specific agenda for reform. No strict prescriptions are made with regard to the correct path to civil service reform, but recommendations are offered about which actions to take to begin the reform process.

Poland's requirements: creating a civil service for the transition and beyond

In order to carry out the more narrowly focused functions outlined elsewhere in this report, the Polish public administration will need not only a streamlined state organization and structure, a clear definition of civil service employment and appropriate but affordable financial incentives, but also—perhaps most profoundly—a transformation of the civil service and its administrative culture. Government needs to formulate, implement and enforce technically sound policies in key areas. Its main mandate is to stimulate good citizenship and sound economic behavior. And it must be responsive and accountable to its public clientele who, in turn, must be confident that the state can do its job effectively and impartially. The bureaucratic machine needs to act quickly; decisions must be made rapidly at all levels of the hierarchy—not just the top of the command structure. As initiator and implementor of public policies that will be crucial to the success of Poland's economic reform program and the sustained development of a strong market economy, government must have able cadres and a well-managed civil service.

To achieve these objectives, improvements will be needed in a number of areas of civil service management. This report highlights those essential functions that must be up and running to fulfill basic administrative duties during the immediate transition period as well as to put in place the building blocks for further civil service development. These functions fall roughly into the following categories: the development of a modern civil service organizational culture; cadre development and leadership-grooming mechanisms; operating systems and rules for ongoing management of the civil service; establishment management and manpower planning instruments; staff incentive structures; and institutional infrastructure for civil service management and oversight.

Present state of Polish public service

Although much of present-day Polish administrative structure and behavior can be traced to the recent communist regime, beneath lies an important legacy from Poland's more distant past. Indeed, bureaucratic centralism, authoritarianism, legal formalism mixed with informal influence networks, and the absence of an indigenous, administrative elite all stem from a complicated bureaucratic and political history. This history spanned Poland's feudal administration and the advent of statehood in the 12th century, years of foreign domination and partition among Russia, Prussia and Austria-Hungary, the creation of central government in 1918, German occupation during World War II, and finally, communist rule during the most recent period. Throughout, several bureaucratic characteristics prevailed: rigid and tall hierarchy (that is, many layers of bureaucracy with decisional autonomy only at the top of the command structure); power derived from personal ties and seniority rather than merit; and the prevalence of rigid rules undermined by vertically organized patronage and circumvented by the use of *zalatwic* (loosely the equivalent to the English slang word "pull").

Rather than radically disturb this traditional organizational culture, the communist regime built upon it. Communist party domination of the bureaucracy reinforced the top-down, centralist, decisional structure with promotion preferences based on political or personal characteristics rather than performance. This behavior was embodied in the nomenclature system found in most of the regimes of the region: the list of individuals suitable for

appointment was determined by the leading executive organs of the Party.

Resistance to party domination took the form of insulation of superiors by subordinates, withholding information and creating a "wall of formalized deference." Authority was also subverted through informal networks. Neither did the highly centralizing impetus of the Party offset the traditionalist tendency toward isolation and fragmentation, resulting in minimal communication among organizations in the public sphere. Although some Western intellectual and technical influences, such as the scientific management and professionalism movements, had modernizing effects in Poland in the 1960s and 1970s, their overall impact was minimal, mainly felt in academic rather than bureaucratic or political circles.¹⁴

The consequence of these various layers of administrative culture is that, despite an extremely literate and well-endowed human resource base in the country as a whole, there is nonetheless a critical shortage of technical skills required for policymaking, especially in the economic and public management spheres. Some recent trends are promising: many talented professionals previously associated with academic institutions have assumed key positions in the bureaucracy, replacing virtually the entire previous top administrative elite. Less encouraging, as demonstrated by the widespread need for advisers who provide some temporary relief but no lasting solution, is the fact that these new cadres lack crucial technical background and policy skills. And their numbers are insufficient to carry out the government's critical agenda.

As the above history attests, the evolution of organizational culture is a slow process, probably determined as much by historical accident as intentional intervention. Appreciation of the weight of this indigenous tradition should foster appropriate humility in those attempting to transform the Polish bureaucracy into a modern public administration. But the importance of the task demands concentrated, practical action. One strategy for achieving bureaucratic transformation is to reshape the administrative cadre that will staff the new service. Some approaches to cadre development and leadership grooming are discussed below.

Cadre development and leadership grooming

Creating a civil service means developing a corps of staff well prepared to carry out their technical and policy functions and committed to a common public service ethos. Poland faces difficulties in meeting this challenge, but it is vital that the government be successful in building a competent, public-spirited cadre if it is to transform the public administration.

The first step in developing high-quality government cadres is to obtain an accurate picture of the present skills base of the Polish public service. As discussed above, little information is readily available regarding the nature or distribution of professional skills in government. While this study cannot add substantially to anecdotal accounts of professional shortages, it can at least confirm them. Mainly, reports note a dearth throughout government of policy skills, as well as limited technical capacity in some key areas, including public finance, expenditure and investment management, accounting, project and sector economics and macroeconomics, market analysis and modern computer techniques. The shortages are reportedly exacerbated by the drain of talented personnel to the private sector. Some initial organizational studies of individual ministries, such as agriculture, reinforce the generalized picture of scarce policy skills in particular sectors, such as agriculture.

Quality secretarial skills also seem to be in short supply, thus explaining what appears to be an unusually high proportion of professionals to clerical support staff (approximately 6:1). The appropriateness of this ratio depends very much on workload, technology and skills, factors not examined in any depth in this study. In any case, Poland's administration does not seem, as is often the case elsewhere, to be overstaffed at lower clerical levels. Managers clearly view the lack of adequate secretarial support as a problem; conventionally, it has been dealt with through grade inflation, assigning qualified secretaries titles implying higher professional grades and thereby better salaries to prevent them from going into the private sector.

It has also been suggested that there is a surplus of lower- and middle-management staff. Disproportionately high numbers of ideologically motivated appointments may have been made over the years by the previous regime at these levels, interviewees noted. Again, we could not verify this empirically, but certainly this perception points to the very real problem of dealing with dysfunctional vestiges of the old system. Because removal of politically tainted communist officials has so far focused mainly on high-level bureaucrats, lower echelons remain in place. Many of these petty officials are older and more set in ways corresponding to earlier demands placed on them by the communist apparatus for obedience and control rather than independent analysis. Because of their senior age profile, the problem may gradually solve itself through the natural retirement process. Meanwhile, a balance must be struck between easing out truly untrainable staff and losing a critical mass of bureaucratic skills due to the past political background. Besides, given the extent of political compromise in the previous era, few technically skilled people "of

a certain age" are without some associations or training rooted in communist ideology; any attempts to clean house become illusory in this context.

There is a general lack of knowledge among Polish public servants of basic aspects of everyday administration in a modern, Western-style bureaucracy. Autonomous decisionmaking, critical analysis of policy options, responsive service demeanor, and collegial coordination and information sharing are unfamiliar to most staff. An effective civil service requires the fostering of these skills.

To the extent that these impressions are based on anecdotal data, they must be supplanted by concrete information on government staff capabilities. As seen earlier, systematic inventory of the actual skills mix of the public service should provide an input into a forward looking manpower planning system to develop a comprehensive training strategy and to inform retirement, pay, classification and recruitment policies. In the meantime, accumulating informal accounts at least reinforce the sense that staff development is essential to improve public service quality and reorient bureaucrats toward modern administrative methods.

Generating institutional capacity—targeting critical skills

Training is an important tool used by successful civil services to develop skilled cadres for the public administration. It is likely to play an even larger role in a country such as Poland, where a dramatic reorientation of staff needs to take place quickly to manage the transition from an authoritarian command system to an open, democratic market society. Poland's present capacity to carry out public administration training is limited and lacks strategic focus.

By far the most energetic, ambitious effort in public administration training has been the work of the National School of Public Administration, established by parliament in June 1991. The school, set up to provide training for prospective elite cadres, administers a two-year post-graduate course in general public administration, public policy and international relations for new recruits (under 30 years of age) who enter the school through competitive examination. Upon completion of their studies, these cadets are ranked on the basis of their NSPA performance and guaranteed middle-management positions in the core government administration, assuredly on a fast track to higher posts; within one year, in fact, they are deemed likely to reach director general (department head) level. The school, which will turn out its first class of 60 graduates this year, draws its part-time faculty from government officials, university professors, and visiting or resident foreign experts.

The NSPA has so far been quite successful in attracting international interest and assistance. It has programs of cooperation with a growing list of countries and institutions, including the Ecole National d'Administration in France, the United States Office of Personnel Management, the United States Information Agency, the John F. Kennedy School of Government's Project Liberty, the Canadian government, the Lyndon B. Johnson School of Public Affairs at the University of Texas, the European Institute of Public Administration, and the Center of European Studies. In addition, it has hired directly several expatriate professors to supplement Polish part-time instructors.

The school's curriculum emphasizes both general and specific courses. Examples include the role of public institutions in Western society; public law and administration; micro-, and macro-, and welfare economics; public finance; and international relations and international public law (including an introduction to European Community law, international contract making and diplomatic protocol). It also offers training in negotiation skills, decisionmaking, and communication, as well as more general courses in the social sciences. In addition, a vital element of the curriculum is a six week internship in a Western country. This year the internships are in Britain, France, Germany, Ireland, or the United States. The program is supplemented by daily intensive teaching of two Western languages, and practical computer training. With an endowment from the German government, NSPA has built a small but first rate library in several of the above fields. Students are financed through bonded scholarships compelling them to serve in government a minimum of five years after graduation.

The impressive achievement demonstrated by the creation of the NSPA in Poland cannot be overestimated. It is one of few such institutions in the former Soviet bloc. In mobilizing resources to tap into international experience on elite cadre training, it has planted the seed of a very good higher civil service staff college. Much remains to be done, however, and the school's institutional capacity still needs strengthening. Moreover, without a more complete vision of the overall civil service model, it is unclear as to whether government preferences will be to continue to focus resources exclusively on a single narrow-entry, elite training institution or to encourage the development of a more open, competitive system with higher-level training provided by other organizations from the public or private sector. One factor which might motivate a broader institutional approach to training is what is perceived as NSPA's excessively high cost per student and the small number of graduates produced annually. Some argue that a more competitive model would train more students more efficiently.

Most training efforts have targeted pre-service training, with relatively little attention so far to other important training needs for the public administration. These will have to be dealt with quickly to move Poland along the path of administrative reform. The most urgent need is for in-service training, which has not been adequately addressed. In practice, NSPA's exclusive focus has been on pre-service training; the school has not assumed responsibility for in-service training of public servants, other than the exceptional short seminar for small numbers of senior government officials. There are indications, though, of some preliminary government efforts have been initiated to deal with in-service training issues. An Advisory Council for In-Service Training has been formed to develop a system to train serving public servants. In addition, several ministries, such as those of Industry and Agriculture, are contracting training packages from private, sometimes international, providers.

Still, at present, there is relatively little capacity for the latter anywhere in Poland. Although a range of public and private institutions, in principle, sponsor some training for public employees, the quality is often linked to approaches from the ancien régime and is mainly inadequate to the task of reshaping a civil service. In theory, other organizations might be involved in in-service public administration training. Training in the very broad management area is offered by a number of institutions, including higher education institutions offering full-time graduate study programs; higher education institutions offering part-time extramural study programs; independent management training institutions; and organizations offering management training alongside other services. In addition, approximately eight upgrading institutes attached to government ministries provide courses in specific aspects of management—mainly sectorially oriented—to state employees. Although there has been no rigorous assessment of these institutions, a quick review of program descriptions suggests that most emphasize economics, enterprise management, and finance and accounting. Clearly, the intensive higher education route or multiple year MBA programs would be feasible only on a limited basis for most in-service civil service training. Short courses or seminars of up to several weeks duration would be most appropriate.

Without further analysis, it is not possible to know which of these institutions might have the capacity to provide appropriate in-service training for Polish public servants. The degree to which these schools have instructors well trained in modern management practice, Western concepts of finance, law, and economics, and, for the case at hand, in modern civil service manage-

ment practice is very much to be determined. In light of the total absence of these subjects in most Polish curricula until very recently, it is unlikely that teaching capacity currently exists.

While it is uncertain as to what would be the most appropriate arrangements for the delivery of in-service training, it is clear that some intensive reorientation and skills enhancement program for serving public servants is essential to the success of the transition. The array of institutions (both private and public) described above is not currently organized or prepared to carry out this task. NSPA's present capacity would also have to be significantly enhanced to undertake it. Moreover, even incipient attempts to link NSPA's program with in-service training for high-level public servants have met with resistance, as the latter are not uniformly receptive to the notion that they even require training. They are reportedly uncomfortable being trained alongside green recruits (this has been the case at some NSPA seminars). Finally, for some, the whole concept of "training" in Poland may still carry an unpleasant ideological association with involuntary socialization. The institutions, instructors, and course content selected to reorient and reeducate sitting public servants for the new civil service will thus have to be above reproach in this respect.

The other neglected area of training for the new Polish civil service is that of lower-level staff. The transformation of the old bureaucratic apparatus into a modern civil service will require significant reorientation of existing lower ranking officials and support staff. Training in the areas of basic accounting, word processing, computer technologies, and commercial law is needed. Such skills were apparently underdeveloped under the old regime because relatively little "paper" was produced. Now, with more policymaking analysis, production of reports will require enhanced skills. This training function may be mainly (but not totally) contracted out to private institutions, or there may be a need for a separate institution apart from NSPA. In light of the scarcity of qualified lower-level employees, one policy option might be a "multiskilling" approach which increases staff mobility and deployment for lower- and mid-level jobs. Through departmental workplace reviews, tasks are redesigned to include a much wider range of skills requirements, and staff are given a broader array of training opportunities. Undertaken with extensive union consultation, multiskilling is reputed, especially in Australia (where it has been well developed), to have increased job satisfaction and worker productivity significantly. In addition to lower-level staff, training for local government also needs to be considered in relationship to staff for central government organs. Which organs will coordinate and deliver this

training, and what the curriculum should contain, are questions to be addressed.

The development of a strategy reflecting informed choices about resource allocation for training must rely on better information about the appropriate targets of training. This will require a skills inventory and training needs assessment to inform decisions about who (currently or prospectively) in the public service needs what kind of training to achieve which objectives. The question, referred to earlier, of who ultimately is "retrainable" must be addressed, perhaps on an individual basis and grounded on some refined, impartial criteria.

The appropriate target for training will be determined partly through the performance of a training needs assessment in conjunction with the skills inventory discussed earlier. This assessment would be an input into the training strategy, whose overall objective is to make transparent the links between training approaches, the public sector target population, resources (financial, institutional and human) applied, training needs, time horizons, and civil service development objectives.

Priorities must be established for the in-service training that must be carried out urgently, identifying people and resources required, the institutions to be involved, and additional strengthening that might be needed, perhaps achieved through external technical assistance. An obvious short-term constraint will be the dearth of instructors to teach both general public administration subjects, as well as more technical subjects such as public financial management or personnel management techniques. A training strategy task will be to propose action plans in these areas.

Beyond these short-term questions, the design of a training strategy must be fit into a medium-term strategic plan for the development of a civil service model. A number of policy choices now being made in an ad hoc manner would be better taken up through an intentional planning process. For example, the eventual selection of institutions to carry out training might be centralized (through, at one extreme, a single staff college for high-level recruits) or decentralized (through ministerial training institutes or by vouchers to be used in the private sector).

So far, the NSPA program assumes an elitist training model, not dissimilar to ones developed in France or Japan. Such models have many advantages and may fit Polish preferences quite well overall, but this approach needs to be thought through more carefully in the context of the general civil service framework and the social, organizational, and political structure in which it will have to function. For example, elitist training models tend not to work in countries without elitist general edu-

cational systems and in which interclass mobility is a desired feature of the civil service career. Elitist cadre mechanisms tend to deter upward mobility from the lower ranks. This can demoralize lower-echelon employees and ultimately serve as a disincentive to good civil service employment. These elitist approaches also have a preference for training generalists. The degree of balance needed between a generalist elite and good technical personnel is an important policy decision that Poland has yet to resolve. Moreover, an elite staff college model requires careful forward planning that ensures graduates will have jobs upon completion of their studies but also offers no guarantees that will result in overstaffing, as occurs in so many countries' distorted application of similar approaches.

Recruitment and grooming of leadership cadres—options for reform

The other essential aspect of cadre development is recruitment. At present, personnel recruitment into the Polish public service takes place, in theory, roughly in accordance with the last law governing public service employment (September 16, 1982, Law on State Administration Employees, with periodic amendments). The law distinguishes between state officials and other employees of the state administration. The latter are generally (but not necessarily) lower-level staff, employed on the basis of employment contracts, and they are also subject to general rules of the Labor Code. They are also subject to various specific rules of remuneration, working hours, and rewards defined in the 1982 Law. They can be terminated with one to three months' notice. State or "nominated" officials are, in principle, selected for specific posts, the number of which are fixed by the Council of Ministers. They can be fired (with six months' notice) but only with just cause (mainly malfeasance or restructuring). Thus, as the statute stands now, all "nominated" state officials, regardless of their abilities or the original criteria for their recruitment, have de facto tenure. In addition, there are political appointees, selected by the prime minister, who can be recalled or fired with six months' severance pay.

Although the 1982 Law does stipulate that state (nominated) employees have "an appropriate education" and pass a twelve month administrative apprenticeship, the law actually does not prescribe recruitment practice. Current recruitment, as a result, is carried out in an ad hoc manner, with no clear or uniform standard for procedures across government. Although some agencies (for example, the Personnel Office of the Council of Ministers) report episodic efforts to introduce competency criteria into recruitment—written or oral examinations, the

use of skills tests for typing, computer literacy, or language proficiency—these seem to be entirely at the discretion of individual managers. Moreover, such tests, if they occur, are mainly applied to lower-level labor code employees whose jobs require concrete technical skills. At the moment, the most rigorous recruitment criteria are those applied by the National School of Public Administration. They require university education and subject candidates to written examinations and intensive oral interviews.

In an effort to regularize and standardize public service recruitment, the Draft Civil Service Act (Article 4) proposes, in combination with educational credentials and time in service, four different entrance examinations for the four proposed categories of civil service employment. Essentially, the graduates of the NSPA would be on a fast track to high-level jobs.¹⁵ Although this would introduce meritocratic criteria into civil service recruitment—a very important step—the structure proposed is far less open than that found in many Western bureaucracies, including Canada, the United Kingdom, and the United States.

A major problem confronting well-meaning reformers of the present public service recruitment system concerns the fate of current public servants, many of whom hold tenure in the old system and fear loss of job security in the new one. The worry is that many will leave without assurances of employment stability, especially in light of public sector wage erosion. One reform proposal on the table is to convert all state employees, irrespective of rank or current conditions of employment, to employment status regulated by the Labor Code until a newly defined civil service recruitment system is put in place through a revised Civil Service Act. This would allow government considerable leeway for cleaning house and rebuilding a truly professionalized, merit-based civil service.

Without fast enactment of legislation and implementation of new recruitment procedures, however, some in government fear the more competent employees will abandon public service for the private sector. Moreover, government is under considerable political pressure to produce some results from its administrative reform program. Short of grandfathering tenure for selected staff—a step which could undermine the meritocratic foundation upon which the authorities will want to build the new civil service, there is an alternative. This option is to enact loose, overarching, provisional legislation to convert all staff to three-year contracts, thus assuring some immediate stability without locking government into promises of lifetime employment—a commitment so many other fiscally strained countries are now trying to avoid. Indeed, the assumption that government employment should be a lifelong sinecure may need to change radically as it is

changing, incidentally, in many Western countries. In any case, the credible prospect that there will be put in place fair recruitment procedures, based on merit rather than patronage and ideology, should allay concerns that qualified staff will be forced out of their positions under a new government.

The question of relative balance between political appointees and civil servants in government is also important to the future civil service. The former currently constitute about 25 percent of all government employees, a relatively high figure compared to many countries. There are proposals for increasing the bureaucratic coverage of the higher civil service and reducing the number of political appointees. At the moment, deputy directors are politically appointed. The result is a top layer of management that is politically responsive but, many note, ill-informed and that enjoys little continuity. In stable political systems, such as that in the United States, high turnover is (barely) tolerable because policy shifts have historically been gradual, but in more volatile political settings, such turnover may hinder consistent policymaking and follow-through.

Another policy choice must be made with respect to the degree to which recruitment and conditions of employment should be centralized and uniform, guaranteeing job security in compensation for wages that are below parity with the private sector. Alternatively, skills could be bought in the market as needed and on a decentralized management basis, giving individual managers more discretion and flexibility in hiring for their needs.

One leadership development alternative to an elitist training and recruitment system is the establishment of a senior executive service (SES). This would be a cadre of high-level officials (not including political appointees), either with fixed-term or permanent civil service tenure, which would form the policymaking core of the central government administration. Access would be from anywhere in the service, thus affording greater possibility of upward mobility and career advancement. Variants of such SES programs have had some success in Australia and the United States. This option would need to be very carefully considered and designed to be successful; its advantage is that it offers serving civil servants the chance to be incorporated into an elite corps—an option mainly reserved, as reform proposals now stand, for the new recruits into the NSPA.

System, rules, and laws

Some of the problems affecting Poland's public service performance stem from what might be called a "system

limbo." This expression describes the dramatic lack of clear and consensual procedures and practices for essential elements of civil service management, including staff recruitment (as above), career advancement and promotion, job definition, classification, grading and pay, performance evaluation, and personnel information management and establishment control. In addition, organization of work and most bureaucratic transactions are being carried out without routines which, in most public administrations, provide predictability and consistency to administrative life. Enabling civil service legislation might regulate some—though by no means all—of the above, but, as discussed in appendix B, this act is still in draft form and should ideally await resolution of some of the more fundamental policy issues raised in this paper.

In the understandable search for continuity and order, many inappropriate practices based on outdated regulations survive. These practices are inadequate to the present task requirements and lack overall political and practical credibility. New systems stressing merit, performance, and accountability and autonomy (rather than control) must be designed for all of the above. Some salient deficiencies created by this absence of systems and rules are identified below, and options for dealing with them are elaborated.

The difficulties confronted by lawyers working in the bureaucracy provide one example of the role confusion associated with the administrative transition. Under the former regime, their job was to review and rubber stamp legal decrees issued by superiors. In the new bureaucratic environment, they have begun to perform tasks for which they have no training, and they are unsure as to what is expected of them. For example, they are now asked to comment critically on proposed draft legislation or the likely implementational and financial implications of a new act of parliament. This role confusion is reinforced by the absence of formal job descriptions conveying the basic duties and characteristics of jobs and tasks in the new bureaucratic order. The link between these descriptions and the reporting and informational relationships among various individual officials and, writ larger, divisions or organs of the administration also needs clarification and codification.

No standard operating procedures apply even to simple tasks such as memo preparation or departmental budgeting and accounting. No mechanisms for formal information dissemination or horizontal communication among different sections—even within single ministries—have been introduced. Such mechanisms were less important in command bureaucratic structures, but their absence in more participative organizations makes work

feel unstructured. Without succumbing to overly formalized rules and procedures, simple operations manuals or electronic networks could help guide new behavior. This would stem the now common practice of resorting to the use of improvised codes and regulations to provide direction, by substituting these obsolete tracts with up-to-date, realistic norms.

The old mechanisms for promotion have been repudiated, as they were primarily based on a highly questionable system of performance evaluation and career advancement dominated by ideological considerations. Indeed, a periodic evaluation mechanism officially existed, but the current regime abandoned it in 1989 because it was deemed contaminated by the values of the previous administration. Again, in an impulse to retain guidance and order, public service staff are still using sections from the 1982 Law on State Administration in preparing ad hoc evaluations or justifying promotion recommendations. Such ad hoc practices aside, promotion is being carried out essentially without rules. While tolerable as a temporary feature of the transition, a meritocratic civil service needs a promotion and performance evaluation system rooted in some common consensus of fair play and objectivity.

Institutional structures for civil service management

The design and installation of an institutional framework for managing the new civil service is a high reform priority. At present, organizational responsibilities in this area are divided among various organs, including mainly the Ministries of Finance and Labor, the National School for Public Administration, and, the main nexus of reform, the Public Administration Reform Unit in the Council of Ministers. Individual line ministries are also involved in civil service management.

The government will need to make institutional decisions at varying orders of magnitude. Large decisions about the jurisdiction of parliament, the president, the prime minister, the Council of Ministers, and the judicial system with regard to the civil service are necessary. And, as suggested above, important but smaller decisions about which organ(s) will have responsibility for daily management of the civil service, and which will have oversight and appellate functions, will need to be made. Establishment management functions, including manpower control and pay and classification determination, among others, will need to be redefined and assigned to a new institution or group of coordinated organs. This will undoubtedly require the

transfer of responsibilities from the Ministry of Labor to a more appropriate setting, one that will most likely emerge from the embryonic Public Administration Reform Unit currently situated in the Council of Ministers. Many functions now carried out on an ad hoc, decentralized basis will minimally need to be subjected to systemic, cross-service procedures, and some centralized institutional functions will need to be designed. Examples include the establishment of examination criteria for high-level cadre recruitment, and a more unified system of personnel information to be used for manpower planning activities.

Setting up such an institutional network will require many complex tasks, including designing the organizational mission and determining and meeting staffing requirements. In addition, some institutional development will need to take place within existing organs, including, for example, personnel functions in individual ministries, probably involving computerization and equipment and skills upgrading for present staff, as well as recruitment of new personnel.

Choices about organizational structures for civil service management and the assignment of responsibilities for key personnel functions are critically important to successful public administration development in most countries. Civil service reforms springing from fragile, uncoordinated or politically impotent institutions typically founder, while those with a stronger institutional base of support have a better chance of succeeding.

One important task of Poland's public administration reform program will be to select a model of institutional management for the civil service, reflecting upon the experience of other countries. In this light, two points are worth consideration. First, a model which combines a set of strong, highly placed, well-coordinated institutions that can support and check each other in carrying out civil service management functions may work well in Poland, countermanding the tradition toward over-centralization but providing enough focus to ensure adequate degrees of system control and cohesion, especially in the early days of institution building. Second, while decentralized models are probably beyond the present organizational and technical capacity of the government, serious consideration should be given to some deconcentrated arrangements whereby line ministries, as their capabilities increase, can assume increasing responsibilities for certain personnel management functions. Appendix A describes some of the ways in which other countries organize management of their civil services. The Polish government might review these in an effort to sort out their own management preferences.

Conclusions and recommendations

Building sound practice for civil service management will be a long-term undertaking in Poland, as it has been in all countries with effective government institutions. But immediate needs of the transition demand that some key elements of civil service management be put in place quickly. The above discussion has tried to address the latter without sacrificing the former, concluding that some basic civil service questions must be given priority attention.

First, some provisional and then more permanent institutional structures for civil service management must be developed, with responsibilities clearly assigned. The likely starting point will be the Public Administration Reform Unit; but in some cases, delegation of certain tasks to other government entities or working groups may be appropriate. Second, basic decisions about the type of civil service model to be installed will need to be broadly agreed upon until more detailed designs can be developed for each function. For example, consensus will be needed about the degree of centralization desired in civil service personnel and financial management, the nature of cadres recruited, the importance of merit and performance in career advancement, and the overall package of incentives (both financial and nonfinancial) needed to attract and retain good staff. Developing this model and building consensus among interested parties will also be the job of the Administrative Reform Unit, most likely with considerable technical assistance from and exposure to foreign models and experts. Third, operating systems and rules and some legal underpinning must be put in place quickly to guide government's routine functioning. Minimally, this means enacting at least provisional legislation to establish behavioral norms and incentive structures for civil servants in addition to the rapid development of procedural manuals to be used as guides for basic administrative tasks and in fulfilling reporting requirements. Some rules will eventually become part of the overarching civil service law, but ideally not until a more concrete vision of civil service development can be achieved. Finally, within this emerging civil service framework, we underscore the need to elaborate a public administration training strategy and to strengthen institutions to carry out immediate in-service training, essential to transforming Poland's public service.

These and other priorities raised in this report's earlier sections are set in a strategic agenda. This agenda must be carefully linked to clear, time-bound action plans with concrete steps and monitorable targets in order to achieve the important reform goals discussed in the preceding pages.

An Agenda for Reform

This analysis has highlighted a number of major public administration reform issues which will need to be addressed to build modern, effective government in Poland. Because the list of needed reforms is long and resources are limited, a strategic approach will be essential to bring order and cohesion to the reform effort. We suggest an approach that undertakes actions on four fronts. First, the reform apparatus itself must be fully operational as soon as possible to drive the overall reform process. Second, the basic structure of government should be defined in order to provide the framework into which administrative reforms can be fitted. Third, the basic foundations of a workable pay and employment system for government should be installed in order to fix the right incentives for employee performance. Fourth, the essential building blocks of a civil service management system should be established to begin the process of professionalizing and thereby improving state officials' performance. The above order of presentation suggests a rough sequencing of these reform fronts, but various of them also overlap and imply activities that will have to be undertaken in parallel. Moreover, each category subsumes tasks which range from immediate priorities to long-term activities. The following recommendations constitute a preliminary attempt to order these tasks. Each task will require preparation of detailed terms of reference and concrete schedules.

Strengthening the reform apparatus

It will be essential to assign to a central unit the overall coordination of the reform (see appendix C). The Office for Public Administration Reform (OPAR) in the Council of Ministers should be empowered with enhanced responsibilities, and should proceed to staff itself with personnel (and adequate material) to fulfill the larger role. While the head of OPAR already has a plenipotentiary rank, the office needs to be restructured to absorb the new responsibilities. Available technical assistance funds should be utilized for this purpose. (The strengthening of OPAR could take place in the context of a reorganization of the Council of Ministers, if the latter occurs in short order.)

The OPAR should prepare a detailed strategic action plan for administrative reform, laying out a rationale for its work agenda, identifying tasks to be undertaken, assigning individual or institutional responsibilities, defining the nature of expected outputs and a schedule for their delivery, and estimating the resource requirements and availability for each task.

Decisions on the structure and functions of government

It will be crucial to define the basic structure of government to provide a framework for reform. Steps to be taken include:

- Decision on scope of further decentralization of central government functions.
- Review of functional justification of existing ministries and agencies.
- Internal audits and management improvements for units to remain in central administration.

Reforms in government pay and employment policy and practice

The pay and employment reforms discussed in this report should begin with the 1994 budgetary cycle. Actions should follow a rough sequence:

- Decision on functional separation of central government employees from teachers, health workers, and so on.
- Definition of distinct remuneration policies and reform of government wage setting and bargaining processes.

Preparatory work necessary to implement these changes mainly involves improving informational bases for pay and employment reforms and later system design and maintenance. These activities (which should be undertaken immediately and should be executed over a six-month period) should include:

- A public sector census (involving building a public sector employment data base within the office of public administration).
- Skills inventory (assessing both educational levels and professional achievements of current public employees).
- A pay comparator survey, which would provide the basis for reassessing pay scales.
- Design and installation of Computerized Establishment/Payroll Management System capturing census data.
- Institutional designation of establishment management functions and appropriate training of personnel to carry out tasks.

Building a civil service management system

The creation of a professionalized civil service is necessarily a long-term endeavor, involving the development of institutions, practices and cadres which can perform gov-

ernment functions effectively in a democratic, market-based society. As discussed in the body of this report, however, there are some essential first steps which should be taken immediately to ensure that government functions essential to the transition be carried out successfully and to lay the proper foundation for sound civil service management in the future. These include:

- Policy decisions must be made on the broad outline of civil service model and constituent elements. Choices involve the degree of vertical mobility, organizational centralization, accountability to political institutions, approach to recruitment, promotion, training and so on. The OPAR should take the lead role in developing this broad framework and in building necessary consensus for it among key political and institutional actors. Technical support from international experts should be made available to the OPAR for this purpose.
- Key civil service management tasks must be assigned to new or existing institutions, and appropriate institutional strengthening programs must be designed to build the designated organs' capacity, most likely including staff training in personnel management, equipment and technical support.
- Utilizing data from the skills inventory suggested above, a civil service training strategy should be designed to address both the short-term requirements of the transition as well as long-term needs. The strategy should de-

velop a plan for in-service training of sitting public servants, identifying target clients, potential training institutions, requirements for instructor training, and resources required to build institutional capacity quickly. The strategy should also outline a long-term institutional development process for training civil servants in the context of the overall choice of a civil service model discussed above.

- New rules and systems should be put in place as soon as is feasible to ensure minimal bureaucratic cohesion and standards. Having reached agreement on the basic civil service model, enabling civil service legislation should be drafted to reflect the basic directions of the new framework. This legislation should be broadly constructed, allowing for maximum flexibility in the evolution of the new civil service. A program for drafting supplementary codes, stipulating detailed regulations for specific civil service functions, should follow agreement on the overall civil service model and the completion of the enabling civil service legislation.

In the absence of official codes and regulations, some interim guidance can be provided through quickly prepared work manuals, outlining some basic procedures and behavioral norms.

- Staff incentive systems, compatible with overall government budgetary constraints, should be designed as soon as possible. These include new pay, grading and classification systems.

Appendix A International Models for Civil Service Management

Two basic models of civil service management (CSM) organization predominate in developed administrations. One is a model of centralized control allowing a limited degree of decentralization, flexibility and delegation of CSM authority to the line level. France, Germany, Japan, Korea, the Netherlands, and Singapore, and (to a lesser degree) Canada and the United States conform to the first model, while Australia, New Zealand, Sweden and the United Kingdom either now fit or are moving toward the second.

In addition to a high degree of control and professional standardization, centralized systems of civil service management display a number of common traits. First, for most modern administrations, centralization implies not a single, central monolithic organ controlling all system personnel movements, but rather some degree of shared personnel authority exercised by several entities at the central level. The arrangement is often tripartite, usually with powers divided among a policy guidance body, an oversight agency which helps ensure fair and meritocratic practices, and a financial control cum monitoring organ. Such systems create checks and balances, ensuring redundancy and fairness, and they curb excessive concentration

of authority for civil service management. They work best when limited to a very few organs with clear division of labor and good mechanisms for coordination.¹⁶

Successful centralized models elevate the status of the personnel function in government by making key CSM organs directly responsible to a high political authority which often becomes principal agent for major system reforms. In Japan, for instance, the Management Coordination Agency, part of the personnel "troika" in central government, operates under the direct authority of the prime minister, coordinating CSM policies and ensuring their direct responsiveness to political requirements. The Japanese attach prestige to the personnel function by placing deconcentrated personnel divisions near the top of line ministry hierarchies and identifying personnel officers as "high fliers" with good prospects for eventual appointment to elevated government positions.¹⁷

In the interest of bureaucratic flexibility and more rapid operations, some centralized systems delegate selected personnel management authority to deconcentrated levels. For example, routine personnel information management, especially for lower-level staff, might be handled

by departments, subject to central policy guidelines and safeguards. Still, the hallmark of this model is the retention of close, central supervision of functions with crucial implications for the financial soundness of the service, such as establishment control and planning.

In contrast with these traditional systems, several countries are developing an alternative model of decentralized civil service management. This model increases the decisional autonomy of line managers on most personnel matters, leaving only broad policy guidelines to be worked out at the center. In principle, decentralizing CSM functions allows managers flexibility to tailor staffing to real requirements. The absence of central controls means these decisions can be made rapidly and in response to local market conditions. Note, however, that decentralization of personnel management functions, even where it has been taken furthest, is being implemented in the context of elaborate, technologically sophisticated systems of information and financial management, utilizing complex and expensive computer software and hardware in order to maintain tight reins on running costs. Technical training of staff throughout government has been necessary just to run these systems. In addition, good financial and personnel management skills must be present down the line in order to make such arrangements work. Managers must be prepared to make a range of financial and personnel decisions, and line staff need sufficient technical capability to administer routine personnel movements. Capacity to feed appropriate information back up through the system also needs to be present at decentralized levels. The importance of these types of organizational issues is illustrated clearly in the exercise of such key functions as establishment control and management.

Recent experience with public sector reform clearly shows that building sound establishment control and planning practice is a necessary condition for the success of

other civil service management improvements. Centrally organized civil services appear to perform these tasks effectively. They generally ensure a high level of system coordination, providing policymakers and planners with the necessary degree of information and control both to stabilize public employment during fiscal crises and to design manpower policies for the longer term. Centralized models usually operate tight monitoring systems through which nationally determined staffing levels are enforced via a coordinated effort of the central personnel authority and the Finance Ministry. Relying heavily on staff audits or inspection techniques, governments in France, Japan, Korea, the Netherlands, and Singapore have all sought to impose governmentwide ceilings on staffing levels and to utilize forward planning to contain public employment.

Having achieved successes, some centralized systems of manpower control are now relaxing their reins a bit, ceding limited discretion over staffing levels to departments and line managers in the interest of greater flexibility. In Canada, for example, the Treasury Board Secretariat allocates person-years to departments and only controls the number of senior managers. Departments and agencies have gotten increased autonomy in distributing person-years among different levels of staff, and they can make special appointments amounting to 10 percent of their base complement of positions.

Other countries have moved even more deliberately toward a distinctly decentralized manpower control model, using running cost controls as the key determinants of optimal staffing levels. These systems impose across-the-board spending limits but are indifferent as to the level of staff expenditures within recurrent spending categories. Typically, such systems require "micromanagement" of information inputs, with regularized reporting at short intervals to the finance authority responsible for overall system monitoring.

Appendix B Analysis of the Civil Service Draft Law

In an effort to introduce some rules for the new order and define the roles and responsibilities of the civil service, a Civil Service Law has been drafted to be put before parliament for approval. This draft law has been the subject of comment and analysis both within the country and by external observers, including the Bank and the Royal Institute of Public Administration of the United Kingdom. While strongly endorsing the government's commitment to act decisively to put into place a new civil service legal framework based on merit and rule of law, the analyses concurred that the draft act had serious flaws which should be corrected in future revisions.

First, despite its importance to the ultimate consolidation of the new civil service, the preparation of the law is viewed as premature, given the still preliminary stage of the civil service reform effort. Indeed, resolution of many fundamental issues regarding the type of civil service model to be adopted in Poland is still lacking. Questions already discussed in this paper regarding the choice of

These comments refer to the civil service draft legislation reviewed by the Bank in 1993. Forthcoming revisions in the bill (see note 15 of this chapter) have not been analyzed and therefore cannot be discussed here.

training, promotion, performance evaluation, pay and establishment management structures, and the choice of institutions to manage and oversee the civil service (treated in the subsequent section), will need to be addressed. The experience of other country reforms suggests that the elaboration of enabling legislation for the civil service is appropriate only after a clear consensus has been reached on the overall objectives of the civil service reform. Issuing the civil service act before such a consensus is in place allows the legal, formal considerations to drive the substantive elements of the reform effort; the process should be reversed.

In fact, the draft legislation appears to endorse decisions about civil service systems before they have actually been taken. The civil service created by the proposed legislation would be highly centralized, hierarchical, rigid and rule-bound with tight administrative controls over personnel behavior, little transfer between classes, heavy emphasis on rank-in-person rather than performance, and generalist rather than professional skills. A newly created Civil Service Commission would supervise entry and promotions, yet oversight of daily management issues and training is not clearly designated.

Rigidities, for example, are built into the proposal to create four distinct classes of service with little mobility among them; again, most administrations are moving away from class systems to more flexible and fluid arrangements. The creation of a Commission of the State Civil Service is sensible—most countries have such an organ. But the proposed institution is vested with too much responsibility. Ideally, a commission should provide guidance and oversight, set standards, and serve an appellate function. Authority would be better shared with other institutions, and responsibility for day-to-day civil service management functions such as establishment control and personnel information management should be assigned to another central organ (probably a department or ministry for the civil service) in conjunction, for example, with decentralized personnel departments in line ministries.

Although the objective of creating a professionalized, public-spirited civil service cadre is laudable, most modern states are moving (in varying degrees) away from this tight bureaucratic model, introducing flexibility and at least some decentralized management discretion into personnel administration, emphasizing incentives rather than motivation of staff. The government's reform efforts should take greater account of these changing approaches in designing their own system.

In the absence of a clearer sense of the direction of reform, the level of detail contained in much of the present civil service draft law is inappropriate, potentially locking in place a range of practices and a series of acquired rights which, though expedient in the near term, may prove unsuitable or unaffordable in the longer run. Once established, such practices will be exceedingly difficult to abandon.

For example, the awarding of bonuses above the basic pay package based exclusively on seniority (Articles 34 and 39) is puzzling in light of the discussion of rewarding merit in the draft's introduction. Most country administrations are reducing nonwage benefits and allowances, folding them into basic pay. Or they are tying discretionary bonuses to performance. Legal action on pay policy should await the results of rationalization reforms which need to be undertaken in the public administration program.

Article 33 provides for very specific rules on performance evaluation, but there is no evidence of an understanding of how performance evaluation systems work, which kind would be most appropriate to the Polish setting, or how such a system would be tied to the pay or promotion mechanism. Such a proposal needs considerable refinement, and does not belong in the enabling civil service act.

The statute's position on recruitment and staff nominations does not reflect careful consideration or preparation. The act appears to provide for up to 25 percent political appointments to be nominated by a range of political and administrative officials. The entry requirements for such posts do not appear to be spelled out. At the same time, Article 30 outlaws civil servants' membership or espousal of political parties. This policy could produce an excessively politicized civil service, as discussed earlier in this paper. Despite advantages in terms of political responsiveness, the deprofessionalization that occurs as a result of high turnover at upper bureaucratic levels could be damaging in Poland.

These aspects of civil service management need to be thought through fully and policies chosen before the civil service act enters final draft. The enabling legislation will need to be combined with more detailed elaboration of regulations governing behavior for some of the specific functions just mentioned. Legislation is obviously necessary, but the looser the better in order to provide for flexibility in system design. In some cases, operations manuals may substitute temporarily or even ultimately for detailed legal regulation. Such manuals could be prepared quickly and procedural guidelines could temporarily quell the system confusion currently affecting public service management.

Appendix C Office for Public Administration Reform

Thinking through the policy choices and their resource implications will be the job of the Public Administration Reform Unit to be established in the Council of Ministers to mount the civil service reform effort over the next few years. This unit is really the embryo of all further institutional development for public administration reforms and must therefore be functioning at full capacity as soon as possible. The discussion that follows describes the present status of the unit, outlines its likely responsibilities and suggests staffing and resource requirements for effective unit administration.

Building reform unit effectiveness

In order to proceed effectively with public administration reform it is important that the government strengthen its institutional capacity for dealing with relevant changes. An initial and significant step has already been taken in the establishment and operationalization of the Public Administration Reform Unit (henceforth, Unit) within the structure of the Council of Ministers. A few multilateral donor agencies have also pledged support in favor of strengthening the Unit. However, there is further need for the government to think about how it could develop its capabilities, and take necessary action, for the effective management of its public administration reform program. As an initial step, the government should take the necessary steps in fulfilling the operational and logistical requirements of the Unit, including employing external resources which have been committed for strengthening the capacity of the Unit.

The Unit is situated, physically and notionally, in the Council of Ministers. With ministry-level status and a head with the rank of minister, the Unit is closely linked to the Chief of the Council of Ministers and to other key officials responsible for Poland's reform program. Accessibility to these policymakers is essential for the Unit's officials to effectively manage public administration reform; being integrated with the government's overall reform efforts and strategies will enable senior Unit officials to plan and implement their own efforts and strategies more usefully. This will be particularly important during the transition period when the relationship between public and private institutions will be evolving continuously and where public institutions will require appropriate direction and leadership to adjust to the needs of a modern market economy. Regarding the Unit's scope of responsibilities: at one end, it could serve as mainly an administrative entity responsible only for

the mechanics of coordinating reform efforts linked to the public administration; at the other end—and this would be the preferred option for Poland—in addition to administering the various aspects of public administration reform, the Unit would be instrumental in the associated policymaking process. Another issue to be addressed concerns the long-term viability of the Unit—that is, what to do with the Unit role once the major reforms are implemented—whether to fold its managerial responsibilities into those of a separate institution or to develop it as a permanent entity.

The Unit's activities could broadly be categorized under the following functions: public sector pay and employment, external coordination, decentralization and public administration management.

Public pay and employment

With respect to public sector pay and employment, the Unit's responsibilities would include the following:

- Formulating and implementing personnel policies for the entire public sector, including those involving recruitment, performance evaluation, remuneration, and promotion.
- Introducing and managing modern administrative techniques at the central and state levels, in support of personnel policies implemented.
- Determining training requirements for staff in government agencies and ministries at the central and state levels, and coordinating the provision of relevant training services.
- Establishing a modern civil service and the institutions to manage the new civil service, after the size, nature and extent of the civil service has been agreed upon.

External coordination

With respect to external coordination, the Unit would be responsible for the following:

- Coordinating with international donors supporting public administration reform in Poland.
- Preparing documents for the donor agency's public administration reform project/program, in accordance with particular donor agency guidelines.
- Managing all resources—external and internal—allocated for public administration reform, including dealing with expenditure management, control systems, cash management, accounting, procurement systems and other resource allocation procedures.

Decentralization

In the area of decentralization, the Unit's responsibilities would include the following:

- Determining training requirements for staff at the local government level and coordinating the provision of relevant training services.
- Coordinating legal issues related to reform efforts on decentralization.
- Understanding the economic and political implications of territorial changes to guide the government's decentralization efforts (for example, factoring in the division of assets, unemployment ratios, and so on) and acting as primary source of related expertise for the Council of Ministers.
- Documenting and maintaining records, and acting as a source for external inquiries, on issues related to decentralization.
- Liaising with parliamentary groups to build consensus on the government's decentralization program and performing relevant public relations functions.

Public administration management

In public administration management the Unit's responsibilities would include the following:

- Formulating and implementing policies on public administration management issues such as the architecture of central government, responsibilities of public sector institutions, accountability.
- Coordinating the development of public service training institutions.
- Establishing terms of responsibilities between the central and local levels of government.
- Liaising between public administration and political groups.
- Coordinating the development of legal changes in response to changes in the public administration, including the development of a legal framework for civil service management.
- Establishing information systems for central government.
- Strengthening capacity in institutions such as parliamentary organizations, administrative tribunals, audit agencies.

Staffing and resource requirements

The Unit would be managed and staffed by Polish nationals, including government officials to head the Unit and to provide professional and administrative services. In addition, in its initial phase, the Unit may need external

expertise of two kinds: people experienced in the practices and policies of public administration reform, and people with particular expertise in training, project preparation, and procurement. It is anticipated that these advisers will be financed by external resources.

Key professional staff will include:

- *Head of the Unit.* (The head of the Unit was appointed in early 1992 and accorded minister-level status.)
- *Professional staff.* Professional staff would, at a minimum, consist of five senior-level officials: one each for public pay and employment, external coordination and public administration management, and two for decentralization—one for legal issues and the other for economic and political issues. These officials would be assisted by other professional staff depending upon the Unit's resources and work program. It is anticipated that in the initial phase the following staffing plans would be adequate:

- *Public pay and employment.* The official responsible for employment activities would be assisted by officials with some background in human resource management.
- *External coordination.* The official¹⁸ responsible for external coordination would be assisted by three officials: one each for issues related to project/program preparation, procurement, and finance and accounting.
- *Decentralization.* The two senior-level officials responsible for decentralization issues would be supported by junior officials for documentation and external inquiries, and officials with economics and legal backgrounds for research and policy assistance.
- *Public administration management.* The official responsible for policy development would have substantive experience in public administration management and policymaking and could be supported by a junior official for research and analysis.

In addition, all the above professional staff would be supported by appropriate secretarial and translation staff.

The Unit would require suitable communications and information systems. Equipment needs for the Unit include photocopy machines, personal computers, printers, facsimile machines, plotting equipment, access to a satellite communication system and government communication lines. Other facility needs include adequate office space, furniture and transportation.

Several international donor agencies have agreed to provide technical assistance for public administration reform, including assistance for strengthening the institutional capacity of the Unit. The EC is the leading provider of assistance to the Unit (details are given below).

- The EC has agreed to fund three staff positions for a period of one year in the functional area of external coordination. These individuals will work on finance and accounting, procurement, and general office administration. These individuals are expected to be familiar with the EC's guidelines and procedures and will ensure that EC-funded public administration reform projects meet EC requirements.
- The EC has agreed to fund an external adviser for three months to provide guidance on external coordination issues, including preparation of terms of reference and contracts for the public administration, reform projects for the Unit's programs, preparation of project/program documents, and the like. The adviser will also help to formulate and articulate a work program for the Unit.

- Under EC-PHARE's regional public administration reform program (SIGMA), an adviser will be provided for one year to provide support on public sector employment issues. The advisor will help set up reform groups in the counterpart government agencies and ministries in order to serve as dissemination centers for personnel policies formulated and implemented by the Unit. The adviser will also help identify training requirements for government employees and coordinate the provision of appropriate training. SIGMA will also provide direct consultative advice from its Paris office on an as needed basis.
- The EC will also fund two external advisers to the Unit for a one-year period. One will provide expertise on public administration reform management and the other on decentralization issues and training.

Notes

1. It should be noted that this assessment is only preliminary. Although questions of the structure and functions of the machinery of government are critical to public administration reform in Poland, resource constraints prevented in-depth analysis of these issues during the mission that produced this report. Further examination of these and other central issues of administrative reform, including those of public financial management, may need to be addressed in future Bank sector work or lending preparation.

2. Including the Ministry of Energy and Materials, the Ministry of Steel and Machinery, the Ministry of Chemical and Light Industries, and the Ministry of Construction and Construction Materials.

3. See in this respect the recent experience of Argentina, where a comprehensive restructuring of government institutions and of the civil service has involved requesting each institution to clearly identify its mission as it relates to its function in a market economy. This has resulted in important changes, involving outright closure of redundant agencies, and downsizing/upgrading where necessary. See World Bank, "Argentina: Public Finance Review—From Insolvency to Growth," Report No. 10827-AR, February 11, 1993, Washington, D.C.

4. See World Bank, "Poland: Decentralization and Reform of the State," Report No. 10446-POL, July 2, 1992, Washington, D.C.

5. A further internal reorganization, complemented by an assessment of existing personnel, skills required, and training needs is to be executed over the next few months.

6. For a discussion of the exercise of ownership rights by the state in Poland, see World Bank, "Report and Recommendation of the President of the IBRD to the Executive Directors on a Proposed Enterprise and Financial Sectors Adjustment Loan," Report No. P-5940-POL, April 8, 1993, Washington, D.C.

7. This is the Polish terminology. The budgetary sphere includes all those economic and administrative units for which the state budget provides direct payment of wages, and those enterprises for which there is a direct budgetary transfer or subsidy. Among the former would be the state administration employees, the teachers, health workers, and the like. Among the latter would be the employees of the railway company, of subsidized theaters, and of sports facilities. The nonbudgetary sphere can be thought of as mainly comprising the State-owned Enterprise Sector (*Przedsiębiorstwa państwowe*).

8. The OECD country reference was selected with the assumption that the objective of Polish public employment reform ultimately is to achieve developed country norms. Advanced country government employment norms may actually be higher than some middle-income countries; this may possibly be explained by a variant of Wagner's Law which correlates a rise in government expenditure with increasing GDP. For a discussion of this phenomenon and its possible link with employment trends, see David L. Lindauer and Ann D. Velenchik, "Government Spending in Developing Countries: Trends, Causes and Consequences," *World Bank Research Observer*, vol. 7, no. 1 (January 1992), pp. 59–78.

9. For this table, we have defined central administration as comprising the employees of the state administration, minus local government employees, plus the police and the civilian employees in the defense area.

10. Detailed local government issues are beyond the scope of this report, except where related to the central administration. Other ongoing World Bank sector work is expected to deal more explicitly with these questions.

11. See World Bank, "Poland: Reorienting Investments in Human Capital. A Critical Review of Secondary Education and Training Systems," Report No. 10697-POL, December 12, 1992, Washington, D.C.

12. The broad outline of teachers' skills is known: 54 per-

cent are graduates from universities, polytechnics, and pedagogical universities; 33 percent have post-secondary education (teacher training colleges) and 13 percent have only secondary education. But disaggregated information about the distribution of skills throughout the education sector has not yet been collected. This is just one of the indications of the lack of personnel policy in the sector.

13. See World Bank, "Poland: Health System Reform—Meeting the Challenge," Report No. 9182-POL, March 25, 1991, Washington, D.C.

14. Christopher Hamilton and Wojciech Roszkowski, "Bureaucratic Poland: Organized Life inside the Maverick Society," pp. 131–78, in *Public Bureaucracies*, edited by Jaroslaw Piekalkiewicz and Christopher Hamilton, New York: St. Martin's Press, 1991.

15. A further revised version of the draft civil service law is reported to be nearing completion, but was unavailable for review by the World Bank mission of January 1994. Interviews suggested that the thrust of the new draft would be to introduce civil service merit criteria for the recruitment of only a very small cadre of public servants; the rest would retain grandfathered conditions of employment guaranteed by the 1982 law (also under revision). While more politically feasible than earlier proposed legislation, the decision largely to retain status quo conditions could introduce major obstacles to achieving significant administrative reform.

16. Singapore is an illustrative case. Authority for public

personnel functions in Singapore is divided among the Ministry of Finance's Budget Division, which handles manpower control; the Ministry of Finance's Public Service Division, which develops policy, coordinates implementation, and is responsible for pay and grading, training, and productivity improvement; and the Public Service Commission, which approves high-level appointments and disciplinary actions.

17. France and Sweden have also made recent efforts to elevate the personnel function to higher status. To support civil service management reforms in France, the General Directorate for the Public Service, once an appendage of the Prime Minister's Office, became part of a free-standing Ministry of Public Service and Reform in the late 1980s. The head of the ministry was upgraded to cabinet status. In Sweden, the Ministry of Public Administration was formed in 1983 to spearhead the public sector renewal program.

18. At the time of writing, the Unit consisted of the following personnel: Unit Head; Director-General (former secretary of state in the legal office; responsible for legal coordination); four receptionists/secretaries for the Minister and Director-General (responsible for external inquiries, post, diary, and the like); two persons for documentation/archives; one part-time and four full-time research assistants (all for decentralization issues: two for territorial issue,; two for legal issues, and one part-time for liaison with parliamentary groups); director for external coordination and director for training.

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