

**REPUBLIC OF KAZAKHSTAN**

**WORLD BANK MISSION ON WAGE AND COMPENSATION  
ISSUES FOR THE CIVIL SERVICE<sup>1</sup>**

**June 15 – 26, 2005  
Preliminary Assessment**

**A. OBJECTIVES**

1. A World Bank mission visited Astana to further work with the Ministry of Economy and Budget Planning (MOEBP) and the Civil Service Agency (CSA) on the issues highlighted in the recently completed Policy Note on Public Sector Wages, produced as part of the PEIR. The specific objectives of the Mission were to:

- Gain greater understanding of Government’s overall strategy and time horizon with respect to pay and compensation systems for the civil service
- Initiate the development of the analytical tools that will be needed to further develop such overall strategy
- Draft an Action Plan for reform, which the staff of MOEBP, the CSA, and the Center for Marketing and Analytical Research (CMAR) can further develop.

2. The mission was also requested to:

- Provide rationales, models and best practices that could be used to pin down the strategic direction and the rationale for the reforms
- To focus, in addition to the administrative workers of the civil servants, on appropriate criteria to compensate political appointees and “elite force”.

3. Section B, below, summarizes main proposed steps for reforming the civil service wage system; Section C briefly describes recent developments; Section D focuses on the changes in pay and compensation systems for administrative workers; Section E discusses other issues (including how the mission proposes to deal with the request received on remuneration of political appointees and an “elite service”); and Section F summarizes the recommendations and next steps. The mission wishes to express its appreciation to all the people met (see Annex 1). This Aide Memoire has been cleared with Bank’s management.

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<sup>1</sup> The mission comprised Messrs/Mmes: Tony Verheijen (TTL), Ilyas Sarsenov (ECSPE), Jana Orac, Rakhymzhan Assangazyev , Gerhard Ungersboeck, and Christian Kemperle (consultants). Mr. Bakhytzhan Sarkeyev from the Center of Marketing and Analytical Research under the Ministry of Economy collaborated closely with the mission. Pedro Rodriguez (country economist, ECSPE) and Madina Abylkasimova (CMAR) joined the mission for some key meetings.

## B. SUMMARY OF MAIN PROPOSED STEPS

4. Table 1 below includes some main suggested steps that the Government could consider if a decision is taken to move forward on the planned reform. A draft action plan, for further elaboration and revision by CMAR and the pilot agencies, has been included in Annex 6.

Table 1: Summary of main proposed steps for reforming the civil service wage system

Reform element	Proposed action
i. Consolidating the base and bonus payments	<p><b>Pilots:</b> (August-September 2005)</p> <ul style="list-style-type: none"> <li>• Further disaggregation of data for pilot institutions and design of bands</li> <li>• Instruction to Treasury to begin paying “workers” directly rather than “posts”</li> <li>• Decision on level of decompression and grading (see also below)</li> </ul> <p><b>Entire Civil Service:</b> (March-April 2006)</p> <ul style="list-style-type: none"> <li>• Begin the creation of a database for the rest of the government agencies to be used to model the fiscal impact of individual elements of the reform as well as scenarios for decompression</li> <li>• Inventory of amendments to legal framework</li> </ul>
ii. Rationalizing performance- and merit-based awards	<ul style="list-style-type: none"> <li>• Working out the details of the merit awards system, as well as estimating the expected available means for this (by 30 September)</li> </ul>
iii. Decompressing salaries	<ul style="list-style-type: none"> <li>• Assessing basic living standards for the lower civil servants to ensure that they are paid a minimum</li> <li>• Applying the budget constraint to the decompression</li> <li>• Assessing private sector wages (or enterprise sector wages) across different categories so as to guide some of the remuneration levels of top managers</li> <li>• Agree on principles of introducing decompression measures in the pay system after 1 January 2007</li> </ul>
iv. Simplifying grades	<ul style="list-style-type: none"> <li>• Finalizing a proposal on a simplified grading system, based on broad bands, and integrating the A, B and C categories;</li> <li>• Mapping the jobs in the two pilot agencies tentatively in the new system (October-November 2005 for the pilots, and May-June 2006 for other agencies.)</li> </ul>
v. Designing transparent indexation and wage increases policies	<ul style="list-style-type: none"> <li>• Reassessing current wage increase practice and designing a proper policy for indexation</li> </ul>
vi. Aligning legislation and procedures	<ul style="list-style-type: none"> <li>• Submitting appropriate legislation to Parliament so that all bonuses can be paid into a new integrated salary</li> <li>• Designing new rules for staff planning and payroll management to make sure that payment is made only for posts actually filled, and that unneeded posts are eliminated</li> </ul>
vii. Building implementation capacity	<ul style="list-style-type: none"> <li>• As the proposed reform will be intensive in design and simulation, the MOEBP may wish to hire a permanent consultant to assist CMAR</li> <li>• The reform will be intensive in training for personnel units and senior management on new pay system principles (starting October 2005)</li> </ul>

### **C. RECENT DEVELOPMENTS**

5. The recent increase in wages (32% across the board as of July 1, 2005) has created dissatisfaction among key reformers who feel such step could have been used to structurally change the system. Consequently, there is growing interest in significantly reforming the wage and compensation system for public employees, which would serve as one of the key backbones towards professionalizing the state. The working group on civil service continues to operate, and two agencies (i.e., MOEBP, CSA) have been selected as pilots to test future changes in pay and compensation systems. In addition, the government has hired CMAR to provide strategic advice on incentive-based schemes, and support the working group, the World Bank team, and the management of the two pilot agencies. The announcement of a possible additional increase of salaries in 2007 (by an announced 30%) provides a clear timeframe for the work since by that time the pilot programs should have been conducted and the direction in which these two pilots are to be extended to the entire civil service must be clear.

6. While the various officials met understand and agree with the principles that a good remuneration system should have in Kazakhstan, like in most countries designing second generation reforms on pay and compensation systems, there are still misperceptions regarding the specific policy directions (see Box 1).

### **D. THE REFORM AGENDA FOR ADMINISTRATIVE CIVIL SERVANTS**

7. Progress in reforming recruitment and the legal framework in the past notwithstanding, Kazakhstan have very basic problems on its pay and compensation policies. In particular, reforming the compensation system for administrative personnel (i.e., non-political appointees) will need to focus on:

- i.* Consolidating the base and bonus payments
- ii.* Rationalizing performance- and merit-based awards
- iii.* Decompressing salaries
- iv.* Simplifying grades
- v.* Designing transparent indexation and wage increases policies.

### **Box 1: Common Misperceptions of Policy Makers Engaged in Pay and Compensation System Reforms**

As policy makers and other stakeholders (e.g. parliament) embark in the design of second generation reforms for the remuneration system of the civil service, there is generally agreement **on the principles**:

1. Transparency:

- Civil servants know what they earn now and their future earnings potential in current job or higher grades (incentive for career advancement and stability)
- Civil servants broadly know salaries for other jobs – including their peers (for workplace harmony).

2. Appropriate earnings level:

- For the relative demands of the job
- Reasonable standard of living.

But there are common **misperceptions** in Middle Income Countries (including among some policy makers in Kazakhstan) which have taken good initial steps but still need to build solid foundations:

Misperception 1. Big bonuses (performance-related pay) motivate staff

- In reality, promotions and professional development motivate
- Hiring and retaining the right people is key
- Performance is inherently difficult to measure accurately.

Misperception 2. Money will solve problems with civil service performance

- Good management policy and practices are essential
- And corruption can only be eliminated through appropriate checks and balances and accountability frameworks in each institution and the government as a whole
- “Appropriate” compensation does not mean “high,” as the optimal wage level must be affordable to the country as a whole and relatively stable (protected from “boom and bust” cycles)
- Adopting the “Singapore model” in one-go (moving quickly to match private sector salaries) is not really needed. Instead, stability and a “smartly” designed incentives schemes could compensate to a significant extent the gap between public and private sector salaries.

Misperception 3. Apply the most sophisticated practices immediately or partially

- Solid base compensation, applied consistently for a number of years, is the true foundation
- Leapfrogging in this area (e.g., towards sophisticated performance-based system) generally does not work unless the foundations of the system are there and are solid.

**Strategic Policy directions** that are relevant for a country like KZ include:

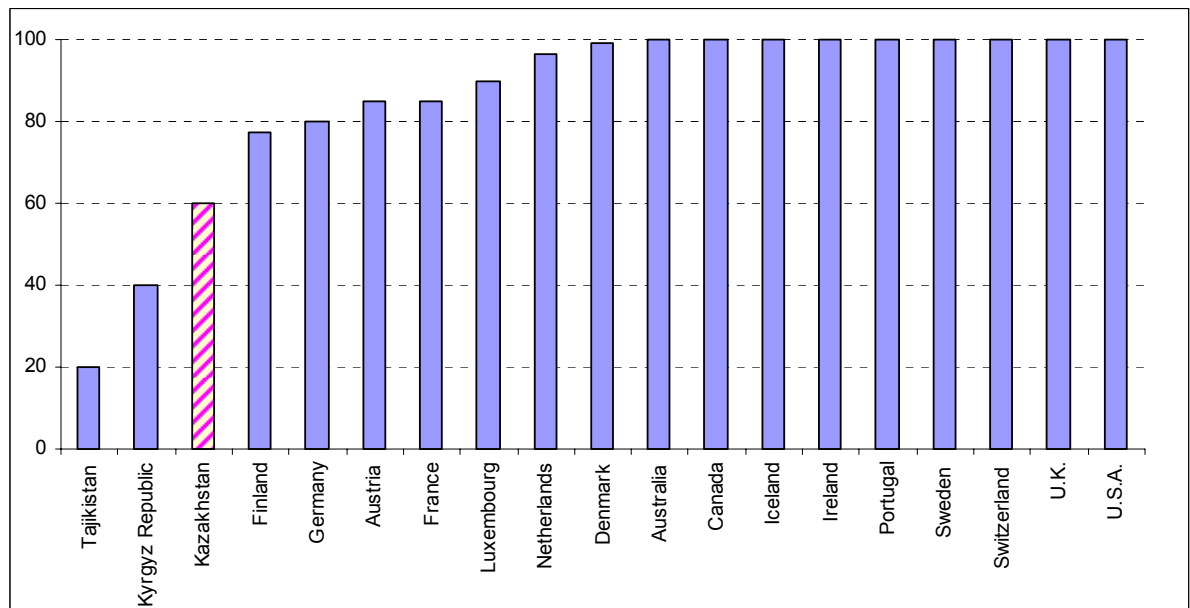
1. Focus on fixing the base salary system first

- Transparent composition: base salary = total earnings
  - Sound structure, from bottom to top
  - Realistic, affordable benchmarks for salary levels
  - Aim for smooth path for wage bill adjustments over time.
2. Develop strategic approaches to attract highly desirable individuals
- Professional development opportunities
  - Accelerated promotions / salary increases / targeted (smart) one-time payments
  - Recognition awards (with modest monetary sum)
  - Develop remuneration for an “Elite force” (e.g., key negotiators)
  - Link salary reforms to broader management improvements
  - Management culture, autonomy, accountability arrangements.

**i. Collapsing the base and bonus systems**

8. What makes the current compensation system unnecessarily complex and nontransparent is that a large proportion (around 40% for the two pilot agencies) of wages for a civil servant is made up of bonuses and allowances (see Figure 1 below).

Figure 1: Base salary as percent of total earnings in Kazakhstan, regional neighbors and OECD



Source: *Trends in Public Sector Pay in OECD Countries*, OECD, 1995

Source for Kazakhstan: *Reforming the Public Sector Wage System: Policy Paper*, World Bank, 2005.

9. **ISSUE:** The bonuses partly consist on entitlements enshrined in legislation, and thus financed from the budget, and partly the result of savings that a particular agency makes on its wage bill, or other administrative expenses. It is also known that some agencies have the authority to keep fees and other revenue to “top up” salaries. The current compensation system based primarily in ad-hoc bonuses, thus, has a number of problems:

- It lacks horizontal equity, as bonuses are allocated unevenly across institutions and individuals (people with similar grade and responsibilities within a ministry and across agencies may be paid very differently)
- It breaks the vertical consistency that is needed for career development objectives, as lower grade staff may easily end up earning more than higher graded staff, and the system does not signal an increase in remuneration after promotions (i.e., change in grade) since bonuses may or may not come in the future<sup>2</sup>
- It makes bonuses to provide a disincentive to dismiss a non-performing worker, because a manager could reduce worker’s bonuses rather than take a more drastic measure

<sup>2</sup> The first two bullets provide strong grounds for uncooperative behavior and rivalries of peers (staff in the same grade) within an agency and across agencies.

- It is extremely cumbersome for a managers (e.g., heads of agencies or Ministers) to administer, which usually result in resources allocated equally across the board—thus defeating the purpose of given discretion to managers to remunerate better performers
- It creates unnecessary seasonalities in wage bill payments which may affect civil servant's consumption and saving patterns, and unnecessarily complicates monetary policy<sup>3</sup>
- It should be mentioned that the current system lacks transparency not only for government workers but also for policy makers. Essentially, information on full payments made to civil servants, i.e. including bases and bonuses, is not readily available even to managers. Without this basic information (for all agencies), it is very difficult to make decision regarding pay and compensation issues, and to calculate the fiscal implications of any reform adopted.

10. RECOMMENDATION: We suggest that the first step in the pilot program must be to set the average monthly earnings of each worker to be equal to (i) the total of base (after increase) and (ii) the bonus payments made in 2004 (which could or could not be increased<sup>4</sup>). Some accompanying measures would be needed:

- Since there is likely to be discrepancies in total earnings under a particular grade, the mission suggests that a band of about (+) or (-) 20% be formally introduced in the two pilots to map all workers into the compensation of a given grade.<sup>5</sup> Workers earning more than the top of the band should be grandfathered, while workers earning less than the bottom of the band for a given grade should be brought up at least to the band. This principle should be introduced first in the two pilot institutions (MOEBP and CSA). Such (-), (+) 20% band will also be useful to harmonize earnings of the two pilot institutions<sup>6</sup>.
- It is essential that the treasury begin to pay the consolidated total earnings directly to each worker in the two pilot institutions and that it keeps any savings due to unfulfilled vacancies. It is also essential to prohibit the two pilot agencies to re-allocate resources from material expenses (or other budget spending category) into wages. This treasury management system should later on be expanded to the entire public sector. The mission did not assess the readiness of the treasury system to

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<sup>3</sup> In the absence of liquidity constraints (perfect financial sector) and if civil servants behave 'rationally' as predicted by the permanent income hypothesis, the pattern of wage payments would not necessarily affect the pattern of consumption or savings. This is unlikely to be the case in Kazakhstan.

<sup>4</sup> In principle the two pilot agencies "budgeted" their vacancies in such a way that the bonuses this year could also be increased by 32%. It was unclear for the mission whether the heads of the two pilot agencies intend to pay all their budgeted vacancies as bonuses or return to treasury part of them. Obviously, if bonuses are increased by 32% then the entire earnings of the workers in these two ministries will increase by 32% (i.e., the base plus the bonuses). Calculations in Annex 2 assume such increase.

<sup>5</sup> There could be some overlap between the bands of different grades.

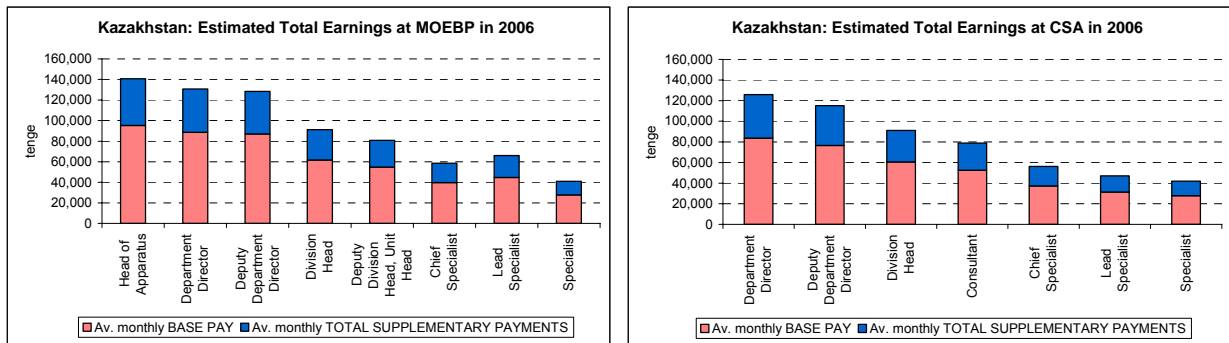
<sup>6</sup> The mission requested data for the highest and lowest earnings (base + bonuses) for each grade in the two pilot agencies but the information was not provided. In this regard, the mission encourage each of the two pilots to process this information and understand whether the suggested 20% band is appropriate given the actual lowest and highest earnings in the two institutions. Ideally not many workers will be grandfathered.

implement this change in budget execution behavior, though and this work should be carried out.

- We argue that both legal bonuses and bonuses from ‘savings’ should be incorporated into the average earnings. This will require carrying out an inventory of the relevant legislation and its amendments. The pilot agencies (MOEBP, CSA) may need to receive the authority to proceed with this change prior to legislative changes.
- We suggest that a **more flexible** Years of Service (YOS) increment should remain part of the pay system, as this is inherent to a career system. Further work will be needed to make sure such Year of Service increment is designed in a very simple manner—but the new system in which earnings will consolidate base and bonuses can start working even with the current system of YOS.

11. The Figure 2 below illustrates what the consolidated total earnings would look like in 2006 for the two pilot agencies. (i.e., after the mid-2005 salary increase comes in full force, which would be in 2006). Note that the figure only shows the average salary—but there will be bands around these. A file with initial calculations of the consolidation has been left with CMAR and the pilots (Annex 2). **Further disaggregation of the data would be needed for such file to serve as the basis of the consolidation of base and bonus payments and the creation of bands.** Annex 2 (Tables 1 and 2) illustrates the manner in which the process of consolidating base and bonus payments could proceed for the pilot agencies.

Figure 2: Estimated total earnings at MOEBP and CSA in 2006



## ii. Rationalizing performance- and merit-based awards

12. ISSUE: The current compensation system in Kazakhstan **cannot** move from its current stage from where it is right now (it provides too much discretion to managers) to one in which managers are given tools (e.g., performance or merit based systems) to manage such large amount of discretion. Instead, the progression is one in which the discretion levels of the current system are significantly (the mission argue that it should be almost completely) reduced and then a small program of performance-base awards is introduced. Such performance base system—which is the essence of the TORs for CMAR—is described in Annex 3.

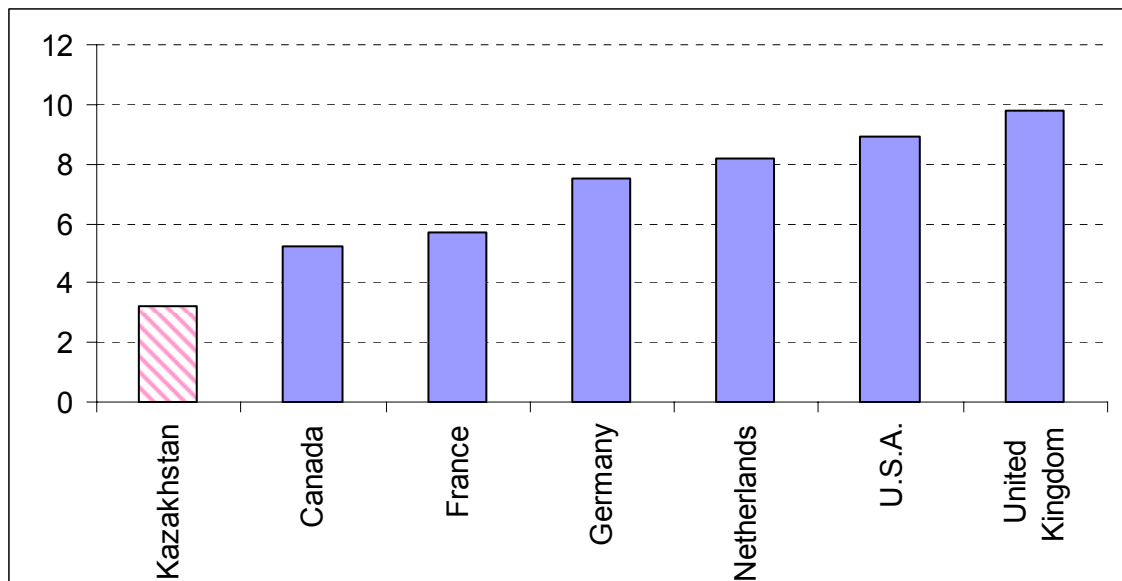
13. **RECOMMENDATION:** We argue that the merit-based incentive awards should be small, because managers need to feel that the best way to reward the best performing civil servants is through **promotions** rather than through **bonuses** (and dismissal is the best signal for bad performers). It should be noted that a promotion increases the salary of a civil servant today and in the future (i.e., increases the net present value of the remuneration of a worker), while a bonus is only a one time payment. Consequently, a promotion provides incentives for civil servants to do well over long periods of time, rather than incentives to obtain short-term gains. It also helps retain young workers who believe they will do well in the future—even if now compensation is not quite good at entry.

14. Ideally the small merit-based incentive system is introduced in parallel to the unification of the base and bonus payments outlined in section (i) above. This is to make Agency managers feel that instruments to reward performance that are under their discretion were not completely eliminated.

### iii. Decompressing salaries

15. **RECOMMENDATION:** Once base and bonuses have been eliminated and workers have been mapped into the salary band, we would argue that salaries should be decompressed. In principle, of course, the two steps (i.e., consolidation and decompression) could be carried out at the same time for the two pilots. The Figure 3 below compares the current compression ratio in Kazakhstan (which was calculated for the central government level by comparing the base payment in grade C1 to grade C11) with that in more developed countries.

Figure 3: Civil service compression ratios



Source: Cite "Ready for Europe, World Bank, 2000

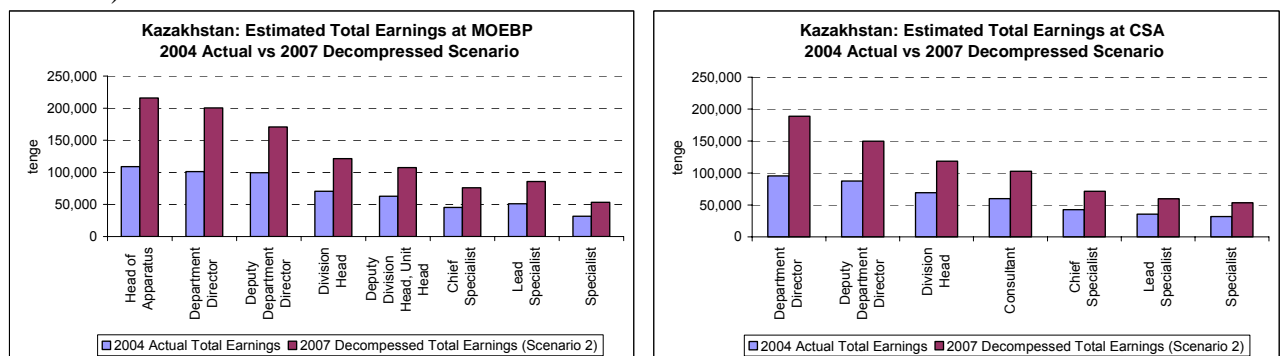
Source for Kazakhstan: *Reforming the Public Sector Wage System: Policy Paper*, World Bank, 2005.

16. The reasons why decompression is needed in Kazakhstan (from its current level to at least that in Canada or France) is because this is the only way in which position with higher responsibilities (i.e., directors) will be remunerated better than position with less responsibility (i.e., chief specialists). There is no performance-based system that could achieve the same result so effectively and with little or no complication. The decompression will entail some additional work:

- An assessment of basic living standards will need to be made for the lower civil servants to ensure that they are paid a minimum. In turn this will entail greater understanding of the key characteristics of workers at those low grades (e.g., Age profile, Marital status etc.)
- The budget constraint to be applied to the decompression, which in turn needs running various fiscal scenarios with different degree of decompression
- A formal assessment of private sector wages (or enterprise sector wages) across different categories so as to guide some of the remuneration levels of top managers.

17. The Figure 4 below (and Tables 1 and 2 in Annex 2) illustrates how the total earnings by key grades would look like in 2006 for the two pilot agencies if the decompression ratio is increased from 3.2 to 3.8. While the decompression profile could initially be extreme (with a spike on higher level of responsibilities) over time ideally such profile would be smooth out.

Figure 4: Estimated total earnings at MOEBP and CSA (2004 actual vs. 2007 decompressed scenario)



Source: WB and CMAR calculations based on data provided by the pilot agencies

#### iv. Simplifying grades

18. The current grading systems has two shortcomings:

- The A, B, and C categories are really designed to provide autonomy in salary setting to the office of the President and the Prime Minister. In reality this has led to distortions in the logic of the wage system, as discussions on wage progress for different categories of officials became disconnected, no longer reflecting real job requirements

- There are too many grades in the C level and in that respect it may be worth considering collapsing some of them during the reform process.

19. The important issue to be tackled is the harmonization between the A, B, and C categories which in principle should be one and only one. Whether some premium is kept for those persons that work in the two agencies in question is a matter in which the authorities can decide at a later stage. In addition, there is a choice about the timing for such harmonization, which can take place after the two pilots have been extended to other agencies and line ministries of similar rank.

20. As for collapsing some of the grades under the A, B, and C, Annex 2 (Tables 3, 4, and 5) illustrates the manner in which grade collapse, consolidation of base and bonus payments, and the band around such consolidation may look like. In the Annex 2, the 27 categories were consolidated into 8 for illustration purposes, but there is no clear science about this. We know from the international experience that 27 categories may be too many, but whether in the end KZ chose to have 8 or 9 is a matter of discretion and country-specific circumstances.

#### **v. Designing a transparent indexation and wage increase policy**

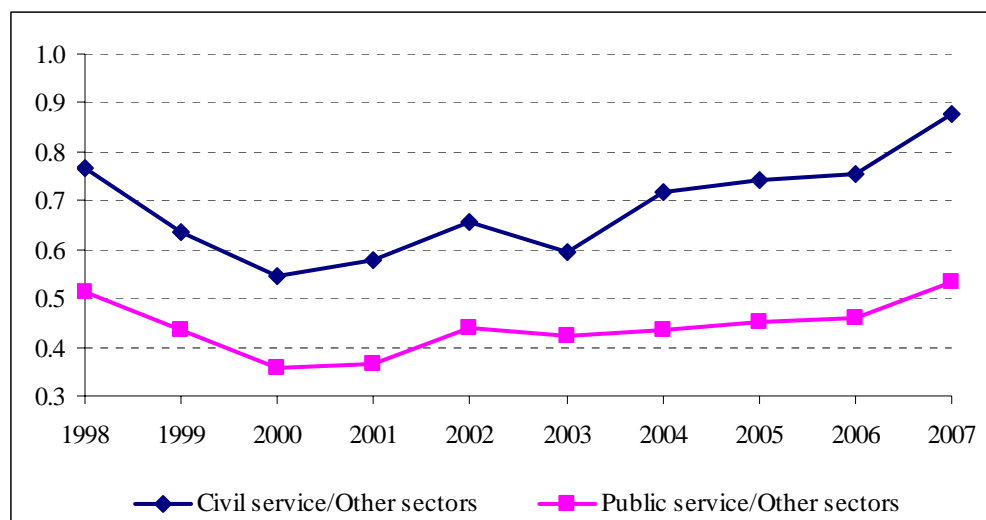
21. The current wage increase policy is far too “lumpy” and discretionary, with nominal adjustments above 30% expected this year and in 2007, with no adjustment in between, and unclear position for the period after 2007. Such lumpiness creates significant uncertainty on the civil service, as it is unclear for staff whether their gains will be ‘eaten’ away by inflation after 2007. The magnitude of the increases is in many ways unjustified, as neither structural reforms are behind (with the increase been regarded as the ‘cost’ of the reforms), nor inflation levels are so high, nor civil service salaries appear too far behind than the rest of the economy as mentioned in the next paragraph.

22. Figure 5 below illustrates the trends in the compensation of the civil and public service (the latter been mainly the health and education sectors) to the wages in the rest of the economy. The data of course may be inappropriate (the source of the graph is the Statistical Agency of Kazakhstan) as it is likely that the enterprise sector underreport wages. Nonetheless, the trends suggest that civil servants compensation has been catching up with the rest of the economy and in 2004 their average wage stood at 70% of the wages in the rest of the economy. Data problems notwithstanding, such level is not unusual relative to the international experience. The problem of compensation for state employees seems to lay in the health and education sectors, whose wages were less than half of those in the rest of the economy. With the envisaged wage increases in 2005 and 2007, compensation in the civil service could reach 90% of the level in the rest of the economy—at least as reported to the Statistical Agency.<sup>7</sup>

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<sup>7</sup> A proper reference survey will need to be designed and conducted to assess the ‘competitiveness’ of wages in the public sector vis a vis the enterprise sector. Such survey should be conducted by an independent research center with strong reputation on safeguarding the confidentiality of the information.

Figure 5: Ratios of wages in the civil service and health and education sectors to the rest of the economy



23. International experience does not justify large salary increases as Table 2 below suggests. In 2004, Kazakhstan average wage was about twice its level of income per capita, which is about the level in OECD countries. The ratio of the public and private sector wages is low but, as outlined in Figure 5 above, this is due to the compensation to teachers and doctors.

Table 2: Central government wages, early 1990s

	<i>No. of Countries</i>	<i>Central Government Wages and Salaries as % of GDP</i>	<i>Average Central Government Wage as Multiple of Per Capita GDP</i>	<i>Ratio of Public to Private Sector Wages</i>
Africa	21	6.7	5.7	1.0
Asia	14	4.7	3.0	0.8
Europe and Central Asia	21	3.7	1.3	0.7
<a href="#">Kazakhstan (2004)</a>	1	0.6	1.8	0.5
Latin America and the Caribbean	12	4.9	2.5	0.9
Middle East and North Africa	8	9.8	3.4	1.3
OECD	16	4.5	1.6	0.9
<b>Overall</b>	<b>92</b>	<b>5.4</b>	<b>3.0</b>	<b>0.8</b>

Source: World Bank, 1997. "Government Employment and Pay. A Global and Regional Perspective." Policy Research Working Paper No. WPS 1771. Washington, DC.

24. Whether the authorities proceed with the envisaged zero increase in 2006 and 30% in 2007, there is an urgent need to design a less erratic salary increase system. However in announcing the 30% increase in 2007 it would be important to distinguish two components:

- The part associated with the indexation to 2006 and 2007 inflation
- The part associated with the extension of structural reforms to the entire civil service (e.g., earnings unification, decompression, changes in grades).

25. As for 2008 and beyond a decision should be made on the following issues:

- The indexation policy for civil service salaries (the current best practice in the world is to index to expected future inflation, say as announced by the NBK)
- Whether or not to link individual salary increases to performance (i.e., while the government may decree a particular wage increase on average, individual agencies could be provided with a range for these increases that they can use to motivate high performers as long as the average increase in the agency is consistent with budget constraints)
- Whether additional (one-time) adjustments are needed to carry out the structural reforms outlined in this Aide Memoire.

**E. BROADER REFORMS: POLITICAL APPOINTEES, ELITE FORCE, LOCAL OFFICIALS AND THE BROADER PUBLIC SERVICE**

**i. Political appointees**

26. Wage policy for political appointees constitutes a sensitive political issue, and due to a lack of data it is not easy to provide recommendations on this issue. However, the mission agrees with the planned approach to define a reference point (e.g., the average salary for a minister) and then use it to define the compensation for more junior (e.g., deputy minister) and senior (deputy prime minister) positions in the government. This, together with years of experience increments could serve as the basis for a transparent compensation system of political appointees.

27. It should be noted that the Russian Federation has tried to link wage levels for political appointees and office holders to performance on a broad set of indicators relevant to the sector they cover. However, such indicators are notoriously difficult to define and agree on. The ongoing debate on defining such indicators in the Russian Federation provides a relevant and interesting illustration on the practical difficulties associated with this approach.

28. It is suggested that the next mission of the World Bank works closely with MOEBP, CSA and CMAR on this issue.

**ii. Elite service**

29. The Bank Team was asked to provide comparative material on international experiences with the creation and management of an 'elite civil service'. Whereas such a practice has been tried and tested in a number of states, including most recently in Hungary, the compilation of a note evaluating this experience would require additional time and will therefore be delivered during the next mission.

**iii. Organizational performance: piloting CAF**

30. The mission suggested that the Government may wish to consider using the Common Assessment Framework, designed by a group of European states, to help define performance indicators for the two pilot institutions. It was agreed that a CAF workshop will be held in September 2005 for the two pilot institutions, to review whether this approach is applicable in Kazakhstan at this point in time. If a decision to proceed with this is taken, it would give the Government a self-assessment tool that could be used to regularly update performance targets (as well as link up to the EU-based CAF process), which in turn will facilitate the definition of individual performance targets.

**iv. Local level officials**

31. The proposals currently under discussion cover only the central civil service. The pay system for other civil servants (deconcentrated units of the line ministries as well as Oblast, Rayon and Aul administrations) also needs equivalent reforms. However, for such reforms to be designed, and a separate wage grid to be put in place, a number of policy issues need to be addressed first:

- Decisions on whether and how to either re-introduce regional coefficients or introduce cost-of-living adjustments to wages based on an objective assessment of cost of living levels in individual regions
- Decisions on phasing in reforms, as capacities at local level to introduce some of the mechanisms highlighted above need to be developed through a targeted capacity development effort.

**v. Public service**

32. The civil service wage bill represents only a small proportion of the overall public sector wage bill. Introducing the kind of reforms planned for the civil service without addressing the reported anomalies in pay and staff planning systems in particular in the education, primary health care and social protection areas would lead only to partial improvements in the quality of public services at best. The Bank therefore recommends that follow up work on the broader public service wage systems is conducted urgently, in particular in the context of the development of new legislation on overall public sector employment conditions, currently under design by the Ministry of Labor and Social Protection. The Minister of Labor has expressed an interest in cooperation in this area during the recent mission. If the next announced public sector wage increase (January 2007) is to have an impact on service quality, a rationalization of wage and staff planning systems in these sectors would have to be pursued.

**F. SUGGESTED PRIORITIES, TIME TABLE, AND NEXT STEPS**

**i. Organizing the reform process: phasing and timing**

33. Based on the discussion in sections C and D above, the reform of the wage system could in our view consist of the following main steps:

*Pilot phase would ideally start on January 1, 2006, which would require:*

- i. Re-define base pay in the two pilot ministries, based on the full integration of bonuses and allowances (except the years of service increment) into base pay (by August-September 2005)
- ii. Define a mechanism to introduce incentives for performance, through a selective incentive pay mechanism, based on clear criteria and managed by an internal committee structure in each institution, later on linked to institutional performance indicators (mechanism to be designed by end September, 2005)
- iii. Define a simplified job classification system, with details worked out for the levels covered by the two pilot agencies (i.e. current A, B, and C categories), and re-classify positions (October-November 2005)
- iv. Implement components i-iii by 1 January 2006
- v. Adjust wage ratios in both institutions to create guidance pay levels for positions of equivalent complexity throughout the central civil service, and adapt coefficients accordingly
- vi. Set out mechanisms to start defining performance indicators for the two pilot institutions through a CAF-based exercise (September-December 2005)
- vii. Agree on principles of introducing decompression measures in the pay system after 1 January 2007.

*Extension to other institutions would ideally begin on January 1, 2007*

34. Based on a review of experience with the pilots, decisions should then be taken by March 2006 about the introduction of the new system for all central agencies (starting with C categories, but perhaps also covering A, and B categories). This should follow the same sequencing as above, though would need to be started no later than 1 April 2006.

35. The additional cost of the new wage system as well as planned decompression measures would need to be covered from the planned wage bill increase for 2007 (30%).

**ii. Next steps**

36. The World Bank would appreciate receiving comments and suggestions on the suggested principles for the reform, the proposed steps, and the suggested timetable and draft Action plan. The Bank would suggest that the next follow up mission takes place in the second half of September 2005 to continue to assist with the designing tools and mechanisms for implementing other core elements of reforms (re-grading/re-classification, merit awards, staff planning reform, systems for setting performance indicators, modeling scenarios), as outlined in the Annexes to this AM. This work is proposed to be financed under the JERP category of public expenditure and institutional review. The Bank will also seek further Trust Fund resources to supplement available funds under the JERP to provide the necessary support in this regard.

37. Ideally, the MOEBP, the CSA, and CMAR will further develop the ideas included in this Aide Memoire, assign roles and responsibilities to the various members of the working group, and more general ensure that the design of the Pilots will be finalized and appropriately endorsed by the relevant authorities (e.g., Prime Minister) before the end of this year. For further support of the WB, it is necessary for the *Government to make available all necessary data required to conduct this modeling work, which includes real pay level data for all central agencies by early September 2005.*

## **Annex 1: People the members of the mission met in June 2005**

### Presidential Administration:

Mr. Yerbol Orynbayev, Head of the Social and Economic Unit  
Mr. Vladislav Ezhov, Sr. Expert, Social and Economic Unit

### Prime-Minister Chancellery (could not meet during this mission):

Mr. Anatoly Pepenin, Head of the Personnel Policy Unit  
Ms. Natalia Katenko, Head of the Economic Unit  
Mr. Peotr Antropov, Deputy-Head of Unit

### Civil Service Agency:

Mr. Gabidulla Abdrakhimov, Chairman  
Mr. Serik Kapparov, HR Provisional Department Director

### Ministry of Economy and Budget Planning:

Mr. Kairat Kelimbetov, Minister  
Mr. Bakhyt Sultanov, Deputy Minister  
Ms. Shynar Kazybaeva, Department Deputy Director  
Ms. Gulmira Abieva, Division Head

### Center for Marketing and Analytical Research:

Ms. Madina Abylkasimova, Department Director  
Mr. Bakhytzhhan Sarkeyev, Sr. Consultant  
Mr. Said Murzalin, Sr. Consultant

### Ministry of Labor and Social Protection:

Ms. Gulzhana Karagusova, Minister

## Annex 2: Wage simulations for pilot institutions

Table 1: Wage simulation for the Ministry of Economy and Budget Planning

			2004 (official actual data)				2004 (WB staff estimate)				32% increase from July 1, 2005 2005 (WB staff estimate) 16% average annual increase				no additional wage bill increase in 2006 2006 (WB staff estimate) BEFORE integration of supplementary payments				2006 (WB staff estimate) AFTER integration of supplementary payments				planned 30% increase from January 1, 2007 2007 (WB staff estimate) SCENARIO 1: targeted 30% increase WITHOUT DECOMPRESSION				2007 (WB staff estimate) SCENARIO 2: targeted 30% increase WITH DECOMPRESSION			
Position	Current grade	New category	Number of employees, OFFICIAL POSTS	Number of employees, ACTUAL STAFF	Number of employees, REQUIRED STAFF	Av. monthly BASE PAY, tenge	Av. monthly TOTAL PAY, SUPPL. (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Av. monthly BASE PAY, tenge	Av. monthly TOTAL PAY, SUPPL. (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Av. monthly BASE PAY, tenge	Av. monthly TOTAL PAY, SUPPL. (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Total pay adjust. factor	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Targeted percent increase	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Targeted percent increase	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$				
<b>Ministry of Economy and Budget Planning</b>																														
Central level																														
Political appointees																														
Minister			5	5	5																									
Deputy Minister			1	1	1																									
Administrative servants			4	4	4																									
Professional units			406	337	367	36,258	18,491	54,749	402	41,307	21,066	62,373	480	47,005	23,972	70,976	550	1.51	70,976	550	30%	92,269	721	30%	92,259	721				
Head of Apparatus			C-1	CL1	1	1	1	72,167	36,804	109,970	801	83,713	42,692	126,405	972	95,260	48,581	143,841	1,115	1.51	143,841	1,115	30%	186,993	1,461	50%	215,761	1,686		
Department Director			C-2	CL2	12	12	12	67,074	34,206	101,280	745	77,805	39,679	117,485	904	88,537	45,152	133,689	1,036	1.51	133,689	1,036	30%	173,796	1,358	50%	200,534	1,567		
Deputy Department Director			C-3	CL3	11	11	11	65,912	33,614	99,526	732	76,458	38,992	115,450	888	87,004	44,370	131,374	1,018	1.51	131,374	1,018	30%	170,787	1,334	30%	170,787	1,334		
Division Head			C-4	CL4	23	23	23	46,807	23,871	70,678	520	54,296	27,690	81,986	631	61,786	31,509	93,295	723	1.51	93,295	723	30%	121,263	948	30%	121,263	948		
Deputy Division Head, Unit Head			C-5	CL5	64	64	64	41,507	21,168	62,675	461	43,148	24,555	72,703	559	54,789	27,942	82,731	641	1.51	82,731	641	30%	107,550	840	30%	107,550	840		
Chief Specialist			C-6	CL6	98	98	98	30,066	15,333	45,399	334	34,876	17,786	52,662	405	39,687	20,239	59,926	465	1.51	59,926	465	30%	77,904	609	27%	76,106	595		
Lead Specialist			C-9	CL7	37	37	37	33,848	17,262	51,110	376	39,264	20,024	59,288	456	44,860	22,786	67,645	523	1.51	67,645	523	30%	85,681	669					
Specialist			C-11	CL8	31	31	31	21,062	10,741	31,803	234	24,431	12,460	36,891	284	27,801	14,178	41,979	325	1.51	41,979	325	30%	54,573	426	27%	53,314	417		
Support units																														
Department Director			C-2	CL2	2	2	2	86,379	33,852	100,231	737	77,000	39,268	116,268	894	87,621	44,685	132,305	1,026	1.51	132,305	1,026	30%	171,997	1,344	50%	198,458	1,550		
Deputy Department Director			C-3	CL3	2	2	2	59,192	30,187	89,378	657	68,662	35,016	103,679	798	78,133	39,846	117,979	915	1.51	117,979	915	30%	153,373	1,198	30%	153,373	1,198		
Division Head			C-4	CL4	3	3	3	44,456	22,671	67,127	493	51,568	26,299	77,867	599	58,681	29,926	88,608	687	1.51	88,608	687	30%	115,190	900	30%	115,190	900		
Deputy Division Head, Unit Head			C-5	CL5	14	14	14	39,263	20,023	59,286	436	45,545	23,227	68,771	529	51,827	26,430	78,257	607	1.51	78,257	607	30%	101,734	795	30%	101,734	795		
Chief Specialist			C-6	CL6	22	22	22	30,461	15,534	45,995	338	35,335	18,020	53,355	410	40,209	20,506	60,714	471	1.51	60,714	471	30%	78,928	617	27%	77,107	602		
Lead Specialist			C-9	CL7	10	10	10	26,942	13,740	40,681	299	31,252	15,938	47,190	363	35,563	18,136	53,699	416	1.51	53,699	416	30%	69,809	545	27%	68,198	533		
Specialist			C-11	CL8	7	7	7	22,637	11,544	34,181	251	26,259	13,391	39,650	305	29,881	15,239	45,119	350	1.51	45,119	350	30%	58,655	458	27%	57,301	448		
Vacancies																														
Total			69	342	372					32,857	16,756	49,614	382	37,389	19,068	56,457	438	1.51	56,457	438	30%	73,394	573	27%	71,700	560				
<b>220 Ministry of Economy and Budget Planning</b>																														
001 Central level, million tenge/US\$																														
110 Wage bill, million tenge/US\$																														
111 Base salary from above (excl. political appointees), million tenge/US\$																														
112 Supplementary payments (MOF, adjusted), million tenge/US\$																														
113 Compensations (MOF, CPI adjusted), million tenge/US\$																														
Incentive fund (10% of the base pay (111), million tenge/US\$)																														
Memorandum items:																														
Compression (MOEBP) - Head of Apparatus / Specialist																														
Compression (CSA) - Department Director / Specialist																														
Base pay unit, tenge																														
Exchange rate (pa), KZT/US\$																														
Note 1: "Supplementary payments" refer to allowances, bonuses, premiums and all other non-base pay income.																														
Note 2: This simulation does not take into account possible government's decision of adjusting the base pay unit to a forecasted CPI in 2006 and 2007.																														
Note 3: There is a discrepancy between MOEBP/CSA data above and MOF data below. The "base salary" (111) data we used in this simulation is MOEBP/CSA data, thus, to keep the total wage bill consistent, the "supplementary payments" (112) part (MOF data) had to be adjusted.																														
<b>220 Ministry of Economy and Budget Planning</b>																														
001 Central level																														
110 Wage bill, million tenge/US\$																														
111 Base salary (MOF), million tenge/US\$																														
112 Supplementary payments (MOF), million tenge/US\$																														
113 Compensations (MOF), million tenge/US\$																														

Table 2: Wage simulation for the Civil Service Agency

		32% increase from July 1, 2005												no additional wage bill increase in 2006				planned 30% increase from January 1, 2007									
		2004 (official actual data)			2004 (WB staff estimate)				2005 (WB staff estimate) 16% average annual increase				2006 (WB staff estimate) BEFORE integration of supplementary payments				2006 (WB staff estimate) AFTER integration of supplementary payments			2007 (WB staff estimate) SCENARIO 1: targeted 30% increase WITHOUT DECOMPRESSION			2007 (WB staff estimate) SCENARIO 2: targeted 30% increase WITH DECOMPRESSION				
Position	Current grade	New category	Number of employees, OFFICIAL POSTS	Number of employees, ACTUAL STAFF	Number of employees, REQUIRED STAFF	Av. monthly BASE PAY, tenge	Av. monthly TOTAL SUPPL. PAY. (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Av. monthly TOTAL EARNINGS (estimate), US\$	Av. monthly BASE PAY, tenge	Av. monthly TOTAL SUPPL. PAY. (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Av. monthly TOTAL EARNINGS (estimate), US\$	Total pay adjust. factor	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Targeted percent increase	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$	Targeted percent increase	Av. monthly TOTAL EARNINGS (estimate), tenge	Av. monthly TOTAL EARNINGS (estimate), US\$					
					(111) (112) (111+112)				(111) (112) (111+112)				(111) (112) (111+112)				(111+112)			(111+112)							
<b>Civil Service Agency</b>																											
Central level																											
Political appointees			2	2	2	185,590	93,909	279,499	2,055	215,284	108,935	324,219	2,494	244,978	123,960	368,938	2,860	1.51	368,938	2,860		479,620	3,747		479,620	3,747	
Chairman	Полпр.		1	1	1	210,268	106,397	316,665	2,328	243,911	123,420	367,331	2,826	277,554	140,444	417,997	3,240	1.51	417,997	3,240	30%	543,397	4,245	30%	543,397	4,245	
Deputy Chairman	Полпр.		1	1	1	160,911	81,422	242,333	1,781	186,657	94,449	281,106	2,162	212,403	107,477	319,879	2,480	1.51	319,879	2,480	30%	415,843	3,249	30%	415,843	3,249	
Administrative servants			42	42	42	39,648	20,062	59,710	439	45,992	23,272	69,264	533	52,336	26,482	78,818	611	1.51	78,818	611		102,463	800		103,229	806	
Department Director	C-2	CL2	2	2	2	63,300	32,030	95,330	701	73,428	37,155	110,583	851	83,556	42,280	125,836	975	1.51	125,836	975	30%	163,587	1,278	50%	188,754	1,475	
Deputy Department Director	C-3	CL3	2	2	2	57,879	29,338	87,317	642	67,256	34,032	101,287	779	76,532	38,726	115,258	893	1.51	115,258	893	30%	149,835	1,171	30%	149,835	1,171	
Chief Expert	C-4	CL4	5	5	5	43,943	22,235	66,178	486	50,974	25,793	76,767	591	58,005	29,351	87,355	677	1.51	87,355	677	30%	113,562	887	30%	113,562	887	
Chairman's Advisor	C-4	CL4	2	2	2	43,851	22,189	66,040	485	50,867	25,739	76,606	589	57,883	29,289	87,173	676	1.51	87,173	676	30%	113,324	885	30%	113,324	885	
Press Secretary	C-4	CL4	1	1	1	45,136	22,839	67,975	500	52,358	26,493	78,851	607	59,580	30,148	89,727	696	1.51	89,727	696	30%	116,645	911	30%	116,645	911	
Chairman's Assistant	C-4	CL4	1	1	1	43,851	22,189	66,040	485	50,867	25,739	76,606	589	57,883	29,289	87,173	676	1.51	87,173	676	30%	113,324	885	30%	113,324	885	
Division Head	C-4	CL4	1	1	1	45,870	23,213	69,080	508	53,209	26,924	80,133	616	60,548	30,638	91,186	707	1.51	91,186	707	30%	118,542	926	30%	118,542	926	
Unit Head	C-4	CL4	7	7	7	45,500	23,023	68,523	504	52,780	26,707	79,487	611	60,060	30,391	90,451	701	1.51	90,451	701	30%	117,586	919	30%	117,586	919	
Consultant	C-5	CL5	9	9	9	39,723	20,100	59,823	440	46,079	23,316	69,395	534	52,434	26,532	78,966	612	1.51	78,966	612	30%	102,656	802	30%	102,656	802	
Chief Specialist	C-6	CL6	5	5	5	28,255	14,297	42,552	313	32,776	16,585	49,361	380	37,297	18,872	56,169	435	1.51	56,169	435	30%	73,020	570	27%	71,334	557	
Lead Specialist	C-9	CL7	6	6	6	23,668	11,976	35,644	262	27,455	13,892	41,347	318	31,242	15,808	47,050	365	1.51	47,050	365	30%	61,165	478	27%	59,754	467	
Specialist	C-11	CL8	1	1	1	21,100	10,677	31,777	234	24,476	12,385	36,861	284	27,852	14,093	41,945	325	1.51	41,945	325	30%	54,529	426	27%	53,270	416	
Vacancies			0	0	0																						
Total			44	44	44	46,282	23,419	69,701	512	53,687	27,166	80,853	622	61,092	30,913	92,005	713	1.51	92,005	713		119,606	934		120,338	940	
<b>608 Civil Service Agency</b>																											
001 Central level																											
110	Wage bill, million tenge							33.7	0.2			38.8	0.3			43.8	0.3		47.8	0.4	28%	61.2	0.5	29%	61.6	0.5	
111	Base salary from above (excl. political appointees)					20.0		20.0	0.1	23.2		23.2	0.2	26.4		26.4	0.2		39.7	0.3	30%	51.6	0.4	31%	52.0	0.4	
112	Supplementary payments (MOF, adjusted)						10.1	10.1	0.1		11.7	11.7	0.1		13.3	13.3	0.1										
113	Compensations (MOF, CPI adjusted)							3.6	0.0			3.8	0.0			4.1	0.0		4.1	0.0	7%	4.4	0.0	7%	4.4	0.0	
	Incentive fund (10% of the base pay (111))															4.0	0.0		4.0	0.0	30%	5.2	0.0	31%	5.2	0.0	
Memorandum items:																											
	Compression (MOEBP) - Head of Apparatus / Specialist					3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2		3.2	3.2		3.2	3.2		3.8	3.8	
	Compression (CSA) - Department Director / Specialist					3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0		3.0	3.0		3.0	3.0		3.5	3.5	
	Base pay unit, tenge					6600				7656				8712					8712			11326			11326		
	Exchange rate (pa), KZT/US\$								136.0				130.0				129.0				129.0		128.0			128.0	
Note 1: "Supplementary payments" refer to allowances, bonuses, premiums and all other non-base pay income.																											
Note 2: This simulation does not take into account possible government's decision of adjusting the base pay unit to a forecasted CPI in 2006 and 2007.																											
Note 3: There is a discrepancy between MOEBP/CSA data above and MOF data below. The "base salary" (111) data we used in this simulation is MOEBP/CSA data, thus, to keep the total wage bill consistent, the "supplementary payments" (112) part (MOF data) had to be adjusted.																											
<b>608 Civil Service Agency</b>																											
001 Central level																											
110	Wage bill, million tenge/US\$							33.7	0.2			38.8	0.3			43.8	0.3		47.8	0.4	28%	61.2	0.5	29%	61.6	0.5	
111	Base salary (MOF), million tenge/US\$							20.6	0.2			23.2	0.2			26.4	0.2		39.7	0.3	30%	51.6	0.4	31%	52.0	0.4	
112	Supplementary payments (MOF), million tenge/US\$							9.5	0.1			11.7	0.1			13.3	0.1										
113	Compensations (MOF), million tenge/US\$							3.6	0.0			3.8	0.0			4.1	0.0		4.1	0.0	7%	4.4	0.0	7%	4.4	0.0	

Table 3: Proposed grading/coefficients system vs. current grading/coefficients system

Current grade	New grade	Proposed total earnings coefficients				Current total earnings coeff. in MOEBP & CSA					Current difference between categories		
		Proposed difference between categories	Band lowest point coeff.	Band mid point coeff.	Band highest point coeff.	Current experience coeff.	Current adjust. coeff.	Current base pay coeff.	Total pay adjustment factor (estimate) /1	Current total pay coeff.		Current min.exp. total pay, tenge	
			-20%	0%	20%								
<b>2006</b>													
A-1	CL1	Senior management	20%	14.12	17.65	21.18	3.43	2.78	9.54	1.33	12.72	110,785	12%
B-1							5.75	2.78	15.99	1.63	26.06	227,070	63%
C-1							3.07	2.78	8.53	1.51	12.89	112,272	12%
A-2	CL2	Senior management	20%	11.77	14.71	17.65	3.06	2.78	8.51	1.33	11.34	98,834	12%
B-2							3.53	2.78	9.81	1.63	16.00	139,401	12%
C-2							2.74	2.78	7.62	1.51	11.50	100,204	12%
A-3	CL3	Senior management	30%	9.81	12.26	14.71	2.73	2.78	7.59	1.33	10.12	88,176	32%
B-3							3.15	2.78	8.76	1.63	14.28	124,395	32%
C-3							2.45	2.78	6.81	1.51	10.28	89,598	32%
A-4	CL4	Middle management	20%	7.54	9.43	11.32	2.07	2.78	5.75	1.33	7.67	66,858	12%
B-4							2.39	2.78	6.64	1.63	10.83	94,382	12%
C-4							1.85	2.78	5.14	1.51	7.77	67,656	11%
A-5	CL5	Middle management	30%	6.29	7.86	9.43	1.85	2.78	5.14	1.33	6.86	59,753	32%
B-5							2.13	2.78	5.92	1.63	9.66	84,114	12%
C-5							1.66	2.78	4.61	1.51	6.97	60,707	33%
A-6	CL6	Analytical staff	20%	4.84	6.04	7.25	1.40	2.78	3.89	1.33	5.19	45,218	12%
B-6							1.90	2.78	5.28	1.63	8.61	75,032	12%
C-6							1.25	2.78	3.48	1.51	5.25	45,713	2%
A-7							1.25	2.78	3.48	1.33	4.63	40,373	
B-7							1.70	2.78	4.73	1.63	7.71	67,134	32%
C-7							1.22	2.78	3.39	1.51	5.12	44,616	4%
B-8							1.29	2.78	3.59	1.63	5.85	50,943	12%
C-8							1.17	2.78	3.25	1.51	4.91	42,788	4%
B-9	CL7	Analytical staff	20%	4.03	5.04	6.04	1.15	2.78	3.20	1.63	5.21	45,414	
C-9							1.12	2.78	3.11	1.51	4.70	40,959	6%
C-10							1.06	2.78	2.95	1.51	4.45	38,765	6%
C-11	CL8		0%	3.36	4.20	5.04	1.00	2.78	2.78	1.51	4.20	36,571	

Notes:

/1 Estimated increase in base pay after integrating the value of all allowances, bonuses and other supplementary payments

/2 Base pay unit (2006) = 8,712 tenge

/3 Compression ratio - (C1 / C11) = 4.21

3.07

Table 4: Proposed salary bands in 2006

		PROPOSED												
		0-3 years			4-7 years			8-12 years			13 years +			
Current grade	New grade	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	
		1.00			1.10			1.15			1.20			
<b>2006</b>														
A-1 B-1 C-1	CL1	Senior management	123,032	153,790	184,547	135,335	169,169	203,002	141,486	176,858	212,230	147,638	184,547	221,457
A-2 B-2 C-2	CL2		102,526	128,158	153,790	112,779	140,974	169,169	117,905	147,382	176,858	123,032	153,790	184,547
A-3 B-3 C-3	CL3		85,439	106,798	128,158	93,983	117,478	140,974	98,254	122,818	147,382	102,526	128,158	153,790
A-4 B-4 C-4	CL4	Middle management	65,722	82,153	98,583	72,294	90,368	108,441	75,580	94,475	113,371	78,866	98,583	118,300
A-5 B-5 C-5	CL5		54,768	68,460	82,153	60,245	75,306	90,368	62,984	78,730	94,475	65,722	82,153	98,583
A-6 B-6 C-6 A-7 B-7 C-7 B-8 C-8	CL6	Analytical staff	42,130	52,662	63,194	46,342	57,928	69,514	48,449	60,561	72,673	50,555	63,194	75,833
B-9 C-9 C-10	CL7		35,108	43,885	52,662	38,619	48,273	57,928	40,374	50,468	60,561	42,130	52,662	63,194
C-11	CL8		29,257	36,571	43,885	32,182	40,228	48,273	33,645	42,056	50,468	35,108	43,885	52,662

Notes:

/1 Estimated increase in base pay after integrating the value of all allowances, bonuses and other supplementary payments

/2 Base pay unit (2006) = 8,712 tenge

/3 Compression ratio - (C1 / C11) = 4.21

Table 5: Proposed salary bands in 2007 (taking into account planned 30% salary increase)

Current grade	New grade	PROPOSED												
		0-3 years			4-7 years			8-12 years			13 years +			
		Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	Band lowest point, tenge	Band mid point, tenge	Band highest point, tenge	
		1.00			1.10			1.15			1.20			
<b>2007</b>														
A-1 B-1 C-1	CL1	Senior management	159,941	199,926	239,912	175,935	219,919	263,903	183,932	229,915	275,898	191,929	239,912	287,894
A-2 B-2 C-2	CL2		133,284	166,605	199,926	146,613	183,266	219,919	153,277	191,596	229,915	159,941	199,926	239,912
A-3 B-3 C-3	CL3		111,070	138,838	166,605	122,177	152,722	183,266	127,731	159,663	191,596	133,284	166,605	199,926
A-4 B-4 C-4	CL4	Middle management	85,439	106,798	128,158	93,983	117,478	140,974	98,254	122,818	147,382	102,526	128,158	153,790
A-5 B-5 C-5	CL5		71,199	88,999	106,798	78,319	97,898	117,478	81,879	102,348	122,818	85,439	106,798	128,158
A-6 B-6 C-6 A-7 B-7 C-7 B-8 C-8	CL6	Analytical staff	54,768	68,460	82,153	60,245	75,306	90,368	62,984	78,730	94,475	65,722	82,153	98,583
B-9 C-9 C-10	CL7		45,640	57,050	68,460	50,204	62,755	75,306	52,486	65,608	78,730	54,768	68,460	82,153
C-11	CL8		38,034	47,542	57,050	41,837	52,296	62,755	43,739	54,673	65,608	45,640	57,050	68,460

Notes:

/1 Estimated increase in base pay after integrating the value of all allowances, bonuses and other supplementary payments

/2 Base pay unit (2007) = 11,326 tenge

/3 Compression ratio - (C1 / C11) = 4.21

### **Annex 3: Pay reform to facilitate a better civil service for Kazakhstan: the role of allowances, bonuses and pay-for-performance**

Kazakhstan's current civil service remuneration system consists of a small monthly base salary to which numerous allowances and "bonuses" are added over the course of the year either automatically, based on unclear criteria, or in an ad hoc manner that is unrelated to the job (for example, on the occasion of a state holidays). The result is well-known: a non-transparent system in which pay levels are judged to be inadequate or inappropriate.

The fundamental question is what should be done – and can *realistically* be done -- to improve this system, and thereby promote the improved functioning of the civil service. This note focuses primarily on the issue of how – indeed, whether – monetary rewards can be linked to performance of "rank and file" staff in order to foster a better civil service; it does not address the special case of a small number of elite individuals with truly rare skills and responsibilities (for example, negotiating long-term contracts in the energy sector), which should be dealt with separately.

Performance pay measures can not be considered unless a number of other conditions have been met – the most fundamental one being a transparent pay system as the starting point for further reform. We thus briefly address this critical condition before moving on to discuss scope for recognizing and rewarding excellent performance.

#### **The crucial first step: integrating allowances and bonuses to create transparency**

Fundamentally, employees want their total earnings to constitute a reasonable sum of money, and to feel appropriately appreciated and rewarded for their work. This is not now the case. Furthermore, the current remuneration system is not only non-transparent, it also misallocates resources. Staff time is spent administering the various types of supplementary payments (and complying with their individual rules) and apparent "savings" are regularly diverted from other line items, resulting in distorted budget projections that never correspond to actual practice. Thus there are few if any *legitimate* reasons for retaining a system that generates work and distortions yet does not deliver what most people value. Nor would it be wise to try to solve the current problems by creating new types of bonus payments, which risks simply compounding existing problems.

The crucial first step to enable systematic, meaningful reform to move ahead is to integrate the value of all supplementary payments (those that are de facto components of regular earnings) into a new, larger base salary. The process will largely be an administrative /accounting change since individuals will be guaranteed not to lose any income. At the same time, all legislation, regulations and practices that currently enable such supplementary payments – including the practice of using funds from non-wage bill line items to pay staff or using funds from long-standing vacancies that are never filled -- will be amended or repealed. This step is crucial in order to simplify the salary system, so that the serious problems that are so often cited – among them inadequate wage levels, inability to attract and retain young professionals, regional cost disparities – can be addressed in a systematic,

effective manner. Of course, it also involves an important shift in mentality on the part of all civil servants, and must be handled with great sensitivity.

### **International experience with performance-related pay**

OECD countries have, over the past twenty years, made a variety of efforts to link performance to pay in some manner. The experience of these advanced countries – which have sophisticated civil services and considerable resources at their disposal -- has shown that, while the idea of linking pay to performance is good *in theory*, it is remarkably difficult to implement in the real world. Furthermore, it does not appear to have yielded the strong impact on motivation that the underlying theory suggests. Consistent with this, it is also worth noting that the World Bank Group introduced a program of annual performance awards for its own staff in the late 1990s and cancelled it within a matter of years due to its problematic nature.<sup>8</sup>

Since numerous Kazakh officials have expressed an interest in performance-related pay, we highlight here the difficulties that OECD countries have experienced<sup>9</sup>. Broadly speaking, these have been as follows:

- Design is difficult ... but even expertly-designed systems have run into trouble
- Substantial effort is required, and the process from design to launch takes several years
- Individual performance is inherently difficult to measure, particularly in the public sector, even with a reasonably robust staff appraisal system in operation
- In surveys, most people report that they are *not* motivated to work harder by the prospect of performance pay
- Performance pay can contribute to tension in the workplace
- Strong evidence that performance pay has directly resulted in measurable improvements in productivity appears to be lacking

On the other hand, some analyses suggest that the *process* of trying to implement performance-related pay – notably the exercise of defining organizational and individuals goals and integrating them with each other, and open, focused discussions between managers and staff in the context of annual staff appraisals – can lead to broader improvements in management and organizational culture. In addition, some parts of the public administration, whose tasks are easier to quantify, may be more likely to see benefits.

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<sup>8</sup> The awards consisted of a one-time payment of up to 15% of the midpoint of the employee's salary range. The program was unpopular with both managers and staff, and the only World Bank Group member to retain it has been the International Finance Corporation, whose work is oriented toward the private sector. Other Bank Group members – IBRD and IDA – have, however, continued a program of modest awards (up to \$400) to teams and individuals as recognition of outstanding performance on specific activities. They also address performance by making the size of the annual pay increase (in percent, within guidelines) partially dependent on the results of each individual's staff appraisal.

<sup>9</sup> This summary is based on *Paying for Performance: Policies for Government Employees*, OECD Policy Brief, May 2005, available at [www.oecd.org/dataoecd/13/51/34910926.pdf](http://www.oecd.org/dataoecd/13/51/34910926.pdf). See also *Performance Related Pay in the Public Service*, Francisco Cardona, October 2002; and *Perspectives on Performance Pay in Government Organisations: A Short Review of History, Research and Theory So Far, and Main Trends in OECD Member Countries*, David Marsden, paper presented at OECD Experts meeting, 7 October 2003, available at [www.oecd.org/dataoecd/52/36/33686853.doc](http://www.oecd.org/dataoecd/52/36/33686853.doc). The files are also provided as annexes to this note.

If performance pay does not necessarily deliver on initial expectations, as the above would suggest, then what *does* motivate individuals to work better? OECD experience indicates that having a reasonable “regular” salary system is more important than the prospect of performance pay; and that staff see professional development possibilities and interesting job content as effective incentives.

The above findings seem to point to a few practical insights for Kazakhstan. First, while not impossible, it appears unlikely that a sizable performance pay system would be any easier to implement in Kazakhstan than in the 15+ OECD countries that have grappled with performance-related pay over the last two decades. Second, if the government wishes to proceed in this direction, it should do so with extreme caution, ensure that adequate time and resources are applied in a thoughtful manner and have realistic expectations of what this approach can and can not achieve. Third, to the extent that monetary compensation is one of several pillars of an effective civil service system, the focus should be above all on fixing the current “base salary” system. And finally, dealt with in isolation – without links to improvements in the overall civil service structure and management – salary reform in itself is not likely to solve the complex problems that the government wishes to tackle.

### **Immediate term measures to recognize achievements**

Given the demands and limitations of performance-related pay approaches, what can be done to recognize outstanding contributions by staff? In the immediate term the best option appears to be considering the introduction of a limited system of merit awards that would recognize truly outstanding achievement, while at the same time continuing to lay the foundations for a robust appraisal system in the medium-term and improving the structure of the overall salary system and salary levels over time. (The World Bank is currently providing assistance on both of these tasks.)

Of course, no award system works perfectly, and there are always some disadvantages and risks. The design described below includes measures to minimize risks while enabling the relatively rapid launch of a modest but meaningful award system. We emphasize that this text merely suggests principles and sample mechanisms that might be used for a limited system of merit awards. It is of course up to the government to finalize specific guidelines and principles, and to allow each organization to decide what is most appropriate and effective within those guidelines for its own operations.

The principle underlying the merit award would be to recognize an individual’s or a team’s *specific contribution to a clearly identifiable result that advances the organization’s objectives or operations*. In the context of the integration of allowances into a revised salary (that fully reflects all earnings) and future alignment of the salary structure to better reflect the value of the job, the merit award would support a shift in mentality away from expecting “bonuses” as a regular and important part of earnings. Instead, the understanding should be that the regular salary accurately and fully rewards the job an individual holds, but that

special achievements are publicly recognized and, as a *secondary* feature, accompanied by a monetary award.

The fundamental idea is to recognize extraordinary effort, when an individual or team demonstrates exceptional dedication and professionalism. Since this can be found at all levels and sections of an organization, a wide range of achievements – from high profile ones to less visible but nonetheless worthy contributions -- could be rewarded. Under this approach all administrative civil servants – whether a junior specialist or a manager – would in principle be eligible for the award.

It is neither possible nor advisable to define absolute, overly narrow criteria for the award, since each organization's objectives differ and it is impossible to predict the range of possible contributions that may arise over time, particularly if the merit award is to be open to *all* staff. However, some examples of the types of contributions that might be recognized include:

- An accountant or budget officer uncovers repeated instances of overcharging by a supplier, thus saving the organization a large sum of money
- An employee proposes an innovative way to accomplish a task or objective that is adopted by the organization

While all staff are in theory eligible, a relatively small number of awards would be made in the course of a year, as a function of the organization's size and available funds. The idea is to find a balance so that the award is neither an automatic payment distributed to the majority of staff (in which case it no longer recognizes *exceptional* achievement and should instead be consolidated into regular "base" salary) nor so rare and limited that staff feel they have no real chance of ever being recognized (and instead suspect favoritism or elitism.) The maximum number of awards given in an organization might be guided by the percentage of actual staff – perhaps 10 - 15%. In order to recognize achievements throughout the organization, the number of awards might be distributed across the organization's larger sub-structures rather than the entire entity (e.g. in an organization of 400 staff, if the award is given to 10% of staff, a division of 100 people would give out ten awards and a division of 80 would give out 8.) In larger organizations, this could ensure greater representativeness than evaluating nominations from the entire entity against each other, since "smaller" achievements might be overlooked and rewards might end up being concentrated in some high profile units. An alternative approach is to simply set the total sum available to each organization or sub-structure and let its head decide, within guidelines, the size and thus the number of awards that can be given.

Awards could be given over a certain period (on a regular schedule) or on a rolling basis, whenever an achievement that meets the criteria is nominated and approved. If awards are given on a set schedule, the frequency should be often enough to capture achievements over the course of the year (so that those at the start of the period are not forgotten by the time it comes to make award decisions) but not so often as to pose an administrative burden or be seen as a pro forma exercise.

In keeping with the principle that the award is intended above all to recognize real achievement and *not* to be an important pay supplement, the award should be a relatively modest, fixed amount – not a sizable proportion of total earnings -- but at the same time large enough to convey appreciation and inspire care in deciding which achievement is rewarded.

To ensure that the merit award serves its intended purpose, it will be essential to have a clear, systematic and fair process. This could include the following:

- Simple, standard format for nominations. For example, for each individual or team, this could be one page with three or four fundamental questions: What specific result was achieved and how did it advance the organization's objectives? What was the individual's specific contribution? Why is this contribution exceptional? (A sample format is attached to this note.)
- Managers as well as staff may submit nominations. This will bring to light achievements that a single manager (especially in a larger unit) might not be aware of. Staff may also be more likely to see the program as legitimate if they have a say in suggesting candidates.
- A small committee reviews nominations. For example, if the awards are given at the level of each division, then the committee could be composed of managers from within that division
- Decisions are taken by the committee (and possibly approved by the minister)
- To promote objectivity, a limit could be placed on the number of times an individual can receive the award or the total value an individual can be awarded over a certain period.

In summary, the general framework for the merit award might be:

**Table 1 Merit award overview**

Basis	<ul style="list-style-type: none"> <li>• Main emphasis on recognition, not money</li> <li>• Monetary award mostly a symbolic amount</li> </ul> <p>Guidelines:</p> <ul style="list-style-type: none"> <li>• Specific result achieved</li> <li>• Specific contribution by recipient</li> <li>• Outstanding effort</li> </ul>
Eligibility	<ul style="list-style-type: none"> <li>• All staff</li> <li>• Awarded to individuals or teams</li> </ul>
Allocation	<ul style="list-style-type: none"> <li>• Across entire organization (small bodies) or</li> <li>• Across each larger sub-structure (large bodies)</li> </ul>
No. of recipients	<ul style="list-style-type: none"> <li>• Relatively small percentage of (actual) staff e.g. 5 - 15% per year</li> </ul>
Amount	<ul style="list-style-type: none"> <li>• Restrained amount e.g. from 15,000 to 25,000 tenge</li> <li>• Manager decides amount and number as a function of the budget, within guidelines (e.g. a few larger awards vs. more smaller awards)</li> </ul>
Frequency	<ul style="list-style-type: none"> <li>• Periodically – annually or at most quarterly or</li> <li>• Ad hoc /rolling process – whenever an appropriate achievement is nominated</li> </ul>
Format	<ul style="list-style-type: none"> <li>• Standard concise form with instructions</li> <li>• Clear, detailed justification</li> </ul>
Selection	<ul style="list-style-type: none"> <li>• Staff and managers can nominate</li> <li>• Small committee (at level where award is made)</li> <li>• Manager’s or minister’s approval</li> </ul>
Transparency	<ul style="list-style-type: none"> <li>• Awards announced publicly (also to honour recipients)</li> <li>• Summary record of all awards each year</li> <li>• Cap on total amount or award frequency to any individual</li> </ul>

**Building a foundation for the medium-term: staff appraisal and promotions**

The World Bank is providing separate analyses and guidance regarding design and implementation of an annual process for appraising each staff member (which would include not only assessment of performance in the preceding year, but also setting targets for future work and for professional development.) Bearing in mind the international experience cited above, there is a clear need for careful deliberation about the potential costs and benefits of linking such an appraisal system to pay. Nevertheless, for completeness, we briefly present several possible mechanisms for making such a link:

- a one-time payment (within a range set by guidelines) that does not become part of the individual’s permanent salary.
- A higher-than-average annual increase (within guidelines) to salary. This would result in a permanent salary increase, and thus should be carefully considered. For example, if the organizations has enough budget to award a 2.5% average increase for a given year, an excellent performer might receive somewhat more (e.g. 3.0%), within guidelines and the budget constraint.
- A faster than usual promotion to the next step in the salary system, so that movement up the “ladder” reflects not simply the number of years spent at the current step but also the individual’s demonstrated strong ability. De facto this too will result in a permanent increase in earnings and thus should be considered carefully.

The following presents an overview of the immediate and medium-term options suggested in this note, and the actions necessary to prepare and implement them.

**Table 2: Overview of immediate and medium-term options**

<b>Option</b>	<b>Necessary actions</b>
<i>Immediate-term</i>	
Merit award	Possible to launch within 2-3 months: <ul style="list-style-type: none"> <li>• Prepare format and instructions</li> <li>• Finalize nomination and decision-making process</li> <li>• Decide total budget for this purpose, per organization</li> <li>• Set guidelines for size/number of awards</li> <li>• Train managers and decision-makers on purpose, process</li> <li>• In each participating body, publicly announce program, how it works</li> <li>• Track and publicize awards</li> </ul>
<i>Medium-term</i>	
3 options: <ul style="list-style-type: none"> <li>• Accelerated “years of service” promotion</li> <li>• Differentiated annual increase</li> <li>• One-time bonus</li> </ul>	Requires 2-3 years preparation and testing prior to launch  All options build on the same foundation: <ul style="list-style-type: none"> <li>• Develop robust job descriptions for each position</li> <li>• Design staff appraisal system (processes, forms) oriented toward setting individual objectives, specific results, professional development</li> <li>• Each organization agrees clear objectives for its work -- basis for assessing and guiding each staff member under the appraisal process, to align individual and organizational goals</li> <li>• Design and implement communications strategy to inform and win support of staff and managers about appraisal process</li> <li>• Training sessions for participating managers and staff (overall process and objectives, communication skills / style, use of specific forms)</li> <li>• Pilot staff appraisal system in one (or a few) organizations for one annual cycle</li> <li>• Revise based on pilot experience, and expand to all other central institutions</li> <li>• Operate administration-wide for minimum of two full years, to ensure it yields reasonably reliable information</li> <li>• Possibly link to an appropriate performance-pay measure</li> </ul> For specific option selected: <ul style="list-style-type: none"> <li>• Assess likely reaction, expected benefits and risks</li> <li>• Decide criteria and guidelines for award: for example, accelerated promotion after X years of “superior” assessment result; one-time bonus in range of X-Y% of salary or XX-YY tenge; annual increase that is higher than average by X to XX%)</li> </ul>

- 
- Agree decision-making (e.g. degree of managerial autonomy) and checks or oversight measures
  - Set appropriate budget per institution
  - Communicate objectives and process to staff and managers
- Train managers in decision-making
- 

## The way forward

This note has presented some major considerations in improving Kazakhstan's civil service system, and highlighted realistic constraints and possibilities for immediate- and medium-term action regarding pay and performance. The administration is equipped with an abundance of ideas, hope in the expected benefits of reform and a broad awareness of international trends in civil service reform. The challenge ahead is to strike a balance between overcoming inertia and resistance to change on the one hand, and the risk of skipping fundamental steps in the rush to see improvements *yesterday* on the other hand. The greatest promise for positive results lies in a realistic, systematic and sustained effort that adapts appropriate methods and uses lessons of international experience to avoid the problems that other advanced countries have run into in their own earlier reform efforts.

### Annexes (in this paper):

Annex 3a: Sample nomination form for merit award

As separate attachments

Annex 3b: *Paying for Performance: Policies for Government Employees*, OECD Policy Brief, May 2005. Available at

[www.oecd.org/dataoecd/13/51/34910926.pdf](http://www.oecd.org/dataoecd/13/51/34910926.pdf).

Annex 3c: *Performance Related Pay in the Public Service*, Francisco Cardona, October 2002.

Annex 3d: *Perspectives on Performance Pay in Government Organisations: A Short Review of History, Research and Theory So Far, and Main Trends in OECD Member Countries*, David Marsden, paper presented at OECD Experts meeting, 7 October 2003. Also available at

[www.oecd.org/dataoecd/52/36/33686853.doc](http://www.oecd.org/dataoecd/52/36/33686853.doc).

### **Annex 3a: Sample nomination form for merit award**

Instructions:

- Please complete this form for each individual nominee
- If you are nominating a team, please use one page and list the names of all team members. In question 4, describe each individual's contribution separately.
- In describing the result and contribution, a specific and clear description is more useful than a general statement.

1. Name of nominee:

2. Position and unit:

3. What specific result was achieved, and how did it advance the [NAME OF ORGANIZATION]'s objectives?

4. How did the nominee contribute to achieving this result? Why is this exceptional?

## **Annex 4: Proposed mechanisms and approach to job re-classification and re-grading**

### **The process of the function evaluation/job evaluation**

#### **1. Preparation of the function evaluation/job evaluation**

The evaluation scales must be adapted on the administration and its specifics (dependent on size and complexity of the administration). The grading charts must be developed in such a way that jobs can be evaluated in a short period of time, based on clear and transparent criteria.. Job descriptions, job profiles and other documents related to the jobs to be evaluated need to be comprehensive in order to allow for objective grading work.

#### **2. Execution of the function evaluation/job evaluation**

The function evaluation/job evaluation process is based on a Top down approach. The high-level manager for the respective jobs is included into the evaluation work during the course of the -internal meetings. For each functional group of jobs, a reference job needs to be selected against which other jobs can be ranked. Reference jobs are jobs with those other jobs can to be compared. The evaluation process is subsequently structured as follows:

Step 1: Agree on the evaluation procedure as well as the individual criteria

Step 2: Evaluation of the jobs by the high-level management (A preparation for the evaluation meeting is not necessary.)

Step 3: Summary of the evaluations and accumulation per evaluated job

Step 4: Formation of a ranking order of the evaluated jobs and summary motivation of the evaluations

Step 5: All evaluation results from the different evaluation rounds flow into a total transverse comparison, in which all positions in the transverse comparison are compared summarily with one another.

Step 6: Allocation of the jobs to the individual tariff-/function groups and/or responsibility levels (functions of same or similar evaluation in summary)

Step 7: Linkage of the new function evaluation/job evaluation with the remuneration of the job holders on their present positions

On basis of the evaluation results coordinated in the transverse comparison evaluated functions are linked with the respective payment data of the individual coworkers. The result informs about the difference between function valuation and past payment practice in the administration.

#### **3. Information about the job ranking model**

As the first step it is to be selected importantly the correct reference jobs for each category. If agreement is obtained on these jobs a agreement the comparison with reference jobs can be started.



This criterion describes the necessary knowledge and abilities for the accomplishment of planning -, co-ordination -, integration -, arrangement and control tasks after extent and complexity (in the sense of variety, frequency of amendments, interdependence/interfaces).

This covers:

- Organization
- Planning and arrangement
- Co-ordination and integration
- Delegation and control
- Management complexity

### **Line management responsibility**

This criterion describes the necessary abilities to the conviction and motivation of other staff (e.g. colleagues, coworkers, superiors, citizens and customers). This covers:

- Human relations skills
- Kind of communication
- Coworker guidance/development
- Conflict management
- Imprinting from culture and values

### **Analytical scope**

This criterion describes the width of the analytical scope which can be filled out for the development of the tasks and problem definitions that are needed for the detailed implementation of strategies, concepts and proceedings. This covers:

- Situation-based adjustment of procedures
- Analysis and evaluation of alternative problem solutions
- Development of new methods, procedures and concepts
- Development of implementation approaches

### **Complexity / Level of difficulty**

This criterion describes the complexity and decision uncertainty which relate to a function (from secured routine to completely new, first situations) during the development and evaluation of policy alternatives. This covers:

- Task variety
- Change frequency of the tasks and basic conditions
- Dependency on problems
- Information (in)security
- Chance/risk estimation

### **Decision scope, responsibility and result impact**

This criterion describes the extent of the actual scope for decision-making related to the function, which results from the hierarchy of deriving action and deciding scope of the

function. It is to be noted that the action and deciding scope usually is not larger than the mental scope.

This criterion describes also the responsibility for the directly assigned, functionally coordinated or substantially affected resources/portfolio. The magnitude of the portfolio is described by organizational units and cost budgets. The level of responsibility for it and the organization influence on it are qualitatively graded.

This covers:

- Scope of action in the comparison to the analytical scope
- Scope for autonomous decision-making scope
- Relative order of magnitude of the directly affected area of responsibility and related resources
- Level of influence or impact in the defined area

## **Annex 5: Proposed performance appraisal mechanism**

### **Performance-based career management**

Implementing a performance appraisal system is a good step in bringing the Kazakh Civil Service system further on its way to modernization and will be necessary in a modern pay system. But such a step has to be well **prepared** and needs **time for implementation** to be successful.

At the beginning of this project, clear **communication** is necessary to explain the fundamentals and goals of the instrument to all Civil Servants involved, in order to diminish uncertainties and avoid fears.

#### **A) Steps to a modern performance appraisal system**

##### **1. Job-description**

One of the basic conditions for the introduction of a performance appraisal system is a **job description for all managers and staff members**.

In most Kazakh Civil Service organizations at present job description forms exist and are used for recruiting. It is essential that this form contain the major tasks of the job.

A performance related bonus system is unthinkable without knowing the major tasks of the job.

##### **2. Developing a system for staff appraisal**

Based on OECD experience (find below the Austrian model) a working group under the direction of CSA should create the system, produce information papers and forms for the appraisal, and organize information meetings with the possibility to discuss and ask questions.

###### **2.1. The Austrian Model**

The staff appraisal, which must be carried out **annually** and which involves all superiors (manager) and each of their staff members, essentially pursues **three goals**:

1. As an instrument of **management by objectives (MBO)**, staff appraisal constitutes an occasion for **setting agreed objectives for the coming year** on the basis of what was achieved in the previous year. Such MBO agreements are reached through co-operation, with due regard to the objectives set by the next higher management level (top-down approach) and taking into account the interests and qualifications of each staff member (bottom-up approach).

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

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

### **3. Piloting the system**

In order to be on the safe side the staff appraisal can be piloted in one or more organizations before making the decision for the complete roll out. Afterwards necessary corrections can be made.

### **4. Developing the system for performance appraisal**

On the basis of the experience with the staff appraisal in the pilot period and in the roll out, the principles of performance appraisal – when an employee’s performance is linked to a monetary reward -- should be developed.

The following questions must be decided:

- Type and size of the “bonus”: There are two principal ways in which performance can be linked to remuneration
  - A one-time bonus payment of in the range of 5 to 10% of the base salary
  - A faster-than-scheduled move up to the next step in the salary grade (a more important decision, since it permanently affects the individual’s pay)
- temporal sequence:  
Ideally, the award should reflect an evaluation of a full year’s performance. (i.e. not more frequently)
- number of managers and staff members, who can get the award:  
in a limited system (like in many private enterprises) is about 10%; but it is also possible to decide to use the same budget but give a lower reward to more persons; in this case 30% of all staff members should be the limit.
- the basic principle for getting the reward is excellent fulfillment of the main tasks and objectives set under the previous year’s performance agreement (as part of the staff appraisal process) between the civil servant and his/her direct manager
- Selection of the persons to be rewarded
  - first step: recommendation by the manager
  - second step: review by a special committee (HR department, managers, representatives of the staff)
  - final decision: by the minister or the head of the office

## **B) Austrian Performance Evaluation Manual**

### **1. Value of the Appraisal Interview**

#### **For superiors and employees**

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

#### **For the organizational unit**

- Mutual agreements help ensure that the overall tasks of the unit are performed well
- Opinion exchange improves communication and cooperation.
- Staff commitment to departmental tasks is intensified through integration of employee's experience and knowledge
- Clarity about departmental objectives helps to avoid conflict situations.

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

### **2. Pre-requisites**

- Full support of the organization's leader (minister, director, etc.) for the process is essential
- The organizational unit in the field area (e.g., personal development) responsible for the conducting of the appraisal interview makes forms available and offers informative presentations.
- Superiors and employees are informed on the content and the use of the appraisal interview through informative presentations, training sessions and/or going through the written forms.

### **3. Course of the Appraisal Interview**

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

#### **The appraisal interview phases are the following:**

- A superior arranges with an employee a definite date for the appraisal interview.
- The superior and the employee prepare themselves separately on the basis of the written interview forms.
- The superior and the employee conduct the interview. The working targets and tasks are discussed in the first part, and promotion and development actions in the second

one. Finally, the results of the first and second part of the appraisal interview are summarized briefly in writing. Each interview participant keeps one copy of the interview.

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

#### **4. Preparation for the Appraisal Interview**

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

- Think about your working relation with the employee; try to remember the satisfying and stressful situations from the previous fiscal year.
- What were their consequences on your cooperation?
- What kind of dialogue did you have with the employee over the course of the year (e.g. frequent or infrequent discussion, were you easily available when staff wanted to speak, etc.)?
- What do you want to change (i.e., improve) considering the quality of your cooperation?
- What do you want to achieve at the forthcoming interview in this sense?
- Which internal ways of thinking and personal attitudes are necessary to achieve this target

#### **Role of the superior in the appraisal interview**

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

Consistent with the appraisal manual (s)he is careful to fulfill the framework conditions by providing the following:

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

#### **5. Tips for Conducting the Interview**

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

## **Preparation for the staff appraisal**

### **Review of individual's tasks and results of the past year**

- On which fields of activity did you spend the majority of your time in the past year?
- What worked well/less well in the last year? Answer with regard to: work quantity, organization of the work, interaction with colleagues and managers, initiative/creativity, guidance and co-operation
- Which favorable and restraining factors affected your ability to fulfill your tasks?

### **Agreement on tasks for the next year with consideration of a suitable overall emphasis/focus for the employee**

- what is the middle- and long-term goal and development focus of your unit
  - Are you (and your employees) sufficiently informed about it?
  - What do you see as priority tasks for the next year?
  - Which conditions are needed for it (material, personnel conditions, time, authority)?
  - What skills do you have that you feel your present job doesn't allow you to apply?

### **Development and supporting measures**

- Which of the following measures are to be used in the future?
  - Instruction by superiors, expert/inside or professional colleague/inside
  - employee should change to a different type of job/activity
  - develop management skills
  - Self-instruction (technical literature) with subsequent discussion with experts
  - Job rotation (within and outside of the Civil Service)
  - Participation in seminars, conferences and training courses

# Job Description

## 1. Organizational classification of the job

Unit		Job Number
N. N., Date of Birth	Function name	Classification

## 2. Structure of the Organization

2.1. Main tasks
2.2. Manager of the employee
2.3. Employee is manager of
2.4. Employee is deputy of
2.5. Employee is substituted by

## 3. Authority of the Employee

	Area
decisions	
signature	
alignment	

## 4. Knowledge, Proficiency, Exams

## 5. Job Description (detail)

Staff Appraisal - Summary of the Results, Part 1
--

One copy for the manager and one for the employee

Manager	Employee
N.N.	N.N.

Agreement over the tasks of work for the year ...

- 1.
- 2.
- 3.
- 4.
- 5.

Manager	Employee
Date and Sign	Date and Sign

## Staff Appraisal - Summary of the Results, Part 2

One copy for the manager, one for the employee, one for HR/-department

Manager	Employee
N.N.	N.N.

Development measures for the year ...

- 1.
- 2.
- 3.
- 4.

Manager	Employee
Date and Sign	Date and Sign

## **Annex 6: Action plan package for civil service pay reform: 2005 to 2010**

I. Summary matrix of pay reform and related civil service management measures – critical enabling decisions and key actions

II. Technical notes -- for selected key actions, concise notes on rationale and implementation.

While this action plan presents measures for both the immediate and medium-term, it focuses more on those that will be implemented (or for which preparations must be launched) in the coming 12 months.

**I. Summary matrix**

**A. CRITICAL ENABLING ACTIONS / DECISIONS**

Action/Decision	Responsible parties	Target date	Status	Comment
Decision to integrate bonuses and allowances into new base salary starting in pilot bodies and then scaling up	PMO, CSA, and head of each pilot institution	Sept. 15, 2005	pending	
Official decision on order and timing in which specific reforms will scale up from pilot bodies to rest of central administration and local administrations				
Adjust pay and budgeting legislation / regulations /practices to allow supplementary payments to be integrated into new “full” salary, and prevent such payments from arising in future	PMO, CSA ?	Autumn 2005 (to enable new full salaries from 1 Jan. 2006)		<p>Specific actions for pilot bodies (and rest of central administration after expand reforms):</p> <ul style="list-style-type: none"> <li>• Suspend/repeal regulations that allow “savings” from material budgets to fund any element of remuneration</li> <li>• Exempt pilot bodies from any regulations that require payment of individual allowances and bonuses (except in special cases e.g. labour code mandated)</li> <li>• Formally transfer total amount of “savings” spent on wages to wage bill, and include in basis for calculating future wage budgets</li> <li>• Terminate excess vacancies (unfilled for a period of time to be defined) and transfer funds to wage bill, to be included in basis for future budgets</li> </ul>

**B. PAY SYSTEM and RELATED MEASURES**

	Key action	Result / Objective	Steps	Responsible parties	Time frame	Current status
1	Design and implement communications strategy	Staff, managers and citizens receive clear, accurate information on reform processes, objectives, and benefits	For each key action, decide critical information that should be understood and effective methods to communicate it.	<ul style="list-style-type: none"> <li>• Civil service agency, individual entities.</li> <li>• Outside expertise to be contracted.</li> </ul>	Ongoing from September 2005, once decisions are taken on pay reform principles and approach	

	<b>Key action</b>	<b>Result / Objective</b>	<b>Steps</b>	<b>Responsible parties</b>	<b>Time frame</b>	<b>Current status</b>
2	Integrate value of bonuses and allowances into new “full” salary	Simple, transparent salary structure with full salary = 100% of earnings (or almost)	<ul style="list-style-type: none"> <li>• Quantitative model of integration process and options</li> <li>• Get necessary exemptions from existing legislation/regulations and adjust budgeting practices</li> <li>• Calculate new base pay so that total annual earnings = 12x new ” full” salary</li> <li>• Communications &amp; training</li> </ul>	<ul style="list-style-type: none"> <li>• MoEBP &amp; CSA</li> <li>• Technical support from World Bank</li> </ul>	Start paying new “full” salary in pilot bodies (MoEBP & CSA) from <b>1.1.2006</b>	<ul style="list-style-type: none"> <li>• Government and heads of organizations to take decision</li> <li>• Model available (June 2005)</li> <li>• Detailed earnings data not yet available from pilot bodies</li> </ul>
3	Decide allocation of 2007 wage bill increase across positions, i.e. from top to bottom of grade structure	Appropriate salary at each grade ensures reasonable earnings at bottom and helps retain high value staff such as senior managers	<ul style="list-style-type: none"> <li>• Analyses and simulation of differentiated pay increase</li> <li>• Policy decision regarding overall pay structure that is desired, and specific increases to be awarded to each grade</li> </ul>	<ul style="list-style-type: none"> <li>• Prime Minister’s Office</li> <li>• Participating bodies</li> <li>• Civil Service Agency</li> <li>• World Bank (technical support)</li> <li>• Some research and analysis contracted out</li> </ul>	<ul style="list-style-type: none"> <li>• 30% wage bill increase and new salaries take effect 1.1.2007</li> <li>• Detailed data required by autumn 2005 to enable simulation of options</li> </ul>	<ul style="list-style-type: none"> <li>• Quantitative model for simulating impact of differentiated increases available as of June 2005</li> <li>• Proposal for pay bands in process</li> </ul>
4	Design and apply new grading system	Salaries across the civil service are aligned to reflect equal pay for equal work	<ul style="list-style-type: none"> <li>• Design grading system with pay bands that can accommodate the bulk of the civil service</li> <li>• Evaluate and classify existing jobs into the new system</li> <li>• Transition staff into new system</li> <li>• “Grandfather” current high earners into new system, to guarantee that their earnings will not drop.</li> </ul>	Initial support from World Bank		<ul style="list-style-type: none"> <li>• Design under development</li> </ul>
5	Select measures for linking achievement to monetary awards, in immediate and medium-term	Professional achievement is recognized in a realistic, constructive and effective manner	<ul style="list-style-type: none"> <li>• Prepare analysis of immediate and medium-term options</li> <li>• Take policy decision and launch technical preparations</li> </ul>	World Bank & CMAR present options for government decision	<p>Target launch of immediate-term program: 1.1.2006</p> <p>Medium term: launch preparations 2005, implementation target est. 2008-09</p>	<ul style="list-style-type: none"> <li>• Analysis of options completed (June 2005)</li> </ul>

	<b>Key action</b>	<b>Result / Objective</b>	<b>Steps</b>	<b>Responsible parties</b>	<b>Time frame</b>	<b>Current status</b>
6	Design annual staff appraisal process, to be aligned with performance-oriented framework for each organization	Professional development of staff is guided by staff-management discussion and reflects overall needs and objectives of each organization.	<ul style="list-style-type: none"> <li>• Design staff appraisal system</li> <li>• Go through process of setting organizational objectives</li> <li>• Pilot staff appraisal system for 1 year in small number of bodies</li> <li>• Revise system based on experience and expand to rest of civil service</li> </ul>		Develop over 2005-2008	
7	Replace in-kind benefits with monetary compensation (monetize benefits)	Salary system enables individuals to decide their own needs and pay for them	<ul style="list-style-type: none"> <li>• Assess current formal entitlements, what is actually awarded and to whom</li> <li>• Determine possibilities for replacing unnecessary in-kind benefits with cash, necessary adjustment to salary scale</li> </ul>		Implement in medium-term	
8	Address regional variations in cost of living in salary levels	Salary levels are reasonable for cost of living in local area	<ul style="list-style-type: none"> <li>• Select methodology for adjusting salaries to cost of living</li> <li>• Research to gather data on regional costs</li> </ul>	Civil Service Agency	Address only after decide nature of salary structure, increases and phasing.	
9	Enact legislation to support pay reform administration-wide	Clear, comprehensive legislative basis for pay system	<ul style="list-style-type: none"> <li>• Broad principles set out in Law on Salaries</li> <li>• Specifics for each sector (within central guidelines) set out in secondary legislation</li> </ul>			
10	Address compensation of political appointees	to be followed up by next mission	•		to be followed up by next mission	
11	Design creation/ compensation of an elite force	to be followed up by next mission	•		to be followed up by next mission	

## **II. Action plan for civil service pay reform: Technical notes**

### **1. Key action: Design and implement communications strategy**

#### **Objective / rationale:**

Staff, managers and citizens receive clear, accurate information on reform processes, objectives, and benefits. This will help build support for reforms, and counteract any misunderstandings or misrepresentation that may arise.

#### **Time frame:**

Ongoing from 2005, as soon as key policy decisions are taken.

#### **Steps and responsible parties**

- For each key action, decide critical information that should be understood and effective methods of communicating it.
- Coordinating body to be decided (possibly Civil Service Agency).. It will probably be necessary to contract outside expertise (e.g. public relations/communications firms, training institutes) to help develop strategy and substance for internal and external communications.

### **2. Key action: Integrate value of bonuses and allowances into new “full” salary**

#### **Objective / rationale:**

Simple, transparent salary structure in which “base” salary equals 100% (or close to 100%) of earnings

#### **Time frame:**

Target is for pilot bodies (MoEBP and CSA) to start paying new “full” salaries – comprising former base salary plus all allowances, bonuses and other regular supplementary payments – from January 1, 2006.

#### **Steps and responsible parties**

- Design quantitative model (Excel) that demonstrates integration of all supplementary payments into new base salary [World Bank]
- Obtain necessary exemptions from existing legislation and regulations that mandate or allow such supplementary payments [MoEBP & CSA]
- Adjust budgeting practices so that wage bill line item (plan and actual) reflects actual spending on wages, i.e. including “savings” from materials budgets that are regularly diverted to wage expenditures. Once this is done, regulations that allow this practice should be repealed/suspended. [MoEBP & CSA]
- Adjust staff planning and budgeting practices to be realistic reflection of type/number of positions needed
- Design and implement communications & training strategy – so that all staff understand the change, how it will affect them (12 equal monthly salaries rather than “lumpy” earnings, absolutely no decrease in total earnings, need to adjust savings habits, etc.) and technical staff understand how to handle calculations. Clear written materials will need to be prepared (including brochures for staff, with detailed examples of what integration means for an individual’s earnings payments; and training manuals for technical staff who will handle

calculations, to ensure consistent approach) and distributed well before launch of new system, and explanatory sessions should also be held.

- Recalculate new “full” salary so that total annual earnings = 12 x new base pay [MoEBP & CSA technical units – accounting, payroll, personnel]

### **3. Key action: Decide allocation of 2007 wage bill increase across positions, i.e. from top to bottom of grade structure**

#### **Objective / rationale:**

Planned 30% wage bill increase will be awarded in a differentiated manner, i.e. with some grades in the salary structure receiving a higher percentage increase than others. This will be done in a way that provides some increases to the lowest grades (recognizing the need for reasonable earnings at the bottom of the scale) but targets particularly demanding positions – notably senior management staff such as directors of ministry departments -- for larger increases, as a means of reducing turnover and strengthening financial incentives for career advancement.

#### **Time frame:**

New, differentiated salary increases will be applied from January 1, 2007

#### **Steps and responsible parties**

A series of analyses will be required, as inputs to the policy decision:

- Simulation of impacts of different increases on salary levels [World Bank designs Excel model; each organization provides detailed data on employee earnings]
- Overview of relevant international practices [World Bank can provide support ]
  - appropriate range for vertical earnings structure (compression ratio of top civil service post to bottom one);
  - hiring and remuneration of small group of elite experts with rare skills and responsibilities (e.g. top negotiators of long-term energy contracts, manager of currency reserves etc)
  - remuneration of ministers and other top political representatives
- incidence of and reasons for turnover: to enable better targeting of increases, consideration of other possible measures to retain staff, and tracking of how effective such measures are at reducing turnover over time. This analysis seeks to determine who is leaving the civil service (positions and skills with high turnover, age, length of employment in civil service, what types of organizations and positions are they going to, what factors might cause them to remain or return to the civil service (e.g. minimum salary levels, professional development opportunities, other inducements)
  - options include (1) detailed interviews with personnel department heads and (2) use of simple exit survey for staff who resign. In the case of (2), data should be aggregated, analysed and made public on a regular basis. Ongoing use of the exit survey will monitor how turnover levels are changing, and whether retention measures are having an impact.
- Data on actual compensation for realistic comparator jobs in Kazakhstan: will define the actual extent of anecdotal reports of gap between civil service salaries and alternative positions. Research will focus on realistic alternatives for a range of civil service jobs, not simply a few elite jobs in the highest-paying international firms. Research will gather information on real compensation packages, i.e. official as well as unreported compensation, in-kind benefits, pensions entitlements.
  - Sensitivity of this information requires a careful approach, and several different methods may be required. Options include (1) gathering existing studies that have been conducted

by foreign or national companies, international organizations and consulting firms, etc. (2) contracting a specialized firm to do surveys (3) using personal networks to gather anonymous but robust anecdotal evidence about actual earnings in comparator positions

#### **4. Key action: Design new grading system with pay bands that can accommodate the bulk of civil service jobs**

##### **Objective / rationale:**

The grading system will apply the principle of equal pay for equal work. This will ensure that salary levels for similar civil service jobs in different organizations are comparable, unlike current practice.

##### **Time frame:**

##### **Steps and responsible parties**

- Design new grading system with pay bands that accommodates the bulk of positions across the central civil service and introduces greater consistency in salary levels across ministries. A separate but consistent system can be developed for civil service jobs at local government level. [Each organization provides detailed earnings data; World Bank develops technical proposal using these data.]
- Evaluate and classify jobs into the new system. Each participating organization will develop substantive job descriptions, according to standard criteria and format, for each type of job that it currently has. The job descriptions will be compared to a “reference job” that represents the midpoint of each pay band, and then assigned a position in the band (above, below, or at same level as the reference job.) A job’s position in the band can be changed only by applying for permission to re-grade it. [World Bank prepares technical proposal]
- Design “grandfathering” mechanism that protects earnings of current employees. Any employees whose earnings are above the salary assigned to the job that they currently hold will continue to receive their current salary (i.e. no drop in income.) New hires will, however, enter at the salary assigned to the job under the new grading system.

#### **5. Key action: Select measures for linking achievement to monetary awards, in immediate and medium-term**

##### **Objective / rationale:**

An effective policy will recognize professional achievement with appropriate monetary awards in a realistic, constructive and effective manner.

##### **Time frame:**

Target launch of immediate-term program is January 1, 2006. For medium-term measures, preparations should be launched in 2005 in order to meet a target for implementation in 2008-09.

##### **Steps and responsible parties**

- Analysis of options for immediate and medium-term proposes the following options for consideration. (For details see technical note *Pay reform to facilitate a better civil service for Kazakhstan: the role of allowances, bonuses and pay-for-performance*, World Bank and CMAR, June 2005.)
  - Immediate term measure: Merit award that recognizes specific achievement by individuals or teams and provides a limited monetary award
  - Medium-term options, linked to annual staff appraisal results and thus requiring 2-3 years preparation before awards are made: (1) Accelerated “years of service” promotion (2) Differentiated annual increase (3) One-time bonus.
- Take policy decision and launch preparations for selected options [MoEBP, CSA, PMO]
- Adjust practice so that monetary awards are funded from an explicit, planned item in wage bill specifically for this purpose

## **6. Key action: Design annual staff appraisal process, to be aligned with performance-oriented framework for each organization**

### **Objective / rationale:**

Provides a systematic mechanism for guiding professional development of staff based on discussion with management, and aligning staff development with overall needs and objectives of each organization.

### **Time frame:**

### **Steps and responsible parties**

- Develop robust job descriptions for each position (as noted above)
- Design staff appraisal system (processes, forms) oriented toward setting individual objectives, specific results, professional development
- Each organization agrees clear objectives for its work -- basis for assessing and guiding each staff member under the appraisal process, to align individual and organizational goals
- Design and implement communications strategy to inform and win support of staff and managers about appraisal process
- Training sessions for participating managers and staff (overall process and objectives, communication skills / style, use of specific forms)
- Pilot staff appraisal system in one (or a few) organizations for one annual cycle
- Revise based on pilot experience, and expand to all other central institutions
- Operate administration-wide for minimum of two full years, to ensure it yields reasonably reliable information
- Possibly link to an appropriate performance-pay measure

[World Bank providing initial technical support]