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ABBREVIATIONS AND ACRONYMS

CAF	Common Assessment Framework
CEM	Country Economic Memorandum
CIS	Commonwealth of Independent States
CPI	Consumer Price Index
CS	Civil Service
CSA	Civil Service Agency
DFID	Department for International Development
EU	European Union
GDP	Gross Domestic Product
ISO	International Standards Organization
MBO	Management by Objectives
MPA	Master's Program in Public Administration
NBK	National Bank of Kazakhstan
OECD	Organization for Economic Cooperation and Development
SOEs	State Owned Enterprises

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EXECUTIVE SUMMARY

Context

1. Kazakhstan is blessed with significant mineral resources and has made commendable efforts to exploit them. Utilizing them is an important challenge, but the Government has laid out a good set of economic objectives. Among the key objectives is the drive to further professionalize the government starting with its most essential resource: human capital.

2. The country has made significant progress in the development of a stable and professional civil service system. An appropriate legislative framework and sound institutional mechanisms for the management of the system are in place. In the early stages of the development of the system, the Government was able to attract high quality staff to the service, in particular through the use of innovative grant schemes.

3. However, conservative wage policies in the wake of the Russian crisis of 1998 and the rapid emergence of the oil and gas industries in recent years have eroded the competitiveness of the civil service as an employer. This is reflected in an increasing turnover ratio of staff per year, which stood at 14% in 2003¹ and has gradually eroded the quality of the civil service.² Wage increases from 2001, most recently in 2004, have only partially helped to reverse this process,³ which appears to be particularly strong in relation to senior level positions⁴. Further research needs to be conducted to highlight exactly where turnover ratios are most significant, so that targeted measures may be designed for these particular functions, in addition to measures to address overall competitiveness issues in the public sector.

4. In recognition of this problem, the President announced two key priorities in September 2004 for reforming the civil service wage system:

- Monetizing benefits to give civil servants greater choice in using their income, and also to rationalize the use of bonuses and allowances.

¹ From 2004 onwards the basis for data gathering has been changed, excluding certain types of turnover, which make date for 2004 non compatible with those gathered for earlier years

² Turnover levels in a sample of 12 OECD states (including South Korea and Hungary), monitored throughout the 1990s, put turnover ratios in 11 of them between 0-4 percent. Only Greece was an outlier with 10 percent (OECD, 2001). An oil rich state such as Norway had a turnover ratio of 5% regardless of severe competition from the private sector (OECD, 2003)

³ The 2004 increase gives a somewhat distorted picture, as wages were increased significantly at lower levels, but not at senior levels, where competition from the private sector is highest.

⁴ Data on turnover by level or class of civil servants are currently not available, it would be important for the CSA to start gathering such data in the future so that better tailored corrective measures to reduce turnover can be designed

- Raising civil service wages to 75 percent of the best paying State Owned Enterprises (SOEs) in Kazakhstan. This measure was inspired by the example of Singapore, which has created an elite civil service based on wage competition with the private sector.

Further details of medium term public sector wage policy were announced in the President's annual policy speech to parliament on February 18th, 2005, which confirmed the above policy direction, and added details on the planned increase for 2005 (32%).

Diagnostic and Issues

5. There are two main groups of issues that need to be addressed for the measures set out above to be viable, have the desired effect in terms of civil service competitiveness, and to ensure that the investment in civil service wages will generate better quality public services, addressing concerns related to fiscal impact and designing appropriate accompanying reform measures in the public sector wage system, in particular in the civil service. *This Note therefore both provides policy options to mitigate the fiscal impact of the planned wage increases, and presents a set of accompanying reforms in the wage system that would be required to ensure that wage increases will also lead to qualitative improvements in the performance of the civil (and public) service.*

Fiscal viability: ways of phasing increases to reduce fiscal impact

6. Based on estimates provided by the Civil Service Agency, increasing civil service wages to an estimated 75 percent of public sector enterprise average wages will require a nominal increase of 119 percent between 2005 and 2008, over four years - the actual increase will depend on the response of the general price level to the wage increase. The calculation is static in that it does not assume that SOEs will also be adjusting their compensation in parallel. The underlying note outlines the type of fiscal and macroeconomic effects that may need to be further worked out as the proposal moves forward. It highlights that this movement is desirable as the Kazakhstan ratio between the average wage in the civil service and the income per capita is only about 90 percent, while in countries like Canada and Poland it is 150 percent, and in countries whose model is being pursued (e.g., Singapore) the ratio is 290 percent.

7. However, three considerations should be made in deciding on a future wage policy. First, whereas an increase of this magnitude is feasible for the core civil service alone, which represents a relatively small proportion of the public sector wage bill, the usual (tacit) linkages between the core civil service wages and the rest of the public sector wages may create serious problems, as it will drive up the wage bill beyond levels that are sustainable. In particular, the proportion of wages to overall public expenditure would increase to between 28 and 30 percent, thus crowding out public investments. Second, the Government's overall wage bill after such an increase, assuming that it will spill over to the entire public sector as currently planned, could reach 7 percent of GDP (or more than 3 percentage points higher than its current level). Such a level is not unusual in the international context, (i.e., Russia or Croatia), but is misaligned with the

concept of 'slim' government that the authorities have pursued since independence. In particular, in both Russia and Ukraine, the role of the state in sectors such as health, education and defense is by definition much larger, which justifies a larger wage bill. Finally, if the bulk of the increase is passed to the economy in the form of higher overall levels of spending, then the likelihood of such impulse creating overheating is significant (e.g., contributing to either real exchange rate appreciation or inflation). Even if the wage bill increase is matched by an equal reduction in other spending (e.g., the development budget), there may be an inflationary impact, the magnitude of which will need to be evaluated jointly with the National Bank of Kazakhstan (NBK). The Note includes some initial estimates of inflationary impact, based on regression analyses accounting for a variety of factors, which would suggest that wage increases of 30-35% on an annual basis would add between 1 to 1.5 percent to the annual inflation rate.

Enhancing Equity, Accountability and Transparency

8. The current wage system lacks equity, accountability and transparency. The system is overly complicated and rigid, with some 70 different pay grades, and does not provide incentives for young qualified staff to remain in the civil service. It also prevents regional mobility of civil service staff, particularly between the republican government and the regions.

9. Whereas the Civil Service Law defines the principle of 'equal pay for equal work', this is not guaranteed in reality. This is due both to the non-transparent allocation of bonuses and allowances and to the inappropriate way of funding these bonuses, which both create large differences in actual wages between institutions. In particular the practice of funding bonuses from savings on the material and staff budgets,⁵ is inappropriate, as it creates a distortion in incentives to use public funds efficiently and also 'hides' part of the public sector wage bill.

10. Furthermore the current wage system does not provide incentives for better performance, as bonuses and wage development are not linked to performance in a transparent manner. *Bonuses and allowances account for up to 57 percent of pay at central government level and 30 percent at regional level⁶, but these figures do not include political civil servants and they can be higher in institutions that pay additional bonuses based on savings on the material and wage budget.* This is incompatible with OECD country standards, which generally have a base pay to real pay ratio of between 80 and 100 percent. In addition there is a wide variation in the extent to which bonuses are actually paid, which violates the principle of equal pay for equal work, enshrined in the Civil Service Law.

⁵ According to data provided by the Civil Service Agency vacancy ratios in the civil service are around 5% on average. This would be a quite acceptable ratio, in particular when compared to other transition states. However, it would be important to establish whether there are any significant differences between reported and real employment levels. The register of civil servants, which is in the process of being established, would be an important potential tool in this regard.

⁶ Civil servants at central level receive on average between 22 and 28 monthly salaries per year, while at local and regional level 16-18 salaries is the general rule.

11. Based on the above analysis, it is clear that without the introduction of accompanying reforms the proposed wage increase will not bring the expected improvement in the quality of services, nor necessarily improve fundamentally the competitiveness of the civil service as an employer.

Strategic direction and sequencing

12. The main risk we see in the current approach to reform is that it is overly focused on the wage increase as such and that other important elements of the overall reform agenda will not be dealt with. *The current golden opportunity that Kazakhstan has to deal with structural factors in the professionalization of the service should not be missed.* It would run counter to the very principles underlying the reform to increase wages to all officials without transferring all of them to a new wage system, as any new pay and grading system will be underpinned by a fundamentally different logic, which cannot be replicated to those that have not yet been transferred to the new system. Kazakhstan should deal with civil service reform in a comprehensive manner, rather than only with some aspects.

13. In terms of sequencing, we argue that structural problems of the civil service must be dealt with, or at least designed upfront, before any significant salary increase has been provided. This way, wage increases will validate the changes and ensure there will not be one single loser in absolute terms from the introduction of structural changes.

Proposed Actions

14. The study proposes a series of measures that would need to be introduced if the planned wage increase is to be viable and warranted. Some aspects of the civil service reform agenda were not included in the analysis at this point for lack of time (e.g., ethics and the means to prevent and control corruption). The study does not address questions of employment levels in the public sector, though this will need to be considered as part of the overall package of wage reform.

Viability

15. In order for the wage increase to be viable, appropriate phasing of the increase in the civil and public service is crucial. Fiscal impact analysis leads to the conclusion that the linkage between public and civil service wages may create an increase of 122 percent over four years which carries a serious fiscal risk, and may have an undesirable impact on levels of public investment. This study recommends that for the wage increases planned for 2006-2009, attention should therefore be given to alternative options, such as: (a) phased increases differentiating between functions performed (in both civil and public service); (b) targeting those groups where competitiveness issues are most serious; or (c) a step-by-step approach where wage increases would be reviewed based on progress in structural reforms in individual sections of the civil and public service, with preferential treatment for those institutions that switch more rapidly to a new wage system. Therefore, whereas we endorse the principle of making civil service wages competitive, as well as

the general direction of reforms proposed by the Government, it would be prudent to do more in-depth analytical work to decide on its exact phasing and coverage.

16. In addition, a phasing of the increase for the core civil service may also be **needed** in order to allow for essential reforms to the wage system to be introduced first. Four possible solutions in this regard would be to (a) start with the wages of those funded from the Republican budget, or (b) to focus on senior management levels across the board, to (c) select a small set of pilot institutions, preferably at Republican level, in which a new wage system could be piloted or, finally, to design a new wage system but allow institutions to 'graduate' into it based on their ability to introduce reforms inside their own organizations. Either of these solutions would be certain to have implications for the actual allocation of wage increases over time, which would see some increases frontloaded and some back loaded, depending on whether phasing will be required. Discussions with counterparts from the Civil Service Agency and other stakeholders indicate that using an approach based on piloting would be politically the most feasible and desirable.

Essential accompanying reform measures

17. In order for the wage increase to be warranted, an action plan would need to be designed that would clearly sequence reforms in the wage system with the introduction of wage increases. We would recommend that such a process include the following key measures:

- Adoption in 2005 of a specific legal instrument on salaries that sets out the basic principles for the salary system. This would be important especially if a 'graduation' approach is introduced.
- A review of vacant posts and the actual use of wage budgets, with the aim to, identify redundant posts and eliminate these where possible, thus mitigating the overall fiscal impact of the wage increase. In addition, to conduct a study into what proportion of bonuses is de facto funded from savings on the material budget. A study into these two elements of the current system would ideally need to be conducted by September 2005 and measures to rectify some of the current practices would need to be introduced. However, it would be important to avoid that individual officials would lose income as a result of this.
- The introduction of a new job classification system based on job evaluation, in which individual jobs would be graded according to their level of complexity and would correspond to a range of salary grades, thus creating more flexibility in grading positions according to the nature of the work performed. The new system could be piloted in 2006, but would need to be fully operational before the bulk of the overall wage increase is introduced.
- Design measures to address the impact of regional disparities on wages, either through a centrally defined supplement or a regionally defined and approved top up. A feasibility study should be conducted in 2005, while the regional coefficient could be introduced as soon as the phasing of the wage increase is decided.

- The introduction of a mandatory performance appraisal system for all civil servants, in the first instance linked to a revised 'years of experience' increment (two-three years after its introduction), and in the second instance to a performance budget that would be allocated to each institution (three-four years after its introduction). The training system would need to be revamped to allow for a linkage between staff development and career management.
- Development of a system to measure organizational performance in the civil service, preferably based on the Common Assessment Framework piloted under the European Union. Kazakhstan could introduce a first organizational self-assessment in 2006 in the ministries that will be piloting the new wage system, and make introduction mandatory for each agency in 2007 or 2008.
- Reducing the scope of the civil service, in particular by moving auxiliary functions to the public service, which will assume specific status under the new Labor Code. The transfer of posts should be decided upon before the first round of increases is granted, while the actual transfer would need to be completed by January 2007.

Possible Set of Actions for Consideration

Group of Actions	Design phase	Implementation phase
1. Address linkage issues:	Calculate the impact of phasing over the public sector as a whole based on defined criteria related to wages as a proportion of public expenditure and decide principles underlying phasing of the increase: April-July 2005	Introduce gradual civil service and public service pay increases, based on decided method of phasing (2006-2010)
2. Assessment of real cost of the current wage system and design mechanisms to make more transparent use of additional funds	Conduct an inventory of the actual impact of the use of wage funds from vacant posts and savings on the material budget on real wage levels in the civil service by September 2005	Transform funds from current additional payments into an earmarked fund for wage increases and bonuses and introduce a ceiling on the wage bill at the September 2005 level until corrections are introduced Eliminate redundant posts by January 2006
3. Changing the job classification and salary grade system	Design and decide classification model and job evaluation system and either select pilot ministries by September 2005 or design a timetable that would allow institutions to graduate into the system	Pilot new wage system, based on job requirements as assessed under a job evaluation system, in two core ministries effective of January 2006 Based on results of the pilots, finalize new evaluation and classification system and ideally conduct an evaluation and re-classification of all civil service posts by December 2007 <i>Or</i> Allow institutions to graduate into the new system while differentiating wage budget increases between institutions that join the new system and those that do not
4. Adoption of mitigating measures for regional disparities	Conduct study of required wage coefficient to even out regional disparities, as well as the mechanism for its introduction, by January 2006	Introduce regional coefficient or salary top up in January 2007
5. Design and adoption of a new legal instrument to regulate the salary system	Draft new legal instrument on the salary system in the civil service by June 2005, setting out principles below	

6. Introduction of a performance appraisal system	Design performance appraisal system by September 2005 Design performance related pay mechanism by September 2007	Introduce first mandatory performance appraisal by January 2006 Evaluate performance appraisal system by January 2008 Link performance appraisal to career progression (increments) by 2009 Introduce performance related budget for performance related pay allowances by January 2009
7. Implementation of an organizational performance measurement system	Select mechanism for measuring organizational performance Define system and select pilot institutions by August 2005	Pilot mechanism in 2 selected institutions in 2006 and evaluate or set up a support system to assist institutions that want to join the new wage system in achieving this within a set time frame Introduction of organizational performance measurement on a voluntary basis in 2006 Introduction of organizational performance measurement on a mandatory basis for Republic level bodies in 2007 and local bodies in 2008
8. Introduction of a public service system	Design public service employment and pay principles in the context of the new Labor Code, by January 2006 Design mechanisms to transfer staff from one regime to the other (auxiliary functions) by January 2006 Design transitory measures for those to be transferred, by September 2006	Introduce new public service regime by January 2007 Transfer staff based on job evaluation by January 2007

1. WAGE REFORM: FISCAL AND MACRO-ECONOMIC ASPECTS

CONTEXT

1. The planned reform of the wage system in the civil and public service marks a new stage in the development of a professional civil and public service system in Kazakhstan. Between 1997 and 2002, the emphasis in civil and public service development was on system and institution building, and was dominated by the need to stabilize the public sector following the economic downturn that resulted from the break up of the Soviet Union. This was combined with fiscal prudence, in particular in the years following the Russian crisis of 1998, which significantly affected economic development in Kazakhstan.

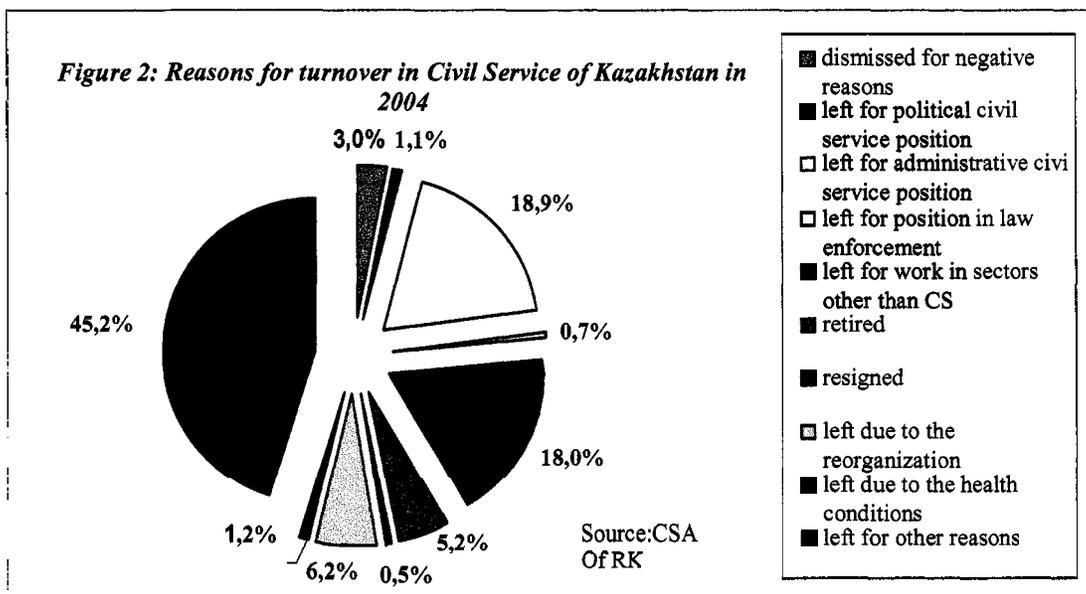
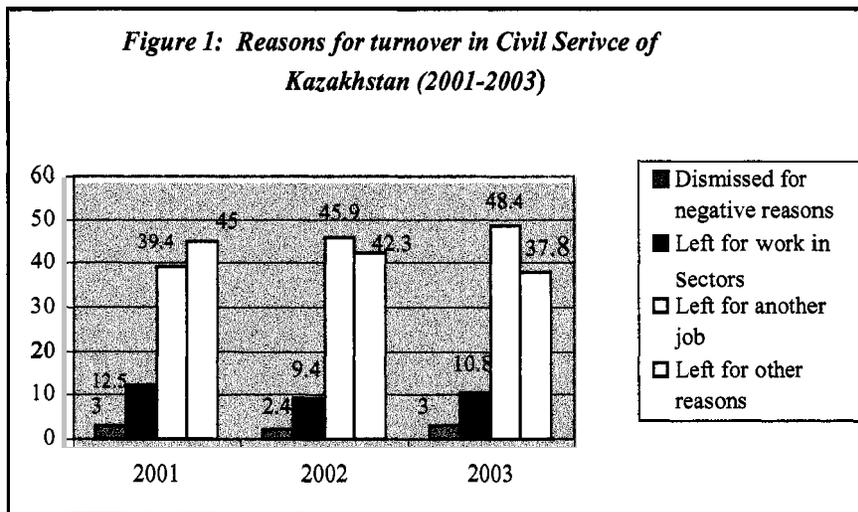
2. The stabilization of the civil service and its establishment as a credible and professional institution can be considered to be complete, putting Kazakhstan ahead of other CIS states, and even of some of the more advanced Central and Southeast European states. The creative use of grant schemes, which provided talented staff the opportunity to get advanced degrees in European and US universities in return for working for the civil service for an agreed number of years, led to an influx of young talented staff in the administration, further adding to the quality and diversity of the system.

3. However, the strong economic growth over the last years, driven mainly by the oil and gas industry, has reduced the competitiveness of the public sector as an employer. The continued conservative policy on wage development in the public sector, including in the Civil Service, has gradually eroded the quality of the civil and public service, as the private sector is able to offer significantly better pay and benefit packages.

4. The lack of competitiveness of the civil service is reflected in the turnover ratio, which has fluctuated around 14% between 2001 and 2003.⁷ Data on 2004 point to a turnover ratio of 8.5%, but this excludes a number of turnover categories. A turnover ratio of this magnitude constitutes a serious threat to the development of a professional civil service. The expected turnover ratio in established civil service systems generally should not exceed 4 percent.⁸ In addition, a very high percentage of the turnover consists of either civil servants that have left the Civil Service altogether, many of whom without a clear reason. Further analytical work is needed to establish whether 'other reasons' would mostly constitute earning levels. No data are currently available to determine what are the main types and levels of posts where turnover mostly occurs and such data should urgently be collected to properly tailor corrective measures.

⁷ Data obtained from the Civil Service Agency of Kazakhstan.

⁸ Turnover levels in a sample of 12 OECD states (including South Korea and Hungary) followed throughout the 1990s put turnover ratios in 11 of them between 0-4 percent. Only Greece was an outlier with 10 percent (OECD, 2001)



5. The turnover rate in an oil-rich state such as Norway, as a relevant comparator, topped 5%, in the 1990s. This was considered problematic by the authorities, and led to the development of an action plan to make the civil service more competitive, in particular through the introduction of performance measurement measures linked to a new bonus system.⁹

⁹ An OECD study conducted in 2003 (www.oecd.org) documents the measures the Norwegian authorities have taken to enhance competitiveness in the light of increasing turnover ratios, the measures mainly include the introduction of performance bonuses and a relaxation of rigidities in the wage system

6. The Kazakh Government responded to the increasing lack of competitiveness of civil service wages by implementing a significant wage increase in the civil service in 2004, raising the base pay level with by an average of 50 percent. The increase was implemented in an asymmetrical way, increasing pay at lower levels of the administration with up to 100 percent, but at higher levels with a much smaller percentage (up to 25 percent). This has resulted in a decrease in compression ratios in the system. Even though the compression ratio in absolute terms remains compatible with European levels, in the specific context of Kazakhstan, having an integrated civil service system, and taking into account the competitive pressure from the oil industry, a review of compression ratios would need to be considered.¹⁰ Furthermore, the wage increase was implemented through an implementation of the base rate of pay, which meant that those with a higher number of years of experience gained a significantly higher increase than junior staff.

7. Whereas the wage increase introduced a correction of wage levels, it did not address the root causes of the low level of competitiveness in public sector wages. The problem of competition for qualified staff lies mostly in the higher end of the wage system, and in relation to retaining young qualified staff. However, these groups did not benefit from the increase in the same way as lower level officials, and therefore the problem of competitiveness remains.

8. The reforms in the wage system included amendments to the wage system at oblast and rayon levels, for which new categories were introduced, reflecting a change in the register of state positions. The purpose of the introduction of new classes was to facilitate a more flexible deployment of officials at rayon and oblast levels. Previously oblast and rayon staff had been graded at the lower levels of the C, D, and E categories. Under the new system the number of categories in the general C, D and E categories was reduced, but new categories C-O (Oblast), C-R (Rayon), D-O, E-R and E-G were introduced. This adds further complexity and rigidity to the wage grid, which now consists of some 70 separate categories, each with a one-to-one relation to wage levels. The only variable remains the 'years of experience' factor.

9. In recognition of the systemic problems of the public sector wage system, President Nazarbayev in his policy statement in March 2004 flagged the issue of public sector wage reform as a priority for the coming years. Following an internal debate in the Government on how to address the competitiveness gap between the public and private sector,¹¹ the President announced the following overall policy direction at a special Government session in September 2004:

¹⁰ The actual compression ratio in Kazakhstan is difficult to establish, as Kazakhstan has an integrated civil service system. The ratio of 1:8.5 as a reflection of the lowest and highest position in the system is therefore not really relevant. The compression ratio in positions funded from the Republican budget after the January 2004 wage increase is approximately 1:6.5, which is compatible with European systems. It should be noted, however, that there is a significant gap between the B1 category and any lower levels, which to some degree distorts the ratio.

¹¹ A debate between those who advocated the extension of additional social benefit packages for officials, including better access to mortgages at special rates, extended medical benefits, special pension rights, etc. and those who argued for full monetization of benefits, arguing that it is more important to give the choice to officials to buy services on the market than to keep formal rewards low.

- a. the basis for wage reform would be the monetization of existing benefits, which will create significantly higher salaries, but will eliminate current entitlements related to housing, medical benefits, as well as most bonuses and allowances.
- b. the Kazakh model for civil service pay should be based on the model of Singapore, which has set an example in the development of an elite civil service, leading to the development of a system in which levels of corruption are among the lowest in the world.¹² The development of such a system would require the government to set salary levels in the civil service at a level that would be competitive with key alternative employers.

In the context of Kazakhstan it is proposed by the Civil Service Agency to set salaries at a level of at least 75 percent of the weighted average of official salaries in the top public enterprises in the country. Preliminary calculations based on data supplied by the Civil Service Agency would suggest that the implementation of this policy would require an increase in wages with approximately 119 percent, to be phased over a four year period.

10. Furthermore the current wage system does not provide incentives for better performance, as bonuses and wage development are not linked to performance in a transparent manner. *Bonuses and allowances account for up to 57 percent of pay at central government level and 30 percent at regional level*¹³. This is incompatible with OECD country standards, which generally have a base pay to real pay ratio of between 80 and 100 percent. In addition there is a wide variation in the extent to which bonuses are actually paid, which violates the principle of equal pay for equal work, enshrined in the Civil Service Law.

Monetization: scope and method?

11. As regards the first point, this would be a timely and highly appropriate step. There is a clear understanding of the need to address the problems that are inherent in the definition of extensive non-wage benefits in the civil service law, such as housing, medical benefits, etc. These benefits are in many instances either not operational, or allocated unevenly between institutions and levels of government. This measure will therefore help to eliminate existing problems of unequal access to benefits and will provide civil and later public servants the choice of what services to obtain and from where.

¹² Whereas Singapore is quoted as the main example for the proposed reform, this relates mainly to the principle of paying civil servants and political appointees competitive wages, both as a way to create a competitive system and to reduce levels of corruption. It is not intended at this point in time to copy the Singapore civil service model in other aspects.

¹³ Civil servants at central level receive on average between 22 and 28 monthly salaries per year, while at local and regional level 16-18 salaries is the general rule.

12. The remaining question is what will be the basis for calculating the monetization of benefits and to what degree all current bonuses and allowances will also be included in the monetization. As the below section will show, the latter is an issue for serious concern.

13. Table 1 and Figure 3 below provide an overview of the current wage structure in the Kazakh civil service, and shows that on average, 40% of wages at central level and 30% of wages at local level consist of bonuses and allowances. However, savings from the wage and material budget, which are used to provide additional bonuses (referred to in table 1 as performance bonuses), can increase the proportion of bonuses and allowances in central level institutions further to 57% of real pay; *based on available data a central level official could expect to get up to 28 monthly salaries per year.* This has serious implications for levels of transparency and equity in the wage system.

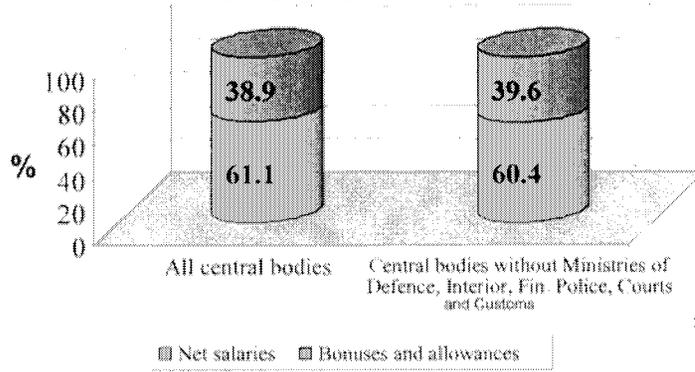
Table 1: Kazakhstan: Civil servants' total annual pay structure

Description	Source of funds	Central level	Regional level
Total pay		21-28 monthly salaries (without bonuses)	15-18 monthly salaries
➤ <i>Annual base salary</i>	Budgeted	11 monthly salaries	11 monthly salaries
➤ <i>additional payments for combination of jobs or legislative drafting</i>	administrative costs' savings (mostly wage bill for vacancies)	0,5 – 1 monthly salaries	0,2 – 1 monthly salary
➤ <i>annual leave allowance</i>	Budgeted	1 monthly salary	1 monthly salary
➤ <i>annual allowance for recovery</i>	Budgeted	2 monthly salaries	2 monthly salaries
➤ <i>bonus for administrative servants at the central level</i>	Budgeted	2 monthly salaries	not applicable
➤ <i>holiday related bonuses</i>	administrative cost savings (mostly wage bill for vacancies)	4-8 monthly salaries	1-2 monthly salaries
➤ <i>end-of-year bonus</i>	administrative cost savings (mostly wage bill for vacancies)	0,5-2 monthly salaries	0-1 monthly salary
➤ <i>performance related bonuses</i>	administrative cost savings (mostly wage bill for vacancies)	Discretionary	usually not available
➤ <i>welfare (in the event of marriage, birth of a child, death of a close relative, serious sickness etc.</i>	administrative cost savings (mostly wage bill for vacancies)	0,5-1 monthly salary	0,5 monthly salary

Source: WB staff estimates

Figure 3: Share of net salaries and bonuses: central administrative civil servants

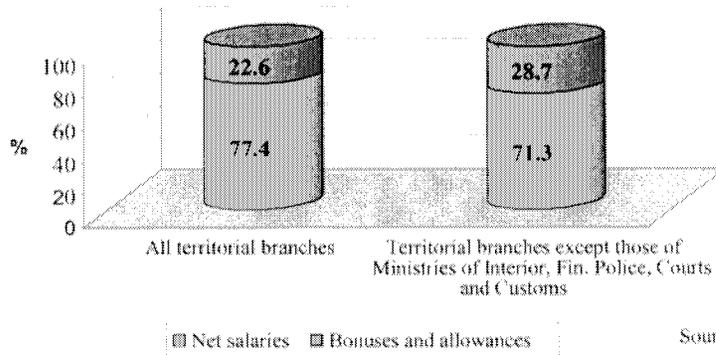
Share of net salaries and bonuses in total payments in the central bodies in 2004



Source: MFRK

Figure 4: Share of salaries and bonuses: de-concentrated offices of the state administration

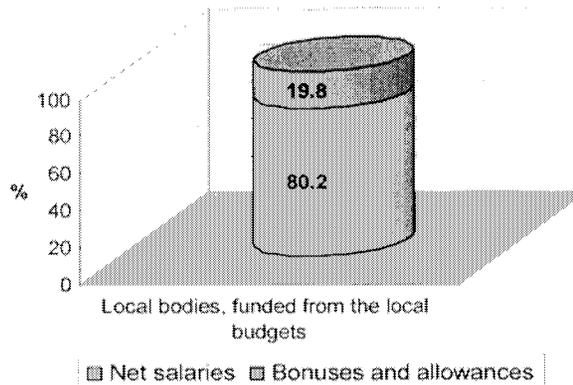
Share of net salaries and bonuses in total payments in territorial branches of central bodies in 2004



Source: MFRK

Figure 5: Share of salaries and bonuses: local bodies

Share of net salaries and bonuses in total payments in the local bodies in 2004



Source: MFRK

14. An addition problem is posed by the wide variation in the extent to which bonuses and allowances are actually paid. Figures 6 and 7 below highlight the differentiation between the highest and lowest bonus ratios in the system, which exists both between central and local level, and between individual institutions at these levels. Annex 3 provides an example of differentiation in bonus payments inside individual institutions, as provided by the Ministry of Finance.

Figure 6: Highest bonus paying institutions

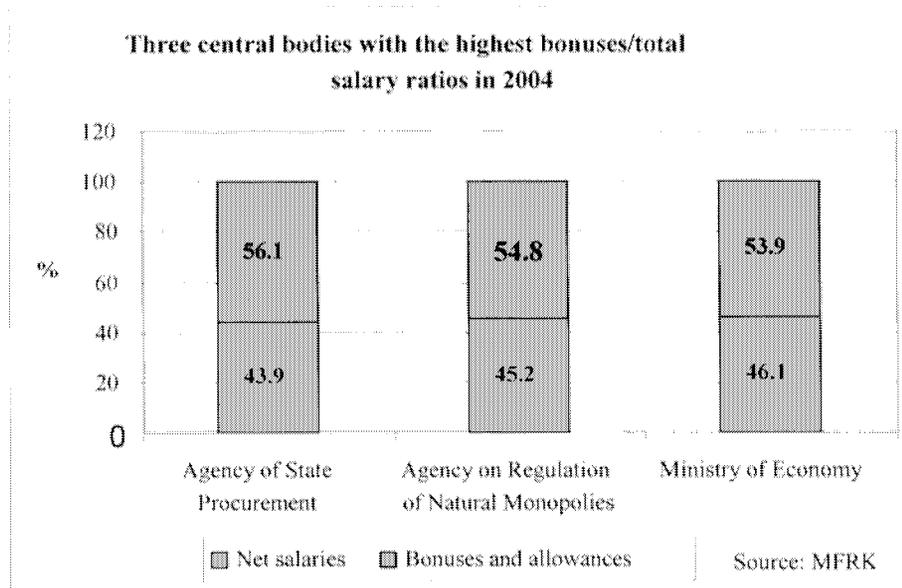
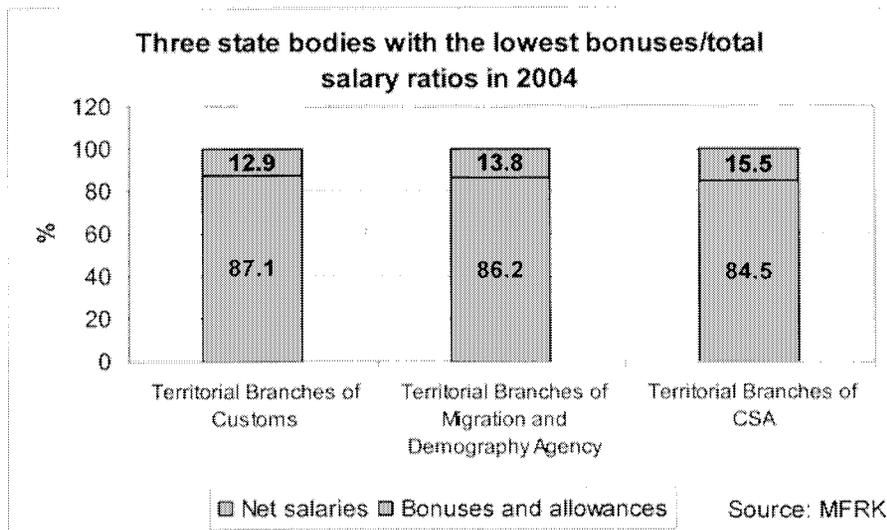


Figure 7: Lowest bonus paying institutions



15. The above picture contrasts strongly with the prevailing practice in OECD states (including for instance South-Korea as a relevant comparator state), where base pay constitutes 80-100% of salaries and civil servants do not get more than 1-2 additional monthly salaries as a maximum. We therefore would strongly suggest that monetization cover the widest possible degree of bonuses and allowances, in order to enhance transparency in the wage system. However, at the same time measures need to be designed to ensure that individual officials do not lose earnings in practice, which requires detailed fine-tuning of the instruments and measures used to rationalize the wage structure.

16. The current practice of using savings on the materials budget and savings from retaining vacancies¹⁴ to provide bonuses to selected staff members, at the discretion of the management of individual institutions, does not constitute an efficient and transparent use of public resources and should be transformed into a system whereby earmarked funds for bonuses are allocated by institution and granted to staff members based on a transparent set of criteria. In our view, it is essential that monetization be completed before a second stage of phased salary increases would be initiated. An important principle underlying such reform, however, is that no individual civil servant should lose income as a result, which could be achieved by 'grandfathering' some officials.¹⁵ On a guiding element in this regard is that institutions should be allowed to keep their current wage budget, even where posts are suppressed, at least until a re-classification exercise (which would most likely entail upgrading central level posts, as these are the most complex) is completed. In the context of Kazakhstan, this should be accompanied by a review of wage levels at the regional and local levels of government, in particular taking into account cost of living discrepancies, as otherwise regional and local officials would risk becoming losers in the reform process, thus risking resistance to reforms at the sub-national level.

17. A useful example of such a process is the reform in the wage system of the Ministry of Finance in Slovakia, which saw a reduction in staff levels of some 700 staff (which took out of the budget a significant future wage portion) paired with only a small reduction in the Ministry's wage budget. Furthermore, a re-classification process which ensured that wage levels were upgraded to levels that are sufficiently competitive to allow the government to retain qualified staff.

Interpreting the basis for the increase: potential issues

18. There are several important questions related to the second element of the reform package, which would consist of bringing wage levels in line with a defined proportion of public enterprise wages. These questions relate to the suitability of public sector

¹⁴ Statistical data put the average vacancy ratio at around 5%, but it would be prudent if the government were to conduct an audit of current practices to establish whether this is a real ratio. Furthermore, ratios are claimed to be significantly larger in selected central level institutions

¹⁵ An option applied in Armenia when the new pay system was introduced, see DFID (2004), Review of the Armenian civil service wage system

enterprise wages as a benchmark, the fiscal sustainability of a wage increase of this magnitude as well the necessary accompanying measures of the pay reform. These measures would need to ensure that the planned wage reform is fiscally sustainable, goes together with improved accountability and transparency in wage policy, and ensures the enhancement of performance in the civil service, so that the investment in public sector wages would have the desired impact in terms of improved quality of public services.¹⁶

19. This note will outline options for the consideration of the Kazakh government that would facilitate the development of a fiscally sustainable, accountable, transparent and competitive wage system. This first section of the Note will mainly serve to review the benchmark selected and to highlight the fiscal implications of the planned wage increase and possible ways to mitigate its possible impact on macro-economic stability. Furthermore, some of the key structural problems in the current wage system will be introduced. The remainder of the Note will then focus on possible options to address the structural constraints in the current wage system, which will be the main focus of the Note.

20. We will deal primarily with wage issues in the Civil Service system. Many of the issues and solutions raised here are relevant for further reforms of the wage system in the public service and where appropriate reference will be made to the broader implications of proposed reforms for public sector wages in the broad sense. However, a detailed assessment of wage reform issues in the whole public sector is beyond the scope of this specific study

BENCHMARKING AND FISCAL SUSTAINABILITY: QUESTIONS OF SCOPE AND SEQUENCING OF PAY INCREASES

Public sector enterprises as a benchmark?

21. The choice of public sector enterprises as a benchmark to set wage increases is potentially attractive. This choice would seem to constitute a middle ground between the Government and the private sector, and would avoid competition with the foreign firms that are active in the rapidly developing oil and gas industries, a competition that the Government is unlikely to be able to afford. Furthermore, public sector enterprise wages are subject to oversight by the Government and Parliament, which would further help to control the impact of a wage linkage.

22. However, whereas the benchmark seems appropriate at face value, further analysis raised some significant potential problems. Discussions with representatives of public sector enterprises revealed that whereas there is oversight on nominal wages, 'automatic' bonuses provided to employees push up real wages significantly, in many instances by 100 percent. Therefore, setting wages at a level of 75 percent of the nominal

¹⁶ The recently completed CEM explores some of the elements that reduce Kazakhstan's competitiveness on international markets. A lack of investment in health and education and low quality of services in these areas are identified as among the key factors that reduces competitiveness.

wages in public sector enterprises may not sufficiently decrease the competitiveness gap between the civil service and public sector enterprises. Efforts should therefore be made to assess the extent to which the planned form of the wage increase will make a difference to competitiveness, as well as to consider what alternative benchmarks may be available.

Questions of fiscal sustainability

23. Regarding fiscal sustainability, it is important to get clarity on the fiscal cost of different options for salary reform. Kazakhstan has had a significant budget surplus in recent years (see Table 2 below). However, an across the board increase of 122 percent for the more than 90,000 civil servants, may still pose risks if phased over four years, as currently proposed, especially if one considers the existing linkage between pay levels in the civil and public service.¹⁷ Considering alternatives, such as a phased implementation over a larger number of years, starting with a small number of pilot ministries that would have access to additional resources, or phasing increases by groups of officials, may therefore be needed to keep the process sustainable.

Table 2: Budgetary development over 2000-10

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Actual	Actual	WB proj.					
<i>(In billion tenge)</i>											
State budget revenue	568	717	795	992	1,277	1,518	1,717	1,917	2,121	2,348	2,627
State budget expenditures 1/	594	747	808	1,038	1,296	1,639	1,766	1,970	2,176	2,409	2,694
of which: Wage bill 2/	106	122	152	171	237	293	354	461	599	629	660
State budget balance	-25	-30	-13	-46	-19	-121	-80	-53	-55	-60	-66
Oil and capital revenue saved in the NFRK 3/	0	190	109	229	139	55	1	-10	-7	24	43
Capital revenue (privatization) spent through the budget	22	17	19	3	7	0	0	0	0	0	0
Consolidated budget balance	-3	177	116	186	127	-66	-49	-63	-62	-36	-23
<i>(In percent of GDP)</i>											
State budget revenue	21.9	22.1	21.1	21.5	23.0	23.7	23.9	23.6	23.2	22.8	22.6
State budget expenditures 1/	22.8	23.0	21.4	22.5	23.4	25.6	24.6	24.2	23.8	23.4	23.2
of which: Wage bill 2/	4.1	3.8	4.0	3.7	4.3	4.6	4.9	5.7	6.6	6.1	5.7
State budget balance	-1.0	-0.9	-0.3	-1.0	-0.3	-1.9	-0.7	-0.7	-0.6	-0.6	-0.6
Oil and capital revenue saved in the NFRK 3/	0.0	5.8	2.9	5.0	2.5	0.9	0.0	-0.1	-0.1	0.2	0.4
Capital revenue (privatization) spent through the budget	0.8	0.5	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated budget balance	-0.1	5.4	3.1	4.0	2.3	-1.0	-0.7	-0.8	-0.7	-0.4	-0.2
<i>Memorandum items:</i>											
GDP (billion tenge)	2600	3251	3776	4612	5543	6400	7182	8125	9136	10304	11606

Source: Kazakh authorities; WB staff estimates.

1/ Including Net budget lending.

2/ Wages and salaries, and Employers' contributions.

3/ NFRK: National Fund of the Republic of Kazakhstan.

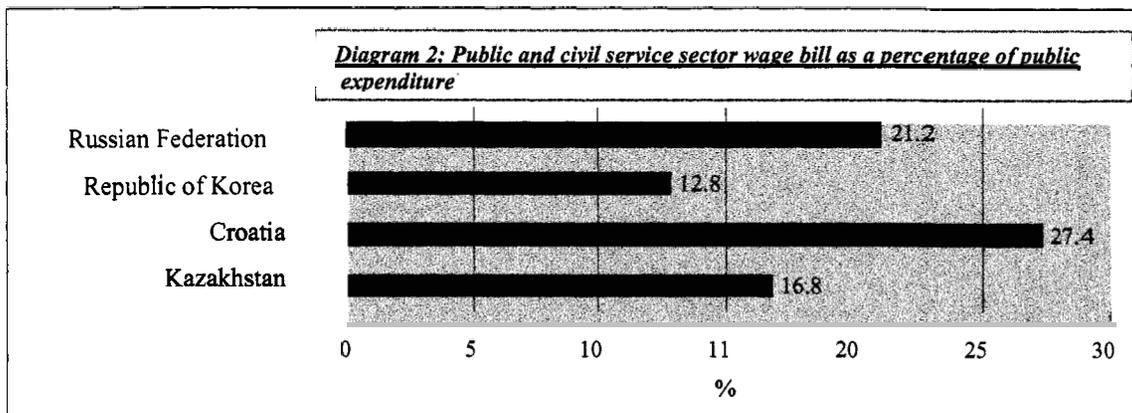
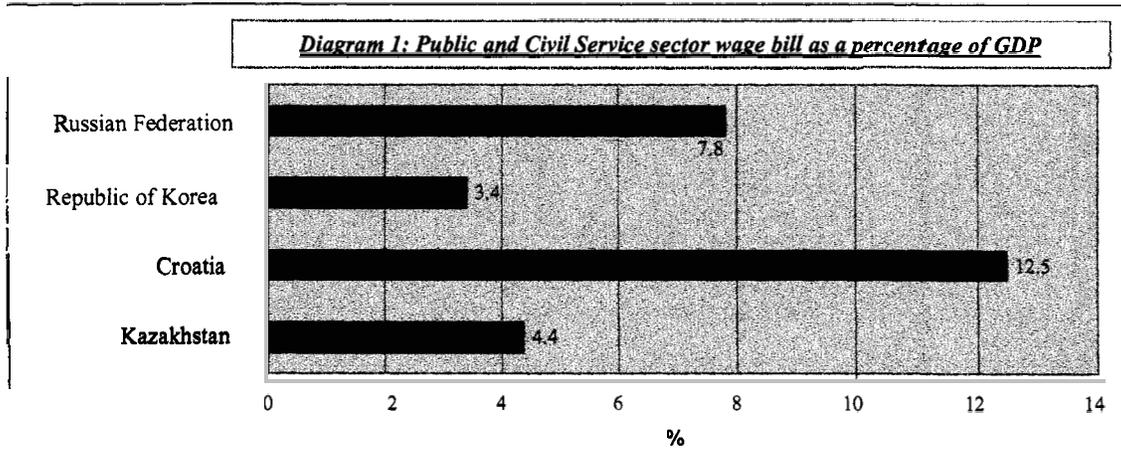
24. A wage increase of the proposed level will be reflected in an increase in the proportion of the wage bill as a percentage of GDP, as well as in terms of Public Expenditure.¹⁸ Kazakhstan currently has relatively low levels of spending on both parameters, especially when compared with Central European states,¹⁹ but also with other benchmark states such as the Russian Federation, as presented in Diagrams 1 and 2

¹⁷ Wages in the public service and civil service are linked, though not on a one-to-one basis. When wages for civil servants were increased by 50 percent in 2004, the corresponding change in public service wages was 30 percent.

¹⁸ The actual impact on the percentage of wage as a proportion of public spending depends largely on the overall volume of public expenditure, which is also set to increase over the coming years.

¹⁹ The average for the EU-8 is 7.9 percent.

below.²⁰ The Republic of Korea is included below as a low end comparator middle-income state. However, it is important to note that other comparator states in this group, such as Mexico, have significantly higher ratios.²¹ Therefore, whereas in principle there is some space for maneuver in terms of wage expenditures, there are issues both in terms of inflationary pressure and in the risks posed by a combined simultaneous acceleration in wage and non-wage expenditures, especially if these occur across the whole of the public sector.



25. The magnitude of the growth in relative wage expenditure for the civil service only²² is summarized in Figures 3 and 4 below. As the size of the civil service as a component of wage expenditure overall is relatively modest, about 12.5 percent of overall wage expenditure, the implications of a significant wage increase on public expenditure levels in the civil service are not necessarily worrying.

²⁰ In Diagrams 1 and 2 data for Korea are for 2000, for Russia for 2002, for Croatia and Kazakhstan from 2003, World Bank estimates.

²¹ Based on World Bank Data, the 2000 ratio for Mexico in terms of public expenditure was 26.4 percent, comparable to Croatia.

²² In Kazakhstan this includes political appointees including Ministers.

26. A level of around 1 percent of GDP for civil service pay is average for both OECD states and among the EU-8, including for Croatia, as well as to other relevant comparator countries, such as Mexico and South Korea (see Diagram 3 below).²³ The same is true for civil service wages as a proportion of public expenditure.

Table 3: Suggested wage increase by stages as a percentage of GDP and public expenditure

	2005	2006	2007	2008
Wage bill as % of GDP, of which	0.64	0.74	0.85	0.97
Republic budget	0.36	0.42	0.48	0.55
Local Budgets	0.28	0.33	0.37	0.42
Wage bill as % of public expenditures, of which	2.45	3.08	3.51	4.12
Republic budget	1.38	1.73	1.97	2.32
Local budgets	1.07	1.35	1.54	1.80
GDP	6231	7026	7997	9030
Public expenditures	1633	1700	1928	2125
Inflation	6.5	6.2	5.5	5.5
Exchange rate KZT/USD	131.7	129.2	128	127.4

Table 4: Suggested wage increase by stages (in bln. tenge)

	2005	2006	2007	2008	Increase in 2005-2008	2005-2008 percentage
Republican budget	22.5	29.4	38.1	49.3	26.8	119.0
Local budgets	17.5	22.9	29.6	38.3	20.8	119.0
Total state budget	40.0	52.3	67.7	87.6	47.6	119.0

²³ Project wage bill for Kazakhstan compared to latest available data for comparator countries (2000), World Bank data

Figure 8: Suggested increase of civil servants' wage bill related to GDP

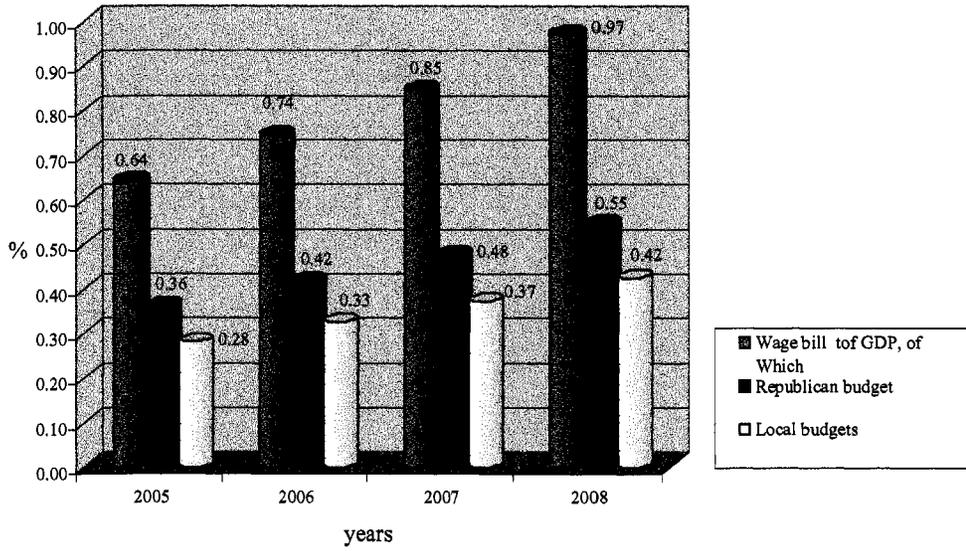
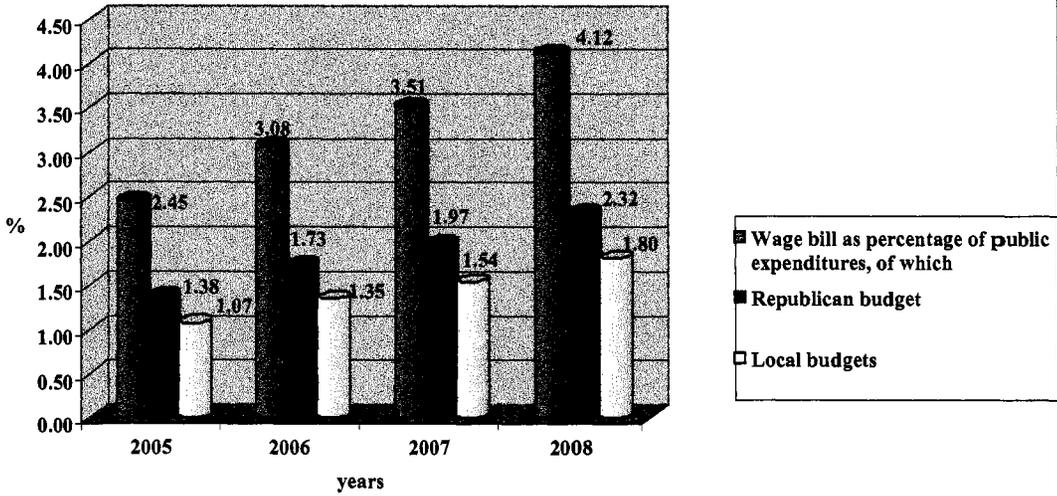
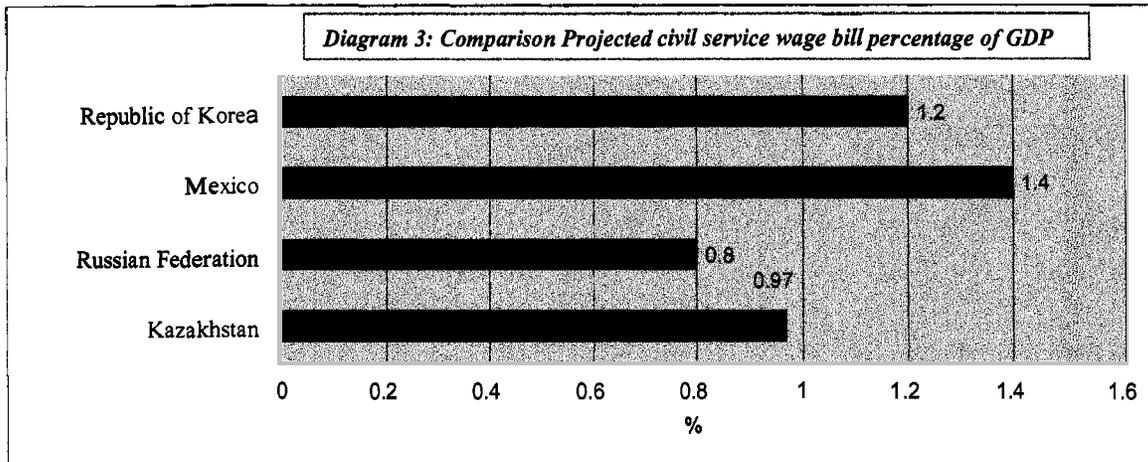


Figure 9: Suggested increase of civil servants wage bill as percentage of public expenditure





27. However, whereas the fiscal implications of an increase of wages in the civil service alone do not at first glance appear to be dramatic, there are two related issues which give greater cause for concern. First, the linkage with public sector wages could exacerbate the impact of the civil service wage increase significantly depending on the extent to which the linkage would be retained. Second, there is a risk of (admittedly isolated) inflationary pressure in those cities and regions with a high number of civil servants, in particular in Astana. Inflationary pressure would obviously increase additionally if the linkage with public service wages is retained, so the two issues are strongly interlinked.

The linkage question and its implications for fiscal sustainability

28. As noted above, the most significant risk related to the implementation of a Singapore style pay model is the existing linkage between civil and public service employment conditions. Even though in recent rounds of wage increases the linkage has not been strictly retained, it is obviously undesirable from both a political and equity point of view to leave wages in the broader public sector at the same level, while increasing wages in the civil service by 122 percent. The direction set out in the President’s annual speech to Parliament (February 2005) confirms that civil and public service wages can be expected to rise at similar ratios over the next four years.

29. There are two potential scenarios worth reviewing. First, the application of a similar increase in the civil and broader public service at the same time, and second, a phased but asymmetrical implementation of wage increase packages for the whole public sector, but implemented over a longer time period (e.g., five years to complete the full reform across the public sector).

30. Under the first scenario, a similar increase would be applied to the whole public service and would bring the wage to GDP ratio close to 6.6% percent of GDP, which is

still within the range of the average OECD state²⁴, as well as the EU-8 and Russia (7.9 percent and 7.8 percent respectively) lower than all Southeast European states, including middle income countries such as Croatia and Slovenia, but significantly above other comparator middle income countries, such as South Korea and Chile (4.1 percent)²⁵.

31. Since the level of revenues is not likely to increase at the same speed, the wage bill as a percentage of public expenditure would go up significantly, to a projected level of 27.5% percent of public expenditure, significantly higher than many of the above comparator states, including Russia (21%) and South-Korea (12.5%), though still within the range of, for instance, other middle income countries such as Chile (28.8 percent) and Croatia (27.4 percent).

32. However, more importantly, at this rate expenditure on wages will certainly crowd out much needed investment in social and physical infrastructure.²⁶ Projections show that the investment budget under this scenario would decrease to 2 percent of GDP, one third of the current levels, which may not be acceptable, in particular in view of the need to invest in health and education facilities, as highlighted in the recent Country Economic Memorandum (2005).

33. Based on the below presentation of data, it would appear prudent if the Government would reflect further on phasing the wage increases in the civil and public service. In our view, it may be preferable to design a wage increase package across the whole public sector which in its phasing would consider issues such as the need to respond to wage competition from the private sector, progress in structural reform in the sector, etc., and design wage increases asymmetrically over a longer period of time (e.g., five years). The latter would bring more flexibility in mitigating fiscal consequences, while still addressing the competitiveness issue which is crucial to the development of the civil service, for instance by rapidly raising wages of senior management levels in both civil service and key areas of the public service, while increasing the salaries of lower level officials and public servants at a different speed.

²⁴ Based on OECD/PUMA data (2002) this would put Kazakhstan in the range of states such as Germany, Austria, Spain and Hungary, but still well below Denmark and Finland. Data were only available for eight of the OECD member states

²⁵ Based on World Bank Data, 2000 for Chile and the Republic of Korea, 2003 for southeastern Europe and 2002 for the EU-8.

²⁶ See the discussion in the Kazakhstan CEM (2005) for more details.

Table 5: Budgetary development over 2000-10

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Actual	Actual	WB proj.					
<i>(In billion tenge)</i>											
State budget revenue	568	717	795	992	1,277	1,518	1,717	1,917	2,121	2,348	2,627
State budget expenditures 1/	594	747	808	1,038	1,296	1,639	1,766	1,970	2,176	2,409	2,694
Current budget programs	529	634	671	795	997	1,182	1,388	1,627	1,906	2,101	2,316
of which: Wage bill 2/	106	122	152	171	237	293	354	461	599	629	660
Civil service	12	15	19	22	34	42	51	66	86	90	94
Public service	93	107	133	149	203	251	304	395	513	539	566
of which: Interest	35	38	39	35	35	40	50	53	55	60	66
of which: Pensions	101	111	119	147	170	208	264	299	336	379	427
Development budget programs	65	113	137	243	299	456	378	343	270	308	378
State budget balance	-25	-30	-13	-46	-19	-121	-50	-53	-55	-60	-66
Oil and capital revenue saved in the NFRK 3/	0	190	109	229	139	55	1	-10	-7	24	43
Capital revenue (privatization) spent through the budget	22	17	19	3	7	0	0	0	0	0	0
Consolidated budget balance	-3	177	116	186	127	-66	-49	-63	-62	-36	-23
<i>(In percent of GDP)</i>											
State budget revenue	21.9	22.1	21.1	21.5	23.0	23.7	23.9	23.6	23.2	22.8	22.6
State budget expenditures 1/	22.8	23.0	21.4	22.5	23.4	25.6	24.6	24.2	23.8	23.4	23.2
Current budget programs	20.3	19.5	17.8	17.2	18.0	18.5	19.3	20.0	20.9	20.4	20.0
of which: Wage bill 2/	4.1	3.8	4.0	3.7	4.3	4.6	4.9	5.7	6.6	6.1	5.7
Civil service	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.9	0.9	0.8
Public service	3.6	3.3	3.5	3.2	3.7	3.9	4.2	4.9	5.6	5.2	4.9
of which: Interest	1.4	1.2	1.0	0.8	0.6	0.6	0.7	0.7	0.6	0.6	0.6
of which: Pensions	3.9	3.4	3.2	3.2	3.1	3.2	3.7	3.7	3.7	3.7	3.7
Development budget programs	2.5	3.5	3.6	5.3	5.4	7.1	5.3	4.2	3.0	3.0	3.3
State budget balance	-1.0	-0.9	-0.3	-1.0	-0.3	-1.9	-0.7	-0.7	-0.6	-0.6	-0.6
Oil and capital revenue saved in the NFRK 3/	0.0	5.8	2.9	5.0	2.5	0.9	0.0	-0.1	-0.1	0.2	0.4
Capital revenue (privatization) spent through the budget	0.8	0.5	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated budget balance	-0.1	5.4	3.1	4.0	2.3	-1.0	-0.7	-0.8	-0.7	-0.4	-0.2
<i>Memorandum items:</i>											
GDP (billion tenge)	2600	3251	3776	4612	5543	6400	7182	8125	9136	10304	11606
Period average exchange rate (KZT/US\$)	142.1	146.7	153.3	149.6	136.0	131.7	129.2	128.0	129.1	130.3	131.4
CPI inflation pa (% change)	13.2	8.4	5.8	6.4	6.9	6.5	6.2	5.5	5.0	5.0	5.0
Public/Civil service pay linkage (ratio)	...	0.94	0.97	0.98	0.88	1.00	1.00	1.00	1.00	1.00	1.00
Wage bill/State budget expenditures (%)	17.8	16.4	18.8	16.5	18.3	17.9	20.1	23.4	27.5	26.1	24.5
Average monthly wage (US\$)	97	118	133	155	208	264	315	382	455	496	542
Public sector	68	83	91	102	142	185	228	299	385	401	417
Civil service	81	99	117	124	208	265	327	429	552	575	598
Public service	53	63	78	89	126	165	203	267	344	358	373
Private sector 4/	148	172	177	209	290	344	402	465	524	587	658
Average monthly wage (% real growth)	4.5	16.4	10.6	7.0	14.3	15.3	10.4	14.1	14.4	4.7	4.8
Public sector	-4.8	16.2	7.8	3.0	18.9	18.1	13.8	23.2	23.8	0.0	0.0
Civil service	-6.1	16.8	16.0	-2.1	42.2	16.0	13.8	23.2	23.8	0.0	0.0
Public service	-9.6	12.3	23.0	4.5	20.2	19.8	13.8	23.2	23.8	0.0	0.0
Private sector 4/	9.6	10.5	1.8	8.2	18.0	7.9	8.0	8.5	8.2	7.8	7.6

Source: Kazakh authorities; WB staff estimates.

1/ Including Net budget lending.

2/ Wages and salaries, and Employers' contributions.

3/ NFRK: National Fund of the Republic of Kazakhstan.

4/ Excluding Agriculture.

34. Under this scenario, both the wage to GDP indicator and the wage to public expenditure ratio would remain at relatively healthy levels, thus limiting the risk of crowding out public investments. Finally, some rationalization in staff numbers will result from the ongoing restructuring process in the state administration, which may further reduce the fiscal cost of wage reform, though no exact estimates are currently available of what level of reduction may be expected.

Inflationary pressure

35. A second risk area is inflationary pressure. There is anecdotal evidence of the significant price increases in Astana following the 2004 wage increase for civil servants. Whereas this was an isolated and particular case, an across the board wage increase for the whole public sector at the levels currently proposed would create serious risks, especially if public and private sector enterprises would react with competitive behavior. Whereas this is not necessarily going to be the case, the possibility should be carefully examined. Initial estimates of inflationary impact would appear to be encouraging, as

wage increases would lead to a 1 to 1.5% increase in inflation. Text box 1 provides further background information on this issue, while Annex 3 contains a description of the method by which inflationary impact was calculated. The additional issue of the impact on inflation in selected cities, with high relative employment in the civil and public service, remains to be further examined.

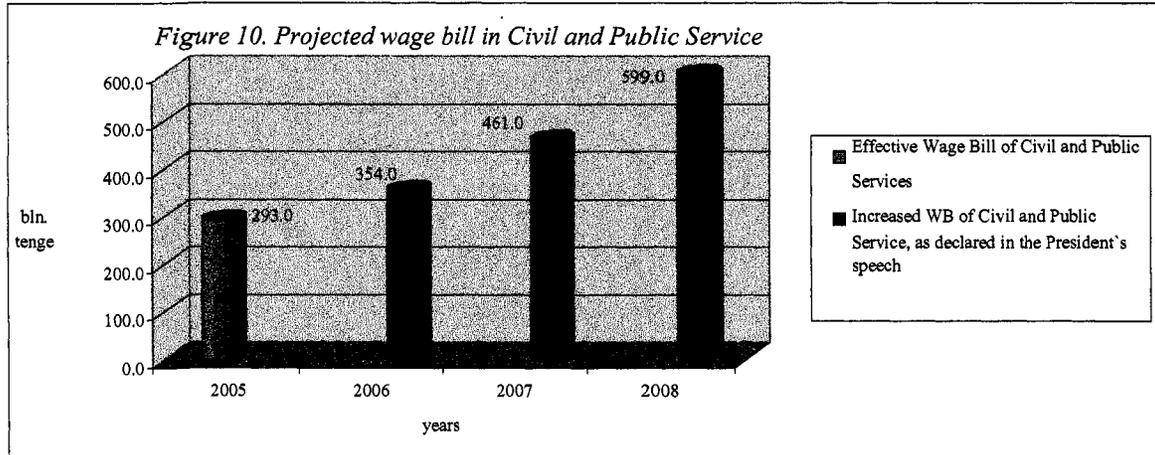
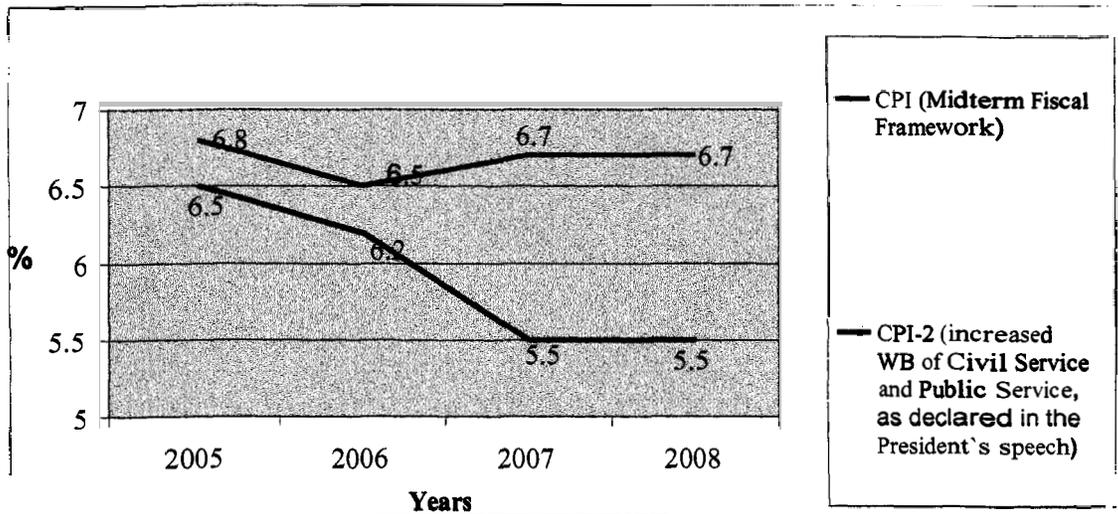


Table 6: Projected Inflation trends due to increase of the wage bill in Kazakhstan

	2005	2006	2007	2008
CPI (Midterm Fiscal Framework)	6.5	6.2	5.5	5.5
CPI (increased WB of Civil Service and Public Service, as declared in the President's report).	6.8	6.5	6.7	6.7
GDP real growth, percentage (MTFF)	7.9	8.0	8.5	8.5
Inflows to NF, bln. Tenge	86.3	78.4	78.8	-

Figure 11: Projected inflation trends²⁷



Box 1: Background to the analysis of Fiscal and Inflationary Implications of the Wage Bill Increase

An increase of the wages in civil service according to the parameters set in the President's speech will allow nominal increase in average wage in civil service by 60 percent from the current 33 343 tenge to 55 765 tenge in 2007. If an additional 32 percent increase in wages is implemented in 2008 this will lead to 115 percent nominal increase of average wage up to 71 723 tenge or double increase in real terms. However, it should be noted, that this increase will enlarge the differences in pay among the different levels of civil servants. The average wage at the central level, for example, is expected to reach 140 176 thousand tenge by 2008, while the average salary at rayon level will be equal to 62 496 tenge.

The projected CPI, calculated based on these data and regression analyses (6.8 percent in 2005, 6.5 percent in 2006, 6.7 percent in 2007, and 6.7 percent in 2008) does not seem to cause a concern as such, it should be noted that the increase in social payments and pensions will add a further inflationary burden on the economy.

Additionally, three factors will play a crucial role in handling the inflationary pressure. First, inflation is likely to be higher with the efforts of the monetary authorities to prevent a substantial appreciation of the tenge. Second, the non-monetary accelerators of inflation such as increase of tariffs for public utilities, transportation and others may add inflationary points. The third factor which is likely to add inflationary pressure is the rational expectations. If the increase of salaries and wages are expected, consumer goods' producers would expect the increased purchasing power of consumers and set higher prices, even prior to the increase itself. If these behaviors come into force the inflation is likely to eat a certain part of nominal increase.

²⁷ Methods for assessment are presented in Annex 3

Mitigating fiscal impact: phasing issues in the core civil service

36. In order to mitigate the risks associated with a rapid wage increase, the design and phasing of reforms will be crucial. Apart from the linkage with the public service, discussed above in the context of the fiscal sustainability question, there are two key aspects to phasing the increase for the core civil service, phasing in time and phasing in relation to the groups of officials covered.

37. A phased implementation over a longer period of time is a first option to be considered, and would certainly mitigate fiscal impact. However, any phasing will need to consider the need for wage reform needs to proceed rapidly enough to allow public sector wages to catch up with wages in public enterprises, which themselves are also growing rapidly. In this regard, both the level and location of officials become important factors. Any decision on a change in phasing would therefore need to consider the competitiveness of wages, in particular at the senior management level of the administration, where competition for scarce skills is most pronounced.

38. One option is a gradual implementation of wage reform based on location of officials and their source of budget funding, starting with the approximately 6,000 officials funded from the Republican budget, followed by a similar process in the remainder of the civil service, but in a staggered format. Whereas this may seem an attractive option, it poses potential problems in creating different pay levels for officials working in deconcentrated units of the central state administration in the regions and officials working for Oblast and Raion administrations as the same level, and can be seen as going against the 'equal pay for equal work' principle. Furthermore this option is likely to draw political opposition from Raion and Oblast Akims.

39. A second option is to focus on senior management levels across the civil service and stagger the planned wage increase, frontloading increases for senior management and backloading those for lower level officials, regardless of their source of funding. However, this has the drawback of posing equity questions and would go against the overall government policy of trying to ensure that any civil servant be given at least a living wage.

40. A third possibility would be to pilot a fully reformed wage and job classification system in a few selected central ministries, and allow these institutions discretion in the use of wage funds within the limits of the new system. Under this scenario, initial wage increases would be granted across the board in 2005, while further rounds of increases would be at least in part dependent on institutions introducing a new wage and job classification system. This final option is attractive in particular if one takes into account the necessity for accompanying reforms to be designed and implemented, in particular in relation to the job classification system.

41. A fourth option would be for the Government to design an overall wage system and associated wage levels, based on a new job classification and evaluation system, and preferably including regional adjustment factors, which ministries would then be able to

join once they would put in place the necessary institutional reforms. The new wage system would need to be designed in such a way that no civil servants would be worse off, while holders of key management positions in particular would get significantly improved conditions. Ministries and agencies would get the improved salary budgets once they would join the system. This approach, called a 'graduation model' would make sure that reforms are not held back, while at the same time introducing stimuli for ministries to put in place desired reforms as soon as possible. Experience with the introduction of such approaches to reform in the Middle East and North Africa have shown that if well designed, this approach can hold powerful incentives for reform. World Bank experience in supporting fiscal reforms in Russia, which were also based on this type of model,²⁸ provides further evidence that this kind of approach can deliver.

42. Based on the above considerations, either an approach based on piloting a fully reformed system in selected institutions, with a roll out process over the whole civil service in a second phase, or a 'design and graduation approach', would appear to be the most appropriate options. However, this would require further consideration on how salary increases *after* 2005 are allocated, in particular the extent to which preferential increases would be given to those institutions that will have already introduced new salary and job classification systems.

PRECONDITIONS FOR THE WAGE INCREASE: INCREASING LEVELS OF ACCOUNTABILITY, EQUITY AND TRANSPARENCY AND AN INCREASED EMPHASIS ON CAPACITY BUILDING

43. An increase in the wage level at the proposed level would need to be preceded by a reform of the current wage system that would address the widely recognized need to enhance equity, transparency and accountability in wage allocation. In discussions with officials and based on previous analytical work, several key issues stand out that limit accountability, equity and transparency in the salary system, which need to be addressed as a precondition for reform.

Equity

44. Even though the civil service law endorses the principle of 'equal pay for equal work', this is not reflected in practice. The lack of flexibility in the current pay and grading system, due both to one-to-one relations between positions and pay grades and due to the very broad definition of position categories in the Register of States Positions, had led to a situation where different types of jobs are rewarded with the same wage and vice-versa. This is further aggravated by the fact that 'years of experience' is the only variable factor in the system. This leads to a situation where a young official in charge of a complex department in a key ministry will be paid less than an older official who is in charge of a department conducting routine administrative tasks, as both posts are likely to be graded at the same level, and the person with a longer working record will get a higher

²⁸ In the case of Russia additional Federal Budget transfers would be provided to selected regions that would put forward reform budget system proposals that were assessed on a competitive basis

allowance for years of service. There is no flexibility for managers to reward **officials** differently for tasks of varying complexity.

45. An additional dimension of the equity issue is regional disparities. **The** civil service system uses a unified wage system that does not reflect in any way **the** vast differences in cost of living across the country, thus making what is a living **wage** in Shymkent highly inadequate in Atyrau. If the quality of the civil service is to **continue** to develop in a uniform manner, a solution to this problem has to be found. However, **at** the same time this would need to reflect the 'equal pay for equal work' principle.

Transparency

46. The way in which bonuses and allowances are allocated needs to be **harmonized**. Currently bonuses are allocated in an ad hoc fashion, and depend on **whether** organizations can make savings on the wage and materials budgets. **Furthermore**, whereas civil servants at the central level do get a general performance bonus of two months' salary, this is not guaranteed at the oblast and rayon level. To the contrary, **oblast** and rayon administrations report problems finding the budgetary means for **mandated** salary increases.²⁹ In addition, where bonuses are awarded, this is done at **the** full discretion of managers, without any rules or guiding principles.

Accountability

47. The system has become overly complicated by the introduction of **additional** grade levels, leading to the creation of some 70 different grades in the civil **service**. Whereas there were good reasons for the measures that were taken, in **particular** the enhanced possibility for rotation and alternative deployment of officials, the **system** has now become overly cumbersome, and provides few incentives for improved **performance**.

48. There is no possibility to link performance with career advancement. **The** only variable in the salary system is a rigid 'years of experience' increment that is **provided** regardless of performance. This stifles career opportunities for young talented **staff**. The recently introduced amendments to the Civil Service Law provide the **possibility** of promotion without competition, which was meant as a means to address this **particular** problem. However, this is a measure that reduces transparency in career **management** as there is no need for any form of competitive internal process.

49. The emphasis of accountability for results needs to be combined **with** the introduction of measures that would reduce the abuse of office. Providing **officials** with significantly higher wages will not be justified as long as there is no clear **improvement** in the ethical standards in the public administration. The introduction of explicit **service** standards and performance goals would be a first step in this direction. In **addition** stronger measures deterring corruption need to be introduced.

²⁹ Based on interviews with officials in the Karaganda, Shymkent and Atyrau Oblast and City Administrations held in September and December 2004 and January 2005

Investment in capacity

50. Enhanced levels of performance in the civil service depend both on incentives and available human capital. The incentive and accountability measures above therefore need to be coupled with an increased emphasis on capacity development in the civil service. Professional development programs are available in Kazakhstan through the Civil Service Academy and the Eurasian Training Center. Whereas the former provides a more academic type of program at a postgraduate level, the latter institution has developed a full menu of in-service training options for the civil service. However, thus far there is no clear vision on how the available training potential is going to be used to further capacity development in the civil service. This is a further issue that needs urgent reflection.

TOWARD AN AGENDA FOR SYSTEMIC CHANGE

51. Whereas the above issues are acknowledged by all key counterparts involved in civil service reform in Kazakhstan, there are clear differences in views as to how, and at what stage these issues should be addressed.

52. *We recognize the complexity of this particular reform process, as well as the fact that the introduction of reforms in the wage system may complicate the rapid introduction of significant wage increases, and may require the Government to consider a staged implementation.* However, it would, in our view, be inconsistent with good international practice to introduce significant wage increases, with serious implications for the state budget, without introducing at the same time measures that would address the issues identified above. Once the wage increase becomes effective, the chances for systemic reform will be lost, without generating tangible improvements in the performance of public organizations that would be its main source of justification. A tangible improvement in performance can only be achieved if the above issues are addressed, and if simultaneously a system for performance measurement at the level of public sector organizations is also introduced.

53. In view of the above considerations, this Policy Note will seek to address the following five main elements of reform that in our view should accompany the planned wage increases and provide recommendations on how each of the issues raised could be addressed:

- a) What are the main principles underlying the effective planning of wage system reform, how to ensure linkages with other reform processes and plan the necessary reform steps.
- b) What would be the best direction for reform of the civil service salary system and how could it be enshrined in legislation and regulations.
- c) How can performance elements be introduced in career management and pay in the specific context of Kazakhstan and how can professional development be better integrated in career development.

- d) What mechanisms could be created to enhance organizational performance, especially in terms of service delivery.
- e) How can the size of the civil service be reduced: is creating a separate public service system accompanied by a transfer of a large number of civil servants to the public service an option for reform, and if so, what would be the criteria for separation of civil and public servants.

2. WAGE SYSTEM REFORM PLANNING

54. The planning of the introduction of reforms in the civil and public sector wage system has to be a medium-term process. Whereas there is a clear need to move fast in the introduction of wage increases, not to further increase the competitiveness gap with public sector enterprises and the private sector, it is highly important to synchronize wage increases with wage system reform. Furthermore, some key elements of the reform need to be in place by 2006, before the second step of the four announced increases is put in place. This relates in particular the monetization of benefits and allowances, and to measures to enhance equity and transparency. This is important in particular in a unitary state with an integrated civil service system and a de facto linkage between public and civil service wages. The remainder of this note will therefore focus mainly on these particular issues.

55. The review of the comprehensive reform steps taken in the Austrian system presented in Box 2 below provide an interesting example of the complexity of pay system reform. Whereas the lessons derived from the Austrian reforms can be understood only in their specific context, which has significant differences with the Kazakh context (in Kazakhstan there is less involvement of the trade unions, but more complexity due to the integrated nature of the civil service system, and significantly higher problems with competitiveness and turnover), the review below illustrates the need for careful and realistic planning of reforms. That said, it should be possible in Kazakhstan to move faster on several elements of the reform process, especially if wage system reform is introduced in a phased manner, and therefore the time period for full implementation could be brought back to 2 years, including a pilot phase.

THE IMPORTANCE OF SEQUENCING

56. The illustration below of steps does not cover one of the other issues raised in the introduction, which is sequencing. In our view, the introduction of significant reforms in the wage system will require a sequential implementation. Whether one opts for a heavier or a lighter wage system, and whether more or less deregulated, its simultaneous implementation for 90,000 or more civil servants would be a virtually impossible task.

57. If a centralized one-size-fits-all model were attempted, this would almost certainly lead to a bureaucratic form of implementation that would discredit the new system from the outset. In view of the complexity due to the integrated nature of the Kazakh civil service, the only feasible option would be to introduce any new system first in a selected set of pilot institutions at the central administration level only. After its successful introduction in pilot institutions at the central level, the system could then be further rolled out to whole of the central administration as well as to the oblast and rayon level civil servants.

Box 2: Austrian pay reforms: an illustration of reform complexity

Steps in the process of civil service wage reform in Austria (1991-98)

1. Resolution of the Government over the necessity and implementation for a wage reform for civil servants of the federation (1991).
2. Entrusting the State Secretary in the Office of the Federal Chancellor with the project (management of working groups, information of the cabinet members) (1991).
3. Definition of project milestones (1992).
4. Inclusion and negotiation with the other Ministries and the Civil and Public Service Trade Unions (1992-94).
5. Evaluation of the jobs in the Ministries and the top level functions in subordinate agencies (e.g., police headquarters, fiscal authorities) with support of external advisors (1991-94), see Annex 6 for a detailed review of the job evaluation system.
6. Development of a new wage system with consideration of job evaluation (1992-94).
7. Cost estimation and adjustment of the budget framework for the reform (1992, later revised).
8. At the same time development of a bill to enshrine new principles (1992-94).
9. Communication campaign of the Government, the Ministries and the staff members over the conditions of the reform (1992-94).
10. Adoption of the new act by Parliament (3 years after reform start, 1994).
11. Commencement of the act in 3 stages, first for the lower staff, then for the middle staff, last for the top level functions (1995-97).
12. Monitoring of the introduction by information meetings and training courses of the decision makers and the responsible persons by the experts of the project team (1994-97).

Due to the experiences with this first step in 1998-99 the reform of wages for the public servants of the federation took place. The complexity of the civil service system was thereby substantially reduced.

A further reform starting in 2005 would lead to the unification of the civil and public servants regime. This step is connected with a further deregulation. Thus the scope of the civil service is to be clearly reduced. For sensitive groups (e.g., police, judges, state lawyers, top level civil servants and those civil servants that exercise state authority) there will be a qualified protection against dismissal and discharge.

Necessary steps to ensure effective conversion

- clear political order for the reform
- transmission of the responsibility for the execution of the reform to ONE authority
- adoption of a schedule with milestones
- inclusion and negotiation with other relevant bodies
- cost estimation and clarification of middle and long-term budget effects
- adjustment of the results in a law
- Monitoring of the introduction by information meetings and training courses of the decision makers and the responsible persons by the experts of the project team

Based on the Austrian experience the following points are important to consider while designing a reform process:

- most extensive inclusion of allowances and other remuneration into the basic salary (listing of the exceptions)
- regulation of the paying of overtime
- fixing of the number of established posts
- Gradual reduction in staff numbers

58. One important question in this regard would be the link between wages at different levels of the administration. It would run counter to the very principles underlying the reform to increase wages to all officials without transferring all of them to a new wage system, as any new pay and grading system will be underpinned by a fundamentally different logic, which cannot be replicated to those that have not yet been transferred to the new system.

59. As alternative examples to the approach outline for the Austrian case, reform in pay systems in some Central and Southeast European states, though based on similar principles, have moved on a significantly faster track. The planned conversion of the pay system in Croatia has been scheduled as an 18-month process, similar to the planned process in Serbia, though in both states the linkage of individual performance evaluation to career progression will most likely take at least three years to be completed. Thus, both states will first introduce a new job classification system, but only gradually put in place integrated performance assessments systems. Croatia and Serbia plan to introduce reforms that are based on principles similar to those introduced in Austria, i.e., creating a new pay and grading system based on job evaluation, introducing individual performance assessment and a rationalization of bonuses and allowances.

EQUITY ISSUES AND REGIONAL DISPARITIES

60. There are obvious equity issues that will need to be addressed in the reform process. Therefore, a wage increase for the posts that are in the current system graded at the O, R and G sub-categories, would also need to be introduced, and the wage development for this group would need to follow those in the central grades. However, we would propose that the wage increases are planned over time, so that whereas the final result will be the same for all groups, the pace of their implementation will vary with the introduction of the new wage system.

61. In addition to the phased implementation of the wage increase, a further issue that needs to be addressed is how to design mitigating measures for regional disparities. The current wage system does not in any way reflect the wide regional disparities in Kazakhstan, in particular between Astana/Almaty and the oil producing regions on the one hand and South Kazakhstan on the other. If regions are to have an equal ability to attract qualified staff, mitigating measures would need to be introduced. There are two possible approaches to the introduction of such measures: (i) introducing a centrally defined coefficient based on cost-of-living indices; or (ii) providing oblast or city councils with the authority to top up salaries at local level within limits and guidelines set by the central government. Both measures would see the introduction of clearly distinguishable and locally specific allowances and would therefore be acceptable in principle. Similar practices are applied, for instance, in the US civil service.³⁰ Kazakhstan

³⁰ Cost-of-living allowances are calculated as part of the salary of Federal civil servants depending on their location, and can bring variations in salary of up to 10 percent in total wages.

itself used to have a cost-of-living coefficient in the civil service wage system until 2000, which was abolished to facilitate the creation of an integrated civil service.

62. In relation to the first option, there would be three main methods to calculate cost-of-living differentials:

- A reversible **Mean-to-Mean Index** is the best indicator of overall differences in prices between two locations as it compares the mean prices (average price of each item) in the base city to the mean prices in the comparator city.
- The **Efficient Index** applies to a relatively experienced shopper and compares the average of the low and mid-prices in the base city to the mean prices in the comparator city.
- The **Convenience Index** applies to a less experienced shopper or a newcomer in the location and compares the average of the low and mid-prices in the base city to the high prices in the comparator city, except for selected categories for which it compares mean base prices.

63. The second option would have significant advantages in terms of accountability and responsibility. The Central Government would establish guidelines and caps for salary supplements decided upon by local councils in oblasts or cities, which in turn would decide whether and at what level to award such supplements, based on its own assessment of competitiveness of the civil service. However, the introduction of such top-ups would have potential equity implications; officials working for de-concentrated units of central ministries would not get the allowances, while those paid from the local budget would, unless the central administration would decide to follow locally defined top-ups.

64. The introduction of either option would require the careful design and calculation of cost and benefits, and would need to be done only after decisions on the introduction of salary increases would be taken.

CONCLUSION ON PROCESS

65. Based on the specificity of the Kazakh situation, characterized by an integrated civil service involving all levels of government, and a relatively consensual system with a low likely level of resistance from Trade Unions, the following recommended steps would be required for reform planning:

- Careful planning is crucial, and it is essential that steps are carefully mapped out and extrapolated in time. This would prevent the system from getting discredited from its inception and enhance the chances of success. However, at the same time the reform process in Kazakhstan is likely to move more rapidly than in states with strong union involvement, so that projecting a more rapid implementation would be realistic. Therefore, planning the wage system reform over a 3-4 year period, to coincide with

the period over which the planned increase would be phased in, would be an appropriate time line

- Sequencing is important. Implementing a complex wage reform simultaneously across a large integrated civil service on a short timeline would appear impossible. Therefore a clear decision to sequence implementation would need to be taken and agreed with stakeholders at the republic, oblast and rayon level. The use of pilots would be a good way to address this problem, provided they are well designed and part of a comprehensive reform process that is agreed at the highest political level before the introduction of the pilots. This is important in particular when considering the previous, unsuccessful, attempt at using pilots for the introduction of a factor point system for job evaluation. In that case the pilots were designed in isolation, and therefore were not followed up.
- The existing linkage between the different elements of the system will need to be retained, provided the political choice is made to retain the unified civil service system. In this case, the reform of the wage system would need to be clearly staged in a way as to ensure that whereas wage development for all categories will over time be similar, there will be variations in the introduction of increases, with some (pilot) institutions possibly having front-loaded increases. A clear communication plan would need to be drafted to ensure that officials at all levels are aware of the process and its underlying rationale.
- The introduction of a regional cost-of-living coefficient will need to be considered to offset increasing regional disparities and enhance competitiveness at the regional level, at least until some reduction of overall economic disparities in Kazakhstan is achieved. A decision on the method and way of introducing the coefficient should only be taken once the overall pay reform process is mapped out.

3. OPTIONS FOR REFORMING THE CIVIL SERVICE SALARY SYSTEM

66. The brief assessment of underlying problems in the Kazakh civil service pay system, outlined in the first section of this paper, underscores the conclusion that the introduction of significant increases in civil service wages should not be undertaken without changing the current wage system. Whereas there is general recognition among counterparts of the problems identified above, there is as yet no clear consensus on the best way forward to address these. Three possible options could be considered:

- a) Continuity for now, even in the light of increases in wages, and consideration of wage system reform at a later stage. This would be based on the assumption that the current system basically works, regardless of its inherent problems, and that the time may not yet be right for a next step in reforming the wage system.
- b) Reforming the system, based on models used in OECD states that are based on job evaluation but based on a grading structure, thus retaining some of the elements of a sui generis employment system for the civil service while introducing job assessment models based on private sector practice.
- c) Reforming the system, but largely abandoning grading restrictions and moving to a largely market-based system with limited restrictions on pay levels.

OPTION 1: CONTINUITY

67. The drawbacks of the first option are clear: implementing a wage increase without changing the wage system will not address the underlying problems set out in section 1. This could have potentially serious implications. Even if wages are increased at least two fundamental problems will remain. First, the system will continue to reward unequal jobs equally. Second, pay levels will not take into consideration performance, which means that improved pay levels are not likely to create a better performing civil service.

68. The first problem cannot be addressed under the current system. Theoretically one could introduce steps inside the current pay grades that could be used to differentiate pay based on the complexity of jobs. However, this would make the current system that is already overly complex with its 70 different pay grades even more cumbersome, and is therefore not an advisable option.

69. The second problem could theoretically be addressed by the use of performance bonuses allocated by the management of individual organizations, as is the practice now. However, the allocation of bonuses without any rules or guidelines will continue to raise allegations of subjectivity and is not appropriate in a rule-based civil service system. In addition, paying bonuses from savings on the materials and wage budget is not an appropriate form of budget management and should be urgently phased out, and replaced by the allocation of earmarked funds for performance awards. This in turn is acceptable only if changes in the bonus allocation system are introduced.

OPTION 2: MOVING TO A MORE FLEXIBLE SYSTEM BASED ON JOB EVALUATION

70. This option would bring flexibility in the determination of pay grades based on a form of job evaluation. Rather than grading positions based on their formal rank in the hierarchy, as is currently the case, positions would be graded based on a set of selected criteria that could be also weighted. In addition to this, the current system of 'years of experience' increments could be changed into 'steps', which would still be based in part on years of experience, but also, at a later stage, on satisfactory performance (see the discussion below in Section 4.)

71. There are two types of solutions to the development of a job-evaluation based system. The first would be to use factor point analysis to grade jobs. The second would be a simpler form, in which a set of criteria would be provided to ministries that would then be asked to grade their own jobs. Box 3 below contrasts the systems introduced in Austria and Lithuania; the former is an example of a complex system, the latter of a simplified approach.

Box 3: Job evaluation approaches: Austria¹ and Lithuania²

Austria and Lithuania have both introduced pay and grading systems based on job evaluation during the last decade.

The system introduced in **Austria** was implemented over a 3-year time period in the context of the reform process set out in Box 1. The system was applied initially to 150,000 positions (including police) and currently to 100,000. It rates jobs on three dimensions, including eight criteria: (i) scientific and specialized knowledge and practice; (ii) communication and interpersonal skills; and (iii) management requirements; (iv) complexity; (v) creativity; (vi) independence; (vii) budget and span of control; and (viii) influence on final results. Each criterion is broken down in a varying number of levels. Each intersection of the three dimensions has a specific score attached, which then is subsequently added up to find the appropriate place of the position in the grading system. The detailed description of the system is included in Annex 4. The system is centrally applied and its introduction was monitored by the Personnel Policy Department in the State Chancellery, which is responsible for providing training to the individual units in ministries and other organizations that implemented the model. A detailed review of the implementation of the system will be provided in Box 3. (to be added)

The **Lithuanian** system is a simpler form of the same basic model. The Public Administration Department in the Ministry of Interior (responsible for Civil Service Management) has developed a job classification methodology that grades each job in accordance with three criteria: (i) level of independence of action; (ii) job complexity; and (iii) internal and external contacts and communications. Jobs can subsequently be graded in one of the 20 pay grades, but individual positions can be graded in 2-6 different grades (depending on the position), depending on the assessed level of complexity, as presented in Annex 5. Whereas this system has the advantage of being simpler and easier to apply, it poses a risk of inconsistency, especially when a set of reference jobs for grading is lacking, as is still the case in Lithuania. A further risk associated with this system is that it is less precise, and there is therefore a greater risk of equal grading of different positions or vice versa. The highly decentralized system of civil service management in Lithuania adds to this risk, as the Ministry of Interior does not have the right to assess the grading work of other ministries. However, a similar approach could provide an alternative if a full factor-point based evaluation system is not considered feasible, provided some of the problems raised here (need for reference jobs, strong central unit responsible for grading) are dealt with.

72. We recognize that Kazakhstan has earlier considered the introduction of a similar system to the one presented here and applied in Austria, and that thus far the implementation has been halted as the system was considered too complex and its introduction too time consuming. Furthermore it was based on pilots that were introduced in isolation, without being embedded in an agreed medium term reform process. However, in contrast to the Austrian experience, the introduction of a similar system in Kazakhstan would not need to take longer than two years, especially if it would be introduced in a phased manner

73. Alternatively, a lighter or transitory model could be considered, such as the one presented here for Lithuania. However, this model does have some drawbacks, as outlined in the Box above, and eventually can only be a stepping stone toward the introduction of a fully-fledged job evaluation system, an issue well recognized in Lithuania. At the same time, using this type of model would certainly make introduction

across all levels of government more feasible, albeit with a serious risk of uneven application.

74. Regardless of the choice of option, the introduction of a more flexible pay and grading system, based mainly on job complexity, would help considerably in addressing the systemic problems of the current wage system in Kazakhstan. It would, however, require a significant investment in training job assessors in different institutions and create the need to clearly define the position of the Civil Service Agency in relation to the personnel units in the line ministries charged with the job evaluation work. The experience of Austria would be highly relevant if this option is pursued and is therefore presented in Box 4.

Box 4: Process of introducing the job evaluation system in Austria

The main responsibility for this project was with the Austrian Federal Chancellery, the evaluation system was put in place between 1991 and 1994 (detailed schedule see box 1).

1. After the selection of the factor-point system the specialized experts of the Office of the Federal Chancellor selected together with external advisors approx. 800 jobs in the central offices of the Ministries and analyzed the jobs in detail. It acted thereby around all management functions (beginning with the sub-department up to the top level management functions) in the central offices as well as management functions of larger subordinate organizational units. These jobs should be considered as reference jobs.

2. For the analysis were necessary detailed job descriptions, the business and personnel disposition plans and the organization charts. After the evaluation of these written documents discussions with the job owners, superiors and personnel managers were accomplished.

3. Thereafter the factor-points were determined and again a total comparison was accomplished including the personnel managers and the representatives of the trade union. After conclusion of this work the consultations with political decision makers (Ministers) took place. At this level a concerted negotiation result was obtained, all other jobs in the central offices was analyzed and evaluated.

4. These jobs were evaluated only by the evaluation team (specialized experts of the Office of the Federal Chancellor) and in each case the responsible personnel managers. External advisors were no longer necessary in this phase. Important basis was the job description, the business and personnel disposition plans and the organization charts. In the job description are listed the requirement profile (training and knowledge), the competences, the tasks and activities including the quantitative extent of the activity (e.g. personnel recruiting 30% of the whole year work performance).

5. When these work in the central administrations was final and a concerted negotiation result with the trade unions and political decision makers was obtained, all jobs in the subordinate agencies was analyzed and evaluated.

6. During the job evaluation process it was made certain that the quality remains the crucial characteristic and the quantity (e.g. number of staff members) is not in the center of the evaluation. The number of staff members is one of several characteristic numbers was considered however evenly not the only one. Particularly importantly in the job evaluation process was to be accented again and again that only the job is evaluated and not the job owner.

7. The pay system was developed in parallel, which built up on the results of the evaluated jobs. It was to be remunerated by the factor-points equivalent wage for equivalent work.

8. As all jobs descriptions were present we rapidly recognized the authority overlaps and double competencies and a first rapid organization reform was introduced. This ran in parallel to the evaluation process and therefore some jobs had to be revised a second time before the final conclusion to be evaluated.

9. After completion of the new pay model it was possible to calculate the new costs opposite to be placed to the existing costs and extra costs as well as the continuing additional charges for the future. After an agreement was obtained the appropriate legal regulations was decided and the conversion was implemented step-by-step.

OPTION 3: FULL LIBERALIZATION

75. This option would assume a gradual removal of the typical pay and grading grid that characterized most public sector wage systems. Sweden was one of the first European states to move towards a decentralized wage bargaining system, effectively abandoning the central wage grid (Box 5). Most civil service jobs in Sweden are now subject to 'market value assessment', which runs contrary to the kind of job evaluation approach presented above. The reforms in the Swedish public sector pay system introduced in the 1980s, and continued further with the new Public Service Employment act in 1993, were based on the notion that employees should be paid according to their market value. This applies in particular to those in Government Agencies, where the bulk of Swedish civil servants are employed.

76. Whereas the 'market value' principle may help to attract the most qualified to the civil service, its application is highly complicated. Civil service employment does not carry the same risk as private sector employment and government organizations are not able to respond to changes in the market in the same way as private sector organizations, thus parity in wage levels may not be an appropriate option, in particular when considering that the debate on the role of the state in Kazakhstan is still ongoing. In addition, the application of 'market value' principles requires the existence of established systems for decentralized wage bargaining at the level of individual institutions, as well as full information on the relative level of wages in the private and non-government sector. Neither condition is currently in place in Kazakhstan.³¹ Furthermore, the introduction of systems of this nature carries a strong risk of politicization of appointments and dismissals, unless there is a strong tradition of professional civil service and a tradition of self-restraint on behalf of political appointees. Finally, a market based system needs to be accompanied by a clear institutional performance target setting system

77. In view of these considerations, and taking into account the still recent establishment of the civil service system of Kazakhstan, moving to a market based structure can be a realistic option only in a long term perspective, and even then its feasibility can be questioned. The Swedish model has had few followers so far, which would imply that it is indeed highly specific and vested in the traditions of the 'Swedish model' that tends to prevent excesses as well as inappropriate use of public office for private gains

³¹ Discussions with foreign firms as well as state owned enterprises revealed that reported salaries tend to be significantly lower than real salary levels, which also to some extent applies to the civil service, in particular at Republican level. In the absence of transparency on actual wage levels, the introduction of a system based on market value would carry significant risks. In addition, a further difference with the Swedish system is the small size of the core civil service, and the increasing differentiation between core civil service staff and agency staff.

Box 5: The Swedish Pay Model

Principles for the national and local administration

- independence of the administration of the policy
- decentralization
- strong performance management orientation
- innovation
- flexible resources assignment

The national administration in Sweden consists of about 250 free standing offices (agencies) in different size. The government is supported by a relatively small administration with approximately 4,000 employees, divided in Ministries. The government regulates the offices by a general office arrangement, by a special arrangement for each office and by annual instructions for each office. This arrangement contains also the allocation of funds for the office. The government specifies the goals of the office in the annual instruction for the office. The national personnel policy is so nearly completely decentralized.

Determination of the salaries:

Each office meets its own resolutions, individual and differentiated salaries is usually paid. Each office is responsible for one to content negotiations and content contracts themselves. All offices are members of the employers' association for national employers. This federation locks central of contracts with the trade union of the national employees. The present Treaties contain only warranties for minimum increases. The individual salaries are determined thereafter by local of contracts. The government and the parliament do not have a say with paying in the public service. The offices receive however not the compensation for the real costs of a salary increase, but only for the average labor costs increase in the private sector. The delegated personnel policy gives to adapt the possibility the salary level the market conditions to the offices.

Performance related pay for Public Service Managers

The system of performance related pay in Swedish government administration is integrated in the so called "Individual and Differentiated Pay system". Generally it is more a system to evaluate and reward each employee's contribution to the agency mission and tasks than a traditional Pay for Performance System. It also contains a substantial flexibility to market demands on pay, not the least in recruitment situations. Nevertheless the system contains significant elements of evaluating the performance of employees. The general principle is that pay should be individually determined and differentiated. The individual pay is set on the basis of:

- the difficulties and responsibilities inherent in the post,
- the performance of the employee (skill and results related to agency objectives),
- the market situation.

The social partners at central level have agreed upon that pay determination should support agency objectives, effective and rational operations. The agencies must also be able to recruit and retain the skills needed.

Basic factors for pay determination are the level of responsibility, the degree of difficulty and other demands connected to work as well as personal skill and results related to agency objectives. Local management and local trade unions consider the need for pay increases due to higher skill, more qualified assignments, higher work demands, higher competence and responsibility, promotion and performance. The results of pay determination should stimulate development and commitment, promote appropriate pay differentiation and be regarded as fair related to work results and performance. The system demands that the management develops local pay policies that are generally transparent and recognized by most staff. A typical local pay policy:

- focuses on the agency's activities and objectives,
- supports the agency's ability to recruit and retain staff with adequate skills,
- clarifies how pay determination can motivate, develop and engage the staff in good work performance,
- defines criteria for pay determination,
- includes means in order to prevent discrimination.

IMPLEMENTATION ISSUES: LEGAL ASPECTS

78. It is important to take account of the fact the Kazakh Constitution imposes some restrictions on the extent to which salaries in different parts of the budget sector can be decoupled. Any attempt to introduce some form of differentiation in the pay system and in corresponding pay levels would therefore require a specific legal solution. Considering the experience of other states, in particular those in Southeastern Europe but also in Armenia (see Box 6 below), the adoption of a special Law on Salaries in the Public Sector would appear to be a good possible option

79. Laws on Salaries are often used to outline the general principles underlying the Civil and Public Service Wage system, thus decoupling issues of wages from issues of general employment conditions. This takes account of the fact that whereas the nature of employment conditions in the Civil and Public Service undergo relatively little change, reward systems tend to change more often. In the specific context of Kazakhstan, a Law on Salaries could set out the unified set of principles in public sector wages, as required by the Constitution, while the regulation of wage scales and grading systems could be subject to sector specific secondary legislation. General principles would include such issues as guarantees that salaries are linked to the job performed, guidelines on performance based pay elements, etc. In order to make the reform of the civil service wage system possible, the adoption of this type of regulatory system may be needed.

Box 6: The Armenian Law on Civil Service Salaries

The Law on Remuneration of Civil Servants adopted in Armenia in 2002 is the best functioning example of such legislation among CIS states. Many states in Central and Southeastern Europe use specific legislation to define principles underlying the pay system (Croatia, Serbia, Montenegro, Slovenia), but the Armenian model is more relevant in this context due to the shared civil service traditions.

The Law on Remuneration was a centerpiece of the civil service reform process in Armenia, as it expressed a clear break with the past tradition of fragmented rules and regulations on pay, which left significant loopholes for subjective interpretation. The Law provides a clear and transparent set of principles and rules for determining salary levels, salary advancement, as well as non-wage benefits. The latter were mostly eliminated, except for Labor Code mandated pay for work on week-ends etc.. The Law therefore also provided the basis for the monetization of benefits. However, a limited possibility for allocating bonuses to those fulfilling special assignments was retained.

A number of important principles were enshrined in the Law on Remuneration:

- Differentiation of pay according to the complexity of work (differentiating pay for different jobs)
- Performance assessment based allocation of 'seniority steps' providing flexibility in the use of 'years of experience' increments to allow for additional steps based on consistent excellent performance
- Possibility to suspend pay progression in case of negative performance
- Career principles in salary development
- Establishment of a consolidated 'bonus fund' to be allocated on the basis of performance assessment

The implementation of the law is ongoing, led by the Civil Service Council, but in its principles alone the Law constitutes an important step towards creating a more competitive, and performance oriented civil service.

80. Based on the above discussion, the following would be recommended as an approach to the reform of the wage system:

- The need to adopt a framework law on civil and public service pay that would set out the main principles underlying the pay system, with separate secondary acts to be designed for different parts of the public sector
- To introduce a new pay and grading system, including different steps for individual positions, preferably based on a factor-based model that would be first applied across the core civil service at central level. The experience of states such as Austria shows that if this is done for a relatively small group of officials, it could proceed relatively fast. Alternatively a simplified interim approach could be considered, though this would not seem preferable. Finally, a further option would be to design a framework approach to reform and allow ministries to 'graduate' into the new system based on their capabilities, providing incentives for those that move to the new system faster.
- To consider the introduction of performance based contracts for top level civil servants in the medium term, that could in the long term become a basis for a more liberalized system of pay.

4. INTRODUCING PERFORMANCE AND PROFESSIONALIZATION ELEMENTS

PERFORMANCE-BASED CAREER MANAGEMENT

81. The section will address the two related issues of introducing performance-based career management and the integration of professional development opportunities in career management.

82. The introduction of performance-based career management and performance-related bonuses has not yet fully started. The initial phase of civil service development in Kazakhstan focused on the stabilization of the civil service system, including measures to guarantee its coherence. Performance-related career management was seen as potentially divisive and ill-suited for a system in development. As the civil service system has now been stabilized and established as a recognized institution, the next step of its development should include measures to reward responsibility and performance. The current wage system, with seniority as the only variable and bonuses designed as incidental payments based on subjective assessment by the management of individual institutions, is ill suited to such an approach.

83. It would be preferable to base mechanisms for performance appraisal on tested in OECD states.³² In this context, the Austrian and Canadian models could be considered as two alternatives, the first as an example of a gradually introduced system that is only in a later stage being linked to career development and eventually salaries, the second as an example of a strong reward-linked performance management system.

84. It is obvious that the rapid introduction of a system such as the Canadian example is impossible in the short term, even if this were desirable for Kazakhstan. It requires not only the implementation of a sophisticated system of performance assessment at the level of individual officials, but also at the level of individual institutions and for the government as a whole. The advantage of this kind of system, if well implemented, is that it creates both institutional and personal responsibility for results, thus mitigating to some degree the potentially divisive effect of individual performance awards only.

85. Regardless of the model adopted, the design and implementation of the performance system in Kazakhstan should proceed in stages. Once a mechanism for appraisal is agreed upon, the first link should be to career advancement. This would necessitate a change in the definition of the 'years of experience' increment. Rather than linking this increment automatically to seniority, a mix of seniority and performance

³² For a comprehensive overview of OECD state practices see OECD (2004), Performance Related Pay Policies for Government Employees, Comparative Practices from OECD member states

could be used, whereby additional 'steps' could be granted in case of excellent performance (even if the number of years is not achieved), while increments could be withheld if performance is below expectations. This would also help address one of the underlying causes of the departure of young talented staff from the system, -as it would give them a chance to make progress on salary development more rapidly, without immediately requiring promotion to a higher post. Only at a later stage should the introduction of linkages between performance and bonuses be introduced. It would be desirable to wait until the performance assessment system is properly established and has gained credibility among both staff and management. The payment of bonuses would until such time need to continue to proceed according to the rules currently in place.

Box 7: The Austrian Performance Appraisal System

The Austrian Federal Administration created a good foundation for a merit-based reward system with the instrument of job evaluation. The staff appraisal, which must be carried out annually and which involves all superiors and each of their staff members is a further management instrument. The performance appraisal is based on individual employee objectives that are set each year in agreement between the civil servant and his/her direct supervisor. Examples of such agreements have been included in Annex 5.

First step: Staff appraisal

The staff appraisal, which must be carried out annually and which involves all superiors and each of their staff members, essentially pursues three goals: as an instrument of management by objectives, staff appraisal constitutes an occasion for setting agreed objectives for the coming year on the basis of what was achieved in the previous year. Such MBO agreements are reached through co-operation, with due regard to the objectives set by the next higher management level (top-down approach) and taking into account the interests and qualifications of each staff member (bottom-up approach).

The staff appraisal also serves the purpose of preserving and improving the corporate culture. Vital issues can be discussed in a pleasant atmosphere, outside everyday routine. Staff appraisals focus on mutual feedback on the quality of co-operation and represent a common quest for possible improvements or, in case of conflict, for solutions to such conflicts. As a tool of co-operative human resources management, staff appraisal is to ensure, in the long run, a working climate based on mutual confidence.

In the final analysis, staff appraisal constitutes a staff development tool. On the basis of the performance attained and the specific interests and skills of each staff member, options for career development are to be discussed and concrete development measures agreed upon.

Next step: Performance appraisal

The performance appraisal is based on individual employee objectives that are set each year in agreement between the civil servant and his/her direct supervisor. Examples of such agreements have been included in Annex 7.

The laws for civil and public servants provide special possibilities for awards. It is necessary to provide an allocation for performance awards for each ministry in the annual budget. The minister is free to set the modalities of allocation and amount.

Examples:

Federal Chancellery:

The annual budget provides 400 Euro for each staff member. One person can get a maximum of 550 Euro per year. If you give one staff member the maximum you have to shorten the awards for other staff members. The decision is made by the respective superior.

Federal Ministry of Finance:

A staff member can get the maximum of a half monthly salary as an award. But such awards can be provided only to 30 percent of all staff members. The decision is made by the respective superior.

Box 8: Examples of Performance Management Systems: Canada (Ontario)¹

The Canadian Performance Management system is a primary example of an integrated system based on the principle of hierarchy of objectives (from Government wide through Ministry level to Individual Performance), embedded in a fully worked out planning, monitoring and reporting system.

The Province of Ontario is considered among the most advanced. Individual performance objectives are derived from the Ministry Business Plan, which is prepared annually and contains priorities, program budgets and performance measures. The plan covers subordinated agencies as well as the core ministry. Ministries also report on the fulfillment of business plans on an annual basis.

Reporting relations include:

- Core business measures reported on to the Management Board of the Cabinet of Ministers
- Program-level measures reported through ministry operational plans
- Individual performance indicators reported through performance contracts between the Secretary of Cabinet and Deputy Minister and between managers, which provide the link of pay to performance

Assessments of performance are not only internal to the institution, but are supplemented by external surveys of citizens on perceived quality of service, as well as monitoring the extent to which ministries meet established indicators of performance (response time, etc.).

Performance is assessed both at the aggregate, organizational level and at the individual, civil servant level, based on the fulfillment of result agreements.

Based on an overall assessment of performance of the Government, the Cabinet of Ministers approves an overall resource envelope for performance pay, on an annual basis.

Following this, the Prime Minister and the Secretary of Cabinet determine individual ministry performance ratings based on an assessment of the contribution of the ministry to government strategic objectives.

Based on this allocation, individuals are assessed on their contribution to the performance of their institution. Incentive bonuses for Deputy Ministers, Assistant Deputy Ministers and Directors can range between 0-20 percent for the highest level and 0-10 percent for the lowest level.

PROFESSIONAL DEVELOPMENT AS A CONDITION FOR PERFORMANCE-BASED CAREER MANAGEMENT

86. As noted in the introduction, Kazakhstan has created a good foundation for a professional development system. The Civil Service Academy, for postgraduate level training, and the Eurasian Training Center, for in-service training, both based in Astana, provide comprehensive institutional facilities that should facilitate a state of the art training system. The development of the Eurasian Training Center³³ in particular gives Kazakhstan a unique opportunity to upgrade its in-service training opportunities. Furthermore, the recently initiated reform of the curriculum of the Civil Service Academy and the planned introduction of a European style MPA program will further enhance the available capacity:

87. The presence of a functioning training system is an essential condition for the introduction of a performance-based career management system, as opportunities for increasing knowledge and skills need to be provided to address skill gaps. Furthermore, training programs need to be integrated in career plans of individual officials and made available to them. Currently, there is no link between career progression and training in Kazakhstan, which is one of the impediments to the development of a proper performance appraisal system. The introduction of staff development in annual performance plans as well as the allocation of appropriate budgetary resources for this purpose needs to go together with the introduction of a performance appraisal system.

Conclusion

88. In this context, the main recommendations would include:

- The need to focus on a step-by-step introduction, starting with performance assessment as an annual practice, followed by the introduction of a linkage to career advancement in the context of the introduction of a new wage system.
- The linkage of performance to pay should not be decided upon now, but rather at a later stage when the system is well established, and should be carefully considered at that stage.
- Borrowing from best practice in OECD states is an appropriate way of designing this type of system, in particular when referring to continental European states, where similar cultural and traditional obstacles to the introduction of performance appraisal systems existed. Ways of overcoming such obstacles can also be learned from such systems.

³³ The ETC serves the whole of the Central Asian region, but mainly employs Kazakh experts and is therefore a unique resource for the Kazakh government.

- Explicit provisions that require and enable officials to participate in professional development programs need to be part of the performance management system. Investments are being made in the development of relevant training programs, but these need to be explicitly linked to professional development needs in the civil service. Only if both elements are put in place can significant improvements in service quality be expected.

5. LINKAGES TO ORGANIZATIONAL PERFORMANCE MANAGEMENT SYSTEMS

89. The linkage between organizational performance management and individual performance assessment has already been made above. For a performance assessment system of individuals to work, it ideally needs to be embedded in a performance management system at the institutional level. Many states have developed their own systems for setting such targets. However, two prototype systems for organizational performance management are broadly used in public administration systems. These are the private sector derived ISO quality assessments, and the Common Assessment Framework, a method specifically developed for public sector organizations in the context of the European Union. The main features of these models and their relative value for the public sector are summarized in Boxes 7 and 8 below. The example forms provided in Annex 7 illustrate how organizational objectives can be translated into individual performance objectives in practice.

90. The empiric reports of the administrative authorities that introduced ISO show that the direct transmission of the standards developed for the private sector require a 'translation' to the specific field of work of the administration. Furthermore, a certification requires time and can be costly, depending upon the starting position of an organization.

91. A quality management system according to ISO can be introduced only with difficulty and would require considerable time. The change to a quality-oriented organization requires a 'rethinking/culture change' and patience in the sense of a 'policy of the small steps.' For the introduction and maintenance a sufficient personnel capacity with appropriate qualifications is needed. Quality management also needs regulations and an organizational anchorage. In addition there is usually no nostrum but a dependence on the specific needs of the individual administrative scope.

92. The description below of different options for the introduction of quality management models is intended to provide food for thought on the introduction of specific organizational performance standards. It would be crucial to consider the issue of defining organizational objectives when conducting the next phase of the organizational reform process in the Kazakh public administration.

93. In this regard it would be necessary for the next phase of organizational reform to focus not only on the formal re-allocation of functions between institutions and levels of government, as has been the case thus far, but rather on the development of systems that would ensure the design and implementation of organizational objectives for individual public sector organizations, as well as systems for monitoring their achievement.

Box 9: Common Assessment Framework¹

The Common Assessment Framework (CAF) is a result of the co-operation among the EU Ministers responsible for public administration. The present version is based on experience gained in implementing and using the first version of the CAF. The CAF is offered as a tool to assist public sector organizations across Europe to use quality management techniques to improve performance. The CAF provides a simple, easy-to-use framework, which is suitable for a self-assessment of public sector organizations.

The CAF has four main purposes:

1. To capture the unique features of public sector organizations.
2. To serve as a tool for public administrators who want to improve the performance of their organization.
3. To act as a "bridge" across the various models in use in quality management.
4. To facilitate benchmarking between public sector organizations.

The CAF has been designed for use in all parts of the public sector, applicable to public organizations at the national/federal, regional and local level. It may also be used under a wide variety of circumstances e.g., as part of a systematic program of reform or as a basis for targeting improvement efforts in public service organizations. In some cases, and especially in very large organizations, a self-assessment may also be undertaken in part of an organization e.g., a selected section or department. The nine-box structure of the CAF (see Annex 8) identifies the main aspects requiring consideration in any organizational analysis. Within each of these boxes a list of criteria is provided. The criteria identify the main issues that need to be considered when assessing an organization.

Using the CAF provides an organization with a powerful framework to initiate a process of continuous improvement. The CAF provides:

- An assessment based on evidence.
- A means to achieve consistency of direction and consensus on what needs to be done to improve an organization.
- An assessment against a set of criteria, which has become widely accepted across Europe.
- A means of measuring progress over time through periodic self-assessment.
- A link between goals and supportive strategies and processes.
- A means to focus improvement activity where it is most needed.
- Opportunities to promote and share good practice within different areas of an organization and with other organizations.
- A means to create enthusiasm among employees by involving them in the improvement process.
- Opportunities to identify progress and outstanding levels of achievement.
- A means to integrate various quality initiatives into normal business operations.

To summarize, self-assessment against the CAF model offers the organization an opportunity to learn more about itself. Compared to a fully developed Total Quality Management model, the CAF is a "light" model, suitable especially to get an initial impression of how the organization performs. It is assumed that any organization that intends to go further will select one of the more detailed models (such as the Speyer or EFQM models). The CAF has the advantage of being compatible with these models and may therefore be a first step for an organization wishing to go further with quality management.

Box 10: ISO 9000 applicability: A view from Austria

ISO 9000 was developed in order to specify quality standards and eventually minimize errors. It consists primarily of obtaining certification from processes. The 8 main principles of ISO 9000 indicate that they can be used meaningfully only if an appropriate base is already available in the respective organization.

As a reform instrument ISO 9000 is only conditionally applicable and is therefore not a replacement for fundamental organizational reforms as well as reforms of wage systems.

The experiences in the Austrian administration show that ISO 9000 can be used with some success in smaller offices. However, processes are mainly examined and compared with ISO standards in order to improve quality.

ISO 9000 principles

Principle 1: Customer focus

Organizations depend on their customers and therefore should understand current and future customers' needs, should meet customer requirements and strive to exceed customer expectations.

Principle 2: Leadership

Leaders establish unity of purpose and direction of the organization. They should create and maintain the internal environment in which people can become fully involved in achieving the organization's objectives.

Principle 3: Involvement of people

People at all levels are the essence of an organization and their full involvement enables the use of their abilities for the organization's benefit.

Principle 4: Process approach

A desired result is achieved more efficiently when activities and related resources are managed as a process.

Principle 5: System approach to management

Identifying, understanding and managing interrelated processes as a system contributes to the organization's effectiveness and efficiency in achieving its objectives.

Principle 6: Continual improvement

Continual improvement of the organization's overall performance should be a permanent objective of the organization.

Principle 7: Factual approach to decision making

Effective decisions are based on an analysis of data and information.

Principle 8: Mutually beneficial supplier relationships

An organization and its suppliers are interdependent and a mutually beneficial relationship enhances the ability of both to create value.

The ISO certification is therefore rarely used in the large European public administrations. In its place CAF (Common Assessment Framework) has been designed, which is clearly better coordinated with the needs of public administration.

94. The Common Assessment Framework, as briefly reviewed above, was designed as an attempt to build a public sector specific system for measuring organizational performance. Whereas the system, first initiated in 2000, was slow to take off, there are now up to 500 public sector organizations in EU member states and beyond that apply it, up from 123 organizations that introduced the CAF in the first two years of its existence. The CAF system was reviewed in 2002 and simplified, reducing the number of measurement indicators from 43 to 27, still based on 9 categories of assessment. The ongoing administrative reform process in Kazakhstan, which aims to more clearly distinguish different types of public sector organizations according to the functions they perform, provides a good basis for the introduction of an organizational performance measures system such as the CAF, as in any event organizations are in the process of establishing a new identity and approach to work. Finally, since CAF is an open process, Kazakhstan would be able to participate in peer review exercises, which would help putting public sector performance in a more appropriate perspective.

95. Based on this brief review of possible models for defining organizational objectives as a basis for performance assessment at the level of individual civil servants, we propose the following recommendations:

- The next phase of structural and organizational reform in Kazakhstan, to be set out in the Law on Administrative reform planned for Spring 2005, should include clear steps toward the design of overall performance objectives for all public administration organizations. The Common Assessment Framework could be used as a method to develop such objectives.
- The design of the individual performance management system and the organizational performance management system should be closely coordinated in order to ensure their compatibility.

6. RELATIONS BETWEEN REFORMS IN THE CIVIL AND PUBLIC SERVICE

96. The introduction of new pay rates based on the model of wage calculation in the civil service is potentially risky when considering the current size of the civil service, and the linkage to wage development in the broader public sector. The twin impact of significant wage increases and increases in capital expenditure could fuel inflationary pressures. In any case, the rapid expansion of the number of civil servants, in particular at the oblast and rayon levels, has been a cause for concern for the Government and should be reversed in the context of the ongoing wage reform process.

97. The creation of a separate legal framework for public servants, including teachers, health workers and administrative staff that do not exercise sovereignty rights would be an appropriate step in this regard. The acceleration of the work on the design of such a system would therefore be essential. Whereas many of the aspects of reform highlighted above would also be applicable to those in the public service, it would be impossible to raise pay levels across the public and civil service based on the same principles as those intended for a core civil service.

98. The ongoing work on functional reviews, if continued and expanded based on the recommendations made by the World Bank following a round table meeting in October 2004,³⁴ could serve as a basis for the separation exercise that will need to be carefully managed, in particular in terms of expectations. In this regard, we would stress that based on the experience of other states with similar processes, the functional review work as done so far is not sufficient as a basis for distinguishing core civil service positions. If it proceeds on such a basis, the exercise is likely to be subjective, and likely to be perceived as such.

LEGAL FRAMEWORK FOR PUBLIC SERVICE: SOME POSSIBLE CONSIDERATIONS

99. Kazakhstan plans to introduce new provisions regulating employment conditions of public servants in the context of the new Labor Code. The discussion of such provisions is currently ongoing. One of the key issues in this regard is to decide which officials will remain in the Civil Service, and which officials will be transferred to public service status. The selection of posts to be retained in the civil service could be done either on the basis of positive selection (e.g., those holding management functions and exercising sovereignty rights) or negative selection (e.g., those fulfilling purely administrative and auxiliary functions). The job evaluation process, if introduced, can be instrumental in defining the new boundaries between the Civil and Public Service.

³⁴ A separate brief on ways of addressing accountability and reporting relations between public institutions will be produced in relation to this point.

100. Whereas a linkage in the development of pay is likely to remain between civil and public servants, there are several elements of employment conditions where distinctions need to apply:

- Better notice and dismissal protection for civil servants
- Specific disciplinary rules
- Independent pension rights;
- Admission to certain functions.

101. However, in terms of the principles of employment, similarities in legal status would most likely remain, in order to express the specificity of those working in the public sector and providing public services:

- General requirements for staff members (e.g., age, education, citizenship)
- Regulations on job classification
- Rules for recruitment
- Provisions governing relocation and redeployment of employees (short term or permanent)
- Description of duties
- Social security and social benefits
- Unpaid leave of absence
- Parental leave
- Retirement

102. These basic warranties and employment principles/regulations should be contained in a new brief public service employment law. The development of pay levels in the public service would need to be comparable with the civil service even if a lower level of remuneration for public servants is justifiable, on account of the larger responsibility held by civil servants, the strong disciplinary responsibility of civil servants and with the argument that public servants, unlike civil servants, are not usually banned from earning additional income.

103. Transferring staff from the civil to the public service would need to be accomplished under the following conditions:

- a) a good new **Public Service Law** (if not an own law a special chapter in the new Labor Code) with the definition of the type of positions included in the public service according to clear criteria (e.g., the range of the auxiliary services)
- b) Estimation of the number of persons concerned including the costs and/or the savings
- c) Rules for the transfer
- d) Detailed communication of the new system with the stakeholders concerned by the transfer so that uncertainty and fears can be avoided.
- e) Under no circumstances should civil servants lose out financially in connection with the transfer. If the salary for the transferred person was

clearly lower in public service, a limited extra pay could be granted, which covers the difference up to a certain percentage.

104. Alternatively, if the transfer option appears to be too complicated, one could also do without it. Then only new recruited persons in the respective range would enter the public service and the civil service posts would be suppressed once the office holder left the service.

Box 11: Reforming Civil and Public Service in Austria

The Austrian reforms of the last 15 years led the two services, civil and public, to grow closer. A uniform law for both groups working in the federal service is to form the conclusion. Currently only small differences exist in wages. The independent pension system of the CS runs out in the next decade. Both groups have equal conditions in terms of insurances. Also the differences to the private labor legislation are minor.

Similar to the private sector, modern instruments of managements methods are implemented, such as MBO, strategic planning, mission statement, modern staff selection methods, information managements system on the basis of state-of-the-art technologies, performance indicator systems, performance appraisal, career development, training programs, personal development with exchange programs (to institutions of the European Union, to other EU-member states, to the private sector), modern time management, telecommuting, fixed-term contracts for heads of directorates and for similar high positions, a reporting system, a Staff Council with rights and the possibility of making suggestions and of helping the staff in conflicts with their superiors, etc.

These measures are intended to improve the quality of service, while raising the morale and increasing the level of satisfaction of the superiors and the staff members.

This process of consolidation is to be continued and concluded soon, so that a few core areas would require civil servants (probably as issue judges, police, military personnel and persons, who hold sovereignty rights in the administration, i.e.. official notifications). The official characteristic is then enhanced by a strong dismissal protection, and additional disciplinary stipulations.

105. In this regard, it is important to undertake the following reform planning decisions:

- The need to make careful fiscal impact assessments (in both the short and medium term) of the planned wage policy and based on this and the conduct of further functional review work decide on the appropriate size of the civil service and on the functional duties of civil servants. The transfer of current civil servants out of the core civil service into the public service would need to be significant in number if the new system is to be affordable.
- The need to design a clear communication strategy to explain the process to all stakeholders.

- The introduction of key mechanisms from the civil service wage system (performance aspects, flexibility in pay and grading) in the public service. This would be done through the inclusion of relevant provisions in the Public Service Law, which should be a 'light' law, mainly setting out principles guaranteeing the quality of service delivery, performance management issues and guidelines for staffing and career management policies.

7. CONCLUSIONS

106. The decision by the President of Kazakhstan to address the competitiveness of civil (and public) service employment conditions that have arisen as a result of rapid wage growth, mainly, but not solely, in the oil industry provide an important opportunity to introduce changes in the overall public sector wage system. Such changes are best driven by reforms in the civil service, which is relatively homogeneous and has a clear separate statute.

107. The decision to monetize benefits for civil servants, and thus to address existing inequality in access to benefits, is an important reform step which can only be evaluated positively. However, the expressed target of changing wage levels using the Singapore model poses questions of fiscal sustainability, accountability, transparency and equity in wage development.

108. In relation to fiscal sustainability, a balance needs to be found between the need to rapidly increase civil service salaries to stop the erosion of the civil service, the need to retain a linkage between civil and public service pay progression and the need to mitigate inflationary pressure. Based on assessments of fiscal impact of different options, the most realistic option would seem to consider a more flexible approach to the increase, benefiting in first instance those groups of officials and public servants for whom competition from the private sector would be the most serious problem. This would mean that whereas for some groups of officials the increase could be achieved in a period shorter than three years, for others it would be a more drawn out process. In addition, pay increases in the core civil service may have to be phased in as well, as crucial accompanying measures to enhance equity, transparency and accountability will take time to design and introduce.

109. The Kazakh civil service system remains one of the most advanced among Central and East European and CIS states, and is built on a strong institutional foundation. The focus on stabilization and institutional development, which has dominated the process over the last four years was the correct one, and the result is a strong basis for further development of the civil service. However, this development is likely to stall if some structural problems in the wage system are not addressed. These include:

- Rigidity in the pay and grading system, which reduces incentives for young talented staff
- High degree of complexity of the pay and grading system, exacerbated by the recent expansion of the number of grades
- Equal pay for unequal work
- The lack of a stable and objective performance assessment system and a lack of integration of staff development in career management

- Lack of consensus to pay performance awards in different institutions and levels of government
- The lack of an overall performance management system at the organizational level.

110. These are fundamental issues that would need to be addressed if the planned wage increase is to have the desired impact in terms of the ability of the civil service to retain quality staff and to achieve an improved level of service delivery across the administration. This Policy Note provides a review of comparative practices in OECD and other states as well as a number of recommendations as to how the fiscal, accountability and equity issues in the pay system can be addressed. The recommendations are summarized below and will, upon obtaining feed-back from the Government, be worked out in more detail and set out in a proposed time frame.

Box 12: Summary of recommendations on accompanying reform measures

Wage Reform Planning

- Careful planning is crucial. It is essential that steps are carefully mapped out and extrapolated in time. This would prevent the system from getting discredited from its inception and enhance chances of success.
- Sequencing is important. Implementing a complex wage reform simultaneously across a large integrated civil service on a short timeline would appear impossible. Therefore a clear decision to sequence implementation would need to be taken and agreed with stakeholders.
- Some form of linkage between the different elements of the system will need to be retained, provided the political choice is made to retain the unified civil service system. In this case, the reform of the wage system would need to be clearly staged in a way as to ensure that whereas wage development for all categories will over time be similar, there will be variation in the introduction of increases.
- The introduction of some form of regional coefficient to address the problem of disparity is an essential element of reform, and should be considered in the context of the planned wage increases

Wage System Reform

- The need to adopt a framework law on civil and public service pay that would set out the main principles underlying the pay system, with separate secondary acts to be designed for different parts of the public sector.
- To introduce a new pay and grading system, including different steps for individual positions, preferably based on a (simplified) factor-based model, which would be first applied across the core civil service at the central level.
- To consider the introduction of performance based contracts for top level civil servants in the medium term, that could in the long term become a basis for some liberalization in the system of pay.

Performance Management

- The need to focus on a step-by-step introduction, starting with performance assessment as an annual practice, followed by the introduction of a linkage to career advancement in the context of the introduction of a new wage system.
- The linkage of performance to pay should not be decided upon now, but rather at a later stage when the system is well established, and even at that stage should be carefully considered.
- Borrowing from best practice in OECD states is an appropriate way of designing this type of system, in particular when referring to continental European states, where similar cultural and traditional obstacles to the introduction of performance appraisal systems existed. Ways of overcoming such obstacles can also be learned from such systems.
- The next phase of organizational reform in Kazakhstan, should include clear steps toward the design of overall performance objectives for all public administration organizations. The Common Assessment Framework is the preferred method to develop such objectives.
- The design of the individual performance management system and the organizational performance management system should be closely coordinated in order to ensure their compatibility.

Civil and Public Service

- The need to make careful fiscal impact assessments of the planned wage policy and based on this and the conduct of further functional review work decide on the appropriate size of the civil service and on the functional duties of civil servants.
- The need to design a clear communication strategy to explain the process to all stakeholders.
- The introduction of key mechanisms from the civil service wage system (performance aspects, flexibility in pay and grading) in the public service, through an accelerated adoption and implementation of a separate public service law that would mainly contain principles guiding performance and staffing issues in the public service.

**Annex 1:
Kazakhstan's Wage Bills of Civil and Public Services (billion tenge)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
	Actual	Actual	Actual	Actual	Actual	WB proj.					
GENERAL GOVERNMENT											
Total expenditures 1/, of which	593.5	746.9	808.2	1038.3	1296.1	1638.5	1766.1	1969.8	2176.1	2408.9	2693.6
Wage bill	105.5	122.4	152.0	170.9	237.4	293.3	354.4	460.8	599.0	628.9	660.4
Wages and salaries	89.3	106.1	133.6	149.8	211.7	261.6	316.1	410.9	534.2	560.9	588.9
Employer's contributions	16.2	16.3	18.4	21.1	25.7	31.7	38.4	49.9	64.8	68.1	71.5
Wage bill (% of total expenditures)	17.8	16.4	18.8	16.5	18.3	17.9	20.1	23.4	27.5	26.1	24.5
Wage bill (% of GDP)	4.1	3.8	4.0	3.7	4.3	4.6	4.9	5.7	6.6	6.1	5.7
CENTRAL GOVERNMENT											
Total expenditures 1/, of which	389.7	490.3	559.5	758.5	979.1	1229.9	1342.3	1497.1	1653.8	1830.8	2047.2
Wage bill	32.3	40.0	46.6	50.1	74.9	92.5	111.7	145.2	188.8	198.3	208.2
Wages and salaries	28.8	36.3	42.8	45.8	69.7	86.1	104.1	135.3	175.9	184.7	193.9
Employer's contributions	3.5	3.6	3.7	4.2	5.2	6.3	7.6	9.9	12.9	13.6	14.2
Wage bill (% of total expenditures)	8.3	8.2	8.3	6.6	7.6	7.5	8.3	9.7	11.4	10.8	10.2
Wage bill (% of GDP)	1.2	1.2	1.2	1.1	1.4	1.4	1.6	1.8	2.1	1.9	1.8
LOCAL GOVERNMENT											
Total expenditures 1/, of which	303.8	394.1	394.5	480.0	622.1	786.5	847.7	945.5	1044.5	1156.3	1292.9
Wage bill	73.2	82.4	105.4	120.8	162.5	200.8	242.7	315.5	410.2	430.7	452.2
Wages and salaries	60.5	69.7	90.8	104.0	142.0	175.4	212.0	275.6	358.3	376.2	395.0
Employer's contributions	12.7	12.7	14.6	16.9	20.5	25.4	30.7	39.9	51.9	54.5	57.2
Wage bill (% of total expenditures)	24.1	20.9	26.7	25.2	26.1	25.5	28.6	33.4	39.3	37.2	35.0
Wage bill (% of GDP)	2.8	2.5	2.8	2.6	2.9	3.1	3.4	3.9	4.5	4.2	3.9
GENERAL STATE/CIVIL SERVICE											
Total expenditures 1/, of which	35.1	50.8	45.6	65.3	83.6	96.0	107.7	121.9	137.0	154.6	174.1
Wage bill	12.2	14.9	19.1	22.0	34.0	42.0	50.7	65.9	85.7	90.0	94.5
Wages and salaries	10.3	12.9	16.8	19.3	30.3	37.4	45.2	58.8	76.4	80.3	84.3
Employer's contributions	2/ 1.9	2.0	2.3	2.7	3.7	4.5	5.5	7.1	9.3	9.7	10.2
Wage bill (% of total expenditures)	34.8	29.4	42.0	33.6	40.6	43.7	47.1	54.1	62.5	58.2	54.3
Wage bill (% of GDP)	0.5	0.5	0.5	0.5	0.6	0.7	0.7	0.8	0.9	0.9	0.8
PUBLIC SERVICE											
Total expenditures 1/, of which	558.4	696.1	762.7	973.0	1212.5	1542.5	1658.4	1847.9	2039.0	2254.4	2519.6
Wage bill	93.3	107.4	132.9	149.0	203.4	251.3	303.7	394.8	513.3	539.0	565.9
Wages and salaries	79.0	93.1	116.8	130.6	181.4	224.1	270.9	352.1	457.8	480.6	504.7
Employer's contributions	2/ 14.3	14.3	16.0	18.4	22.0	27.2	32.9	42.7	55.5	58.3	61.2
Wage bill (% of total expenditures)	16.7	15.4	17.4	15.3	16.8	16.3	18.3	21.4	25.2	23.9	22.5
Wage bill (% of GDP)	3.6	3.3	3.5	3.2	3.7	3.9	4.2	4.9	5.6	5.2	4.9
EDUCATION											
Total expenditures 1/, of which	84.7	106.4	121.1	149.0	190.7	230.4	258.6	325.0	365.5	412.1	464.2
Wage bill	54.2	67.8	89.0	103.5	141.4	174.6	211.0	274.3	356.6	374.5	393.2
Wages and salaries	45.9	58.8	78.3	90.7	126.1	155.7	188.2	244.7	318.1	334.0	350.7
Employer's contributions	2/ 8.3	9.0	10.7	12.8	15.3	18.9	22.8	29.7	38.6	40.5	42.5
Wage bill (% of total expenditures)	64.0	63.7	73.5	69.5	74.1	75.8	81.6	84.4	97.6	90.9	84.7
Wage bill (% of GDP)	2.1	2.1	2.4	2.2	2.6	2.7	2.9	3.4	3.9	3.6	3.4
HEALTH											
Total expenditures 1/, of which	54.3	62.3	71.1	89.8	131.2	179.2	208.3	243.7	274.1	309.1	348.2
Wage bill	19.4	23.1	31.2	36.1	49.3	60.9	73.6	95.7	124.4	130.7	137.2
Wages and salaries	16.4	20.0	27.5	31.7	44.0	54.3	65.7	85.4	111.0	116.5	122.3
Employer's contributions	2/ 3.0	3.1	3.8	4.5	5.3	6.6	8.0	10.4	13.5	14.1	14.8
Wage bill (% of total expenditures)	35.7	37.1	43.9	40.2	37.6	34.0	35.4	39.3	45.4	42.3	39.4
Wage bill (% of GDP)	0.7	0.7	0.8	0.8	0.9	1.0	1.0	1.2	1.4	1.3	1.2
SOCIAL WELFARE											
Total expenditures 1/, of which	171.1	186.7	201.4	239.2	272.3	339.2	380.7	422.5	475.1	535.8	603.5
Wage bill	1.4	1.7	2.3	2.8	3.9	4.8	5.8	7.5	9.8	10.3	10.8
Wages and salaries	1.2	1.5	2.0	2.5	3.5	4.3	5.2	6.7	8.7	9.2	9.6
Employer's contributions	2/ 0.2	0.2	0.3	0.4	0.4	0.5	0.6	0.8	1.1	1.1	1.2
Wage bill (% of total expenditures)	0.8	0.9	1.1	1.2	1.4	1.4	1.5	1.8	2.1	1.9	1.8
Wage bill (% of GDP)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OTHER PUBLIC SERVICES											
Total expenditures 1/, of which	248.3	340.7	369.0	495.0	618.3	793.7	810.9	856.7	924.4	997.3	1103.6
Wage bill	18.4	14.8	10.4	6.5	8.9	11.0	13.3	17.2	22.4	23.5	24.7
Wages and salaries	15.5	12.8	9.1	5.7	7.9	9.8	11.8	15.4	20.0	21.0	22.0
Employer's contributions	2/ 2.8	2.0	1.3	0.8	1.0	1.2	1.4	1.9	2.4	2.5	2.7
Wage bill (% of total expenditures)	7.4	4.3	2.8	1.3	1.4	1.4	1.6	2.0	2.4	2.4	2.2
Wage bill (% of GDP)	0.7	0.5	0.3	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Memorandum item:											
GDP (billion tenge)	2599.9	3250.6	3776.3	4612.0	5542.5	6400.4	7182.5	8124.8	9136.4	10303.6	11605.8

Sources: Kazakh authorities; WB staff estimates.

1/ Including net budget lending.

2/ Calculated by using the ratio of employer's contributions to wages and salaries at the general government level.

Annex 2
Bonuses and Base Pay: Ministry of Finance: 2004

**Data on average salaries, bonuses and allowances of administrative civil servants in the
Ministry of Finance in 2004**

	Average monthly salary in thousand tenge*	Average monthly salary in USD**	Actual average monthly bonuses and allowances in thousand tenge**	Actual average monthly bonuses and allowances in USD
Head of the Personnel	69,2	508,7	23,1	169,4
Minister's Advisor	37,4	274,9	12,5	91,8
Minister's Assistant	39,1	287,3	13,0	95,8
Department Director	63,2	464,2	21,1	154,7
Deputy Director of Department	57,1	419,7	19,0	139,9
Head of the Division	43,3	318,2	9,7	71,5
Deputy Head of the Division	38,6	283,7	12,9	94,6
Section Chief	37,9	278,8	12,6	92,9
Head Specialist	28,0	206,1	9,3	68,7
Leading Specialist	22,9	168,2	7,6	56,1
Specialist	19,3	141,6	6,4	47,2

Annex 3
Methodology for assessment of inflationary impact

Description of the inflation forecast model

Data

The data series for the model include the following data:

1. Civil Service average monthly wage from March 2000 to December 2004.
2. Public Service average monthly wage from March 2000 to December 2004. Due to the fact that the statistical agency does not provide data on public service as a whole, the assumption has been made that the average wage in public sector is represented by the consolidated average wage in education and health which are two biggest employers in the sector. As of December 2004, the number of employees in the economy excluding the state administration (includes civil servants) was 2 574 700. The shares of workers in the education and health were equal to 25.4% (654 900 workers) and 11,3% (291 000 workers) accordingly.
3. **Nominal Exchange Rate** for the same period according to the National Bank.
4. **Consumer Price Indexes** are taken as a month to month change.

Extrapolation of data

For construction of the data series forecasted for 2005-2008 the data were extrapolated on the base of the average monthly distribution of annual wage and nominal exchange rate over the last 4 years. The annual wage was calculated on the basis of the wage bill table for civil service according to the parameters, set by the President of Kazakhstan in his annual address to the Parliament. The extrapolated data were obtained by multiplying the annual indicator and the correspondent monthly index.

Model variables

In the model the CPI was designated as dependent variable. The monthly changes in the average wages in public and civil services and the exchange rate were independent variables. Since the civil service wages tend to increase in the end of the year due to the bonuses, they were seasonally adjusted. The seasonal adjustment was done through the centered averages. The independent dummy variable was included to catch other factors, influencing the inflationary growth. It was assigned 1 in months when monthly inflation was exceeding 0,5%, and 0 when it was below that level.

Regression equation

Regression equation was the following:

$$\text{CPI} = \text{C}(1) + \text{C}(2) * \text{CPI}(-1) + \text{C}(3) * \text{ER} + \text{C}(4) * \text{WCS} + \text{C}(5) * \text{WPS}(-1) + \text{C}(6) * \text{DUMMY5}$$

Statistical outcomes

Dependent Variable: CPI
Method: Least Squares
Date: 03/31/05 Time: 17:58
Sample: 2000:04 2004:12
Included observations: 57

	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	0.124597	0.057354	2.172402	0.0345
C(2)	0.324440	0.097822	3.316636	0.0017
C(3)	0.063064	0.044137	1.428807	0.1592
C(4)	0.000792	0.003123	0.253730	0.8007
C(5)	0.000311	0.007369	0.042248	0.9665
C(6)	0.504249	0.082005	6.148994	0.0000
R-squared	0.700209	Mean dependent var		0.585965
Adjusted R-squared	0.670817	S.D. dependent var		0.421493
S.E. of regression	0.241829	Akaike info criterion		0.098133
Sum squared resid	2.982555	Schwarz criterion		0.313191
Log likelihood	3.203223	Durbin-Watson stat		1.402609

Annex 4
Austrian Factor Point Job Evaluation System

The Austrian job evaluation profile method is based on the view that every job in an organization exists in order to achieve results. This requires a certain form, type and level of know-how which – utilized in a thinking process – leads to actions that lead to or have a certain impact on identifiable results.

The Austrian method therefore uses factors which reflect the essential contents of all jobs, the criteria:

- Know-How
- Problem Solving
- Accountability.

By analyzing job requirements on the basis of these criteria it is possible to:

- Establish a ranking order of jobs
- Quantify job contents
- Determine job requirements/profiles for a qualitative personnel planning process
- Review the delegation levels of organization structures.

The Austrian job evaluation profile method is an analytical method for evaluating jobs according to a total of 8 dimensions which are assigned to three main criteria.

These criteria or single dimensions are:

- **Know-How**, with the dimensions
Technical/specialized know-how
Management know-how
Human relations skills
- **Problem Solving**, with the dimensions
Thinking environment
Thinking challenge
- **Accountability**, with the dimensions
Freedom to act
Job impact on end results
Magnitude (area of impact).

1) Evaluating Know-How

- **Technical/specialized know how** – this dimension is subdivided into further categories
simple capabilities and proficiency (unskilled)
simple technical/specialized capabilities and proficiency (semi-skilled)
specialized knowledge (skilled)
advanced specialized knowledge (college/university graduates)
fundamental specialized knowledge (university graduates)
matured specialized knowledge (university graduates)
specialized professional know-how in a technical field
deeper know-how in several subject areas
governing of very complex tasks or specialized areas
complete mastery of a field of knowledge
complete mastery of all aspects of a very complex field of work
which covers several disciplines
nationally/internationally recognized authority.
- **Management know-how** - this dimension is subdivided into further categories
Task
Activity (e.g., this category includes all non-managerial, specialist

and purely supervisory jobs in the organization)
homogeneous (these jobs have the clear assignment of really integrating sub-departments or sub-functions and focusing them on a common goal)

Heterogeneous (the areas or functions to be coordinated or integrated are diverse in nature and may have conflicting objectives)
broadly based.

- **Human relations skills** - this dimension is subdivided into further categories
 - Basic: (This category includes jobs that work independently or "produce" ideas without having to "sell" them.)
 - Important (e.g., objective argumentation, functional management and leading a small group in straightforward situations)
 - Very important
 - Critical (e.g., the ability to motivate, to influence individual objectives, opinions and convictions is demanded on account of the internal and/or external relations of the job – supervisory and management positions fall into this slot).

2) Evaluating Problem Solving

- **Thinking Environment**
 - Strict routine
 - Routine (e.g., Thinking within standard instructions which apply to all tasks to be performed.)
 - Semi-routine
 - Standardized (e.g., standards, methods and procedures are prescribed for the job; within these the job must (and can) solve all problems that occur.)
 - Clearly defined principles and goals
 - Broadly defined principles and goals
 - Generally defined principles and goals (e.g., the job is expected to take up all problems acting on its own initiative in accordance with the general corporate policy, to formulate the policy and to present it to the corresponding user departments for detailed solution)
 - Abstractly defined.
- **Thinking challenge**
 - Repetitive (e.g., this type of thinking challenge simple, stable and repetitive situations.)
 - Patterned
 - Variable (e.g., the situations differ and are complex)
 - Adaptive (e.g., the problem must be analyzed, data have to be acquired and alternatives have to be found by extrapolation, comparison and adaptation.)
 - Uncharted (e.g., completely new or unprecedented situations. The solutions are usually of a basic nature.)

3) Evaluating Accountability

- **Freedom to act** (this dimension is restricted by organizational limitations, preventive guidelines and instructions and subsequent controls)
 - Prescribed
 - Controlled
 - Standardized
 - Regulated (e.g., the job is subject to practices and procedures covered by closely defined policies. Progress is reviewed after completion of

- an assignment, for instance on a weekly or monthly basis).
- Directed
 - Generally directed (e.g., the objective is related to complex, functional goals and a longer period. Sporadic review talks merely serve the purpose of information.)
- Guided (e.g., these jobs define functional strategies in accordance with the corporate objectives and policy, and are involved in formulating the corporate policy)
- Minimum guidance

- **Magnitude (area of impact)**

The evaluation is based on the dynamic monetary values (€/p.a.) which are most clearly affected by the job. Monetary values may relate either to costs or to income. The scale (increments to the power of 10) was defined such that performance-related variations in one job, or a slightly different growth in value have no influence.

Categories are:

Indeterminate

Very small	under €500,000
Small	€500,000 – €5 Million
Medium	€5 – €50 Million
Large	€50 – 500 Million
Very large	€500 Million – €5 Billion

- **Type of impact**

Remote

Contributory (e.g., the contribution of the job is integrated indirectly into the end result. The job provides interpretative, advisory, or facilitating services for use by others in taking action or decisions. The results achieved would be significantly poorer without the existence or services of the job.)

Shared (e.g., a basic rule of this impact is that accountability can not be shared with own subordinates or superiors, but only with equals. Shared impact is the direct impact of several jobs having the same freedom to act on one end result)

Prime (e.g., either the job has full impact or its impact is so dominant that any 'shared' accountability by others is subordinate)

Figures or numbers are assigned to all categories. On an underlying field (guide charts) the appropriate points of value can be determined very rapidly and simply. The higher the factor-points the higher the job value and thus the income.

The individual categories of the jobs results from the range (e.g., 20 percent) of the factor-points:

The functional groups consist of:

	salary grade
1. Auxiliary services..	1 to 3,
2. Qualified auxiliary services.....	4 to 6,
3. Technical field and subject area.....	7 to 9,
4. Technical assistance.....	10 to 12,
5. Experts/Specialists and leader of middle management	13 to 17,
6. Top experts/specialists and leader of higher management	18 to 21,
7. Leader of top management	22 to 24.

The affiliation of a job to a certain salary grade depends on the job value. The valence of each job is to be determined with the application of the job evaluation principles by determination of the factor-points. The salary grades consist of the following factor-points

Salary grades	factor-points	Salary grades	factor-points
1	0 - 75	13	378 - 435
2	76 - 87	14	436 - 501
3	88 - 101	15	502 - 577
4	102 - 117	16	578 - 665
5	118 - 136	17	666 - 766
6	137 - 158	18	767 - 882
7	159 - 182	19	883 - 1016
8	183 - 212	20	1017 - 1170
9	213 - 245	21	1171 - 1347
10	246 - 283	22	1348 - 1550
11	284 - 327	23	1551 - 1784
12	328 - 377	24	1785 - 2053

Due to the determined factor-points jobs or groups of jobs can be assigned by a regulation of the government to a salary grade (ranking regulation). Jobs, in which tasks are procured, which are homogeneous or deviate marginally from each other, can be seized in a group of jobs (job family).. If existing tasks change, new tasks or new groups of jobs develop, the regulation is to be adapted.

Example for salary grade 14 – legal specialist

Processing of all legal tasks for which a university study is necessary. Fundamental independent task fulfilment.

Evaluating know-how	Factor-points	304
Technical/specialized know how		
Fundamental specialized knowledge (university graduates)		
Management know-how		
Homogeneous		
Human relations skills		
Important		
Evaluating problem solving	Factor-points	87
Thinking environment		
Standardized		
Thinking challenge		
Variable		
Evaluating accountability	factor-points	57
Freedom to act		
Directed		
Magnitude (area of impact)		
Very small		
Type of impact		
Contributory		

Total amount of the factor-points 448 = salary grade 14 (factor-points 436 – 501)

Annex 5
Lithuanian Grading Model

Name of the Position	Category of the Position Minimum	Category of the Position Maximum	Number of Categories Assigned to the Position	Category of the Position Minimum in Litas	Category of the Position Maximum in Litas	Width* of the Base Pay
State Secretary	19	20	2	5,117	5,590	9.2 percent
Secretary of the Ministry	18	19	2	4,644	5,117	10.2 percent
Department Head	17	18	2	4,171	4,644	11.3 percent
Deputy Department Head	15	17	3	3,354	4,171	24.4 percent
Division Head	13	16	4	2,709	3,741	38.1 percent
Deputy Division Head	11	15	5	2,236	3,354	50.0 percent
Lead Specialist	10	14	5	2,064	3,010	45.8 percent
Senior Specialist	8	12	5	1,763	2,451	39.0 percent
Specialist	5	10	6	1,376	2,064	50.0 percent

*The width of the Base Pay is percentage by which the maximum exceeds the minimum.
All figures in Lithuanian Litas

Annex 6
Austrian Performance Evaluation Manual

STAGES OF THE APPRAISAL INTERVIEW

Organizations and their employees affect each other i.e., a successful interview serves not only an employee but also the whole organization.

For superiors and employees

- Mutual feedback improves straight-forwardness.
- A direct contact– apart from the daily working routine is established.
- It creates the opportunity to discuss topics that cannot be dealt with during the regular working day.
- It creates the opportunity to learn the points of view of the person speaking with you.
- One can communicate with a dialogue partner as a person regardless of his/her roles or positions.
- External and internal motivation is intensified.

For the organizational unit

- Mutual agreements help in better task performance of the organizational unit.
- Total and partial targets are better mutually managed.
- Opinion exchange improves communication and cooperation.
- Identification with department tasks is intensified through integration of experience and knowledge of the employees.
- Clear target oriented help in avoiding conflict situations.

The appraisal interview as an instrument of the cooperative management should create a pleasant working climate over the long term on the basis of mutual confidence.

Pre-requisite

In order to be most useful the following pre-requisites should be fulfilled through the appraisal interview:

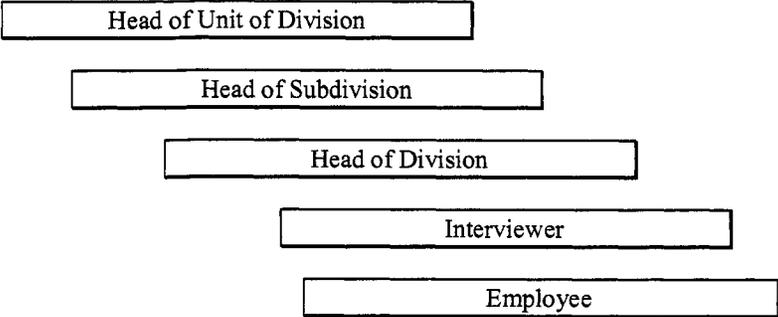
The field area and position management are extremely important for the appraisal interview and its targets and motivates a more engaged implementation.

The organizational unit in the field area (e.g., personal development) responsible for the conducting of the appraisal interview makes forms available and offers informative presentations.

Superiors and employees are informed on the content and the use of the appraisal interview through the informative presentations, trainings and/or going through the written forms.

COURSE OF THE APPRAISAL INTERVIEW

The sequel of the appraisal interviews within an organizational unit (e.g., Unit of Division) is performed from top to down as follows.



The appraisal interview phases are the following:

A superior arranges with an employee a definite date for the appraisal interview.

A superior and an employee prepare themselves separately on the basis of the written interview forms.

A superior and an employee conduct an interview. The working targets and tasks are discussed in the first part, and promotion and development actions in the second one. Finally, the results of the first and second part of the appraisal interview are shortly summarized. Each interview participant keeps one copy of the interview.

A superior informs a senior superior that the appraisal interview was conducted.

One copy of the results of the second part of the appraisal interview (promotion actions) is forwarded to the Head of Division i.e., to the Development Division/Personal Development.

After the conclusion of all the appraisal interviews within one organizational unit the superior calls for a team dialogue.

The team dialogue results are kept inside the internal organization and carried out.

If the other organizational units have to participate in carrying out the results, they should be officially informed about the necessary actions.

PREPARATION FOR THE APPRAISAL INTERVIEW

A successful interview has to be thoroughly prepared. The best way is to try to tune in with an employee's way of thinking.

- Think about your working relation with the employee; try to remember the satisfying and stressful situations from the previous fiscal year.
- What were their consequences on your cooperation?
- What kind of dialogue basis did you have with the employee?
- What do you want to change i.e., improve considering the quality of your cooperation?
- What do you want to achieve at the forthcoming interview in this sense?
- Which internal ways of thinking and personal attitudes are necessary to achieve this target

Role of the superior in the appraisal interview

The superior is considered to be a consultant, guide and leader in the appraisal interview.

In connection with the a.m. (s)he pays attention to fulfill the framework conditions by providing the following:

- Enough time for the interview
- Prevention of disturbances and interruptions (telephone!)
- Creating a relaxed atmosphere of mutual trust and motivation.
- Sticking to the topics from the prepared interview forms.

TIPS FOR CONDUCTING THE INTERVIEW

- Allow sufficient **time** – this shows your undivided attention.
- Try to be an **active listener**. Try not to judge the employee and his /her statements but to understand them.
- Ask **open questions** ("who", "what", "how"), and in this way you will obtain more information.
- Take care about the **well-balanced participation in the interview**.
- **Agreement can not always** be achieved. Consider this as an opportunity to reach new understandings.
- Summarize together the **results in a written form** in the appendix.
- **Different points of view** can also be noted.
- Respect **confidentiality** when dealing with the **written results**. Keep them **locked up**.

Rules on Feedback

When giving critical feedback please follow the "Rules on Feedback":

- **Always** begin with the **positive** feedback. You value the employee as a person and do not only see the behavior that has to be improved.
- Always use "**I-Messages**" (e.g., "I think...", "I see it in the following way...")
- Give your feedback as **concretely and precisely** as possible (refer to some situation or behavior).
- Use **positive formulations**: What concrete behavior do I expect from the employee? (e.g., "I think that the reports have the following form...")

FIRST IMPRESSIONS OF THE APPRAISAL INTERVIEW

The appraisal interview was introduced as a managing and personal development tool in the entire Federal Service starting from January 1, 1998. Every manager has to interview all of his(her) staff members once a year and in a private manner.

In order to explain the meaning and usefulness of the appraisal interviews the informative presentations were given in the introductory phase in all field areas for managers and employees.

Three years after its implementation the positive as well as mistakes were obvious, which today serve as a learning tool for future appraisal interviews.

Positive impressions from the point of view of both parties are...

- **Taking the time**

Employees assess that once a year a superior takes enough time for a personal dialogue: with $\frac{3}{4}$ federal civil servants the interview lasted up to an hour and with one quarter 1-2 hours. For 85 percent of the employees the interview duration was the right one.

- **The right framework**

The spatial framework conditions were experienced as suitable in most cases, whereas completely different surroundings were chosen: many appraisal interviews were conducted in the superior's office, but also a huge number off the workplace, e.g., in a nearby café. A careful choice of the interview place creates a relaxed atmosphere.

- **Managing using target agreements**

Targets for the next fiscal year are the major topic of appraisal interviews. The second topic is the tasks accomplished in the previous fiscal year. The appraisal interview serves as a guiding instrument to superiors.

- **Following written agreements**

With 80 percent interviews there were written agreements. In most cases they contribute to the clarity and connection between the employee and manager and support the implementation of the actions agreed upon.

- **In general the effect felt is neutral; stronger identification noticeable**

The effect of the appraisal interview was described as neutral by most federal civil servants. However, after asking more detailed questions during the interview it turns out that the appraisal interview makes employees more aware of the working atmosphere within the organization and superiors' managerial qualities. This strengthens personal responsibility and fosters a feeling of belonging to his/her own division.

Improvement was seen...

- **Observation of strengths and weaknesses**

Observation of strengths and weaknesses of the employees in setting target objectives is not very important for managers. This imbalance should be constantly treated within the appraisal interviews framework.

- **Raise awareness about expectations from the managers**

More awareness of your own strengths and weaknesses raises the employees' expectations from superiors and can intensify the already existing dissatisfaction, especially when there is no possibility to talk it over in the appraisal interview with the superior.

- **Employees' requests still needing development**

The appraisal interview is still little used for agreement on managing and developing actions. The managers are expected to act in favor of the employees when confronted with senior managers. Many personal development actions such as job rotation or external practice are too little known and used in the Federal Government.

- **_ Further activities for conflict solving necessary**

The appraisal interview alone is not enough to solve some problems within the internal organization that exist for some length of time. Especially for dealing with tensions and conflicts within a team, stricter group actions such as supervision or coaching are necessary.

Negatives noticed

- to conduct an interview that sticks solely on the written manual
- agreements that are never implemented
- written summaries that the (fe)male superior has written, partly after the interview
- when there was no written summary at all.

Which issues should you as a manager pay special attention to?

- **Make a time schedule!** Do not put off the time schedule for appraisal interviews for too long. If you do this you send a wrong message to your employees. It is best if you determine a certain part of the year to conduct interviews. This helps you in organizing yourself and informs your employees about the clarity and seriousness of your dealing with the given instrument.
- **Do not follow the written manual only during the appraisal interview,** but also permit topics that arise spontaneously. You have to ask the employee about his/her own topics. In this way your employees realize they are respected and taken seriously.

- **Write the written summary together with the employee at the end of the interview.** This underlines mutual responsibility for implementation of the agreement.
- **Do not set very high targets for the following year!** This creates unnecessary pressure and produces frustration for both parties in the worst case. It is much better to set more realistic targets which you will meet.

TARGET ORIENTED MANAGEMENT

Management means to recognize problems and target decisions as well as actions for achieving these targets. In this case we are talking about real management aspects.

Management circle clarifies these managing functions in their partial steps. These steps can be repeated constantly.



Achieving the target is the first managing task

Target setting is the most important starting point, which defines the whole management process. The following questions are the most important:

- What is the purpose of the target? (purpose/meaning)
- Who are we achieving it for? (customer)
- What should be achieved in the defined time frame? (final result)
- How do we measure the final result? (success criteria)

Not taking into consideration how separate targets are dealt with i.e., if they are already set or agreed upon (depends on the managing style) there are some basic rules which should always be followed:

Basic rules for target-oriented management

- Restrict yourself to **fewer but more important targets!** In particular with annual targets do not “put more weight on your shoulders” than you can really bear. Ask yourself “Is it really important? ”What will happen if we do not achieve this?” Set your **priorities!**
- Set **less but more important targets!** These are targets that have real value when they are achieved. This is a high **motivational factor** for your employees. Always set the particular targets for your employees in relation to the bigger targets of the whole organization.
- Take care of **concretizing and precision!** What should be achieved after a year? How shall we asset, if we have/have not approached the target? These are called "operational targets."
- It is not always possible to develop objection free target systems. The art of managing is to estimate different target objectives and to balance the objections!
- Targets have to be in a written form! This saves later efforts of clearing misunderstandings and confusions.

Objective requirements

If objectives are observed from a personal point of view, they have a motivating effect and force one to action if they:

- are clearly set
- stimulate individuality
- let the employee feel that (s)he can achieve them.

Setting clear objectives

Objectives have to be concrete, detailed and able to be analyzed. Misunderstandings are avoided by setting clear objectives. Only then is it possible to analyze target achievements. Political and strategic objectives are clearly defined as a rule. In the process of “setting” lower objectives to a particular employee it is necessary to deal with acceptance and of course to bear the risks of change. At the same time communication without conflicts should be established in order to recognize changes immediately and to forward them to superiors. This belongs to a specific managing function of the governing management.

Objectives must be challenging

Low set objectives do not create enough challenges for motivation. On the other hand the objectives must not be over challenging for the employees. The right evaluation of employees and their ability to achieve these objectives that is not related to education, experience and competences within the set framework is the central managing task.

Objectives must be attainable

The employees should be confident of achieving the objectives. With the managers` right evaluation of the employees and their healthy self-reliance the possibility of support in the form of an improvement in framework conditions and/or encouraging programmes has to be offered.

Super ordinate objectives of the leadership (external objectives) - examples

- Acceleration of processes
- Ensuring necessary water quality
- Ensuring economic quarters
- Modernization of the public governing management

- Increase of public safety and order
- Improvement of the authorities' image
- Increase in customer satisfaction.

General objectives of the organization (internal objectives) - examples

- Increase of employees' satisfaction
- Stimulation of more modern working techniques
- Stimulation of personal development.

Concretely formulated objectives ("operational objectives") - examples

- The number of x-decisions to be analyzed should increase to 200 per year. The number should be controlled through input in the databank.
- The analysis time in x-situations should decrease by 10 percent. Control is performed by means of the office information system.
- Ms. X attends a seminar on topic Y and reports the results implementation experiences to the team half a year later.

CONDUCTING TEAM DIALOGUES

Basic rules for team meetings

- Discuss the situations that refer to the **whole organization** within a team. **Personal questions** that refer to a particular employee belong to a **private interview** and not to a team discussion.
- **Preparation and overtime work** are of highest importance for the success of a team meeting. Ask yourself the following question before each meeting: "What do we want to achieve at the end?"
- An efficient team meeting requires an **agenda**.
- Give your **employees** the opportunity to **express their opinions and suggestions** for the agenda and for the course of the meeting. Which items will be tackled will depend on the management's decision.
- A well-formed agenda consists of **few, but important items** which really require the presence of the team.
- Take care of the fact that from **every item on the agenda an action** should follow. Define the steps as precisely as possible: "Who does what, with whom, until when?"
- In order to guarantee the effectiveness of all decisions, measures, responsible persons and deadlines should be written down in the **minutes of the meeting**.
- **Consensus** is important for all team decisions. Only when there is a consensus can the decisions taken have a chance of maximum realization.
- Consensus does not have to be hastily reached. In order to reach a **plausible consensus different points of views** have to be presented **openly**. Sometimes the meetings have to be interrupted in order to reach a better decision.
- While holding a team meeting use more modern leading methods and visualization devices. Visualization enables the clear presentation of statements, controversy and results.

Legal Basis – Excerpt:

Appraisal interview (§ 45 a):

The Employment agreement of the leading parties for the period of 18th legislation of the Parliament has in the Enclosure 21 "Civil Service and Administrative Reform" in the paragraph I Z 4 the following foreseen:

"For the creation of effectiveness initiative and leaving out effectiveness-restraining elements from the Civil Service Bill an Effectiveness Definition Bill of and Discipline Bill should be reformed in accordance with the compiled basis of the project group "Management and Persons". Effectiveness Definition Bill should become an instrument for career planning and career promotion on the basis of target objectives and annual effectiveness assessment interviews."

In the course of the consultation for now the total package of the bill related to the salary reform the effectiveness definition (§§ 81 ff. RCS 1979) was modified and furthermore an appraisal interview introduced as an independent institution not connected to the effectiveness defining.

By uncoupling from the effectiveness definition each official and each official on contract should be able to lead an open dialogue with his/her direct superior about the targets of his/her organizational unit annually. (S)He should be able to set with his/her superior the essential tasks that should be performed within the target framework.

At the year expiration it should always be discussed on the basis of the agreed upon whether the set targets were exceeded, achieved or not achieved and which reasons are responsible for it. In the interest of the dialogue openness the summary of the dialogue parts remains with the interview parties. Also the involvement of the persons of confidence should be foreseen in a very restricted measure.

In the second part of the appraisal interview measures are to be discussed, which can maintain or increase the effectiveness, such as the improved communication, improved information flow or needed trainings also. Knowledge and competences of an employee, which are insufficiently or only little used on his/her present job, should be implemented. The results of this second part of the appraisal interview are to be forwarded to the manager, who thereby receives significant indication for the personnel planning and the personnel development.

The appraisal interview objective is quality increase by task clarification, task criticism and by pointing out of the promotion possibilities, which is useful both to the civil servant and the civil service.

The direct specialized superior in the sense of this regulation cannot be in practice a superior to whom are assigned about 200 employees. In the actual work routine this superior has a support of the direct specialized superiors who are not assigned to him but are directly assigned for internal responsibility. These direct specialized superiors, to which § 45 applies, are usually informally responsible for the effectiveness span of up to ten persons. It is meaningful and appropriate to lead the appraisal interview within these work groups.

After the announcement in the Federal Law Gazette a three-year period until the obligatory performance of the appraisal interview is to be used to train the superiors for this special type of interview and to inform the employees about it sufficiently.

The pilot project running at present in the Federal Chancellor Office showed that the guidance of an external advisor was target oriented with the first employment of this new instrument. A substantial assistance to success is a question catalogue for superiors and employees oriented at the civil service limitations, in order to be able to discuss pending problems in a structured form.

If the objective of an appraisal interview is the achievement of quality increase, both an appropriate preparation time and introduction of the instrument to the personnel manager are basic conditions.

The first results of the pilot project in the Office of the Federal Chancellor permit the statement of the fact that the appraisal interview is quite successful but should not be overloaded with too high expectations particularly in the initial phase.

Team dialogue (§ 45 b):

The contribution of very good individual performances does not mean that the total output of a team must be compellingly good. After conclusion of the individual appraisal interviews it is meaningful to discuss and examine again goals and tasks of the working group within the team, to see to what extent the task improvements are possible in cooperation or during the task allocation.

Precisely because the civil service is in conflict of objectives between its run-short resources and its increasing requirements for effectiveness the appraisal interview and team dialogue should be used to support the equipment for salary commensurate with his/her performances.

The individual effectiveness assessment and promotion of effectiveness should lead thereby to quality increase and to improved effectiveness for the customers of the administration.

Annex 7
Mission Statement of the Austrian Federal Service and MBO forms

Basic Elements of Mission Statements for the Federal Ministries

As public servants of the Republic of Austria we consider our function to be that of service providers to the community. The Austrian legal system constitutes the basis for our work, and we are committed to it in all of our thoughts and actions. Within the framework of these legal standards, we defend the interests of individuals, we focus on our work on service orientation, and we respond to societal changes with flexibility.

Our goal is to act in the most predictable, reliable and accountable manner.

We perform our tasks with expediency and use available resources responsibly.

Having the dual duty of disclosure and secrecy, we provide information on our work to individuals and the general public. We endeavor to assist individuals in handling administrative matters in order to promote transparency, build confidence and advance mutual understanding.

We seek a dialogue with people. We take advantage of our experience with a view to contributing to the further evolution of existing laws.

We regard further education and training as an obligation which will allow us to assure competent and goal-oriented performance of our tasks.

Our internal interactions are characterized by impartiality, respect for others and confidence. Co-operation, mutual support and willingness to provide information are key features of our working style. Decisions are taken jointly and conflicts are settled by consensus.

Management responsibility is reflected by the definition of clear goals for the conduct of our work, the advancement of staff, the promotion of individual responsibility and the recognition of commitment and performance.

These basic concepts must be mirrored by everyday reality; we are consistently striving for their implementation.

Form for Manager and Employee



BUNDESMINISTERIUM
FÜR FINANZEN

Manager N.N.	Employee N.N.
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Agreed Targets for the Year 2004

1. Discharge of the department manager by increased assumption of coordinated tasks
2. Introducing Teleworking in the Ministry of Finance
3. ...
4. Working group for the reorganization of the plan of established posts, evaluation, controlling agendas in the area of staff, concept to 30.09.04 conversion 1.1.05

Manager	Employee
Date/Signature	Date/Signature

1

Form for Manager, Employee and Human Resources Department



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FÜR FINANZEN

Manager N.N.	Employee N.N.
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Development Measures for Year 2004

- Project management training - methods - processes - tools
- Communication - moderation - presentation
- Power POINT-training

Manager Date/Signature	Employee Date/Signature
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MbO Agreement



BUNDESMINISTERIUM
FÜR FINANZEN

Unit: ...

Date: 15.01.2004

Topic: Teleworking

Quarter: 01 02 03 04 2004

Agreed Target - Content	Date for Result	Set Measures											
The goal is well reached, if all staff members can begin starting from January 2005 home working/telecommuting	1.5.2004 Piloting 30.11.2004 Evaluation 01.01.2005 Rollout												
Degree of reaching target		Reasons for deviation											
<table> <tr> <td>Account</td> <td>in %</td> </tr> <tr> <td>Task group setup</td> <td>5</td> </tr> <tr> <td>Guidelines provided and negotiated</td> <td>30</td> </tr> <tr> <td>Piloting runs</td> <td>60</td> </tr> <tr> <td>Evaluation</td> <td>90</td> </tr> <tr> <td>Rollout</td> <td>100</td> </tr> </table>	Account	in %	Task group setup	5	Guidelines provided and negotiated	30	Piloting runs	60	Evaluation	90	Rollout	100	
Account	in %												
Task group setup	5												
Guidelines provided and negotiated	30												
Piloting runs	60												
Evaluation	90												
Rollout	100												

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Mbo Report



BUNDESMINISTERIUM
FÜR FINANZEN

Unit: ...

Date: 16.07.2004

Topic: Teleworking

Quarter: 01. [redacted] 03 04 2004

Agreed Target - Content	Date for Result	Set Measures							
The goal is well reached, if all staff members can begin starting from January 2005 home working/telecommuting	1.5.2004 Piloting 30.11.2004 Evaluation 1.1.2005 Rollout								
Degree of reaching target		Reasons for deviation							
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Account	in %								
Task group setup	5								
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Piloting runs	60								

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Annex 8
Common Assessment Framework Structure

The CAF Model

