

Tailoring Civil Service Pay Analysis and Advice to Context

Challenges, Approaches, and the Case of Lao PDR

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January 2014



Abstract

The adequacy of compensation for government workers and the affordability of the public sector wage bill are important concerns for many developing countries. Suitable pay is considered a necessary—albeit far from sufficient—condition for attracting and retaining skilled public sector staff. This paper makes the case for conducting fine-grained analysis of pay and compensation issues in order to enable an accurate assessment of the challenges faced and thereby to generate good-fit reform recommendations that are both principled and feasible. The first part of the paper focuses on prevalent challenges in pay reform, both contextual and analytical. It builds on the experiences from three very different settings: Armenia, the Lao People's Democratic Republic, and Mongolia. The study

begins by surveying some of the common difficulties in conducting granular analysis on civil service compensation. It then outlines a series of methodological approaches that can prove useful in developing comprehensive, targeted, and nuanced pay analyses and discusses how it is possible to overcome potential limitations in practice. The second half of the paper presents a case study of pay and compensation analysis in Lao PDR. The study illuminates how a number of these approaches can be combined in assessing a specific set of pay challenges and generating robust recommendations tailored to context. A brief postscript, with the benefit of hindsight on what subsequently happened on the ground in Lao PDR, reflects on the limitations of technical analysis in motivating reform implementation in practice.

This paper is a product of the Public Sector Governance Unit, Poverty Reduction and Economic Management Network. It is part of a larger effort by the World Bank to provide open access to its research and make a contribution to development policy discussions around the world. Policy Research Working Papers are also posted on the Web at <http://econ.worldbank.org>. The authors may be contacted at nbarma@gmail.com and jorac@jhu.edu.

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JEL Codes: D73, J31, J33, J45, H11, H83, P35

Keywords: Civil service reform, compensation analysis, public sector wage bill, Lao People's Democratic Republic

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The authors are indebted to Barbara Nunberg, Gary Reid, and Nick Manning for their mentorship and guidance on how best to conduct civil service pay and employment analysis. They are also grateful to the study's peer reviewers for their constructive comments and suggestions, which have improved the paper greatly. The views expressed in this paper are solely those of the authors.

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Introduction

The adequacy of compensation for government workers and the affordability of the public sector wage bill are important concerns for many developing countries. Suitable pay is considered a necessary—albeit far from sufficient—condition for attracting and retaining the skilled staff that a government needs to operate its administrative apparatus and deliver services to the public. Yet governments typically face a fiscal constraint on the public sector wage bill, which often accounts for a sizable share of government expenditures.

Developing countries around the world thus share a strikingly common dilemma related to public sector pay. On one hand, compensation for the bulk of public sector employees is claimed to be too low—in particular lagging behind the private sector and other competing employers, and providing inadequate incentives to motivate individuals to perform well and to take on the demands of higher-ranking jobs. On the other hand, the same governments are often faced with bloated and unsustainable wage bills, making pay reform a delicate and challenging exercise.

As a first step in assisting client countries with tackling these concerns, the World Bank regularly conducts analyses of civil service pay and wage bill issues, most often in the form of chapters in Public Expenditure Reviews or other reports on public financial management. Such analyses and the emerging policy recommendations lay the groundwork for the dialogue with client countries in this sensitive area, and can influence the direction and shape of reforms.

Yet, because of their traditional orientation toward the budgetary aspects of public sector pay issues, the analytical instruments typically employed have tended to be rather blunt. Often, the solution is cast as one of finding the right macro balance of pay and employment to achieve an acceptable fiscal envelope for the wage bill.¹ Even when focused on pay reform specifically, a common failing of such analysis has been a limited focus on the micro-complexities of a country's government pay systems and labor market and a resultant failure to tailor recommendations accordingly to context.

This paper makes the case for taking on a much more finely-grained analysis of pay and compensation issues—to enable an accurate assessment of the challenges faced and to thereby generate good-fit reform recommendations that are both principled and feasible. In the first part of this paper, we focus on prevalent challenges in pay reform, both contextual and analytical. We build on our experiences from three very different settings: Armenia, the Lao People's Democratic Republic (Lao PDR), and Mongolia. We begin by surveying some of the common difficulties in conducting granular analysis on government compensation. We then outline a series of methodological approaches that can prove useful in developing comprehensive, targeted, and nuanced pay analyses, discussing how it is possible to overcome potential limitations in practice. The second half of the paper presents a case study of pay and compensation analysis in Lao PDR, whereby we illuminate how a number of these approaches can be combined in assessing a specific set of pay challenges and generating robust recommendations tailored to context. In a brief postscript, with the benefit of hindsight, we also reflect on the limitations of technical analysis in motivating reform implementation in practice.

¹ For a thoughtful survey of the World Bank's previous approaches to civil service pay and employment issues, see Barbara Nunberg, "Experience With Civil Service Pay and Employment Reform: An Overview," in David L. Lindauer and Barbara Nunberg, eds., *Rehabilitating Government: Pay and Employment Reform in Africa* (Washington DC: The World Bank, 1994), pp. 119-59.

Part I—The Contextual and Analytical Challenges of Pay Reform

Assessing the adequacy of government worker compensation involves four key and interconnected analytical challenges.

- At the outset, the analyst must understand in as exhaustive and granular a fashion as possible the level and composition of official compensation across major grades of the civil service. This includes capturing—*by grade*—details on base salary, other monetary allowances, and various forms of in-kind remuneration.
- The second essential component is a comprehensive assessment of wage bill expenditures, which entails gathering details on the size and structure of the civil service establishment in addition to compensation patterns. When possible, it is useful to undertake a stylized modeling of the various components of the wage bill such that the fiscal impacts of potential policy changes can be estimated.
- Third, assessing the adequacy of civil service compensation can be approached in a number of different ways that are best triangulated for a final judgment. Does compensation cover an adequate share of a civil servant's household expenditures; and how does a civil service compensation package compare to the level and composition of earnings by individuals outside the civil service performing similar jobs or with similar educational qualifications?
- Finally, it is important to also ask what other incentives—such as job security, prestige, access to sociopolitical networks and/or other sources of earnings potential—motivate civil servants, and how such factors influence workers' decisions. One important sub-category of incentives is the type and level of economic rents available across different positions. These might range from extra-hours fees for tuition or private medical care provision, which in many cases might be legal, to bribes, which are illegal in all cases.

A primary difficulty with analysis of civil service pay and the government wage bill is that the information needed to provide a clear picture can be scarce or difficult to assemble for any number of reasons. Countries may lack computerized payroll systems holding reliable earnings data; or data may be recorded only in aggregate categories that make nuanced analysis impossible. Even when payroll data are available, often through the Treasury Department of a Ministry of Finance, it is not uncommon for there to be no links with the human resource management database typically managed by the core civil service agency (such as a Civil Service Commission or Ministry of State Administration). Some governments offer a complex array of monetary or in-kind allowances (in addition to base salary) that may be difficult to account for, or fund certain components of earnings from non-wage bill budget lines, thereby making it hard to compute total wage expenditures. Certain information may be deemed by officials as too sensitive to disclose, or simply be scattered in so many locations as to be inaccessible. Workers may also receive informal payments or have opportunities for secondary employment by virtue of their status as government employees, which are obviously not captured in official earnings data. Furthermore, factors that go beyond salary and significantly enhance the appeal of public employment (e.g., pensions, health benefits, job security, working conditions, social status) can be difficult to assess.

Putting public sector compensation into context vis-à-vis competing employers also poses its own set of challenges—such as determining which employers and types of work are realistic alternatives to a public sector job and, subsequently, obtaining robust earnings data for these comparators. While international companies may have transparent compensation packages and provide salary data for comparative purposes, it is unlikely that these elite employers are a practical alternative for the majority of rank-and-file civil servants, especially those outside the main urban areas. For these reasons and others, a balanced

assessment of government compensation can be elusive. Nevertheless, as this paper demonstrates, with careful design and execution, adequate resources, and constructive partnerships, it is possible to produce a robust, nuanced analysis even in “information scarce” environments.

Defining the Challenge and Assembling a Game Plan

Specific analytical experiences in three countries inform this paper—an in-depth study on civil service pay and compensation recently conducted in Lao PDR, the 2010 Public Expenditure Review in Armenia, and a civil service policy note prepared in Mongolia in 2009.² While many developing countries share a number of typical issues in terms of civil service management and performance, distinct specific challenges were identified in each of these three contexts, motivating deeper analysis.³

Lao PDR has achieved a decade of encouraging economic performance following transitional economic reforms initiated in the mid-1980s. Recognizing the centrality of government performance to its developmental goals, Lao PDR made improving the effectiveness of public administration and enhancing the quality of service delivery core elements of its National Socio-Economic Development Plan for 2006-2010. Tied to this, the government has demonstrated sustained interest in beginning a process of modernizing and enhancing the productivity of its civil service. The Lao civil service faces several long-term challenges, notably a widespread perception that wages are too low and too compressed to motivate high quality performance, and concerns that deficiencies in the human resource management structure, in combination with compensation issues, thwart the recruitment and retention of the most qualified personnel. The absence of a detailed examination of these important issues set the stage in 2008 for World Bank analytical support.

Armenia, newly independent in 1991 following the collapse of the Soviet Union, redefined itself as a parliamentary democracy while suffering through a period of severe economic hardship. Remittances from Armenians abroad are an important factor in the economy which, after some years of encouraging growth, was hard hit by the international financial crisis of 2007-09. The public sector continues to evolve away from its Soviet past, with key developments including passage of new laws on the civil service in 2001 and civil service remuneration in 2005. In Armenia, too, policy makers and civil servants remark upon the inadequacy of compensation. But this issue is perhaps overshadowed by concerns about the fragmentation of a public sector that encompasses fourteen distinct labor regimes; most of these have their own compensation systems, largely unaligned with the others, and are thought to offer substantially different levels of compensation for what are seen as essentially similar jobs. While the white-collar civil service—the administrative backbone of the state—is a prominent part of this constellation, it is not the largest in either the number of staff or wage expenditures. In-depth analytical work is programmed under a World Bank loan;⁴ and the 2010 Public Expenditure Review provided a long-awaited opportunity to re-open questions about the wage bill and public sector pay

² See *Lao PDR: Civil Service Pay and Compensation Review—Attracting and Motivating Civil Servants*, Report 58018-LA, East Asia and Pacific Region Poverty Reduction and Economic Management Unit (Washington DC: The World Bank, June 2010); *Armenia: Public Expenditure Review*, (Washington DC: The World Bank, forthcoming 2011); and *Mongolia: Towards a High Performing Civil Service*, Report 50767-MN (Washington DC: The World Bank, June 2009).

³ On the importance of problem-driven analysis and the need for contextually rooted reform recommendations, see Willy McCourt, “Models of Public Service Reform: A Problem-Solving Approach,” Policy Research Working Paper 6428 (Washington DC: The World Bank, 2013).

⁴ The Second Public Sector Modernization Project, approved in March 2010 and closing in July 2015.

Mongolia is a large, sparsely populated, and extremely resource-rich country that benefited from the 2003-08 boom in global commodity prices, while remaining extremely vulnerable to volatility in the form of price shocks and subsequently facing an economic crisis when copper prices collapsed. Much of its windfall gains from natural resources in the 2000s were consumed through untargeted social transfers to the population and across-the-board public sector salary increases. Within the civil service, a number of professional cadres have their own distinct human resource management and compensation practices. In addition, the legacies of socialism have combined with contemporary electoral instability to contribute to a deepening degree of political interference in civil service management. The recent economic crisis underlined the need for simplifying civil service compensation practices—with the goal of tightening expenditure controls and improving payroll administration while reducing horizontal inequities in pay. Analytical work on the civil service proceeded as a component of technical assistance to the Mongolia Civil Service Commission, programmed in a World Bank grant.⁵

The Lao dialogue pointed to a particularly intriguing puzzle that, in turn, illuminates how a game plan for finely-grained pay analysis can be assembled. Initial assessments in prior World Bank work⁶ indicated that civil service pay in Lao PDR was low and compressed.⁷ Yet anecdotal evidence from World Bank staff as well as government counterparts indicated a high level of ongoing interest in civil service job openings, particularly for teaching and healthcare positions in the provinces. Although this demand for civil service jobs might reflect limited opportunities in the private sector labor market, it also suggested the possibility that civil service employment provided additional benefits that were not being captured in the existing (and very limited) data. In particular, analyses may have failed to fully capture earnings components beyond base salary—such as allowances and benefits in cash or in kind, and associated monetary and non-monetary perquisites, such as prestige, or opportunities for secondary employment arising directly from civil service status.

The challenge on the compensation front, therefore, was to determine whether particular civil service jobs were in practice under- or overcompensated, and to get a sense of the magnitude of these phenomena. In order to draw evidence-based conclusions about the adequacy of civil service compensation and shed further light on human resource management concerns, the World Bank conducted a study comprising four complementary components:

- A detailed review of the civil service pay and compensation structure and a comprehensive assessment of the total compensation packages, including benefits and allowances that civil servants receive;
- A pay comparator analysis to examine potential compensation available to current or would-be civil

⁵ The Governance Assistance Project, approved in May 2006 and closing in January 2012.

⁶ Including *Lao PDR—Public Expenditure Tracking Survey in Primary Education and Primary Health: Making Services Reach Poor People*, Report No. 39043-LA, East Asia and Pacific Region Poverty Reduction and Economic Management Sector Unit (Washington DC: The World Bank, 2008); *Teaching in Lao PDR* (Vientiane: The World Bank East Asia and Pacific Region Human Development Sector and Ministry of Education, Lao PDR, 2008); and “Civil Service in Lao PDR—Issues and Challenges: Approach Note,” East Asia and Pacific Region Poverty Reduction and Economic Management Sector Unit (Washington DC: The World Bank, 2008).

⁷ Compression refers to the relative difference in earnings at the top of the civil service versus entry-level posts. The compression ratio calculated from these data is a simple indicator of an individual’s formal financial incentives to take on more demanding positions as he or she moves up through the civil service ranks.

servants through alternative employment—notably in the private sector and state-owned enterprises—in order to judge the relative adequacy of compensation across all grades of the civil service;

- An incentives assessment of individuals choosing civil service employment—with a particular focus on teachers and health workers—to capture non-compensation-related benefits such as daily subsistence allowances from donors and additional income sources made available through their civil service status (e.g., teachers charging for tuition);
- A diagnostic assessment of the civil service human resource management system, using a comprehensive set of qualitative and quantitative indicators that the World Bank had piloted in a number of other countries.⁸

The Armenia and Mongolia analyses both incorporated several of these components as well; as discussed further below.

The core Government of Lao PDR (GOL) counterpart and collaborator on this analytical work was the Public Administration and Civil Service Authority, a ministerial-level agency in the Prime Minister's Office.⁹ Following the ministerial-level Public Administration and Civil Service Authority's (PACSA's) agreement on the proposed approach, a World Bank team undertook fieldwork during the first half of 2009. The composition of the team itself is worth remarking upon, because it was essential for the innovative nature and success of the study. The task-team leader was a Poverty Reduction and Economic Management (PREM) public sector specialist who benefitted enormously from sector managers and peer reviewers with extensive civil service analysis experience and worked closely with country management representatives and sectoral colleagues based in the Vientiane office. The key international consultant on the study was an individual who had previously conducted civil service pay and wage bill analysis, and had the benefit of a professional network that could provide advice and guidance as the analytical challenges emerged.

A crucial member of the team was a Lao public sector specialist who provided nuanced country knowledge and guidance, helped in establishing credibility with government counterparts, and contributed essential Lao contacts both in and outside government. Lao interpreters also played an important role, not only by virtue of their linguistic expertise but also by serving as advisors and fixers who helped to identify and approach contacts, and gave feedback on interviews and emerging findings. Consistently relying upon the same professionals was essential, since it allowed them to become familiar with nuanced terminology as well as the subtleties of the line of questioning.

Since health and education sector workers comprise almost two-thirds of the Lao civil service, close collaboration with Bank colleagues in these sectors was essential—for defining the key contours of the analytical puzzle as well as devising methodological approaches. Based on this close collaboration, the team was able to devise dual purpose quantitative and qualitative work, in the form of the statistical worker analysis and focus groups described below, that fed into both Human Development and Poverty Reduction and Economic Management sectoral interests. Based on a successful qualitative study previously undertaken by health sector colleagues in Vientiane, the team chose to carry out the focus

⁸ The assessment framework was the Human Resource Management Actionable Governance Indicators instrument, developed by Gary Reid and colleagues in the World Bank's PREM Public Sector Group. This component is outside this paper's focus on pay reform, but findings are available in the full Lao civil service study.

⁹ The GOL approached the World Bank to undertake an assessment of civil service compensation, based particularly on its comparative analytical advantage in this area.

groups and in-depth interviews using a local consultant firm with experienced focus group moderators, under the direction of an international consultant with training and experience in social science qualitative methods.

In each country, the overall analytical approach was one of outreach and triangulation. The most useful information did not always come from the seemingly obvious sources (such as ministries of finance or core civil service agencies) but rather from technocrats in individual ministries or agencies. Overlapping lines of enquiry helped to verify emerging findings as well as areas that needed more probing. A comprehensive and nuanced civil service pay analysis comprises an understanding of wage bill issues, compensation for individual jobs and civil servants, the adequacy of compensation relative to the private sector or other alternatives, and the broader incentives and dynamics that underlie individuals' behavior. This section suggests methodological approaches for tackling each of these issues. Although it may not always be possible to replicate these types of analysis at full scale, many of analytical components described below—such as the micro earnings analysis and the statistical worker approach to pay comparison—require surprisingly modest resources and can be usefully conducted even in more limited undertakings, such as a Public Expenditure Review chapter.

Wage Bill Analysis and Modeling

A comprehensive picture of the government establishment (or number of civil servants) and wage bill is a necessary component of a public sector pay analysis. Evaluating the sustainability and soundness of the wage bill entails calculating its size as a percentage of budgetary revenues, total and recurrent expenditures, and GDP, and tracing its evolution over time. These analyses are invariably complicated by country-by-country differences in budget structures and accounting practices, as well as varying definitions of which government cadres comprise the public sector and are included in the government wage bill. The analytical tools we propose here were developed in the context of relatively simple, undifferentiated pay scales but their utility is not limited to any particular type of compensation system.

An essential first step in understanding the contours of the government establishment and wage bill is clearly defining what actually constitutes the civil service—that is, which segments of the public sector writ large are being included in the analysis—and which line items in the budget are, in practice, being used to compensate this workforce.¹⁰ Civil service status in Lao PDR, for example, encompasses several professional cadres that usually form separate public sector labor regimes in other countries—including ‘white collar’ office workers and service delivery personnel in health and education—and excludes the military, the police, and employees of state-owned enterprises.

The second crucial step is understanding which lines of the government budget are used to compensate civil servants. Of the two main wage bill-related line items in the Lao budget—“Salaries” and “Compensation and Allowances”—the latter includes a number of payments (such as living allowances to village chiefs) that should not be incorporated into the aggregate wage bill for the civil service. On the other hand, some wage-related expenditures are blended into expenditure lines that are not wage bill-related, further complicating estimates of the true size of spending. Contract government workers, for example, are financed by non-wage recurrent expenditures, typically the “Operations” line—hence aggregated reported wage bill figures likely under-report the true cost of the civil service establishment.

¹⁰ For a useful guide to answering this question, as well as a basic list of other core analytical tasks that we ourselves have relied upon, see Mike Stevens, “Preparing for Civil Service Pay and Employment Reform: A Primer,” in Lindauer and Nunberg, eds., *Rehabilitating Government*, pp. 103-15.

In Armenia, the official wage bill excludes staffing in education and health, since these sectors are funded through block grants. Due to the decentralized financing models used in these sectors, the respective ministries also do not track exact wage expenditures, which are subsumed in the “Goods and Services” budget line item. Since education and health workers constitute about two-thirds of Armenia’s civilian government employment, wage bill analysis relying only upon government budget figures runs into major limitations.

In light of these accounting vagaries as well as the variation in the mandate and organization of the public sector, cross-country comparisons of wage bill indicators—a standard component of wage bill evaluations—are likely to yield few robust insights. They are most useful as an indication that a country may be an extreme outlier and, even then, should only be viewed as a sign that closer examination is warranted.

As a further step in wage bill analysis, financial modeling of potential pay and employment reforms is also possible. The World Bank has undertaken such an approach in a number of countries and regions.¹¹ These types of modeling exercises have proved very effective at laying out the fiscal tradeoffs among conflicting policy objectives—such as raising civil service salaries across the board to meet basic living costs at the bottom end of the pay scale versus salary decompression to attract more highly qualified staff—and hence the real price and opportunity costs of potential reform initiatives. The Cambodian government, for example, faced a fiscal constraint on its wage bill but also pressure to raise salaries to enhance recruitment and performance. A wage bill model was constructed on the basis of detailed pay and compensation analytical work, laying the basis for a discussion on the basis of empirical evidence instead of on assumed tradeoffs. Due to the accounting issues mentioned above, as well as the stage of the counterpart’s deliberations, the Lao PDR analysis did not attempt this type of modeling. The Armenia Public Expenditure Review chapter created a customized pay model, using a sample of civil service employees, with a variety of scenarios illustrating the impacts of decompressing the base salary scale or reducing employment numbers, and discussing the substantive implications of these commonly-raised yet simplistic proposals. At the time of writing, the modeling report was being reviewed by counterparts and had been received with interest from the Minister of Finance.

Civil Servant Earnings Analysis

Two common back-of-the-envelope calculations that usually serve as an entry point for analyzing civil service earnings are the compression ratio and the ratio of average civil service earnings to per capita GDP. Since these are commonly used, we feel it is important to present them with caveats: these statistics provide only limited insights, can easily be misleading, and are not a suitable basis for policy deliberations unless they are tied to more sophisticated analyses.

Compression ratios—which compare earnings at the top of the pay scale as a multiple of earnings for entry-level posts—are often used to measure the formal financial incentives for individuals to accept positions of greater responsibility.¹² A compression ratio depends on the nature of the input data and

¹¹ See “Modeling Pay and Employment,” PREM Note Number 105 (Washington DC: The World Bank, February 2006). In addition to custom-built models tailored to the specific shape and issues of a country’s public employment, the Bank’s East Asia and Pacific Region developed a standardized analytical tool, the Civil Service Financial Model that is applicable in many countries and allows users to insert pay and employment data and related parameters into the software.

¹² A corresponding term, decompression, refers to expanding the differential between earnings at the top and bottom ranks of the pay scale.

calculation method—using only base salary data (usually the most easily available figure) as opposed to base salary plus allowances and bonuses (a much better picture of an individual’s total compensation) can yield different pictures of the extent of compression. In-kind allowances are likely to be excluded, even though in some countries they are a regular component of compensation and serve, *de facto*, as an important element of decompression. The choice of top and bottom positions is a determining factor, and makes international comparison even more tenuous given that countries often define their civil service differently.¹³ The following example from Armenia’s civil service demonstrates the varied results even when using only base salaries to calculate a compression ratio (Table 1).

Table 1: Civil service bay pay compression ratios in Armenia (2010)

<i>Calculation Method</i>	<i>Ratio</i>
Highest coefficient to lowest coefficient (5.89: 1.0)	5.9
Average coefficient, senior vs. junior groups (5.1: 1.16) (or senior 1 st grade: junior 1 st grade, etc.)	4.4
Actual average base salary, top vs. bottom grades (6 ministries ¹⁴) 197,486 AMD: 45,733 AMD	4.3
Actual average base salary, top 10% of staff vs. bottom 10% (6 ministries) 157,120 AMD: 52,175 AMD	3.0

Source: World Bank analysis of the National Institute for Labor & Social Research’s 2010 earnings survey, and official base pay scale.

Varying civil service grading regimes across countries lead to additional difficulties. In career-based systems such as Lao PDR, for example, the most senior civil servants (deputy director generals or director generals) may not necessarily hold the highest possible educational credentials and thus may not be in the highest grade. This renders a top grade to bottom grade compression ratio an inadequate measurement of the true financial incentives associated with moving up the ranks. In Mongolia, civil servants are classified in a number of functional regimes that have each, over time, added additional allowances to compensation, making it very difficult to come to a single compression ratio across these overlapping categories.

Compression ratios are also used to compare countries with each other or to assess a country’s performance against an indicative, and usually unsubstantiated, good practice ratio. A glance at selected OECD civil services shows that ratios can vary substantially even among advanced economies with well-functioning administrations (Table 2)—indicating that the notion of a good practice ratio is not particularly well-founded when devoid of context.

Table 2: Compression ratios in selected OECD member states¹⁵

<i>Country</i>	<i>Civil Service Compression Ratio</i>
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¹³ The OECD defines the compression ratio as the mean of ninth decile salaries divided by the mean of first decile salaries, which ensures that a handful of salaries do not dramatically skew the result. Nevertheless, the variation that results from different manner in which countries delimit their civil service remains an issue.

¹⁴ Includes positions in ministry, dedicated units, and territorial or regional units.

¹⁵ Data are from *Ready for Europe: Public Administration Reform and EU Accession in Central and Eastern Europe*, World Bank Technical Paper 466 (Washington DC: The World Bank, May 2000). The underlying point is clear even with dated figures.

Belgium	5.5 (base salaries), administrative stream
Canada	5.2 (estimate)
France	4.6 for base salaries, 5.7 (incl. allowances (estimates)
Germany	7.5 scales A and B
The Netherlands	8.2
United Kingdom	9.8 (estimate)
United States	7.3 for general white collar, 8.9 incl. Senior Executive Service

Considerations similar to these also apply to ratios of average civil service earnings to per capita GDP. From country to country, average earnings statistics may represent different slices of earnings. If earnings are derived from wage bill data, they will reflect the types of classification problems noted in the above discussion of wage bill data. On the other side of the coin, calculation of GDP is more complicated in countries with sizable grey economies, again rendering cross-country comparison risky at best. One step better than a comparison of earnings to per capita GDP is to compare earnings to average household consumption levels (disaggregated by urban and rural areas), data that are usually available from national statistical offices. This approach was used in the Lao PDR and Armenia work, but remains relatively uncommon at present.

The limitations we have catalogued make it difficult to rely upon compression or other ratios for anything other than a cursory initial assessment.¹⁶ Even when well executed with good data, they still leave unanswered key questions of whether earnings are appropriate to job requirements, and whether they are sufficient to attract and retain the required skills into the civil service and are reasonably competitive with alternatives (in conjunction with other factors such as benefits, working conditions, job security, etc.). The approaches we present below are, we believe, more rigorous and defensible ways to get at nuanced answers to these questions. The Lao case study presented in the second main section of this paper demonstrates how several analytical tools can be deployed together in achieving a comprehensive and balanced picture.

In any exploration of civil service pay, it is worth considering at the outset whether there is any empirical evidence pointing to difficulties in attracting and retaining staff. The presence of such evidence does not necessarily mean that inadequate pay is the cause, nor does the absence of recruitment and retention problems prove that pay levels are adequate, since other factors (including human resource management practices) might also be at play. Nevertheless, certain quantitative indicators can provide useful insights and identify areas for further exploration. Relevant indicators include a high turnover rate (staff resign after short periods to pursue better opportunities elsewhere); low numbers of applicants per advertised opening (lack of interest in civil service employment); and high rates of absence from work (possibly due to ‘moonlighting’ as staff work multiple jobs, or other factors such as poor management and low morale). In addition, the prevalence of secondary employment might suggest that civil servants wish to supplement their earnings or their professional skills.

For such statistics to be truly useful, they should be disaggregated by specific job types (e.g. senior manager, finance specialist, secretary) and, ideally, by location (urban, rural, remote), rather than more generally for the entire civil service. Such fine-tuned tracking makes it possible to identify the types of

¹⁶ Additional drawbacks include the fact that for some countries, underlying data on wage expenditures, public employment, and GDP are unavailable or unreliable. When available, comparator data may be several years old, covering different time periods and missing recent trends. The groups of employees covered are usually highly aggregated and rarely extend to individual jobs.

posts that are at risk, to target further analysis and remedies more effectively, and subsequently to monitor the impacts of these remedies. Yet governments often do not collect these detailed statistics, or do not record and report them in an accessible and usable format. In Lao PDR, information on absences and applicants may be held at the unit level, but is not reported to the central body responsible for administrative reform. Armenia's Civil Service Council holds service-wide data on turnover by reason but a breakdown by profession or entity was not easily available. As a practical matter, pay analyses can highlight the need for and the feasibility of implementing such tracking systems.¹⁷

A crucial aspect of tailoring analysis of civil service pay and employment to context is careful understanding of the broader labor market. Lao PDR's economy is primarily agrarian, and formal salaried jobs are currently a small fraction of total employment. Although the private sector is evolving rapidly, the fact remains that "white collar" (office) alternatives to civil service employment are presently limited and likely to differ substantially by age cohort (with private employers favoring younger workers).

A meaningful analysis of earnings must cover all the different components of formal compensation and, as much as possible, quantify their contribution to the total. In most developing countries, formal civil service remuneration comprises a number of components such as: base salary, monetary or in-kind allowances (paid regularly and generally constant across pay periods), ad hoc payments such as annual bonuses, benefits such as pensions or health insurance, and other kinds of perquisites. Pay analysis rests largely on institutional sources, since it is primarily an analysis of formal job-related compensation; in other words, it excludes secondary income or rent-seeking. Base salary regulations are usually readily available—but focusing narrowly on base salary rarely yields a credible analysis of compensation. In practice, information on earnings should be gathered from central authorities as well as directly from a sample of individual ministries or other units that employ and manage civil servants. In addition to a review of framework regulations (and entity-specific regulations, as necessary), two crucial information sources are payroll data and personnel department managers in line agencies.

Payroll data can often be obtained with surprising ease. In some cases (as in Lao PDR and Mongolia) this may require developing relationships with a set of ministries or other employing units, whereas elsewhere a single institution may aggregate data from individual ministries for the government's own policy research (for example, Armenia's National Institute for Labor and Social Research conducts public and private earnings surveys and kindly shared data with the World Bank). Either way, it is essential to look at payroll data across a wide swath of the civil service, since some types of entities benefit from special compensation arrangements, whether funded from the budget, own-source revenues, or donors (as is often the case of the health sector).

Interviews with personnel department managers, in turn, provide a reality check on such data sources, as well as an opportunity to fill in information gaps. Pay data might exclude in-kind allowances or benefits that can be an important source of income. One might expect this information to emerge from a review of framework regulations—but in Lao PDR and Mongolia the existence of important in-kind benefits became evident only from interviews with line managers, who also shared copies of the regulations. With persistence and triangulation of data sources, information barriers can be largely surmounted, even in acutely data scarce environments. Box 1 demonstrates this, detailing the process involved in conducting a micro analysis of civil service earnings in Lao PDR.

¹⁷ The Human Resource Management Actionable Governance Indicators framework provides numerous concrete examples of such data that are worth tracking.

Box 1: A Micro Analysis of Civil Service Earnings in Lao PDR

One of the four key components of the Lao civil service study was a microanalysis of the compensation package, including monetary and in-kind payments and benefits for positions ranging from entry-level posts to senior staff. Lao PDR is an acutely “information scarce” environment where availability of data and documents is often limited; furthermore, the administration does not have a central, electronic payroll system. As a result, the general analytical approach was to cast the net wide by using a variety of methods, interviewing senior and mid-level managers in numerous bodies, and triangulating numerous sources in order to corroborate information and search for details that may have been missed previously.

The first step was to review available legislation. The overall compensation framework is established by a single decree that stipulates the general components of monetary compensation, and defines the wage grid that determines the size of a civil servant’s base salary. A separate decree defines the social security benefits for civil servants. The rules governing the actual details of individual components of compensation are generally contained in subsidiary regulations; yet officials at the central level were reluctant to (and ultimately did not) share these documents, reflecting a risk-averse organizational culture.

Interviews with line ministry officials were critically important to understanding the shape and *de facto* dynamics of the compensation system, as well as for obtaining anonymized pay data for a sample of workers. Mid-level personnel managers described forms of compensation that were neither detailed in the framework decree nor recorded in pay data, namely a number of widespread in-kind allowances (including rights to use of government-owned motorcycles and other vehicles, and coupons for gasoline and mobile phone usage). Since the value of these allowances varies by job title, they introduce an important element of job-related compensation that is not addressed in base salary. They are also a non-trivial component of regular monthly compensation—failing to uncover them would have resulted in a distorted understanding of earnings.

Interviews also provided information about various non-regular payments, such as per diems for work travel, donor-funded “sitting allowances” for participating in events, and, notably in the health sector, for overtime, surgical operations, or bonuses from facility revenues. These, too, did not appear in payroll data and it was generally not possible to evaluate their incidence or value relative to regular earnings. Interviews with civil servants and managers helped to establish, at least anecdotally, an estimate of how much per diem payments could add to total compensation. Interviews also revealed a potentially very valuable perquisite offered to a small number of officials: the personal use or highly subsidized purchase of state-owned real estate.

These sources of information, together with sample earnings data from a number of ministries and other bodies, enabled a comprehensive quantitative analysis of typical earnings for civil servants in a range of posts. Job titles were not listed on individual pay records, so they were derived from the amounts received for certain position-based allowance or other supplementary information. Although the data assembled largely referred to positions located in or near the capital city, the standardized nature of pay rules (no geographic variation other than supplements for teachers in remote areas) meant that the analysis had countrywide relevance. By necessity, some of the payments mentioned above were omitted from calculations, and coverage did not extend to the lowest-ranking staff (who tend to be employed in the provinces, rather than in ministries). Nevertheless, it was possible to show—with a level of accuracy previously unmet—how much staff at different levels in the organizational hierarchy might earn, on average, from base salary, monetary allowances, and in-kind allowances, and the relative importance of these income streams in total earnings.

Comparing Civil Service Earnings to Alternatives

The question of whether civil servants are underpaid relative to their counterparts in alternative domestic labor markets such as the private sector is a key concern in civil service assessments. It is not a simple question to answer, for a number of reasons. As noted above, reliable data on actual civil service earnings (including base salary as well as other monetary and in-kind remuneration) by type of position are often difficult to obtain. It is not always obvious which types of jobs in what spheres should serve as

comparators, nor are relevant comparative earnings data easily available, particularly in transitional economies. Finally, there are methodological questions as to how to conduct such comparisons.

Previous World Bank analyses in Indonesia and Vietnam have highlighted the different conclusions that emerge when public sector earnings are compared to those for similar *workers* in other labor markets as opposed to similar *jobs*.¹⁸ In both Indonesia and Vietnam, the worker approach, which compares individuals with similar observable characteristics (such as educational attainment and age) by analyzing data from national household surveys, indicated that the earnings of public sector workers were broadly comparable to those of workers in the private sector. In Indonesia, less educated civil servants (the bulk of the civil service) earned a premium over their private sector peers, while more highly educated civil servants earned somewhat less than private sector peers. Looking at the broader public sector, the Vietnam analysis suggested that, on an hourly basis, the median worker in state-owned enterprises earned “within five percent of what he or she could make in the private sector” but—since SOE workers tended to be paid for a higher number of hours—their total earnings exceeded what they would have earned in the private sector.¹⁹

In contrast, surveys that compare public sector salaries with seemingly similar jobs in the private sector tend to conclude that public sector workers are grossly underpaid. Such findings may reflect a bias in the choice of comparators toward multinational firms in a handful of industries whose earnings data may be more readily available than those for lower-profile domestic firms. These international firms, moreover, are likely to pay high salaries in order to attract a small, specialized workforce—making them a poor comparator for the bulk of the civil service. Other complicating factors in jobs-based comparisons include the difficulty of comparing the level of effort actually expended and the level of responsibility and skill required to perform the job. Differences in non-pecuniary benefits such as job stability and social security benefits may also not be adequately captured. Furthermore, comparisons focus predominantly on formal jobs, leaving aside informal activities that may be the more likely alternative for many civil servants in developing countries.²⁰

In order to triangulate findings with these constraints in mind, the Lao PDR and Armenia studies intentionally incorporated both of these methodologies. Recent household survey data in both Lao PDR and Armenia were used to conduct the worker analysis, albeit with limitations on the statistical significance of findings; Box 2 details the process as conducted in Lao PDR.

Box 2: Pay Comparison in Lao PDR—A Worker-based Statistical Analysis

The worker approach analyzed data from the 2007-08 Lao Expenditure and Consumption Surveys (LECS), a nationally representative household survey conducted by the government’s Department of Statistics with donor support. LECS gathers information on consumption expenditures as well as other socio-economic information at the level of the individual, household and village, and collects data over a 12-month period in order to control for seasonal variation in a predominantly agrarian economy. LECS includes questions about individuals’ earnings in the preceding month, the industry of employment, and educational attainment; instructing respondents to provide a comprehensive reporting of earnings that includes monetary allowances and bonuses in addition to base salary. This made it possible to calculate and compare the mean earnings of individuals with similar levels

¹⁸ Deon Filmer and David Lindauer, “Does Indonesia Have a ‘Low Pay’ Civil Service?” Policy Research Working Paper 2621 (Washington DC: The World Bank, 2001); Sarah Bales and Martin Rama, “Are Public Sector Workers Underpaid? Appropriate Comparators in a Developing Country,” Policy Research Working Paper 2747 (Washington DC: The World Bank, 2001).

¹⁹ Bales and Rama, “Are Public Sector Workers Underpaid?” 20.

²⁰ These factors have been noted in the Indonesia and Vietnam studies, as well as in other analyses.

of schooling but employed in selected sectors: Government Administration, Health and Social Relief, Education and Training, Agriculture and Agricultural Services, and Private Sector and State-owned Enterprises. Analysis was conducted by a trained statistician, guided by a World Bank staffer with expertise in the LECS and the international consultant charged with carrying out the civil service pay component of the study.

The worker analysis faced two main limitations. First, the data were not normalized for the number of hours worked and thus represented reported monthly earnings per respondent, regardless of actual working time. Second, because Lao PDR is a largely agrarian society with relatively few wage-workers in the country and thus in the LECS sample, the mean earnings calculations had a large standard deviation, indicating a substantial degree of uncertainty. These limitations meant that although the analysis yielded useful insights, it was difficult to draw definitive conclusions.

For the jobs analysis, information on pay in small- and medium-sized private enterprises in Armenia was available from a survey conducted by the National Institute for Labor and Social Research, while a separate commercial survey provided insights into earnings in a small number of elite employers, including Armenian and international entities. The first survey enabled a comparative analysis of benefits, employment stability and working hours—factors that are often mentioned as adding to the appeal of public sector work but are rarely quantified. Findings clearly showed that the public sector came out ahead of the private sector on all three factors. Virtually all government jobs are permanent (99% overall), but only 70% of private sector workers reported having a permanent job. Government workers had a shorter workweek overall (41.4 hours compared to 47.3 hours in the private sector) and even more so for university-educated workers (39.7 hours versus 48.7 hours). The most dramatic difference was in benefits: 85 percent of government wage earners received paid holiday and sick leave, compared to only 17 percent of private sector workers (30 percent when looking only at university-educated workers in the private sector). Taken together these findings suggested that, where public sector workers in Armenia do earn less than their private sector counterparts, the difference may be made up by better provision of benefits, greater employment security, and shorter working hours.

In Lao PDR, a commercial survey provided information on a small number of elite employers that were not deemed to be realistic alternatives for the vast majority of civil servants; thus we conducted a customized survey of private sector employers (detailed in Box 3).

Box 3: Pay Comparison in Lao PDR—A Jobs-based Employer Survey

The customized survey of employers gathered earnings data for an array of jobs by interviewing employers who included, in addition to ministries, a mix of private firms, state-owned enterprises, and commercial banks, all located in the capital city—a selection best described as a convenience sample. The survey focused on typical domestic employers that might be a realistic option for the average job-seeker; some of the firms had foreign partners or investors and one was foreign-owned. International organizations, non-governmental organizations, and large international corporations and their Lao subsidiaries were excluded, since these generally employ a relatively small, elite staff who are highly paid relative to the local market. Firms ranged in size from very small (three staff) to very large by local standards (five hundred or more staff).

Selection factors included the general profile of the jobs offered (managerial, professional white collar, support), the sphere of activity, and whether the jobs are reasonably common in the Lao market. Health and education service delivery jobs were excluded, since there are relatively few formal private sector employers for these professions. The focus was on white collar office jobs—but some service and industrial jobs were included as comparators, both for context and because they may be alternatives for some rank-and-file civil servants. Firms were initially approached in writing or by telephone. Given the sensitive nature of the subject, participants were promised confidentiality and anonymity—hence company names were not released and survey findings were presented so as to prevent individual employers being identified. On the whole, employers welcomed the opportunity to participate and expressed great interest and openness in discussing labor market issues.

Data on civil service jobs were compiled from regulations on base salary and allowances, official earnings data obtained from individual ministries, and interviews with managers regarding actual practice (see Box 1). For private firms and state-owned enterprises, information came from in-person, semi-structured interviews with senior or mid-level managers who had knowledge of prevailing pay rates and often also had hiring authority. The interviews used a written interview guide, adapted from surveys conducted for the World Bank in other countries; questions covered not only earnings, working conditions, and other elements of compensation but also perceptions of the private and public labor markets and flows of workers between them. Some firms provided written earnings records, while others gave verbal estimates of typical earnings (or ranges) by type of job. Although the survey gathered information on payments that are not part of the monthly payroll, such as per diems, bonuses, and overtime, this information was ultimately not included in monthly earnings estimates since the payments were irregular and there was no basis for estimating typical values. Interviews were conducted primarily by one international consultant, with the crucial assistance of one highly skilled interpreter for all of the interviews, who became expert in the specific terminology and line of questioning and was also able to judge the veracity of the information provided.

The survey had a number of limitations, many of which are inherent to the jobs approach. Under-reporting of salaries was a risk, particularly for private sector firms; this was partially mitigated by assuring participants that no identifying information would be released nor would salary data be shared with government bodies such as the revenue agency. In a few instances, earnings data had to be excluded because they were not credible or complete enough to allow meaningful analysis. While exclusion of large multinational employers minimized a common bias towards high payers, the comparators included only formal jobs—not informal work (including seasonal agricultural work) or self-employment, which might be likely alternatives for some civil servants. Finally, the convenience sample and the small number of observations precluded statistical analysis so that, as with the worker analysis, findings were indicative only.

Consistent with experience in other countries, the two approaches to pay comparison yielded differing but complementary perspectives on the competitiveness of public sector earnings vis-à-vis private and other sectors. The findings in the Lao case are presented in the second half of this paper.

Qualitative Research to Understand Incentives

Assessments that focus solely on formal, monetary compensation are necessarily incomplete—since civil servants across the globe also enjoy a range of non-regular compensation and other benefits made available through their civil service status. These benefits range from non-regular, duty-related compensation (such as government per diems), to additional income sources (both legal and illegitimate) made possible through civil service status, to non-monetary advantages (such as job tenure, work environment, and social status). Such benefits might even motivate individuals to join and remain in the civil service even when regular compensation itself is relatively low.

In the absence of quantitative data on such issues, a qualitative methodology can be employed to probe the magnitude and impact of these additional incentives related to civil service employment. Such an approach permits an incentives assessment based on emerging evidence that complements the types of analysis of the composition and adequacy of compensation presented above. We used such an approach in Lao PDR (as detailed in Box 4). In doing so, we placed an intentional emphasis on teachers and health workers. It is often the case, as in Lao PDR, that these two cadres comprise a majority of civil servants in developing countries—yet analysis of their compensation and incentives is often complicated for reasons such as separate pay and grading regimes and decentralized human resource management (HRM); and pay comparisons can be impossible if alternative job markets for these individuals do not exist. A qualitative assessment focused on these two cadres can thus reveal information about civil service compensation that would not emerge based on the tools suggested above. The approach can have the added advantage of validating and complementing the findings reached using other analytical tools.

Box 4: Exploring Civil Servants' Incentives through Qualitative Research

An important objective of the Lao study was to capture the scale, perceived importance and impact of non-compensation-related benefits and incentives tied to civil service employment. These benefits and incentives ranged from work-related monetary incentives (such as daily subsistence allowances for travel, sitting allowances from donors for attending meetings) and additional income sources (e.g., informal payments, secondary employment) to non-monetary advantages such as social status and employment stability (the latter being particularly important in terms of diversifying a family job portfolio in a heavily subsistence-based economy).²¹ In light of the sensitive nature of the topic, and the need to move beyond mere anecdote, a qualitative research study was commissioned. The work was undertaken by a domestic research firm with an established record in this field, guided by an international consultant with expertise in social research and previous experience working in Laos.

A semi-structured qualitative approach was chosen with the intent of allowing respondents to have some freedom in discussing aspects of interest within a defined number of domains. The six key questions were:

- What are perceptions on current and future earnings?
- What are the monetary and non-monetary reasons for career choice?
- How do civil servants cope with apparent low formal compensation levels?
- What are the perceived reasons for not entering or leaving the public sector?
- What are advancement prospects in the public sector?
- Are there perceived alternative career paths for civil servants?

Focus Group Discussions (FGD) and In-Depth-Interviews (IDI) were selected in order to be able to capture normative aspects (such as what a fair compensation structure looks like) as well as individual details (such as career choices and challenges). FGDs and IDIs were carried out following guides that were pre-tested and revised. Discussions in some groups revealed unexpected association among the selected domains, which were then pursued in discussion. This is one of the strengths of semi-structured research instruments, offering respondents the opportunity to identify and discuss lesser known practices and views.

Data were collected in four different locations: the capital city, its surrounding province, a northern province and a southern province. In each location civil servants representing the sectors of interest (education, health, agriculture, industry and commerce, planning and investment) were invited to participate in FGDs and/or IDIs. For each FGD a list of screening criteria for eligible respondents was developed in order to secure external heterogeneity in terms of sectors, and internal heterogeneity related to contract type (i.e., permanent civil servant versus limited-term hire), number of years in the civil service, and gender. Civil servants in senior positions were interviewed separately to minimize large differences in social and political status within FGDs. To shed light on future expectations on labor market preferences, five FGDs were carried out with students from these sectors in the capital city, who were facing impending labor market choices.

Most of the focus groups and interviews were recorded and translated from Lao to English; on the few occasions where interviews were not recorded (so as not to impede frank discussion of unofficial practices), note-taking was in more detail. A conventional content-based analysis was made in which quotes from respondents were categorized in broad themes. Each theme was subsequently summarized, including a comparison of any contrasting views. For most topics, a general point of view crystallized rather clearly, but an understanding of the relative importance of some practices was more difficult to assess.

Although the study was formally about earnings, moderators and respondents understood that in reality it was also about human resource management more broadly. The scale and composition of the data collection made it possible to convey a good sense of the meanings and values attached to working as a civil servant and more specifically the attitudes and experiences related to compensation and incentives. Some formal responses were provided that likely did not capture actual dynamics but, for the majority of respondents, the questions seemed

²¹ We are indebted to Jennifer Widner for this observation.

to be of great relevance—making the discussions pointed, personal, and practical. In order to protect the confidentiality of respondents, the resulting report referenced only their general educational background; similarly, for the most sensitive issues of nepotism and corruption, the report referenced only age groups.

Part II—Putting the Pieces Together: The Lao PDR Case Study*

Tailoring civil service pay analysis and advice to context in developing countries invariably requires cobbling together a series of innovative, sometimes even opportunistic, approaches in order to draw a picture both comprehensive and yet nuanced. The methodologies we have suggested in this paper constitute an analytical toolkit for undertaking such work. But the bare bones of these approaches must be fleshed out in terms of the actual empirical puzzle at hand and adapted to the information available, not to mention resourcing constraints. In this section, we illustrate how this can be done in practice, using our experience of conducting the *Lao PDR Civil Service Pay and Compensation Review*.

The goal of this analysis was to help address the Lao government's concerns about civil service management and support its attempts to modernize the civil service and enhance its performance subject to fiscal constraints. It did so by providing the analytical foundations to enable the government to make rigorous and evidence-based policy decisions regarding the civil service compensation system, along with a menu of tailored reform recommendations for its potential improvement in the context of the broader human resource management and strategic challenges facing the Lao public sector as it evolves to meet the country's developmental goals.

In order to present as comprehensive a picture as possible of the Lao civil service pay and compensation system, and its strengths and challenges, the report comprised four analytical sections, summarized here. Overall, the report utilized each of the analytical approaches presented above—and here we focus on presenting the findings. First, we identify the analytical puzzle and characterize the Lao civil service in perspective, with an emphasis on the establishment and wage bill. We then examine how civil servants are compensated and assess whether they are compensated adequately. We summarize civil servants' own characterizations of their incentives in both compensation- and non-compensation-related terms. Finally, a brief conclusion points to a set of principles for civil service reform and outlines three sequenced steps toward achieving a more rational civil service pay and grading system.

The Analytical Puzzle

Lao PDR is at a point on its development trajectory where strategic attention to administrative performance is crucial. An efficient and high-performing civil service, with the compensation and human resource management systems to attract and motivate qualified personnel, will be central to the country's development efforts. The ministerial-level Public Administration and Civil Service Authority (PACSA) is currently spearheading the implementation of a comprehensive new Civil Service Management Strategy over the period 2010-2020. Key objectives include improvements in human resource policies and planning, salary reform, and enhanced performance management.

* This section summarizes the analysis conducted by the authors for a World Bank policy note, prepared with the collaboration of the Government of Lao PDR and based on a number of detailed background papers. See *Lao PDR: Civil Service Pay and Compensation Review—Attracting and Motivating Civil Servants*, Report 58018-LA, East Asia and Pacific Region Poverty Reduction and Economic Management Unit (Washington DC: The World Bank, June 2010). We are particularly grateful to Helle Alvesson (Karolinska Institute) and Saysanith Vongviengkham (World Bank Office, Vientiane) for their invaluable contributions to this analytical work, and we also thank our GOL counterparts and World Bank colleagues in both Vientiane and Washington for their collaboration and suggestions.

Civil service reform is inevitably a difficult reform agenda in developing countries,²² but the Government of Lao PDR (GOL) has demonstrated sustained commitment to initiating the process of modernizing and enhancing the productivity of its civil service. Yet the civil service continues to face several long-time challenges in the areas of compensation, grading, and human resource management (HRM) systems. Foremost among these are: (i) the widespread perception that civil service wages are too low and too compressed to motivate high quality performance; and (ii) concerns that deficiencies in the HRM structure—e.g., the grading regime and establishment control mechanisms—combine with low compensation to thwart the recruitment and motivation of qualified personnel.

In addition, as a consequence of an acute lack of data and limited analysis concerning civil service compensation, the fiscal costs of the civil service are growing and a number of hidden non-wage recurrent costs could prove to be a liability for the government. If wage bill growth continues unchecked, the government will likely be forced to consider painful pay and employment measures to ensure fiscal sustainability. Moreover, there are signs of emerging dysfunctions in civil service management, particularly as parallel systems of non-regular compensation proliferate, that skew the incentives of public employees away from a performance orientation. Even if existing compensation and HRM practices are adequate for now—in terms of attracting and motivating civil servants—there are thus growing signs that the system will come under pressure in the near future.

Pay and compensation reform is a central and necessary—albeit insufficient—plank in improving administrative capacity and performance as a step toward tackling longer-term civil service management issues. As the experience of other developing countries has shown, the success of broader administrative reform can hinge on a government's ability to compensate its civil servants such that they are adequately motivated to perform professionally and effectively.²³

Initial analysis in Lao PDR indicated that civil service pay in Lao PDR is low and compressed;²⁴ hence it would seem that the civil service would have difficulty recruiting and retaining personnel. Yet anecdotal evidence reported by sector staff and government counterparts indicated that staffing quotas, particularly for teachers and health workers in the provinces, are often over-subscribed, pointing to additional benefits not yet being captured in the data. Low compensation would suggest that civil service jobs are comparatively unappealing to alternatives; but quotas being oversubscribed suggests that these jobs are indeed desirable. Either of these conclusions may be correct for particular grades or cadres of workers within the civil service, but they cannot both be true for the civil service taken as a whole.

The analytical challenge motivating this assessment was to determine whether particular civil service jobs are under- or over-compensated, and to get a sense of the magnitude of these phenomena. Prior to conducting the analysis, the general sense—shared by government and development partners alike—was that the managerial ranks of the civil service were almost certainly under-compensated relative to alternative employment, hampering their motivation. Indeed, anecdotal comparisons of base salary (or even base salary plus monetary allowances) suggested the existence of such a compensation gap. Our

²² The Independent Evaluation Group's 2008 assessment of the World Bank's public sector portfolio was particularly critical of the track record in civil service reform, pointing to a serious lack of robust analytical work in the area. See Independent Evaluation Group, *Public Sector Reform: What Works and Why? An IEG Evaluation of World Bank Support* (Washington DC: The World Bank, 2008). See, also, Operations Evaluation Department, *Civil Service Reform: A Review of World Bank Assistance* (Washington DC: The World Bank, 1999).

²³ See, for example, Lindauer and Nunberg, eds., *Rehabilitating Government*.

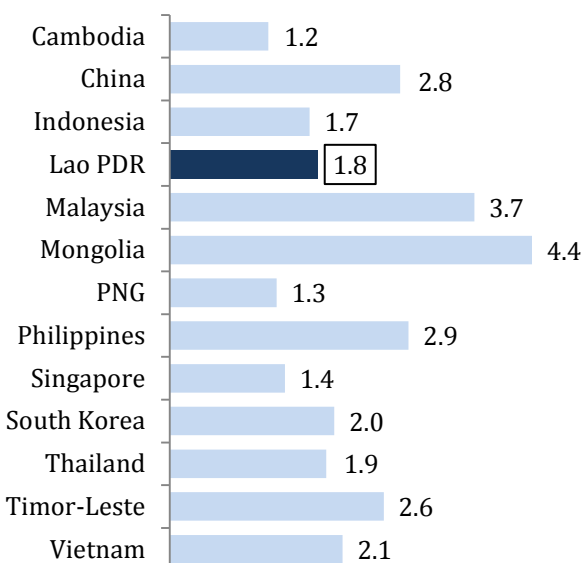
²⁴ See *Lao PDR Civil Service Pay and Compensation Review*; *Lao PDR Public Expenditure Tracking Survey*; *Teaching in Lao PDR*; and "Civil Service in Lao PDR—Issues and Challenges: Approach Note.

analysis, by incorporating a fuller accounting of all the different components of compensation (including in-kind allowances, savings from per diem payments, and in-kind benefits such as the use of a government motorcycle) demonstrated that most managers in the Lao civil service are in fact compensated in line with their demographic and private sector peers. Moreover, when additional incentives (such as job security, benefits, and status) are factored in, the motivations for seeking and retaining civil servant status are plentiful. In addition, we were able to build a clearer picture of how civil servants, including education and health cadres, supplement their civil service incomes—enabling a better understanding of how both compensation and broader HRM practices would have to be reformed in order to modernize and enhance the productivity of the Lao civil service.

The Lao Civil Service in Perspective

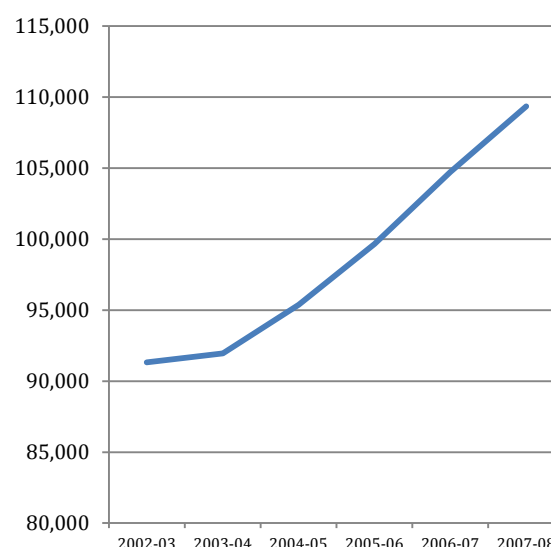
A number of salary and establishment reforms have taken place in the Lao civil service over the past 25 years. Today, in per capita terms—with 1.8 civil servants per 100 population (Figure 1)—the Lao civil service is not too large, yet significant growth in the size of the establishment has occurred over the past decade (Figure 2)—particularly in the key professional grades. Growth in the number of employees is due to a combination of actively increasing the size of the civil service together with weak establishment control, particularly at the provincial level. Sectoral composition has remained roughly constant, with Health and Education sector employees together making up three-quarters of the civil service.

Figure 1: Civil servants per hundred population, Lao PDR and regional comparators



Source: World Bank analysis

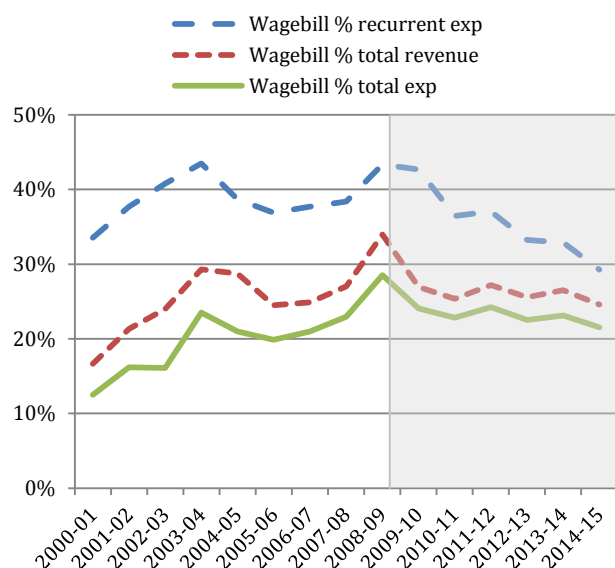
Figure 2: Total number of civil servants, 2002-2008



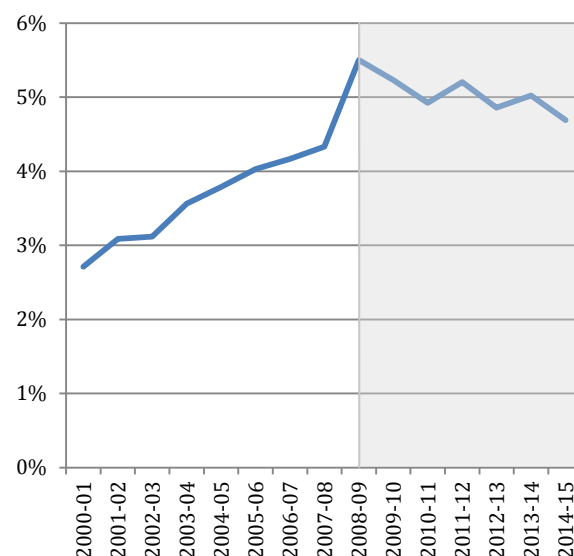
Source: PACSA

The civil service wage bill has exhibited a steadily growing trend over the past decade, with most recent increases ringing a note of caution. From the fiscal perspective, the wage bill has risen significantly over the past decade from 12.5 percent of total expenditure in FY2000/01 to 28.5 percent in FY2008/09; and 33.5 percent to 44.3 percent of recurrent expenditure over the same period (Figure 3).

**Figure 3: Civil service wage bill in fiscal perspective
FY 2000/01 to FY 2008/09 (actuals) and projections**



**Figure 4: Civil service wage bill as share of GDP
FY 2000/01 to FY 2008/09 (actuals) and projections**

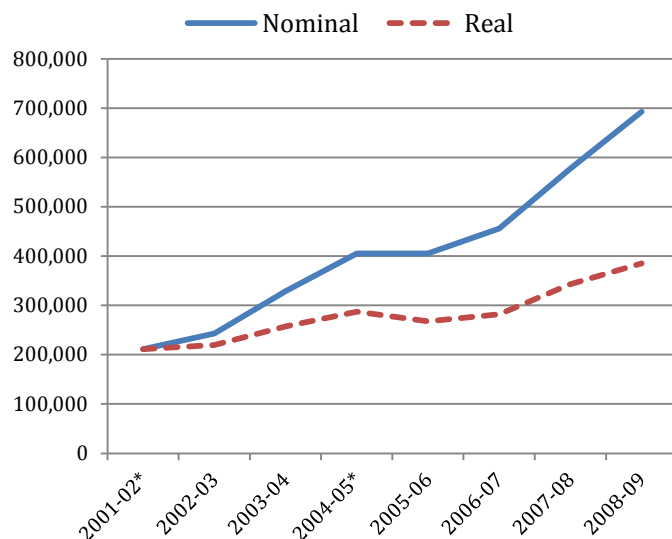


Source: GOL—Fiscal Policy Department, MOF

Accelerated growth has occurred very recently from FY2007/08 onward. Compared to the fiscal picture in other countries, the Lao civil service wage bill at less than 30 percent of total spending remains within reasonable bounds—several other East Asian countries have wage bills between 30 and 40 percent of total expenditure. With a civil service size similar to Lao PDR as a proportion of the population, for example, wage bill shares of total expenditure (most recent data available) are 33 percent in Cambodia, 31 percent in the Philippines, 34 percent in Singapore, and 40 percent in Thailand. Yet—projections notwithstanding—the cause for concern would remain if the wage bill’s share of recurrent expenditure were to continue to rise, since this would represent a crowding out of spending on complementary goods. Moreover, as a share of total revenue, the wage bill has climbed from 16.7 percent in FY2000/01 to 34.0 percent in FY2008/09, gradually bringing the wage bill’s continued affordability into question.

The size of the wage bill as a share of GDP exhibits the same pattern of steady increase and an acceleration in growth from 2007/08 onward, rising from 2.7 percent of GDP in 2000 to 5.5 percent in 2008—although the most recent wage bill projections by the Ministry of Finance (MOF) indicate that the government intends to check continued increases (Figure 4). A number of explanations account for this wage bill growth. First, the GOL has been slowly increasing civil service compensation to make up for a steep decline in real salaries following the 1997-98 Asian financial crisis. Average wages have grown more than threefold in nominal terms and have almost doubled in real terms since 2001 (Figure 5). Second, the growing wage bill is, to a major extent, simply a consequence of the increasing size of the civil service and its evolving structure over the last decade, which has brought more civil servants into Grades 3 and 4 than in the past.

Figure 5: Weighted average base salary, in kip (2001-2008)



Third, the aggregate wage bill comprises salaries and wages as well as other forms of compensation paid to civil servants, and some allowances—such as the gasoline allowance—have been increased in recent years. This brief macro wage bill analysis makes it clear that the major dimensions of any wage bill control in the future must come in terms of compensation reform and careful management of civil service establishment size.

*Source: GOL—PACSA and Fiscal Policy Department, MOF [*2001-02 and 2004-05 figures are extrapolated]*

In terms of the overall HRM architecture, Lao PDR has, in many respects, a reasonable and functional civil service management framework, but there are strong indications that actual practice often diverge from the spirit or letter of this policy framework. There is thus a potentially large agenda for improving civil service HRM.²⁵

How Much Are Civil Servants Compensated?

Total regular compensation packages for Lao civil servants are made up of a complex number of components. Base salary is determined by an indexed wage grid that uses educational credentials as the basis for placing individuals into a particular grade and step. Civil servants also receive monetary allowances and in-kind benefits, a number of which (such as household size and years of service) are based on demographic characteristics and several (such as job title, gasoline, telephone, and electricity and water) are based on the position occupied by the civil servant. This array of compensation dimensions—some based on educational qualifications, some on civil service position, and some on personal characteristics—makes it extremely difficult to predict what an individual civil servant might earn without knowing educational and demographic details. The compensation system also makes it impossible to estimate and build projections of an aggregate wage bill without these details.

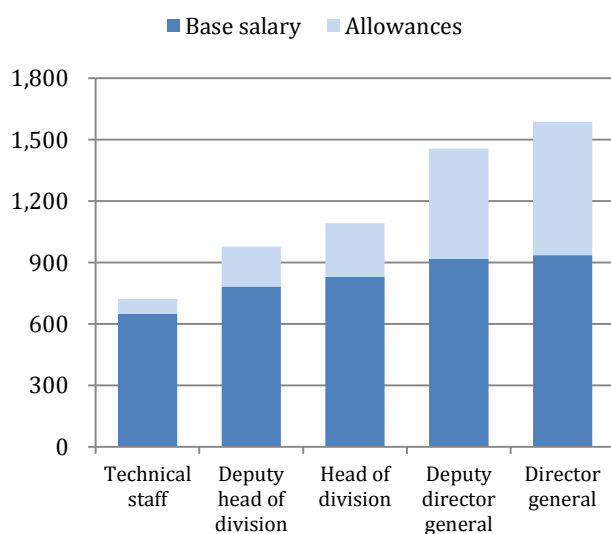
In order to obtain a more comprehensive assessment of civil service compensation, we undertook a micro analysis of average monthly compensation (see Box 1 above) for the four main civil service management positions—deputy head of division, head of division, deputy director general of department (DDG), director general of department (DG)—and technical staff, who make up the rank-and-file non-managerial posts. [A table presenting the full analysis is available in Annex 1.] First, the cadres in questions are

²⁵ The Human Resource Management Actionable Government Indicators framework developed by Gary Reid and colleagues was used in undertaking this assessment. Details are available in Deborah Perlman, Jana Orac, and Naazneen Barma, “Human Resource Management in the Lao PDR Civil Service: Insights from the Human Resource Management Actionable Governance Indicators Instrument.”

largely composed of long-standing employees with decades of experience in the civil service. For any given type of position the grades and steps of jobholders vary widely due to the credential-based grading system. This in turn results in some variation in the base salary for a given position—violating the important HRM principle of ‘equal pay for equal work.’

Second, monetary and in-kind allowances that are differentiated by rank—namely, the job title allowance and gasoline and mobile phone coupons—are a significant addition to the total monthly net compensation received by the managerial cadres. This phenomenon is illustrated in Figure 6.

Figure 6: Composition of average total monthly compensation, '000 kip



For technical staff, base salary comprises 90 percent of total remuneration. For division heads, base salary makes up about 75 percent of take-home pay, with allowances accounting for 25 percent. At the top of the civil service salary structure, directors general receive only about 60 percent of their total compensation in the form of base pay, with allowances making up the additional 40 percent. It is clear from this analysis that simply examining base salaries would lead to inaccurate and skewed conclusions about compensation.

Source: GOL; World Bank analysis

The compression ratio, which compares earnings at the top of the civil service to an entry-level post, is a simple indicator of an individual’s formal financial incentives to take on more demanding positions. Using the base salary grid to calculate a compression ratio, individuals at the top (grade 5 step 15) earn 3.1 times the base salary of those at the bottom (grade 1 step 1). Yet, as cautioned in Part I, this calculation of the compression ratio is misleading—it neither factors in the effect of allowances, nor does it consider the fact that, due to the career system, senior managers may not hold the highest possible educational credentials and thus not be in the highest grade. Using actual data for the sample ministries, the compression ratio for base salary only ranged from 2.2 to 2.6 for DDGs and 2.3 to 2.6 for DGs. But once monetary, and especially in-kind, allowances are included, the compression ratio increases markedly to 3.3 to 3.7 for DDGs and 3.8 to 4.0 for DGs.

A snapshot of the range of total monthly compensation across ranks is revealing (Figure 7). The range of average total compensation across the sample for technical staff and for directors general is relatively small; while total compensation in the lower managerial ranks—deputy head and head of division, and deputy director general—exhibits more variation. Such a distribution of compensation is not uncommon in bureaucratic organizations, since their very structure often means that staff at middle ranks will vary more in terms of their educational qualifications and years of experience than will those at the top and bottom of the professional ranks.

What is, however, somewhat unusual about the compensation distribution pictured in Figure 7 is that while there is some overlap in the compensation bands at the lower end of the scale, there is no such overlap at the top end. A comparison to the base salary structure, shown in Figure 8, is instructive in this

regard—with the important caveat that the staff positions (i.e., technical staff through to director general) in the left panel are ranked only in Grades 3 to 5 in the right panel, with no exact match from position to grade because of the career regime. The base salary distribution (Figure 8) shows more typical overlap between salary bands. The compensation scale (Figure 7), shows that allowances at the higher end both decompress the salary structure significantly and—moving up the pay scale—appear to shrink the range of compensation. In other words, because allowances are an increasing proportion of total compensation moving up the salary structure, they ensure two things: first, that civil servants filling senior positions are indeed being compensated significantly more than rank-and-file employees; and, second, that the range of compensation across those senior positions is tighter than looking at base salary alone would suggest.

Figure 7: Range of average monthly total compensation across ranks

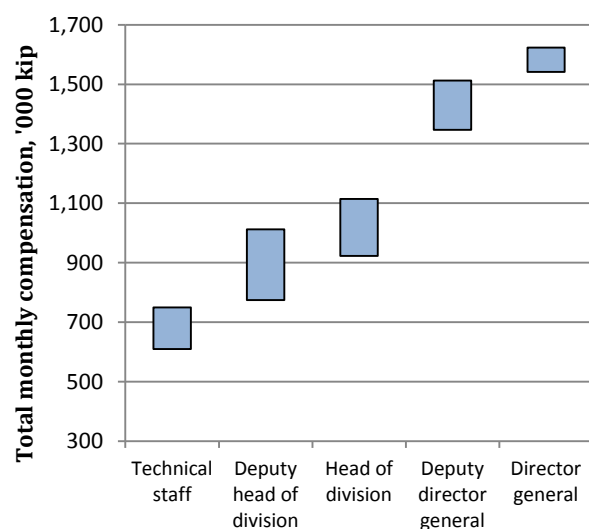
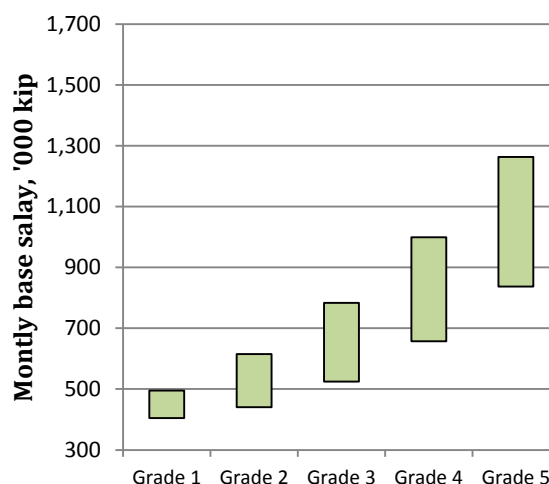


Figure 8: Range of base salary across grades



Source: GOL; World Bank analysis

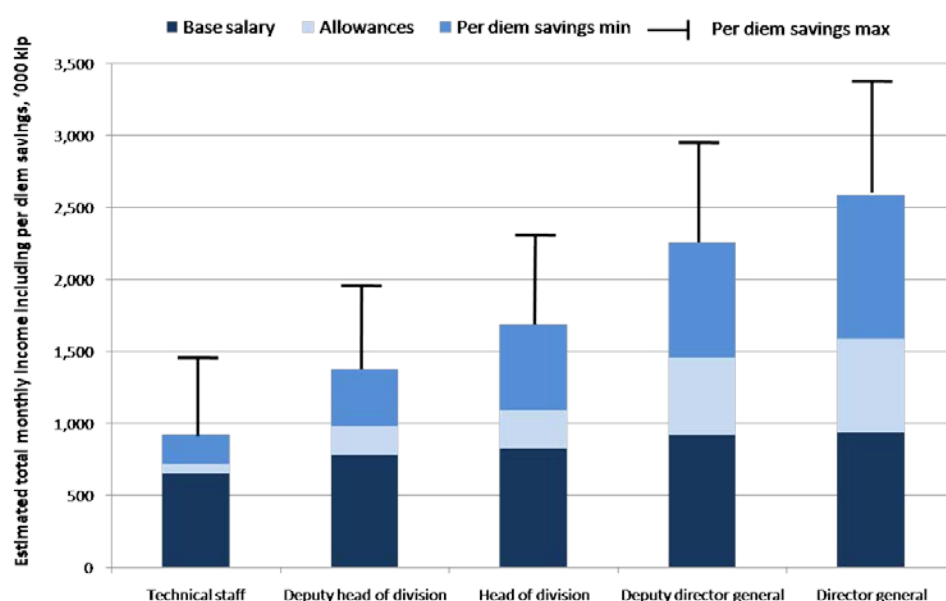
A similar micro analysis of the monthly compensation of health and education sector staff also reveals a stable workforce with long years of experience, and a range in grades for each type of position [Annex 2]. For the payroll sample available, service delivery workers in health and education make roughly between 75 to 85 percent of their total remuneration in the form of base salary. Thus, the share of allowances in total earnings is somewhat less than for managerial-level ministry workers, but these data do not include ad hoc payments for overtime, shift work, special tasks (e.g., surgery), or bonuses that are likely to be more of a factor in service delivery facilities (especially health care) than for ministry jobs.

The Lao government practice of per diem payments for in-country travel can lead to additional duty-related, albeit non-regular, compensation that rivals or even exceeds total monthly earnings from base salary and allowances. A five-night trip generates per diem payments of at least 900,000 kip, of which only some part is needed to defray food and lodging expenses. Civil servants and officials interviewed confirmed that a substantial fraction of per diem payments is legally pocketed as additional compensation, which substantially supplements monthly compensation levels. How much a civil servant can save out of these non-regular payments, or ‘per diem savings,’ is impossible to capture systematically, since practices vary widely. For the purposes of an indicative assessment, however, we asked officials to estimate ranges of how much various positions might expect to save in terms of per diems each month. More senior civil servants are more likely to be able to save a larger proportion of the total payments, since they are more likely also to be given meals and accommodation in-kind. Technical staff or more junior managers are

more likely to actually incur expenses but these can be reduced somewhat by, for example, staying with relatives or at a ministry guest house instead of paying for accommodation. In addition, if traveling with senior managers, more junior staff are also likely to receive meals or accommodation in-kind.

On the basis of these anecdotal reports (and corroborated by data from the incentives assessment), an indicative range of monthly per diem savings can be estimated for different civil service positions. Figure 9 depicts this range of per diem savings in relation to total net monthly compensation for technical staff and managerial cadres. Typical minimum per diem savings are shown as adding a relatively reliable component of total monthly compensation, while possible maximum per diem savings are depicted as a range above the other components of monthly compensation. Typically, technical staff could expect to save 200,000-750,000 kip in per diem payments over a month; division heads could pocket 600,000-1,200,000 kip month; and directors general could save 1,000,000-1,800,000 per month.

Figure 9: Estimated impact of per diem savings on total monthly compensation



The chart shows, for illustrative purposes only, the impact of savings from per diem payments on the total monthly income of technical staff and the managerial cadres.

The per diem savings ranges are estimates based on anecdotal reports of typical averages.

Source: World Bank analysis

These figures must be treated with extreme caution—they are purely indicative and the actual experiences of civil servants in frequency of travel and the amount of per diem savings per month will vary a great deal. Lower level service delivery workers have significantly less access to such payments. Nevertheless, for technical staff and managers, the maximum savings from per diem payments could exceed regular compensation in the form of base salary plus allowances. In other words, although individual experience varies greatly, duty-related take-home compensation including per diems could equate to more than double regular monthly earnings for all professional grades of the civil service—based in both Vientiane and at the provincial level.

Are Civil Servants Compensated Adequately?

A major motivation for this study was the need to make empirically robust judgments on the adequacy of civil service compensation in Lao PDR. Such an analysis should be understood in the context of the overall labor market in Lao PDR. In 2005, as Table 3 details, fully 88 percent of workers were either self-employed—largely in agriculture—or unpaid family members. Government employees (civil

servants plus others such as uniformed personnel) made up 6 percent of all employed; civil servants themselves constituted 4 percent of all workers in the labor market, or about one-third of all jobs if self-employed and unpaid family workers are excluded. Salaried private sector jobs accounted for less than 5 percent of total employment, and state-owned enterprises for less than 1 percent.

Table 3: Employment in Lao PDR, 2005

Category	Number employed	% of total	Female (%)	Male (%)
Government Employee	168,388	6.1	31	69
Parastatal Employee	11,446	0.4	33	67
State Enterprise Employee	19,486	0.7	27	73
Private Employee	121,786	4.4	40	60
Employer	7,210	0.3	31	69
Own Account Worker	1,149,906	42.0	32	68
Unpaid Family Worker	1,260,671	46.0	71	29
Total	2,738,893	100.0	50	50

Whatever the debate over civil service earnings, the fact remains that white collar, or office professional, alternatives to civil service employment are limited at present since formal salaried jobs are currently a small fraction of the Lao labor market.

Source: Results from the Population and Housing Census 2005

The study undertook two approaches to pay comparator analysis in order to gain as comprehensive a picture of the alternative labor market as possible—comparing public sector earnings to those for similar *workers* in other labor markets as well as to compensation for similar *jobs* (see Part I). Overall, the analysis confirmed a common perception that—for certain positions and workers—the formal private sector and state-owned enterprises (SOEs) may offer the potential for seemingly higher monetary compensation than the civil service.

For the worker approach, we drew on data from the 2007-08 Lao Expenditure and Consumption Survey (LECS) in order to calculate the mean earnings for workers in relevant comparator industries to the public sector and for a variety of educational levels. [Methodological details are in Box 2 above; and summary statistical analysis is in Annex 3.] The findings broadly indicate that mean monthly earnings for wage-workers in government administration are somewhat lower than in the private sector (excluding agriculture). For workers with some secondary schooling onward, wage-earners in the private sector and SOEs appear to earn around one-and-a-half times the compensation earned by those in the civil service.

For the jobs approach, we interviewed HR managers at four ministries, fifteen private firms, two commercial banks, and five state-owned enterprises (SOEs), asking questions about compensation, benefits, and HR practices. Table 4 summarizes the analysis, showing the calculated averages and ranges of monthly compensation for civil service professional staff, in comparison to the range in monthly compensation for similar jobs in the private sector and SOEs, along with a ratio of private to public pay. [Methodological details are in Box 3 above; and full details of the analysis are presented in Annex 4.]

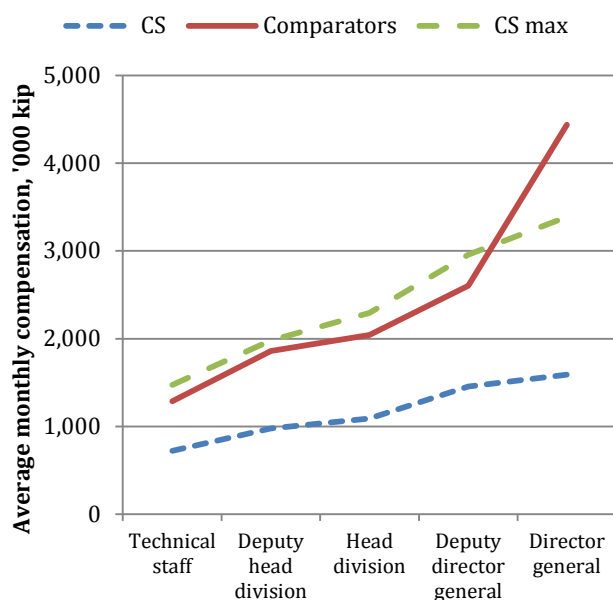
Table 4: Public to private pay comparator analysis, range in total monthly remuneration (kip)

Civil service professional Monthly compensation range				Private sector and SOE comparator jobs Monthly compensation range			
	Average	Lowest	Highest		Average (ratio to civil service)	Lowest	Highest
Technical staff	721,786	525,161	1,004,987	Entry-level, clerical, secretary, office worker SOE, accountant	1,289,336 (1.79)	437,750	2,370,000
Deputy Head Division	979,277	807,599	1,229,674	Chief accountant, deputy head section SOE, supervisor	1,859,293 (1.90)	950,000	3,050,000
Head Division	1,092,340	880,114	1,268,749	Head of section, deputy director division small SOE	2,041,243 (1.87)	925,136	3,350,000
Deputy Director General	1,456,200	1,294,589	1,560,741	Manager of small business, director of division small SOE	2,603,712 (1.79)	1,021,136	4,282,500
Director General	1,588,758	1,396,565	1,806,157	Director of division SOE	4,439,252 (2.79)	3,827,892	4,850,000

Source: World Bank analysis

Average regular monthly compensation in the civil service appears lower, across all positions, than compensation for similar jobs in the private sector and SOEs, as depicted in Figure 10.

Figure 10: Public-private average compensation differentials



In relative terms, the ratio of private to public sector pay is between about 1.8 and 1.9 across all civil service white collar positions, with the exception of the director general. At this top end of the civil service ranks, private sector comparators earn around 2.8 times as much, on average, as directors general. In absolute terms, average salaries for rank-and-file positions in the private sector (e.g., entry level staff, secretaries, clerks) are somewhat higher but roughly comparable to those for civil service technical staff. At higher professional levels, the magnitude of the public-private earnings differential is more pronounced so that the earnings of managers in private firms are significantly more than official earnings of civil service managers.

Source: World Bank analysis

A number of other contextual factors must be taken into account, however, when coming to a judgment about the relative adequacy of civil service compensation using the pay comparator survey. It should be noted that for all civil service positions with the exception of the DG, average compensation is always higher than the lowest compensation received by those in comparator jobs—thus it is not the case that all

civil servants would necessarily receive higher compensation in the private sector. Private sector earnings may also reflect a higher number of hours worked per week, since firms commonly operate on Saturdays.

Furthermore, as discussed above, civil servants in Lao PDR receive significant compensation in the form of savings from per diem payments, which serve as a *de facto* earnings supplement. Figure 10 also shows the estimated maximum levels of duty-related compensation that each position in the civil service could receive per month. With this fuller picture of compensation potential—base salary and allowances plus maximum per diem savings—the private sector compensation premium disappears for all but the director general rank.

Finally, analyzing and comparing monetary compensation in isolation would be misleading. Senior civil servants—particularly those at the director general level—most likely receive significant non-monetary benefits such as subsidized or free housing, and possibly even land allotments. Factoring in these aspects of non-monetary compensation could erase the private sector premium even at the director general level. Cross-country research has estimated that households spend 25 to 35 percent of income on housing; hence, those senior officials receiving housing are in effect receiving additional compensation of this magnitude (and, incidentally, are also thus partially protected in the event of eroding real salaries).²⁶ Perhaps in an attempt to match such benefits, large employers in Lao PDR, as well as small private firms, provide a range of non-monetary benefits that can significantly enhance the appeal of a job. In general, however, it appears that the public sector offers more systematic and comprehensive non-monetary benefits than the private sector enterprises surveyed.

A meaningful understanding of compensation in the government sphere and other sectors can help the GOL in its efforts to ensure that public sector pay policy is fair, appropriate, effective and fiscally responsible. This analysis emphasizes that such an understanding requires careful consideration of monetary earnings as well as in-kind benefits and non-pecuniary factors such as predictability and stability of employment. On balance, considering this constellation of factors, our findings do not indicate that Lao civil servants are under-compensated to the extent that it threatens their recruitment or motivation.

The civil service is not currently experiencing a ‘brain drain’ of workers—which would be a troublesome sign that employees are not being adequately compensated and motivated. There is little cross-over between the civil service and other employers such as private firms, and interest in civil service positions remains high. To be sure, our analysis suggests that at the lower levels of the civil service an individual’s official regular compensation may not, on its own, be sufficient to finance household consumption. Additional benefits and earnings opportunities are clearly important supplements to monetary earnings, however, and increase the appeal of civil service jobs. While the structure of regular monetary earnings is relatively transparent, other monetary and in-kind supplements such as savings from per diems and access to vehicles or real estate can be considerable and the transparency of their structure and availability is low. The non-transparent nature of total compensation makes it difficult to systematically evaluate the adequacy and appropriateness of compensation for specific jobs and individuals.

At first glance, looking at regular monthly compensation in the form of salary plus allowances, the pay comparator analysis indicates that civil service employees earn less than their private sector counterparts, based on both individual worker characteristics and a comparison of similar jobs. The findings from the country-wide worker approach broadly echo the findings from the Vientiane-centric jobs approach: the approximately 1.5 pay ratio that the statistical analysis of the worker approach found in comparing private

²⁶ See David L. Lindauer, “Government Pay and Employment Policies and Economic Performance” in Lindauer and Nunberg, eds., *Rehabilitating Government*, pp. 17-32.

sector and SOE waged workers to government administration workers is closely parallel to the 1.8 to 1.9 ratio of private to public pay emerging from the jobs approach. It must be noted, however, that these pay ratios do not exhibit the dramatic earnings differentials that are sometimes cited anecdotally. Moreover, when pay experts offer opinions as to reasonable public-private differentials, these estimates tend to state that public sector pay levels of 65 to 75 percent of private sector pay are appropriate, given the other benefits of public sector employment.²⁷ The current compensation practices of the Lao civil service fall squarely within this range. The larger private to public differential of about 2.8 at the director general level, as seen from the jobs approach, was based on a very small private sector sample of only three pay records, so the finding is only anecdotal.

Full parity with private sector comparators should not necessarily be the goal of civil service compensation systems—because civil service employment offers job security, due process protections, and significant additional benefits; and because governments simply often cannot afford to pay all their civil servants at parity with private sector comparators. A wise target is rather *consistency* in the ratio of public-to-private compensation across different types of positions. In this respect, the regular compensation practices of the Lao civil service look to be quite rationally structured. In terms of concerns about a greater gap at the top of the pay scale, moreover, senior government officials worldwide tend to earn less than their private sector counterparts. They benefit instead from a ‘compensating differential’ from greater employment security, their status and ability to exercise influence, and the opportunity to serve their country.²⁸ Such motivational factors were corroborated in the incentives assessment, detailed below.

Both the worker and jobs approaches find that the private to public compensation ratio stays relatively constant across all ranks of the civil service (with the exception at the director general level). This relatively constant ratio across all grades may be a sign that the public sector is actually the ‘wage-leader’ in Lao PDR. As described above, about one-third of all formal sector employment is in the civil service and, due partly to the relatively recent nature of Lao PDR’s transition from socialism, it could be that private sector enterprises are essentially benchmarking their salary structures upon official civil service compensation practices. The civil service may in fact be the predominant salaried labor market in the country—such that private companies and SOEs are conceivably taking their cues from the civil service on HRM issues such as compensation and even benefits. It is important to note a caveat to this supposition—reasonably adequate levels of government pay in Lao PDR coexist with a relatively abundant supply of labor, especially unskilled workers. Hence, while larger private employers might follow the government’s lead on wages, smaller enterprises might be able to satisfy their employment needs at lower wages.²⁹

The pay comparator analysis indicates that, in terms of regular monthly compensation, private pay in Lao PDR is for some positions and some workers, somewhat greater than public pay—but not by any degree of magnitude. Taking into the account the supplementary compensation and additional benefits enjoyed by civil servants, and factoring in such issues as hours worked and work environment, the differences between public and private sector compensation in Lao PDR are likely quite small. This conclusion does not even factor in the additional non-duty-related income sources available to government employees as a

²⁷ See, for example, Gary J. Reid, “Public Administration Salary Setting: Principles and Mechanisms for Satisfying Them,” Note prepared for Azerbaijan Government (The World Bank: Washington DC, November 2007).

²⁸ As noted in Filmer and Lindauer, “Does Indonesia Have a ‘Low Pay’ Civil Service?” 14.

²⁹ See Lindauer, “Government Pay and Employment Policies,” for a discussion of the ‘government as wage-leader’ phenomenon in African countries. He elaborates upon the logic presented briefly here.

result of their civil service status, such as income from moonlighting and the receipt of extra payments or gifts from clients. The incentives assessment paints a wider picture of such additional income and benefits accruing to civil servants.

A Civil Service Incentives Assessment

Civil servants in Lao PDR, like their counterparts in many developing countries across the world, enjoy a range of non-regular compensation and other benefits made available through their civil service status. These benefits range from non-regular, duty-related compensation such as government per diems and daily subsistence allowances from donors, to additional income sources made possible through civil service status (e.g., teachers charging tutoring fees), to non-monetary advantages, such as job tenure, work environment, and social status. Such benefits might even motivate individuals to join and remain in the civil service even when regular monthly compensation itself is relatively low.

The views and voices of civil servants themselves—particularly education and health service delivery workers—were solicited to contribute to the understanding of monetary and non-monetary compensation practices in the Lao context and to provide a sense of their experience of motivational factors embedded within the broader HRM system, including issues such as hiring and promotion. [Methodological details on this assessment are presented in Box 4 above.]

What are civil servants' perceptions of current and future earnings? Civil servants generally felt that their formal compensation packages—comprising base salary and allowances—are too low, particularly failing recently to keep up with rising living costs. Their views on what would constitute a 'fair' salary level were most typically expressed in terms of the need to cover basic expenses. The significance of non-regular per diems in supplementing regular monthly compensation was confirmed. There was consensus that the overall compensation package should be better in remote rural areas due to the inconvenience of remoteness and the lack of additional income sources—participants broadly agreed that higher salary and allowances, access to training, and a 'fast track' to a permanent contract were some of the changes that would make rural postings more attractive.

How do monetary and non-monetary reasons factor in choosing a civil service career? Participants mentioned a range of factors influencing their choice of a civil service career, linking compensation levels to motivations such as in-kind benefits and additional income opportunities, as well as a broader desire to contribute to the country. Job security and a flexible and less onerous work environment in comparison to the private sector were clear motivators, as was the social status of being a civil servant. Many civil servants expressed as a major advantage the ability to combine their regular salary and social benefits with additional income from employment after working hours and, potentially, informal sources.

What additional income opportunities are available to cope with low compensation levels? Civil servants reported that taking on additional work is essential for their welfare since their formal compensation packages are generally too low to live on. Participants identified three main avenues through which to earn additional income in order to support themselves and their families. It is formally permitted to take on other jobs after work hours—often known as 'moonlighting'—although there are some restrictions. Civil servants also earn additional income more informally—for example, through the practice of 'extra payments or gifts' for services. Finally, some streams of civil service income border on illegitimate—such as payments for authorizing contracts or working for private clients during work hours. [Additional income sources as listed by civil servants are presented in more detail in Annex 5.]

The ability of civil servants to earn additional income varies widely, with opportunities reportedly more limited in scope for civil servants in rural locations and for those in junior positions with limited networks. Staff in urban planning (engineers) and in agriculture and forestry can often earn large

additional incomes through contact with private construction companies. For the majority of medical personnel, additional incomes appeared to be in the range of 50 to 200 percent on top of their official salary. Teachers reported the lowest rates of additional income, with the highest stated total income double official salary. [See Annex 6 for further detail.]

What are the perceived reasons for not entering or for leaving the civil service? On balance, the number of alternatives to the civil service is perceived as relatively limited and other advantages apart from pay and compensation continue to make the public sector very attractive. Older civil servants expected from the outset to work in the public sector; younger civil servants see the picture as more mixed. Top students today, especially those in urban planning, business, and to some extent agriculture and forestry, are perceived to have real options in the private sector—although the number of high paying private jobs with some job security was described as still limited. Newly graduated top students in nursing and teaching, however, are seen to have few alternatives to the public sector.

What are career advancement prospects in the public sector? Implementation of defined criteria for promotion and HRM processes from the Party and from PACSA and personnel departments is seen as uneven at best. Five criteria for promotion were identified: seniority; educational background and performance; following government code of conduct; political performance including memberships; and personal connections or networks. [Perceived criteria for promotion are presented as sample responses in Annex 7.] Overall, political performance—i.e., party membership—appears to be the sole factor without which advancement to senior civil service positions is not possible. There was, however, a general sense that two criteria are gaining in importance for career advancement, namely technical performance and capacity to network through personal connections. Among the younger generation, a sense of frustration appears to be building over perceived unfairness in career progression.

Ways Forward: Core Civil Service Reform Principles for GOL to Consider

Turning to a forward looking perspective, although existing compensation and HRM practices in the Lao civil service may be adequate for now—in terms of attracting and motivating civil servants—there are growing signs that the system will come under pressure in the near future. First, the fiscal costs of the civil service are growing and a number of hidden non-wage recurrent costs could prove to be a liability for the government. If wage bill growth continues unchecked, the government will likely be forced to consider painful pay and employment measures to ensure fiscal sustainability. Second, there are signs of emerging dysfunctions in civil service management, particularly as parallel systems of non-regular compensation proliferate, which skew the incentives of public employees away from a performance orientation. Third, it appears that expectations and perceptions of fair HRM practice are evolving as a younger generation of more professionally trained and motivated civil servants become more prominent in the public sector.

In light of these growing challenges, we propose the following set of potential reform options. These recommendations tailor good practice in civil service management to the Lao context described in this analysis and the country's current capacity constraints. In particular, they are elaborated in a manner to align with the GOL's own incentives as it deals with an evolving civil service. We present the recommendations in increasing order of difficulty—considering both the technical requirements for implementation as well as possible political constraints. Yet they should not necessarily be viewed as a linear sequence; rather they should be seen as a menu of options that each serve as building blocks toward enhanced civil service performance within a fiscal constraint.

Improving HRM through better data tracking and analysis. The primary objective of the Lao PDR civil service pay and compensation analysis was to support the GOL's efforts to enhance the effectiveness of

its civil service by establishing a robust analytical and empirical basis going forward for any dialogue and decisions on how compensation and human resource management reforms might be designed. Developing an improved framework for evidenced-based policy-making in civil service HRM is an approach that PACSA is well positioned to undertake, given its policy mandate and ongoing role in overseeing HRM practices and collecting civil service statistics. This is particularly the case in the context of the new Civil Service Management Strategy. The necessary resources—leadership that is committed to improving civil service performance, dedicated professional staff, and communication channels with personnel departments and other units in a large number of government bodies—are largely in place and any funding required for enhanced data-gathering and analysis would be modest. In contrast, the potential benefits are large.

The personnel information management system (PIMS) currently under development may allow more data analysis and better tracking of the performance of the HRM system. Specifically, for example, it would be worthwhile for PIMS to track details on the number of applications by position grade and location, in order for the government to get a more nuanced picture of which particular jobs it might have trouble filling. PIMS could track the detailed educational and demographic data of civil servants, particularly as this information is currently necessary to model the wage bill accurately (see below). PIMS could also be used to track the additional duty-related compensation received by civil servants, including supplementary earnings from per diem savings, seasonal shift work, etc.—thereby enabling the GOL to capture more accurately the full fiscal costs of the civil service (see below). Moreover, PIMS could usefully track data on contract worker and volunteer hiring, in order to help the GOL get a handle on this opaque set of practices and develop more consistent recruitment policies.

Wage bill modeling. Comprehensive wage bill modeling was not possible during this analysis because the necessary levels of disaggregated data were not made available to the World Bank. Moving forward, however, it will be important for the GOL to model the impact of any potential compensation reforms in the context of what appear to be growing fiscal constraints on the aggregate wage bill. PIMS, when it is deployed, should improve the availability of information and the ability of MOF and other agencies to track personnel numbers and wage costs—and could potentially form the basis for a detailed wage bill modeling exercise.

Capturing the full fiscal cost of the civil service. This report has detailed a number of practices in civil service hiring and compensation that obscure the true cost of paying the civil service in Lao PDR. The GOL continues to hire and pay contract workers and volunteers, who perform civil service jobs but are paid out of non-wage bill lines of the recurrent budget. In addition, development partners sometimes supplement civil service salaries or fund consultants to perform civil service line functions. Such practices mean that aggregate wage bill figures under-report the true cost of compensating the civil service. In order to capture this cost more accurately, the GOL should work to calculate at least the magnitude of these additional forms of compensation to individuals performing civil service roles. Furthermore, the GOL and its development partners must together guard against the proliferation of practices—such as salary supplementation and off-budget funding of line positions—that create perverse incentives and undermine human resource management. A tangible first step in this regard would be an agreement to further study these practices and examine how widely spread they are, along with a commitment to harmonizing donor approaches in order to avoid perpetuating adverse dynamics.

Enhancing establishment controls. The government could move to implement partial steps in establishment control to achieve some measure of performance-oriented reform. The HRM and incentives assessments presented in this report illuminate a number of such potential steps. One important action in this regard would be to control the tide of inevitable progression within the career structure by reforming the criteria for advancement. The GOL could mandate that only educational qualifications with direct relevance to job performance would result in step or grade advancement, going

some way toward emphasizing merit and job performance in career progression. The government could also, for example, reduce the discretionary ability of provincial governments to bypass establishment controls—which they currently do by hiring contract workers who are then made permanent civil servants—by instructing MOF’s Treasury Department not to process payment for any payroll records that do not include MOF approval for the post being created or filled. Taking such steps in establishment control would yield a three-fold benefit. First, they would help to reign in aggregate wage bill growth by focusing on the employment side of the equation rather than simply compensation itself. Second, they go some way toward addressing the growing perception, on the part of the younger generation of civil servants, that traditional career advancement routes are unfair. Third, to the extent that they can move some way toward compensating employees for the job performed rather than the position held, they help to build toward a culture of performance in the civil service.

Rationalizing compensation. Overall, the current civil service compensation system is complex and often opaque, leads to inequities in compensation, and prevents the possibility of rational pay setting for civil servants. Desirable reforms would lead in the direction of monetizing, as far as possible, in-kind allowances and benefits, and converting the bulk of all non-salary forms of compensation (including monetary allowances) into base salary. A move toward the principle of ‘equal pay for equal work’ would help the GOL to provide the appropriate incentives for recruiting and motivating civil servants. To this end, the GOL may also consider reforming elements of its career-based civil service regime to a more performance-oriented job-based system, where government employees are ranked and compensated according to the content of the job they perform rather than on the basis of their education qualifications. This recommendation is oriented by a belief in the value of relatively simple, undifferentiated pay scales that motivate civil servants on the basis of long-term career incentives over the short-term performance incentive approach. A potential sequence of steps for achieving these goals is outlined in the *Lao Civil Service Pay and Compensation Review*.

Ensuring compensation adequacy. At present, our findings do not indicate that Lao civil servants are systematically under-compensated, or that performance-focused recruitment and motivation in the civil service is threatened by compensation levels. Nevertheless, a more comprehensive analytical exercise that proceeds on the basis of detailed job evaluations and establishes a benchmark set of private sector and SOE jobs could help to put in place a system equipped to ensure continuously that the private to public compensation ratio stays relatively constant across all ranks of the civil service. Such an exercise, at least in the early stages, does not need to produce detailed descriptions and evaluations of all positions—often a time-consuming and onerous task; an abbreviated sequence of tasks is suggested below. Full parity with private sector comparators should not necessarily be the goal of the civil service compensation system—both because civil service employment offers job security and significant additional benefits and because the government may simply not be able to afford to pay all civil servants at parity with private sector comparators. A wise target is rather *consistency* in the ratio of public-to-private compensation across different types of positions, in which respect Lao civil service compensation appears to be quite rationally structured.

Making total income transparent. In addition to monetizing in-kind allowances and incorporating all allowances, where possible, into base salary, an important step toward ultimate transparency and rationality in pay would be to construct a comprehensive picture of the total income that civil servants accrue based on their public employment status. Anecdotal evidence points to the significance of non-regular duty-related pay (especially per diems) and additional informal income streams. A complete assessment of civil servants’ incomes would enable the government, if it so chose, to implement a policy that more systematically delineated legitimate and illegitimate earnings. This would help to ensure that civil servants are properly motivated, through the formal compensation system, to perform their jobs; and to prevent the conflicts of interest or risks of poor public service provision that emerge when civil servants seek to supplement their official compensation elsewhere.

Such reforms are well within the objectives expressed in the government's draft Civil Service Management Strategy in the context of the key pillars of human resource policies and planning, salary reform, and enhanced performance management. If these and supporting steps can be successfully implemented over the period 2010-2020, the Lao civil service will continue to move toward increasing professionalization and enhanced administrative performance in support of the country's wider developmental goals.

A Postscript: What Happened Next and What We Could Have Done Differently

The foregoing analysis of the Lao PDR civil service pay and compensation practices was conducted in 2010. Here, in the spirit of knowledge building, we provide a brief postscript on the developments in civil service pay and compensation in the three intervening years since the analytical work was carried out and shared with the Lao government.³⁰

The analysis was received by government with interest and some initial enthusiasm for follow-up technical assistance from the World Bank on pay and HRM reform. As intended, the detailed empirical work served as the basis for evidence-based discussions with the GOL. Surprisingly, the government was uneasy with the conclusion that civil servants in Lao PDR were essentially adequately compensated. This conclusion appears to have run counter to the leadership's perceptions and perhaps even to a strong but unsubstantiated desire to increase civil service earnings. The GOL was, however, interested in the recommendations for further analysis and on targeted reforms to the compensation and HRM systems. In particular, the GOL sought further analytical assistance from the World Bank in understanding how regional peers and other comparator countries had defined and implemented their own pay and HRM reforms.³¹ With this in mind, a description of two to three potential reform sequences on the basis of actual country experiences would have been an invaluable addition to the report's recommendations.

A structural change in the GOL's civil service management organization took place in 2011-2012 when our core counterpart, the ministerial-level Public Administration and Civil Service Authority (PACSA) was transformed into an actual ministry, the Ministry of Home Affairs (MOHA). MOHA is a relatively large agency, with broader scope and responsibilities than PACSA, as well as a considerable gain in stature. This could have built momentum for a wide-ranging reform to civil service pay and HRM practices. In practice, however, MOHA has acted cautiously on these contentious issues. It has instead been focused on implementing another GOL priority—a strategy of governance devolution through the province-district-village organization of the Lao PDR. Civil service reforms have essentially been placed on the back-burner on MOHA's agenda.

Subsequently, contrary to the analysis and recommendations in the *Lao Civil Service Pay and Compensation Review*, the GOL announced increases in the wage multiplier—and hence increases in base pay across the civil service—over the course of FY12-FY15. The initial increase to the wage multiplier was over 15 percent in FY12 and projected to climb over 30 percent in each of the following three fiscal years, FY13-FY15. From FY11 to FY15, therefore, the wage index was projected to triple, our analysis

³⁰ We are grateful to Harry Garnett for this suggestion and to our colleagues Saysanith Vongviengkham and Willy McCourt for graciously discussing these updates with us and making this brief section possible.

³¹ The World Bank did subsequently convene a peer-to-peer workshop with representatives of regional comparators presenting their own reform experiences; this was very well received by the Lao government.

on the adequacy of civil service pay notwithstanding. Furthermore, the government's commitment to across-the-board increases in wages as opposed to a measure of salary decompression and more targeted incentives is clear in the decision to simply increase the basic wage multiplier. The GOL also introduced a sizable new living allowance that was undifferentiated by position or level, contradicting the report's recommendation to begin monetizing and eliminating non-salary allowances in order to rationalize compensation and make it more transparent. The government soon had to backtrack, however, in the face of affordability concerns—the new allowance was withdrawn and the GOL is still grappling with the fiscal impact of the wage increases.

Speculating on the political-economic motivations underlying these decisions is beyond the scope of this paper. It is worth reflecting, however, on the potential limitations of the analytical process itself in facilitating uptake of the recommendations. The analytical methodologies used, as described in this paper, are complex—each analytical element requires a relatively high level of technical skill, as does the process of triangulating evidence and compiling conclusions and recommendations. Although every effort was made to include Lao government counterparts at every step of the analysis, these complexities as well as capacity limitations meant that the analytical work was essentially conducted by World Bank staff and consultants. We requested, and were granted, a dedicated PACSA counterpart for our work; but the designated individuals were replaced three times over the course of the analysis due to their own career progression needs. We shared all of our data and analytical methodologies with our PACSA and MOF interlocutors but, since they were not involved in the day-to-day mechanics of the data collection and analysis and lacked an adequate technical grounding in this type of approach, asking that they internalize the analysis and findings simply proved a step too far.³²

It is far from certain that deeper technical understanding and internalization of the analytical work on the part of technical staff would have facilitated more concerted action being taken on the basis of our analysis. Sometimes there is simply a mismatch between the World Bank's paradigm of reform and the government's own motivations that no amount of evidence or technical analysis will bridge; paradoxically, this may indicate a high degree of government "ownership" of its own reform agenda.³³

Nevertheless, with the benefit of hindsight, we believe that three particular elements could have helped to achieve better uptake of the analysis and implementation of some of the proposed reforms. First, the report could have conveyed more concrete, practicable options on proposed reform sequences based on comparator country experiences. Second, it is possible that a series of shorter, stand-alone analytical pieces, delivered in more rapid succession following GOL's original request, might have fit into the window of opportunity that appeared to close once the government's attention shifted and organizational structures and incentives changed. This would have required a different institutional approach within the World Bank—one geared toward and adept at speedier, just-in-time delivery in contrast to a prevailing emphasis on comprehensive and state of the art analyses that require a longer preparation time. Third, a focused political economy analysis examining key stakeholder preferences and motivations on the issue of civil service pay could have helped us better anticipate government reactions to our conclusions and further tailor and sequence the recommended reforms to resonate better with the incentives of key decision-makers. In short, the impact of the type of finely-grained technical work we have advocated in this paper can always be enhanced with examples of concrete reform experiences, more nimble delivery of results to clients, and a more astute apprehension of the political-economic context of civil service reform.

³² The full report was never translated into Lao; only the executive summary was translated and widely disseminated.

³³ We are grateful to Willy McCourt for this insight. See, also, McCourt, "Models of Public Service Reform."

Annex 1: Average monthly compensation of white collar civil servants, FY2008/09

(including monetary and in-kind allowances, selected ministries)

Position and Ministry	# of records	Range of grades & steps	Average years of service	Gross base salary		Gross base salary + monetary allowances		Net base salary + monetary allowances		Total net remuneration: base salary + monetary & (untaxed) in-kind allowances		Base salary as % total remuneration *
				Kip	USD	Kip	USD	Kip	USD	Kip	USD	
DG of department												
Education	15	5-13 to 4-12	32	1,058,600	\$125	1,150,300	\$135	1,022,655	\$120	1,622,655	\$191	60%
Health	1	4-13	38	945,000	\$111	1,065,000	\$125	950,598	\$111	1,550,598	\$182	57%
Info. & Culture	1	4-15	40	999,000	\$118	1,103,000	\$130	981,416	\$115	1,581,416	\$186	59%
Labor	10	5-11 to 4-8	32	962,700	\$113	1,058,000	\$124	942,464	\$111	1,542,464	\$181	58%
DDG of department												
Education	37	5-11 to 4-10	31	1,021,622	\$120	1,106,351	\$130	984,400	\$116	1,484,400	\$175	64%
Health	2	5-11 to 4-15	38	1,065,000	\$125	1,141,000	\$134	1,012,234	\$125	1,512,234	\$178	65%
Info. & Culture	3	5-8 to 4-10	31	886,000	\$104	951,500	\$112	846,611	\$100	1,346,611	\$158	61%
Labor	17	5-10 to 3-15	26	926,824	\$109	1,016,882	\$120	907,572	\$107	1,407,572	\$166	61%
Head of division												
Education	69	5-11 to 4-6	27	948,609	\$112	1,025,609	\$121	914,176	\$108	1,114,176	\$131	77%
Health	3	4-15 to 4-7	32	909,000	\$107	988,667	\$116	881,321	\$107	1,081,321	\$127	76%
Info. & Culture	3	4-12 to 3-9	18	747,000	\$88	807,000	\$95	722,712	\$85	922,712	\$109	74%
Labor	21	5-11 to 3-11	23	863,143	\$102	946,214	\$111	846,401	\$100	1,046,401	\$123	75%
Deputy head of division												
Education	68	5-11 to 3-12	22	894,618	\$105	964,662	\$113	861,528	\$101	1,011,528	\$119	80%
Health	4	4-15 to 4-9	24	904,500	\$106	964,750	\$114	859,987	\$106	1,009,987	\$119	81%
Info. & Culture	3	4-5 to 3-7	14	636,000	\$75	693,500	\$82	624,458	\$73	774,458	\$91	75%
Labor	25	4-12 to 3-10	14	790,560	\$93	849,840	\$100	761,218	\$90	911,218	\$107	79%
Technical staff												
Education	130	5-8 to 3-1	12	746,409	\$88	781,094	\$92	699,761	\$82	749,761	\$88	90%
Health	26	4-15 to 3-1	14	735,577	\$87	774,654	\$91	694,311	\$87	744,311	\$88	89%
Info. & Culture	11	4-3 to 3-1	6	607,636	\$71	622,545	\$73	559,884	\$66	609,884	\$72	91%
Labor	107	4-15 to 3-1	5	691,626	\$81	701,776	\$83	643,829	\$76	693,829	\$82	90%

Notes:

- (1) For Ministries of Health and Labor, data are for one department only. (2) US dollar figures are based on an exchange rate of 8,500 kip per dollar.
 (3) Value of in-kind allowances for gasoline and mobile phone estimated based on regulations.

* Calculated in gross terms for ease of comparison, since net base salary figures are not available and in-kind allowances are not taxed.

Annex 2: Average monthly compensation of health and education sector staff, FY 2008/09

Including monetary and in-kind allowances, selected health and education facilities

Job title (1)	# of records	Range of grades & steps	Average years of service	Gross base salary		Gross base salary + monetary allowances		Net base salary + monetary allowances		Total net remuneration: base salary + monetary & (untaxed) in-kind allowances		Base salary as % total remuneration *
				Kip	USD	Kip	USD	Kip	USD	Kip	USD	
Health Department												
Deputy head of department	3	4-11 to 5-9	31	985,000	\$116	1,068,500	\$126	949,499	\$112	1,149,499	\$135	78%
Head of division	10	3-10 to 4-14	27	839,100	\$99	929,320	\$109	831,283	\$98	981,283	\$115	78%
Junior managers, various titles	10	2-15 to 4-13	21	767,700	\$90	860,560	\$101	772,195	\$91	842,195	\$99	82%
District hospital												
Head of health center or section	9	2-14 to 4-13	25	789,667	\$93	880,611	\$104	788,532	\$93	848,532	\$100	84%
Asst. to head of health center or section	28	2-14 to 4-10	22	609,750	\$72	698,875	\$82	630,668	\$74	630,668	\$74	87%
District education office and affiliated schools												
DDG District Education Office	2	4-10	24	864,000	\$102	919,500	\$108	812,980	\$96	962,980	\$113	81%
Deputy head of division	5	3-9 to 4-7	27	724,200	\$85	794,000	\$93	710,289	\$84	780,289	\$92	84%
Director, upper secondary school	3	4-11 to 4-15	26	927,000	\$109	1,047,833	\$123	926,091	\$109	1,126,091	\$132	74%
Dep. director upper secondary, Director lower secondary school	10	4-6 to 4-13	24	840,900	\$99	926,550	\$109	820,830	\$97	970,830	\$114	78%
Head of service or Teacher monitor	5	4-3 to 4-15	23	825,000	\$97	896,300	\$105	796,705	\$94	876,705	\$103	85%
Director, primary school	31	2-11 to 4-12	27	735,290	\$87	836,879	\$98	745,491	\$88	825,491	\$97	80%
Dep. Director, Lower secondary school	7	3-9 to 4-11	23	744,429	\$88	828,214	\$97	739,439	\$87	809,439	\$95	83%
Teacher	127	4-1 to 4-15	21	815,320	\$96	890,473	\$105	791,401	\$93	841,401	\$99	87%
Teacher	77	3-1 to 3-15	12	601,462	\$71	654,231	\$77	588,954	\$69	638,954	\$75	85%
Teacher	3	2-1 to 2-15	19	530,000	\$62	601,333	\$71	543,757	\$64	593,757	\$70	81%

Notes:

- (1) Job titles as entered in pay records or estimated based on regulations specifying eligibility for and amount of job title allowance.
- (2) US dollar figures are based on an exchange rate of 8,500 kip per dollar.
- (3) For teachers, only records that receive the 18,000 kip teaching allowance are included. Analysis excludes records for new teachers on probation, contract teachers, and individuals receiving the remote areas or multi-class teaching allowances.
- (4) Value of in-kind allowances for gasoline and mobile phone estimated based on regulations. Excludes earnings that do not appear in pay records.

* Calculated in gross terms for ease of comparison, since net base salary figures are not available and in-kind allowances are not taxed.

Annex 3: Worker Approach—Monthly earnings by education level and industry (2007/08)

Education level		Government Administration (1)	Health & Social Relief	Education & Training	Private Sector & SOEs (2)	Agriculture & Agricultural Services	Private/SOE to Government Administration Pay Ratio	Government Administration to Agriculture Pay Ratio
Some primary or below	Average monthly earnings, '000 kip	509	421	916	1,052	551	2.1	0.9
	Std. deviation, '000 kip	806	53	1,370	1,841	1,929		
	# observations	23	4	10	330	456		
	t	0.63	7.89	0.67	0.57	0.29		
	p-value	0.27	0.00	0.26	0.28	0.39		
Some secondary	Average monthly earnings, '000 kip	633	663	475	954	541	1.5	1.2
	Std. deviation, '000 kip	524	91	285	1,423	901		
	# observations	49	6	34	485	258		
	t	1.21	7.28	1.67	0.67	0.60		
	p-value	0.12	0.00	0.05	0.25	0.27		
Some vocational	Average monthly earnings, '000 kip	613	539	588	872	597	1.4	1.0
	Std. deviation, '000 kip	391	308	346	747	667		
	# observations	77	22	72	181	59		
	t	1.57	1.75	1.70	1.17	0.89		
	p-value	0.06	0.05	0.05	0.12	0.19		
Some higher education	Average monthly earnings, '000 kip	845	857	621	1,328	689	1.6	1.2
	Std. deviation, '000 kip	709	603	348	1,903	580		
	# observations	59	7	42	113	15		
	t	1.19	1.42	1.79	0.70	1.19		
	p-value	0.12	0.10	0.04	0.24	0.13		
All levels	Average monthly earnings, '000 kip	672	608	598	1,007	557	1.5	1.2
	Std. deviation, '000 kip	589	363	494	1,531	1,518		
	# observations	208	39	158	1,109	788		
	t	1.14	1.67	1.21	0.66	0.37		
	p-value	0.13	0.05	0.11	0.26	0.36		

Source: World Bank analysis of Lao Expenditure and Consumption Survey (LECS) data

Notes: (1) Government Administration excludes Defense, and Party, Mass Organizations, and Professional Organizations; (2) Excludes Agriculture and Agricultural Services

Note on data analysis: Some respondents reported working in more than one industry. In such cases, the analysis uses data for the main industry of employment; where a respondent worked an equal time in two industries, one industry was randomly selected.

Annex 4: Jobs Approach—Total net monthly remuneration in a sample of private firms, state-owned enterprises and ministries in Vientiane (2009)

Position type	Industry	# records	# firms	Lowest earner		Highest earner		Average earnings		Median earnings	
				Kip	USD	Kip	USD	Kip	USD	Kip	USD
Private firms											
Entry level, general	Hotel, trading, garment	4	3	437,750	\$52	675,250	\$79	537,763	\$63	519,025	\$61
Experienced production staff	Printing, garment	5	2	650,550	\$77	888,050	\$104	749,740	\$88	736,050	\$87
Housekeeper	Hotel	3	2	600,000	\$71	900,000	\$106	760,000	\$89	780,000	\$92
Driver	Computer, trading, hotel	8	5	600,000	\$71	1,536,000	\$181	972,156	\$114	944,500	\$111
Clerical	Printing, trading, consulting, travel	5	5	580,250	\$68	1,580,000	\$186	1,063,100	\$125	817,750	\$96
Hotel front desk	Hotel	4	2	610,000	\$72	950,000	\$112	777,500	\$91	775,000	\$91
Salesperson	Computer, trading, travel	11	3	765,500	\$90	2,145,000	\$252	1,538,614	\$181	1,576,500	\$185
Accountant	Construction, garment, hotel, travel	6	4	965,000	\$114	2,370,000	\$279	1,479,250	\$174	1,447,500	\$170
Chief Accountant	Garment, hotel	2	2	2,000,000	\$235	2,752,500	\$324	2,376,250	\$280	-	-
Technician/IT	Computer, consulting	4	2	1,474,500	\$173	2,203,500	\$259	2,070,625	\$244	2,019,000	\$238
Civil Engineer	Construction	4	2	1,987,500	\$234	4,700,000	\$553	3,310,000	\$389	3,276,250	\$385
Supervisor	Trading, garment, hotel	6	4	950,000	\$112	2,221,000	\$261	1,335,342	\$157	1,191,750	\$140
Manager of small business or of unit in large business	Computer, consulting, trading, travel	6	5	2,482,500	\$292	4,282,500	\$504	3,388,667	\$399	3,502,000	\$412
State-owned enterprises											
Driver		3	1	1,207,760	\$142	1,682,557	\$198	1,514,831	\$178	1,654,177	\$195
Secretary		4	2	1,430,000	\$168	2,127,614	\$250	1,664,084	\$196	1,549,361	\$182
Office worker, small SOE		4	1	651,136	\$77	737,136	\$87	708,136	\$83	722,136	\$85
Deputy head of section		4	2	1,956,938	\$230	3,050,000	\$359	2,386,742	\$281	2,270,014	\$267
Head of section		4	2	2,057,124	\$242	3,350,000	\$394	2,590,796	\$305	2,478,030	\$292
Deputy director of division, small SOE		2	1	925,136	\$109	959,136	\$113	942,136	\$111	-	-
Director of Division, Small SOE		3	1	1,021,136	\$120	1,054,136	\$124	1,033,802	\$122	1,026,136	\$121
Director of Division		3	2	3,827,892	\$450	4,850,000	\$571	4,439,252	\$522	4,639,864	\$546
Civil Service (4 ministries)											
	Grade & step	Years service	Lowest earner		Grade & step	Years service	Highest earner		Range in average compensation		
			Kip	USD			Kip	USD	Kip		USD
Technical staff	3-1	1	525,161	\$62	5-8	29	1,004,987	\$118	609,884 – 749,761		\$72 – 88
Deputy head of division	3-10	17	807,599	\$95	5-11	40	1,229,674	\$145	774,458 – 1,011,528		\$91 – 119
Head of division	3-11	32	880,114	\$104	5-11	29	1,268,749	\$149	922,712 – 1,114,176		\$109 – 131
DDG of department	3-15	31	1,294,589	\$152	5-11	31	1,560,741	\$184	1,346,611 – 1,512,234		\$158 – 178
DG of department	4-8	25	1,396,565	\$164	5-13	39	1,806,157	\$212	1,542,464 – 1,622,655		\$181 – 191

Notes:

Total net monthly remuneration includes cash and in-kind salary and allowances (such as gasoline or mobile phone coupons) that are paid on a monthly basis. Bonuses, overtime, shift pay or other variable earnings are not included. For state-owned enterprises, type of industry is omitted to preserve anonymity.

Private sector position types:

“Experienced production staff” includes: production worker, multi-skilled garment worker, line-leader assistant, line leader;

“Clerical” includes shipping/delivery clerk, office support, document processor;

“Supervisor” includes front office supervisor, production supervisor, restaurant supervisor; and

“Manager” includes office manager, branch manager, division manager, etc.

Annex 5: Additional income sources reported by civil servants

Profession	Additional income in private enterprises	Informal sources of income	Illegitimate sources of income
Doctors	<ul style="list-style-type: none"> Own and/or work in private clinic or pharmacy after hours 	<ul style="list-style-type: none"> Sublet authorization for running a private clinic/pharmacy Provide treatment to patients at the home of the doctor or the patient Sell medicines in informal practice Extra payment/gifts from patients 	<ul style="list-style-type: none"> Signing health check forms, insurance forms for private sector workers without proper diagnosis Issuing false documentation of treatment to CSS Sell own medicines to patients at the health facility or encourage patients and colleagues to buy medicines at their private facility Working at private or informal clinics during work hours
Nurses	<ul style="list-style-type: none"> After-hours work in private clinics/pharmacies 	<ul style="list-style-type: none"> Provide treatment and care to patients at the home of the nurse or the patient Sell medicines in informal practice Extra payment/gifts from patients 	<ul style="list-style-type: none"> Sell own medicines to patients at the health facility Working at private or informal clinics during work hours
Teachers	<ul style="list-style-type: none"> Teaching at private schools or colleges Tutoring students Use of skills outside the school, i.e., English teachers work as tourist guides; technology teachers in IT-support 	<ul style="list-style-type: none"> Additional tuition from parents Processing forms and applications for clients related or unrelated to the school Extra payment/gifts from students Exam preparation or tutoring of own students 	<ul style="list-style-type: none"> Accepting gifts for student quotas (college level teachers) Accepting gifts for passing exams or for grades during the school year
Engineers	<ul style="list-style-type: none"> After-hours work for construction companies or other firms they are in contact with as civil servants Starting own private companies in the field of expertise 	<ul style="list-style-type: none"> Processing forms and applications for clients Extra payment/gifts from companies Providing information to investors on forthcoming projects 	<ul style="list-style-type: none"> Working for private companies during work hours Accepting gifts for granting authorization or contracts to investors
Agriculture workers	<ul style="list-style-type: none"> Buying and selling logging quotas and land After-hours work in shipping company (timber), as accountant for saw mill, or for irrigation construction companies 	<ul style="list-style-type: none"> Processing forms and applications for investors Extra payment/gifts from companies Providing information to investors on coming projects Extra payments/gifts for inspecting irrigation construction sites and follow up activities 	<ul style="list-style-type: none"> Working for private firms during work hours Accepting gifts from investors who seek contact with villages concerning cash crop cultivation, risking unfair representation of the interest of farmers

Annex 6: Reported range of additional income by sector

Medical sector

In the medical sector the most typical range of estimated additional income per month is between a few hundred thousand to 1.5 million kip comprising informal treatment and gifts:

- *My expenditure is about 60 percent higher than my salary ... I do rice farming twice a year; my family looks for food for family consumption. Some of our officials work extra in a clinic and can earn 800,000-1,000,000 kip per month, or they can treat patients at home and earn about 400,000 kip.*
- *In Vientiane capital, we mostly do extra work ... during the weekend and after working hours. Within a month, if a nurse did extra work every day from 4-7pm, she could earn about 1 million kip.*

Extra payments/gifts:

- *I also receive payment in kind—such as rice, fish, chicken, vegetables—worth about 200,000-300,000 kip per month.*
- *Patients sometimes gave me 20,000 kip; it's up to them to decide how much they want to give. Usually, if they have a serious illness, I would not get extra payments/gifts since they already spent a lot of money for their treatments. Nevertheless, I sometimes get 50,000 kip from those patients who have money.*

Education sector

- *Teachers in the city do not receive payment in kind, but most teachers based in rural areas get rice from parents' associations, at least 1kg per month per student. In some places, they ask for land and wood from village headmen to build a house when they build the school.*
- *I would say that my extra income [is about the same or] would be a little higher than my base salary; it covers 60 percent of my total income.*
- *My other sources of income are from teaching English in afternoon class—each month I receive about 500,000 kip. I also teach accounting at a private college 6hrs per week, earning 1 million kip per month. My wife also raises pigs and chicken at home, which brings an average income of about 200,000 kip per month. ... My extra income from teaching at private schools is a bigger amount than my salary. Comparing the amount of money I earn from extra jobs plus per diems when travelling to Vientiane, the total amount is double my salary.*

Agriculture sector

- *I sometimes get around 40,000-50,000 kip when I inspect construction projects of private companies, sometimes they treat me a meal.*
- *For irrigation officials, if we do follow-up work we get paid from companies about 200,000-300,000 kip each time.*
- *Overall, I can say that my extra income sources are higher (7-8 times) than my base salary. I can also save some from my additional income.*

Reports from provincial and central levels indicated that extra payments/gifts increase with company size so that amounts for larger companies could be between 500,000-1,000,000 kip per inspection of, e.g., an irrigation site. Some of this money is provided to cover food and accommodation expenses when applicable.

Engineering / Urban planning / Planning and investment

- *My extra income sources are definitely higher than my base salary. Extra income covers three-quarters of my total income and one-fourth is my salary.*
- *My income from extra jobs is ten times higher than my salary.*

Annex 7: Perceived criteria for promotion

Seniority

- *Nowadays, they don't want to base it only on the numbers of years you are working; they will also see your performance. But if one person works here longer, like 5-6 years, and we work only 1-2 years, that person will have more opportunity to be a permanent staff [or be promoted].*

Education and performance

- *They will look at your knowledge and skills, your character, whether you can do the job or not, and your performance and good manners. One of the most important criteria is your level of education ... Additionally, the most important criterion for promotion is to be a party member. If you have a master's degree but you have not been a party member, it is not possible to get promoted to a higher position.*
- *Regarding criteria for getting promotion, they will look at many aspects such as your behavior, moral and political commitment ... Besides, they will also look at your knowledge and capacity. It is also important that staff has become a party member.*

Code of conduct

- *Good attribute means those who are always aware of what they should say, are not boastful or do not show that they are superior, and respect their bosses all the time.*
- *To work in the public sector, you must be patient and behave appropriately because they will watch you all the time. They will watch you not only at work but they will follow you home. For example: if you are their target to be a provincial party member, they will go to see the head of your village to ask what you have done and how you behave. If you behave inappropriately, it may affect your career path in the public sector.*

Political performance

- *Being a member of a mass organization such as pioneer organization, Youth Union, Lao Women's Union, and Trade Union Federation can be started from primary and lower secondary school. At vocational schools, students can be accepted as temporary party members, so that when they become civil servants they will have the opportunity to become party members more quickly ... and if we became members of mass organizations since we were studying at schools, a chance to become civil servants is easier.*
- *It is important that a staff is a member of the mass organizations in order to show that they follow the rules and regulations of the civil servants' code of conduct. Membership of the mass organizations is a starting point to become a party member, which is one of the most important criteria for a staff to be promoted.*
- *If a person is not a party member, then he/she does not even need to talk about being appointed or promoted.*
- *Nowadays becoming a party member is not as difficult as before, because now it is not a secret process. We know who are the party members and who will observe your achievements if you want to become a party member, but you must have been a member of the trade union and youth union first in order to become a party member.*

Personal Connections/Networks

- *Overall, the process of recruiting new staff is not quite clear because there are 'yellow sticky notes' from the provincial department and sometimes from the ministry. We, who do the real work, know which staff is suitable and who is not, but when there are these yellow sticky notes we cannot do anything.*
- *They look at all aspects such as your technical knowledge and your social behavior. Most importantly, it's your ability, whether you can do the job and lead or not. Previously, they promoted those who had worked for a long time and those who had contributed to the revolution even though they could not do the technical job. A person like me during that time would not get promoted because I was not involved in the revolution. At present, being a party member is the key for job promotion, and also they look at your work achievement and capacity. Nevertheless, there are some gaps for job promotion. If you ... get along well with your boss, you will have a better chance to get promoted.*