Salary Supplements and Bonuses in Revenue Departments

Final report

August 2001

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Introduction

As a response to the World Bank's need for a more systematic review and evaluation of the use of bonus and salary supplement systems as a means to enhance effectiveness in revenue departments in developing countries, PLS hereby presents the final report of the study, aiming at identifying and evaluating existing systems of performance related salary systems in Revenue departments. The study will focus on the developing countries, but will include systems in and experiences from developed countries to complement the analysis.

The scope of the *entire study*, as defined by the World Bank, has been be to:

- Review typical "bonus" practices as they prevail in the Revenue Departments in a representative sample of developing countries, and with comparisons with advanced countries, where such bonuses still exist.

- Evaluating these practices for effectiveness and efficiency, and propose methods for on-going evaluations of these practices, so as to guide policy makers in the design of the modifications to be made to the bonus system. This evaluation should take into account that there is a potential conflict between the achievement of agency objectives and competition between individuals that undermines teamwork.

- Assess whether it is possible to design a bonus system that scores high in terms of effectiveness, and efficiency and robustness, taking into account the various institutional contexts.

The study has consisted of two phases:

- The first phase of the study has been focused on establishing common methodological framework, and conducting a survey of existing schemes and methods for the use of Bonus and Salary systems. Thus the first phase of the study is based on desk research and a questionnaire survey of 28 countries.

- The second phase of the study has focused on in-depth studies of existing bonus systems in 7 countries around the world.

Executive summary

This study is a response to the World Bank's need for a more systematic review and evaluation of the use of bonus and salary supplement systems as a means to enhance effectiveness in revenue departments in developing countries.

Bonus and incentive systems may broadly be viewed as part of the "new public management" reform that has been significant across the world in the last 15 years. The basic intention of new public management reforms is the improvement of performance of public sector institutions by introducing new organizational, financial and management measures, often inspired by private sector practices.

A number of different performance management systems have been created in public institutions over the years, and a number of key considerations have arisen from the experience of these systems. Fundamentally, a performance management system should be based on the following pillars:

- Proper performance indicators
    - Clarity of purpose
    - Alignment with overall objectives
    - Continual revision
    - Focus on prioritized areas
    - Balanced view of the entire organization
- A proper performance appraisal system
    - Clear definitions
    - Comparability
    - Verifiability
    - Unambiguity

Phase 1: Survey of existing systems

The first phase of the study aimed at identifying and evaluating existing systems of performance related salary systems in Revenue departments. The study focused on the developing countries, but includes systems in and experiences from developed countries to complement the analysis.

28 questionnaires were sent out, only 14 countries finally returned the questionnaire. Some replies were followed up through telephone interviews and discussions with a number of officials from the countries. The range of the replies has been the following:

Regional Area	Country	Reply	No reply
Africa & Middle east	South Africa	X	

	Morocco	X	
	Iran	X	
	Nigeria		X
	Ivory Coast		X
	Uganda		X
Asia	Vietnam		X
	Malaysia		X
	Philippines	X	
	Nepal	X	
South America	Chile		X
	Argentina	X	
	Honduras		X
	Ecuador		X
Eastern Europe	Estonia	X	
	Hungary	X	
	Poland		X
	Romania	X	
	Russia		X
	Slovenia	X	
	Kazakhstan		X
N.America and Australia	Australia		X
	Canada	X	
	USA	X	
Western Europe	Netherlands		X
	Belgium	X	
	Spain	X	
	Austria		X

With only 50 % of the questionnaires returned, the level of participation was not as high as hoped for, but still adequate in order to outline some tendencies and get an insight into the connection between bonus systems and effectiveness.

The survey gave rise to a number of preliminary conclusions and assumptions that were explored further in the second phase of the study.

Phase 2: In depth country studies

The second phase consisted of a number of in-depth country studies of performance management systems that were believed to be working well or were otherwise “representative” of some of the issues that were raised in the first phase of the study. The following 7 countries were selected:

- Denmark
- Albania
- Morocco
- Latvia
- Brazil
- Ghana
- Philippines

The studies revealed the following, overall conclusions:

- The countries have chosen a very wide variety of systems in terms of performance indicators, target groups and performance appraisal systems.
- It is almost impossible to establish any direct chain of evidence connecting performance management systems and actual performance of revenue departments. Performance may in principle be enhanced on either an organizational or an individual level, but objective data on performance is at best scarce and most commonly non-existing. The findings thus demonstrate a well-known methodological problem.
- A general conclusion, however, is that the "circumstantial evidence" that is available seem quite convincing in a number of the systems that has been studied, to the effect that bonus systems do indeed seem to have an impact on organizational effectiveness.
- In a number of countries the introduction of bonus systems have had a measurable impact on recruitment and retainment of employees.
- There is strong evidence that the success of bonus systems to a very large degree rely on factors that all revolve around the concept of "legitimacy", i.e. the internal and external "acceptance" of the bonus system.

- Among the “legitimacy factors” the following appear to be crucial:
    - The involvement of employees in the design and implementation phases of the bonus systems
    - The systems’ “ability to perform”, i.e. to actually pay out the bonuses and to make an actual difference for the recipients in terms of total income.
    - The need for transparency in the systems design – such as a formal knowledge of the employees of the criteria upon which bonuses are distributed, a possibility to confirm and verify the actual appraisals, and the possibility of appealing decisions.
    - Even though most systems operate with some degree of discretion in the distribution of bonuses, it has become clear that the limitation of discretionary powers is crucial. A number of systems have attempted to solve this obstacle, either by relying on objective performance measurements or by relying on a number of control mechanisms that are designed to limit the risk of discretionary abuse.
    - It is vital that “external legitimacy” (that is, acceptance of the system by other government agencies and institutions and by the relevant political institutions) is secured from the outset. Several of the systems have suffered from such a lack of legitimacy.
- The actual size of the bonuses is a crucial factor in terms of the effects of the bonus systems. In some systems the bonuses make up a very large percentage of the overall salary. In general, the size of the bonuses should depend on the actual motive behind the introduction of the bonus systems:
    - If the motive is recruitment and retainment of employees, the bonuses should make the revenue authorities able to compete on even terms with whomever they compete with (private sector companies or other government agencies).

- In countries where there is no such competition, or where the general unemployment rate is high, bonuses should reflect this and may well be lower.
- In countries where fighting corruption is the main objective, bonuses should be constructed to reflect this.
- And finally, in countries where national financial policies make it imperative that revenue collection is improved, bonuses may well be very high compared also to other public and private sectors.

Elements of Phase one

This part of the report presents the findings of the questionnaires and a conceptual understanding of performance management.

The report furthermore presents a framework for the design of performance based salary systems and discusses some of the parameters to be observed in using these kind of management systems in an area as citizen-close and as critical as the tax and revenue departments.

This paper will thus not offer a set of ready-made conclusions as to the effectiveness and use of these systems as part of administrative reform programs, but rather define the scope of further case-orientated studies focusing on identifying the obstacles and effects of exiting systems around the world.

Methodology

The methodology of the first part of the study has been the combination of an analytic development of a conceptual framework for evaluating the use of bonus systems, combined with a fact-based survey of existing systems and their effectiveness and different set-ups.

Desk research

The analytic element of the study has been based mainly on written sources. The aim has been to create an overview of existing literature and research related to this specific area of public management.

As expected, there exists almost no research directly aimed at this particular aspect of reforms in public administration. Therefore, the study is based on several independent areas of research that are merged into a framework consisting of the following elements and analytic questions:

- Characterising different strategies with a focus on the relation between pay-schemes, economic incentives and individual motivation
- Identifying experiences with performance based salary systems in revenue departments worldwide.
- What conditions and administrative management schemes must be in place in order to create and maintain a performance based salary system.

Questionnaire

The questionnaire was designed with the specific aim of collecting a maximum of parameters to describe and characterise the different types of bonus and salary supplement systems currently in use in both developing and developed countries.

The questions have been based on the following underlying assumptions:

- The level and design of the normal pay-systems determine the potential and effect of using bonus and supplement systems.

- The benefits of the civil servants (education, security, allowances, housing, etc.) are key factors in determining the moral hazard of the individual.

- Establishing indicators for performance which are balanced and which prevent adverse behaviour or misuse of discretionary powers are important for the functioning of the system (and its legitimacy).

- Performance measures should take into account the use of individual as well as team-based goals so as to prevent individualistic and non-effective conduct.

The questionnaire was sent out by the end of May 2000 to 28 different countries.

In order to facilitate the filling out of the questionnaires, each recipient was given a password that enabled them to fill out the form directly by Internet. 3 forms have been returned by this method.

Performance Management Systems

The Conceptual framework

When discussing the use of bonus practices in Revenue Departments to reduce incidences of corruption and improve performance incentives, it is essential to understand the wider framework in which such measures are employed. A presentation of the principles behind performance measurement and management systems can thus provide a useful conceptual background.

During the last decade or so, the public sector, especially in the developed, but also in the developed world, has embraced what has been termed 'New Public Management' (NPM) reforms and programs. The interpretations and understandings of NPM are numerous and diverse. Among its key elements can be mentioned: deregulation of tasks and responsibility, corporatisation (conversion of departments into independent agencies), management by contract, outsourcing and performance-based accountability, both on an institutional and individual level.

What these initiatives have in common is the objective of improving the performance of public sector institutions by introducing new organizational, financial, and management measures, often imported from or inspired by the private sector.

However, the establishment, evaluation and analysis of performance management systems, performance measurement and bonus practices cannot be viewed in isolation. Rather, these tools should be interpreted within a wider framework, which includes an understanding of their interaction with other reform programs being implemented in countries engaging in NPM reforms.

Furthermore, it is important that the bonus system is constructed and implemented as part of a wider performance improvement and appraisal system. Promoting sound practices and ethical conduct among civil servants in Revenue Departments by allocating bonuses and salary supplements demands an effective and transparent performance appraisal system built on clear performance measures. In addition, a bonus and salary supplement system cannot stand alone, but must be supported by a supplementing range of instruments aimed at increasing motives for effective and non-corruptive behavior.

The relations between the different levels and links of performance systems are illustrated below:

Performance Management systems

- Aimed at influencing and improving the performance of the organisation

In the following paragraphs, an overview is given of:

- The construction of an effective Performance Measurement System (PMS)
    - Key considerations in the establishment of PMS
    - Developing effective performance indicators
- Discussion of relevant indicators in an appraisal and bonus system aimed at encouraging anti-corruption.

The construction of an effective performance measurement system

Performance measurement is the foundation upon which performance management systems are built. Without a reliable basis for effective performance monitoring, performance management can be problematic, and a successful implementation and functioning of bonus systems accordingly difficult.

Key considerations when establishing a performance measurement system

A single indicator seldom provides adequate information about the performance in either a service area, such as the Revenue Department, or of the individual civil servant. Organizations thus need to construct a portfolio of indicators, which together ensure a comprehensive view of the organization. The key principles when selecting a set of indicators are:

- Clarity of purpose: establishing an understanding of *who* the users and stakeholders of the information are, and *how* this information will be used, i.e. which managerial levels will be using the information, will the information be published, are the results liable to both reward and punishment etc.
- Alignment: It is important to ensure that measurements of individual or group performance correspond to the overall objectives of the organization. Strategic objectives should be communicated so that each employee understands how he or she is contributing to the effective performance of the organization. One way of establishing this connection between the organizational hierarchy of strategic goals, action plans and indicators is the 'cascaded approach', according to which core objectives are cascaded into measurable activities. Importantly, such a method can contribute to the strengthening of a feeling of ownership, as the individual contribution is linked directly to the overall organizational objectives.
- Continual revision: Tasks, procedures and structures within an organization, such as a Tax Department, are continually undergoing changes due to both internal and external factors. It is important that the performance measurement system reacts and responds to these changes, and that the type, content and composition of Performance Indicators (PIs) incorporate these.
- Focus: When setting up indicators, both for the organization as a whole and for the individual employee, it is essential that the set of PIs focus on prioritized areas rather than on every single aspect of the activities under consideration. Selecting the key theme often requires discussions of what behavior and what activities the performance measurement system is actually trying to promote (for example, maximizing the amount of collected revenue or the level of customer satisfaction). Attention should thus be focused on a number of key issues. Furthermore, it is important to emphasize the risk of skewing performance by neglecting crucial areas – thus there is a clear need for a balanced set of PIs.
- Balanced: the most crucial task of the performance measurement system is to ensure that a balanced view is given of the whole organization and the whole performance. Some of the methods used to achieve this aim are:

  Balanced scorecard: this approach suggests that four perspectives are needed when constructing a portfolio of indicators to achieve a comprehensive view of the performance of the organization. The four perspectives are:
    - *Service-user perspective*: how are customer needs and expectations met?

- *Internal management perspective*: identification and monitoring of key processes, providing good quality and effective service.
- *Continuous improvement perspective*: securing continuous learning and improvement, both of systems and people.
- *Financial perspective*: the use of resources to achieve the objectives of the organization.

When setting up an appraisal system based on bonuses, these four perspectives could be taken into account when allocating salary supplements. Rewarding non-corruptive behavior should thus be viewed from different measurement dimensions: how does it influence the way clients are being serviced, which key processes should be adapted or changed to underpin the anti-corruption practices, how can learning mechanisms be integrated in working procedures and finally, how does the employment of resources in relation to the bonus schemes correspond to the overall objectives of the organization?

Cost, time and quality dimensions: another related approach to ensure a rounded set of indicators is by using cost, time and quality measures. Cost reflects the financial side of the organization's activities (the cost of audits) Quality captures the features of the service (use of correct procedures when auditing enterprises) and their appropriateness for the user (number of complaints). Finally, the time aspect covers the responsiveness and speed with which services are delivered (average process time of an audit). Together these three dimensions can provide a balanced coverage of a service area or an employee's performance.

Another set of useful distinctions in measurement dimensions are the diversions between outer effectiveness (quality and service) and inner effectiveness (costs and time) or between input, output and outcome. The approach taken will depend upon which method corresponds best to the organisation, its needs and objectives.

Developing effective performance indicators

Besides ensuring that the performance measurement system is focused and balanced, the implementation of an effective system also depends on the existence of robust performance indicators. Important selected criteria for individual performance indicators are:

- *Relevance*: the PIs should be relevant to the aims and objectives of the organization and for the individual. If an indicator is not viewed as relevant, the employee will have less incentive to improve performance and meet the targets set.
- *Clear definition*: a PI should have a clear definition and be easy to understand. Vague and imprecise descriptions can lead to misunderstandings and confusion – both for the employees being measured and for the managers interpreting and using the indicators.
- *Comparable*: Especially if the performance measurement and appraisal systems aim at comparing the performance of employees, it is essential that the measures are comparable. Comparisons of indicators should be possible both between employees, teams or departments (depending on how the bonus systems are constructed) and over time, to allow for the measurement of improvement or deterioration as it occurs. This demands good collection methods, agreed definitions and standardized concepts.
- *Verifiable*: the indicators should be collected and calculated in a way that allows the information to be verified. If the accuracy of the data cannot be checked, the reliability of the system might be limited and the manipulation of data a risk.
- *Unambiguous*: when PIs are used to reward or penalize behavior, clarity around the direction of change (does the indicator represent an improvement in performance or not) is crucial. For example, a low number of frauds detected could mean two things. On the one hand, it could reflect an effective approach towards reducing incidents of fraud. On the other hand, it could merely be reflecting that fact that the authority is only detecting a small proportion of actual cases.
- *Attributable*: the person or group being measured by an indicator should be able to influence the indicator, either completely or to a significant degree. If for example the average processing time of an audit is influenced by a number of other actors, the individual incentive for making an effort to improve performance will diminish, and the performance measurement system will be regarded as unfair and discouraging.
- *Avoid adverse incentive*: when constructing PIs, it is important to bear in mind what kind of behavior the measure should encourage. As mentioned in relation to the need for a balanced portfolio, it is essential to avoid encouraging counter-productive activity as a result of the existence of a PI. Examples could be that staff or managers shift problems over to an area, which is not being measured, that data is manipulated to improve figures or that conduct is promoted which is not in the interest of the organization or the wider society. For example, a problem, which has been mentioned in relation to bonuses linked to tax collection, is the

disproportionate harassment of the taxpayer by employees eager to improve their performance measures.

Targets

Performance measures quantify performance whereas *targets* challenge an organization or an individual to perform better. It is important that the set targets are realistic but at the same time challenging for the organization and its employees. Targets could be based on previous performance, political priorities, and internal or external comparisons. Good targets can be said to be SMART: Specific, Measurable, Achievable, Relevant and Timed.

Pitfalls

Some of the pitfalls, which exist when setting up a performance measurement system, are described below.

The mentioned PI criteria are always important when performance is being measured. However, their significance increases when the performance measurements are linked to bonus allocation and salary supplements. If the systems, procedures and data are not viewed as trustworthy and fair, there is a danger of discouraging employees and promoting adverse incentives and manipulation of information. It is thus crucial to ensure that data quality is as high as possible and the information systems as reliable as possible.

When interpreting the information collected, it is crucial to take account of the context in which the performance has been taking place. These contextual issues can both be external (changes in political climate, legislation, economic situation) and internal (for example organizational or budgetary changes). Performance measurement should be used within a framework of managerial and professional judgment, where a common understanding exists of the aims for which a PI can be employed. Misuse of information is likely to lead to excuses, complacency, skewed performance and manipulation instead of improved accountability, service improvements and increased efficiency.

Focusing on short-term targets at the expense of long-term objectives is also a risk, especially if there is a pressure in the organization for immediate good performance. Long-term socio-economic considerations may for example be neglected due to the short-term focus on collection results. The method to reduce this problem is to construct a portfolio of PIs that is balanced and attaches importance to both long and short-term issues.

Setting up the right indicators

In the questionnaires the respondents where asked to indicate the most important performance indicators on which their system is based. They had a multiple choice as well as an optional open field for filling out this question. The results are illustrated below:

Performance indicators	Morocco	USA	Spain	South Africa	Iran	Hungary	Slovenia	Romania	Argentina	Estonia	Canada	Philippines	Score
Mutual agreement/Managers discretion		X						X	X		X	X	5
Collected revenues during fixed period			X	X	X	X			X				5
Number of declarations per officer or processed cases			X		X		X			X			4
Revenue collected in excess of agreed quota			X		X	X		X					4
Fraud detection rate				X		X	X	X					4
Average process time		X	X	X	X								4
Number of audits			X		X		X						3
Work quality and team work spirit /HRM measures	X	X		X									3
Customer satisfaction	X	X											2
Productivity	X	X											2
Type of audits			X	X									2
Number of complaints from business community		X					X						2
Devotion to work	X												1
Turnover of audited enterprises						X							1
Professional knowledge	X												1
Sense of responsibility	X												1
Number of measures	6	6	6	5	5	4	4	3	2	1	1	1	

As the survey shows there is an overweight of PI's that focus on efficiency measures (effective use of input to maximize output – ex. the number of processed cases and the number of audits.). Whereas indicators focusing on effectiveness and quality, (meeting the users' requirements) such as the level of customer satisfaction and the number of complaints, are much less used.

Furthermore though some of the countries have indicated that the use more than the stated number of indicators most of them uses only 3-4 indicators combined with an individual agreement with management.

The limited amount and some degree unbalanced indicators combined with the system of mutual agreements and "negotiations" could be a challenge to the transparency of the bonus system. It is the hypothesis of this study that this could in the end have a negative impact on the legitimacy of the system.

Some additional crucial questions will have to be asked when analyzing the functioning or malfunction of a performance measurement system:

- How many and what PIs are put together to represent an adequate and comprehensive picture of the performance?
- How are they defined and what information systems do the organizations have to collect, process and present the data?
- Do the PIs match and respond to the specific context of the organization? Though different Revenue Departments will have many problems and challenges, which are similar, and on this basis share a set of PIs, there will also be a number of specific organizational, local and cultural factors, which will determine the 'optimal' set of indicators for each organization.
- Does the system have the support of top-level management? How is this support expressed?
- Are bonuses and salary supplements allocated consistently and according to prior agreements?

In one of the following section, the case of the Danish Tax and Revenue System's use of performance-based salary is presented and discussed in relation to the above questions.

The aim is to demonstrate the effects and institutional set-up required to implement an elaborated and systematic salary mechanism. The case also demonstrates the problem of defining an appropriate and manageable set of performance indicators.

Results of the questionnaire

Of the 28 questionnaires that were sent out, only 14 countries finally returned the questionnaire.

The range of the replies has been the following:

Regional Area	Country	Reply	No reply
Africa & Middle east	South Africa	X	
	Morocco	X	
	Iran	X	
	Nigeria		X
	Ivory Coast		X
	Uganda		X
Asia	Vietnam		X
	Malaysia		X
	Philippines	X	
	Nepal	X	
South America	Chile		X
	Argentina	X	
	Honduras		X
	Ecuador		X
Eastern Europe	Estonia	X	
	Hungary	X	
	Poland		X
	Romania	X	
	Russia		X
	Slovenia	X	
	Kazakhstan		X
N.America and Australia	Australia		X
	Canada	X	
	USA	X	
Western Europe	Netherlands		X
	Belgium	X	
	Spain	X	
	Austria		X

With only 50 % of the questionnaires returned the level of participation is not as high as we could have hoped for but still adequate in order to outline some tendencies and get an insight into the use of bonus systems.

In addition to the above questionnaires telephone interviews and follow up calls were carried out to support and develop the conclusions from the questionnaire.

Of the responding countries the distribution of countries with existing bonus systems was the following:

Country	Bonus system
Philippines	All employees
Morocco	All employees
Romania	All employees
South Africa	All employees
Iran	All employees
Argentina	All employees
Slovenia	All employees
USA	All employees
Spain	All employees
Estonia	Various groups
Hungary	Various groups
Canada	Management level
Denmark	Management level
Belgium	None
Nepal	None

Country summaries

Estonia

The Estonian questionnaire was received from the **Customs Board**. Furthermore, an in-depth interview was carried out with an expert from the Board to elaborate on some of the statements from the questionnaire.

The bonus system in the Estonian Customs Board has existed about 6 years. Bonuses are allocated to individually selected employees, based on individual performance, and distributed according to manager's discretion. The value of the bonus is 34% of the entry salary level and 12 – 15% of the final salary level.

The purpose of the system has been to:

- Retain employees and attract new ones
- Clarify the relation between performance and salary
- Establish a more systematic and goal oriented effort
- Prevent corruption

The bonus system has mostly been successful in retaining employees and ensuring a systematic and goal oriented effort. The effect on the corruption level, however, has been modest.

A weakness of the system is the lack of *performance indicators*. The Estonian Customs Board is currently working on developing such measures, and at present the main indicator is 'the number of declarations per officer'. One of the barriers that they meet in this process is the difficulty of establishing a common base of measurement for the various parts of the organisation.

Canada

The Canadian questionnaire was received from the **Canada Customs and Revenue Agency (CCRA)**. In CCRA a bonus system has been established for a limited group of employees at managerial level, and a similar system has been implemented in most federal departments and agencies in Canada.

The performance measures are determined by mutual agreement, outlined in a performance agreement, and the bonus distributed on the basis of individual performance. The value of the bonus as a percentage of the basic salary is up to 15% for top executives and 10% for other executives.

The weaknesses of the bonus system are the risk of demotivating employees that do not receive high ratings and the insignificant amount of money involved. As a measure against the first risk, a balanced scorecard approach is being developed to reward various aspects of the performance.

The purpose of the bonus system is to:

- Retain employees
- Attract new employees
- Strengthen teamwork
- Ensure a more systematic and goal oriented effort.

These objectives have according to CCRA all been achieved.

Hungary

The Customs and Finance Guard of Hungary completed the Hungarian questionnaire**.**

A bonus system has been set up where measures are determined by management. It is aimed at various groups on both managerial and staff level. Moreover, the bonus is based on both collective and individual performance, the former counting about 25%, the latter 75%.

The most important *performance measures* in the Hungarian system are:

- Revenue collected in excess of agreed quota
- Fraud detection rate, turnover of audited enterprises
- Collected revenues during fixed period
- Customer satisfaction.

The stated purpose of the bonus system is to

- Retain employees
- Clarify the relation between performance and salary
- Establish a more systematic and goal oriented effort.

These areas have all been approved according to the questionnaire, but it is simultaneously mentioned that a problem with the system is that most of the objectives, which the bonuses are based on, are very difficult to reach and subsequently to measure.

Morocco

The Moroccan questionnaire was received from **The Customs and Indirect Excise Administration**.

A bonus system exists which covers all employees and is based on individual performance. The indicators are determined by mutual agreement, and the bonus amounts to at least 60% of the basic salary, depending on the function and salary scale.

The most important indicators of the Moroccan system are: Devotion to work, productivity, professional knowledge, sense of responsibility, work quality and team work spirit.

The purpose of the system was to:

- Retain employees
- Clarify the link between performance and salary
- Fight smuggling and corruption.

Both the aim of retaining employees and the prevention of corruption are believed to have been successfully supported by the bonus system. The Moroccan system is treated in detail in chapter 10.

Nepal

The Nepalese questionnaire was returned from **The Customs Department.**

The organisation does not have a bonus system but it is stated that in the case of a bonus system, it will positively have an effect on the control of corruption.

The most important performance indicators in such a system would be: the revenue collected, the number of frauds detected, number of processed cases, types of audits and number of audits.

Republic of the Philippines

From the Philippines a questionnaire was received from **the Bureau of Customs.**

The system is treated in detail in chapter 14.

Argentina

From Argentina, a questionnaire was received from the **Ministry of Finance.**

A bonus system has been established. It is aimed at all employees, based on individual performance and determined by management. The system is based on performance indicators on collected revenue during a fixed period and manager's discretion.

The purpose of the bonus system has been to:

- Clarify the relation between performance and salary
- To ensure at more systematic and goal oriented effort.

Romania

From Romania a questionnaire was received from **The Customs Department**

A bonus system exists where management determines the allocation of bonuses. Bonuses are distributed between all employees, and are based on individual performance (70%) as well as collective performance (30%). They vary between salary levels, and can amount to up to 3 basic wages. One reason for establishing the system is to supplement the State budget through the collections. The distribution of bonuses is based on revenue collected in excess of agreed quota, number of detected frauds and the manager's discretion of which the two first indicators are the most important.

The bonus system has been a success in the respect that it seems to help retaining employees and to prevent corruption. The weakness is that the bonus funds are insufficient and the assessment criteria are not clear or well defined enough. It is stated in the questionnaire, that the effect of the bonus system has been a diminished level of corruption.

South Africa

The South African questionnaire was completed on behalf of **The Revenue Administration, The Direct and Indirect Taxation Department and The Customs Department.**

The bonus system in South Africa is based on mutual agreement between management and employees. The bonus system is based on a wide and balanced set of performance indicators. The most important indicators are revenue collected, type of audits, average process time, fraud hit rate and HRM measures. The bonuses are distributed to individually selected employees as well as collective employees and are based equally on individual and collective performance. The

collective bonus is payable if revenue collected is in excess of target and is determined by management after consultation with representative trade unions. Individual bonuses are based on performance contracts.

Individual bonuses are not distributed equally between salary levels, and the weakness of the bonus system is that it does not address teamwork in an adequate way.

Belgium

From Belgium, 2 questionnaires were received. One questionnaire was completed by the **Customs department of Belgium**, and the other by the **Ministry of Finance and the Indirect Taxation Department.**

In neither the Customs Department nor the Ministry of Finance do they operated with bonus systems.

Spain

From Spain the questionnaire was completed by the AEAT (**Tax Administration State Agency**) on behalf of the Revenue Administration, the Direct Taxation Department, the Indirect Taxation Department and the Customs Department.

In Spain, the bonus system is defined by management and integrates different elements of the performance (goals and fixed productivities), the process of time, and the quality of the performance. A wide range of performance indicators is employed of which the most important are: revenue collected, number of processed cases, type of audit, average process time and collected revenues during fixed period. The bonuses are distributed to all levels and based on both individual and collective performance.

A mentioned weakness of the bonus system is the difficulty of determining goals and measurement criteria.

Iran

The Iran questionnaire was completed on behalf of the **Revenue Administration and the Direct and Indirect Taxation Department**.

Iran has a bonus system where measures are determined by management. The performance indicators used are:

- the collection of revenues during a fixed period
- revenue collected in excess of agreed quota
- number of audits, number of processed cases
- average process time

The bonuses are distributed to all employees and based on individual performance as well as collective performance. The individual performance is weighted 10% and the collective performance is weighted 90%.

The bonus scheme is a part of the civil servant salary system and aimed to ensure and maintain the living standard among the employees.

United States

From the United States, the questionnaire was received from **The Revenue Administration.**

In the US, they have a bonus system related to performance where measures are determined with a mutual agreement between managements and employees. The most important performances indicators are customs satisfactions, HRM goals, high performance for a particular assignment, average process time and number of complaints from business community.

The bonus system is individual based and covers all civil servants in the department. The bonus system is based on individual negotiations

and thus not equally distributed between employees. The intention behind the system is to strengthen teamwork and to clarify the relation between performance and salary. The weakness of the bonus system is that bonuses are not high enough to reward good performances due to insufficient funds.

Slovenia

The Slovenia questionnaire was completed by **The Customs Department of Slovenia.**

A bonus system exists and involves all employees in the department. The bonus is based on individual as well as collective performance, of which the individual performance has the highest priority. The central performance indicators are:

- Number of frauds detected
- Number of processed cases
- Number of audits
- Number of complaints from business community
- Fraud hit rate.

The purpose of the bonus system is to promote teamwork, achieve a more systematic and goal oriented effort, and to clarify the relation between performance and salary. These objectives have all been achieved. The weaknesses of the bonus system are the insignificance of funds and the lack of standardized and common rules for the distribution of bonuses.

Main tendencies from the questionnaire

On the basis of the survey and a number of telephone interviews, it has been possible – on a strictly preliminary basis – to identify a number of *general* issues concerning the obstacles and challenges as described in the survey. Due to the low number of cases, these issues

are only indicative, and by no means to be considered as general conclusions:

- A bonus system needs to be incorporated and implemented as part of a wider reform programme.
- In order to have a real effect the system needs to be build on well-defined assessment criteria and performance measures which constitute a common base for the entire organisation.
- Low salary levels and a difficult macroeconomic situation constitute the primary problems.
- Sufficient funding is a requirement for the bonus system to make a real difference.

These general issues – or, rather, assumptions – will be explored in the in depth country studies that are described in the following chapters. The country studies were designed specifically with the intention of shedding light on these issues.

Elements of Phase 2

The second part of this study has consisted of a number of in-depth studies of salary and bonus systems that were deemed to be interesting in terms of the focus points of the study, and in terms of the results of the survey conducted in phase 1 – either because these systems appear to be working successfully or because they struggle to deal with some of the problems that traditionally arise in relation to bonus systems, as described in the previous chapters.

Bonus and salary systems were studied in the following 7 countries:

- Denmark
- Albania
- Morocco
- Latvia
- Brazil
- Ghana
- Philippines

The following chapters contain descriptions of each of these national systems. It should be noted that due to the complexity and to the many facets and experiences of the Brazilian authorities in this area, this case study is treated more comprehensively than the others.

In the final chapter 14, we will attempt to draw out the lessons, general experiences and "best practices" from the country studies.

A general overview of the bonus systems in the seven countries is provided in enclosed in chapter 15.

The study has attempted to examine the *same* questions and dimensions of the various national bonus systems. The focus has been on the following points:

- The relation between bonus systems and performance/effectiveness
- Barriers and challenges and pitfalls in relation to the introduction of bonus systems
- Motives behind the bonus systems
- Legitimacy among employees and management
- Requirements for the introduction of a bonus system (technical support, competences, management skills, documentation etc.).

The Danish Tax and Customs Administration

Presentation of the context

The Danish Customs and Tax Administration was established in 1990 through a merger between the former State Tax Service and the Customs Administration. It employs approximately 5,700 staff in 30 regional offices and one Headquarters office. A Regional Director manages each regional office. The annual revenue amounts to some US$100 billion and covers mainly personal income taxes, company taxes, labour market contributions, VAT and customs duties.

Developments in the bonus system

Throughout the first 10 years, different bonus systems have been in force. The system was developed in three stages closely linked to development of the institutional goals and strategic objectives.

In the beginning of the 1990s, there was a strong political desire to gradually shift focus from retrieving results through traditional audits and control to a more proactive approach that would prevent errors to occur in the accounts of the enterprises. Regional Directors were mainly measured on their ability to collect additional revenue in audits, their ability to maintain low arrears-levels as well as on their information activities. By the end of the budget year all collections were added up and each Regional Director was paid in accordance with the - numeric - results in the Regional office. To protect enterprises and citizens it was agreed that the result of each audit was counted, irrespective of whether the audit resulted in a net inflow or net outflow of payments. This meant that audits, resulting in net-paybacks to the enterprise, counted fully in the performance payment scheme.

In the mid 1990s, public focus and criticism of the system resulted in its abolishment. The critique was aimed at the supposed risk of Regional Directors harassing citizens and business life in order to increase their bonus payments. Performance bonus systems were at that time considered a rather advanced administrative tool and not always well perceived by citizens and businesses. Instead a new simplified interim bonus system was introduced according to which a Regional Director's bonus was calculated simply on the basis of the size of their regional office. The regional offices were divided into three groups in accordance with the number of enterprises registered for business within the district. The new system was considered to be simple but did not provide the Regional Directors any economic incentive to improve performance.

From 1998 a new audit strategy was introduced as a result of a new four-year budget agreement between the Ministry of Finance and the Customs and Tax Administration. In brief it focused equally on the numeric results of the audit, the total turnover audited, the number of different kind of audits and the fair distribution of the audit activities between small, medium sized and large enterprises. The new bonus system that evolved is described below.

The introduction of a new system

In 1999 a new management bonus system was introduced which reflected the new audit strategy. The major reason was that the interim system with three bonus groups did not allow for a sufficient spread of compensation or allow the Chairman of the Customs and Tax Administration to reward good performance. New regulations from the Ministry of Finance made it possible for the institutions to enter into such agreements within certain limits.

The current performance pay system only concerns the top-level management including deputy regional managers. Targets are agreed upon in advance of each budget year and reward noteworthy conduct. The expected results are presented in a performance contract signed by the Chairman and each Regional Director.

The new bonus system includes a more balanced approach also in line with the EFQM Excellence model that is applied across the Customs and Tax administration.

Identification of indicators

A bonus scheme related to the size of the Regional Office continues to remain in the new system. This bonus varies between 5 and 10 percent of the basic salary.

In addition to this, a performance payment system was introduced. 15% is paid on the basis of a performance contract that contains a subset of the overall contract for the region. The Chairman can in addition decide to allocate an individual bonus to a Regional Director, who achieves the double of the target stated in the performance contract. However, the total bonus amount cannot exceed 25 percent of the basic salary.

The performance contract is composed of four main groups of indicators, which relate to the fifteen percent bonus as follows:

- “Hard”/numeric results (40%)
- Horizontal management (20%)
- Human Resource Management results (20%)
- Strategic results (20%)

Each indicator group is sub-divided into a set of goals. In order to maintain the economic incentive one goal should not account for less than 10%.

In the current system a “menu” of **hard indicators** comprising more than 100 different goals is drafted by the Chairman and agreed with the Regional Directors. The list is edited with new targets each year. The Chairman selects 4-5 targets from the menu for each office and the Regional Director and his deputy - as they are covered by the same contract - select another 4-5 targets. The number of targets depends on the size and the tasks of the Regional office. This approach ensures local ownership and commitment to the targets. At the same time it allows top-management to target priority areas in the contract.

Among the hard indicators are

- Number of audits in specific sizes of enterprises,
- Revenue turnover audited,
- Number of controls distributed on different well defined audit types,
- Number of audits and turnover in specific tax types and also
- Revenue collected and the development of arrears.

To avoid adverse behaviour disputed claims are deducted from the amounts before calculating to bonus. The claim can be added to the revenue collected in the year where the case is settled. Other indicators are response time to correspondence from the public, size of different productions etc.

The second main indicator type, **horizontal management**, is related to the re-insurance of the bonus contract that is agreed between the Chairman of the Revenue administration and the Ministry of Taxation. If the Chairman reaches his contract goals the Regional Directors will obtain their 20% of their contract bonus. If the Chairman does not reach his goals, the bonus of each Regional Director will be regulated correspondingly. This target is introduced to provide each Regional office with an incentive to consider both the common targets and the targets for each office.

The next 20 percent is related to the **HRM indicators**, which are divided into two goals of each 10 percent. The aim is to design goals that balance each other. In 1999 the two goals were:

- Reduction of sick leave
- Staff survey results.

All goals are measured on a scale that ranges from - 50 to + 100 as in the following example:

-50	-25	0	+25	+50	+75	+100
Result more than 5 percent worse than last year	Result 5 percent worse than last year	Same result as last year	Result 5 percent better than last year	Result 7.5 percent better than last year	Result 10 percent better than last year	Result 15 percent better than last year

A Regional Director, who reaches a result that is 7.5% better than last year, obtains a performance payment for this goal that is 50% of the 10% allocated for this goal. The factors can be individually designed in accordance with the local context, as it is easier to improve the sick leave level where it is relatively high, than a low sick leave level that can only be marginally improved despite considerable effort.

The last type of indicator is related to the **strategic work** at the regional level. For 1999 the score of each Regional office in the EFQM model was the basis for the calculation of the performance pay. The scales were designed individually in accordance with the current performance level of the office. In 2000, the main indicator relates to the local implementation of the revised strategy for the entire Revenue administration.

Generally, it is not possible to re-negotiate during the year. A lesson learned during the first year is that it is very important to phrase the indicators very carefully and precisely to avoid misunderstandings to arise during the year.

Mechanisms for measuring

By the end of each year each Regional Director produces a self-assessment in which he accounts for the results. Most results are sufficiently documented in internal statistics that are available on both central and local level, but others must be negotiated. An example is the assessment of the score in the EFQM self-assessment, which is not always agreed on easily.

Implementation and Future plans

The present bonus system is now in its third year and has from the second half of year 2000 been applied to all managers in the Revenue Administration. The Regional Director re-insures his own contract with his managers as the Chairman does with him as described above. To promote horizontal management each line manager has at least two goals in common with a fellow manager.

The experience of the first two years shows that most managers reach their "hard" goals. In order to vary the bonuses even more, it is considered introducing tougher goals and more individually adapted goals in this area from 2002.

During the coming year a similar system is expected to be introduced to staff at all levels.

Case understood in Performance Management perspective

When viewing the Danish case example in relation to the chapter on Performance Management Systems, it is clear that one of the main challenges resists in the definition and setting up of performance indicators that are manageable and measurable, without creating a heavy administrative and monitoring structure. The indicators should allow for a balanced set of objectives, and not only focus on productivity, as this can have negative impact on the quality and thereby legitimacy of the administration as a whole.

Among the components of the case, which we would like to emphasis, are:

- The close link to the organisational strategy and the overall objectives.
- Continual refinement of performance measures as a reaction to changes in strategic goals and areas.
- Mechanisms established to counteract perverse incentives:
  - → Bonus allocation not dependent on whether money is collected from or paid to enterprises/citizens.
  - → Disputed claims deducted in bonus calculation until the case is settled.
- Attention to the need for a balanced portfolio of PIs:
  - → Usage of EFQM-model.
  - → Combination of numeric results, cross-organisational behaviour, and HRM results.
- Establishing a focus in the set of indicators by selection of targets in a number of priority areas.
- The incorporation of self-assessment giving the Regional Director the possibility to clarify and elaborate on results, reducing the risk of the system being perceived as unfair.

- Awareness of the need for a balance between realistic and challenging performance targets and for a continual adjustment of these.

Albanian Customs Service

Organization

The Albanian customs Service (ACS) has approximately 1020 employees, including supporting and technical staff. Of these are appr. 175 employed in the special Anti Smuggling Teams. Employees are categorized in accordance with the general civil service regulations (from A1 to D2).

The ACS is composed of a General Directorate (part of which is the Operations Department), 5 Regional Directorates and 17 Customs Houses.

Motive behind the bonus system

The appraisal system of the Albanian Customs Service (ACS) was introduced in the latter part of 1999 and the early part of 2000 in a collaboration between the ACS, the Ministry of Finance and the European Unions Customs Assistance Mission to Albania (CAM-A).

A consequence of the dramatic economic development of Albania in the mid-90's, the *motive* behind the appraisal system was quite clear: There was a very strong need for securing public revenues of a much more substantial size the had so far been the case, and there existed a general impression that the revenue collection of the customs service in particular could be made considerably more effective – partly due to an inefficient organizational setup, partly due to lack of motivation and incentives among the employees, partly due to corruptive behavior among the employees.

The appraisal system consists of two separate systems:

1. The general appraisal system (1.1.3)
2. The special bonus system (1.1.4)

The general appraisal system

Evaluation parameters

Once every year all employees of the ACS (except supporting staff) are evaluated by their superior officers. The performance of the individual employees is classified in one of four categories:

1. "Very good"
2. "Good"
3. "Generally sufficient"
4. "Unsatisfactory"

The classification is made in relation to a specific number of *objectives* for each job category in the ACS. Typically, each job category includes 4 or 5 objectives, relating to performance (competencies, social behavior, effectiveness etc.). The objectives do *not*, however, include targets for revenue collection, as this is deemed operationally impossible (difficult to measure and too dependant on contingencies).

These objectives are often common for the job categories, but they may also include specific short or long term objectives. The objectives have been elaborated by the various heads of departments in the ACS and they are reviewed on a regular basis. It is important to notice that the objectives are *individual* in character – they do *not* relate to (for instance) the performance of an entire department or an entire regional office.

It is a principle in the appraisal system that it includes *all* categories of staff, including middle and top management. Job descriptions, matching objectives and evaluations are, therefore, also made for the upper job categories (A and B).

Evaluation process
The evaluations of the employees are made once every year. The evaluations are made by the immediate, superior officer (the "reporting officer") on a pre-made formula, where the objectives of the various job categories are printed.

The reporting officer's evaluation is then assessed further up the hierarchy by a "certifying officer" (for instance a department head in the ACS or a director of a regional directorate). *This* second assessment is further assessed by a third party (the "authorizing officer"), typically by the director of the ACS.

The individual employee is always given a copy of the evaluation report, and must sign this before it is sent on. In cases where the employee is not satisfied with the evaluation, there is an opportunity to appeal the decision to the head of the personnel department in the ACS.

Bonus payments
Bonuses are distributed in accordance with the four classification categories:

Classification	Bonus
"Very good"	9 months' extra salary
"Good"	5 months' extra salary
"Generally sufficient"	4 months' extra salary
"Not sufficient"	0

If an employee is deemed “not sufficient” in two succeeding evaluations it means the dismissal of that employee.

Out of the total amount that is set aside for the bonus payments, a third can be spent on each of the three bonus categories in each unit of the ACS.

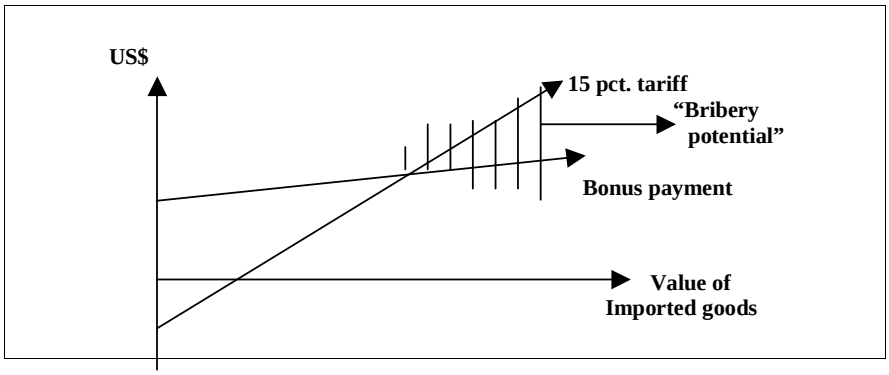
The bonus system accounts for approximately one third of the entire amount of wages in the ACS in 2000 (millions LEK):

	1999	2000
Bonus, amount	96,9	194,4
Basic wages, amount	252,2	315,7
Total wages, amount	349,1	510,2

The grants for the bonus systems are given as part of the general grant to the ACS, not as a percentage of collected revenue.

The bonuses are quite large compared to the basic salary level (not only the basic salary level of the ACS but the general level of the civil service in Albania). This has been a very deliberate decision by the CAM-A, the ACS and the Ministry of Finance (which is the responsible ministry and which has provided the legal base for the appraisal system) – the levels of the bonuses are constructed in such a way that they should in reality be able to “compete” with the levels of bribery that an “average” customs official can expect to receive.

The underlying assumption is that there will always exist a “break even” point above which it is no longer remunerative for an importer to pay out bribes in comparison with the duty that the importer avoids to pay. This assumption will – for obvious reasons – only apply in a limited number of cases; in the case of an import of a large amount of expensive goods, it will require a unrealistically large bonus to “compete” with (for instance) the 15 percent duty tariff that the importer can save if the goods are not declared. This simple principle can be illustrated in the following way:



Special Bonus System

The Special Bonus System complements the general system in a number of ways. The system is based on a *quarterly* evaluation of the individual employees and their performance in relation to the objectives of their respective job categories, but on a *short term basis*, and a special bonus – ranging from 1 to 4 extra monthly salaries – can be awarded the individual employee.

The procedure is in more ways similar to the procedure of the general appraisal system: The evaluation has to be performed by the immediate superior officer, and two other superior officers have to agree to the evaluation.

There are some restrictions connected to the special bonuses:

- The special bonus must at the most make up 20 percent of the total salary for each employee during each 3 month period
- A maximum of 50 percent of the employees must receive a special bonus during each 3 month period.
- Decisions in relation to the special bonuses cannot be appealed.

The names of the recipients and the size of their bonuses are published quarterly to the entire staff of the ACS.

Effects of the appraisal systems

As mentioned above, it has been a deliberate decision by the ACS not to establish any direct link between the bonus system and the individual performance in relation to key targets (such as revenue collection or number of frauds detected).

It is, therefore, somewhat difficult to make any precise estimates of the actual effects of the bonus systems in terms of performance or reduction of corruption.

As previously mentioned, the immediate object of the appraisal system was an *overall* improvement of the performance of the ACS in terms of revenue collection. The numbers for the revenue collection certainly seems to indicate that an increase in performance has taken place in the past few years:

	2000	**2001**
Revenue collection *Target*	+ 20 pct. higher increase from 1999	+ 11 pct. higher increase from 2000
Revenue collection *Result*	+ 33 pct.	+ 15 pct. per May 1st

Again, the degree to which this significant increase in revenue collection is due to the appraisal systems is very difficult to estimate. In the opinion of CAM-A, the increase is *not* due to a general increase in imports (i.e. an increase in the potential duty *volume* as such), which might otherwise explain the increase.

There is no evidence available as to the actual geographical spreading out of the increase in the revenue collection, nor as to any possible link on a regional basis between the spreading out of the revenue collection and the spreading out of the bonus payments. Similarly, it is not at present possible to determine exactly which groups of employees have contributed how much to the increase in revenue collection – or, for that matter, how the performance of such groups might correlate with the distribution of bonus payments.

Basically, there is only "circumstantial" evidence available in terms of the effects of the appraisal systems:

- The increase in revenue collection correlates fairly precisely with the introduction of the appraisal systems.
- There has been a significant decrease in the number of *corruption charges* within the ACS (there has not been one single case brought before the internal Disciplinary Committee the past 12 months).
- According to CAM-A, there is ample anecdotal evidence from the *importers* in Albania that the there has been a significant change in the "mentality" of the customs officers during the past one and a half years.
- According to the employees' organizations, there exists by now a widespread acceptance of the appraisal systems among the employees of the ACS – documented (partly) by a significant decrease in staff turnover and by the fact that there are very few complaints and appeals regarding the actual bonus payments.

Assessment of the bonus system

The assessment of a system such as the Albanian appraisal system should always be based on the *original* objectives of the system. As mentioned previously, the paramount motive behind the appraisal system was to increase the national revenue collection due to the serious financial situation of Albania in the mid-90's. Judging from this objective, and from the revenue collection results of the past few years, the objectives of the system seems to have been met.

Another approach to the evaluation of the system, however, is a more close examination of the individual components of the system in

relation to the experience that has been collected from other such systems.

Size of bonuses

As mentioned previously, one of the basic philosophies of the Albanian appraisal system is that in order for the system to have any *actual* effect, it must be able to make an actual *difference* for the employees that are part of the system. To that end, the appraisal system operates with individual bonuses that may result in quite significant improvements in the individual salaries – an individual employee may in fact receive up to a 75 percent increase in annual salary in any given year. This will, of course, only apply in a few instances – but considering the fact that the *total* sum of bonuses available makes up more than 1/3 of the total salary available, the bonus amount that is available to the *average* employee is still quite considerable. According to the employees and their organizations, this amount is certainly sufficient to make a difference in terms of incentive and in terms of behavioral change.

One of the main consequences of this principle is, obviously, that the general grant to the ACS to salaries is considerably larger per employee than that given to other departments in the civil service. Apparently, the Ministry of Finance in Albania was prepared to accept this consequence, based on the assumption that an effective revenue collection is a basic condition for any other part of the civil services to perform. The introduction of the ACS-system did, however, create some dissatisfaction among management and employees in other departments, and without the continuous backing from the Ministry the impression is that this dissatisfaction could have prevented the system from being fully implemented.

Retainment of employees

Part of the general reform of the ACS was the introduction of a new recruitment policy that was intended to meet two different demands: Partly a solution to the – up till then – very significant degree of staff turn over through a more selective recruitment process, and partly a solution to the problem of nepotism that was sometimes taking place in the recruitment of customs officials.

According to CAM-A, one of the objectives of the appraisal system was an attempt to create a more stable organization that was able to maintain and build up the competencies of its employees.

The new recruitment policy (a central recruitment performed by a recruitment board with external participation) in combination with the new appraisal system seems to have met these requirements (although it is somewhat early to make any precise judgments). There is probably no doubt that a central recruitment process involving

external participation will to a large degree counteract nepotism. In terms of retainment staff turn over has dropped from 33 percent in 1998 to under 10 percent in 2000.

It is difficult to assess whether the bonus system has had any direct effect on the retainment of employees. According to representatives of the employees, the salary level of ACS is now able to compete with the salary levels of comparative private sectors (such as law firms, accounting firms and consultancy companies). It should however be noted that these sectors have never been very dominant in Albania and that salary levels in the private sector in Albania in general are not significantly higher than levels in the public sector.

Evaluation criteria

The individual evaluations – and the bonuses – are based on the employees' performance in relation to the 4-5 objectives that are attached to each job category description. These objectives are quite qualitative and often quite general in nature, and performance is therefore difficult to measure precisely.

Such evaluations will always raise questions regarding the consistency of the evaluations from one evaluator to another. Likewise, when the performances are not measured against objective indicators, there will often be a tendency for the evaluating officer to over mark his employees – either out of good will or because the performance of the employees to some degree reflects the performance of the manager himself.

During the implementation of the appraisal system the CAM-A was aware of these problems, and a comprehensive effort was made to "educate" the managers centrally and regionally in the functioning of the evaluation system, and in particular in the way the performance in relation to the job objectives should be transformed into the bonus system.

In a recent review of the implementation of the appraisal system, CAM-A notes the following problems in relation to the use of the evaluations in ACS:

- There has been statistically significant variations between the various locations of the ACS in the use of the various markings. The categories "very good" and "good" were used fairly consistently, but only four customs houses used the category "unsatisfactory performance" – indicating inconsistent standards.
- In 159 cases out of the 817 that were examined, an amendment to the original evaluation was made by either the certifying or the authorizing officer, and in only 11 of these cases the

amendment was to a higher marking. This *could* indicate that markings are generally too high.

Transparency

Another basic cornerstone in the Albanian system is the attempt to create a system that is as transparent and just as possible by reducing the potential abuse of discretionary power by the superior officers and management. This is attempted through the use of the following means:

- The "triple evaluation" described earlier (a reporting officer, a confirming officer and an authorizing officer).
- The opportunity for the employee to see his/her individual evaluation report and to comment on it
- The Appeals System
- The publication of names of recipients of bonuses

According to the ACS and to CAM-A, a number of approaches to the problem of discretionary power were discussed before a decision was made to recommend this system. A more "direct" approach, where the evaluation criteria consist solely of objective performance indicators, was dismissed, partly due to the fact that such a system requires constant measurements of performance that the ACS is not presently able to produce, and partly due to the fact that the ACS (as mentioned9 do not believe that a direct link between individual performance in terms of revenue collection and bonuses is fair.

The present system of a "triple evaluation" does have its shortcomings, of course:

- First of all, lacking direct, objective evidence of the individual employees' performance "in the field" it will be very difficult for the final, authorizing officer (stationed in the central General Directorate) to form any *personal* opinion on the evaluations that he receives from the regional offices and from the customs houses.
- Secondly, viewing the system as part of an anti-corruption tool, such a system does therefore not necessarily prevent the reporting officers from abusing their discretionary powers – but such an abusive behavior does, on the other hand, require some sort of "cooperation" between the employee and his/her superior officer.
- Thirdly, the "appeals system" that shall give some protection for the individual employees, seems inadequate – particular in light of the fact that the Director General, who is the "authorizing officer" in most instances, is superior to the Head of Personnel, who is given the charge of judging the appeals.
- The review of the system by the CAM-A reveals that in 387 cases out of the 817 that were examined the employees were

not shown the evaluation reports – indicating problems in relation to the transparency and openness of the system.

In general, in view of the lack of more objective performance indicators, a consequence of the present is that it relies heavily on a large degree of *trust* in the middle management level (the reporting officers) that make the initial evaluations.

Legitimacy

The legitimacy of appraisal systems have often proved to be a deciding obstacle in the implementation of such systems – if the bonus systems are not believed to be fair or efficient among the employees, it will not produce the desired results, and the behavior of the employees will not change significantly.

In the Albanian case this has *not* appeared to be a problem so far. As previously mentioned representatives of the employees expressed a strong belief in the system and in its capability of changing the behavior of the customs officials – partly due to the amount of bonuses that are paid out, partly due to the (relative) transparency of the system.

The initial draft of the system was made by a working group with representatives of (among others) the various staff groups. The regional directorates and the local customs houses were given an opportunity to comment on the draft, and a number of workshops were conducted to finalize the draft. Employees' representatives and local representatives express the opinion that they felt that their comments were listened to and taken into account. So in general, this process indicates a fairly high degree of involvement, which will normally indicate a fairly high degree of legitimacy.

Morocco: Customs Service

Organization

The Moroccan Customs Service (ADII) is part of the Ministry of Finance and Economy. It is organized in a Central Administration (4 directorates, 11 divisions, 640 employees) and in 7 regional offices (40 Customs Houses, 4080 employees) – a total of 4720 employees.

Motive behind the system

An appraisal system has been in function in the Moroccan civil service for quite a large number of years, and has changed its features regularly. The bonus system in the ADII is a relatively new invention, however.

According to the ADII, there were a number of motives behind the establishment of the bonus system. The primary reason was to *motivate* the employees to perform more effectively through the use of regular evaluations in combination with the possibility of earning bonuses. Another motive was the wish to limit corruption among staff, particularly in the local Customs Houses.

The bonus system is unique to the ADII and was thus not part of a general civil service reform.

Description of the appraisal system

The general salary system

The general Moroccan public service salary system is a "traditional" grid composed of 12 scales and 10 levels within each scale.

The placement in the grid of an individual employee depends in part on educational level and in part on seniority. Movement within the scale depends in part on seniority, and in part on the annual *Appraisal* that is made of every employee in the civil service. Employees are appraised by his/her superior on a scale from 0 – 3 on the basis of three criteria:

- Output and effectiveness
- Professional knowledge
- Comportment

The average score determines the rapidness of the employees' movement from one level to another, according to a pre-set standard.

The bonus system

The basic part of the bonus system in the ADII is the so-called "Bonus Grid", where bonus levels correspond exactly to the above-mentioned, general salary grid. Thus, for every scale and level in the salary grid there is a corresponding maximum bonus payment:

Scale/ level	1	2	3	4	5	6	7	8	9	10	Excep-tional
2	3070	3140	3200	3330	3470	3600	3790	3990	4190	4450	0
3	3890	3970	4050	4220	4390	4560	4810	5060	5310	5660	0
4	4100	4180	4320	4480	4650	4900	5160	5410	5760	5990	0
5	4570	4660	4780	4960	5200	5450	5700	6050	6290	6630	0
6	4750	4860	5050	5280	5530	5790	6130	6370	6720	6910	0
7	4960	5140	5380	5630	5880	6230	6460	6810	7010	7220	0
8	6960	7110	7260	7560	7870	8170	8630	9080	9540	10160	0
9	8150	8330	8510	8870	9220	9580	10110	10650	11180	11890	0
10	8850	9050	9240	9630	10020	10410	10990	11570	12150	12910	13290
11	9260	9470	9680	10100	10530	10990	11620	12260	12910	13700	14130
12	14130	15400	16030	16670	17300	0	0	0	0	0	0

The Bonus Grid (amounts in dirhams. 11 dirhams = 1 US$)

Evaluation process

Twice every year, each employee of the AIDD is evaluated by his/her immediate superior. Evaluations are made on pre-made forms and must be approved by a hierarchical superior. The "evaluation hierarchy" most commonly used is the following:

Customs official → Head of office → Head of division → Director

The individual employees shall be given a copy of his/her evaluation report, and they may contest the evaluation to either the regional director or to the central director. There is a second appeals possibility to the General Director.

The evaluation is made on the basis of 5 pre-set **criteria**:

- Overall output
- Professional knowledge
- Work quality and team spirit
- Sense of responsibility
- Assiduity

According to the ADII, this represents a mixture of partly *objective* criteria (output) and partly subjective criteria (knowledge, quality, responsibility and assiduity). According to the ADII, they are today (at least to some degree) able to measure the output (such as number of clearances or work process time) of the individual employees. Such measurements are not made public on an individual level – only on an organizational level (each Customs House or Region) – but are known to the superiors that perform the evaluations.

For each criterion the employee is given a grade point from a 1 – 10 scale and an average score is computed. This average score corresponds to a percentage of the maximum bonus amount expressed in the bonus grid, as shown in this table:

Score obtained	Percentage of bonus
10 (excellent)	100 %
9 (very good)	95 %
8 (good)	90 %
7 (quite good)	80 %
6 (acceptable)	65 %
5 (average)	50 %
4 (mediocre)	45 %
3 (poor)	40 %
2 (very poor)	20 %
1 (null)	10 %

Any evaluation below grade 5 must be justified in writing by the superior officer.

The bonus is paid out bi-monthly.

Effects of the appraisal system

The general performance evolution of the ADII may be illustrated with these figures:

Year	Custom taxes and duties	Seized goods, value	Customs declarations
1997	33624	774,8	n.a.
1998	34391	631,8	481148
1999	34998	854,4	530138
2000	36090	1369,2	588638

Likewise, case processing time in relation to customs declarations has been reduced dramatically from 1998 to 2000.

According to the management of the ADII, it has never been a principle objective of the bonus system to counteract corruption. It may well be a "positive side effect", but it is generally believed that corruption in revenue departments represent much more fundamental, structural problems, and that bonus systems cannot in terms of rewards for the individual "compete" with the level of bribes that are in effect today.

In terms of *organizational effectiveness* and *individual behavior* there is no doubt among management or employees at the ADII that the bonus system has made a considerable change. There are no data available to document the extent to which the Moroccan bonus system has *directly* influenced the actual performance of the ADII, neither in terms of organizational or individual performance. Yet judging from overall production data, and judging from statements by the importers in Morocco, there is no doubt that the actual organizational effectiveness of the ADII has increased significantly during the last five years. The ADII is now being highlighted by the government as a "case example to be studied by other agencies". Within a relatively short span of years the ADII has moved from "low status to high status", not just within the government sector as such but also in comparison with a large part of the private sector in Morocco.

This is documented by the fact that recruitment patterns to the ADII have changed significantly during the last five years. The ADII is now recruiting extremely qualified employees from – among others – other government agencies, from the private sector (such as banking and accounting sectors) and from Moroccans who have otherwise left Morocco for higher salary levels in other countries. It is evident that salary levels in the ADII are now higher than those in other

government sectors and that they are now able to compete with private sector salaries.

Assessment of the appraisal system

As mentioned above, there are no direct evidence that links the performance of the ADII (or parts of it) to the bonus system as such. The system should, therefore, also be judged on the various components of the system.

Size of bonuses

It has been a basic principle of the ADII that in order for the system to perform, the bonuses must have a sufficient size to make an actual difference for the individual employee. The sizes of the bonuses are in fact significant compared to the base salary, even if an individual employee only receives for instance 50 percent of the possible maximum bonus.

It is, in fact, a curious facet of the bonus system that even when an employee receives a very poor evaluation by the superior, this employee may still receive a substantial bonus (for instance, the score 3 – "poor performance" – still qualifies the employee to receive 40 percent of the maximum bonus!). The ADII defends this by referring to the widespread criticism that existed before, where the differences between large and small bonuses were thought to be too large by the employees.

Compared to the private sector salaries, public sector salaries in Morocco are not quite competitive (according to figures from the Ministry of Finance). With the addition of the bonuses, however, an *average* salary in the ADII *does* in fact become competitive with comparable private sector salaries. Combined with a fairly high degree of unemployment in Morocco, this obviously makes the prospect of not just keeping one's job but also performing well all the more attractive. According to the employees of the ADII, this is a crucial explanation behind the overall performance of the ADII over the past five years.

Bonuses are granted on the annual fiscal budget, not as part of the revenue collected by the ADII. In previous years, the collected amount of bonuses to the ADII meant that other government agencies criticized the system strongly, feeling that the salary differences between the agencies were becoming unfairly large. According to the

ADII and the Ministry of Finance, this criticism has slowly evaporated as the ADII has been able to document increased effectiveness in the revenue collection. It is the impression, however, that without continuous backing from the Ministry of Finance, the bonus system would have created quite serious conflict between the ADII and other branches of government.

Retainment of employees

There is no doubt that the bonus system – as described above – has had a very tangible impact on the recruitment and retainment of employees in the ADII. Numbers of applications to vacancies has risen dramatically, and turnover of staff has fallen dramatically. It is a general belief that the quality of the applicants has risen steadily as well.

Evaluation criteria

The bonus system of the ADII is based on individual performance only. There are no bonuses connected to institutional performance, in terms of productivity or output. Various production targets are set, both centrally and locally, but these are not broken down to individual levels as such.

The implication is that such a bonus system is in many ways quite *vulnerable*, as it relies heavily on the ability of middle management to evaluate employees. As described above, the ADII is in fact able to measure individual performance to some extent – but this is not (yet) done according to pre-set performance targets.

Judged on their own merits, the evaluation criteria are fairly transparent and manageable. The evaluation is based on five standardized criteria, ranging from “objective” performance to assiduity.

There is, however, a very large *discretionary* element built into this system – the individual performance is still based on subjective evaluations by the immediate superiors. This may cause at least two sets of problems (as in all such systems): Middle management may either abuse the system to “punish” employees, or they may – at the

other extreme – bow to the pressure of their employees and in fact reward higher bonuses than are actually deserved by the employees. A third problem may arise from the fact that the evaluation criteria are perceived and thus used in very different ways by the various superior officers. In all instances, the system is perverted in the sense that it does not reflect actual performance.

The ADII has attempted to meet these challenges in several ways:

- The Human Ressource Department of the ADII has made a considerable effort over the past few years to educate local and regional management in the correct implementation of the bonus system, and courses are still held twice a year, in order to secure a fairly homogenous perception of the evaluation criteria.
- A HR-function has been established at every regional office in order to support the system.
- The central personnel office performs regular statistical surveys of the evaluations of the regional and local offices. Among other things, they perform what is termed a "conformity control" – i.e. whether there are any suspicious variations from one period to another or from one local office to another.
- The individual evaluations must be approved by a superior officer (head of division, regional director or Director General).
- Management on practically all levels of the ADII are rotated on a very regular basis (3-4 years) in an attempt to prevent nepotism. Rotation is done both geographically and functionally.
- An appeals system, which has been approved by the unions, has been put in place.

The experience thus far is somewhat mixed, yet management and employees at the ADII do not consider perversion of the bonus system a major problem. One indicator is that there have been instances where upper level management has changed the evaluation of immediate superiors, indicating that the approval by superior officers is not just a formality (but perhaps also indicating that evaluations are

in fact in some instances abused by immediate superiors). Another indicator may be the fact that there has been no inflationary development in bonuses over the last years, indicating that management does not bow to pressures from employees.

It remains also a fact, however, that the bonuses that are actually paid out are in fact quite high in almost every part of the organization. This may not in itself suggest a problem - either because such high numbers may in fact reflect a high performance or because the overall objective of the system – organizational effectiveness – is in fact met. But the very high average rate of bonuses may on the other hand also indicate that bonuses are used *not* as part of a performance system but rather as part of a general salary policy (as is the case in other systems, such as Brazil).

Legitimacy

Studies and interviews in relation to the Moroccan system indicates very clearly that the bonus system is based on a very high degree of legitimacy among the management and the employees.

Employees and union representatives express concurrently a very large degree of satisfaction with the system, and according to the ADII, very few complaints and appeals have been received. This may of course be explained by the fact – as described above – that the average bonus levels are very high, and that almost every employee of the ADII thus benefits from the system.

Latvia

Organization

The State Revenue Service (SRS) was established in 1995 when the former tax and customs authorities were merged. Until 1999 SRS was only merged at Headquarters level but since 1999 three integrated regional units were formed as a pilot-project. 1st January 2001 SRS employed 4.660 staff of which app. 800 were employed in the Headquarters. SRS collects Value Added Tax, customs and excise duties, enterprise taxes and social insurance contributions.

Motive behind the bonus system

The bonus systems were introduced as a part of a general salary policy. SRS is a young organisation in a young country with little administrative tradition. The system has been revised a couple of times since it's introduction and a new general salary system for the entire public sector is planned to be introduced in one or two institutions early 2002 depending on available budget resources and subject to acceptance of specific application rules later 2001.

While the Cabinet of Ministers fixes the basic salary levels for each public institution, the bonus system is decided and designed by SRS in cooperation with the Ministry of Finance. The trade union has little or no influence on the bonus system. Trade unions are represented on a Board, which settles bonus disputes of which there have only been very few. This indicates a high acceptance of the bonus system. The trade union in SRS focuses on the increase of the minimum salaries and the basic salaries. It is broadly recognised that the budget available for both basic salaries and bonuses, is far too short.

Although fight against corruption and increased efficiency in the public sector are both high on the political agenda in Latvia, these issues were not among the main drivers for introduction of the bonus system.

Description of the bonus system - 1998 and 1999

In 1998 and 1999 20 percent of the additional revenue relating from audit, post clearance control, and other audit measures were added to the SRS budget and was used for bonus payments. First a distribution was made among Headquarters and all offices in accordance with agreed shares. A Commission within SRS decided how the bonus budget was shared and could decrease the proportion of bonus for one office if the collection of additional revenues was below expectations.

The bonus amount was paid to staff in accordance with their individual contribution to the result and in addiction to each month's salary. The system was heavily criticized by lobby groups in the Parliament due to the direct link between the tax or customs inspector's revenue performance and the inspector's private economy.

Description of the current bonus system

In the budget law for 2000 and onwards a fixed budget line is made available for bonuses in SRS. The financing of the bonuses through the direct link between extra revenues and performance bonus was thus replaced by a fixed amount for bonus payments that does not fluctuate with or reflect the actual performance. It can be used to reward a broader variety of achievements. This resulted in a massive decrease of available bonus budget. In 2000 the bonus was reduced to 45 percent of the comparable bonus amount in 1999. As a result of the lower bonus budget, bonus is now only paid four times annually.

A new bonus scheme was drafted which in addition to extra revenue performance included performance in accordance with an agreed activity plan. The new bonus system includes all staff and managers under SRS, including IT staff and the Financial police. The overall activity plan originally included 12 areas which is now reduced to 7:

1. Revenue performance in accordance with the Ministry of Finance budget
2. Number of submitted and processed returns
3. Amount of enforced collections
4. Number of audits and controls
5. Turnover audited
6. Number of physical vehicle-inspections with positive result
7. Taxes and penalties resulting from post clearance audits

Prior to each budget year, each office negotiate their proportion of the annual overall targets. While the abolished system rewarded extra revenue collections relating from audits, the new system focus at rewarding each office's ability to meet regular budget revenue targets from compliant taxpayers and importers.

Among the abolished action areas are: number of client consultations, thematic controls, and amendments to software and number of detected errors in customs declarations. Special follow-up systems have been designed to keep track of performance against these criteria. The new system reduces management's possibilities to pay discretionary bonuses.

The amount available for bonus is shared between Headquarters, regional and local offices. Each unit's bonus is related to its current performance. Each office is responsible for the distribution among

their staff and can decide their own objective sharing criteria. They can develop additional criteria. Most commonly, each office shares the bonus in accordance with the seven overall criteria which are used to share the total bonus amount between the offices. Trade unions does not regard this an issue and practically all managers can therefore decide upon their own criteria. All bonuses are decided upon individual performance and there are no group based bonus systems in force.

SRS staff receives several additional payments and benefits. SRS pays 27% of all salaries in social contribution. Although this is a legal requirement, not all private enterprises pay their dues in accordance with the legal obligations and it is therefore considered as a benefit.

In the total bonus budget is included monies for other benefits. This amounts to up to10% of the available bonus budget and will over the years decrease to 7%. These are:

1. Remuneration for seniority. This amounts to 30% and 40% for staff with more than five and ten year's employment.
2. Contribution to funeral expenses
3. Contributions to pay for particular high medical expenses - up to 50% of the expenses.
4. Bonus for 50 and 60 years birthday
5. Bonus for childbirth amounting to 6 times the monthly salary
6. Holiday benefits
7. Insurance benefits

In addition staff are paid for extraordinary anti-smuggling achievements, which cannot be measured against the revenue targets. Such benefits vary from 100-200 ls/$159 - $318.

Staff in SRS has 12 extra holidays. Further they have one holiday on children's first day in school until the child reaches 10 years of age, holidays when close relatives die, holidays for first marriage as well as possibility to have paid leave for studies. These benefits apply for SRS staff only.

Effects of the bonus system

The bonus system and the number of SRS-specific benefits are seen as assets in the recruitment program. SRS does not collect or hold productivity data that can be related to changes in the bonus system. However, it is commonly recognized among high-level managers, the union and the Ministry of Finance that previous and current bonus systems due to the limited funds available have little or no effect on effectiveness and efficiency. The trade union suggests that

performance levels are influenced by inflation as staff is de-motivated by the devaluation of the salary.

19% of the employees in SRS are satisfied with their bonus and salary, 66% are satisfied with the training and study programs while 46% are satisfied with the social guarantees. The customs branch of SRS has decreased its staff turnover from an all times high 54% in the late 90'es to 6-10% in 2000.

SRS does not expect current or future bonus systems to have much impact on corruption levels. Current and foreseen salary levels cannot match potential illegal payments to SRS staff. A survey (carried out by the Chamber of Commerce) indicates that corruption is a problem in the Customs service in particular at the border. Approximately 8 percent answered that they had paid bribe or were asked for extra payments from customs officers. SRS estimates, however, that the level of corruption has decreased during the last couple of years. The number of detected cases has decreased and the current annual total of disciplinary steps against staff is app. 200.

SRS works with a number of anti-corruption measures such as a Code of Ethics, high level of training (under the training program 600 of 1,700 customs staff has received training at the Riga Technical University, several have master degrees in customs and currently two staff are working on a doctors degree), fairness programs and focuses on changing the institutional culture. A survey shows that SRS is considered to be the best Government institution in facilitating relations for business.

Assesment of the bonus system

Size of bonuses

Different public institutions have different salary scales. The basic monthly salary for employees in SRS is between 83 Ls and 368 Ls ($132 to $584) depending on charge. This range is typical for the public sector although ranges in other administrations are a little lower and some is slightly higher. Lowest is the Ministry of Interior with a basic salary from 42 Ls to 239 Ls. ($67 to $379). Highest range lies between 120 Ls and 600 Ls ($190 to $952). The basic salaries do not mirror the actual total salaries as bonus structures etc varies between the institutions.

There is no reliable data available on salary levels in the private sector. A minimum salary rate is fixed by the Government. The minimum salary is currently 50 Ls ($79) and will as off June 1st 2001 be raised to 60 Ls ($95). According to official statistics collected on social benefit contributions, about 60% of the Latvian workforce receive a salary corresponding to the minimum salary. Exit interviews with employees from the SRS indicate that the private sector pays

between 3 and 5 times the salaries of the public sector. Some employees receive salaries up to10 times higher when they leave the SRS.

Thus, in terms of making the total salary level of the employees competitive with the private sector levels, or (as has been described) competitive with illegal payments, the average size of the bonuses is not sufficiently high. This must be considered the fundamental, structural problem of the system.

The Latvian system is based almost solely on objective performance criteria, broken down from institutional performance to individual performance, and special follow-up systems have been designed to measure performance against the targets at each level of the organization.

Thus, the risk of discretionary abuse has more or less been avoided. And the study certainly seems to suggest a high degree of legitimacy in this respect – employees and the unions seem to accept the premises, the processes and the transparency of the system.

Brazil

Organization

In Brazil, individuals, corporations and goods and services are taxed by federal, state and municipal governments. Federal taxes are administered by the Secretaria da Receita Federal (SRF) at the Ministry of Finance. State and municipal taxes are administered by the local counterparts of the SRF; social security and medicare taxes are administered by the National Institute of Social Security (Instituto Nacional de Seguro Social, INSS) at the Ministry of Social Assistance.

There are 110 tax agencies in the country: one central agency, ten supervisory regional agencies and 99 local agencies.

The bonus program I: Variable Additional Compensation (RAV)

In 1988 the Brazilian government created a bonus program to compensate tax officials for their efforts in collecting taxes and uncovering tax violations. The bonus paid to tax officials was called Retribuição Adicional Variável (RAV). An executive committee, called Comissão de Administração da Retribuição Adicional Variável (CRAV), was created in March 1989 to manage the program. The CRAV not only established the goals to be implemented by each tax agency, but also supervised and evaluated the performance of each tax agency.

The program, effective in August 1989, paid bonuses on a monthly basis with revenues raised by the collection of fines imposed for noncompliance with tax provisions. The program's monthly revenues were equal to the difference between the total amount of fines collected during the month, properly adjusted for inflation, and the part of this total which is transferred to states and local governments. The program's monthly revenues were deposited in a fund called Fundo Especial de Desenvolvimento e Aperfeiçoamento das Atividades de Fiscalização (FUNDAF). FUNDAF monthly revenues were, on average, equal to 68% of the total amount of fines collected.

The RAV (or total bonus) paid to an official was composed of two types of rewards: An individual reward and a group reward. Both types of rewards increased with the amount of fines collected, so both the individual and the group had incentives to increase their productivity. Group rewards were paid with 30% of FUNDAF monthly revenues, while individual rewards were paid with the remaining 70%. The group reward, calculated according to the relative

efficiency of the agency vis-à-vis other agencies in the country, equally compensated all officials within a given tax agency. The 110 tax agencies were ranked according to their performance each month, inducing managers to allocate resources efficiently within the tax agencies in light of the interagency competition.

At the end of 1992 a new law was enacted to establish that a tax official's maximal salary could not exceed the salary received by a top ranked admiral. A top ranked admiral's salary was lower than a minister's salary. The consensus was that a majority of tax officials in the country received bonuses which placed these officials at the wage ceiling. Not surprisingly, the most common complaint was that the maximum allowable total bonus was too low.

Whenever the official's due compensation exceeded the ceiling, the excess was taken away from the official and deposited in his or her name in a mutual fund, denoted 'Contingent Reserves,' which was shared by all tax officials. The official had access to this wage surplus if he/she did not reach the ceiling in one of the following six months. If, however, the official had reached the wage ceiling in every one of the following six months, he/she would then lose the excess wage, which had been deposited in the Contingent Reserves fund, to the collective. Revenues of the Contingent Reserves fund were saved and used as insurance against 'hard times' as well as to finance the collective's joint activities.

From May 1993 to July 1999, when the RAV program was replaced by the current one, each tax auditor was rewarded with an equal amount; this amount being the difference between a top ranked admiral's salary and the highest base salary paid to a tax auditor. Salaries remained variable across tax officials, but only because seniority levels were not the same. Salary differentials, therefore, were drastically reduced; the total salary of a first-year tax auditor corresponded to 85% of the total salary received by a tax auditor at the highest seniority level.

Allegedly, this change in the RAV system was in great part due to complaints from tax officials who worked in tax agencies located in poor regions that their group rewards were very low in comparison to the group rewards received by tax officials who worked in tax agencies located in rich regions. For example, as pointed out above, in June 1992 tax auditors at the tax agency in Porto Belém (a poor region) earned each a group reward that was about 20% of the group reward received by each of the tax auditors at the tax agency in Novo Hamburgo (a rich region). This reward differential was quite significant, since it could have easily meant that a tax auditor's total salary, including the bonus, was 50% lower in Porto Belém than in Novo Hamburgo! Tax auditors located in poor regions complained that wage differentials such as these were unfair because, rather than

reflecting productivity differentials, they simply reflected differences in regional economies. These auditors claimed that most auditors in the country were engaged in similar activities and had similar skills. Hence, they argued that equally productive auditors should receive equal pay whether they work in a rich or poor region.

The bonus program II: Tax Activity Performance Supplement (GDAT)

The moribund RAV program was extinct and replaced by a new performance supplement, called Gratificação de Desempenho de Atividade Tributária (GDAT), on July 1, 1999. Although the regulations that govern the GDAT were publicly announced and made official by Presidential Decree only on March 23, 2000, the new performance supplement started to operate at the SRF in an experimental basis on July 1, 1999.

The new bonus system was a key component of a major public sector reform that affected not only the SRF's tax auditing career but also the auditing careers at the Ministry of Social Assistance and the Ministry of Labor and Employment. Social security and medicare taxes are collected by officials of the National Institute of Social Security, a subsidiary of the Ministry of Social Assistance. Officials of the Ministry of Labor and Employment enforce, among other things, regulations pertaining to employee retirement benefit payments. The reform created a standard hierarchical promotional ladder for the three previously independent tax auditing careers and assigned base salary levels for each step of the ladder.

The Presidential Decree established that a tax official's total performance supplement may vary from zero to up to fifty percent of his/her base salary. A tax official's total performance supplement consists of two types of performance bonuses, an individual performance bonus and a group ('institutional') performance bonus. Up to thirty percentage points out of the maximum fifty percentage points of wage supplement are due to the individual performance bonus and up to twenty percentage points come from the institutional bonus. The institutional bonus, which yields a common percentage of salary increment to each tax official, is based on the institution's (e.g., SRF's) overall performance in tax collection during the fiscal year. The fiscal year in Brazil corresponds exactly to the calendar year.

Brazil's President delegated authority to the Ministers of Finance, Social Assistance and Labor and Employment to elaborate performance criteria that would govern the payments of both individual and institutional bonuses at their respective institutions. For the purposes of payment of the institutional bonus, each Ministry must announce both the target and actual annual collection amounts for its

institution. Prior to operations, however, the collection targets must be approved by the Commission of Fiscal Control and Management (Comissão de Controle e Gestão Fiscal, CCF). Having their annual collection targets approved, the institutions are then given collection targets for each fiscal trimester. Each institution's resulting performance in a particular trimester determines the institutional bonus percentage to be paid to all officials in each of the following three months.

As for the purposes of payment of the individual bonus, every official's performance is evaluated at the end of each fiscal trimester. This performance evaluation determines the official's individual bonus percentage in each of the following three months. A Management Committee (Comitê Gestor), composed of representatives of the four relevant ministries – i.e., Ministry of Planning, Budget and Management, Ministry of Finance, Ministry of Social Assistance and Ministry of Labor and Employment – is in charge of administering the proper functioning of the individual performance evaluations and individual bonus payments. The representative of the Ministry of Planning, Budget and Management chairs the committee.

Annual and Quarterly Revenue Collection Targets
The Minister of Finance has delegated this authority to the SRF's Secretary. The Secretary must propose the annual collection target to CCF by January 20 of the targeted fiscal year. The annual collection target is based on tax amounts effectively collected in the previous year and on expected effects on collections of changes in Brazil's:

- tax code
- price level
- nominal GDP
- exchange rate
- wages

The Institutional Performance Bonus (GDAT Institucional)
The annual institutional bonus as a percentage of base salaries is:

i. maximal, that is 20%, if the yearly total revenue effectively collected is in between 97% and 103% of the announced annual collection target;
ii. zero if the yearly total revenue effectively collected is not greater than 90% of the announced annual collection target;
iii. proportional to the institutional performance index, *IRM*, if the yearly total revenue effectively collected is in between 90% and 97% of the announced annual collection target.

If the yearly total revenue effectively collected is greater than 103% of the announced annual collection target, the surplus cannot be used to supplement collections of subsequent years.

For purposes of payment of the institutional bonus, the criteria described above, which determine the annual institutional bonus percentage, are also applied to determine the institutional bonus percentage points in each fiscal trimester. These points represent the common percentage increment relative to base salaries that all officials receive in each of three months following a fiscal trimester.

If the quarterly total revenue effectively collected exceeds the announced quarterly revenue collection target by more than 3%, then the surplus must be allocated as follows:

i. to supplement quarterly revenue effectively collected in a previous quarter of the same fiscal year that fell short of the quarterly collection target; or

ii. to supplement quarterly revenue effectively collected in a future quarter of the same fiscal year that falls short of the quarterly collection target.

Any such quarterly surplus cannot be shifted to a quarter of a different fiscal year. Adjustments in quarterly revenue collections resulting from revenue shifting may change the quarterly institutional bonus percentages. Necessary quarterly adjustments are made in order to compute the annual institutional bonus percentage. All adjustments must be made by February of the subsequent fiscal year.

Other Institutional Performance Indicators

By the last day of the month following each quarter – i.e., April, July, October and January – the Secretary of the SRF must send a detailed report to the CCF explaining the factors that determined the institution's performance in the previous quarter. The report must contain not only details pertaining to the SRF's success rate in tax collection, but also information concerning:

- performance indicators for the following activities:
  (a) auditing, inspecting and examinations of tax returns;
  (b) customs procedures;
  (c) trials of prosecuted fraud cases;
- indicator of effectiveness in collections of assessed taxes and fines.

To illustrate the SRF's performance in auditing, inspecting and examinations of tax returns, Tables 3 – 9 below provide information about these enforcement activities for two consecutive trimesters, the fourth trimester of 2000 and the first trimester of 2001.

Source: SRF.

	4th Trimester of 2000			1st Trimester of 2001		
Size of Corporation Audited	Quantity Targeted (A)	Quantity Observed (B)	Indicator (B)/(A) (%)	Quantity Targeted (C)	Quantity Observed (D)	Indicator (D)/(C) (%)
Large	345	355	102.90	368	452	122.83
Medium	1,902	1,798	94.53	2,890	2,223	76.92
Small	2,372	2,205	92.96	2,972	2,513	84.56

The table gives a clear picture of the SRF's allocation of auditing effort across corporate auditing activities. Not surprisingly, given its relative greater weight in the weighted performance indicator for auditing and inspecting activities, auditing of large size corporations has been favored by the SRF over the other types of corporate audits. For auditing of large size corporations, the indicator of target achievement – i.e., the quantity of audits observed over the quantity of audits targeted in percentage points – grew from 102.9% in the fourth trimester of 2000 to 122.83% in the first trimester of 2001. Over the same period, the indicators of target achievement for the other types of corporate auditing shrank, with the largest effect being felt by audits of medium size corporations. It is also important to observe that the quantities observed of corporate audits for all three auditing activities grew over the period. The growth rates were 27.32%, 23.64% and 13.9% for auditing of large size, medium size and small size corporations, respectively.

The Individual Performance Bonus

Payments of individual performance bonuses in each of three consecutive months follow quarterly individual performance evaluations, which occur soon after the completion of each trimester. The first individual performance evaluation was done for the second trimester of 2000. A tax official's individual performance bonus accords with his/her performance evaluation whenever the official worked for at least two months in the previous trimester. Otherwise, the official's individual performance bonus percentage corresponds to the same bonus percentage as in the penultimate trimester.

With a few exceptions, each tax official must be evaluated by its immediate supervisor. These supervisors occupy positions as heads of departments, coordinating units, regional tax agencies or regional customs agencies. Supervisors must delegate to tax officials tasks to be performed during the trimester, and individual evaluations should be based on individual performance in executing delegated tasks. Supervisors, however, are not evaluated. They automatically receive the maximum individual performance bonus percentage; that is, thirty percentage points.

Although tax officials are to be evaluated according to their performance in executing potentially distinct delegated tasks, their evaluations follow standard criteria. There is a standard evaluation form, called Individual Performance Evaluation Form (Ficha de Avaliação de Desempenho Individual, FADI), which each supervisor must fill out. The form contains detailed information about:

- the official's profile:
- the evaluation period:
- the evaluation criteria:
    a. dedication and commitment towards achieving the institution's mission;
    b. knowledge of tasks and self learning ability;
    c. work quality and productivity;
    d. creativity and initiative;
    e. public relations (internal and external); and
    f. discipline and relationship with peers.

The supervisor must assign a letter grade to each of the six evaluation criteria. The letter grades are:

0-2,9 points:	I (unsatisfactory)
3-5,9 points:	R (satisfactory)
6-8,9 points:	B (good)
9-10 points:	O (excellent)

Supervisors have at their disposal a list of instructions for the assignment of grades.

Points associated with the six evaluation criteria are added up and the total is divided by two in order to obtain the individual performance bonus percentage points. If, for example, an official receives 10 points in each of the six evaluation criteria, the official's performance bonus percentage points will be equal to 60/2 or 30.

The official must state whether he/she agrees with the supervisor's evaluation. Both the official and the supervisor must sign the evaluation form. The official's complete evaluation must be kept in his/her file for a period of five years.

For each working unit, the results of mutually agreeable individual performance evaluations are consolidated and summarized onto a single performance evaluation form called Report of FADI Consolidation (Relatório de Consolidação das FADI). The form contains information about:

- the working unity;
- evaluation period;
- each evaluated official's:
  (a) name;
  (b) working number; and
  (c) individual performance percentage points received.

The consolidated reports must be sent to the central agency's General Coordination of Programming and Logistics (COPOL). The forms must be signed by both COPOL's head of projections and the head of the working unity that submits the form.

If an official disagrees with his/her supervisor's evaluation, he/she may appeal. The proper superior authority is instructed to review only the terms of the appeal which are disagreeable to the supervisor. The final decision is reported to both the appealing official and the head of the official's working unit. The appeal form is appended to the official's FADI. If the appeal is successful, partially or in the entirety of its terms, the result is reported to COPOL for revision of the official's individual performance percentage points.

Effects of the bonus systems

Initially, the RAV program provided incentives which affected behavior at two levels – the individual tax official and the agency. The competition amongst tax agencies and the group bonuses gave managers a clear incentive to reallocate their staffs in ways which increased group performance along dimensions specified by the group criteria, i.e., the amount of revenues collected and the number of tax enforcement actions undertaken.

Kahn, Silva and Ziliak (2001) examined the effectiveness of the RAV program in its early years. Their unique panel data covered auditing and collection activities for the years 1987 to 1992, namely, three years before and after the reform. They were provided with two separate data series. One set contained data for each of 10 tax regions which compose the Brazilian tax system on fines collected and on resources devoted to fine collection, including the number of inspections, the average number of auditors and high-level supervisors assigned, and employee hours. The other data set contained information from external examinations on fines collected and hours

spent in collection activities for each of 25 different taxes, such as income and excise taxes. This latter data set helped them to isolate the effects introduced by the RAV reform from tax compliance effects brought about by a concurrent income tax reform.

Their findings were stark. From 1987 to 1989 fine collections were relatively stable; however, a striking break in fine-collection growth rates occurred after 1989. Their estimates, robust to alternative specifications, indicated that after the reform fine collections per inspection were about 75% above what they would have been in the absence of the program. The results also revealed substantial heterogeneity in the impact of the tax-collection reform across tax regions, ranging from an increase of 19% to an increase of 145% in fine collections per tax region.

Unfortunately, the early achievements of the RAV program may have been reversed in the period starting in May 1993. By making the total ("variable") reward equal for all tax officials, the change introduced in May 1993 represented a *de facto* increase in the tax officials' base salaries. This change may have reduced both individual and group productivity levels because individual and group performance incentives introduced by the RAV program were completely eliminated.

However, since the change also represented an overall increase in the fixed salaries paid by the tax auditor career relative to salaries paid by other competitive careers elsewhere, it may have contributed to attracting to SRF more qualified personnel from competitor public and private employers. Indeed, the overall perception of the tax auditors interviewed in May 2001 is that during the 1990s not only there was a remarkable increase in the demand for SRF's jobs, but also that the new entrants' skills were significantly better than those observed in previous decades. An influx of more qualified tax auditors may have ameliorated the likely downward tendency in tax auditing productivity levels following the removal of RAV program's performance incentives.

Assesment of the bonus systems

The Brazilian bonus systems are undoubtedly among the more elaborated and advanced systems today. Not only have the authorities attempted to construct a system that is aiming very directly at the effectiveness of the entire organization, but they have attempted to support the system through a variety of organizational and management tools.

Size of bonuses

As demonstrated above, the increase in *organizational* effectiveness was remarkable during the first years of implementation – particular in

the period when the bonus payments were stratified among individual employees and individual units.

From the studies made of the bonus systems it seems evident that particularly the size of the bonuses in the RAV system made a marked difference for the employees. As has been demonstrated, the bonus payments could make a considerable difference in overall salary for the individual employee (up to 50 pct.). At the same time, it should be noted that in Brazil, the salary differences between the public and the private sector are not as large as in most other countries:

Positions	Average Nominal Salary (in Reais)			
	June 1997		November 2000	
	Private Sector	Public Sector	Private Sector	Public Sector[1]
Executive	7,080	6,069	7,195	7,161
Tertiary Education	1,899	1,814	2,607	2,751
Secondary Education	926	899	1,474	1,268
Operational	437	635	474	648

Source: Ministry of Planning, Budget and Management.
[1]Average of Period December 1999 – November 2000.

With the introduction of the second generation bonus system, an attempt has been made to use the system to establish a new career plan by increasing the differential between low and high seniority. The effects of this system in terms of organizational effectiveness have yet to be analysed.

Evaluation criteria

As described above the evaluation criteria are extremely complex, described by the SRF as an attempt to secure a fair and just evaluation system. The combination of institutional bonuses (based on institutional performance in relation to targets) and individual bonuses (personal evaluations by the immediate superior) is an attempt to avoid the shortcomings of many other bonus systems that rely too heavily on either of the two measurements.

In themselves, the evaluation criteria certainly appear to be as fair as possible – with the one possible exception that the institutional performance bonuses relate to the performance of the entire SRF, not to individual units of the department. Among officials and analysts, however, there is widespread disagreement as to the actual effect of the institutional criteria on the organizational performance; increases in, say, total revenue collection or frauds detected or number of

processed cases are – by some – ascribed more to exogenous variables than to a change in behaviour by the employees and by management.

The individual performance measurements contain a very large discretionary element. Even though individual evaluations are based on standard criteria, the actual performance evaluation by the immediate superior will always be based on individual judgements. When the GDAT replaced the RAV system, there was widespread discontent among the employees that the GDAT in fact meant a reduction in the base salary for those employees with lower seniority (and this in fact led to a number of strikes among the employees). Only by receiving the maximum bonus supplement were they able to maintain their previous overall income.

The effect has been one that is quite common in such bonus systems – the pressure on the superiors to secure the overall income of their employees has evidently led to a situation where the individual bonus system becomes perverted in the sense that an extremely large group of employees receive the maximum score.

Tax officials were first individually evaluated in the second trimester of 2000. The table below provides information about the results of such evaluations for three trimesters, the third and fourth trimesters of 2000 and the first trimester of 2001. While there was no noticeable trend for minimal scores, there was a remarkable trend for the mean of the distribution of scores. The mean score increased from 59.38 in the third trimester of 2000 to 59.58 in the fourth trimester of 2000 and finally to 59.72 in the first trimester of 2001. Furthermore, a comparison between the figures for the third trimester of 2000 with those of the first trimester of 2001 demonstrates that the variance of the distribution of scores decreased. These findings suggest that not only almost everyone received the maximal score in the third trimester of 2000, but also that the number of officials who received maximal scores steadily increased along the three trimesters.

Source: SRF.

Period	Quantity Evaluated	Minimal Score	Maximal Score	Avera. Score	Standard Deviation
3rd Trimester of 2000	6,254	13.80	60.00	59.38	1.96
4th Trimester of 2000	6,323	0.00	60.00	59.58	2.07
1st Trimester of 2001	6,112	25.00	60.00	59.72	1.31

The history behind the introduction of the GDAT – as well as figures such as the ones above – certainly suggest that the GDAT individual performance system is not in effect functioning as part of a performance-related system, but rather as part of a general wage system. This may be the unavoidable consequence of a system that reduces total salaries – but it means that only over along range of years (as new employees with no "history" of large salaries are employed) will the individual system actually be performance related. Apparently, the GDAT has not considered strengthening this system by requiring the evaluations of the immediate superiors to be controlled or approved by another "management layer" in the organization (as in the case in other systems, such as Albania or Morocco).

Transparency and legitimacy

In terms of objectivity and transparency, the GDAT system seems to be able to deliver the necessary data to support the evaluation of institutional bonuses. The break-down of targets, and the measurement of key targets (such as total collections or frauds detected) require a detailed compilation and processing of data, both of which seem to be in place and both of which are undisputed by the employees and by the managers. In other words, the present data systems are in fact able to support this fairly advanced system of performance measurements.

Again, there is no substantial discontent among employees with the evaluation criteria as such or with the formal evaluation process itself – the discontentment has (as described) been related to the downsizing of the base salaries in the GDAT system. There is an appeals system, yet no available data on the number of appeals or complaints – but as the table above indicates, very few employees seem to have any reason to complain about their individual evaluations!

The system was designed and introduced at government level, not through a process of negotiation and joint working groups with representatives from the unions. There is disagreement as to the

actual acceptance of the unions of the GDAT system – some claim it was accepted with a few, small amendments, others claim it fervently opposed by the unions.

Ghana

Organization

The Internal Revenue Service, before1986, was preceded by the Central Revenue Department (CRD). The CRD, as it was then, operated as a department of the Ministry of Finance responsible for collecting direct taxes for the government. The department was part of the Civil Service structure and in that capacity operated under the General Orders (GO) of the Service in terms of recruitment, training, remuneration, and conditions of service with all other Civil Service bureaucratic apparatus. As part of the Civil Service the CRD was beset with several problems particularly how remuneration compared with other public sector institutions and to a much greater extent the private sector. It is worth noting that remuneration of the Civil Service remains the lowest in the public sector. Again operational funds and logistics were minimal and funds were released at a very slow pace.

As part of the Economic Recovery Programme (ERP) the CRD was restructured in 1986 and made a semi-autonomous public service organization. It was removed from the Civil Service and its name changed to the Internal Revenue Service. The objective was to correct the imbalances and counter-productive attributes and create a new vision and image for the Service. The new Service was established by PNDC Law 143 of 1986 which amended certain aspects of the Income Tax Decree, 1975. The new law granted autonomy in the internal administration of the Service through the Board of Directors and the Commissioner. A National Revenue Secretariat that had Cabinet Status was created to oversee the performance of the Service and other tax administrations and assume overall responsibility for other agencies responsible for revenue collection.

Motive behind the system

The Minister for National Revenue collaborated with his counterpart at the Ministry of Finance to remove obstacles like:

- Delays in the release of operational funds and logistics.
- Low salaries and unattractive conditions of service which impeded the smooth running of the Revenue collecting agencies.

Further, to ensure effectiveness of autonomy in the internal administration of the Service, the board put in place had the responsibility to:

- Appoint, promote and discipline employees.

- Draw up attractive and progressive scheme of service and prescribe terms and conditions as well as remuneration of employees.

The bonus system

The Board in 1986 reviewed the conditions of service existing under the CRD with the Union of the staff and signed a Collective Bargaining Agreement (CBA). This brought the condition of service of the Internal Revenue Service at par with the best-paid Public Service organizations such as the Bank of Ghana, Social Security and National Insurance Trust (SSNIT) and the Volta River Authority (VRA). The enhanced package of conditions of service comprised the following:

- Enhanced salaries attached to particular positions. Salary levels were in some cases three times higher than that of the Civil Service. However these were lower than what the private sector offered employees with similar qualifications.
- Fringe Benefits, allowances and loan facilities. These included benefits such as accommodation for top management, housing allowance of 20% for all other staff, transport, lunch and a number of other allowances.

The Civil Service enjoyed similar benefits, however given its numerical strength of over 300,000 employees and its minimal budget, many employees did not benefit from the scheme. The scheme continues to be fraught with frustration. As part of the restructuring, the IRS budget was made performance related (i.e. the IRS was allowed to retain a percentage of collection for administrative purposes). Thus when tax collection increased as a result of the restructuring, the IRS budget could support many more applications for such allowances and facilities than the Civil Service budget did. Again, the IRS budget could support higher levels of benefits and loan facilities than what pertained in the Civil Service. Thus, in relative terms, many more IRS employees benefited from such allowances and loans than did employees of the Civil Service

To revamp and enhance the performance of the department, the government in 1972 introduced the Bonus system following staff agitation to supplement the Civil Service salaries of the staff of the Department. This was also aimed at discouraging staff from collusion with taxpayers and increase revenue collection. The bonus payment was 10% of annual basic salary payable at the end of the year. It was also part of an overall administrative strategy to improve performance and minimize corruption.

When the IRS was created in 1986, a new bonus rate of 15 % annual basic salary (normal bonus) was negotiated for the staff. The enhanced

bonus scheme was made performance related and became part of the CBA, i.e. payment terms were explicitly spelt out in the CBA. Payment of the bonus depended on the Service achieving its set target for the year. This system was introduced to basically motivate staff to work hard to achieve set targets. Again although salary levels have been enhanced, they were still lower than what prevailed in the private sector. Thus to attract and retain skilled personnel and professionals the system was introduced as a supplement to further enhance the relatively low salaries.

The bonus scheme - though performance related - was paid globally and not to specific schedules. The global scheme was specifically chosen because of the large support staff made up of the Research, Planning and Monitoring; and the Finance and Administration Departments whose schedules are difficult to assess by observable performance indicators compared to Operations Department schedules. These, it was felt, may miss out bonus payments and would not be motivated enough to give off their best.

In practice the normal bonus is paid in cash at the end of the year when it is determined that the IRS had been able to achieve its set target. This is effected to all employees based on:

- The employee's rating by his/her superior officer in the Performance Review Report (PRR),
- Employees at post and contributing to the achievement of the target,
- Employees who have not committed certain offences during the year.

As mentioned earlier though the bonus is paid at the end of year, there have been instances when the bonus has been paid twice a year based on observable trends in collection. When the trend in collection is such that the annual target would definitely be achieved, half the annual bonus was paid by the end of half year. The other half was paid earlier than the end of the year if the trend continued.

In 1993, the government as a policy decided to consolidate the emoluments and allowances paid to the Public and Civil Servants. Persistent agitation for increased salaries within the Civil Service led to accelerated salary increases over the period. However, the government could not effect any increases for the IRS because the IRS served as a reference point for salary agitation within the Civil Service. This lowered the hitherto advantage that IRS enjoyed over the Civil Service and its comparable positions to other public service organizations. Thus in 1994 the incentive bonus was introduced as a salary supplement and also to encourage staff to endeavour to exceed set targets.

A modification of the normal bonus payment became necessary, when in 1994 it was observed that the trend of collection was very positively skewed and that the target would be achieved before the year-end. The Ministry of Finance negotiated with top management to pay incentive bonus in addition to the normal bonus using staff cost of collection ratio as the rate of payment, for any excess collected over the set target.

The policy objective of the Incentive Bonus Scheme was to encourage staff to exceed the annual set target. The incentive bonus was then paid at the end of the year, globally to all employees according to salary relativity. Conditions for exempting officers under the normal bonus system also applied under the system.

Government in 1996 adopted the Ghana Universal Salary Scheme, and grounded the IRS from further increases in remunerations till Civil Service remunerations caught up and became comparable. This further worsened the deteriorating conditions at the IRS.

Again, the control re-asserted by the Ministry of Finance over the internal administration began to have adverse effect on the Service. The withdrawal of the retention and curtailment of funding greatly affected the performance of the Service. The IRS reverted to its former position with:

- Comparatively lower salaries,
- Inadequate and timely release for logistics,
- Unattractive Service Scheme because of the Service's inability to fully fund enhanced benefits such as Housing and other loans for lack of funds. This adversely affected the financial situation of a large number of members of staff.

Effects of the bonus system

The restructuring of the tax administration in 1986 no doubt had a positive impact on revenue collection in the CRD. In 1985 a total of ¢8,000,000,000.00. (Eight billion cedis) was collected by the CRD. This rose by 68% in the following year. The figure tripled the next year up to ¢20,000,000,000.00 (twenty billion cedis) in 1987. Since then revenue collection has risen in nominal terms with the highest in 1987 when the percentage of revenue collection over the previous years was 123%. The lowest increase occurred in 1990 when only 11% was achieved. Modest increases have since occurred with the highest of 65% in 1995 and 57% in year 2000.

Year	Collection (Bill. Of cedis)
1985	8.079
1986 (introduction of enhanced bonus)	8.605
1987	23.468
1988	112.800
1989 (introduction of incentive bonus)	166.500
1990	275.500

It is arguable whether these increases were *solely* due to enhanced bonus packages. A critical look at collection figures does not seem to indicate much correlation between years when bonuses were paid and increases in collection figures.

Over the years, there have been changes in tax rates and intensification of collection by the IRS with the establishment of more collection points and large taxpayers offices. The tax coverage has also been widened by the appointment of agencies and presumptive tax collection by trade associations.

The above-stated factors aside, increases in collection figures could largely be attributed to the totality of enhanced conditions of service, which attracted professionals and other skilled personnel into the Internal Revenue Service. The totality of enhanced levels of salaries, benefits and increases in the number and amounts of loans and advances for employees to purchase their own cars and homes boosted staff morale and motivation. It also placed staff at a much-enhanced advantage over their colleagues in the Civil Service. At the same time, it placed staff at very comparable positions with the best in the public sector. This engendered increased efforts and commitment to Service goals and objectives.

Assesment of the bonus system

Overall effectiveness

In terms of the overall objectives of the bonus system of the IRS – increased collection effectiveness – the system seems to have been meeting these objectives in limited periods since its introduction. When the rise in tax revenues that is due to new legislation or other

structural changes, the increase in the years after the introduction in 1986 is still noteworthy. It is – again – extremely difficult to asses the direct impact on the bonus system on performance – but it is a general belief that the introduction of targets for the IRS combined with the bonuses have made a difference in employee behaviour.

Size of bonuses

As described above the motive behind the system was in reality more a general salary policy motive than an actual incentive system motive. Measured in terms of organizational effectiveness – as mentioned above – the size of the bonuses seem to have been sufficiently large to motivate employees to perform differently than they would have done otherwise.

The general salary level in the IRS have – as demonstrated – fluctuated somewhat during the last 15 years, relative to the salary levels of other parts of the public sector and relative to the levels of the private sector.

It appears that the IRS is quite sensitive to such fluctuations - during the initial years after the introduction of the scheme, the salary level attracted professionals and other categories of skilled personnel into the IRS. Later, when salary levels were again (in relative terms) lowered compared to other public sectors and to the private sector, and when former benefits and attractions were eroded, the effect was widespread dissatisfaction and resignation of highly qualified, professional and experienced staff. Labour turnover in the Service soared, and the number of resignations from the department is currently an average of five every month. When salary levels are compared *within* the public sector, it becomes evident that the IRS *today* is placed in the lower end of the scale – which again makes the relative distance to private sector salaries even larger.

Bonuses made up a total of 38 pct. of total salaries paid out by the IRS in 2000. This is in fact a remarkably high figure compared to almost any other bonus system – and this fact in itself obviously explains the vulnerability of the IRS bonus system. A general, relative decline in bonus sizes has a very tangible impact on the individual's total salary.

Evaluation criteria

As described above, bonuses in the IRS are paid out on a universal basis, according to the targets of the IRS. Only in certain circumstances may an individual employee be exempted from the bonus payment (disciplinary actions or a very poor performance). In that sense, the criteria are fairly clear and transparent – and the bonus distribution is in effect non-discretionary.

There are obvious advantages as well as problems connected to such an approach. The fundamental problem will often be the fact that it may in effect have an adverse effect on the individual employees who may be tempted to “hide” under the performance of colleagues. In other words, the individual motivation may be jeopardized. The obvious advantage is the lack of discretionary abuse on management levels.

In terms of the IRS, however, a global scheme may end up causing serious management problems. When for instance financial policy objectives makes it necessary to implement a general salary restraint (thereby reducing the total salary level) a global bonus scheme will eventually means an average reduction of salaries to the employees. The managements hands are tied, so to speak, in terms of rewarding individual employee performance. In general, this point goes to illustrate the fact that the IRS system has been implemented more as part of a general salary policy than as a “genuine” performance system.

Legitimacy

The IRS bonus schemes have been introduced as parts of the collective Bargaining Agreements (CBA), and have thus been negotiated by the employees organizations. This has in general meant a very high degree of legitimacy among the employees of the IRS. This degree of legitimacy has been further enhanced by the fact that the system is in effect – as described above – almost non-discretionary. In general, the employee reaction to the system has been positive.

However, the introduction in 1986 of the bonus scheme caused some ‘raised eyebrows’ and created jealousies on the part of the Civil Servants in other parts of the public sector. They resented what they considered part of the Civil Service being offered better remuneration and benefits. The IRS became a point of reference for Civil Servants agitation and demand for higher wages and salaries. As described, it was this resentment that eventually led to the erosion of the status of the IRS and subsequently of the advantages of the bonus system.

The bonus system was made global at least partly due to the fact that the IRS have found it impossible to make separate targets for the various departments of the IRS because it was felt that it was not possible to set up targets for the various support units that do not participate directly in the collection process. It is quite possible that in “hard” times (when total salaries are relatively low, as in the present

years), legitimacy may well erode due to the fact that parts of the IRS may feel that they perform better than others.

Philippines

Organization

The Bureau of Customs (BOC) is an attached agency of the Department of Finance (DOF). With its 13 revenue districts and 5,067 employees, it is the second largest revenue producer for government next to the Bureau of Internal Revenue.

Motive behind the system

Over the last 10 years, the principal anti-corruption strategy at BOC was its IT infrastructure using its World Bank funded computerization program. This effort has been heralded as a resounding success in international circles. Over the same period however, little attention had been given to the remuneration issue for BOC, despite the highly sensitive work of BOC employees, coupled with the progressive deterioration of the buying power of the peso. This has placed the tasks of computerization and tax collection at high technical and moral risk, as these are subject to the potentially disruptive actions of inadequately paid employees.

The primary motive behind the introduction of the informer rewards system has been to provide a measure against tax fraud and corruption. It hopes to reduce bribery attempts by smugglers, by putting a legitimate monetary incentive for customs personnel and informers to counteract illegal inducements from errant importers.

Description of the performance system – Informer Rewards

BOC, unlike its sister revenue agency, the Bureau of Internal Revenue (BIR), does not have a specific provision of law which authorizes and sets aside an incentive bonus fund for its staff. BIR by contrast is authorized under Section 285 of the National Internal Revenue Code to distribute a bonus to its employees up to an amount equal to 5% of the excess of actual collections over its revenue goal. Nevertheless, BOC enjoys certain authorized incentive-type pay items. The three most important salary supplements available at the Bureau of Customs are Informer Rewards, Overtime at Ports and Year-end Bonus and Anniversary Bonus. The emphasis in this analysis will be put on Informer Rewards, as the other two salary supplements in this context are not related to “quality performance” as such.

Section 3513 of the Tariff and Customs Code of the Philippines (TCCP) provides a cash reward equivalent to twenty (20%) percent of the fair market value of smuggled any confiscated goods. The rules and regulations under DOF Department Order 114-91 further specify

that ten (10%) percent is payable to the officers and men, and ten (10%) percent to informers who are instrumental in the discovery and seizure of such goods. In the absence of any informer, the twenty percent cash reward is payable to the officers and men instrumental in the discovery and seizure.

The system of informer rewards was introduced in Republic Act 2338 during the decade of the fifties. However, it only became a real incentive for BOC staff through RA 4712 which took effect June 18, 1966. This revised law enlarge the scope of the rewards system to include BOC staff as recipients of reward money. Through DO 92-66 issued November 22, 1966, DOF defined the sharing percentages between the informer and the BOC staff. The next change came on October 9, 1991 when DOF issued revised rules and regulations to include seized goods which are redeemed.

A rewards committee was formed at DOF to evaluate and recommend requests for rewards for approval by the Secretary of Finance. The committee is headed by an undersecretary. Members include five assistant secretaries and one director. The committee is supported by a secretariat. Payments made are regularly reviewed by the Commission on Audit (COA). The rewards "system" itself is subject to ad hoc reviews authorized by the Secretary of Finance.

There is no computerized management information system set up for the processing of rewards other than the preparation of periodic inventories of claims in process and claims approved by the DOF Rewards Committee.

Effects of the performance system

There are no existing performance indicators maintained to prove the effectiveness of the rewards system, other than the number and amounts of rewards claimed , approved and paid.

Processing of rewards has been extremely slow and has had problems with availability of funds. For the period September 13, 1999 until March 1, 2001, only two out of 26 claims for rewards already approved for payment were actually paid. Approved claims ranged from a low of PHP171,040 to a high of PHP 24,025,349 for a total of PHP54,889,299. Only one claim amounting to PHP1,071,750 was paid in 1999, and another one worth PHP2,180,000 was paid in 2000. For the five year period 1996-2000, the average payment rate has been only less than one claim per year. Some claims dating back 7 or 8 years ago are yet to be paid.

Assesment of the informer rewards system

As mentioned above it is not possible to asses the system in terms of performance indicators. The assessment must, therefore, be based on an evaluation of the various components of the system.

According to the studies made in the Philippines, the system is in general terms not considered to be functioning well.

Size of bonuses
A very fundamental factor that has been brought forward continuously during the study is the total salary level of the employees of the BOC. This issue has been raised on numerous occasions in the past decade. While many other government agencies are now successfully breaking away from the Salary Standardization Law (Republic Act 6758, enacted in 1989), BOC continues to be chained to relatively low salary levels. The SSL is seen by some as the main obstacle to raising salaries and providing incentive bonuses at BOC. Interviewees complain that the SSL cannot provide a respectable living salary, and is one of the chief causes of corruption, despite the world-class computer systems already in place. There seems to exist a general notion that corruption levels in the BOC are of such a magnitude that the low general salary levels are accepted by the employees.

To compare BOC salaries with the private sector, the head of sales and marketing of a pharmaceutical firm has an average monthly cash pay of about P240,000. A BOC deputy commissioner earns only a basic salary of less than P25,000 a month. A private sector IT manager can easily earn P85,000 a month, while the same role at BOC receives only P24,000.

The basic salary level being very low would therefore suggest that salary supplements through the informer rewards system would have to have a considerable size to have any actual behavioural effect on the employees. The total amount of bonuses paid out in FY 2000 is, however, only 16,7 pct. of the total salaries paid out. In this context it should be noted that the Philippine salary system consists of a very wide range of compensations to supplement regular salaries (more than 15 non-performance related compensations, from terminal leave to insurance to clothing allowances). Secondly, as mentioned above, it is a striking feature of the reward system that very few claims for rewards are actually paid out – on average less than one claim per year during 1996-2000. The processing duration for some claims reach up to 7-8 years!

Thus, even lacking direct evidence as to the effects of the rewards system, the budgeted size of the bonuses and the actual amount paid out certainly seems to indicate that the size of the bonuses do not in

themselves provide a very substantial supplement to the regular salaries.

Retainment of employees

Recruitment and retainment of employees have never been the central focus of the bonus systems in the Philippines. According to statements by the authorities and the employees in the BOC, recruitment and retainment are not considered priorities simply because these issues have not – so far – been problematic. There exist no apparent shortage of applicants for vacant posts, though estimates of the "quality" of the applicants vary from one interviewee to another.

Evaluation criteria

On its own terms, the BOC rewards system is very simple as it is based almost solely on the fair market value of smuggled and confiscated goods. Thus, assuming that the fair market price is actually an objective size, the evaluation process itself should be able to work smoothly.

As suggested above, however, this is not the case. The establishment of common motives between BOC and DOF with regard to payment of rewards has been difficult. The BOC staff on one hand wants to be paid immediately their reward money. DOF on the other hand wants to be perfectly sure that the claim is in order. An incongruent situation arises when the DOF committee members, whose own remuneration are also constrained by the Salary Standardization Law, are placed in position of recommending payment of large sums to co-government personnel who have already being paid to do their job. Humanly speaking, it is arguably difficult for DOF employees to recommend payment without feeling a tinge of resentment. Likewise, DOF's mandate to conserve government financial resources will normally result in a meticulous review of the merits of the claim.

There is much perceived *discretion* in the granting of this incentive. At the outset, employees who benefit from this incentive are mostly those involved in intelligence and enforcement, since they are directly involved in detecting and apprehending illegal importations. This puts different groups of employees at cross-purposes since others are not entitled this benefit. Some more discretion is manifested in determining who should be included in the list of individuals "instrumental" in an apprehension and seizure. Other discretion is shown in allowing anonymous informers hiding under aliases. Finally, discretion is also apparent when the reward money is deposited in the General Fund of government, instead of a trust fund. This effectively queues the reward money behind a separate line of payment priorities of government.

Basically, the conclusion seems to be that the advantages of the BOC system in terms of simplicity of the "basis" of the rewards system, are

more than compromised by the lack of procedural guidelines for the actual *evaluation process.* The rewards committee is able to suspend the processing of claims for endless periods of time with no formal, legally based appeals process or set of rules to support the claimants.

Legitimacy

As described in previous chapters, legitimacy among the recipients of the bonuses (as well as in the surrounding environment) should always be among the top priorities of a bonus system. In the Philippine case, the degree of legitimacy can only be described as being very low.

What is clear from the interviews is that there is growing cynicism on the part of BOC personnel over the system, and that seizures and the consequential reward claims could actually be much more. The implication expressed (with a request for anonymity) was that the apprehending staff would rather claim their rewards front-end from importers rather than from government.

Conclusions

A general evaluation of bonus systems should answer two basic questions:

- Do they actually have an effect on performance?
- What criteria determine the success of a bonus system?

The questionnaire in phase one of the study revealed that the countries that were included have chosen a wide variety of strategies and performance measurement systems in order to achieve their goals. This variety of solutions has been further underlined in the second phase of the study.

In general, it has become evident that there is no singular way to measure the success of the systems that have been investigated. As was outlined in the first chapters, the concept of performance management systems has become an integrated part of the overall new public management thinking – but there does not exist a pre-made, final concept of how to design, introduce nor implement a performance management system.

Experience and theory combined *can* however point to a number of standards and requirements that a system should attempt to meet in order to be successful. In the first chapter, we outlined a number of key considerations that should be made when establishing a performance management system. These considerations have also proved to be crucial in the evaluation of the selected case studies.

The following general conclusions will be based upon the experience of the different systems in dealing with these considerations.

Effect of bonus systems

As has been demonstrated, performance measurement systems have been implemented to cover a fairly broad range of objectives. The top political or administrative management will often focus primarily on the basic objective of the systems, rather than on the implementing problems that arise. A very basic question is, obviously, whether the systems that we have examined have actually been able to meet those basic objectives for which they were designed.

Fundamental and obvious as this question may be, it is almost impossible to answer. It has been evident throughout practically all of the case studies that objective data on overall performance – whatever the main objective may be – is at best scarce and most often non-existing. This is not just a question of the authorities not being able to monitor performance correctly – it is a fundamental methodological

question of cause and effect. If a revenue department increases overall performance on a number of indicators, is that due to the introduction of bonus systems or is it due to externally determined factors?

We have, of course, attempted to answer the question anyway. Yet it should be stressed that evidence will by necessity be circumstantial and indirect.

Organizational effectiveness
Organizational effectiveness may be defined as the ability of the *collective organization* (as opposed to individuals or individual units) to perform according to the collective objectives of the organization.

As has been apparent in the study cases, it is – not surprisingly – extremely difficult to document any change in organizational effectiveness due to the introduction of performance measurement management as such. Only in the case of the Brazilian system has any attempt been made to isolate the direct effects of the performance measurement systems from the effects of other internal and external variables. Thus, the effect on organizational effectiveness should also be judged from other, non-measurable and to some extent non-objective criteria.

A general conclusion, however, is that the "circumstantial evidence" that is available seem quite convincing in a number of the systems that has been studied.

In **Albania, Morocco, Brazil and Ghana** data as well as observations seem to establish a fairly clear link between the introduction of performance based systems and improvements in organizational effectiveness. In Brazil and Ghana in particular, this trend is supported by data on revenue collection, whereas in Albania and Morocco, indications by employees and importers point in the same direction.

Individual performance
Individual bonuses are part of the bonus systems in Morocco, Albania, Brazil and the Philippines. Measuring the impact of bonuses on individual performance is methodically even more difficult than measuring organizational performance since it requires detailed performance data on individual level.

Individual performance may (as a theoretical emergency exit) be viewed as the parts that add up to collective or organizational performance – and in that respect, as indicated above, most bonus systems do indeed seem to have an effect on individual behavior. This premise is confirmed by statements from management and employees alike in the countries mentioned above. However, in Morocco and Brazil bonuses are so high that they seem more part of general salary

policy than performance related. In general, therefore, it is not possible to make any valid conclusions in this area.

Effects on recruitment/retainment of employees
Increased quality of employees – and retainment of employees – have been a major objective in several of the systems, and evidence certainly seems to point towards bonus systems having a very direct impact.

In Albania, Morocco and Brazil (and to some extent Latvia) the introduction of bonus systems had a very clear effect on not just number of applicants, but also on the quality of the applicants and indeed on the staff turn over. In fact, this trend is further highlighted by experience in Brazil and Ghana where the (temporary) slow erosion of the bonus systems had an opposite, negative effect.

Obviously, this aspect is closely connected to the issue of the *size* of the bonuses; in that respect it is worthwhile pointing out that the positive effects on recruitment and retainment of staff have been the strongest in the systems where bonuses are relatively high compared to base salaries (Morocco, Albania and Brazil).

Effects on corruption
Methodologically, establishing a direct cause-and-effect link between bonus systems and corruption is extremely difficult. Furthermore, as has been shown, fighting corruption has not been a primary objective in any of the systems covered by the study, except (to some degree) in Albania. In other countries it is considered a possible, positive side effect.

From a revenue and financial policy point of view, one may view the increased organizational effectiveness as the other side of that coin – increasing revenues *indicate* at least to some extent a reduction of corruptive behaviour. Others, however, will point out that one may quite well be able to broaden the revenue base without actually lessening corruption.

The only case study that seems to point in the direction of lessening corruptive behaviour is Albania. The evidence is purely circumstantial (fewer corruption charges, statements from importers and increased revenue collection despite a non-growing economy). A number of other system representatives have clearly stated that they do not believe that bonus systems as such can prevent corruptive behaviour.

The crucial factor: Legitimacy

When analyzing the criteria that – judging from the case studies – seem to be important in terms of the success of a bonus system, one factor keeps appearing: What may be termed the “legitimacy” of the

system. “Legitimacy” may in this context be defined as the internal and external *acceptance* of a system.

Legitimacy as a concept has many faces in relation to such systems. In the description of the conceptual framework of performance management systems in chapter one, a number of legitimacy aspects were described as key factors in designing and implementing bonus systems. The case studies certainly have confirmed this conceptual idea: Only by securing a high degree of legitimacy among the “users” of a system is it possible to have them working “for” the system rather than against it. If they do not accept the basic premises of the system – the objectives, the fairness and the benefits of the system – they will not attempt to implement it correctly, and the system will not be able to perform.

Below, we will highlight those aspects of the bonus systems that the case studies have proved to be crucial – and that are all related to the concept of legitimacy.

Implementation process

A key consideration should be the involvement of the employees from the outset – in the designing and the implementation phases of a bonus system. Involvement in itself may of course not guarantee acceptance by those involved – but *true* involvement means compromise, negotiation and dialogue and a much better chance of acceptance.

It is interesting to note that three of the systems that have been studied have included such a high degree of involvement. In Albania and Morocco working groups and unions were involved and were in fact asked to approve the designs. In Ghana, the bonus system was indeed made in integrated part of the Collective Bargaining Agreement, thus securing the official approval of the employees.

In other systems, the process has been a top down management decision - in Brazil in the shape of government decrees.

Ability to perform

A very fundamental part of bonus systems is, obviously, the system’s “ability to perform” – not just to actually pay out the rewards but also to make an actual difference for the recipients. This is a crucial aspect of legitimacy.

Three countries have designed systems where bonuses (potentially) are very large compared to base salaries: Morocco, Brazil and Albania. In these countries, bonuses may be as high as 50 percent of base salaries.

From the studies and observations there seems no doubt that this considerable size of the bonuses makes a large difference in terms of the success of the systems. This observation is further documented by experience from those systems where bonuses are *not* as high. In this context, it is interesting to note that in two of the systems (Ghana and – especially – the Philippines) it is in fact not only a question of the potential rewards being too small. Rather, the problem is that albeit rewards may be potentially high, the systems are simply not able to actually deliver or pay out the rewards (either because of institutional problems as in the Philippines or because of financial reasons as in Ghana). The result is de-motivation and an almost total loss of legitimacy among the employees.

These observations of course give reason to ask a fundamental question: How large should bonuses be?

The Albanian model is interesting in this context. As described in chapter 9, the Albanian authorities made what amounts to a basic cost-benefit model of "corruption versus bonuses": Below a certain point, it is not remunerative for an importer of goods to pay out bribes in comparison with the duty that he thus avoids paying. Consequently, if the bonus handed out to the customs official is competitive with the bribe that he may otherwise receive, he will be motivated to declare the goods rather than receiving a bribe. In overall terms, the size of the bonuses depends on potential revenue that the officials may collect.

This kind of simple cost-benefit calculations obviously has certain limitations. First of all, this system does not necessarily prevent the officials from receiving a bonus *and* a bribe at the same time, and secondly, this kind of cost-benefit balance depends to some extent on the business structure of the individual countries – in countries with a large number of small businesses (each one importing only small amounts of goods) the bonus will often be able to compete with the potential bribe (because of the low break even point of the importer). It does not take much imagination, on the other hand, to imagine a situation where a large importer is able to compete comfortably with the bonus that the official may otherwise receive.

From a national revenue point of view, however, one may well construct such a "national" cost benefit analysis: What amount of bonuses are we willing to pay out to secure a higher revenue collection? In principle, anything above 0 percent (from the present level of revenue collection) is a gain. As in Albania, one may consequently well try to establish a break even point below which it

may be assumed that officials will rather receive bonuses than bribes. On the basis of customs declaration statistics, one may well calculate an "average" customs declaration sum that the bonus should be able to compete with.

Fundamentally speaking, the larger the bonus, the greater is the loss if you loose it. This may seem a banal statement, but in some of the countries that have been studied, this has been a very deciding factor. In Albania and Morocco (and to some extent Brazil) the "life span cost benefit analysis" of the individual employee may well end up pointing towards a performance that ensures a bonus. The *total* life span loss of bonuses and base salaries if you are caught (combined with the inherent risk of unemployment and punishment) may well add up to be more than the benefits you can expect to receive from corruptive behavior.. Certainly, if the main objective is recruitment and retainment of employees, the size of the bonus is a deciding factor.

For a number of reasons, the recipe for a successful system is not simply a matter of handing out sufficiently large bonuses. First of all, if the system does not otherwise ensure that the bonus is performance related those money may be wasted. Secondly – as witnessed in Brazil, Ghana and to a lesser extent in Morocco and Albania – a high level of bonus payments may well cause internal strife among government agencies, either creating a massive opposition to the bonus system (and de-motivation in other agencies) or creating a spiral of salary demands, making it difficult for a government to defend a generous bonus policy.

Basically, the level of the bonuses should reflect the actual objectives behind the bonuses:

- If the motive is recruitment and retainment of employees, the bonuses should make the revenue authorities able to compete on even terms with whomever they compete with (private sector companies or other government agencies).
- In countries where there is no such competition (as in Albania), or where the general unemployment rate is high, bonuses should reflect this and may well be lower.
- In countries where fighting corruption is the main objective, bonuses should be constructed to reflect this, as in the Albanian system.
- And finally, in countries where national financial policies make it imperative that revenue collection is improved, bonuses may well be very high compared also to other public and private sectors.

Transparency and discretionary powers

In chapter 1, transparency was highlighted as another key factor in the construction of a bonus system. Transparency creates legitimacy in the sense that transparency not only enables the employees to *understand* the bonus system processes but also creates a higher degree of *acceptance* of the system.

A number of the systems that have been studied demonstrate a fairly high degree of transparency in the sense that the *criteria* upon which the performance of the individual employees, of individual units or of the collective organizations are measured, are well described and available to the employees. They have a formal *knowledge* of the criteria and of the process of rewarding bonuses. Furthermore, in a number of the systems the authorities have attempted to secure a homogenous implementation through the use of manuals, education etc. This process has been taken the farthest by the Moroccan authorities that have made a substantial effort to educate local and regional officers and to establish local Human Resources functions. As described in the Brazilian case study, the authorities there have constructed a very elaborate set of evaluation criteria and evaluation guidelines on both institutional and individual level.

Likewise, it is an important feature of most systems that the employees are being given an opportunity to actually see the performance evaluations themselves, whereby they are given a chance to respond to and comment on the evaluations.

Finally, the possibility of *appealing* the individual evaluations should be mentioned. In Brazil, Albania, Latvia and Morocco, a formalized appeals system has been established to secure the individual employees from discretionary abuse. Even though evidence from these appeals systems in relation to their ability to safe guard the bonus systems is relatively scarce, the formal set-up and the regulations ion relation to the appeals systems indicate a sufficient level of transparency and power.

A very crucial aspect of transparency – and thus of legitimacy – is the question of **discretionary powers** of the officers that are responsible for the evaluations. Basically, discretionary powers imply a lack of

transparency. As mentioned previously, it is extremely difficult to establish an individually based performance measurement system that does not to *some* degree contain an element of discretion. Very few performance systems are able to rely on individual performance data, basically because this requires not only individual performance targets but also an advanced system of performance measurements on the individual level.

The case studies have presented four examples of systems that are attempting to circumvent the risk of discretionary abuse:

- One part of the **Brazilian** system is based solely on institutional performance, i.e. organizational performance based on objective production data. In principle, this type of system completely avoids the risk of discretionary abuse unless the data going in to the registration systems are actually forged or unless the data are deliberately misused or mis-interpreted.

- The system in the **Philippines** are based solely on the fair market value of smuggled and confiscated goods, not on any type of individual evaluation as such. Obviously, a crucial factor would be the actual calculation of the fair market values.

- The system in **Ghana** is a universal bonus system where bonuses are paid out to all employees (with very few exceptions), thus eliminating any possibility of discretionary abuse by superior officers.

- The system in **Latvia** is to a large extend based on a wide range of objective performance indicators, and hardly no individual evaluations as such. The only discretionary element is the local offices' internal distribution of the objective performance targets.

On their own terms, each of these systems is more objective in nature than a system based on non-measurable evaluation criteria. As described above, however, other factors make some of the systems

unreliable in the eyes of the employees. In the Philippines, the actual bonus distribution process is centralized in a committee, and even though the criteria are fairly objective, the number of approved applications for bonuses is extremely low for no “objective” reason. This makes the actual distribution process totally inscrutable and incomprehensible for the individual employee. In Ghana, payment of the universal bonuses is in effect hampered by financial considerations. The inability of the system to actually “perform” (i.e. the size of the bonuses) is, however, counterproductive. And in Brazil, the documented performance in relation to the institutional performance targets was so good that in effect almost every employee received the maximum institutional bonus - indicating either another motive than performance, or performance targets that were not sufficiently ambitious.

But again – presupposing that the “system” is actually able to deliver the payments, and presupposing that institutional performance is a motivating factor also on the individual level, it is possible to construct organizational bonus systems that to a large degree avoid the risk of discretionary abuse.

In the systems where performance is measured on the basis of *individual* evaluations, the authorities acknowledge the risk of discretionary abuse. In Albania and Morocco, the attempts to avoid this conflict have been quite similar, namely a system of “triple approvals” of the evaluations in the organizational hierarchies. Such a system is in itself not watertight - it is often quite unlikely that a centrally based senior official should have enough knowledge of, say, the performance of a local customs official to enable him to actually assess the evaluation of the local official.

Yet the experience from – in particular – the Moroccan system indicate that discretion may not be a large problem. The combination of initiatives such as the “triple checks”, the local HR functions, the regular functional and geographical circulation of superiors, the appeals system and (especially) the regular central “scrutiny” of the individual evaluations are impressive and certainly demonstrate a will to counteract the risk of abuse.

External legitimacy

A final aspect of the legitimacy of the bonus systems is the so-called external legitimacy – the acceptance of the bonus systems outside the revenue departments themselves. As described above, the size of the bonuses in Albania, Ghana, Brazil and Morocco have all – to various extends – become inter-institutional issues.

The point is, of course, that the viability and success of the bonus systems depend on the external legitimacy. The lack of external legitimacy may well be said to be the fundamental reason for the lack of success of the system in Ghana and for the first-generation system in Brazil. Likewise, the Philippine case seem to indicate that the system there is to some extend being obstructed by the fact that other authorities that do not themselves enjoy the benefits of the bonus system are involved in the bonus distribution process.

The lesson as such is simple: A bonus system has to accepted and backed externally, both by other departments and politically. The systems in Albania and Morocco show to a large extend a willingness on the part of the political and administrative authorities to support systems that actually create inequalities between agencies and departments – all because the main objective of the systems (an increased ability to collect revenue) are deemed sufficiently important. Other examples from the case studies show the result when a system is only implemented half-heartedly: The loss of *external* legitimacy very quickly transforms into a loss of *internal* legitimacy.

The "performance management system cook book"

Above, we have attempted to highlight those aspects of the bonus systems that we believe are the most important factors in determining the success of a bonus system.

It is not our intention to "grade" the individual bonus system in relation to each other. A very large number of political, financial, organizational and cultural factors – that are obviously not all under the control of the revenue departments – have an influence on the relative success of the various bonus systems.

Yet in relation to the criteria that have been listed above, it is tempting to examine the relationship between the way these criteria have been handled, and the overall performance of the various systems.

At the risk of ignoring a wide range of methodological reservations, this is attempted in the table below, where the systems' ability to tackle the "legitimacy question" is compared to the overall "system performance" (i.e. the performance of the bonus systems in relation to the objectives behind the systems, whatever these may be):

Country	Implementation process	Ability to perform	Trans-pa-rency	Discre-tionary abuse	External accep-tance	System performance
Morocco	++	+++	++	+++	+	**+++**
Albania	++	+++	++	++	--	**++**
Brazil	-	++	++	+	--	**++**
Ghana	+++	--	+	+	-	**+**
Latvia	+	-	+	+	+	**+**
Philippines	+	---	--	---	---	**-**

It is quite evident that there is a connection between those systems that we believe have dealt properly with the legitimacy issue, and the system performance. The intention is *not* to highlight some systems at the expense of others – rather, the intention is to highlight those issues that *other* departments in other countries should be aware of when designing bonus systems.

The "lessons to be learned" may be summarized in this way:

- Basically, the introduction of bonus systems does seem to have a tangible impact on organizational performance.
- In order to secure the active involvement and participation of the organization, it is important to include staff on all levels in the designing and implementation of the systems.
- Bonus systems must make an actual difference for the employees that are covered by the system – they have to feel that they are in reality being rewarded according to performance, either individually or collectively.
- Consequently, size *does* matter – there are indications that the success of bonus systems are closely related to the size of the bonuses. Yet bonuses should also reflect the objective behind the introduction of the system (total increase in

revenue collection, recruitment/retainment of employees or fighting corruption).

- And consequently, it is – obviously – of vital importance that the systems are able to “deliver” the rewards, not just fairly but also on time.
- The systems need to be as transparent as possible, in terms of the “understandability” of the design, the fairness and the processes. A number of tools have proven helpful in creating such transparency.
- The degree of discretion should be limited, and safe guarded by a sufficient number of control mechanisms.
- The external legitimacy must be secured beforehand – both politically and organizationally. The actual “costs, risks and benefits” of the system (both financially and politically) must be made clear to the decision makers.

Table: Overview of the seven selected bonus systems