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PUBLIC SECTOR REFORMS

Public Service Pay in Cambodia: The Challenges of Salary Reform

Significance

Cambodia's public servants receive low salaries. Despite fiscal constraints, the Government has attempted to improve matters by applying across-the-board 20 percent annual increases in basic salaries for several years. However, civil service pay remains low and does not adequately support civil servants' daily living requirements. This leads some public servants to shirk work and to seek salary supplements for example through second jobs, fee-charging or rent-seeking. Development partners pay salary supplements to some public servants to ensure that their programs or projects are implemented. This has implications not just for public servants themselves, but also for governance, service delivery and poverty.

The Government is well aware of the problems associated with low pay, and has adopted a set of measures to address these, together with a set of principles to govern the pay reform process. But public service pay reform is a complex undertaking, with many fiscal, social and financial implications. This note analyses the current challenges facing the reforms and offers some suggestions on how best to address those challenges.

Background

Decades of civil war and, most importantly, the excesses of the Khmer Rouge regime, left the Cambodia's civil service in ruins. Key specialist cadres, for example in the health sector, were effectively wiped out, while education was stifled. Cambodia emerged as a new state, lacking structure, people and resources and having to rebuild its civil service virtually from scratch.

In the turbulent post-conflict years as the public service was slowly re-built, remuneration for public servants was pegged at a very low level. It has remained so up to the present day. Understandably, this has led to myriad problems that affect many transition economies. Faced with a remuneration level that fails to provide a living wage, public servants have resorted to other ways of supporting themselves and their families: they have taken second jobs, opened small businesses and engaged in rent-seeking. This has led to an inefficient, ineffective and often corrupt public service.

Despite more than a decade of across-the-board increases in basic salary, public sector pay remains low, creating major difficulties in attracting, motivating and retaining public servants. One issue that has generated perhaps the most interest and action over the years has been that of providing pay in ways that motivate staff to perform more effectively.

Key Challenges

Cambodia's public administration faces three core remuneration challenges.

- 1 Unattractive remuneration levels:** Public sector remuneration is recognized to have remained low, and the structure of salaries makes it particularly difficult to attract, retain and motivate employees with key skill sets.
- 2 Proliferation of salary supplements:** Poor pay has sparked a plethora of devices for supplementing budget-financed remuneration. These devices have created a pattern of pay practices in Cambodia's public administration that distorts work priorities and further undermines staff morale and productivity.
- 3 Lack of policies and oversight governing off-budget salary financing:** There is little or no policy guidance or oversight of the discretion exercised in the use of these off-budget resources to finance additions to remuneration.

Salary Supplements

Formal and, in some cases, informal user fees for public services are also used to top up low salaries. In the health sector, for instance, up to 60 percent of own-source revenues from user fees or insurance payments are used to finance salary supplements, with other salary supplements linked to specific financing initiatives or programs. In the education sector, the Government provides a variety of additions to salary, aimed at attracting, retaining and/or motivating staff. These include supplements for rural and remote location postings, supplements for teaching remedial classes, and free or subsidized housing for posting in remote or rural locations. Furthermore, although education is officially free, school staff members often charge fees for registration, enrollment, classroom materials or examinations.

Some of these additions to salary are justified in terms of performance-based pay, but they do not, in fact, reflect typical pay-for-performance practices in that they are not always tied to meeting or exceeding job performance standards. This suggests that many of the pay supplements are actually filling in the gap between the low core pay and what would be market rate remuneration. The main underlying issue is thus a poorly tailored salary structure, with the need to create performance incentives by linking rewards to high performance a secondary consideration.

RGC Reform Principles

In response to these challenges the Government has enunciated five principles that it intends to employ to guide salary reform over the medium term:

- 1 Coverage.** All public employees, including elected officials, must receive a salary (not just an allowance).
- 2 Uniformity of rules governing additions to basic salary.** The various elements of remuneration, as well as the rules governing their assignment to particular employees or positions, must be clearly and consistently defined and applied throughout the public service.
- 3 Concentration of remuneration in basic pay.** Allowances and other additions to salary should be reduced to a minimum and instead folded into basic salary.
- 4 Equity.** Equity must be maintained.
- 5 Fiscal sustainability.** Fiscal sustainability of the wage bill must be ensured.

The challenge is to devise a salary reform strategy that addresses these five principles, while also providing meaningful salary reform. Meaningful salary reform should also meet the following two criteria:

Credibility. Within any given time period, salary increases are large enough to be viewed by staff as credible salary reform and, as a consequence, to have noticeable impacts on staff motivation.

Consistency in competitiveness. Salary increases should seek to ensure competitiveness across skill requirements and different types of positions.

Key Findings

This policy note is part of a suite of analytical work undertaken by the World Bank on salary issues and challenges in Cambodia's public sector. Key messages that emerge from this body of analytical work include the following.

Across-the-board salary increases are insufficient. Continued across-the-board increases in basic salary, coupled with parallel increases in existing allowances (as has been the practice for the past 5 to 8 years) will not address the three key challenges identified above, even if such increases are ramped up. Such across-the-board increases fail to address the fundamental challenges posed by a poorly tailored salary structure, let alone the loss of accountability, transparency and policy direction that results from the proliferation of off-budget and earmarked revenues as a means of augmenting basic salary and allowances.

The POC Policy

Various development partner (DP) financed salary top-up programs were halted by the Prime Minister at the end of 2009, and replaced by an interim device known as the Priority Operating Costs (POC) scheme. This still allows salary top-ups, but limits their variance across ministries and agencies by imposing a matrix specifying the range of allowable POC payments within each of five broad types of position. Moreover, the level of POC payments for any particular position must be approved in the agreement establishing each POC, thus providing an additional control over the setting of individual POC payment levels.

The POC scheme suffers from at least three fundamental shortcomings. First, because all POCs to date are financed by DPs through projects, payments are only available to DP-favored ministries and agencies and, even within those, POC payments are restricted to staff working on DP-favored reform efforts. Second, POC payments are continuously at risk, and are not sustainable. Third, and most fundamentally, the POC scheme is viewed by the RGC as a device for allowing DPs to finance POC payments for the purpose of implementing their projects, rather than financing payments to staff for undertaking ongoing public service functions. It is important for the Government to find a pay reform strategy that can address, among others, these three problems: (i) limited and donor-biased coverage, (ii) sustainability risk, and (iii) support to DP project implementation, rather than to pay reform. The POC Scheme ended for most DP projects in June 2012.

Folding allowances and off-budget additions into basic salary could finance a significant proportion of the costs of salary reform. Off-budget additions to salary accounted for around 75 percent of total remuneration in 2006, while budget-financed allowances accounted for another 13 percent. Most of the off-budget additions come from formal and informal user fees. Some of these fees are paid by service delivery grants and vouchers provided by development partners. Other sources of supplements come from per diem for travel and training. Basic salary comprised only 12 percent of total remuneration, on average. Folding both of these into basic salary could cover a significant share of the costs of salary reform.

Salary reform will need to differentiate salary by job family. For a revised salary structure to attract, retain and help motivate staff possessing a full range of required skillsets, it will need to address the various allowances and off-budget salary supplements and the reasons why they are targeted at particular positions. Effective pay reform should differentiate core salary by job family, as well as by grade.

Salary reform alone will not be sufficient to improve service delivery and implementation performance. Increasing salaries alone is unlikely to noticeably improve the performance of either organizational units or their staff. At the same time, the sorts of performance accountability already being pursued through POC, SOAs and other reform efforts should be included. In short, salary reform should be twinned with performance accountability reforms.

Salary reform will require multiple years to achieve.

Addressing the three key salary challenges identified above will require multiple years, in order to ensure that those reforms are fiscally sustainable, while also ensuring that salary improvements are large enough to achieve the objectives of the reform effort.

Salary reform cannot satisfy all five of the Government's salary reform principles until the end of that multi-year implementation process. Because salary reform will take multiple years, the transitional period (i.e., the period of its implementation) will require actions that will violate at least one of the Government's five guiding salary reform principles. Meeting all five principles will not be possible until the end of the salary reform implementation period; i.e., at the end of at least a 3- to 5-year period.

Credible government commitment to full and effective implementation of its announced salary reform strategy will be essential to succeed. Because an effective pay reform process will require multiple years before all five reform principles can be simultaneously satisfied, that reform process will be at risk of being discredited throughout its implementation. To address this risk, the Government should undertake a continuous string of actions that send credible signals of its commitment to full implementation of the pay reform strategy. Some of these actions are suggested below.

Recommendations

The World Bank's analytical work suggests the following actions as a minimum requirement for the Government to ensure the ongoing credibility of salary reforms:

- **Salary reform vision:** Clarify and publish what salary reform should look like at the end of the reform process.
- **Salary reform transition strategy:** Develop a roadmap for a deliberate, systematic, phased transition towards that salary reform vision over an extended period of time. The roadmap should signal credible government commitment to both the salary reform vision and the salary reform transition strategy. It should also identify, on at least an annual basis, measurable, credible milestones on the path to the salary reform vision.
- **Monitoring:** Monitor progress and publish timely evidence on the extent to which each milestone is achieved.
- **Initial meaningful measure:** Identify, and meet, an initial meaningful benchmark at the beginning of the salary reform process.
- **Different salary regimes:** These should distinguish between elected officials, civil servants, service and delivery professionals. Because of the unique nature of the pay and benefits of elected officials, it is suggested that the Government establish an independent commission with responsibility for establishing policies governing such remuneration. Suggestions for the other two regimes are listed below.

Civil Servants

- Consolidate as much of total remuneration as possible into basic pay.
- Ensure consistency in competitiveness of total remuneration.
- Adjust rural posting and hardship allowances to better reflect the opportunity costs.
- Strengthen non-financial devices to encourage staff to spend at least some portion of their careers in unattractive postings, e.g., mandatory rotations; preference in promotions decisions.
- Increase allowances for "extra" work, rather than for normal job functions.
- Formalize and regulate dual-practice working arrangements through part-time contracts for specialist staff.

Service Delivery Professionals

- Consolidate as much of total remuneration as possible into basic pay. Establish clear objectives and monitoring for any performance-based pay.
- Ensure consistency in competitiveness of total remuneration.
- Break the link between own-source revenue opportunities of individual agencies and their capacity to finance salaries. Coordinate with financing reforms.
- Establish clear pay policies and effective oversight.
- Introduce renewable fixed-term contracts, conditional on stronger linkage to performance, and a credible option for non-renewal for personnel who under-perform.
- National scales and a model contract for fixed-term contracts, including **managed flexibility** for facility directors to appoint, promote and deploy/assign contractual staff, coupled with **checks and balances** to ensure fairness, and targeted additions to pay.
- Establish strategy regarding future balance between contractual staff and civil servants for these sectors.

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