

MANAGING HUMAN RESOURCES IN A DECENTRALIZED CONTEXT

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A central rationale for decentralization is that, by moving government closer to the people, it brings public sector activities and decisions in line with popular preferences. Yet, in practice, the civil service—a critical component of government—rarely enters the decision calculus of decentralization design. The civil service is often recognized as an afterthought rather than seen as essential to successful decentralization. This is lamentable but not surprising, as decentralization is quintessentially a political process. In East Asia, whether it was the desire to quell the forces of regional disintegration in the Philippines and Indonesia, the urgent need to meet the demands of economic transition in China and Vietnam, or pressure to improve service delivery and citizen participation in Cambodia and Thailand, the primary motivation for decentralization has been political—notwithstanding varied proximate causes.

The common failure to address the details of civil service management as an integral part of the decentralization package has significant implications. Civil servants form a crucial link between the delivery of financial resources to the government and the delivery of essential public services to the people (World Bank 2003a). The relationship between decentralization and civil service

management is a two-way process. The behavior of civil servants has important consequences for government performance in a decentralized setting. Conversely, decentralization alters both the incentives of and the demands on the civil service. Managing this behavior is critical to realizing the benefits of decentralization.

Accordingly, this chapter argues that civil service management—or more broadly human resource management—should be seen as an essential component in the design of decentralization rather than a separate, stand-alone process. The discussion marshals evidence from across East Asia and around the world. The following section presents a framework for exploring the interaction between administrative decentralization and civil service management—in terms of both the theoretical goals of decentralization and their realization in practice. The third section delves into the realities of administrative decentralization in East Asia through the experiences of six countries: Cambodia, China, Indonesia, the Philippines, Thailand, and Vietnam. The varied approaches and responses of these countries offer insights into the process of managing civil servants in a decentralized setting. The final section examines the central dilemmas that arise in designing

administrative decentralization and draws lessons on how countries in East Asia and beyond can maximize the benefits and minimize the risks of decentralization.


The Interplay between Decentralization and Human Resource Management

Decentralization is a spectrum rather than a single state, ranging from deconcentration to delegation to devolution (see box 1.1). As table 7.1 shows, key features of the civil service vary with the degree of administrative decentralization. Overall, East Asian countries fall into the intermediate category, with local managers enjoying some freedom to recruit and allocate staff subject to central guidelines on pay levels and total employment. Indonesia and the Philippines took the biggest leaps along the decentralization continuum in both law and practice, but central governments retained considerable control over civil service wages at the local level. In Indonesia, recent revisions to the Law on Regional Administration have rolled back decentralization in hiring decisions. In the Philippines, the momentum behind imple-

menting decentralization policy has slowed considerably. China and Vietnam have taken a more opportunistic approach, experimenting with different degrees of local autonomy. However, the central government and Communist Party continue to influence how decentralization plays out. In Thailand, a legal framework defines an intermediate form of administrative decentralization, but most of this framework has yet to materialize in practice. Finally, Cambodia can best be described as a deconcentrated system, with a high proportion of staff based in the field but working on behalf of the central government.

Movement along the spectrum of administrative decentralization depends partly on interplay with the political and fiscal aspects of decentralization. For example, a local government that has full authority over the size of its civil service can nonetheless face restrictions in the use of funds transferred from the center. Similarly, the strength of a country's accountability framework is influenced by whether political decentralization has created institutions for locally elected politicians to oversee the activities of local governments. The case studies illustrate the results of a mismatch in the dimensions of decentralization.

TABLE 7.1 Key Features of Administrative Decentralization



Deconcentration (minimal change)	Delegation (intermediate change)	Devolution (substantial change)
<ul style="list-style-type: none"> • Provider staff working at local level are employees of and accountable to the center, usually through their respective ministries; central employees compensate for weak local capacity. • Accountability remains distant: the <i>short route</i> of accountability may be weak if provider monitoring is weak, and citizens may have to rely on a weak <i>long route</i> stretching to politicians at the center; a strong <i>compact</i> between policymakers and providers can compensate to some extent. 	<ul style="list-style-type: none"> • Providers could be employees of central or local government, but the center typically defines pay and employment. • Local government has some authority over hiring and location of staff, but is less likely to have authority over firing. • Both <i>long</i> and <i>short routes</i> of accountability are potentially stronger; greater local knowledge can allow better matching of supply with local preferences and better monitoring, strengthening both the <i>compact</i> and <i>client power</i>. 	<ul style="list-style-type: none"> • Providers are employees of local government. • Local government has full discretion over salary levels, allocation, and numbers of staff, as well as the authority to hire and fire. • An overarching civil service framework covering local governments may still establish standards and procedures for hiring and managing staff. • Potentially strongest <i>long</i> and <i>short routes</i> to accountability, but influenced by local social norms and vulnerable to local capacity constraints and politics.

Source: Adapted from World Bank 2003h, 189.

*What Makes a Decentralized Civil Service Work?*¹

To better understand the opportunities and obstacles that a country may encounter on the road to administrative decentralization, it is first useful to consider the destination. A functioning system of decentralized civil service management—as distinct from a centrally directed model—has several key characteristics:

- Local government *functions are clearly defined* so staff know what is expected of them and managers can adapt the local civil service to reflect what needs to be done, without inefficient gaps or overlap with other levels of government.
- Local government can *allocate staff across functions as needed*. This requires that civil service managers have autonomy—or at least influence—in operating the local establishment as well as deploying staff across different departments and facilities.
- Local government is able to *attract and retain qualified individuals*, and to build a team with a diverse set of skills. This requires that local government have something to offer, through competitive pay, career opportunities, prestige, or other incentives.
- Local government has *flexibility in managing financial resources*. Managing civil servants requires managing their cost, either directly through pay levels or indirectly through staff numbers.
- Local government can *hold staff accountable for their performance*. This requires the capacity to supervise and monitor civil servants, the ability to reward good performance through pay increases, promotions, and other benefits, and the authority to punish deficient performance through disciplinary measures or dismissals.

Countries may not meet some or all of these criteria for numerous reasons. In some cases, the failure is one of design. For example, as mentioned, comparatively limited independence among local governments on fiscal and political matters may constrain their administrative autonomy.

In other cases, it is by design that the criteria are not met. First, keeping local civil services under the umbrella of central direction can ensure some standardization in working conditions across the

country. Otherwise, local governments in poorer areas will find it difficult to compete against richer areas, and national coverage of public services may suffer. Second, central government involvement in staffing may expand civil servants' career paths by opening channels between local and central employment. Third, the center may wish to retain control over hiring and pay to shield subnational governments from local pressure to overspend on wages and salaries. Fourth, centralized rules can be important in sectors that need to enforce minimum professional qualifications, such as with teachers, doctors, and nurses. Fifth, where ethnic or other tensions threaten stability, the central government may use the civil service as a tool for national integration. Finally, the central government's reluctance to decentralize may stem simply from a desire to retain control.

The Implications of Decentralization

How a country resolves the tension between the motivations for decentralizing the civil service on the one hand, and the reasons for caution on the other, will shape the design of decentralization and, ultimately, how the process plays out. The implications of decentralizing civil service management can be examined along four critical dimensions: capacity, incentives, autonomy, and accountability. Each factor plays a significant role in the success of decentralization and is, in turn, heavily influenced by the decentralization process.

These four dimensions are closely linked and entail important tradeoffs. For example, civil service training programs are not likely to strengthen capacity in a sustainable way unless incentives motivate civil servants to use what they learn. Similarly, improvements in accountability at the local level require that civil servants have the capacity—through accounts and records—to render that accountability effectively. Finally, holding local civil service managers accountable for their decisions is difficult when they do not have autonomy in making those decisions.

Capacity. For civil servants to deliver the higher-quality local services envisioned under decentralization, they need to have the capacity to do so. This involves both individual and institutional elements. First, the success of decentralization depends on the ability of individual civil

servants to take on new tasks, at both central and local levels. Second, smaller size and budgets can constrain the institutional capacity of local governments. The process of decentralization itself can have important implications for capacity needs at the local level. The devolution of public service responsibilities requires both a broader variety of skills and a greater depth of knowledge in specific areas, such as financial management and performance monitoring. Moreover, local leaders need to learn to supervise staff, mobilize more own-source revenues, interact with local constituents and elected officials, and develop local institutions. Formerly central civil servants who move to local levels can transfer some of these skills; local governments need to gain the rest through experience. At the same time, central employees need to shift from “doing” to facilitating and supervising.

Incentives. In some cases, what appears to be a lack of capacity to carry out the functions of decentralized government is instead a lack of motivation to act in the public interest. The structure and management of the civil service influence the outcome of decentralization reforms by affecting how local civil servants behave. The level of pay and benefits, options for career mobility, and degree to which merit is recognized or unsatisfactory performance penalized can determine the dedication with which a civil servant works, as well as the type of individuals who choose to become civil servants. Decentralizing functional and management responsibilities to the local level, in turn, modifies the incentive structures of local civil servants. The proximity of local government to the recipients of public services can tighten the link between efforts and results. However, some local civil services are too small to offer significant opportunities for career advancement, and poorer local governments may be unable to pay salaries high enough to attract talent. In remote areas, a combination of low pay and difficult conditions creates a vicious circle whereby an inability to attract high-quality staff leads to further deterioration in conditions.

Autonomy. The argument that decentralization boosts the responsiveness of civil servants assumes that local managers have the authority to respond to the demands of their constituents. Local autonomy in allocating human resources can improve efficiency by allowing managers to hire staff whose skills align with planned activities, to discipline or

dismiss ineffective staff, and to trim numbers to keep costs down. Though less common at the local level, direct financial autonomy—such as the ability to set pay levels and charge user fees—can improve staff performance and thereby enhance the benefits of decentralization. However, to achieve these benefits, performance incentives and accountability frameworks must be robust enough to prevent inefficiency and mismanagement. By definition, administrative decentralization would seem to augment local autonomy, but this is not always the case. The center often retains a significant degree of control, particularly in financially sensitive areas such as the size and wage levels of the civil service, especially when local capacity and accountability are in question. Table 7.2 provides a stylized but useful comparison of East Asian countries in these areas.

Accountability. The potential for improving service delivery through decentralization depends, among other factors, on accountability relationships—the degree to which civil servants are held to account for their performance and integrity, and to whom they are accountable. Without a strong system of local accountability, devolving authority and financial resources to local governments can lead to waste or misuse of public funds, and the potential for political capture at the local level can distort the benefits of decentralization. On the other hand, where corruption is systemic at the central level, devolution may enhance service delivery. Where political decentralization allows for oversight by locally elected bodies, the need for reelection offers strong incentives for better performance. If civil society monitoring mechanisms are strong, the downward accountability of local staff will tend to encourage a closer connection between public services and citizen demands. If accountability is only to the center, however, decentralization may not deliver the potential benefits of bringing government closer to the people.

Decentralization can, in turn, affect local accountability. In shifting responsibility for monitoring civil servants to local managers, decentralization can make it more difficult for civil servants to get away with laziness and corruption. The closer proximity of local citizens to government decision makers can enhance their ability to hold those decision makers accountable. However, if critical checks and balances to protect the neutrality and independence of civil servants are not in

TABLE 7.2 Central Authority over the Subnational Civil Service

	Cambodia	China	Indonesia	Philippines	Thailand	Vietnam
Legislation and regulations:						
Designation	1	2	1	2–3	2	1
Recruitment	1	4	2	3	2	2–3
Structure and career management:						
Establishment control	1	3	2	2–3	2	1
Appointment and mobility	2	3	3	4	2	3
Employment framework	1	1	1	3	1	1
Performance management:						
Standard setting and rewards	2	2	2	3	2	2
Training and development	2	3	3	4	3	3
Accountability	2	4	3	4	2	2

Sources: World Bank 2003d, 16; staff estimates.

Note: 1 = total central authority; 2 = central dominance; 3 = central guidance; 4 = central leadership; 5 = autonomous.

place, decentralization can lead to nepotism, with local managers rewarding family members and supporters with coveted positions, and can facilitate political capture by bringing civil servants within reach of local power bases.

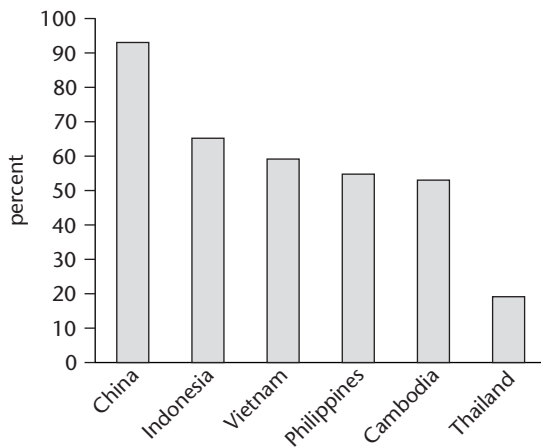
Taken together, the capacity, incentives, autonomy, and accountability of civil service management provide both a lens through which to evaluate the design of decentralization and a picture of how administrative decentralization has played out in practice. The following section shows how these four dimensions have influenced decentralization in East Asian countries, and how policy makers can leverage those dimensions to get the most out of decentralization.

Civil Service Management on the Ground in East Asia

The structure of government and, by extension, the civil service varies greatly across East Asia. Some countries have focused decentralization efforts on the lowest levels of government, while others have emphasized deconcentration to an intermediate level, such as provinces. Countries also differ in

whom they consider civil servants. Some countries treat teachers, health workers, and police as part of the civil service, while others consider them separate categories. The distinction between ministry staff on the one hand, and employees of public service agencies and state-owned enterprises on the other, may also blur the definition of a civil servant. Finally, the determination of which civil servants are subnational employees can reflect either their physical location or the level of government that pays them.

Even in the absence of agreed standards and definitions, broadly characterizing civil service decentralization in the region is worthwhile. Figure 7.1 shows the wide variation in civil service structures across the region. The share of employees at the subnational level ranges from around 19 percent in Thailand to just over 90 percent in China. The share of personnel expenditures in total subnational spending also reflects the extent of administrative decentralization. As figure 7.2 shows, average subnational spending on personnel ranges from roughly 41 percent of total spending in Thailand to around 60 percent in China. It is important to note, however, that these figures do not necessarily point to China as the region’s most

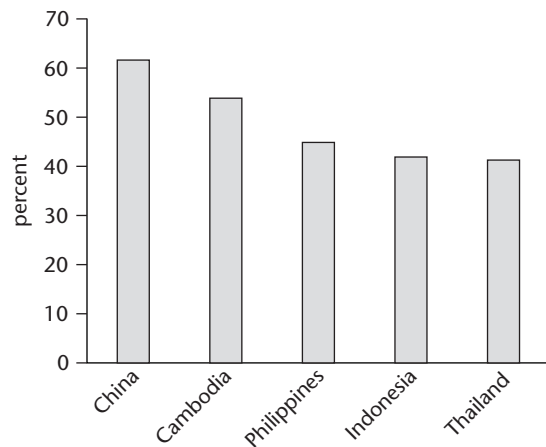
FIGURE 7.1 Subnational Employees as a Share of Total Government Employment

Sources: Cambodia—World Bank 2003a (includes political appointees and nonpermanent staff); China—World Bank 2002a, annex 2 (includes Public Service Units outside health and education); Indonesia—World Bank 2003d; Philippines—World Bank 2003f; Thailand—Kingdom of Thailand, Office of the Civil Service Commission; Vietnam—Government of Vietnam, General Statistical Office, 2003.

Note: Data are for the most recent available year, ranging from 2000–3, and exclude staff in the education, health, military, and police sectors, unless otherwise noted.

decentralized country. The degree of authority exercised by subnational civil service managers in determining the amount, structure, and allocation of resources plays an important role. Though different countries have focused their decentralization policies on different levels of government, table 7.3 provides a general picture of how civil service management practices have taken shape in East Asia.

The remainder of this section outlines the experiences of East Asian countries in dealing with the human resource implications of decentralization. In Indonesia and the Philippines, extensive decentralization of the administrative apparatus has brought to light both the opportunities and the risks of devolving authority to local managers. In China and Vietnam, where decentralization has proceeded in stages, the roles of state and party offer additional insights into the relationship between decentralization and civil service management. Finally, in Cambodia and Thailand, the focus on building capacity before rather than through decentralization has meant limited implementation of decentralization policies, and this experience offers an opportunity to consider how best to balance caution and progress. Together these six case studies explore the realities of human resource management in a decentralized setting. In addressing both pitfalls

FIGURE 7.2 Personnel Spending as a Share of Total Subnational Government Expenditures

Sources: Cambodia—World Bank 2003a; China—World Bank 2003b; Indonesia—World Bank 2003d; Philippines—World Bank 2003f; Thailand—Weist 2003.

Note: Data are for the most recent available year, ranging from 2000–3.

and innovative responses, the cases attempt to glean important lessons about the interplay between capacity, incentives, autonomy, and accountability in decentralized civil service management.

The Big Bang and Beyond: The Philippines and Indonesia

In both the Philippines and Indonesia, decentralization was an integral part of a political opening following the overthrow of an authoritarian regime. In these sprawling archipelagos, rising social tensions added a note of urgency to the decision to decentralize, and local autonomy came to be seen as the key to quelling threats to national unity. Neither government felt it had the luxury of perfecting the design of intergovernmental fiscal and administrative arrangements before decentralizing. Following the logic that a chasm cannot be crossed in two leaps has worked well in many ways.² Neither country experienced major service disruptions during the transition, and the relatively open-ended design of decentralization has encouraged innovative local responses to new responsibilities. However, once the dust settled, momentum slowed, and important challenges remain in correcting some of the imperfections

TABLE 7.3 Staffing Authority among Subnational Governments

Enabling mechanisms	Cambodia	China	Indonesia	Philippines	Thailand	Vietnam
Budget control						
• Determine the wage envelope	○	○	○	◐	○	◐
• Dismiss surplus staff	○	◐	◐	●	○	○
Establishment control						
• Control overall staffing numbers	○	◐	○	◐	○	◐
• Control staffing numbers in individual offices and facilities	○	◐	◐	●	○	◐
Recruitment						
• Formal employer	●	●	○	●	◐	●
• Have authority to hire	◐	●	◐	●	○	●
• Have independent merit-based recruitment mechanism (local civil service commission)	○	◐	◐	○	○	○
Career management						
• Promotion is available	○	●	◐	●	○	○
• Transfers within local government are possible	○	●	●	●	○	◐
• Horizontal mobility within local civil service cadre	○	○	○	○	○	○
Performance management						
• Direct and supervise activities and tasks	●	●	◐	●	●	●
• Conduct evaluations	○	●	◐	●	○	○
• Offer financial rewards	○	○	◐	◐	○	○
• Discipline and fire underperforming staff	○	○	◐	◐	○	◐
Pay policy						
• Set overall wage rates	○	○	○	○	○	○
• Set local incentives/salary top-ups	◐	●	◐	●	○	◐

Source: Author's estimates.

Note: ● = yes; ◐ = partial; ○ = no. Data are for most recent available year, ranging from 2000 to 2003. Ratings refer to the subnational level prioritized by the country's decentralization policy and to de facto practices as well as de jure authority.

brought to light by the decentralization process. As East Asia's two most rapid decentralizers, the Philippines and Indonesia provide a useful starting point for addressing administrative decentralization in the region.

Central Rules and Local Responses in the Philippines. The 1991 Local Government Code (LGC) provided the major impetus for "genuine and meaningful local autonomy" in the Philippines,

devolving substantial government functions, and attendant financial and human resources, from the national to the local level.³ Over 70,000 staff were transferred to local governments.

In each tier of government, the local chief executive—governor, mayor, or *barangay* captain—can hire, fire, and promote staff, subject to guidelines from the central Civil Service Commission (CSC).⁴ Civil servants are bound to a code of conduct and required to declare their net worth and

financial and business interests. Government employees are also supposed to disclose a list of close relatives in the public service, but this does not in practice seem to limit family connections in the civil service. Indeed, despite the constitutional requirement that “appointments in the civil service shall be made according to merit and fitness,” several mechanisms cause merit and fitness to lose out to patronage and nepotism at the local level.⁵ For example, although candidates on the shortlists for civil service appointments generally meet the minimum qualifications set out by the CSC, the local chief executive is not bound to choose the top-ranked applicant.

Moreover, recruitment for confidential, highly technical, and noncareer staff positions is exempt from the prescribed appointment process. Perhaps because these workers are relatively easy to hire, noncareer employees composed over one-third (38.6 percent) of total local government staff in 2001—significantly more than in national government agencies (4.67 percent) (World Bank 2003e). Furthermore, local governments can retain emergency and casual staff for up to six months without CSC approval. Local officials often use this provision to circumvent central controls and delays and avoid contributing to the national employee benefit scheme. Repeated extensions of temporary contracts lead to de facto permanent employment, and not all local governments advertise nonpermanent positions. This lack of transparency undermines merit-based hiring, as temporary positions are often handed out as patronage for loyal supporters.

Central regulations on local establishment size and expenditure allocations constrain the chief executive’s flexibility in appointing staff. A uniform system of job classification imposes rigidities on small local civil services. The central government limits local personal services expenditures to 45 to 55 percent of the previous year’s income, depending on the income class of the local government.⁶ The center also determines salary scales and benefit entitlements. Base wages tend to be low, but are supplemented by a complex system of both monetary and in-kind allowances and benefits. From 1992 to 2001, aggregate local spending on personal services averaged 56.8 percent of the previous year’s total regular income, exceeding the nationally mandated cap on the wage bill. In municipalities, the average was 64.4 percent (World Bank 2003f).⁷

The 1989 Compensation and Position Classification Act set salaries in all but first-class local governments lower than those at the center.⁸ However, because the salaries of national staff transferred to local governments remained the same, this created a wage gap between local and devolved staff. In fact, some civil servants who transferred to lower-income municipalities earned more than the mayor. This influx of better-paid staff imposed a budget crunch on local governments. The 1993 Salary Standardization Law, which called for unifying pay regimes across all levels of government, exacerbated this problem by raising salaries at lower levels. The law has also affected the incentives of civil servants by compressing salaries and thus lowering the increases that employees can expect as they move up the ranks. The compact organizational structure of local governments also restricts the career mobility of civil servants.

Local governments have responded in different ways to these central directives. Some cash-strapped governments are forced to simply ignore the mandated salary scales and pay their employees less. Some local chief executives have elected not to fill mandatory positions to leave room for other staff or salary supplements. Others have attempted to lay off workers, though this is rare owing to the political sensitivity of retrenchments. Local governments with greater access to own-source revenues supplement staff incomes even for positions covered by the national government, such as police. Local governments have also responded to rising personnel costs by charging some expenditures, such as payments for contract workers, to other budget lines. This crowds out nonpersonnel expenditures while masking the true extent of staff costs. As the central government does not have the capacity to enforce its regulations, local governments have much more flexibility than the legal framework implies.

Balancing National Unity and Local Autonomy in Indonesia. Indonesia’s Big Bang decentralization—ambitious and swift as it was—risked disrupting public services, inciting local unrest, and leaving civil servants unpaid. In actuality, the transition went quite smoothly. Delivery of services continued for the most part unscathed, and expected upheavals among reassigned civil servants failed to materialize. Over 2.1 million staff—nearly 60 percent of central employees—were transferred to

provincial and (primarily) district civil services with relatively little difficulty, although few people had to physically move because the previous system had been highly deconcentrated. The central government greatly aided the process by continuing to pay devolved civil servants from national coffers for five months.

In the wake of the Big Bang, several legal discrepancies came to light. Considerable confusion ensued in applying various laws and regulations, leading to overlapping authority and eroding efficiency. According to the original administrative framework (Law 22 of 1999 on Regional Administration), the head of region had the right to hire, fire, promote, transfer, and discipline staff. The Civil Service Law, however, maintained that authority for civil service appointments rested first and foremost with the central government, which could delegate that authority to heads of region. Government Regulation 97 of 2000 allowed the head of the regional administration to determine the size of the regional establishment. However, central regulations requiring nationwide advertising for some posts—although perhaps intended to spark interregional mobility—limited the flexibility of regional managers.

Recent changes to the framework laws have moderated the initial thrust toward devolution and introduced even more uncertainty about the roles of different levels of government in managing the civil service. The revised Law on Regional Administration (Law 32 of 2004) has rolled back local authority to manage human resources, stipulating that the central government will supervise regional civil servants within a national framework, and that regional heads can hire, fire, and relocate only lower-level staff at the same level of government.⁹ Regional managers no longer have explicit authority to manage their civil services.

The central government also determines pay levels and increases regardless of their affordability at the local level, limiting the autonomy of regional managers.¹⁰ Local governments must further pay the pensions of civil servants transferred from the center, which can create an unsustainable burden, particularly as the cost of pensions rises along with salaries. In 2001, the *dana alokasi umum* (DAU)—or general allocation grant—was supplemented by a “contingency fund” to cover the 14–30 percent pay increase mandated by the center. Though the

central government introduced this transitional mechanism with good intentions, it created incentives for overstaffing at the local level, as regional governments began to assume that excess personnel costs would continue to be covered by supplementary funding.

The structure of the DAU itself discourages prudent local management. Currently, the DAU is divided into three parts: a “lump sum” distributed in equal amounts to every region, a “formula” amount determined by the extent to which a region’s financial need outstrips its fiscal capacity, and a “balancing factor” based largely on the region’s wage bill as a share of total subnational wage expenditures in the previous year. The balancing factor deters local managers from cutting costs because lowering the wage bill lowers next year’s DAU allocation. This disincentive will become stronger with the implementation of the revised Law on Fiscal Balance (Law 33 of 2004). The equalizing lump sum component will be eliminated in 2006, and the “hold harmless” clause that keeps regional DAU allocations from decreasing over time applies only until 2008. Moreover, in the interest of national unity, the central government has resolved to fully fund regional salaries through the DAU, which will create strong incentives for subnational managers to increase staffing.

Until recently, a zero-growth policy prevented formal recruitment to the Indonesian civil service. New staff appointments in November 2004 were the first of their kind since decentralization was implemented. At the same time, Government Regulation 8 of 2003 on Local Government Structure and Organization defines the maximum number of staff in the regions, though it is not clear how strictly this regulation is enforced. Both the central and regional governments have taken to hiring contract workers to circumvent these formal restrictions. At the local level, this strategy has allowed managers to hire and fire temporary staff and consultants as desired, without interference from the center. Contract workers, who now account for about 10 percent of government employees, are also attractive because their employment is not subject to qualification standards or pension obligations.

In theory, the government must base hiring and promotion decisions on merit, but anecdotal evidence reveals that this needs strengthening in

practice, especially in promoting staff. The head of region has the right to discipline and dismiss lower-level staff who are underperforming, subject to due process and approval from the provincial governor. Dismissals are rare in practice, however, and staff reassignment seems to be the preferred penalty.

The civil service agency, BKN, has begun to define job classifications and qualifications for the civil service as a whole, including regional governments. The Indonesian government has also been developing minimum standards for service delivery, including broad directives on supervising minimum wage levels as well as highly specific technical guidelines. Heads of region have generally been enthusiastic about this initiative, both because they prefer to be held accountable against established criteria rather than arbitrary standards set by local parliaments, and because they expect to receive more funding in exchange for taking on greater responsibilities (World Bank 2003d). In principle, minimum service standards can improve civil service management by offering some basis for unity among public servants, ensuring a minimum level of performance across the country, and enhancing local accountability through improved understanding of what is expected of local civil servants. In Indonesia, however, most line ministries are issuing standards without giving enough thought to their feasibility and affordability at the local level. To be effective, minimum standards must be designed carefully, so they are specific enough to provide clear direction on what is expected of the local civil service but not so detailed as to hamstring regional leaders.

The design of decentralization in Indonesia constricts the interregional mobility of civil servants, and therefore their career paths. No streamlined system exists for relocating subnational civil servants to other areas. Discriminatory hiring practices at the regional level seem to further limit mobility. Despite regulations designed to prevent this, some heads of region are reportedly engaging in preferential treatment of “sons of the soil,” or discriminating based on ethnicity, religion, or other special interests. Many regions have resisted taking on staff transferred from the center, owing largely to ethnic tensions (central civil servants are primarily Javanese) and the association of staff in Jakarta with the authoritarian rule of Soeharto (World Bank n.d.). Curbing this tendency before it

becomes deeply entrenched will be important, as interregional mobility of civil servants can help ensure national unity and acceptable levels of service delivery in more remote regions. Possible measures to address this issue include joint training across regions and a secondment system, in which fixed-term placements in local areas improve the career prospects of central civil servants.

Ironing Out the Wrinkles. Both the Philippines and Indonesia considered decentralization necessary to keep the nation together and regain the trust of disaffected local governments. There was a strong sense that decentralization plans could not await the relatively long process of institutional development and capacity building, and thus that human and institutional capabilities should be expanded during the decentralization process. This approach succeeded in focusing the policy agenda on the actual transfer of functions and management authority to the local level, but left in its wake some unfinished business that has slowed the momentum behind decentralization. In Indonesia, concern over the loose ends has prompted the central government to roll back devolved authority.

Capacity. Decentralization policies in the Philippines and Indonesia have focused on the lowest tier of local government, but implementation of devolved functions is running up against the limited capacity of staff in these administrations, particularly in planning, budgeting, and financial management. In response, the Indonesian government has adopted a National Framework for Capacity Building, but will now have to work to finance and implement this plan. It is also unclear whether the top-down application of this framework will adequately address the capacity-building needs of local governments. In the Philippines, the continuing mismatch between required and available skills at the local level points to a need for better coordination in training local civil servants. Most activities are now provided in isolation, either by individual central agencies or by local governments themselves.

Incentives. The decentralization process has also affected incentive structures at the local level. Both the Philippines and Indonesia have encountered difficulties in designing intergovernmental financing mechanisms. The Internal Revenue Allotment

in the Philippines has not followed the assignment of functions as closely as it should have, flooding some localities with excess resources while saddling others with unfunded mandates. The former situation skews incentives toward overspending and overstaffing, while the latter discourages long-term planning and spending on maintenance. In Indonesia, the central government's historical use of the DAU to cover local salary shortfalls and, now, to fully fund subnational wages creates a perverse incentive for overstaffing regional governments. In both countries, performance incentives for civil servants are dampened by compressed salary structures, ineffective monitoring of performance, and weak links between performance and pay. These effects have been compounded by a lack of mobility within the civil service—vertically in the case of the Philippines, and horizontally in Indonesia.

Autonomy. In its initial thrust, decentralization in the Philippines and Indonesia significantly boosted the autonomy of local managers. Indonesia, however, has recently repealed local staffing authority. In both countries the central government has retained control in defining pay levels for local civil servants. Subnational governments are subject to national wage scales that impose significant fiscal burdens, especially in poorer localities. Centrally imposed salary increases have further strained local budgets. In Indonesia, the DAU covered these, but in the Philippines, the Salary Standardization Law is not yet fully implemented because many local governments find it simply unaffordable. Another unfunded mandate that impinges on the autonomy of local civil service managers in the Philippines is the 1993 Magna Carta of Public Health Workers Act. The central government extended this generous package of wage and benefit guarantees to health employees as an inducement to accept devolution. This has widened an already noticeable gap in the remuneration of local versus devolved staff, and has imposed significant costs on local governments while reducing the ability of local managers to allocate resources according to need. In both Indonesia and the Philippines, limits on local authority have led managers to bypass established regulations by hiring staff on a temporary basis and topping up salaries with nontransparent allowances.

Accountability. The tendency to circumvent the rules may reflect an adaptive response by local

managers to do what needs to be done, but the resulting lack of clarity and transparency poses a considerable risk in reduced accountability and vulnerability to corruption. In the Philippines, weak controls on staff appointments open the door to patronage and nepotism in local government. In Indonesia, though the speed of decentralization probably prevented vested interests from influencing decentralization policies, there is evidence that local positions are bought and sold in return for the promised rewards of graft in the public service (World Bank 2003c). The accountability of local civil servants is further threatened by a lack of clarity—in Indonesia because of imprecise roles, and in the Philippines owing to the “double subordination” of local staff to the local executive and the relevant central agency. Internal accountability mechanisms remain weak in both countries, though external accountability institutions—such as ombudsman institutions, complaint bureaus, and citizen monitoring—are growing in importance.

Overall, the experience of East Asia's rapid decentralizers shows that, although establishing the right rules is important to administrative decentralization, good design on paper is not enough. Countries must pay attention to the realities of implementation, particularly to creating incentives for local governments to work within the rules and to maintaining the momentum to make needed policy adjustments.

Decentralization in Transition: China and Vietnam

Administrative decentralization in China and Vietnam was born of the transition to a market economy. During the economic opening, central governments relinquished control over some of their activities and offered greater administrative and, to a lesser extent, political independence to subnational entities in return for greater central authority over revenue assignments. This system has confused the roles of subnational civil servants and limited the autonomy of local leaders in managing their activities.

On the other hand, in “crossing the river by feeling the rocks,”¹¹ decentralization in China and Vietnam has encouraged governments to experiment with local autonomy and address problems before moving on to the next stage of decentralization. And local governments in both countries have

formulated innovative responses along the way. The decentralization experiences of these two countries—different in size yet emerging from similar bureaucratic traditions—provide insights into the impacts of administrative decentralization on civil service management and local service delivery in transition countries.

The Ebb and Flow of China's Decentralization. In a country as large and varied as China, some form of administrative decentralization is a necessity, yet the statutory basis for decentralized human resource management is fairly limited. The 1993 Provisional Regulations on Civil Servants address the nationally unified core civil service, which includes only white-collar workers such as managers and professional staff. Teachers, doctors, support staff, research institute employees, and members of the military are not considered part of the core service, but of separate Public Service Units (see below). Political appointees are considered civil servants, however, as no distinction is drawn between political and bureaucratic personnel. Though the Chinese Communist Party (CCP) is formally separate from the government, it does influence staffing and other aspects of public management. Central and subnational civil servants alike are subject to national guidelines; although local jurisdictions prepare their own regulations, these usually conform to the national rules (Wong 2003).

The People's Congress usually makes the decision to hire or fire a local civil servant at the corresponding level; however, the CCP controls the appointments of senior staff through the nomenklatura system of bureaucratic patronage common in many communist countries. Since 1984, high-level officials in each administrative tier have been appointed by the party committee at the next-highest level.¹² Recruitment is supposed to be determined by open, competitive examinations, and the selection and promotion of employees based on merit and performance. It is important to note, however, that these criteria are generally defined to include "political integrity," or commitment to party policies. Local staff are accountable to the central government rather than to local administrations. Civil servants must follow codes of conduct set out in both the Provisional Regulations and party writings. Temporary workers, such

as substitute teachers, are exempt from the national guidelines.

The number of posts authorized for local jurisdictions is determined by local branches of the State Commission for Post and Establishment, a joint government-party organization, at the next-highest level of government. The commission uses a weighted formula to calculate each jurisdiction's overall staff complement, including a quota for the number of support staff.¹³ Staffing numbers are not necessarily efficient, however, and inefficiencies can be preserved over time because responsibilities for budget preparation and staffing policy are separate—a holdover from the days of central planning.

Civil servants are paid according to a national salary scale, which is benchmarked to the wages of staff with similar responsibilities in state-owned enterprises. This restriction pegs salaries closer to those of staff in larger, urban localities. Bonuses and benefits are determined locally and often compose a hefty proportion of overall remuneration. Well-off localities use these perks liberally to supplement the pay of civil service cadres. Poorer areas have difficulty meeting nationally mandated wage increases, and some have been forced to ignore these instructions or supplement personnel budgets with funds originally allotted to capital expenditures. The central pay scale does not, therefore, ensure nationally consistent pay. The fact that local governments must cover civil service pensions, unemployment benefits, and other safety net expenditures intensifies the fiscal pressures caused by central control over wage levels. When the national government raises pay, these salary-based expenditures rise as well, tightening local budgets beyond the control of local managers.

Relatively high salary scales further burden less prosperous local governments, where the civil service may be one of few sources of wage employment. Indeed, the tendency for local administrations to serve as the employer of last resort is exacerbated by higher-level insistence that they absorb streams of recent graduates (Wong 2003). These forces together inflate staffing levels, especially at the county level, which accounts for over half of the excess staff (World Bank 2002a). Despite several attempts to downsize the civil service and streamline the structure of government, redundant agencies remain and have tended to staff up again over time.

Wage levels appear to be high enough to allow governments to recruit and retain qualified employees. The number of higher-level staff with university degrees has risen from about 20 percent in 1981 to more than 80 percent in 1994. Though pay increases and bonuses are designed to reflect performance evaluations, this does not seem to motivate staff to perform well. The majority receive positive appraisals, and managers generally hand out bonus payments across the board rather than to reward exceptional work. Overall pay levels are highly compressed. The ratio of highest to lowest salary is 5.6 to 1 for base wages, but flattens to something on the order of 3 to 1 when subsidies and bonuses are included (World Bank 2002a).¹⁴ The relatively small increments between pay categories substantially reduce the payoff gained by an employee who ascends to the next rung of the bureaucratic ladder. There are no explicit restrictions on the transfer of local civil servants from one locality to another, or up to the central level, but the structure of the Chinese labor market—in which the *hukou* system of household registration assigns workers to a designated area—limits mobility. Some movements occur among higher-ranked staff, but rarely in the lower echelons. In the late 1990s, the central government initiated a program to relocate mid-career officials to local jurisdictions for six months to one year as part of a career path to senior public service.

The core civil service, as defined by the Provisional Regulations, does not encompass a substantial proportion of government-financed workers employed by Public Service Units (PSU), such as schools, hospitals, and research institutes. PSUs figure prominently in the public employment landscape, accounting for 96 percent of the civilian non-state-enterprise workforce at the central level, and 73 percent at the subnational level. Human resource management is slightly more flexible in PSUs than in core government entities. Local PSUs can be run at the central or local level or managed jointly. As in the core service, the next-highest branch of the State Commission for Post and Establishment determines the size of PSU staff. These restrictions do not seem to be heeded in practice, however, as local PSU employment averaged 110 percent of the authorized staff size in 1999. And PSU employment is growing, particularly at the subnational level. In provinces, prefectures, and

counties, PSU staff complements expanded by 21, 21, and 75 percent, respectively, between 1991 and 1999 (World Bank 2002a).

PSUs are subject to the authority of and accountable to the central government. The boundaries between these two forms of public employment often blur. Throughout various attempts to downsize the civil service in the late 1980s and 1990s, PSUs often absorbed retrenched employees, limiting cost savings. There is an expectation that staff can move freely between PSUs and core government positions. In essence, PSUs are a reservoir of extrabudgetary human resources upon which the government can draw (World Bank 2002a).¹⁵ Moreover, the functions of core agencies and PSUs often overlap, creating inefficiencies in administering and delivering public services.

Traditional and Innovative Approaches to Decentralization in Vietnam. Along with the transition to market-oriented economic principles, a major outgrowth of the *doi moi* reforms begun in 1986 has been a shift in the balance of state power, first from the Communist Party of Vietnam (CPV) to the government, and then from central to subnational levels. The impetus for administrative decentralization is growing with the Master Program on Public Administration Reform, which strongly advocates realigning the management of human and financial resources to address the fact that “administrative machinery at local levels is not really responsive to people” (Government of Vietnam, 2001, 2).

Most civil servants in Vietnam are hired and fired by the People’s Committee at the next-highest level of government. In the provinces, the Provincial People’s Committee makes these decisions, though high-level appointments require the approval of the prime minister. Openings must be advertised within the locality, usually by way of a public posting outside the Office of the People’s Committee. While job classifications have been defined centrally, they are not accompanied by precise job descriptions, and thus offer local governments significant discretion in determining their staffing profile.

All civil service appointments and promotions are to be based on merit, as determined by examinations conducted by provincial-level political schools. There are indications that, in practice,

seniority is accorded more weight than performance in promotion decisions. Selection to higher-level positions also requires ranking membership in the CPV. No performance management system links high-quality work to high return on a civil servant's career path. Two 1998 regulations—the Ordinance on Complaints and Denunciations and the Ordinance on Procedures for Resolving Administrative Disputes—offer mechanisms for disciplining staff, but managers do not exercise either of these very often. This is due in the former case to a lack of specificity in the provisions, and in the latter case to the limited effectiveness of Administrative Courts. No formal procedures are in place to allow dismissed civil servants to address grievances or appeal personnel actions.

Though officially no geographical constraints hinder the recruitment and transfer of staff, incentives for interregional mobility are generally inadequate, as local residents fill most local positions. Furthermore, remote areas tend to have difficulty attracting high-quality employees. There is also room to boost recruitment of regional minorities, particularly above the commune level. In theory, local civil servants are not barred from moving into the central civil service, but in practice, only People's Committee chairs move up to service in Hanoi.

Instead, central civil servants seem to be spending more time away from the capital. In 2003, the government launched a new program of staff rotations aimed at deepening the hands-on experience of top central bureaucrats. The intent is that time spent at the grassroots level will serve as a critical step on the path to high-level government posts (Cohen 2003). Whether this promising initiative will bear fruit, however, remains to be seen. There is concern that the rotation scheme has been used not as a tool for instilling an improved public service ethos but instead to banish political opponents.

The central Ministry of Home Affairs manages the personnel establishment through staff quotas at each level of government. Until 2004, these staff quotas also determined the budget allocations for personnel expenditures at the local level, but the one-to-one relationship between a larger staff size and a larger budget allocation created incentives for overstaffing and penalized leaner, more efficient administrations. Budgets now reflect a province's population rather than its staffing levels.

Salaries and allowances are specified centrally and apply uniformly to all levels of government. Wage levels have traditionally been considered low compared with alternative sources of employment, though new analysis casts doubt on the validity of these comparisons. Bales and Rama argue that, while professional and technical employees may be underpaid compared with the private sector, the alternative employer for most civil servants—particularly those based in rural areas—is most likely the informal sector, where salaries tend to be lower (Bales and Rama 2002). In poorer regions, in fact, the comparatively high wages fixed by the center—along with recent salary increases—are tightening budgets. This pressure will only build with the planned pay reform program, which promises to raise salaries by 30 percent, on average. Because staff pay represents a considerable share of spending in service sectors, wage costs can freeze out other important spending. Though the crowding out of operations and maintenance expenditures is not a major problem overall in Vietnam, it is an important issue in poorer areas.

Turning Transition into Forward Momentum. Decentralization in China and Vietnam has been incremental, with the central government reacting to the effects of each policy before taking the next step. While this approach allows experimentation to address unexpected results before they become entrenched, the lack of a predefined plan can create inconsistencies in decentralized governance. For example, sufficient fiscal resources have not accompanied administrative mandates—indeed, in China, the recent trend has been toward recentralization of finances. In Vietnam, the PAR Master Program, which sees the capacity and accountability of civil servants as critical to improving the effectiveness and efficiency of public service, is an important step toward redressing imbalances in fiscal and human resources.

Capacity. The PAR Master Program calls for developing a capacity-building plan to provide better training opportunities at local as well as central levels, refresh the curriculum and methods, and align content more closely with needed on-the-job skills. Enhancing the reach of educational opportunities will be important in addressing the low capacity of many local governments in Vietnam, particularly in remote areas. China has also made

training civil servants a priority: local governments must upgrade the skills of civil servants in line with the needs of the market economy. In both countries, the central government provides resources for locally organized training programs. In China, local governments are taking advantage of these resources to send their employees to Chinese universities as well as training programs outside the country. However, local administrations in both China and Vietnam continue to lack expertise in accounting and financial management. In Vietnam, a recent audit found an absence of record keeping in the communes, which keeps local managers from effectively overseeing the civil service and prevents the center from tracking the use of funds.

Incentives. Improving the ability of local governments to manage financial resources addresses only part of the problem when the incentives of civil service managers are skewed away from prudent supervision of local budgets. Until recently, Vietnam's system for allocating administrative budgets—calculated per staff member per year—encouraged local managers to inflate staffing levels to obtain more resources from the center. In China, local officials have little motivation to reduce personnel costs, as they are budgeted separately from other expenditures. Indeed, managers who save on wages lose part of their budget allocation. In poor regions, adding staff is often seen as the only way to increase the local budget allocation. Coupled with the government's position as employer of last resort, this system has encouraged overstaffing in local governments.

The ability of decentralization to improve service delivery also depends on the incentives of civil servants themselves. In both China and Vietnam, despite official rules defining merit as the basis for promotion, the career paths of local staff appear to be more limited than those of their central government counterparts. Seniority and party loyalty receive as much or more consideration than performance, and salary compression limits the benefits gained from hard work. China's attempt to enhance incentives for high-quality work through performance-based pay has not succeeded because managers have applied bonuses across the board. Staff rotation schemes in both countries focus on developing the careers of central civil servants through time spent in regions, rather than on rotating local staff to other areas to facilitate sharing of experiences and information (see box 7.1). The

Vietnamese government has had significant success in improving incentives for prudent management of administrative expenditures through an innovative pilot program for block-grant budgeting in Ho Chi Minh City (see box 5.3).

Autonomy. Controlling administrative expenditures has indeed proved difficult for local managers in these countries because of their restricted autonomy in setting wage and staffing levels and, in China, associated safety net expenditures. The high percentage of local budgets preempted by personnel costs, in turn, limits local discretion regarding other expenditures. In the meantime, local leaders have focused on a few areas of personnel management in which they do have autonomy. In China, local governments determine bonus pay, and have used it to supplement civil service wages. In both countries, local governments have the right to supplement their budgets by collecting user fees for certain services. While this has eased the strain on some local budgets, many of these fees fall disproportionately on the poor. Moreover, because these resources are external to the budget, governments often spend them in nontransparent ways that do not reflect budget priorities and undermine accountability.

Accountability. The accountability of local civil servants in China and Vietnam is blurred by a lack of clarity on the roles and responsibilities of each level of government, though Vietnam's new Budget Law has helped to address this problem. In Vietnam, and at the township level in China, the lack of clarity is intensified by dual subordination, in which local staff are beholden to both the directives of the central government and the demands of local elected assemblies. Audits of local expenditures in both countries have found that accountability mechanisms are weak. In China, the internal audit function is strong, focusing mainly on ensuring compliance and preventing fraud. External ex post audits are less effective, as local audit bureaus report to the central government and thus lack needed independence. The effectiveness of audits in Vietnam is constrained by a lack of capacity and low pay. In both countries, efforts are under way to improve accounting and financial management at central as well as local levels. These measures will help the central government improve and monitor local service delivery. The presence of the Communist Party in China and Vietnam holds

BOX 7.1 Personnel Exchange in India and Japan: Whose Capacity Is Being Strengthened?

In many civil services around the world, systems enable staff to transfer across levels of government. The motivations behind these personnel transfers are varied. In some cases, the intent is to groom central civil servants for high-level postings by using hands-on work at the local level to ground and broaden their policy skills. In other cases, central government staff are transferred to subnational jurisdictions to fill gaps in local capacity to implement national programs. Where civil servants are transferred across subnational governments, the aim may be to keep them at a safe distance from local vested interests.

A comparison of civil servant rotation schemes in India and Japan demonstrates how the design of these human resource management tools can shape their impact in a decentralized setting. In India, the principal focus is on preparing members of the elite Indian Administrative Service (IAS) for senior positions in central and state governments. Those who make the cut in the highly competitive recruitment process and rigorous training program are dispatched to state governments, where they spend several years working in field and secretariat assignments in different sectors. After reaching senior positions in the field, IAS officers typically rotate between central and state governments, as repeated exposure to field conditions is key to keeping abreast of changing on-the-ground realities. The IAS system also fosters active

collaboration between the center and subnational governments.

In Japan, on the other hand, the impetus for personnel exchange arose from the need to boost technical capacity in newly established local governments. Many local postings have since become “hereditary,” in the sense that staff members returning to central government are typically replaced by other central staff from the same ministry. Though it could be argued that this practice has prevented qualified local staff from gaining access to senior positions in subnational governments, the fact that autonomous local administrations continue to pay for relocated central staff implies that the transfer of information and knowledge from the center still plays a useful role. Moreover, the Japanese system of personnel exchanges is much broader than that in India. Staff not only transfer from the center to prefectural governments, but from prefectural governments to municipalities, from local governments to central postings, and across prefectures as well. While in both countries placing centrally recruited officials in local administrations can strengthen the capacity of local staff as well as transferred officials, the design of the Japanese system is more conducive to developing the skills of local staff.

Sources: Schiavo-Campo et al. 1997; Inoki 2001; Iqbal 2001.

important consequences for the accountability of civil servants in a decentralized setting. The party exerts considerable influence over staff appointments and promotions, particularly at senior levels. As such, civil servants most likely feel more accountable to the party than to the local population. While the party can be seen as a source of discipline in an otherwise weak system, its traditional control over the flow of information can reduce transparency and undercut efforts to hold civil servants accountable (Wong 2003).

Government transparency is beginning to improve in China and Vietnam, both within the civil service and with respect to the public. The state-run

media and citizens are paying increasing attention to corruption issues. In Vietnam, after peasant protests in Thai Binh and Dong Nai provinces brought to light the extent of corruption in the local civil service, the central government introduced a Grassroots Democracy Decree to enhance local consultation with residents on decisions that affect them. While this could in principle provide a strong check on abuse of power and strengthen accountability by increasing the demand for good governance, implementation has been weak because of limited management responsibility at the commune level, insufficient training of civil servants in sharing information with local citizens, and inadequate

mechanisms for tackling corruption in social assistance funds.

The Cautious Decentralizers: Cambodia and Thailand

The implementation of decentralization has been relatively limited in Thailand and Cambodia. In response to growing demand for improved service delivery at the local level, both countries have recognized the importance of devolving some management responsibilities—and the rights that accompany them—to local governments. Yet concerns about the limited capacity of subnational governments have engendered a cautious approach that has concentrated on developing the legislative framework and building local capacity to manage and monitor public services. In Thailand, a weakening political imperative to decentralize has also stalled implementation of outlined policies.

In low-capacity countries, a gradual transfer of responsibility can be a pragmatic way to ensure continuity in service provision and limit the potential for political capture of inexperienced local civil servants. However, gradualism also has its disadvantages. Piecemeal approaches may lack an overall strategic focus, leading to a mismatch between responsibilities and resources, and between authority and accountability. Moreover, caution can serve as an excuse for inaction on the part of central officials who are reluctant to relinquish their authority. Thailand and Cambodia have faced some understandable reasons for delay. Yet in taking such a long time to establish the building blocks of decentralization, these countries have deferred potential improvements in service delivery. In the meantime, the success of several small-scale experiments with local autonomy indicates that, with careful design, decentralization can work in these countries. The following discussion of guarded decentralization in Thailand and Cambodia explores how countries may resolve the tension between exercising caution and achieving tangible results.

Building the Foundations for Decentralizing Personnel Management in Thailand. Thailand's 1997 Constitution represents a significant step in bringing government closer to the people in a traditionally centralized country. Building on this solid foundation, efforts have shifted to creating

the institutions and developing the legal basis for devolving responsibilities to subnational administrations.

So far, few civil servants have been transferred to local administrations. Only about 4,000 staff (less than 1 percent of the 1.2 million national civil servants) in five departments—principally the Department of Public Works and the Ministry of Interior's Accelerated Rural Development Department—have moved to local service. The transfer of staff has thus not followed the transfer of functions, as stipulated in the decentralization legislation.¹⁶ The strategy of the Office of the Civil Service Commission for transferring remaining staff prioritizes voluntary transfers, though mandatory transfers and compensated retrenchment are still options. The commission has set up a Public Sector Personnel Development and Deployment Center as a hub for training and deploying central staff to positions in local government. Provincial personnel transfer centers are evaluating the staffing implications of devolved authority for local governments.

Still, the low number of relocations thus far points to a lack of motivation on the part of both central agencies and public employees. Ministries in Bangkok are understandably unenthusiastic about letting their staff go. Poorer local governments, especially the small *tambons*, may be reluctant to accept more staff because of the burden they may pose to tight budgets. Employees hesitate to move owing to a lack of clarity about comparable pay, benefits (including pension fund provisions), recruitment and dismissal procedures, career mobility, and local quality of life. Some staff worry that relocation to smaller local communities will leave them—and their jobs—at the mercy of local politics (Wegelin 2002). Civil servants who transfer to the regions are entitled to the same pay as in the center, but the system for classifying local positions does not offer the same range of job levels (and accompanying pay grades).¹⁷ The central government has offered a financial incentive to public servants who volunteer to serve in local governments for a three-year term, but this does not address the longer-term issue of permanent personnel transfers.¹⁸

The central government exercises general authority over personnel decisions at each level of subnational government through the Civil Service Commission. Local administrations may hire

low-level staff and contract workers but are not authorized to recruit higher-skilled or career employees. Vacancies are not formally advertised. Recruitment is based on competitive examinations administered by the commission, although it can waive the exam requirement in certain circumstances. All civil servants are subject to a code of professional ethics, which requires those in higher-level positions to publicly declare their assets. Disciplinary procedures are rigorous and provide for appeal.

The center rigidly prescribes the number and grade level of authorized staff positions at each level of local government. Fifth-class *tambons* may employ no more than 3 staff members, and first-class *tambons* no more than 21. Limiting staff so strictly may undercut remote rural areas that need the most intensive work on service delivery and public outreach. Yet keeping staff lean can help localities manage the fiscal burden of civil service salaries. Local governments must adhere to a central pay scale and a 40 percent cap on personnel expenditures as a proportion of local spending. This is a Catch-22 for poorer *tambons*, where a sheer lack of staff constrains the capacity to perform local functions, while paying more people would leave little money for anything else (Wegelin 2002). To address local personnel issues and redress disincentives to staff transfers, the Local Civil Service Administration Working Group has proposed creating a Local Government Civil Service Commission—as distinct from the provincial and municipal commissions that already exist. The Ministry of Interior is also looking into a personnel management system to track the pay, benefits, and career streams of subnational civil servants. Finally, the Thai government's recent acceleration of broader civil service reforms may reinvigorate the decentralization process.

Top-Down and Bottom-Up Approaches to Decentralization in Cambodia. According to its *National Poverty Reduction Strategy for 2003–2005*, Cambodia is pursuing a two-pronged approach to the devolution of power, tackling both political decentralization to the communes and functional deconcentration to provincial-level outposts of the central government. The government has recently initiated a process to develop an integrated policy framework.

Cambodia has established the legal framework for devolution, but its impact on staffing has been limited. While recognizing that communes should have their own financial resources, the Law on Administrative Management is much less ambitious about decentralizing personnel and human resource management. The law requires only two technical staff positions at the commune level: a commune clerk appointed and paid by the Ministry of Interior to assist the commune council, and an accountant from the provincial treasury. These individuals wield central influence over the otherwise relatively autonomous commune councils, although the commune chief can request the appointment of a new clerk based on the council's decision. If needed, councils may directly employ other staff, whom the law deems outside the "State framework." These employees are retained on a temporary basis for the duration of the council's mandate, but the next council can extend their terms.

At the commune level, general administration expenditures are restricted to 30 percent or less of the allocation from the center. This limit reduces the temptation for nepotism and overstaffing while giving communes considerable discretion in how funds are spent within the threshold. There is concern that the centrally determined allowances paid to commune councilors are high relative to civil servant salaries, especially as the former are only part-time functionaries. This can foster resentment among local staff and further restrict administrative expenditures.

The legal framework for deconcentration is less well defined, but the number of staff affected is high. As of 2003, some 78 percent of staff were based in provinces, including health and education employees. The relevant central ministry determines staffing needs and positions at the provincial level, but provincial administrations have discretion in whom they hire (World Bank 2002b). Though recruitment is supposed to be based on competitive examinations administered by the State Secretariat for Civil Service, anecdotal evidence indicates that provinces do not strictly follow this requirement (World Bank 2003a). Similarly, promotions within each grading category are to be based on merit, but seniority appears to play a stronger role in practice. Performance evaluations should be conducted annually, but this is not common. Disciplinary procedures exist but are

rarely used. Incentives are therefore not structured to encourage civil servants to perform well and improve over time.

Incentives are further dampened by extremely low and highly compressed pay. Wages are so low that many civil servants are forced to seek additional employment in the private and informal sectors, and the resulting absenteeism undermines public sector performance. While ministries are responsible for monitoring attendance, punishment for absenteeism is rare (World Bank 2002b). Low pay also affects how civil servants spend their time when they are at work. For example, the payment of per diems for field visits encourages staff to focus on activities that require travel, regardless of whether this is the most efficient use of their time or is indeed necessary.

The central government determines salaries, allowances, and social benefits, which local governments must pay on a priority basis. This limits the flexibility of provincial budget managers and may crowd out other important activities. At the provincial level, personnel expenditures averaged 48 percent of total expenditures in fiscal year 2002, though this figure ranged from 18.6 percent in Mondul Kiri to 57.4 percent in Kandal (World Bank 2002b). This share is much higher than the 33 percent that the central government spends on its wage bill (World Bank 2003a).¹⁹ Throughout the Cambodian civil service, a lack of systematic establishment control has allowed the proliferation of contract workers and high levels of overtime pay, and these problems are likely even more noticeable at the local level.

The combination of low pay, low staff motivation, and low mobility has left line ministries desperate to skew incentives back toward improved service delivery, and several ad hoc responses have evolved. The Ministry of Health has allowed health centers to collect user fees and to apply 49 percent of receipts to supplement staff salaries.²⁰ This approach has shown tangible benefits, as the use of health centers has risen by up to 60 percent. Clients are evidently willing to pay extra for better service. As Turner notes, “The salary supplements mean that staff are likely to devote more time to their official duties. When salaries might be only US\$15 per month, an extra US\$10 makes a considerable difference” (2002, 357). However, these supplements may lead to pay inequalities across regions. The

Ministry of Education, Youth, and Sports has tried to improve the efficiency of education services through financial incentives, including pay supplements for work in remote areas, double shifts or multigrade teaching, and performance incentives to heads of provincial and district education offices.

Balancing Caution and Action. The measured approaches to decentralization in Thailand and Cambodia reflect expressed concerns on the part of both governments that local administrations and their staff do not yet have the capacity to take responsibility for service delivery. In Cambodia these concerns have some basis in reality; in Thailand, however, they may reflect a weakened political drive toward decentralization. In both cases, policy makers have sought to avoid the potential dangers of decentralization by putting capacity building first.

Capacity. Low capacity is certainly an issue in Cambodia, where decades of civil war and the atrocities of the Khmer Rouge regime took a devastating toll on the country’s pool of human resources. Even in Thailand, a middle-income country with a bustling capital city, most local governments lack the technical skills and institutional resources to deliver even basic services. Both countries have created decentralized structures without devolving significant authority or responsibility.

Developing the skills of local staff is seen as the bridge between these initial steps and more significant decentralization. In Thailand, municipal staff are regularly rotated to enhance the sharing of knowledge and experience among subnational civil servants. Various training institutions offer a wide array of courses, but these have not yet been incorporated into a focused strategy for developing local capacity in a sustainable manner. Training and technical assistance for decentralization are also growing rapidly in Cambodia, building on the success of the donor-supported Seila Program. A critical challenge for Cambodia is to leverage this positive experience to design coherent and sustainable capacity-building initiatives that extend to all local staff. Thailand and Cambodia have also turned to deconcentration as on-the-job training for civil servants—in Thailand, through Local Education Authorities and Area Health Boards, and in Cambodia, through Health Center Management Committees, which have the authority to supplement staff salaries with proceeds from user fees.

Capacity is not just about technical and bureaucratic skills, however. The institutional and financial capacity of local governments is also crucial. In both Cambodia and Thailand, many local governments are simply too small—in geographical size, population, staff numbers, and budgets—to execute their functions. Most of Thailand's *tambons* employ only a handful of staff and cannot be considered viable units of government, as many are unable to support even a primary school let alone more technical services such as infrastructure. In Cambodia, a maximum of 11 people sit on the commune councils, supported by two centrally appointed civil servants.

Incentives. The small size of local governments has influenced the incentives of civil servants to take local employment, which has, in turn, affected service delivery. Few local civil service positions are available, and those that are sit at lower grade levels with low salaries and limited career paths. Attracting highly skilled professionals is difficult, as local governments do not have enough work to sustain full-time technical experts. As a result, central officials in Thailand have strongly resisted transfer to local service. The Thai government has attempted to address this by offering financial incentives to those who volunteer, but unclear rules and benefits have prevented this program from having any significant effect. In Cambodia, where over three-quarters of staff are based in the field, local staff are reportedly migrating to provincial centers in search of opportunities to supplement very low public sector wages. Local public servants are in effect being paid full time to work for part of the day. This is a particular problem in health clinics, which despite a 24-hour mandate often remain closed for most of the day. The government may want to consider explicitly allowing part-time work in public health facilities so they can ensure continuous availability of care.²¹

Autonomy. In both Thailand and Cambodia, limits on personnel expenditures have prevented local governments from hiring enough staff to get the job done—and even from filling all the positions to which they are entitled. In Cambodia's Kampong Cham province, however, low use of health services means that even the small numbers of local staff employed in provincial and district offices are excessive compared with the workload (WHO 2003). This hinders the efficiency and effectiveness of

service delivery. Though local managers in these two countries do enjoy discretion in whom they hire, rural communities do not have access to the highly skilled staff available in the center. In Cambodia, a lack of predictable financing further constrains the autonomy of local leaders. Unsure of when and in what quantity resources will arrive, field-based managers are reluctant to make long-term investments, including in human resources. The government has taken some steps to alleviate this problem by piloting mechanisms for streamlined execution of budgets in priority sectors. One example is the Priority Action Program, which allows local education authorities to supplement the low pay of their staff. Still, in these traditionally hierarchical societies, local managerial autonomy remains limited.

Accountability. The limited autonomy of subnational governments in Cambodia and Thailand poses important challenges for the accountability of local staff. In both countries, local governments at the lowest tier are officially accountable to popularly elected assemblies. Yet, so far, they are responsible only for a limited set of tasks, and most decisions are handed down from higher levels. As a result, it is difficult for local citizens to hold civil servants responsible for the quality and timeliness of their services. Community monitoring is also limited by incomplete dissemination of information on decentralization plans and transferred responsibilities. The flow of information on public preferences is interrupted by the “missing middle” of decentralized politics, as provincial authorities in Cambodia and Thailand are not elected and thus report only to the central government. Despite the time taken by both governments to lay a solid foundation for decentralization, many local officials are still not fully aware of their own responsibilities—and thus the outcomes for which they are accountable. Local standards and benchmarks are not yet in place to help the Thai and Cambodian central governments evaluate local performance. In both countries, vote buying, corruption, and elite capture may be significant at local levels, posing an important risk to decentralization plans.

Successfully Managing the Civil Service: The Way Forward

East Asia's experience with administrative decentralization highlights both the opportunities and

the challenges associated with devolving authority for managing the civil service to lower levels of government. As the case studies show, decentralizing the management of human resources can improve the responsiveness and resourcefulness of local governments. Yet, without careful design, devolution can also bring fiscal imbalances, negative incentives, and confused accountability at the local level. There is no single formula for successful civil service management in a decentralized context.

Success can be found in various forms, and tactics that work in one context may produce the opposite result in a different environment. The diverse approaches of the six cases offer lessons for countries considering decentralizing civil service management. The relatively smooth start to Big Bang decentralization in Indonesia shows the importance of carefully managing administrative elements of the transition, as when the central government continued to pay the salaries of transferred civil servants on an interim basis. The limited implementation of decentralization policies in Thailand shows that having the approach right on paper does not necessarily lead to getting it right in practice. Nonetheless, the latter is important, as evidenced by the legal ambiguities and reversals arising in the wake of Indonesia's rapid decentralization.

The experience of East Asian countries in managing the capacity, incentives, autonomy, and accountability of the subnational civil service can provide valuable lessons for other countries. The relatively stable transitions to decentralization in the Philippines and Indonesia show that countries can strengthen local capacity on-the-job. Cambodia's positive experience with improving the use and quality of health services validates the role of positive incentives—such as salary supplements from user fees—in motivating civil servants to perform better. Vietnam's experiment with block-grant budgeting in Ho Chi Minh City has reduced administrative costs and overstaffing, showing that more local autonomy can improve civil service efficiency.²² Finally, Vietnam's recent passage of a Budget Law that clarifies the responsibilities of various levels of government, as well as the experience of the Philippines in improving performance through community report cards, shows how efforts both within and outside the government can improve the accountability of civil servants.

The experiences of East Asian countries also highlight several critical dilemmas that governments must address in designing policies and institutions for administrative decentralization:

Centralized Control vs. Decentralized Management

Implicit in the notion of decentralization is the devolution of some responsibility and authority to local levels, which brings decisions on public service delivery closer to clients while freeing central government of the day-to-day details of local administration. On the other hand, retaining some control at the central level can yield substantial benefits, including national minimum standards for service delivery and wider mobility within the civil service.

It is critical for decentralization policy to achieve a rational equilibrium between these opposing but valid considerations. Decentralization policies should not aim to devolve all authority to the local level, but rather to redefine the responsibilities of the center and local governments. Central authorities must recast themselves as guides, providing local administrations with a comprehensive, feasible national policy framework and enhancing their ability to evaluate local performance. At the same time, policies must align the responsibilities and autonomy of local managers. The roles of local governments and their civil servants must be clearly specified and accompanied by the resources and flexibility to tailor activities to the needs of residents, as well as by mechanisms to ensure accountability and prevent proximity from opening the door to elite capture. Clear, locally feasible standards for minimum performance can mitigate the risks of devolving autonomy to subnational governments, as can better monitoring of performance through the collection, maintenance, and transmission of information on performance across levels of government.

Uniformity vs. Unification of the Civil Service

The degree to which countries devolve authority for civil service management has implications for uniformity across the civil service. If the center totally circumscribes the conditions of local public employment, administrative decentralization will remain a myth, and its potential benefits unrealized. On the other hand, if local managers are entirely free to adjust salary and staffing levels, the

BOX 7.2 Lessons from Uganda's District Service Commissions

Uganda's decentralization experience is generally considered a success story in terms of its extent and impact. As in Indonesia and the Philippines, decentralization in Uganda took on the characteristics of a Big Bang following an era of political opening. Along with the launch of regular local elections and the transfer of broad service responsibilities and attendant fiscal resources to local governments, the country took steps to decentralize the administrative apparatus. Staff posted to districts formally transferred to local governments, and separate District Service Commissions (DSCs) were set up to manage human resources in district and local administrations.

The right of the DSCs to hire, fire, and oversee subnational staff was enshrined in the new Constitution and further detailed in the Local Government Act. DSCs were meant to provide institutional protection for the relative autonomy of district governments in managing subnational civil servants. However, the system has encountered several obstacles. Recruitment procedures are slow, performance evaluations rarely occur, and the authority of DSCs to

enforce disciplinary decisions is limited. Moreover, because the central Public Service Commission defines the size of local governments and institutions, vets DSC membership, and approves recruiting standards, the central government retains influence over subnational personnel decisions. Finally, the existence of a separate DSC in each district—and the associated rise in fiscal transfers and local employment—has created political pressure to add new districts. This can lead to the proliferation of smaller and smaller local administrations and eventually to a loss of scale economies and operating efficiency.

As East Asian countries grapple with how best to manage civil servants under decentralization, the Ugandan experience with DSCs—both positive and negative—may provide a useful guide. If designed well, subnational public service commissions can promote the qualifications and professionalism of local civil services throughout the country.

Sources: Ndegwa and Levy 2003; Evans and Manning 2003.

size and composition of local governments—and their paychecks—are likely to vary considerably and may lead to interregional inequalities in employment conditions.

In its ideal form, a country's civil service will be uniform but not unified. Public servants will share a distinct national identity without necessarily being subject to identical rules on pay and employment. Countries can foster servicewide identity through joint training of civil servants working in different localities, or by creating subnational associations such as the League of Mayors in the Philippines or professional groups that bring together civil servants who confront similar issues across the country. At the same time, some degree of local variation is important. Solutions to inequitable salary differentials include allowing local governments to top up centrally defined base wages through user fees and other own-source revenues, as in Cambodia, China, and Vietnam, or having the center set a salary range but allowing local managers to establish exact salaries. If working conditions vary across subnational governments, public service

commissions could manage the careers and interregional mobility of subnational civil servants. These commissions must have the authority to recruit, transfer, and properly oversee staff, however (see box 7.2).

Economies of Scale vs. Client Responsiveness

Administrative decentralization also raises questions about the appropriate level of government to which responsibilities should be devolved. If the goal is to bring government closer to the people, then countries should hand off public service provision to the lowest tier of government, where civil servants are best placed to understand and respond to the needs of local residents. However, improving the responsiveness of local governments through proximity can disrupt the potential for economies of scale. Running a government, no matter how big or small, requires a minimum number of staff—accountants, managers, and secretaries, for example—and thus a minimum of human and financial resources.

In devolving responsibilities to the local level, central governments must consider the capacity of small civil services to undertake complex technical and managerial tasks, and avoid the proliferation of unviable local administrations. Small local governments generally have difficulty paying the salaries of highly skilled staff, and those staff are unlikely to have enough technical work to keep them busy full time. Diseconomies of scale in providing public services are a particular issue in Cambodia and Thailand, where local budgets and staffs are too small to viably provide such services. In these countries, ongoing boundary reviews may boost local technical capacity by consolidating local units, but they have not led to any decisions thus far. Alternatively, local governments could consider joining forces to provide public services that require more sophisticated technical equipment and skills, or that create spillover benefits for other jurisdictions. In China and Indonesia, on the other hand, the larger scale of subnational governments limits their ability to effectively reach local populations.

In addition to striking a balance in decentralization design, countries also face important decisions in sequencing reforms. Administrative decentralization entails two main temporal tradeoffs:

Capacity First or Capacity through Decentralization? How best to sequence decentralization reforms and capacity-building initiatives is a subject of considerable debate. On the one hand, analysts see devolution of responsibility for management and public services as a necessary step in building individual and institutional capacity. Skills development, performance incentives, and innovation are encouraged through “learning by doing,” which is generally a more sustainable and individualized approach than occasional courses developed without close attention to the specific tasks performed by civil servants. On the other hand, Prud’homme and others warn of the “dangers of decentralization”: the low capacity and inexperience of local civil servants can mean a sharp deterioration in the quality and efficiency of public services (Prud’homme 1995).

The critical challenge is to maintain forward momentum while balancing capacity considerations. Asymmetric approaches to decentralization can allow gradual devolution of responsibilities to local governments that have demonstrated the capacity

to take on new tasks. Thailand, for example, has seen some success with ad hoc forms that devolve autonomy to social sector agencies based on “readiness” criteria. However, it is important not to allow overly targeted approaches to delay the realization of decentralization’s potential benefits. The experience of East Asia’s rapid decentralizers—Indonesia and the Philippines—shows that countries can build capacity *through* decentralization. In this scenario, careful planning for coordinated training within a national framework that is sensitive to local considerations is essential.

Civil Service Reform before or after Decentralization? Though a full discussion is outside the scope of this chapter, the nexus between decentralization and civil service reform is worth mentioning. In principle, it makes more sense to decentralize the structure and management of the civil service after ensuring that it is efficient and effective at the national level. Yet given the political drive for decentralization and the difficulty of civil service reform, many countries cannot wait for these to occur before decentralizing. On the other hand, the decision to delay civil service reform until after decentralization can allow the central government to transfer the political burden of difficult policy measures. Countries should explicitly consider the links between these two key reforms to avoid replicating national flaws—such as duplication of effort or overstaffing—at the local level.

Endnotes

1. This section draws on Evans and Manning 2003.
2. Vaclav Havel, former president of the Czech Republic, used this phrase to describe the Czech reform experience.
3. The Local Government Code of the Philippines, Section 2, Sections 76 to 97, address human resource management and development at the local level.
4. The exception to this general rule is the local treasurer, who is appointed by the Department of Finance but paid by the local government. Manasan n.d., 12.
5. Philippine Constitution, Article IX, Section 2 (2).
6. The 45 percent cap applies in first-class through third-class local governments, and the 55 percent cap in fourth-class through sixth-class local governments.
7. Owing to the penchant among local governments to use alternative sources to supplement wages, these official figures likely underestimate the degree to which local governments have exceeded restrictions on personnel expenditures.
8. Pay scales were set at a fixed percentage of national levels, ranging from 75 percent in sixth-class local governments to 95 percent in second-class local governments.

9. Under this revised law, provincial governors will have authority to hire, fire, and relocate provincial staff only at echelon 2 and below. Similarly, heads of districts and cities will be able to hire, fire, and relocate staff only at echelon 2 and below, and only after consulting with the provincial governor.
10. Some local governments, though, have begun to informally supplement salaries. Also, several regional allowances are offered that are imperfectly recorded.
11. At the 11th Party Congress in 1978, Deng Xiaoping used this analogy to urge Chinese policy makers to take a gradual approach to economic reform.
12. Before 1984, these appointments were made by party committees two levels up in the territorial hierarchy. Burns n.d., 8.
13. At all levels, the criteria used are population, land area, and value of industrial and agricultural production; at the city level, additional factors include the number of component administrative units, local budget income, and the amount of developed land.
14. Including rank-based benefits, such as housing and car allowances, does widen the gap.
15. In Hebei province, for example, the director of budget preparation had kept his post as director of the Budget Department in the Hebei finance bureau.
16. Webster (2002) argues that functional devolution does not require the transfer of all corresponding civil servants. He argues that if decentralization is meant to improve the efficiency of public services by transferring authority to units closest to the beneficiaries, then fewer people should be able to perform the same task just as well as or better than at the center.
17. Teacher pay, for example, could be much lower after employees transfer to the local level. See Wegelin 2002, 23.
18. The amount of this incentive is B 6,000 per month, or roughly US\$150.
19. The national wage bill includes defense and security expenditures.
20. The other 51 percent is to be spent on operational expenses. See Turner 2002, 357.
21. Conversation with Pamela Messervy, World Health Organization, Phnom Penh, Cambodia, October 2003.
22. See box 5.3. Most surplus staff were transferred to other localities rather than retired or retrenched.

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