Lao PDR
Civil Service Pay and Compensation Review: Attracting and Motivating Civil Servants

June 2010

Poverty Reduction and Economic Management Sector Unit
East Asia and Pacific Region

Document of the World Bank
CURRENCY EQUIVALENTS

Currency unit = Lao Kip
US$1 = 8500 kip

ABBREVIATIONS AND ACRONYMS

ADB  Asian Development Bank
AGI  Actionable Governance Indicators
CCOP Central Committee on Organization and Personnel
CSS  Civil Servant Scheme
DDG  Deputy Director General
DG   Director General
DP   Development Partner
DSA  Daily Subsistence Allowance
FGD  Focus Group Discussion
GOL  Government of Lao PDR
HRM  Human Resource Management
IDI  In-Depth Interview
LPRP Lao People’s Revolutionary Party
MOF  Ministry of Finance
NAPPA National Academy of Politics and Public Administration
ODA  Overseas Development Assistance
PACSA Public Administration and Civil Service Authority
PCA  Pay Comparative Analysis
PER  Public Expenditure Review
PETS Public Expenditure Tracking Survey
PIMS Personnel Information Management System
PFM  Public Financial Management
PFMSP Public Financial Management Strengthening Program
PMO  Prime Minister’s Office
PRSO Poverty Reduction Support Operation
SOE  State-Owned Enterprise

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ACKNOWLEDGEMENTS

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- Jana Orac (2009), “Lao PDR Pay Comparator Analysis: How do Civil Service Salaries Measure up Against Private Sector and State-Owned Enterprises?” Deborah Perlman, Vilaysack Syvilay, and Hatsouliith Saysena assisted with field interviews for the employer survey. Nina Fenton and Shinya Takamatsu contributed statistical analysis of household survey data, under the supervision of Magnus Lindelow who, together with Deon Filmer, Hugh Grant, and Sengxay Phousingoa, provided valuable methodological guidance. We are grateful for permission from the Government of Lao PDR to use data from the 2007-08 Lao Expenditure and Consumption Survey (LECS).
- Helle M. Alvesson, (2009) “Civil Servants in Lao PDR: Human Resource Management From Within.” Indochina Research Limited conducted the focus groups upon which the assessment is based. Bouasavanh Khanthaphat and Kinnalone Kittiphanh moderated the focus group and provided the transcripts and summaries, under the guidance of Helle M. Alvesson and Chansada Souvanlasy. Magnus Lindelow provided valuable methodological guidance. We are grateful for the facilitating assistance provided by Phetsamone Phetphouvong of the Public Administration and Civil Service Authority in convening the focus groups and interviews in the provinces.
- Deborah Perlman, Jana Orac, and Naazneen Barma (2009), “Human Resource Management in the Lao PDR Civil Service: Insights from the Human Resource Management Actionable Governance Indicator Instrument.” Vilaysack Syvilay and Saysanith Vongviengkham provided assistance with interviews and the report. We are grateful to Anoulack Sithidith of the Public Administration and Civil Service Authority for his collaboration.

Valuable comments were provided by Ranjana Mukherjee and Gary Reid (peer reviewers) as well as Genevieve Boyreau, Magnus Lindelow, Shabih Mohib, Suhas Parandekar, William Rex, Ekaterina Vostroknutova and Thang-Long Ton. Boualamphan Phoutavisouk, Vathana Singharaj, Lynn Yeargin and Lynn Gross provided administrative support. The note was prepared under the overall guidance of Annette Dixon (Country Director, Lao PDR); Patchamuthu Illangovan (Country Manager, Lao PDR); Vikram Nehru (Sector Director, EASPR); Barbara Nunberg (Sector Manager, EASPR); Linda Van Gelder (Sector Manager, EASPR); and Mathew Verghis (Lead Economist, EASPR).

Data collection and analytical work was conducted in collaboration with the Public Administration and Civil Service Authority (PACSA) and the Ministry of Finance (MOF), with the assistance of a number of ministry and provincial Personnel Departments, and with the guidance of the Central Committee of Organization and Personnel (CCOP). The note draws on discussions with the following officials during missions to Lao PDR in November 2008, February 2009, May 2009, and March 2010:

**Public Administration and Civil Service Authority (PACSA):** H. E. Mme. Boupheng Mounphoxay (Minister of the Prime Minister’s Office and Chair of PACSA); H. E. Mr. Khamoune (Vice Chair); H. E. Mr. Syphouk (Vice Chair); Mr. Nisith Keopanya (DG Civil Service Management Department);
Mr. Singthavone (DDG Civil Service Management Department); and Mme. KhamsaNgeun, Mr. Anoulack Sitthideth, Mr. Phetsamone Phetphouvong, Mr. Saothien Vongsaya, and Mr. Bounchanh (Civil Service Management Department). We are also grateful to Mr. Suresh Balakrishnan (United Nations Development Program and Government Public Administration Reform Program).

**Ministry of Finance (MOF):** Dr. Bounlea (DG External Finance Department); Mme. Bouangeun (DDG Fiscal Policy Department); and Mme. Chansouk Thammavong (Statistics Division).

**Personnel Department officials:** Mr. Thongphiew Bouthsady, Mr. Prapath Sanalath, Mr. Khounmy, Mme. Chansouk, Mr. Chandy Vorabouth, and Mr. Chanthongdy Vongthavone (Ministry of Education); Mr. Akkavone Douangsouvannavon, Mr. Somboun Intaphatha, and Mr. Prasomphet Khamta (Ministry of Finance); Dr. Khamphone Phouthvong, Dr. Phouthone Vangkonevilay, Dr. Khamprasong, and Dr. Loun Manivong (Ministry of Health); Mrs. Bouathong (Ministry of Information and Culture); Mme. Khamphab Oundara (Ministry of Labor and Social Welfare); and Mr. Souvanny (Ministry of Public Works and Transport).

**Other government officials:** Mr. Inthavong Khod pangna (National Academy of Politics and Public Administration); Dr. Leeber Leebuapao (DG National Economics Research Institute); Ms. Sengdavone (Lao National of Chamber and Commerce Industry); District Education Office officials and school principals in Vang Vieng District; and provincial officials in Vientiane province.

**Development partners:** Representatives of the Asian Development Bank, the European Commission, and the United Nations Development Program.

We are also grateful to the attendees of the joint World Bank-PACSA workshop on “Issues in Civil Service Human Resource Management and Reform: Lessons and Directions for Lao PDR,” held on February 19, 2009, in Vientiane.
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EXECUTIVE SUMMARY

Objective of the Report

1. Lao PDR is at a point on its development trajectory where strategic attention to administrative performance is crucial. An efficient and high-performing civil service, with the compensation and human resource management systems to attract and motivate qualified personnel, will be essential to Lao PDR’s development efforts. The ministerial-level Public Administration and Civil Service Authority (PACSA) is currently spearheading the drafting of a comprehensive new Civil Service Management Strategy that will be implemented over the period 2010-2020, with a number of important reforms to strengthen the civil service anticipated to take place within the next five years. Key objectives include improvements in human resource policies and planning, salary reform, and enhanced performance management.

2. As the Government of Lao PDR (GOL) moves to consolidate its public administration modernization process, it will be crucial to address several long term challenges in the areas of civil service compensation, grading, and human resource management (HRM) systems. An acute lack of data has hampered the goals of assessing the adequacy of these systems in Lao PDR and thereby developing policies to help improve government performance through administrative reform. In the face of this lack of empirical information, a persistent viewpoint—shared by GOL and its development partners—has been that compensation levels have been too low to attract the requisite skills into the civil service and to motivate government employees to perform their jobs professionally without turning to additional jobs to earn more. In addition, a lack of robust analysis has hampered a strategic approach toward civil service compensation—and, as a consequence, emerging fiscal pressures from the civil service wagebill and proliferating dysfunctionalities in remuneration practices are causes for immediate concern.

3. The main objective of this civil service pay and compensation review is to support the GOL’s efforts to enhance the effectiveness of its civil service by establishing a robust analytical and empirical basis going forward for any dialogue and decisions on how compensation and HRM reforms might be designed. Central to a civil service reform process will be the government’s ability to assess and initiate the systematic monitoring of: (i) its compensation-setting practices, the disaggregated patterns of compensation that result, and the full fiscal costs of the civil service; and (ii) the impacts of compensation-setting policies and broader HRM practices on their core objectives—namely, attracting required skills and motivating civil service performance.

4. In order to present as comprehensive a picture as possible of the Lao civil service pay and compensation system, and its strengths and challenges, this report comprises four chapters. The first characterizes the Lao civil service in perspective. The second examines how civil servants are compensated. The third assesses whether they are compensated adequately. The fourth summarizes civil servants’ own characterization of their incentives in both compensation- and non-compensation-related terms. A brief conclusion points to a set of principles for civil service reform and outlines three sequenced steps toward achieving a more rational civil service pay and grading system.

Chapter 1: The Lao Civil Service in Perspective

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

6. The civil service wagebill has exhibited steady growth over the past decade, with most recent increases ringing a note of caution. From the fiscal perspective, the wagebill has risen significantly over the past decade from 12.5 percent of total expenditure in FY2000/01 to 28.5 percent in FY2008/09, with accelerated growth occurring very recently from FY2007/08 onwards. Compared to the fiscal picture in other countries, the wagebill may still be within reasonable bounds—but there would be cause for concern if the wagebill’s share of recurrent expenditure continued to rise, since it would be increasingly crowding out spending on complementary goods. As a share of total revenue, the wagebill has climbed from 16.7 percent in FY2000/01 to 34.0 percent in FY2008/09, gradually bringing the wagebill’s continued affordability into question.

7. The size of the wagebill as a share of GDP exhibits the same pattern of steady increase and an acceleration in growth from 2007/08 onwards, rising from 2.7 percent of GDP in 2000 to 5.5 percent in 2008—although the MOF’s most recent wagebill projections indicate that the government intends to check continued increases. The GOL has been gradually increasing civil service compensation to make up for a steep decline in real salaries following the 1997-98 Asian financial crisis. Average wages have grown more than threefold in nominal terms and have almost doubled in real terms since 2001. Aggregate wagebill growth has been due to rising compensation and the increasing size and changing shape of the civil service. It is thus clear that the major dimensions of any wagebill control in the future must come in terms of compensation reform and careful management of civil service establishment size.

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

Chapter 2: How Much Are Civil Servants Compensated?

9. Total regular compensation packages for Lao civil servants are made up of a complex number of components, including base salary, monetary allowances, and in-kind benefits. This array of compensation dimensions—some based on educational qualifications, some on civil service position, and some on personal characteristics—makes it extremely difficult to predict what an individual civil servant might earn without knowing educational and demographic details. The compensation system also makes it impossible to estimate and build projections of an aggregate wagebill without these disaggregated individual details.

10. The indexed salary grid uses educational credentials as the basis for placing individuals into a particular grade and step. Base salary alone is quite compressed in the Lao civil service, with individuals at the top pay point earning 3.1 times the base salary of those at the bottom. Yet significant allowance entitlements vary by position and hence introduce an important element of job-related compensation for the managerial cadres that is unrelated to the indexed salary structure. These position-based entitlements introduce a significant degree of decompression into the structure of total compensation, increasing the compression ratio markedly to around 4.0 for directors general. Managers and high-level officials may receive other benefits that can add substantially to their overall remuneration package.

11. Individual civil servants holding the same job title and performing the same job content receive varying base salary amounts, violating the basic human resource management principle of ‘equal pay for equal work.’ This issue is mediated somewhat by allowances, however, in the managerial ranks. Since allowances form an increasing proportion of total compensation moving up the salary structure, they
ensure two things: first, that civil servants filling senior positions are indeed being compensated more than those below them who might have a higher level of education; and, second, that the range of compensation across those senior positions is tighter than looking at base salary alone would suggest.

12. The practice of per diem payments for in-country travel can lead to additional duty-related, albeit non-regular, compensation that rivals or even exceeds total monthly earnings from base salary and allowances. Civil servants legally pocket a substantial fraction of per diem payments, which constitutes a significant supplement to earnings. Indicatively, for technical staff and managers, the maximum savings from per diem payments could exceed regular compensation in the form of base salary plus allowances. In other words, although individual experience varies greatly, duty-related take home compensation including per diems could equate to more than double regular monthly earnings for all professional grades of the civil service—based in both Vientiane and at the provincial level.

Chapter 3: Are Civil Servants Compensated Adequately?

13. White collar alternatives to civil service employment are limited at present since formal salaried jobs are currently a small fraction of the Lao labor market. In 2005, 88 percent of workers in Lao PDR were either self-employed—largely in agriculture—or unpaid family members. Civil servants constituted 4 percent of all employed, or about one-third of all formal sector jobs. Salaried private sector jobs accounted for less than 5 percent of total employment, and state-owned enterprises for less than 1 percent.

14. The pay comparator analysis undertaken for this report uses two approaches in order to gain as comprehensive a picture of the alternative labor market as possible—comparing public sector earnings to those for similar workers in other labor markets as well as to compensation for similar jobs. Overall, the analysis confirmed a common perception that—for certain positions and workers—the formal private sector and state-owned enterprises (SOEs) may offer the potential for seemingly higher monetary compensation than the civil service. It must be noted, however, that these pay ratios do not exhibit the dramatic earnings differentials that are sometimes cited anecdotally. Moreover, pay experts tend to believe that civil service pay levels of 65 to 75 percent of private sector pay are appropriate, given the other benefits of public sector employment—and the current compensation practices of the Lao civil service fall squarely within this range.

15. The worker analysis broadly indicates that mean monthly earnings for wage-workers in the private sector (excluding agriculture) are somewhat higher than in government administration. For those workers with some secondary schooling onward, it appears that wage-earners in the private sector and SOEs earn around one-and-a-half times that earned by similar workers in the civil service. The jobs approach indicates that average monthly compensation in the civil service appears lower, across all positions, than compensation for similar jobs in the private sector and SOEs. Average salaries for rank- and-file positions in the private sector (e.g., entry level staff, secretaries, clerks) are about one-and-a-half to two times the compensation received by civil service technical staff—somewhat higher but roughly comparable. At higher professional levels, the magnitude of the public to private earnings differential is more pronounced—with private sector peers earning around three times the official compensation of senior officials.

16. Yet these data are not normalized for the number of hours worked and civil servants have shorter working hours and, generally, a shorter work week than those in the private sector. In addition, the salary path in the private sector is more uncertain than in the civil service, which provides more predictable earnings. Hence, despite the potentially attractive salaries in large, profitable companies, there is widespread agreement that individuals—including recent graduates—are drawn to civil service jobs, for reasons of stable employment, earnings predictability, in-kind benefits, lower work demands,
opportunities for secondary employment, and the possibility to benefit from their status in ways beyond official compensation.

17. Civil servants also enjoy more in-kind benefits and have more opportunities to supplement earnings via per diems or other, informal, routes. With a fuller picture of civil service earning potential that includes estimated supplements from per diem savings, the private sector compensation premium disappears for all but the director general rank. Senior civil servants—particularly those at the director general level—most likely receive significant non-monetary benefits such as subsidized or free housing, and possibly even land allotments. Factoring in these aspects of non-monetary compensation could erase the private sector premium even at the director general level. When non-regular compensation and non-monetary benefits are also considered, the civil service most likely has an edge over the private sector in its ability to recruit and motivate the requisite staff at all professional grades.

Chapter 4: A Civil Service Incentives Assessment

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

19. The views and voices of civil servants themselves—particularly education and health service delivery workers—were solicited to contribute to the understanding of monetary and non-monetary compensation practices in the Lao context; and to provide a sense of their experience of motivational factors embedded within the broader HRM system, including issues such as hiring and promotion.

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

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

22. What additional income opportunities are available to cope with low compensation levels? Civil servants reported that taking on additional work is essential for their welfare since their formal compensation packages are generally too low to live on. Participants identified three main avenues through which to earn additional income in order to support themselves and their families. It is formally
permitted to take on other jobs after work hours—often known as ‘moonlighting’—although there are some restrictions. Civil servants also earn additional income more informally—for example, through the Lao custom of ‘extra payments or gifts’ for services. Finally, some streams of civil service income border on illegitimate—such as payments for authorizing contracts or working for private clients during work hours. The ability of civil servants to earn additional income varies widely, with opportunities reportedly more limited in scope for civil servants in rural locations and for those in junior positions with limited networks. Staff in urban planning (engineers) and in agriculture and forestry can often earn large additional incomes through contact with private construction companies. For the majority of medical personnel, additional incomes appeared to be in the range of 50 to 200 percent on top of their official salary. Teachers reported the lowest rates of additional income, with the highest stated total income double official salary.

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

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

**Ways Forward for Civil Service Reform**

25. On the basis of the report’s analysis of the Lao civil service compensation and HRM systems, and their strengths and challenges, we propose a set of potential reform options. These recommendations are tailored to Lao context and current capacity constraints, are aligned to support the GOL’s own incentives as it deals with an evolving civil service, and are presented as a menu of options that serve as building blocks toward enhanced civil service performance within a fiscal constraint. Although existing compensation and HRM practices may be adequate for now—in terms of attracting and motivating civil servants—there are growing signs that the system will come under pressure in the near future. First, as detailed in this report, the fiscal costs of the civil service are growing and a number of hidden non-wage recurrent costs could prove to be a liability for the government. Second, there are signs of emerging dysfunctionalities in civil service management, particularly as parallel systems of non-regular compensation proliferate, skewing the incentives of public employees away from a performance orientation. Third, it appears that expectations and perceptions of fair HRM practice are evolving as a younger generation of more professionally trained and motivated civil servants become more prominent in public sector. In light of these challenges, possible ways forward for civil service reform are as follows:

26. **Improving HRM reform.** The main objective of this civil service pay and compensation review has been to support the GOL’s efforts to enhance the effectiveness of its civil service by establishing a
robust analytical and empirical basis going forward for any dialogue and decisions on how compensation and human resource management reforms might be designed. Developing an improved framework for evidenced-based policy-making in civil service HRM is an approach that PACSA is well positioned to undertake, given its policy mandate and ongoing role in overseeing HRM practices and collecting civil service statistics.

27. **Wagebill modeling.** Moving forward it will be important for the GOL to comprehensively model the impact of any potential compensation reforms in the context of what appear to be growing fiscal constraints on the aggregate wagebill. The personnel information management system (PIMS), when it is deployed, should improve the availability of information and the ability of MOF and other agencies to track personnel numbers and wage costs—and could potentially form the basis for a detailed wagebill modeling exercise.

28. **Capturing the full fiscal cost of the civil service.** A number of practices in civil service hiring and compensation in Lao PDR obscure the true cost of the civil service establishment to the GOL, if only the aggregate wagebill figure is examined. In order to more accurately capture the true cost of paying the civil service, the GOL should work to calculate at least the magnitude of compensation to contract workers and volunteers performing civil service jobs. Furthermore, the GOL and its development partners must together guard against the proliferation of practices—such as salary supplementation and off-budget, donor funding of line positions—that skew civil service incentives and undermine human resource management. A tangible first step in this regard would be an agreement to further study these practices and examine how widely spread they are, along with a commitment to harmonizing donor approaches in order to avoid perpetuating adverse dynamics.

29. **Enhancing establishment controls.** The government could move to implement partial steps in establishment control to achieve some measure of performance-oriented reform. One important action in this regard would be to control the tide of inevitable progression within the career structure by reforming the criteria for advancement. The GOL could mandate that only educational qualifications with direct relevance to job performance would result step or grade advancement, going some way toward emphasizing merit and job performance in career progression. The government could also, for example, reduce the discretionary ability of provincial governments to bypass establishment controls—which they currently do by hiring contract workers who are then made permanent civil servants—by instructing MOF’s Treasury Department not to process payment for any payroll records that do not include MOF approval for the post being created or filled. Taking such steps in establishment control would yield a three-fold benefit. First, they would help to reign in aggregate wagebill growth by focusing on the employment side of the equation rather than simply compensation itself. Second, they go some way toward addressing the growing perception, on the part of the younger generation of civil servants, that traditional career advancement routes are unfair. Third, to the extent that they can move some way toward compensating employees for the job performed rather than the position held, they help to build toward a culture of performance in the civil service.

30. **Rationalizing compensation.** Overall, the current civil service compensation system is complex and often opaque, leads to inequities in compensation, and prevents the possibility of rational pay setting for civil servants. A more rational pay system, one which ensures equal pay for equal work and relative ranking and hence compensation of jobs based on work responsibilities, is firmly within GOL’s reach. Building such a system would entail three sequenced steps. In a first step worth undertaking by itself, the government would need to simplify and reform the pay system by quantifying non-regular compensation such as per diem savings; monetizing, as far as possible, in-kind allowances; and converting the bulk of all non-salary forms of compensation (including monetary allowances) into base salary. Second, the government could consider reforming at least some elements of its career-based civil service regime to a more performance-oriented, job-based system, where government employees are compensated according
to the content of the job they perform rather than on the basis of their educational qualifications. This step could also entail the creation of a handful of differentiated civil service cadres, in order to ensure service delivery workers can be motivated adequately, along with a more sophisticated exercise of benchmarking civil service compensation to the private sector to ensure compensation adequacy. Third, to establish a well-functioning control framework for pay and grading, as well as to attain greater control of the wagebill, the government could improve payroll management systems by ensuring that payroll, the HR database, and a register of posts are all linked.

31. **Ensuring compensation adequacy.** At present, our findings do not indicate that Lao civil servants are systematically under-compensated, nor that performance-focused recruitment and motivation in the civil service are threatened by compensation levels. Nevertheless, a more comprehensive analytical exercise that proceeds on the basis of detailed job evaluations and establishes a benchmark set of private sector and SOE jobs could help to put in place a system equipped to continuously ensure that the private to public compensation ratio stays relatively constant across all ranks of the civil service. A wise target, rather than full parity with private sector comparators, is rather *consistency* in the ratio of public to private compensation across different types of positions, in which respect Lao civil service compensation appears to be quite rationally structured.

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

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

Rationale for the Report

1. Lao PDR is at a point on its development trajectory where strategic attention to administrative performance is crucial. It has achieved a decade of encouraging economic performance and, particularly with growing revenues from mineral and hydropower natural resources, its solid growth record is poised to continue. Transitional economic reforms were begun over twenty years ago and the government continues to consolidate them. More recently, recognizing the centrality of government performance to its developmental goals, Lao PDR made improving the effectiveness of public administration and enhancing the quality of service delivery core elements of its National Socio-Economic Development Plan (2006-2010).

2. To those ends, the Strategic Plan on Governance focuses, inter alia, on developing effective civil service management through the modernization of current systems and improving public service productivity by enhancing the civil service incentive and reward system. These principles have been operationalized under the Government Public Administration Reform support for Better Service Delivery, which is led by the ministerial-level Public Administration and Civil Service Authority (PACSA) in the Prime Minister’s Office. PACSA is currently spearheading the drafting of a comprehensive new Civil Service Management Strategy that will be implemented over the period 2010-2020, with a number of important reforms to strengthen the civil service anticipated to take place within the next five years. Key objectives include improvements in human resource policies and planning, salary reform, and enhanced performance management.

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

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

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1 PACSA submitted a preliminary draft of this civil service strategy to Government in November 2009.

2 The Independent Evaluation Group’s 2007 assessment of the World Bank’s public sector portfolio was particularly critical of the track record in civil service reform, pointing to a serious lack of robust analytical work in the area.
5. Pay and compensation reform is a central and necessary—albeit insufficient—plank in improving administrative capacity and performance as a step toward tackling longer-term civil service management issues. As the experience of other developing countries has shown, the success of broader administrative reform can hinge on a government’s ability to compensate its civil servants such that they are adequately motivated to perform professionally and effectively.

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

7. In addition to responding to the GOL’s request for a comprehensive review of civil service compensation, the report serves three additional areas of ongoing Bank engagement on administrative reform and governance with the GOL: (i) input into Poverty Reduction Support Operation (PRSO) components on public financial management and service delivery through formulation of future actions on civil service reform; (ii) active engagement of the Central Committee on Organization and Personnel (CCOP), which is leading the country’s human resource development agenda and can help to ensure that the findings of this report will be operationalized; (iii) input into the service delivery improvement and capacity-building agendas in the human development sectors.

Structure of the Report

8. The main objective of this civil service pay and compensation review is to support the GOL’s efforts to enhance the effectiveness of its civil service by establishing a robust analytical and empirical basis going forward for any dialogue and decisions on how compensation and HRM reforms might be designed. Central to a civil service reform process will be the government’s ability to assess and initiate the systematic monitoring of: (i) its compensation-setting practices and the disaggregated patterns of compensation that result; and (ii) the impacts of compensation-setting policies and practices on their core objectives—namely, attracting required skills and motivating civil service performance.

9. Initial analysis—including the World Bank’s 2008 Civil Service Approach Note, 2006 Public Expenditure Tracking Survey, 2007 Public Expenditure Review, and 2008 Teacher Study—indicated that civil service pay in Lao PDR is low and compressed. Hence it would seem that the civil service would have difficulty recruiting and retaining personnel. Yet anecdotal evidence reported by sector staff and government counterparts indicated that staffing quotas, particularly for teachers and health workers in the provinces, are often over-subscribed, pointing to additional benefits not yet being captured in the data. Low compensation would suggest that civil service jobs are comparatively unappealing to alternatives; but oversubscribed quotas suggest that these jobs are indeed desirable. Either of these conclusions may be correct for particular grades or cadres of workers within the civil service, but they cannot both be true for the civil service taken as a whole. The analytical challenge, therefore, was to determine in practice whether particular civil service jobs are under- or over-compensated, and to get a sense of the magnitude of these phenomena.

10. The report comprises and integrates four key components in order to draw conclusions about the adequacy of civil service compensation in Lao PDR. These elements make up the four main chapters of

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the report, ordered as follows:

(i) Chapter 1 describes the Lao civil service in perspective, detailing its size and structure and characterizing the macro wagebill situation along with a brief description of compensation policies. It also provides the highlights of a diagnostic assessment of the civil service HRM system, aiming to embed the pay and compensation analysis within the context of the broader HRM architecture that affects the professionalization and performance of civil servants. Finally, having set the scene, the chapter articulates the empirical questions about civil service compensation addressed by the remainder of the report.

(ii) Chapter 2 reviews in detail the GOL’s current civil service pay and compensation structure and provides a comprehensive assessment of the total compensation packages, including both monetary and non-monetary components, for civil servants across grades, job descriptions, and geographical deployment. This chapter includes detailed analysis of disaggregated payroll data, as well as a comprehensive overview of the government’s compensation-setting policies and practices. Special attention is paid to understanding the compensation of the health and education cadres, which together comprise almost two-thirds of the civil service. An emphasis is also placed on estimating the impact of non-regular, duty-related compensation—in particular, savings from per diem payments—on overall compensation. Emerging dysfunctionalities in civil service compensation practices are discussed.

(iii) Chapter 3 combines two approaches to pay comparator analysis in order to judge the relative adequacy of compensation across all grades of the civil service. The chapter compares civil service earnings to those for similar workers in other labor markets, as well as to comparators for similar jobs in state-owned enterprises and private firms.

(iv) Chapter 4 provides a civil service incentives assessment, based upon focus group discussions and in-depth interviews with current and would-be civil servants—with a particular focus on teachers and health workers. This assessment captures the magnitude of non-regular compensation, such as savings from per diems, along with additional income sources made available through civil service status (e.g., doctors operating clinics, teachers charging for tuition, etc.). The assessment also probes the alternative labor market available to civil servants. The chapter thereby builds a more comprehensive picture of why individuals may choose civil service employment even if regular compensation levels appear relatively low.

11. Finally, the conclusion reviews the report’s key findings and proposes a set of compensation and HRM reforms for the GOL to consider on the basis of the evidence presented. These recommendations are tailored to the Lao context and current capacity constraints and are aimed at being aligned with the GOL’s own incentives for reform as the civil service evolves.

- PACSA is well-positioned to develop an enhanced framework for evidenced-based policy-making in civil service HRM.

- It will be important for the GOL to comprehensively model the impact of any potential compensation reforms in the context of what appear to be growing fiscal constraints on the aggregate wagebill.

- The GOL should work to more accurately capture the true fiscal cost of the civil service establishment, by calculating at least the magnitude of compensation provided to contract workers and volunteers performing civil service jobs. In addition, the GOL and its development partners must together guard against the proliferation of practices—such as salary
supplementation and off-budget, donor funding of line positions—that skew civil service incentives and undermine human resource management.

- The government could move to implement partial steps in establishment control to achieve some measure of performance-oriented reform. One important action in this regard would be to control the tide of inevitable progression within the career structure by reforming the criteria for advancement. Taking such steps in establishment control would help to reign in aggregate wagebill growth by focusing on the employment side of the equation rather than simply compensation itself; go some way toward addressing the growing perception that traditional career advancement routes are unfair; and help to build toward a culture of performance in the civil service.

- Desirable reforms to the compensation system would lead in the direction of monetizing, as far as possible, in-kind allowances and benefits, and converting the bulk of all non-salary forms of compensation (including monetary allowances) into base salary. The conclusion outlines a sequence of steps through which the GOL could achieve a more rational pay system built on the principle of ‘equal pay for equal work,’ along with a grading system that ranks and compensates civil servants on the basis of the job they perform.

- The GOL could work toward introducing a system equipped to continuously ensure that the private to public compensation ratio stays relatively constant across all ranks of the civil service.

- The GOL could—with a policy that more systematically delineated legitimate and illegitimate earnings—move toward ensuring that civil servants are properly motivated through the formal compensation system to perform their jobs and toward preventing the conflicts of interest or risks of poor public service provision that emerge when civil servants seek to supplement their official compensation.

12. The process of the report’s preparation, through close collaboration on the study with PACSA, MOF, CCOP, and other government agencies, has already begun to support the Government in establishing practices and capacities that will enable it to continue the practice of evidence-based analysis and strategic policy deliberations regarding its civil service HRM policies, systems, and practices. The forthcoming Civil Service Management Strategy, to be implemented over the period 2010-2020, offers an important opportunity to enable the Lao civil service to continue its rationalization and modernization. We propose that the analysis and recommendations presented in this report form the basis for a series of workshops through which the GOL could work with the World Bank and its other development partners to develop a program of civil service reform going forward.
CHAPTER 1: THE LAO CIVIL SERVICE IN PERSPECTIVE

Introduction

1. The contemporary Lao civil service has been evolving, albeit slowly, in a relatively promising manner over the past twenty-five years. Administrative reforms were initiated in Lao PDR following the 1986 introduction of the New Economic Mechanism, the Government’s major economic reforms designed to move the economy from central planning toward a market system. A number of reforms to the civil service compensation structure were implemented over the intervening time period and the government created two new agencies with responsibility for civil service human resource management and development—what are now the Public Administration and Civil Service Authority (PACSA) and the National Academy of Politics and Public Administration (NAPPA).

2. This chapter sets the context for an in-depth examination of current civil service pay and compensation practices in Lao PDR. It details the recent evolution of the size and structure of the Lao civil service, providing some comparative perspective, and characterizes the macro wagebill situation along with a brief description of compensation policies. It also provides the highlights of a diagnostic assessment of the civil service human resource management (HRM) system, embedding the pay and compensation analysis within the context of the broader architecture that affects the ability of the Government of Lao PDR (GOL) to attract civil servants and motivate their performance. Finally, having set the scene, the chapter articulates the empirical questions about civil service compensation addressed by the remainder of the report. The key messages of this overview chapter can be summarized as follows:

- In per capita terms, with 1.8 civil servants per 100 population, the Lao civil service is not too large, yet significant growth in the size of the establishment has occurred over the past decade—particularly in the key professional grades. Growth in the number of employees is due to a combination of actively increasing the size of the civil service together with weak establishment control, particularly at the provincial level. Sectoral composition has remained roughly constant, with Health and Education employees together making up almost two-thirds of the civil service.

- The civil service wagebill has exhibited steady growth over the past decade, with most recent increases ringing a note of caution. From the fiscal perspective, the wagebill has risen significantly over the past decade from 12.5 percent of total expenditure in FY2000/01 to 28.5 percent in FY2008/09, with accelerated growth occurring very recently from FY2007/08 onwards. Although in comparative fiscal terms the wagebill may still be within reasonable bounds, there would be cause for concern if the wagebill’s share of recurrent expenditure continued to rise, since it would be increasingly crowding out spending on complementary goods. As a share of total revenue, the wagebill has climbed from 16.7 percent in FY2000/01 to 34.0 percent in FY2008/09, gradually bringing the wagebill’s continued affordability into question.

- The size of the wagebill as a share of GDP exhibits the same pattern of steady increase and an acceleration in growth from 2007/08 onwards, rising from 2.7 percent of GDP in 2000 to 5.5 percent in 2008—although the MOF’s most recent wagebill projections indicate that the government intends to check continued increases. The GOL has been gradually increasing civil service compensation to make up for a steep decline in real salaries following the 1997–98 Asian financial crisis. This policy has been implemented by annual increases to the multiplier through which the indexed salary structure is translated into base salaries. Average wages have grown more than threefold in nominal terms and have almost doubled in real terms since 2001.
Aggregate wagebill growth has been due to rising compensation (including allowances) and the increasing size and changing shape of the civil service. It is thus clear that the major dimensions of any wagebill control in the future must come in terms of compensation reform and careful management of civil service establishment size.

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

**The Size and Structure of the Civil Service**

3. The Government of Lao PDR has overhauled civil service compensation and personnel management systems since the initiation of administrative reforms in 1986. A major retrenchment scheme initiated in 1989 downsized the civil service by almost 25 percent within three years. In 1994, a new salary structure was instituted to replace the remuneration system established in 1989. Basic salaries were almost doubled across the board to discourage the most qualified civil servants from taking advantage of the severance scheme, but compensation was not calibrated with alternative earning potential such as private sector salaries.

4. Today, in per capita terms, the Lao civil service is not too large, compared to other East Asian countries (Figure 1)—although it should be noted that such cross-national comparisons are of limited utility due to differing definitions of the composition of the civil service across countries. Since Lao PDR is a relatively small country, with a population size of just over 6 million, international experience suggests that a lean civil service is appropriate, with allowances made for the need to deliver services to a sparse and dispersed population in the context of the country’s geography.

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

<table>
<thead>
<tr>
<th>Country</th>
<th>Cambodia</th>
<th>China</th>
<th>Indonesia</th>
<th>Lao PDR</th>
<th>Malaysia</th>
<th>Mongolia</th>
<th>PNG</th>
<th>Philippines</th>
<th>Singapore</th>
<th>South Korea</th>
<th>Thailand</th>
<th>Timor-Leste</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002-2003</td>
<td>1.2</td>
<td>2.8</td>
<td>1.7</td>
<td>1.8</td>
<td>3.7</td>
<td>4.4</td>
<td>1.3</td>
<td>1.4</td>
<td>2.9</td>
<td>2.0</td>
<td>1.9</td>
<td>2.6</td>
<td>2.1</td>
</tr>
</tbody>
</table>

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

**Source:** World Bank analysis.

**Source:** PACSA.

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4 This series of reforms is detailed in the 1997 Laos PER, Chapter 15: “Civil Service Reform.”

5 This new salary structure was mandated by Decree No. 175/PM 1994.
5. Since 1995/96, when the size of the civil service was at a low of just over 68,000, the establishment has grown back to 109,359 in FY 2007/08. Significant growth—just under 20 percent—has occurred over the five year period from 2002/03, when civil servants numbered 91,330, to 2007/08 (see Figure 2). The GOL currently projects continued increases in civil service size of about 5 percent per annum. The rate of this increase may be a cause for concern since it does not appear to be linked to strategic decisions about the role of the civil service and its appropriate size for undertaking that role.

6. Civil servants are categorized in terms of six major grades, with those at Grades 1 and 2 classified as administrative staff and those at Grades 3, 4, and 5 as professional staff (further detail below). Grade 6 is reserved for high-level executive positions in government—such as ministers, vice ministers, and senior advisors. As Figure 3 illustrates, the growth in the civil service has occurred mainly at the professional staff grades 3 and 4.

**Figure 3: Civil service composition by grade, 2002-2008**

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<tbody>
<tr>
<td>Grade 6</td>
<td>110</td>
<td>123</td>
<td>225</td>
<td>88</td>
<td>76</td>
<td></td>
</tr>
<tr>
<td>Grade 5</td>
<td>66</td>
<td>105</td>
<td>232</td>
<td>349</td>
<td>509</td>
<td>723</td>
</tr>
<tr>
<td>Grade 4</td>
<td>10,585</td>
<td>20,844</td>
<td>38,615</td>
<td>44,454</td>
<td>47,388</td>
<td>49,697</td>
</tr>
<tr>
<td>Grade 3</td>
<td>25,416</td>
<td>33,836</td>
<td>44,454</td>
<td>47,388</td>
<td>49,697</td>
<td></td>
</tr>
<tr>
<td>Grade 2</td>
<td>28,666</td>
<td>24,647</td>
<td>24,139</td>
<td>21,263</td>
<td>20,024</td>
<td>18,557</td>
</tr>
<tr>
<td>Grade 1</td>
<td>5,691</td>
<td>11,775</td>
<td>4,893</td>
<td>3,077</td>
<td>2,673</td>
<td>1,996</td>
</tr>
</tbody>
</table>

Source: PACSA.

7. Part of the relative growth in Grades 3 and 4 is said to be a result of structural changes that reclassified certain agencies into the civil service in the late 1990s. But this pattern has persisted over the past five years, with expansion in civil service size continuing to come in Grades 3 and 4, as Grades 1 and 2 decline in absolute size. This trend is partially accounted for by the improving educational profile of the civil service; as individuals earn higher educational qualifications, they may jump to the next grade. Grades 5 and 6 remain very small as a proportion of the total civil service, together accounting for less than one percent in 2007/08. Grade 5 has grown about seven-fold in the last five years and the size of Grade 6 has varied; the reasons are outside the scope of this report, since these two grades are managed by the Lao People’s Revolutionary Party. The sectoral composition of the civil service has remained roughly constant since 2002/03, with all line ministries retaining a share that varies less than 1 percent.

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6 These civil service figures do not include military and police personnel, estimated at approximately 100,000.
8. In absolute terms, the growth in the number of employees is due to a combination of actively increasing the size of the civil service together with weak establishment control. PACSA establishes yearly hiring quotas in consultation with line ministries and the Ministry of Finance (MOF), in a process detailed below, but employment data are unreliable enough that officials reported over-hiring even for basic replacement of workers leaving the civil service. In addition, also detailed below, the provinces recruit staff without consulting the center, particularly by hiring temporary contract workers who then get regularized into the civil service—this practice is a major contributor to the increase in establishment size. Provincial civil servants constituted just over 8 percent of the civil service in 2002/03, compared to 10 percent in 2007/08.

9. Out of the total 109,359 civil servants officially on PACSA’s books for FY 2007-08, around 13 percent work in central line ministries and another 74 percent in the vertical line departments of those ministries at subnational levels (see Figure 4). Provincial and district administrations together employ one-tenth of all civil servants, and party and mass organizations (such as the National Assembly, Party Central Committees, and Lao Trade and Women’s Unions) employ just under 3 percent of all civil servants. Of the 95,378 civil servants who work in central ministries or their line departments, those in the Education sector constitute 61 percent and those in the Health sector 13 percent (see Figure 5).

![Figure 4: Distribution of civil servants across levels of government](image)

![Figure 5: Distribution of civil servants mapped to central ministries or line departments](image)


10. In addition to the 109,359 civil servants with permanent positions (considered life tenure) on the formal payroll and receiving formal benefits, there are in practice another three types of positions in the Lao civil service. The first is a ‘95 percent’ contract, which provides ninety-five percent of the salary of a permanent position but no social benefits. This contractual agreement is considered a position in waiting, virtually guaranteed of a permanent job. Staff in these positions are considered qualified for a permanent position but expect a waiting period of at least a year due to limited annual hiring quotas. ‘Volunteers’ make up a second type of position, not guaranteed any specific salary but paid according to tasks performed and the administrative budget available in the respective workplace. This is a common recruitment vehicle for service delivery workers in particular; volunteer teachers are reported to receive between 100,000-200,000 kip per month from school administrative budgets and volunteer health workers are paid per diem for shift work. In some provincial and district offices, voluntary worker pay is differentiated by educational background, but all are reportedly paid below 200,000 kip.
11. Finally, there is a contract worker position. This was formerly an official category, which the GOL phased out from 2004 onwards—but the practice persists in some provinces and sectors. Contract workers receive a fixed salary well below the 95 percent contract level, with no social benefits, and the contract is time-limited although often renewed. These positions are financed by non-wage recurrent expenditures in provincial budgets, as well as by projects and individual facilities; teachers in this category are often financed by local parent-teacher associations or collections from village families. Those contract workers paid out of the government budget are usually paid out of the operations line, instead of wages and salaries. Aggregate reported wagebill figures therefore under-report the cost of the civil service establishment to the GOL; since practice varies across ministries and provinces, it is impossible to estimate the additional cost of these government employees. The number of 95 percent and other contract workers is decreasing countrywide but the number of volunteers is increasing in both urban and rural areas.  

The Civil Service Wagebill and Average Salaries

12. The civil service wagebill has exhibited a steadily growing trend over the past decade, with most recent aggregate increases ringing a note of caution. As Figure 6 illustrates, the wagebill has risen significantly over the past decade from 12.5 percent of total expenditure in FY2000/01 to 28.5 percent in FY2008/09; and 33.5 percent to 44.3 percent of recurrent expenditure over the same period. Accelerated growth has occurred very recently from FY2007/08 onwards.

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7 Contract workers aspire to permanent positions but many do not expect to succeed because they lack formal qualifications and/or are past the maximum age of 35 for entry into civil service employment.

8 Actual numbers were not made available to the World Bank and it is unlikely the government itself has systematic, accurate figures. Civil servants interviewed (see Chapter 4) saw the trend as a response to the increasing competition for permanent positions. As volunteers, new graduates hope to prove their qualifications and enhance their connections with senior civil servants who might assist in their formal recruitment.
13. The GOL has signaled its intention to check the upward trend in the wagebill, however, as indicated by the FY2009/10 budget revisions and projections going forward in the shaded area of the chart. The MOF projects bringing the wagebill back under control to reasonable fiscal levels. In comparative terms across countries, the Lao civil service wagebill at less than 30 percent of total spending remains within reasonable bounds—several other East Asian countries have wagebills between 30 to 40 percent of total expenditure. With civil service size similar to Lao PDR as a proportion of the population, for example, wagebill shares of total expenditure (most recent data available) are 33 percent in Cambodia, 31 percent in the Philippines, 34 percent in Singapore, and 40 percent in Thailand. Yet—projections notwithstanding—the cause for concern would remain if the wagebill’s share of recurrent expenditure were to continue to rise, since this would represent a crowding out of spending on complementary goods. Moreover, as a share of total revenue, the wagebill has climbed from 16.7 percent in FY2000/01 to 34.0 percent in FY2008/09, gradually bringing the wagebill’s continued affordability into question.

14. The size of the wagebill as a share of GDP rings an equal note of caution. Figure 7 shows the same pattern of steady increase over the past decade, with the wagebill climbing from 2.7 percent of GDP in 2000 to 5.5 percent in 2008. The recent FY 2008/09 spike can be explained in part as a government response to the food and fuel crisis of early 2008—the Ministry of Finance had not recommended an increase in the salary multiplier for FY2008/09, but the Government chose to increase base salaries in order to respond to the crisis. As forward-looking projections of the wagebill in the range of 5 percent of GDP illustrate (in the shaded area of the chart), the GOL appears to have recognized the importance of reigning in the wagebill before it gets out of control.

15. A number of explanations account for wagebill growth over the past decade. First, from the earlier part of the decade, the GOL has been slowly increasing civil service compensation to make up for a steep decline in real salaries following the 1997-98 Asian financial crisis. This policy has been implemented by annual increases to the multiplier through which the indexed salary structure is translated into base salaries. [More details on the salary structure and multiplier are provided below in this chapter, and further in Chapter 2.] The Fiscal Policy Department (MOF) estimates that the FY2007-08 multiplier finally returns salaries to their pre-crisis levels.

16. A weighted average across grades of monthly base salaries in 2001 was about 211,500 kip (US$25 at today’s exchange rates)—and has since been raised to about 693,000 kip (US$82) in 2008. Figure 8 illustrates this more than tripling of nominal wages over the decade. Since the salary multiplier itself has risen from 1000 in 2001 to 3000 in 2008, each individual civil servant would have seen their base salary triple over that time period had they stayed at the same grade and rank. Even in real terms, average salaries have almost doubled. In order to reign in wagebill growth, however, the GOL has scaled back its initial plans to continue increasing the multiplier by 500 per year; its current wagebill projections are based on increases to the salary multiplier to 3500 in FY2011/12 and to 4000 in FY2013/14.

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9 It is worth noting here that collecting accurate wagebill data in Lao PDR is complicated. It is inaccurate to simply add Official Gazette figures for “Salaries” (Line 10) and “Compensations and Allowances” (Line 11) since Line 11 includes a number of payments that should not be incorporated into the aggregate wagebill for the civil service. The wagebill figures presented here are those developed by the Fiscal Policy Department (MOF) in consultation and agreement with the International Monetary Fund during the preparation of the September 2009 Article IV Report. Projections are provided by the Fiscal Policy Department in consultation with the Budget Department (MOF).

10 The IMF generally views a wagebill of 8 percent or more of GDP as a problem, particularly if the trend is upward.
Second, the growing wagebill is, to a major extent, simply a consequence of the increasing size and evolving structure of the civil service over the last decade (see Figure 3 above). Grades 3 and 4 have swollen in size from 37 percent and 23 percent, respectively, of the total civil service in 2002/03 to 45 percent and 35 percent, respectively, in 2007/08. Since civil servants are compensated—in terms of both salary and some allowances—to a large degree based simply on their grade, the wagebill has grown accordingly. How much rising salaries and the changing shape of the civil service would have contributed to total growth in expenditure on basic salaries can be roughly estimated using grade midpoint salaries and establishment numbers. Together, salary increases and the growth and changing structure of the civil service establishment would suggest a quadrupling of the wagebill from FY2001/02 to FY2008/09. The wagebill has in fact grown fivefold from 547 million kip in FY2001/02 to 2,772 million kip in FY2008/09.

Third, the aggregate wagebill comprises salaries and wages as well as other forms of compensation (benefits and allowances) paid to civil servants. The portion of the wagebill increase unaccounted for by increasing establishment size and rising salaries may be in part explained by increasing benefits and allowances, which have certainly kept up with and perhaps exceeded salary growth. One specific allowance worth mentioning in the context of wagebill size is the gasoline allowance given to senior civil servants—i.e., deputy unit heads and above—with an increasing scale over rank (detailed further in Chapter 2). This allowance was brought into the compensation expenditures budget line in 2008. Given the complexities of calculating the wagebill based on Official Gazette figures, it is difficult to know exactly how much allowances have increased. It is challenging to fully account for aggregate wagebill growth based on the information made available to the World Bank. Nevertheless, it is clear that the major dimensions of any wagebill control in the future must come in terms of compensation reform and careful management of civil service establishment size.

This brief macro wagebill analysis makes clear the relevance of the compensation debate covered by this report. Answers to how much civil servants are actually compensated and the adequacy of that compensation based on robust evidence are necessary for any approach to pay reforms going forward. Reported wagebill aggregates and compensation averages are by no means a detailed enough guide to how civil servants are compensated in practice. Details on current pay and compensation practices at a much more granular level enables the Bank to guide our counterparts in developing recommendations for a more nuanced wage policy. Ideally, compensation reforms would specify differentiated wage increases for different positions in order to attract the necessary skills to the civil service but not over-compensate those civil servants whose skills are in lower demand.
20. Before delving into these micro compensation and incentives issues, however, we provide here the highlights of a diagnostic assessment of the civil service human resource management system. Our aim is to embed the pay and compensation analysis within the context of the broader architecture that: (a) affects the ability of the Government of Lao PDR to attract and required skills; and (b) affects the professionalization and performance of civil servants no matter the overall compensation they receive. The assessment thus provides a brief overview of the government’s compensation-setting policies and practices and details on establishment control processes such as recruitment and retention.

Civil Service Architecture and Human Resource Management Practices

21. The human resource management (HRM) actionable governance indicator (AGI) framework is a diagnostic tool for assessing the quality of civil service HRM institutions, practices, and performance. The instrument does not advocate a specific model of HRM institutions and practices; rather it provides a concrete assessment of the organization and capacity of five components of the HRM system and how well they achieve five core HRM goals (Figure 9). Here, we provide a brief diagnostic of HRM institutions, practice, and performance in the Lao civil service.11

![Figure 9: The civil service HRM AGI framework](image)

Legal and Institutional Set-up and Organizational Capacity

22. A clear legal framework for the civil service HRM regime is provided through a single decree—Decree 82 on the Civil Service of the Lao PDR12—and its supporting regulations (see Annex 1), which describe recruitment, promotion and discipline procedures. Decree 82 vests overall responsibility for civil service management and policy in PACSA—it’s mandates include researching and developing civil service policy, managing civil servants, and drafting laws and regulations on administration and civil service. In practice, the Central Committee on Organization and Personnel (CCOP) of the Lao People’s Revolutionary Party also provides general oversight of the civil service. While PACSA is the central agent responsible for HRM actions of rank-and-file civil servants, the CCOP takes over responsibility for personnel actions concerning higher-level officials such as Ministers, Vice Ministers, Directors General (DGs), and often also Deputy Directors-General (DDGs).13

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12 Decree on the Civil Service of the Lao PDR. Decree 82/PMO (19 May 2003).

13 As of the writing of this report, the team did not have access to the regulations governing CCOP, although we understand that these exist and include provisions on promotion of candidates to the high-level positions for which CCOP is responsible. CCOP also plays a key role in more general government and civil service oversight.
23. Overall civil service HRM authority, data-gathering, and policy setting are centralized within PACSA, although the system itself is quite decentralized, with Personnel Departments in line ministries and provincial and district governments given significant authority to make day-to-day HRM decisions. If functioning well, the decentralization of service delivery and personnel management may provide individual ministries and provincial and district governments the flexibility to adjust to their unique needs, but the weak links between the center and decentralized government bodies make it difficult to track and evaluate overall government performance. PACSA collects a significant amount of detailed personnel information but staff do not generally analyze it to track HRM performance, nor are the data recorded in a format that allows easy analysis or disaggregation by organization and/or type of position. The personnel information management system (PIMS) under development may allow more data analysis and better tracking of the performance of the HRM system.

Establishment and Wagebill Control System

24. To maintain control of the size of the civil service establishment, PACSA manages a quota exercise for hires twice a year in the second and fourth quarters. It solicits requests for new hires from individual agencies and local government administrations and then works with the Fiscal Policy Department in the Ministry of Finance (MOF) to determine a quota of allowed hires for each year. Quota decisions are based on a combination of numbers of civil servant departures, agencies’ perceived needs, and budget constraints. The total quota and its sectoral and provincial breakdown are subject to cabinet approval, often following vigorous negotiations. For sectoral allocations, the central government breaks down the quota by ministry and each ministry allocates sub-quotas down through its vertical line into the provinces and districts. Provincial governors also receive quota allocations for their administrations.

25. The system enables PACSA to oversee the total number of individuals hired by sector. It is unclear, however, how individual entities determine their need for new positions or what rationale they provide to justify their request. Anecdotal reports indicate that many administrative units simply provide a number that would enable them to hire a proportion of contract or voluntary employees already working there. There is no agreed upon master job register of necessary posts in each administrative unit that could be used to highlight staffing gaps and/or assess whether crucial needs have been filled. PIMS, when it is deployed, should improve the availability of information and the ability of MOF and other agencies to track personnel numbers and wage costs. Some organizations, particularly provincial governments, are reported to hire more than their authorized number of civil servants, formerly through contract positions and now through hiring of volunteers. There do not appear to be systematic audits or verification of recruitment, promotion, or departure data, other than pro forma approval by PACSA.

26. The overall wagebill is controlled through MOF approval of annual hiring quotas, as well as the salary grid and regulations on allowances (discussed below and in more detail in Chapter 2). Yet wage costs are also influenced by changes in base salaries due to education level, upgrading of credentials and seniority, as well as eligibility criteria for each allowance, none of which can be denied on fiscal grounds. MOF appears to provide a high enough wagebill ceiling that it is not typically exceeded.

Recruitment and Selection

27. Civil service status in Lao PDR encompasses several professional cadres that usually form separate public sector labor regimes in other countries—including ‘white collar’ office workers and service delivery personnel in health and education—but excludes the military, the police, and employees of state-owned enterprises. The civil service is a career system, which focuses on initial entry to the civil service, with established career tracks—as opposed to a job- or position-based system where the emphasis is on selecting a candidate to perform specific job content, whether by internal mobility or external recruitment. The career system in Lao PDR has clear rules for initial placement upon entry and
subsequent career advancement of civil servants into grades and steps on the basis of educational qualifications and years of service.\textsuperscript{14}

28. Civil servant categories in Lao PDR include administrative support staff (grades 1 and 2) and “technical” or professional staff (grades 3 to 5). A sixth grade, exclusively comprising senior government officials such as ministers, is managed outside the civil service system by the CCOP. As in most career systems, senior staff and managers are drawn from the ranks of long-standing civil servants. Transfers may also occur among different cadres of government employees—including the civil service, state-owned enterprise employees, and military personnel. Hiring from outside the public sector is not standard practice. While higher level officials such as directors general may be considered political appointees in the sense that CCOP oversees the appointments, most have risen through the ranks of the civil service; thus there is no real distinction between political staff and civil servants.

29. Decree 82 stipulates merit and commitment to the principles of the Lao People’s Revolutionary Party (LPRP) as criteria for hiring and career advancement. PACSA approves the hiring of new recruits as well as transfers or promotions but recruitment is decentralized and processes appear to vary from one government body to the next. In practice—based on anecdotal evidence—procedures for recruitment, selection and promotion of civil servants in Lao PDR, are informal and reflect considerations other than merit, such as family or social network ties. (Chapter 4 delves into greater detail on this issue.)

30. Interviews across government consistently confirmed that civil service positions are highly desirable, with many candidates waiting to enter the civil service. Anecdotally, contract workers and volunteers are given precedence in filling quotas for permanent positions, while new graduates take up volunteer positions and assume the wait. Entry-level recruitment is fairly rigid—applicants are assessed almost entirely by their education levels (or written testing) rather than work experience. Yet, in rural areas particularly, minimum requirements for new entrants may be relaxed if there are no candidates who can meet them.

31. Ministries and district and provincial government have significant autonomy in promotion decisions, and practices vary. Promotion to a managerial position occurs only when there are specific vacancies, which are not typically advertised. Whereas a job-based system emphasizes selecting a candidate based on job content, the career-based system fills positions through internal promotions and transfers. This internal career-tracking, combined with the influence of patronage networks, runs the risk of reducing the pool of highly qualified candidates for senior positions.

32. In law, the CCOP handles promotions for DG-level positions and higher, while PACSA approves promotions to lower-level management posts; in practice, the CCOP is also said to approve promotions to DDG. The decrees covering civil service recruitment and hiring do not specify criteria for short-listing or long-listing of applicants but some processes for narrowing the pool of candidates do occur in practice. The practice, reportedly, is for ministries to submit lists of candidates for high-level promotion to PACSA and CCOP for approval and then to the Prime Minister for formal appointment. For DG and DDG positions, ministries select a single candidate and submit the name to CCOP for approval.

33. Non-compensation aspects of civil service employment appear appealing when compared to the rest of the labor market (as this report details). Relative to other employment opportunities, civil service positions offer valuable in-kind benefits; more job security; more clearly defined career paths; prestige; shorter working hours; in some cases, opportunities for additional work (such as extra teaching or tutoring opportunities for teachers or private clinic employment for health workers); and the possibility of

\textsuperscript{14} The only exception to the educational qualifications-based grade structure is the placement of revolutionary cadres in the civil service; their numbers are decreasing over time.
advancing one’s own private interests. The retention rate is quite high, with only 1.8 percent of civil servants departing in 2007-2008. Almost half of the departures were due to retirement (34 percent of all departures) or death (13 percent). Four percent of the departures were for disciplinary reasons.¹⁵

**Performance and Career Management and Disciplinary Procedures**

34. In law, the Lao civil service emphasizes merit and performance management, with Decree 82 mandating annual performance appraisals. Civil servants are evaluated and rated yearly. Some agencies use a system built around a group discussion that starts with the civil servant presenting a verbal self-appraisal, followed by group comments; written notes of this discussion are reviewed by the department. Performance-based compensation occurs only occasionally through the salary structure—civil servants who perform well can rise in step after one year, instead of the usual two; poor appraisals can result in moving up in step more slowly. A national commission selects recipients to be rewarded with non-monetary prizes or medals.

35. The Lao civil service appears to support training for staff; numerous staff leave for extended periods to earn degrees overseas, often funded by outside donors.¹⁶ There are monetary benefits associated with enhanced educational qualifications, since civil servants are guaranteed step and grade increases by obtaining higher degrees. Yet there do not appear to be strategic HR development policies or practices in place—it is not clear, for example, to what extent personnel departments identify skills for the organization’s evolving needs or mentor civil servants who are particularly promising.

36. Disciplinary procedures are laid out in Decree 82 and enforced by a tiered system of ad-hoc disciplinary committees, but an independent oversight or redress agent, even for appeals, does not exist. Due process protection for civil servants is limited under both Decree 82 and the general Labor Law.¹⁷ There is no tenure guarantee in the civil service law—but, in practice, the civil service is considered lifetime employment, in comparison to much less stable private sector employment.

**Remuneration Policies and Practices**

37. Civil service remuneration in Lao PDR comprises base salary plus a number of monetary and in-kind allowances. Chapter 2 covers the composition of compensation in detail; here we offer a brief summary. Base salary is determined on the basis of an indexed salary structure of five major pay grades, each encompassing fifteen steps (presented in Table 2, Chapter 2).¹⁸ There are clear criteria for assigning civil servants to grades and steps, according to education, seniority, and revolutionary service. PACSA approves salary-determining personnel actions and individuals are automatically granted seniority- and education-related increases, as long as qualifications can be verified. Civil servants advance in step every two years; in law, this advance is linked to performance evaluations but appears automatic in practice.

38. Civil servants also receive varying proportions of their remuneration in the form of numerous monetary and in-kind allowances, as detailed in Chapter 2. In data from four sample ministries, base pay represents between 58 and 91 percent of total gross remuneration, with technical staff receiving almost all of their compensation from base pay while directors general may receive as little as 60 percent in base pay (more details in Table 5 and Table 6, along with discussion, in Chapter 2).

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¹⁵ Civil Servant Statistics of Lao PDR for FY 2007-2008, compiled by PACSA.
¹⁶ One motivating factor may be the other benefits associated with attending training.
¹⁷ Labor Law (Amended), No. 06/NA (27 December 2006).
¹⁸ A sixth grade, with six steps, is limited to senior political staff—usually Directors General (DGs) and above.
39. The base salary scale is quite compressed but those allowances that are position-based provide for greater decompression and represent a significant benefit to higher level officials. High level officials may receive several benefits in addition to the allowances specified above, such as free or subsidized housing and/or use of government vehicles (such benefits are detailed in Chapter 2, section 2.4). These additional in-kind benefits decompress total remuneration even more significantly than do allowances, but we did not have enough detail on the value of these assets to estimate a ratio.

40. There is currently no system-wide approach to locality pay or monetary incentives for encouraging civil servants to work in remote locations, although Ministry of Education regulations award additional pay (defined as a percentage of base salary) to teachers in remote areas. PACSA has announced that a decree allowing incentives for workers in rural areas is under development, with the goal of implementation by the 2009/10 fiscal year.

41. Personnel and payroll records are updated fairly promptly when authority is given for promotions and salary advancements, since PACSA provides monthly verification to MOF of changes to spending unit payrolls. MOF checks that detailed instructions from spending units about payments to individuals are consistent with PACSA verification before operating the payroll payments system. Delays and arrears in salary payments remain a cause for concern, notably for teachers and health workers in hard-to-reach rural areas. Overall, however, salary payments have improved recently as a result of public financial management reforms. MOF has implemented electronic salary payment for all civil servants in Vientiane capital and thirteen (of sixteen) provinces, leading to more timely disbursement. These advances have also led to a reduction in ‘ghost’ workers, since salary payment is based on active bank accounts that must be validated by PACSA, MOF’s Budget Department, and the sector ministry.

Civil Service HRM Assessment and Ways Forward

42. Based on the HRM AGI findings summarized above, a brief assessment can be made on the success of the Lao civil service in achieving five generally accepted civil service human resource management objectives (Table 1). Lao PDR has, in many respects, a reasonable and functional formal HRM framework for its civil service, albeit one that needs to be further developed and refined. It also has, in the form of PACSA, a motivated and increasingly professional agency whose mandate includes policy development and implementation. Nevertheless, there are strong indications that actual practice often diverges from the spirit or letter of this policy framework—a phenomenon that is not unique to this sector within Lao PDR, nor in comparison to other developing countries. There is thus a potentially large agenda for improving civil service HRM in Lao PDR, with the objective of enhancing public sector performance and government effectiveness. From a practical perspective, the question is how the government, and PACSA in particular, can focus and advance this agenda.

43. The idea that the development and implementation of civil service HRM policy should draw upon meaningful evidence, rather than relying largely on normative models, is increasingly gaining acceptance. Developing an enhanced framework for evidenced-based policy-making in civil service HRM is an approach that PACSA is well positioned to undertake, given its policy mandate and ongoing

20 Surveys indicate that only 30 percent of teachers in rural areas were paid on time each month and nation-wide about half of health workers were paid on time. Public Expenditure Tracking Survey in Primary Education and Primary Health: Making Services Reach Poor People. (Washington DC: The World Bank, March 2008.) Newspapers continue to report delays in rural civil service salary payment.
21 This concept is central to the World Bank’s HRM AGI diagnostic instrument, upon which the HRM assessment in this section is based. The framework and the full report on Lao PDR include numerous examples of practical indicators that can help policy-makers evaluate operational needs and options for meeting those needs.
role in overseeing HRM practices and collecting civil service statistics. This is particularly the case in the context of the new Civil Service Management Strategy. The necessary resources—leadership that is committed to improving civil service performance, dedicated professional staff, and information channels with personnel departments and other units in a large number of government bodies—are largely in place. Funding requirements would be modest; and the potential benefits are large.

Table 1: How well does the Lao civil service achieve core HRM objectives?

| Attracting and retaining required human resources | The Lao civil service appears to be successfully attracting and retaining employees who meet recruitment criteria. But human resource development and capacity-building needs are certainly high. Compensation is perceived as low—so success in recruitment may be due in significant part to the additional benefits associated with civil service employment (e.g., job security, social status, additional income opportunities) and to the paucity of other options. As the private sector grows in strength and stability, attracting and retaining adequately skilled workers may become more challenging. |
| Ensuring meritocratic, depoliticized HRM practices | The Lao civil service strives to be meritocratic, at least in law, but it is not depoliticized; Party membership is an explicit criteria in hiring and promotion and the CCOP has management and oversight responsibilities for high-level civil servants. Application and enforcement of meritocratic hiring and promotion procedures varies considerably in practice. Party and family affiliations, along with other social network ties, play a strong role in personnel decisions and outweigh pure merit considerations. |
| Ensuring a fiscally sustainable wagebill | MOF attempts to ensure fiscal sustainability by working with PACSA to determine the appropriate number of civil service hires each year. This is relatively effective in ensuring the annual wagebill remains within a certain fiscal envelop. But the payroll is delinked from the HR database, making fiscal sustainability over time extremely difficult to ensure. Automatic education- and seniority-related grade increases reduce MOF’s control over wage costs. Recent growth in the wagebill signals a warning that the GOL should improve wagebill management to ensure fiscal sustainability. |
| Focusing the efforts of civil servants on performance | In law, the Lao civil service places a focus on merit and performance management. It is unclear in practice, however, whether organizational units have clear policy and program performance objectives or to what degree civil servants’ efforts are focused on these objectives. |
| Ensuring ethical behavior by civil servants | Decree 82 stipulates that civil servants must act ethically and respect the law and a new ethics code is currently being developed. Asset and income disclosure is required for civil servants upon entry to the civil service. The State Inspection Authority is currently drafting a new asset and income declaration decree to enable it to require civil servants to disclose their income sources. Decree 82 also includes measures that address conflict of interest to some extent. But there are widespread perceptions, with anecdotal evidence, that civil servants engage indirectly in activities that may pose a conflict of interest with their official duties. |

Assessing Compensation

44. The main objective of this civil service pay and compensation review is to support the GOL’s efforts to enhance the effectiveness of its civil service by establishing a robust analytical and empirical basis going forward for any dialogue and decisions on how compensation and human resource management reforms might be designed. Central to a civil service reform process will be the government’s ability to assess and initiate the systematic monitoring of: (i) its compensation-setting practices and the disaggregated patterns of compensation that result; and (ii) the impacts of compensation-setting policies and practices on their core objectives—namely, attracting civil servants with the required skill sets and motivating them to perform to the best of their ability.
45. An acute lack of data has hampered the goals of assessing the adequacy of civil service pay and compensation in Lao PDR and thereby developing policies to help improve government performance through administrative reform. In the face of this lack of empirical information, a persistent viewpoint—shared by GOL and its development partners—has been that compensation levels have been too low to attract the requisite skills into the civil service and to motivate government employees to perform their jobs professionally without turning to additional jobs to earn more.

46. Initial analysis—including the World Bank’s 2008 Civil Service Approach Note, 2006 Public Expenditure Tracking Survey, 2007 Public Expenditure Review, and 2008 Teacher Study—indicated that civil service pay in Lao PDR is low and compressed. Hence it would seem that the civil service would have difficulty recruiting and retaining personnel. Yet anecdotal reports by sector staff and government officials indicated that staffing quotas, particularly in the provinces, are often over-subscribed, pointing to additional benefits not being captured by previous studies. Low compensation would suggest that civil service jobs are comparatively unappealing to alternatives; but oversubscribed quotas suggests that these jobs are indeed desirable. Either of these conclusions may be correct for particular grades or cadres of workers within the civil service, but they cannot be both true for the civil service taken as a whole. The analytical challenge, therefore, was to determine in practice whether particular civil service jobs are under- or over-compensated, and to get a sense of the magnitude of these phenomena.

47. This report analyses the adequacy of civil service compensation in Lao PDR by proceeding as follows. Chapter 2 reviews in detail the GOL’s current civil service pay and compensation structure and provides a comprehensive assessment of typical total compensation packages, including both monetary and non-monetary components, for civil servants across grades and job descriptions. Chapter 3 then combines two approaches to pay comparator analysis in order to judge the relative adequacy of compensation across all grades of the civil service. Finally, Chapter 4 provides a civil service incentives assessment—with a particular focus on teachers and health workers—that captures the magnitude of non-regular compensation, such as per diems, along with additional income sources made available through civil service status, and probes the alternative labor market available to civil servants.
CHAPTER 2: HOW MUCH ARE CIVIL SERVANTS COMPENSATED?

Introduction

48. This chapter presents an overview of the government’s compensation-setting policies and practices. It first reviews the formal compensation framework, including the decrees and regulations that define the system of base pay, allowances, and social security benefits. The chapter then analyzes current compensation packages, comprising both monetary and non-monetary compensation for civil servants in ‘white collar’ office positions in ministries as well as health and education sector service delivery staff, based on earnings data from selected organizations. Finally, we estimate how much additional income civil servants might typically expect to earn through non-regular duty-related compensation such as savings from per diem payments.

49. The main findings of this chapter can be summarized as follows:

- Total regular compensation packages for Lao civil servants are made up of a complex number of components, including base salary, monetary allowances, and in-kind benefits. This array of compensation dimensions—some based on educational qualifications, some on civil service position, and some on personal characteristics—makes it extremely difficult to predict what an individual civil servant might earn without knowing educational and demographic details. The compensation system also makes it impossible to estimate and build projections of the aggregate wagebill without these disaggregated individual details.

- The indexed salary grid uses educational credentials as the basis for placing individuals into a particular grade and step. Base salary alone is quite compressed in the Lao civil service, with individuals at the top pay point earning 3.1 times the base salary of those at the bottom. Yet significant allowance entitlements vary by position and hence introduce an important, and necessary, element of job-related compensation for the managerial cadres that is unrelated to the indexed salary structure. For technical staff, base salary comprises essentially 90 percent of total remuneration, whereas directors general at the top of the civil service salary structure receive only about 60 percent of their total regular compensation in the form of base pay, with allowances making up the additional 40 percent. These position-based entitlements introduce a significant degree of decompression into the structure of total compensation, increasing the compression ratio markedly to around 4.0.

- Individual civil servants holding the same job title and performing the same job content receive varying base salary amounts, violating the basic human resource management principle of ‘equal pay for equal work.’ This issue is mediated somewhat by position-related allowances in the managerial ranks. Since allowances form an increasing proportion of total compensation moving up the salary structure, they ensure two things: first, that civil servants filling senior positions are indeed being compensated more than those below them who might earn a higher base salary due to a higher level of education; and, second, that the range of compensation across those senior positions is tighter than looking at base salary alone would suggest.

- In addition to regular monthly compensation in the form of base salary and allowances, civil servants may also receive a variety of other payments related to specific activities or duties—including shift work and per diems. Managers and high-level officials may receive other benefits that can add substantially to their overall remuneration package. None of these additional forms
of compensation appear in pay records, making it impossible to systematically evaluate the incidence of these payments or their value relative to regular earnings.

- Service delivery workers in health and education make roughly between 75 to 85 percent of their total remuneration in the form of base salary. Thus, the share of allowances in total earnings is somewhat less than for managerial-level ministry workers, but these data do not include *ad hoc* payments for overtime, shift work, special tasks, or bonuses that are likely to be more of a factor in service delivery facilities than for ministry jobs.

- The practice of per diem payments for in-country travel can lead to additional duty-related, albeit non-regular, compensation that rivals or even exceeds total monthly earnings from base salary and allowances. Civil servants legally pocket a substantial fraction of per diem payments, which constitutes a significant supplement to earnings. Indicatively, for technical staff and managers, the maximum savings from per diem payments could exceed regular compensation in the form of base salary plus allowances. In other words, although individual experience varies greatly, duty-related take home compensation including per diems could equate to more than double regular monthly earnings for all professional grades of the civil service—based in both Vientiane and at the provincial level.

### The Civil Service Compensation Framework

50. The overall compensation framework is established in Decree 82 on the Civil Service of the Lao PDR, allowing for “wages, pensions, bonuses, single lump sum payments and other allowances and benefits paid by either the Government budget or the social security fund.”[^22] Regular monetary earnings comprise base salary and a series of allowances.[^23] In addition to regular monetary compensation, some civil servants (and high-level political officials) may receive in-kind allowances, in-kind benefits, and *ad hoc* monetary compensation tied to membership of state-owned enterprise corporate boards, participation in meetings or committees, and work-related travel. All civil servants are covered by a dedicated social security scheme that provides health and pension benefits. This section details these forms of compensation.

#### Base Salary

51. Base salary is determined by an indexed wage grid that uses educational credentials as the basis for placing individuals into a particular grade and step. Kip values for each step are obtained by multiplying the coefficient for that step by a standard ‘multiplier.’ Decree 82 stipulates the overall number of grades and steps, educational requirements, and the requirements for advancing in grade and step (based on time-in-post, performance appraisal, attainment of new educational credentials, and/or filling a higher-graded vacant position). Salary coefficients and the multiplier are set in further decrees or decisions of the Prime Minister’s Office, supported by fiscal sustainability analysis by the Fiscal Policy Department in the Ministry of Finance. Table 2 presents the salary grid that was in effect for the 2008-09 fiscal year, annotated with the basic educational requirements of Lao PDR’s career civil service system as it is manifested in the salary structure. As of the end of 2009, the salary grid applied nation-wide, with no adjustment for factors such as regional variation in cost of living. The sole exception to this national coverage is the education sector, where Ministry of Education regulations award additional pay (defined as a percentage of base salary) to teachers in remote areas.

[^22]: Decree on the Civil Service of the Lao PDR. Decree 82/PMO (19 May 2003).
[^23]: While these generally do not differ by geographic location (with the exception of a “remote areas” allowance for teachers), the GOL formed a committee in mid-2009 to examine the possibility of enhanced monetary incentives for remote areas in order to attract staff.
<table>
<thead>
<tr>
<th>Grade</th>
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<th>3</th>
<th>4</th>
<th>5</th>
<th>6 Senior Political</th>
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Example salary calculation: An individual at Grade 3, step 8 would receive a base salary of index 212 * multiplier 3000 = 636,000 kip.

Notes:
According to Decree 82 on the Civil Service of the Lao PDR, civil servants in grades 1 and 2 are called "administrative support staff" and civil servants in grades 3 to 5 are called "professional staff." Grade 6 is reserved for senior political officials.
Under Decree 82, individuals advance into higher steps/grades every 2 years, subject to obtaining a satisfactory performance appraisal.

Educational attainment required in order to be placed into a particular grade and step (as noted in above table):
(a) Primary school certificate (5 years study)
(b) Lower secondary school certificate (8 years)
(c) Upper secondary school certificate
(d) Vocational school certificate (< 1 year of study)
(e) Vocational school certificate (< 2 years study) OR 5 years general education + 3 years teacher’s college
(f) Vocational school certificate (at least 3 years study)
(g) < 3 years intermediate level OR 8 years general + 3 years teacher’s college
(h) 3+ years of intermediate level OR 11 years general + 1 year teacher’s college
(i) 2 years high-level education
(j) High level education
(k) Bachelor’s degree or equivalent
(l) Master’s degree or equivalent
(m) High graduate diploma
(n) Doctorate or equivalent

Civil servants can enter into grade 5 only by passing through grade 4, thus there are no additional educational requirements.

Source: GOL—PACSA; Decree 82 on the Civil Service of the Lao PDR (19 May 2003); and Decision 88/PMO (11 November 2008).
Monetary and In-Kind Allowances

52. Decree 82 does not include a comprehensive list of all forms of non-salary compensation but most monetary allowances are detailed in subsidiary regulations and appear on pay records. Some allowances—such as those based on seniority or for dependent children and spouses—are paid at standard rates across groups of civil service positions regardless of rank, as follows (Table 3):

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<th>Amount</th>
<th>Eligibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Years of service</td>
<td>1,500 kip per month for each year of service</td>
<td>All civil servants</td>
</tr>
<tr>
<td>Child allowance</td>
<td>19,000 kip/month for each child under 18</td>
<td>All civil servants</td>
</tr>
<tr>
<td>Spouse allowance</td>
<td>15,000 kip/month</td>
<td>Only male employees (i.e., for female spouses)</td>
</tr>
<tr>
<td>Mountainous, remote and hardship areas allowance for teachers</td>
<td>15, 20, or 25% of base salary depending on local conditions</td>
<td>Teachers working in mountainous, remote and hardship areas</td>
</tr>
<tr>
<td>Multi-class allowance for teachers</td>
<td>25% of base salary for teaching two grades and 50% for three grades</td>
<td>Teachers responsible for more than one class</td>
</tr>
<tr>
<td>Professional allowance</td>
<td>18,000 kip/month</td>
<td>Observed only in health and education sector data</td>
</tr>
<tr>
<td>Hazard allowance</td>
<td>15,200 kip/month</td>
<td>Observed only in health sector data</td>
</tr>
</tbody>
</table>

Source: GOL decree\(^a\); and World Bank analysis of sample monthly payroll data.

\(^a\) Decree 237/PM (21 December 2008) on Allowance and Support for Teachers Posted to Mountainous, Remote and Hardship Areas; and Decree 110/PM (8 June 2001) on Allowances for Multi-Grade Teachers.

53. Entitlements for four other allowances—job title, gasoline, telephone, and electricity and water—vary by position or rank, as summarized in Table 4. The gasoline and mobile telephone allowances are distributed on a monthly basis in the form of coupons and do not appear in pay records. It is important to note that these coupons are easily monetized and thus serve, de facto, as cash compensation; in fact, the intention for FY2009/10 was to transform this allowance from a coupon into a cash component of payroll. Of the four position-based entitlements, only the gasoline allowance is given to technical staff as well as managerial positions.\(^{24}\) The job title allowance is provided only to managerial positions. Even more selectively, the mobile telephone allowance is provided only to higher-ranking managerial posts; and water and electricity allowance is provided only to political officials.

54. Because these allowances are set at varying levels by job title, they introduce an important element of job-related compensation unrelated to the indexed salary structure, which is driven by educational credentials rather than the job. As we discuss and quantify further below, these position-based entitlements introduce a significant degree of decompression into the structure of total compensation, as compared to the compression ratio when looking at the salary grid alone. This practice is made necessary because the salary scale by itself does not adjust remuneration for increasing job requirements.

\(^{24}\) The gasoline allowance was set in FY2008/09 at a time of historic highs in oil prices and the regulation does not provide for adjustments based on oil prices.
Table 4: Rank-based monetary allowances

<table>
<thead>
<tr>
<th>Category a</th>
<th>Includes (among others)</th>
<th>Job title allowance</th>
<th>Gasoline allowance (coupon)</th>
<th>Telephone allowance (coupon)</th>
<th>Electricity and water allowance</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-ranking leadership</td>
<td>Minister</td>
<td>100,000</td>
<td>2,625,000</td>
<td>680,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Vice-minister</td>
<td>50,000</td>
<td>1,575,000</td>
<td>575,000</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>DG of Department</td>
<td>35,000</td>
<td>700,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>DDG of Department</td>
<td>25,000</td>
<td>500,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Head of Division</td>
<td>19,000</td>
<td>400,000</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Deputy Head of Division</td>
<td>14,000</td>
<td>200,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Head of Unit</td>
<td>10,000</td>
<td>150,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Deputy Head of Unit</td>
<td>8,000</td>
<td>80,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Deputy Head of Unit</td>
<td>7,000</td>
<td>70,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td></td>
<td>5,000</td>
<td>60,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technical staff</td>
<td>Technical staff</td>
<td>-</td>
<td>50,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: GOL—Decision 88/PMO (11 November 2008), Decision of the Prime Minister on Improvement of Base Salary, Allowances and Benefits in Public Expenditure; and Attachment 2150/MOF (22 September 2008).

aDecree 99/PM (23 June 2008) specifies job titles corresponding to categories 1-8. These include ‘white collar’ office workers in national and sub-national administrative bodies as well as staff in health and education facilities.

Non-Regular Compensation

55. In addition to base salary and allowances, which are paid on a regular monthly basis, civil servants may also receive a variety of other payments related to specific activities or duties. These include:

- Shift work (notably in some health facilities) and overtime;
- For medical staff, extra payments for specific tasks such as carrying out surgical operations;
- Per diems for duty-related travel, both within and outside Lao PDR.

56. Since none these forms of non-regular compensation appears in pay records and comprehensive information is not readily available from other sources, it is not possible to systematically evaluate the incidence of these payments or their value relative to regular earnings. Nevertheless, the official rates for per diems and other items give some indication of their potential to supplement earnings.25 For example, for short-term in-country travel, civil servants are entitled to a 50,000 kip daily meal allowance, a 10,000 kip daily personal allowance, and 120,000-150,000 kip per night lodging allowance (depending on position). A five-night trip would thus generate additional compensation of 900,000 to 1,050,000 kip, an amount that rivals or exceeds total net monthly earnings in many cases. A portion of per diem payments certainly goes toward defraying expenses incurred while working away from one’s regular duty station, including expenditures on food, lodging, etc.; but our analysis (details below) suggests that a substantial fraction of these extra payments is legally pocketed as additional compensation, substantially raising civil service incomes. Per diems are paid, at reduced rates, for domestic assignments up to six months in duration. Civil servants interviewed for the incentives assessment emphasized the importance to them of such non-regular compensation (see Chapter 4).

25 Per diem rates in effect for the 2008-09 fiscal year are specified in the Ministry of Finance’s Decision of the Minister on Public Administration Budget Expenditure Norms (Decision 2348/MOF, 6 October 2008).
In addition to government-paid per diems for field trips, civil servants who work with donors also commonly receive a daily subsistence allowance (DSA) from donors for domestic duty travel and accommodation. A 2008 European Commission report covers this practice in detail, providing a sense of the scope of such payments, as well as the practice of salary supplementation for donor projects (see textbox). As a number of donors have acknowledged, DSA practices perpetuate perverse financial incentives for civil servants to attend training and workshops rather than performing their jobs in-office. Experience from other countries has shown that salary supplementation also warps incentives and undermines the civil service compensation system.

**Daily Subsistence Allowances and Salary Supplementation: A Snapshot of Donor Practices**

In November 2006, GOL and twenty-two development partners (DPs) signed the Vientiane Declaration, a country-specific version of the Paris Declaration on aid effectiveness. One of the harmonization principles embedded in the country action plan was an agreement to develop common arrangements for DPs around the issues of daily subsistence allowances (DSA), salaries, and salary supplementation. The European Commission was identified as a focal point for this work; a brief overview of the findings from its study of donor practices—supplemented by additional anecdotal information—is as follows:

**Daily subsistence allowances:** The Ministry of Finance’s Decision 2348/MOF (6 October 2008) sets out GOL’s per diem subsistence and accommodation allowance rates for the 2008-09 fiscal year. Many development partners—including the World Bank—follow these rates in establishing their own DSA policies. Some donors adjust the rates for inflation and others treat the GOL per diems as ceilings, offering lower DSAs for work in the provinces than in Vientiane capital. GOL lodging allowances are differentiated by employee rank, a practice that DPs do not ordinarily follow.

**Salary supplementation:** Many development partners—including the Asian Development Bank, Germany, Japan, Sweden, the United Nations Development Program, and the World Bank—do not pay salary supplements to government employees working on their projects. Most projects are executed by government officials, and DPs agree in principle that their salaries should be paid by GOL, with no top-ups. But some DPs maintain that ending salary supplementation in their projects is unworkable—although systematic information was not available, the Global Fund and several UN agencies were reported to pay salary top-ups in the health sector, and some European donors were found to be paying salary supplements. World Bank projects, which require specific procurement and financial management arrangements, sometimes hire consultants to perform these roles.


A similar practice worth mentioning in the context of civil service pay and compensation is that of using donor-funded consultants to perform line functions in the civil service. A donor might, for example, pay a national consultant to carry out financial management or procurement procedures within a ministry’s work unit according to that donor’s guidelines, or a donor-funded national consultant might be providing regular advisory services to a minister or other senior official. This practice can be common in developing countries, particularly those that are highly aid-dependent and in which capacity is very low—such as in post-conflict or fragile contexts. In Sierra Leone, for example, development partners are financing the salaries of an entire cadre of national consultants who are performing basic civil service functions in central ministries; and in Cambodia and Timor-Leste, it is also not unusual for a number of such donor-funded consultants to carry out civil service work at relatively senior levels.

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27 See Gary Reid (2008), “Note on Salary Top-up Issues.”
59. This does not yet appear to be a common phenomenon in Lao PDR but it is something that GOL and its development partners should explicitly guard against proliferating. From a civil service management perspective, donors funding consultants to perform line functions perpetuates a number of perverse incentives. The practice creates a parallel system of administration, which if widespread can undermine broader human resource management systems; it can breed resentment among civil servants, since often it means that senior officials are being advised by individuals paid much more than them; and it obscures the actual fiscal cost of running the civil service, since these salaries are not captured in the public sector wagebill. Once the practice establishes itself, moreover, it is very difficult to unwind; hence it is unwise to risk allowing such dynamics to become more widespread.

In-Kind Benefits and Subsidies

60. In addition to monetary compensation and easily monetizable in-kind allowances (coupons for gasoline and mobile phone use), managers and high-level officials may receive other benefits that can add substantially to their overall remuneration package. While a comprehensive assessment was not possible, several such benefits were cited in interviews or previous analyses.

61. Use of government-owned vehicles: Although this may vary by individual organization or level of administration, in central ministries it appears that directors general and deputy directors general of departments generally have use of ministry-owned cars, and heads and deputy heads of divisions have use of ministry-owned motorbikes, during as well as outside of office hours.

62. Use or reduced-price purchase of state-owned houses or land plots for residential construction or cultivation: Use or purchase of these assets is reportedly decided by a joint committee that meets on an ad hoc basis to consider requests.28 The frequency of such transfers or sales and the profile of beneficiaries are not known. Anecdotal information suggests that senior officials tend to have priority where such assets are relatively scarce; criteria mentioned included difficulty with housing and past service to the revolutionary cause.

63. Reduced-price purchase of vehicles: It is possible that aging state-owned vehicles, or vehicles purchase under aid projects that have closed, may also be sold to staff at reduced cost. Transferring state assets into individual ownership in this manner is far from good practice. In the past, there was at least one program that enabled civil servants to purchase imported vehicles via highly subsidized loans with long repayment periods.

64. Social security and other benefits: The most significant in-kind benefit is a dedicated social security system for government workers, covering all civil servants and their families.29 Benefits include health care, maternity leave, disability insurance, survivors’ benefits, and old-age pension—although it is worth mentioning that de facto benefits are often different from those listed in legislation. There is a social security scheme for workers outside the government sphere but coverage remains very low. Hence these benefits significantly enhance the appeal of the civil service (a finding echoed in the incentives assessment in Chapter 4)—especially given the agrarian nature of the economy and the informal character of many private sector jobs. The issue of pensions is outside the scope of this report; but it must be noted that pensions likely represent a significant component of lifetime earnings for civil servants and are hence a major incentive toward public sector employment. In addition, any compensation reforms must be evaluated in light of their impact on the government’s pension liabilities.

28 The committee is composed of representatives from PACSA, Ministry of Public Works and Transport, Ministry of Finance, Ministry of Labor and Social Welfare, the individual’s home ministry, and the National Land Use and Housing Authority.

29 The social security benefit is regulated by Decree 70/PM on the State Social Security System (20 April 2006).
65. Leave entitlements: Decree 82 stipulates entitlements to annual and sick leave, maternity leave, and other paid leave. The Labor Law includes similar provisions for all workers in Lao PDR. Yet previous analyses, confirmed by the incentives assessment in Chapter 4, suggest that outside of the government sector these provisions are often not respected in practice, another factor that enhances the appeal of civil service employment.

Payroll Deductions

66. Earnings data show two types of payroll deductions:

- **Social security contribution:** 8 percent, calculated on the sum of base salary plus all allowances except the child and spouse allowances; and

- **Payroll tax:** 5 percent of the sum of base salary plus all allowances except child and spouse allowances, minus the 8 percent deduction for social security and applied only to earnings in excess of 300,000 kip.

Analysis of Compensation Data

67. To explore how the pay and compensation framework described above translates into practice, we analyzed compensation data from a number of ministries and education and health departments. The data are a convenience sample and largely refer to positions located in or near the city of Vientiane. The standardized nature of formal pay rules, however—with no geographic variation aside from the remote areas payment for teachers, base salary determined by educational attainment and time in post, and allowances defined according to factors such as job title, time in post, or number of dependents—means that the insights of this analysis have country-wide relevance.

68. Although in-kind allowances for gasoline and mobile phones are not included in earnings data, we include their value as defined in regulations for each type of eligible position. But the analysis necessarily excludes non-regular compensation that does not appear in the data, namely overtime, shift pay and special payments in the health sector, per diems and daily subsistence allowances for travel or participation in meetings (provided by government and/or donors), as well as the value of in-kind benefits or subsidies related to the use or transfer of real estate or vehicles. The analysis covers only fully fledged civil servants and excludes contract staff or new hires on probation, whose earnings are reduced. Because available pay records generally do not list job titles, for the purposes of this analysis we derived job titles from the amount of the job title allowance or, in the case of health and education records, the professional title of the job holder (medical doctor, assistant doctor, etc.) and supplementary information.

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30 Labor Law (Amended), 06/NA (27 December 2006).
32 For the purpose of this analysis, monthly pay data for early 2009 were obtained for the ministries of Education, Health, Information and Culture, and Labor and Social Welfare, as well as education and health district offices in Vientiane and an education district office outside the capital. In some cases, data were only for one department of a ministry.
<table>
<thead>
<tr>
<th>Position and Ministry</th>
<th># of records</th>
<th>Range of grades &amp; steps</th>
<th>Average years of service</th>
<th>Gross base salary</th>
<th>Gross base salary + monetary allowances</th>
<th>Net base salary + monetary allowances</th>
<th>Total net remuneration: base salary + monetary &amp; (untaxed) in-kind allowances</th>
<th>Base salary as % total remuneration *</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Kip</td>
<td>USD</td>
<td>Kip</td>
<td>USD</td>
<td>Kip</td>
</tr>
<tr>
<td><strong>DG of department</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>15</td>
<td>5-13 to 4-12</td>
<td>32</td>
<td>1,058,600</td>
<td>$125</td>
<td>1,150,300</td>
<td>$135</td>
<td>1,022,655</td>
</tr>
<tr>
<td>Health</td>
<td>1</td>
<td>4-13</td>
<td>38</td>
<td>945,000</td>
<td>$111</td>
<td>1,065,000</td>
<td>$125</td>
<td>950,598</td>
</tr>
<tr>
<td>Info. &amp; Culture</td>
<td>1</td>
<td>4-15</td>
<td>40</td>
<td>999,000</td>
<td>$118</td>
<td>1,103,000</td>
<td>$130</td>
<td>981,416</td>
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<tr>
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<td>10</td>
<td>5-11 to 4-8</td>
<td>32</td>
<td>962,700</td>
<td>$113</td>
<td>1,058,000</td>
<td>$124</td>
<td>942,464</td>
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<td><strong>DDG of department</strong></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>37</td>
<td>5-11 to 4-10</td>
<td>31</td>
<td>1,021,622</td>
<td>$120</td>
<td>1,106,351</td>
<td>$130</td>
<td>984,400</td>
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<td>2</td>
<td>5-11 to 4-15</td>
<td>38</td>
<td>1,065,000</td>
<td>$125</td>
<td>1,141,000</td>
<td>$134</td>
<td>1,012,234</td>
</tr>
<tr>
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<td>3</td>
<td>5-8 to 4-10</td>
<td>31</td>
<td>886,000</td>
<td>$104</td>
<td>951,500</td>
<td>$112</td>
<td>846,611</td>
</tr>
<tr>
<td>Labor</td>
<td>17</td>
<td>5-10 to 3-15</td>
<td>26</td>
<td>926,824</td>
<td>$109</td>
<td>1,016,882</td>
<td>$120</td>
<td>907,572</td>
</tr>
<tr>
<td><strong>Head of division</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>69</td>
<td>5-11 to 4-6</td>
<td>27</td>
<td>948,609</td>
<td>$112</td>
<td>1,025,609</td>
<td>$121</td>
<td>914,176</td>
</tr>
<tr>
<td>Health</td>
<td>3</td>
<td>4-15 to 4-7</td>
<td>32</td>
<td>909,000</td>
<td>$107</td>
<td>988,667</td>
<td>$116</td>
<td>881,321</td>
</tr>
<tr>
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<td>3</td>
<td>4-12 to 3-9</td>
<td>18</td>
<td>747,000</td>
<td>$88</td>
<td>807,000</td>
<td>$95</td>
<td>722,712</td>
</tr>
<tr>
<td>Labor</td>
<td>21</td>
<td>5-11 to 3-11</td>
<td>23</td>
<td>863,143</td>
<td>$102</td>
<td>946,214</td>
<td>$111</td>
<td>846,401</td>
</tr>
<tr>
<td><strong>Deputy head of division</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>68</td>
<td>5-11 to 3-12</td>
<td>22</td>
<td>894,618</td>
<td>$105</td>
<td>964,662</td>
<td>$113</td>
<td>861,528</td>
</tr>
<tr>
<td>Health</td>
<td>4</td>
<td>4-15 to 4-9</td>
<td>24</td>
<td>904,500</td>
<td>$106</td>
<td>964,750</td>
<td>$114</td>
<td>859,987</td>
</tr>
<tr>
<td>Info. &amp; Culture</td>
<td>3</td>
<td>4-5 to 3-7</td>
<td>14</td>
<td>636,000</td>
<td>$75</td>
<td>693,500</td>
<td>$82</td>
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<td>4-12 to 3-10</td>
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<td>790,560</td>
<td>$93</td>
<td>849,840</td>
<td>$100</td>
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<td><strong>Technical staff</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td>130</td>
<td>5-8 to 3-1</td>
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<td>4-15 to 3-1</td>
<td>14</td>
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<tr>
<td>Info. &amp; Culture</td>
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<td>4-3 to 3-1</td>
<td>6</td>
<td>607,636</td>
<td>$71</td>
<td>622,545</td>
<td>$73</td>
<td>559,884</td>
</tr>
<tr>
<td>Labor</td>
<td>107</td>
<td>4-15 to 3-1</td>
<td>5</td>
<td>691,626</td>
<td>$81</td>
<td>701,776</td>
<td>$83</td>
<td>643,829</td>
</tr>
</tbody>
</table>

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

* Calculated in gross terms for ease of comparison, since net base salary figures are not available and in-kind allowances are not taxed.
‘White Collar’ Civil Service Posts in Ministries

69. Civil servants in Lao PDR receive total net compensation packages—factoring in allowances and subtracting payroll deductions—that are greater than base salary alone. Table 5 (above) presents a sample analysis of average monthly compensation for the four main civil service management positions—deputy head of division, head of division, deputy director general of department (DDG), director general of department (DG)—and technical staff, who make up the rank-and-file non-managerial professional posts. Together, these correspond to Grades 3, 4, and 5 in the civil service career regime, covering about four-fifths of all civil service positions. Analysis of compensation packages for administrative staff in Grades 1 and 2 (the other one-fifth of positions) was not possible based on the payroll records we were able to collect.

70. A number of features are apparent from this analysis. First, the cadres in questions are largely composed of long-standing employees with decades of experience in the civil service. For any given type of position the grades and steps of jobholders vary widely due to the credential-based grading system. This in turn results in some variation in the base salary for a given position—violating the important HRM principle of ‘equal pay for equal work.’

71. Second, monetary and in-kind allowances that are differentiated by rank—namely, the job title allowance and gasoline and mobile phone coupons, as detailed above—are a significant addition to the total monthly net compensation received by the managerial cadres. This phenomenon is illustrated in Figure 10. For technical staff, base salary comprises 90 percent of total remuneration. For division heads, base salary makes up about 75 percent of take-home pay, with allowances accounting for 25 percent. At the top of the civil service salary structure, directors general receive only about 60 percent of their total compensation in the form of base pay, with allowances making up the additional 40 percent.

Figure 10: Composition of average total monthly net compensation, ’000 kip

![Graph showing composition of average total monthly net compensation](source)

Source: GOL; World Bank analysis.

33 A caveat to the principle of ‘equal pay for equal work’ is that some element of pay differentials across similar positions can be defended on the grounds that more experienced staff are more productive; this is a standard justification for seniority-based salary increases.
72. The compression ratio, which compares earnings at the top of the civil service to an entry-level civil service post, is a simple indicator of an individual’s formal financial incentives to take on more demanding positions. In the Lao civil service, using the base salary grid (Table 2) to calculate a compression ratio, individuals at the top pay point (grade 5 step 15) earn 3.1 times the base salary of those at the bottom (grade 1 step 1). Yet this is a misleading statistic—it neither factors in the effect of allowances, nor does it consider the fact that, in the career-based system, senior civil service managers (DDG or DG) may not necessarily hold the highest possible educational credentials and thus may not be in the highest grade. Using actual data for the sample ministries, the compression ratio for base salary only ranges from 2.2 to 2.6 for DDGs and 2.3 to 2.6 for DGs. But once monetary and in-kind allowances (i.e., gasoline and telephone coupons) are included, the compression ratio increases markedly to 3.3 to 3.7 for DDGs and 3.8 to 4.0 for DGs.34

73. Finally, a snapshot of the range of total monthly compensation across ranks, as seen in Figure 11, exhibits a number of qualities worth remarking upon. The range of average total compensation across the sample for technical staff and for directors general is relatively small; while total compensation in the lower managerial ranks—deputy head and head of division, and deputy director general—exhibits more variation. Such a distribution of compensation is not uncommon in bureaucratic organizations, since their very structure often means that staff at middle ranks will vary more in terms of their educational qualifications and years of experience than will those at the top and bottom of the professional ranks.

Figure 11: Range of average monthly total compensation across ranks

![Graph of total monthly compensation across ranks]

Figure 12: Range of base salary across grades

![Graph of base salary across grades]

Source: GOL; World Bank analysis.

74. What is, however, somewhat unusual about the compensation distribution pictured in Figure 11 is that while there is some overlap in the compensation bands at the lower end of the scale, there is no such overlap at the top end. A comparison to the base salary structure, show in Figure 12, is instructive in this regard—with the important caveat that the staff positions (i.e., technical staff through to director general) in the left panel are ranked only in Grades 3 to 5 in the right panel, with no exact match from position to grade because of the career regime. The base salary distribution (Figure 12) shows more typical overlap between salary bands. The compensation scale (Figure 11), shows that allowances at the higher end both

34 These calculations assume a new entrant in grade 1 step 1, earning base salary of 405,000 kip and no allowances.
decompress the salary structure significantly and—moving up the pay scale—appear to shrink the range of compensation. In other words, because position-related allowances are an increasing proportion of total compensation moving up the salary structure, they ensure two things: first, that civil servants filling senior positions are indeed being compensated significantly more than rank-and-file employees; and, second, that the range of compensation across those senior positions is tighter than looking at base salary alone would suggest.

Managers and Service-Providers in Education and Health

75. Service delivery staff in the health and education sectors in Lao PDR make up more than half the total civil service and some features in their compensation are peculiar to their sectors. We conducted a similar analysis of the monthly compensation of health and education sector staff, using data for a health department, a district hospital, and an education district office and its affiliated schools (Table 6 below).

76. As is the case with white collar workers in central ministries, the data reveal a stable workforce with long years of experience, and a range in grades for each type of position. For the payroll sample available, service delivery workers in health and education make roughly between 75 to 85 percent of their total remuneration in the form of base salary. Thus, the share of allowances in total earnings is somewhat less than for managerial-level ministry workers, but these data do not include ad hoc payments for overtime, shift work, special tasks (e.g., surgery), or bonuses that are likely to be more of a factor in service delivery facilities (especially health care) than for ministry jobs.

Per Diem Savings as Non-Regular Compensation

77. The practice of per diem payments for in-country travel merits further examination. For professional staff based in both Vientiane and in the provinces, it can lead to additional duty-related, albeit non-regular, compensation that rivals or even exceeds total monthly earnings from base salary and allowances. A five-night trip generates per diem payments of at least 900,000 kip, some portion of which goes toward defraying expenses on food, lodging, etc. Actual practices in terms of frequency of travel and the staff selected for these duties vary a great deal across ministries. On average, however, interviews revealed that technical staff are likely to receive per diems for five days per month, while managers are likely to receive per diem payments for ten days per month.

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35 The available health sector data do not allow an evaluation of compensation for non-managerial professional posts. This is largely due to insufficient detail in job title descriptions.
36 Shift work is paid according to the Labor Law, and is most relevant for facilities that are open outside regular hours (i.e., hospitals rather than primary health care clinics). Doctors are said to work approximately 52 hours on shift per month, paid at 150 percent of base salary for night work and 250 percent for holidays and weekends. Payments for participating in surgery are said to be decided by the hospital, according to the complexity of the operation and the worker’s role, i.e., surgeon, nurse, etc.
37 Survey findings indicate that “close to four in five schools in non-Lao-Tai villages pay benefits to teachers for multi-grade teaching, compared to only two in five schools in Lao-Tai villages.” PETS (2008), p. 30.
38 In some cases, these per diems are funded out of the state budget; in other cases through projects or by development partners, who tend to be guided by the official government per diem rates detailed above.
Table 6: Average monthly compensation of health and education sector staff, FY 2008/09
Including monetary and in-kind allowances, selected health and education facilities

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

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

* Calculated in gross terms for ease of comparison, since net base salary figures are not available and in-kind allowances are not taxed.
78. Civil servants and officials interviewed confirmed that a substantial fraction of per diem payments is legally pocketed as additional compensation, which substantially supplements monthly compensation levels. How much a civil servant can save out of these non-regular payments, or ‘per diem savings,’ is impossible to capture systematically, since practices vary widely. For the purposes of an indicative assessment, however, we asked officials to estimate the ranges of how much various positions might expect to save in terms of per diems each month. More senior civil servants are more likely to be able to save a larger proportion of the total payments, since they are more likely to also be given meals and accommodation in-kind. Technical staff or more junior managers are more likely to actually incur expenses but these can be reduced somewhat by, for example, staying with relatives or at a ministry guest house instead of paying for accommodation. In addition, if traveling with senior managers, more junior staff are also likely to receive meals or accommodation in-kind.

79. On the basis of these anecdotal reports (and corroborated by data from the incentives assessment presented in Chapter 4), an indicative range of monthly per diem savings can be estimated for different civil service positions. Figure 13 depicts this range of per diem savings in relation to total net monthly compensation for technical staff and managerial cadres. Typical minimum per diem savings are shown as adding a relatively reliable component of total monthly compensation, while possible maximum per diem savings are depicted as a range above the other components of monthly compensation. Typically, technical staff could expect to save from 200,000-750,000 kip in per diem payments over a month; division heads could pocket from 600,000-1,200,000 kip month; and directors general could save from 1,000,000-1,800,000 per month. These figures must be treated with extreme caution—they are purely indicative and the actual experiences of civil servants in frequency of travel and the amount of per diem savings per month will vary a great deal. Nevertheless, for technical staff and managers, the maximum savings from per diem payments could exceed regular compensation in the form of base salary plus allowances. In other words, although individual experience varies greatly, duty-related take home compensation including per diems could equate to more than double regular monthly earnings for all professional grades of the civil service—based in both Vientiane and at the provincial level.

Figure 13: Estimated impact of per diem savings on total monthly compensation

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

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

80. Civil servants at the provincial level are likely to have access to almost the same level of per diem payments as their counterparts in the capital, but lower level service delivery workers such as teachers and nurses have significantly less access to such payments. Nurses might earn up to an additional 300,000 kip in per diems per month—equivalent to about half of total monthly compensation—but only in months when community outreach is ongoing. Chapter 4 provides greater detail on the experiences of service delivery workers regarding additional compensation and income streams.

Other Non-Regular Compensation and Benefits, and Additional Income

81. In addition to formal budget-funded compensation, there appear to be diverse practices with respect to non-regular compensation or preferential access to benefits that may be funded from government coffers or other sources. Interviewees mentioned possible ‘community funds’ for schools, financed by donations from businesses or the public, that may be used for various expenses including proctoring fees for teachers who oversee final exams; subsidized housing in government-owned buildings; or in the case of health facilities that generate own-source revenues, periodic bonuses to staff.

82. In addition, secondary employment outside the civil service—often known as ‘moonlighting’—is not prohibited and may thus be undertaken to supplement government earnings. Our analysis indicated that white collar civil servants in urban areas, particularly Vientiane, can earn multiples of their salaries through after-hours employment as adjunct lecturers, accountants, and so on. Teachers and health workers in rural areas can also earn significant amounts by engaging in after-hours activities, sometimes even matching their regular government compensation. The extent and range of these practices are difficult to assess systematically but these issues were probed in the incentives assessment undertaken for this report, and tentative findings are presented in Chapter 4.
CHAPTER 3: ARE CIVIL SERVANTS COMPENSATED ADEQUATELY?

Introduction

83. A major motivation of this study was the need to make empirically robust judgments on the adequacy of civil service compensation in Lao PDR. Previous World Bank analysis—including the Civil Service Approach Note, the Public Expenditure Tracking Survey, and the Teacher Study, all from 2008—had indicated that the lower levels of the civil service—particularly provincial teachers and health workers—are possibly not paid enough to cover living expenses. On the higher end of the civil service pay scale, anecdotal reports suggested that more senior civil servants located in Vientiane are significantly under-compensated relative to local staff with donors and the nascent private sector.

84. The question of whether civil servants are underpaid relative to their counterparts in alternative domestic labor markets such as state-owned enterprises and the private sector is often a key concern in civil service. It is not a simple question to answer, for a number of reasons. Reliable data on actual civil service earnings (including base salary as well as other monetary and in-kind remuneration) by type of position are often difficult to obtain. It is not always obvious which types of jobs in what spheres should serve as comparators, nor are relevant earnings data easily available, particularly in transitional economies. Finally, there are methodological questions as to how to conduct such comparisons.

85. This chapter begins by reviewing the civil service and labor market context, including indicators of civil service recruitment and retention, in Lao PDR. It then presents the findings of a pay comparator analysis (PCA) of civil service jobs and their alternative labor markets in Lao PDR. We use two methodological approaches: an analysis of earnings data from a nationally representative household survey, along with a customized employer survey of selected private and state-owned enterprises, focused predominantly on white collar office workers, conducted in Vientiane capital. Service delivery workers in health and education were excluded from the employer survey due to the special nature and limited number of private sector jobs for these professions (Chapter 4 offers a qualitative assessment of the relevant alternatives and incentives facing these cadres).

86. The main findings of this chapter can be summarized as follows:

- A cursory comparison of average compensation for various ranks in the civil service to household expenditures suggests that an individual civil servant’s formal regular compensation may not, on its own, be sufficient to finance household consumption. Technical staff are able, on average, to finance 41 percent of household consumption, although this falls to 30 percent in urban areas. Directors general earn enough to finance about 90 percent of household consumption on average, or about 65 percent in urban areas. Teachers’ compensation funds somewhere between one-third to one-half of household consumption—although this is more like two- to three-fifths of household consumption in rural areas. Managerial staff in service delivery facilities can finance about one-half to two-thirds of household consumption, or up to three-quarters in rural areas.

- An analysis of civil service compensation should be understood in the context of the overall labor market. In 2005, 88 percent of workers in Lao PDR were either self-employed—largely in agriculture—or unpaid family members. Civil servants constituted 4 percent of all employed, equivalent to around one-third of all formal sector jobs. Salaried private sector jobs accounted for less than 5 percent of total employment, and state-owned enterprises for less than 1 percent. In sum, white collar alternatives to civil service employment are limited at present since formal salaried jobs are currently a small fraction of the Lao labor market.
The pay comparator analysis undertaken for this report uses two approaches in order to gain as comprehensive a picture of the alternative labor market as possible—comparing public sector earnings to those for similar workers in other labor markets as well as to compensation for similar jobs. Overall, the PCA confirmed a common perception that the formal private sector and state-owned enterprises may offer the potential for seemingly higher monetary compensation than the civil service—at least for certain positions and workers. It must be noted, however, that these pay ratios do not exhibit the dramatic earnings differentials that are sometimes cited anecdotally. Moreover, pay experts tend to believe that civil service pay levels of 65 to 75 percent of private sector pay are appropriate, given the other benefits of public sector employment—and the current compensation practices of the Lao civil service fall squarely within this range.

With the necessary caveats on data uncertainties, the worker analysis broadly indicates that mean monthly earnings for wage-workers in the private sector (excluding agriculture) are somewhat higher than in government administration. For those workers with some secondary schooling onward, it appears that wage-earners in the private sector and SOEs earn around one-and-a-half times that earned by similar workers in the civil service. The jobs approach indicates that average monthly compensation in the civil service appears lower, across all positions, than compensation for similar jobs in the private sector and SOEs. Average salaries for rank-and-file positions in the private sector (e.g., entry level staff, secretaries, clerks) are about one-and-a-half to two times the compensation received by civil service technical staff—somewhat higher but roughly comparable. At higher professional levels, the magnitude of the public to private earnings differential is more pronounced—with private sector peers earning around three times the official compensation of senior officials.

Yet these data are not normalized for the number of hours worked and civil servants have shorter working hours and, generally, a shorter work week than those in the private sector. In addition, the salary path in the private sector is more uncertain in comparison to the civil service, which provides more predictable earnings. Hence, despite the potentially attractive salaries in large, profitable companies, there is widespread agreement that individuals—including recent graduates—are drawn to civil service jobs, for reasons of job security, earnings predictability, in-kind benefits, lower work demands, opportunities for secondary employment, and the possibility to benefit from their status in ways beyond official compensation.

Civil servants also enjoy more in-kind benefits and have more opportunities to supplement earnings via per diems or other, informal, routes. With a fuller picture of civil service earning potential that includes estimated supplements from per diem savings, the private sector compensation premium disappears for all but the director general rank. Senior civil servants—particularly those at the director general level—most likely receive significant non-monetary benefits such as subsidized or free housing, and possibly even land allotments. Factoring in these aspects of non-monetary compensation could erase the private sector premium even at the director general level. When non-regular compensation and non-monetary benefits are also considered, the civil service most likely has an edge over the private sector in its ability to recruit and motivate the requisite staff at all professional grades.

Civil Service Compensation and Labor Market Context in Lao PDR

Civil Service Compensation in Context

87. Civil service compensation (as described in Chapter 2) consists of base pay, monetary allowances, in-kind allowances (mostly for managers), and in-kind benefits. Our micro analysis of
official payroll data revealed the following range of average compensation for professional, or white collar, civil servants in central line ministries (Table 7). [A more disaggregated picture of typical compensation profiles is summarized in Table 5 and Table 6.]

<table>
<thead>
<tr>
<th>Table 7: Range of average civil service compensation, selected ministries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Director General</td>
</tr>
<tr>
<td>Deputy Director General</td>
</tr>
<tr>
<td>Head of Division</td>
</tr>
<tr>
<td>Deputy head of Division</td>
</tr>
<tr>
<td>Technical staff</td>
</tr>
</tbody>
</table>

*Source: World Bank analysis.*

88. Two cursory indicators of the adequacy of civil service compensation are total net remuneration (including base salary, monetary allowances, and in-kind allowances) as a ratio of per capita GDP and as a percent of household consumption. Table 8 presents these comparisons for selected positions in the ministries and service delivery providers sampled for the compensation analysis in Chapter Two.

<table>
<thead>
<tr>
<th>Table 8: Total net remuneration in comparison to per capita GDP and household consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Position</strong></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Central Ministry Staff</td>
</tr>
<tr>
<td>Director General</td>
</tr>
<tr>
<td>Deputy Director General</td>
</tr>
<tr>
<td>Head of Division</td>
</tr>
<tr>
<td>Deputy head of Division</td>
</tr>
<tr>
<td>Technical staff</td>
</tr>
<tr>
<td>Service Delivery Staff</td>
</tr>
<tr>
<td>Director, upper secondary</td>
</tr>
<tr>
<td>Deputy director, upper secondary or Director, lower secondary</td>
</tr>
<tr>
<td>Director, primary school</td>
</tr>
<tr>
<td>Teacher grade 4, all steps</td>
</tr>
<tr>
<td>Teacher, grade 3, all steps</td>
</tr>
<tr>
<td>Teacher, grade 2, all steps</td>
</tr>
</tbody>
</table>

*Source: World Bank calculations; LECS IV survey data*.

a Not provided for Directors General or Deputy Directors General since these senior posts are not likely to be located in rural areas.

b Civil service earnings figures in this report are based on analysis of official earnings records from four ministries: Education, Health, Information and Culture, Labor and Social Welfare. For the purposes of this report, total net remuneration includes after tax base salary, monetary and in-kind allowances that are paid on a regular monthly basis. It excludes variable earnings such as shift pay, over time, or bonuses. Household consumption data are preliminary, based on findings of the 2007/8 Lao Expenditure and Consumption Survey (LECS IV). LECS IV analysis found weighted average monthly household consumption of 1,766,044 kip, with 2,428,871 kip in urban and 1,473,043 kip in rural areas.
89. On average, the official annual earnings of rank and file technical staff are slightly larger than per capita GDP; since compensation increases through the managerial ranks, directors general and deputy directors general earn around two-and-a-half times per capita GDP. Teachers, by comparison, earn around or just over per capita GDP, depending on their grade and step, and managerial positions in district health and education facilities earn between 1.4 and 1.9 times per capita GDP.

90. As is to be expected, senior personnel can fund a larger proportion of their household’s consumption from official earnings than more junior ones, and earnings go further in lower-cost rural areas than urban settings. Technical staff are able, on average, to finance 41 percent of household consumption, although this falls to 30 percent in urban areas, where the cost of living is higher, as compared to 49 percent in rural areas. The most senior managerial post in the civil service, the director general, earns enough to finance about 90 percent of household consumption on average, although this falls to 65 percent in urban areas, where the bulk of these positions are located. Teachers’ compensation funds somewhere between one-third to one-half of household consumption—although this is more like two- to three-fifths of household consumption in rural areas, where most teachers are located. Managerial staff in service delivery facilities can finance about one-half to two-thirds of household consumption, or up to three-quarters in rural areas. The relative adequacy of compensation in terms of consumption depends, of course, on additional factors such as whether other household members earn income and subsistence practices—but civil servants expressed concerns about failing to meet household expenditures in the incentives assessment detailed in Chapter 4.

91. Meaningful international comparisons of such indicators are extremely difficult. The challenges include a lack of data for other countries in East Asia, as well as a lack of consistency in how average compensation is calculated (e.g., net versus gross earnings, including or excluding in-kind allowances or employer contributions, types of positions covered, etc.), among other issues. Given the spotty availability and idiosyncrasies of comparator data, judging the adequacy of Lao civil service earnings by what is at best a blunt instrument would be a risky undertaking. In this report, instead, we take a more nuanced and contextualized approach by examining micro-level data for different levels of worker or sectors of employment within Lao PDR.

92. The minimum wage level provides some additional context to put civil service compensation in perspective. Effective May 2009, the official minimum wage rose from 290,000 kip to 348,000 kip per month—in comparison to the lowest civil service monthly salary of 405,000 kip at Grade 1, Step 1. Workers in manufacturing and services nation-wide are to also receive an allowance of 22,000 kip per month (working 26 days per month, 8 hours per day) or 8,500 kip per day worked—bringing minimum monthly compensation to 569,000 kip.

Recruitment and Retention Indicators

93. As we probe the adequacy of civil service pay from various angles, it is worth considering whether there is any evidence that the civil service has difficulty attracting and retaining staff. Such evidence would not necessarily mean that inadequate pay is the cause; nor does the absence of recruitment and retention problems prove that pay levels are adequate. Other factors are likely at play—including, particularly, human resource management (HRM) practices, as was discussed in the brief HRM assessment in Chapter 1. Nevertheless, certain quantitative indicators can provide useful insights and identify areas for further exploration. Relevant indicators include a high turnover rate (staff resign

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

40 The minimum wage reform was enacted by Ministry of Labor Regulation # 1450 (30 April 2009).
after short periods to pursue better opportunities elsewhere); low numbers of applicants per advertised opening (lack of interest in civil service employment); and high rates of absence from work (possibly due to ‘daylighting’ as staff work multiple jobs, or other factors such as poor management and low morale). In addition, the prevalence of secondary employment might suggest that civil servants wish to supplement their earnings or their professional skills.

94. Only limited evidence is available for Lao PDR and it presents a mixed picture. Turnover rates are low and voluntary resignations from the civil service rare. Out of 109,359 total civil servants in 2007-08, only 1,932 (1.8 percent) left the rolls; of this total, 1,327 (1.2 percent) were due to retirement, death, transfer or dismissal, with only 605 (0.6 percent) resigning voluntarily. Numbers of applicants per advertised opening are not recorded but anecdotal information indicates that interest in civil service employment is high—with applicants willing to work on reduced-pay contract or volunteer terms while waiting for a permanent job opening. Absences are likely recorded by individual units but these statistics are not generally kept at organizational or national level; the 2008 Teacher Study suggested that absenteeism is not a major problem in the education sector. Systematic information on rates of secondary employment is also not available but, anecdotally, it is not uncommon for civil servants to engage in paid work in addition to their civil service duties; this is discussed further in Chapter 4. Taken together, these factors suggest that recruitment or retention are not serious problems per se (although they give no indication about the suitability of the skills or staff that are hired), but that at least some civil servants are likely pursuing other opportunities concurrently with official employment.

Labor Market Overview

95. An analysis of civil service compensation should be understood in the context of the overall labor market in Lao PDR. In 2005, as Table 9 details, fully 88 percent of workers were either self-employed—largely in agriculture—or unpaid family members. Government employees (civil servants plus others such as uniformed personnel) made up 6 percent of all employed; civil servants themselves constituted 4 percent of all workers in the labor market, or about one-third of all jobs if self-employed and unpaid family workers are excluded. Salaried private sector jobs accounted for less than 5 percent of total employment, and state-owned enterprises for less than 1 percent.

Table 9: Employment in Lao PDR, 2005

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

Source: Results from the Population and Housing Census 2005.

a The census report does not explain the distinction between parastatals and state-owned enterprises. “Own account workers” are self-employed workers, mainly in agriculture.

41 Data refer to civil servants in ministries, provincial and district administrations, and autonomous agencies and mass organizations. Civil Servant Statistics of Lao PDR for FY 2007-2008 (Vientiane: Public Administration and Civil Service Agency, Prime Minister’s Office of Lao PDR, 2008).
96. Whatever the debate over civil service earnings, the fact remains that white collar, or office professional, alternatives to civil service employment are limited at present since formal salaried jobs are currently a small fraction of the Lao labor market.

97. Not surprisingly, given the rapidly evolving labor market and the diverse, often informal, and small-scale nature of employment, there is little information on earnings for specific types of jobs. Earnings and income data are not included in government statistical publications. While some employers in Vientiane have done market research to guide their own salary-setting practices, these studies are narrowly focused and not widely available. In order to gain as comprehensive a picture of the alternative labor market as possible, the pay comparator analysis presented here has undertaken two types of analysis—a ‘worker’ approach and a ‘jobs’ approach.

A Dual Analytical Approach: Comparing Jobs and Workers

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

99. In contrast, surveys that compare public sector salaries with seemingly similar jobs in the private sector tend to conclude that public sector workers are grossly underpaid. Such findings may reflect a bias in the choice of comparators toward multi-national firms in a handful of industries whose earnings data are usually more readily available than those for lower-profile domestic firms. These international firms, moreover, are likely to pay high salaries in order to attract a small, specialized workforce—making them a poor comparator for the public sector. Other complicating factors in jobs-based comparisons include the difficulty of comparing the level of effort actually expended and the level of responsibility and skill required to perform the job. Differences in non-pecuniary benefits such as job stability and social security benefits may also not be adequately captured. Furthermore, comparisons focus predominantly on formal jobs, leaving aside informal activities that may be the more likely alternative for the bulk of civil servants in developing countries. This omission is relevant for Lao PDR, since the informal sector is estimated to comprise 30 percent of GDP and almost 90 percent of employment.

For example, earnings data are not included in the Statistical Yearbook (2007) or Results from the Population and Housing Census (2005).


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

A detailed characterization of Lao PDR’s private sector can be found in Reducing Investment Climate Constraints to Higher Growth (Manila and Washington DC: Asian Development Bank and the World Bank, 2007.)
For the worker approach, we drew on data from the 2007-08 Lao Expenditure and Consumption Survey (LECS), a nationally representative household survey that is conducted by the Department of Statistics of the Lao PDR with donor support. LECS gathers information on consumption expenditures as well as other socio-economic information at the level of the individual, household and village. LECS includes questions about individuals’ earnings in the preceding month, the industry of employment, and educational attainment, so that it is possible to compare the earnings of workers who have similar levels of schooling. We calculated the mean earnings (using household weights) for workers in relevant comparator industries to the public sector and for a variety of educational levels.

Our worker comparator analysis faced three major limitations. First, the data are not normalized for the number of hours worked and thus represent reported monthly earnings regardless of the number of hours worked, which may differ across respondents. Second, there is a risk inherent to all such analyses that civil servants systematically under-report their earnings if they are not taking into account, as instructed, all the different components of their duty-related compensation. Private sector workers are less likely to under-report income because their pay calculations are relatively simple. In Lao PDR, for example, civil service earnings may appear lower than they are in reality if individuals are not reporting additional earnings in the form of per diem savings. Third, because Lao PDR is a largely agrarian society, there are relatively few wage-workers in the country as a whole and in the LECS sample. As a result, the mean earnings calculations have a large standard deviation and a high chance of random error, making it very difficult to draw definitive conclusions.

For the jobs approach, we interviewed human resource or personnel managers at four ministries, fourteen private firms, two commercial banks, and five state-owned enterprises (SOEs). All of these employers are located in the city of Vientiane, so our findings necessarily reflect only this particular setting. Furthermore, given the difficulty of establishing a sampling frame of private firms and SOEs, we used a convenience sample. We aimed to include domestic employers that might be a realistic option for job-seekers, taking into consideration the general profile of the work (managerial, professional white collar jobs, support positions), sector of work, and whether the jobs are reasonably common in the Lao market. The size of individual firms by number of staff ranged from very small (three staff) to very large by local standards (five hundred and more).

In selecting enterprises for the sample, our focus was above all on domestic employers, although some of the firms have foreign partners or investors and one is foreign-owned. Table 10 presents an overview of the sample. We excluded international organizations or non-governmental organizations as

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47 Given Lao PDR’s agrarian nature, data are collected over a 12-month period (March to February) to control for seasonal variation. The 2007-08 round of the survey included 48,021 individual respondents in 8,296 households, using a stratified and clustered sample.

48 LECS IV uses over 400 codes for the industry of employment; for clarity of analysis we grouped these into the smaller number of industry codes used in LECS III. This report presents mean earnings data for workers employed in Government Administration (LECS III code 75a), Health and Social Relief (85 and 85a), Education and Training (80), Agriculture and Agricultural Services (01 to 03), and Private Sector & State-Owned Enterprises (all other codes except 75b Defense and 91 Party, Mass Organizations, Professional Organizations). In a limited number of instances, individuals reported working in more than one industry—in these cases, we assigned them to the industry in which they had worked for the greatest number of hours; where an individual worked an equal number of hours in two industries, we assigned them to one industry using random selection.

49 We initially approached firms in writing or by telephone. Given the sensitive subject, we gave participants an assurance of confidentiality and anonymity—hence this report does not include the names of firms or other identifying information.
well as large international corporations or their Lao subsidiaries, since these generally employ a relatively small, elite staff who are highly paid relative to the local market. While these jobs might be relevant for a small number of highly skilled individuals, they are not a realistic alternative for most civil servants.\footnote{In 2009, an international firm that specializes in compensation issued its first enterprise survey for Laos; but the survey included only eleven employers—mostly foreign-affiliated—whose jobs and remuneration are not the most relevant comparators for the bulk of the civil service. \textit{Laos Total Remuneration Survey}, Mercer LLC (2009).}

Table 10: Organizations interviewed for pay comparator analysis

<table>
<thead>
<tr>
<th>Type</th>
<th>Main sector of operations</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ministry of Education</td>
<td>Public Administration</td>
<td>100+</td>
</tr>
<tr>
<td>Ministry of Health</td>
<td>Public Administration</td>
<td>100+</td>
</tr>
<tr>
<td>Ministry of Labor &amp; Social Welfare</td>
<td>Public Administration</td>
<td>100+</td>
</tr>
<tr>
<td>Ministry of Information &amp; Culture</td>
<td>Public Administration</td>
<td>100+</td>
</tr>
<tr>
<td>Private</td>
<td>Information technology</td>
<td>11-25</td>
</tr>
<tr>
<td>Private</td>
<td>Consulting</td>
<td>11-25</td>
</tr>
<tr>
<td>Private</td>
<td>Consulting</td>
<td>&lt;10</td>
</tr>
<tr>
<td>Private</td>
<td>Trading</td>
<td>100+</td>
</tr>
<tr>
<td>Private</td>
<td>Trading</td>
<td>100+</td>
</tr>
<tr>
<td>Private</td>
<td>Trading</td>
<td>100+</td>
</tr>
<tr>
<td>Private</td>
<td>Construction and design</td>
<td>11-25</td>
</tr>
<tr>
<td>Private</td>
<td>Construction</td>
<td>&lt;10</td>
</tr>
<tr>
<td>Private</td>
<td>Printing</td>
<td>11-25</td>
</tr>
<tr>
<td>Private</td>
<td>Garment industry</td>
<td>100+</td>
</tr>
<tr>
<td>Private</td>
<td>Hotel</td>
<td>26-99</td>
</tr>
<tr>
<td>Private</td>
<td>Hotel</td>
<td>26-99</td>
</tr>
<tr>
<td>Private</td>
<td>Travel agency</td>
<td>11-25</td>
</tr>
<tr>
<td>Commercial bank</td>
<td>Banking</td>
<td>100+</td>
</tr>
<tr>
<td>Commercial bank</td>
<td>Banking</td>
<td>100+</td>
</tr>
<tr>
<td>State-Owned Enterprise</td>
<td>Utilities</td>
<td>100+</td>
</tr>
<tr>
<td>State-Owned Enterprise</td>
<td>Utilities</td>
<td>100+</td>
</tr>
<tr>
<td>State-Owned Enterprise</td>
<td>Construction</td>
<td>100+</td>
</tr>
<tr>
<td>State-Owned Enterprise</td>
<td>Employment agency</td>
<td>11-25</td>
</tr>
<tr>
<td>State-Owned Enterprise</td>
<td>Telecommunications</td>
<td>100+</td>
</tr>
</tbody>
</table>

104. As noted earlier, the employer survey excludes health and education service delivery jobs, since there are relatively few formal private sector employers for these professions. Our focus was on white collar office jobs, but some service and industrial jobs were included as comparators—both for context and because they may be alternatives for some rank-and-file civil servants.

105. For civil service jobs, we obtained official earnings data and regulations on base salary and allowances (as detailed in Chapter 2), and interviewed managers regarding actual practice. For private firms and SOEs, we conducted in-person semi-structured interviews, using a written interview guide (presented in Annex 2). Interviews were conducted in English or Lao, with a professional interpreter present as needed. Some firms provided written earnings records, while others provided verbal estimates of typical earnings by type of job; one commercial bank submitted responses in writing, after an initial meeting. Earnings information was provided in any of three currencies—Lao kip, Thai baht, and US dollars; for the purposes of analysis, we converted amounts into kip and dollars using prevailing exchange rates.\footnote{8,500 kip per US dollar and 250 kip per Thai baht.} Where interviewees provided a salary range rather than a specific number, we used the midpoint. When allowances were not included in the quoted earnings figures, we estimated their value, where possible, based on rates mentioned by the interviewee. We gathered information on elements of earnings that are not part of the monthly payroll, such as per diems, bonuses, and overtime; these are not, however,
included in monthly earnings estimates since they are paid irregularly and there was no basis for estimating their typical value. When interviewees provided gross salary figures, we converted them to a net basis by applying tax rates specified in the Lao PDR tax code.\textsuperscript{52}

106. Our employer survey has a number of limitations, many of which are inherent to the jobs approach. As with all research of this type, there is a risk of under-reporting of salaries; to mitigate this risk, we assured participants that no identifying information would be released nor would salary details be shared with any government bodies. We excluded earnings information for several firms because the information provided was not realistic or not complete enough to allow meaningful analysis. We minimized a common bias by excluding large multi-national employers. It must be noted that our comparators include only formal jobs, not informal work (including seasonal agricultural work) or self-employment, both of which might be a more likely alternative for some civil servants; we attempt to address these issues in Chapter 4.

**Findings on the Adequacy of Civil Service Compensation**

*Compensation-Setting in Government and Other Enterprises*

107. Private sector compensation setting practices range from well defined—with formal, written pay scales and benefits guidelines—to ad hoc, individualized practices. In the civil service, as discussed in Chapter 2, compensation is defined by a number of regulations that specify base salary and allowance entitlements, and also stipulate fairly clear rules for salary progression. State-owned enterprises and commercial banks also appear to be governed by explicit salary scales that tend to be specific to the organization in terms of the size of the compensation package and in some cases the type (and value) of allowances.\textsuperscript{53} Several SOEs stated that their base salary structure was based on the civil service system—but this seems to refer more to the practice of using educational attainment as the basis for assigning grade and step rather than to the corresponding monetary value in the civil service salary grid. A more formal approach was found in larger firms as well as in some smaller ones; for the most part, however, smaller firms tended to make salary decisions on a more individualized, case-by-case basis, and to adjust salaries more frequently than SOEs or civil service bodies, sometimes as often as every six months.

108. Unlike civil service employers, SOEs and commercial banks tend to pay bonuses related to profits and individual performance. These bonus practices appear to be highly variable, although they seem to be fairly clearly defined in internal regulations. In larger, profitable entities bonuses can be sizable—equivalent to several months’ earnings—whereas one small SOE stated that no bonuses had been paid for several years. In addition, the civil service, SOEs, and larger private firms have formalized per diem rates for domestic travel.

109. Overall, information gathered in interviews confirmed a common perception that the formal private sector may offer the potential for seemingly higher monetary earnings than the civil service—at least for certain positions and workers. On the other hand, the salary path in the private sector is more uncertain in comparison to the civil service, which provides more predictable earnings and opportunities to supplement earnings via per diems or other routes (as detailed in Chapter 4). The relative informality of the private sector is unsurprising, since small firms, many of which are family-run or recent start-ups, predominate.

\textsuperscript{52} Tax rates are 5 percent up to 1.5 million kip, 10 percent for 1.5 to 2.5 million kip, 15 percent for 2.5 to 4 million kip and 20 percent over 7 million kip. The first 300,000 kip of earnings are exempt from tax.

\textsuperscript{53} For example, civil servants receive a child allowance of 19,000 kip per month per child; two SOEs also offer a child allowance, one paying 19,000 kip and another 70,000 kip. Some SOEs also pay a cost of living allowance and/or a performance incentive that in some cases rival the size of base salary.
Work Environment and Perceived Appeal

110. Despite the potentially attractive salaries in large, profitable companies, there is a widespread perception among the public as well as managers of private firms and SOEs that individuals—including recent graduates—are drawn to civil service jobs. Some private sector managers cited examples of employees who resigned to take a civil service post. Reasons given for the civil service’s appeal included stable employment, earnings predictability, in-kind benefits, lower work demands, opportunities for secondary employment, and the possibility of benefitting from civil service status in ways beyond official compensation. Civil servants’ own perceptions of the relative appeal of public sector jobs, confirming such reasons, are discussed in Chapter 4.

111. Interviews indicated higher turnover in the private sector than in the civil service; whereas fewer than 2 percent of civil servants leave the rolls each year, largely due to retirement, private firms seem to experience frequent turnover in staff due to both dismissals and voluntary resignations. In common with private firms, managers in several SOEs also emphasized that their work environments were fast-paced and profit-focused.

112. Overall, the impression was of three largely separate labor markets—civil service, SOE, and private sector. There appears to be almost no crossover between the private and public sectors. Company managers claimed they rarely received applications from civil servants and were wary of hiring them because of the different work cultures. Managers in private firms as well as SOEs expressed a preference for hiring recent graduates, who are seen as having more relevant skills and orientation. While transfers between the civil service and SOEs do happen, they were mentioned rarely. Like the civil service, firms and SOEs tend to promote from within, and prefer to draw managers from the company’s own ranks. Finally, some professionals—such as experienced engineers and architects—are said to prefer working as independent contractors, since this is more lucrative.

Worker Approach Findings: Mean Earnings by Educational Attainment

113. The worker approach compares the mean earnings across sectors of workers with similar educational attainment. The findings from our analysis of LECS data are presented in Table 11 (below). Although LECS industry codes do not explicitly distinguish between private and public sector entities, the general form of ownership is usually evident from the type of industry. Given the limited size of the formal private sector in health and education, we have assumed that data in these areas are entirely or almost entirely for public sector workers.

114. The analysis generally indicates that mean monthly earnings for wage-workers in the private sector (excluding agriculture) are somewhat higher than in government administration, and government administration earnings are higher than those in the agricultural sector—although there is a high degree of statistical uncertainty in the figures and thus conclusions can only be drawn with caution. The apparently large earnings advantage for private sector and SOE workers with the lowest education levels is surprising and may reflect the higher statistical error at that educational level rather than real differences. For those workers with some secondary schooling onward, it appears—again, recognizing the limitations of the data—that wage-earners in the civil service earn around two-thirds of what similar workers earn in the private sector and SOEs. It must be noted, however, that these pay ratios do not exhibit the dramatic earnings differentials that are sometimes cited anecdotally—for example, that an individual can earn several multiples more in the private sector than in public sector.
Table 11: Monthly earnings by education level and industry (2007/08)

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

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

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

Note on data analysis: Some respondents reported working in more than one industry. In such cases, the analysis uses data for the main industry of employment; where a respondent worked an equal time in two industries, one industry was randomly selected.
It is important to note, moreover, that these data are not normalized for the number of hours worked, which are likely to differ across workers and industries; indeed, our jobs approach findings below, as well as the incentives assessment presented in Chapter 4, suggest that public sector workers may have shorter working hours and, generally, a shorter work week than those in the private sector. As with other surveys of this nature, the data may also reflect respondents’ under-reporting of earnings. Furthermore, the data present monetary earnings only, and include neither in-kind benefits (such as health and unemployment insurance and retirement entitlements) nor factors such as employment stability, which appear to be substantially more generous and widespread in public sector entities than elsewhere.

Jobs Approach Findings: Salaries and Benefits by Position

A systematic comparator pay analysis based on the jobs approach ideally determines how much alternative employers pay for a number of given bundles of human capital skills that match key points in the civil service grade structure. The current grading regime in Lao PDR is a career regime, which grades and thereby compensates employees according to educational qualifications and years of service. A meaningful comparator pay analysis must proceed on the basis of job descriptions, such that bundles of skills are being benchmarked rather than simply qualifications and experience. Annex 3 presents summary descriptions of the key responsibilities performed by typical white collar, professional civil servants, along with the benchmark job definitions used for the purposes of this pay comparator analysis. Education and health service delivery jobs were not included in this analysis because equivalent private sector positions are very limited in number and are likely not the primary alternative for public sector workers. The incentives assessment in Chapter 4 covers motivating factors and alternatives for service delivery workers in particular.

The jobs approach presented here compares the salaries and benefits earned by civil servants in typical positions with private sector and SOE workers performing similar jobs in similar positions. Table 12 presents estimates of average total net remuneration (excluding irregular payments such as overtime, shift pay or bonuses) for selected ministries, state-owned enterprises, and private sector firms that were interviewed for this analysis. These earnings figures have a number of limitations and should be seen as indicative only. Since all organizations interviewed were located in the city of Vientiane, salary estimates are not necessarily relevant for other locations. Because we used a convenience sample and gathered a small number of observations per position, statistical analysis was not possible.

A few points can be observed in terms of the private sector and SOE compensation data themselves. The ranges of compensation for specific types of jobs are, unsurprisingly, large; this survey is built on a small and imprecise sample of convenience in a relatively under-developed labor market. As far as SOEs are concerned, it is important to distinguish between large, profitable SOEs, where earnings appear markedly higher than the civil service, and smaller SOEs where earnings are roughly on par with the civil service. In-demand skills in information technology and civil engineering appear to be particularly well remunerated by local standards. Commercial banks are not included in the analysis, since only two were interviewed (and of these one submitted a written overview of earnings rather than responding to questions), making meaningful analysis difficult. Finally, because of variation in practice, it was not possible to assess the impact of bonuses or other non-regular payments (including per diems) on earnings.

The figures presented here are consistent with the findings of a labor market assessment carried out by the Asian Development Bank in early 2010. The range of private sector salaries presented in that assessment are within the bounds of the range of private sector salaries presented here as the results of our own assessment for the types of skilled workers that are reasonable comparators for civil service white collar positions. ADB (2010).

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### Table 12: Total net monthly remuneration in a sample of private firms, state-owned enterprises and ministries in Vientiane (2009)

<table>
<thead>
<tr>
<th>Position type</th>
<th>Industry</th>
<th># records</th>
<th># firms</th>
<th>Lowest earner</th>
<th>Highest earner</th>
<th>Average earnings</th>
<th>Median earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Private firms</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Entry level, general</td>
<td>Hotel, trading, garment</td>
<td>4</td>
<td>3</td>
<td>437,750</td>
<td>675,250</td>
<td>537,763</td>
<td>$63</td>
</tr>
<tr>
<td>Experienced production staff</td>
<td>Printing, garment</td>
<td>5</td>
<td>2</td>
<td>650,550</td>
<td>888,050</td>
<td>749,740</td>
<td>$88</td>
</tr>
<tr>
<td>Housekeeper</td>
<td>Hotel</td>
<td>3</td>
<td>2</td>
<td>600,000</td>
<td>900,000</td>
<td>760,000</td>
<td>$89</td>
</tr>
<tr>
<td>Driver</td>
<td>Computer, trading, hotel Printing, trading, consulting, travel</td>
<td>8</td>
<td>5</td>
<td>600,000</td>
<td>1,536,000</td>
<td>972,156</td>
<td>$114</td>
</tr>
<tr>
<td>Clerical</td>
<td>Hotel</td>
<td>5</td>
<td>5</td>
<td>580,250</td>
<td>1,580,000</td>
<td>1,063,100</td>
<td>$125</td>
</tr>
<tr>
<td>Hotel front desk</td>
<td>Hotel</td>
<td>4</td>
<td>2</td>
<td>610,000</td>
<td>950,000</td>
<td>777,500</td>
<td>$91</td>
</tr>
<tr>
<td>Salesperson</td>
<td>Computer, trading, travel Construction, garment, hotel, travel</td>
<td>11</td>
<td>3</td>
<td>765,500</td>
<td>2,145,000</td>
<td>1,538,614</td>
<td>$181</td>
</tr>
<tr>
<td>Accountant</td>
<td>Hotel</td>
<td>6</td>
<td>4</td>
<td>965,000</td>
<td>2,370,000</td>
<td>1,479,250</td>
<td>$174</td>
</tr>
<tr>
<td>Chief Accountant</td>
<td>Garment, hotel</td>
<td>2</td>
<td>2</td>
<td>2,000,000</td>
<td>2,752,500</td>
<td>2,376,250</td>
<td>$280</td>
</tr>
<tr>
<td>Technician/IT</td>
<td>Computer, consulting</td>
<td>4</td>
<td>2</td>
<td>1,474,500</td>
<td>2,203,500</td>
<td>2,070,625</td>
<td>$244</td>
</tr>
<tr>
<td>Civil Engineer</td>
<td>Construction</td>
<td>4</td>
<td>2</td>
<td>1,987,500</td>
<td>4,700,000</td>
<td>3,310,000</td>
<td>$389</td>
</tr>
<tr>
<td>Supervisor Manager of small business or of unit in large business</td>
<td>Trading, garment, hotel Computer, consulting, trading, travel</td>
<td>6</td>
<td>4</td>
<td>950,000</td>
<td>2,221,000</td>
<td>1,315,342</td>
<td>$157</td>
</tr>
<tr>
<td><strong>State-owned enterprises</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Driver</td>
<td></td>
<td>3</td>
<td>1</td>
<td>1,207,760</td>
<td>1,682,557</td>
<td>1,514,831</td>
<td>$178</td>
</tr>
<tr>
<td>Secretary</td>
<td></td>
<td>4</td>
<td>2</td>
<td>1,430,000</td>
<td>2,127,614</td>
<td>1,664,084</td>
<td>$196</td>
</tr>
<tr>
<td>Office worker, small SOE</td>
<td></td>
<td>4</td>
<td>1</td>
<td>651,136</td>
<td>737,136</td>
<td>708,136</td>
<td>$83</td>
</tr>
<tr>
<td>Deputy head of section</td>
<td></td>
<td>4</td>
<td>2</td>
<td>1,956,938</td>
<td>3,050,000</td>
<td>2,386,742</td>
<td>$281</td>
</tr>
<tr>
<td>Head of section</td>
<td></td>
<td>4</td>
<td>2</td>
<td>2,057,124</td>
<td>3,500,000</td>
<td>2,590,796</td>
<td>$305</td>
</tr>
<tr>
<td>Deputy director of division, small SOE</td>
<td></td>
<td>2</td>
<td>1</td>
<td>925,136</td>
<td>959,136</td>
<td>942,136</td>
<td>$111</td>
</tr>
<tr>
<td>Director of Division, Small SOE</td>
<td></td>
<td>3</td>
<td>1</td>
<td>1,021,136</td>
<td>1,054,136</td>
<td>1,033,802</td>
<td>$122</td>
</tr>
<tr>
<td>Director of Division</td>
<td></td>
<td>3</td>
<td>2</td>
<td>3,827,892</td>
<td>4,850,000</td>
<td>4,439,252</td>
<td>$522</td>
</tr>
</tbody>
</table>

### Civil Service (4 ministries)

<table>
<thead>
<tr>
<th>Grade &amp; step</th>
<th>Years service</th>
<th>Kip</th>
<th>USD</th>
<th>Grade &amp; step</th>
<th>Years service</th>
<th>Kip</th>
<th>USD</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Technical staff</strong></td>
<td></td>
<td></td>
<td></td>
<td>3-1</td>
<td>1</td>
<td>525,161</td>
<td>$62</td>
</tr>
<tr>
<td><strong>Deputy head of division</strong></td>
<td></td>
<td></td>
<td></td>
<td>3-10</td>
<td>17</td>
<td>807,599</td>
<td>$95</td>
</tr>
<tr>
<td><strong>Head of division</strong></td>
<td></td>
<td></td>
<td></td>
<td>3-11</td>
<td>32</td>
<td>880,114</td>
<td>$104</td>
</tr>
<tr>
<td><strong>DDG of department</strong></td>
<td></td>
<td></td>
<td></td>
<td>3-15</td>
<td>31</td>
<td>1,294,589</td>
<td>$152</td>
</tr>
<tr>
<td><strong>DG of department</strong></td>
<td></td>
<td></td>
<td></td>
<td>4-8</td>
<td>25</td>
<td>1,396,565</td>
<td>$164</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Lowest earner</th>
<th>Highest earner</th>
<th>Range in average compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kip</td>
<td>USD</td>
<td>Kip</td>
</tr>
<tr>
<td>1,004,987</td>
<td>$118</td>
<td>609,884 – 749,761</td>
</tr>
<tr>
<td>1,229,674</td>
<td>$145</td>
<td>774,458 – 1,011,528</td>
</tr>
<tr>
<td>1,268,749</td>
<td>$149</td>
<td>922,712 – 1,114,176</td>
</tr>
<tr>
<td>1,560,741</td>
<td>$184</td>
<td>1,346,611 – 1,512,234</td>
</tr>
<tr>
<td>1,806,157</td>
<td>$212</td>
<td>1,542,464 – 1,622,655</td>
</tr>
</tbody>
</table>

### Notes:

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

**Private sector position types:**

- "Experienced production staff" includes: production worker, multi-skilled garment worker, line-leader assistant, line leader;
- "Clerical" includes shipping/delivery clerk, office support, document processor;
- "Supervisor" includes front office supervisor, production supervisor, restaurant supervisor; and
- "Manager" includes office manager, branch manager, division manager, etc.
119. Certain comparative pay patterns can be observed from an analysis of the employer survey, the limitations of the data notwithstanding. Table 13 summarizes the analysis, showing the calculated averages and ranges of monthly compensation for civil service professional staff, in comparison to the range in monthly compensation for similar jobs in the private sector and SOEs, along with a ratio of private to public pay.

Table 13: Public to private pay comparator analysis, range in total monthly remuneration (kip)

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


120. Average regular monthly compensation in the civil service appears lower, across all positions, than compensation for similar jobs in the private sector and SOEs, as depicted in Figure 14. In relative terms, the ratio of private to public sector pay is between about 1.8 and 1.9 across all civil service white collar positions, with the exception of the director general.

Figure 14: Public-private average compensation differentials
121. At the top end of the civil service ranks, private sector comparators earn just under three times as much, on average, as directors general. Average salaries for rank-and-file positions in the private sector (e.g., entry level staff, secretaries, clerks) are somewhat higher but roughly comparable to those for civil service technical staff. At higher professional levels, the magnitude of the public to private earnings differential is more pronounced so that the earnings of managers in private firms are significantly more than official earnings of civil service managers. These findings appear to mirror a pattern that has been observed in other countries.

122. A number of other factors must be taken into account, however, when coming to a judgment about the relative adequacy of civil service compensation using the pay comparator survey. It should be noted that for all civil service positions with the exception of the DG, average compensation is always higher than the lowest compensation received by those in comparator jobs—thus it is not the case that all civil servants would necessarily receive higher compensation in the private sector. Private sector earnings may also reflect a higher number of hours worked per week, since firms commonly operate on Saturdays.

123. Furthermore, as discussed in Chapter 2 (see Figure 13), civil servants in Lao PDR receive significant compensation in the form of savings from per diem payments, which serve as a de facto earnings supplement. Figure 14 shows the estimated maximum levels of duty-related compensation that each position in the civil service could receive per month. With this fuller picture of compensation potential—base salary and allowances plus maximum per diem savings—the private sector compensation premium disappears for all but the director general rank.\(^5\)

124. Finally, analyzing and comparing monetary compensation in isolation would be misleading. As described in Chapter 2, senior civil servants—particularly those at the director general level—most likely receive significant non-monetary benefits such as subsidized or free housing, and possibly even land allotments. Factoring in these aspects of non-monetary compensation could erase the private sector premium even at the director general level. Cross-country research has estimated that households spend 25 to 35 percent of income on housing; hence, those senior officials receiving housing are in effect receiving additional compensation of this magnitude (and, incidentally, are also thus partially protected in the event of eroding real salaries).\(^6\)

125. Perhaps in an attempt to match such benefits, large employers in Lao PDR, as well as small private firms, provide a range of non-monetary benefits that can significantly enhance the appeal of a job. Table 14 provides an overview of the benefits offered by organizations interviewed for the employer survey, in comparison to those provided to civil servants.\(^7\) The specific value of these benefits is difficult to quantify systematically since practices vary across employers. For example, some but not all firms offer social insurance benefits via membership in a social security scheme for workers outside the government sphere. In general, however, it appears that the public sector offers more systematic and comprehensive non-monetary benefits than the private sector enterprises surveyed.

\(^5\) Supplementary compensation practices vary widely in the private sector and could not be systematically documented or captured in the private sector compensation data. Some firms pay per diems; these are anecdotally much less significant than in the civil service. Some firms also pay thirteenth month or variable bonuses.


\(^7\) * Indicates where information was not available for one or more of the organizations surveyed.
Table 14: Comparative overview of common benefits and allowances not included in monthly payroll

<table>
<thead>
<tr>
<th>Benefit or Allowance</th>
<th>Civil Service</th>
<th>State-owned enterprises (n=5)</th>
<th>Commercial Banks (n=2)</th>
<th>Private businesses (n=13)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal social insurance scheme, including membership in a Social Security Organization (SSO)</td>
<td>Yes. A dedicated social security system provides health insurance, pension, unemployment and sick benefits for civil servants; some benefits cover family members.</td>
<td>Generally offered. 3 SOEs belong to an SSO. 1 SOE does not but pays part of health care costs and a lump sum retirement benefit.*</td>
<td>No. Neither bank belongs to an SSO. One provides a health care allowance.</td>
<td>Mixed. 8 firms belong to an SSO. 3 do not, but 2 of these help with health care costs and 1 has a pension savings scheme.*</td>
</tr>
<tr>
<td>Free or subsidized meals</td>
<td>No</td>
<td>Generally not offered. 1 SOE provides a meal allowance on weekdays.</td>
<td>No information</td>
<td>Mixed. 5 firms provide a free meal or meal allowance on workdays.</td>
</tr>
<tr>
<td>Company car or motorbike (for work and personal use)</td>
<td>Yes, for managers</td>
<td>Generally offered to managers. 4 SOEs provide for managers, 1 provides to company directors.</td>
<td>1 provides vehicles for senior management.</td>
<td>Generally not offered. 3 provide vehicles to managers, generally for business use only.</td>
</tr>
<tr>
<td>Child education benefit (e.g. contribution to school fees)</td>
<td>No formal program. Anecdotally, some organizations may provide scholarships or preferential admissions.</td>
<td>No information</td>
<td>No information</td>
<td>Generally not offered. 1 firm provides an ad hoc benefit, 1 other provides to employees after 3 years of service.</td>
</tr>
<tr>
<td>Staff education benefit (e.g. tuition subsidy, time off)</td>
<td>Yes. Staff on study leave continue to receive base salary.</td>
<td>1 SOE pays for a full degree in Lao PDR or abroad to selected staff.</td>
<td>No information</td>
<td>Generally not offered. 1 firm offers full tuition + reduced hours to qualifying staff.</td>
</tr>
<tr>
<td>Housing benefit</td>
<td>Subsidized or free housing to some staff. Access seems to vary across organizations and individuals.</td>
<td>Generally not offered.</td>
<td>1 offers, 1 does not.</td>
<td>Generally not offered. 1 firm offers ad hoc contributions, another offers free housing on the work site for some managers.</td>
</tr>
<tr>
<td>13th month bonus</td>
<td>No</td>
<td>Generally offered. 1 SOE provides to all staff; 1 provides if revenues allow; 1 provides either 13th month or annual bonus but not both.</td>
<td>1 bank offers it.*</td>
<td>Mixed. 5 firms offer it (of which 1 also offers a 14th month bonus.) 1 other firm offers a half-month bonus.</td>
</tr>
<tr>
<td>Other variable bonus (profit or performance-related)</td>
<td>No</td>
<td>3 SOEs offer a variable bonus, tied to individual performance.</td>
<td>1 bank offers an end-year bonus tied to individual performance.*</td>
<td>Mixed. 5 firms offer a variable bonus to all staff, depending upon performance. 2 firms offer a variable bonus to managers or supervisors.</td>
</tr>
<tr>
<td>Other</td>
<td>Civil servants can apply for a land allotment (for residential or cultivation purposes); availability and criteria vary.</td>
<td>1 SOE offers a share purchase program. 1 SOE offers an internet usage allowance for managers. 2 SOEs offer interest-free loans. 1 SOE offers subsidized daycare.</td>
<td>1 firm provides foreign managers with plane tickets home, car/driver for excursions. 1 firm provides building materials at cost with long repayment periods. 5 firms offer interest-free loan.</td>
<td></td>
</tr>
<tr>
<td>In-kind benefits, provided monthly and included in total net remuneration estimates in Table 12:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone or mobile phone allowance</td>
<td>Yes, to senior officials (DDG and higher)</td>
<td>Generally offered. 4 SOEs provide a mobile allowance to managers and 2 also provide it for non-managers. 1 SOE does not offer a mobile allowance.</td>
<td>Yes. Both banks provide a mobile allowance.</td>
<td>Mixed. 7 firms provide an allowance or reduced billing rates. 1 does not provide.*</td>
</tr>
<tr>
<td>Gasoline or transportation allowance</td>
<td>Yes, to all staff. Amounts vary by level of position.</td>
<td>Yes</td>
<td>1 provides.*</td>
<td>Generally not offered. 3 firms provide it.</td>
</tr>
</tbody>
</table>
Additional factors concerning the work environment must also be considered. As mentioned above, working hours vary across employers, as do entitlements for annual and sick leave. The Lao Labor Law specifies a maximum of six working days per week, not to exceed eight hours per day or 48 hours per week; paid sick leave not to exceed 30 days per year; and annual leave of 15 days per year. Standard workweeks vary, however, with civil servants working five days per week whereas private firms tend to have a six-day workweek. Leave entitlements seem to be observed in the civil service; by contrast, when asked about sick leave and annual leave, firms cited varying information that was sometimes at odds with the Labor Law. The incentives assessment presented in Chapter 4 offers the consensus view of civil servants that the public sector work environment is preferable to that of the private sector, for a variety of such reasons.

The Adequacy of Civil Service Compensation

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

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

At first glance, looking at regular monthly compensation in the form of salary plus allowances, the pay comparator analysis indicates that civil service employees earn less than their private sector counterparts, based on both individual worker characteristics and a comparison of similar jobs. The findings from the country-wide worker approach broadly echo the findings from the Vientiane-centric jobs approach: the approximately 1.5 pay ratio that the statistical analysis of the worker approach found in comparing private sector and SOE wageworkers to government administration workers is closely parallel to the 1.8 to 1.9 ratio of private to public pay emerging from the jobs approach. The larger private to public differential of about 2.8 at the director general level, as seen from the jobs approach, was based on a very small private sector sample of only three pay records, so the finding is extremely tentative.

It is worth noting here that expenditure behavior is not exogenous to income. If expenditure levels are reported as higher than official income, this may reflect additional income earning opportunities (formal and informal), rather than the inadequacy of civil service compensation per se. As noted in Filmer and Lindauer (2001): 2.
130. Full parity with private sector comparators should not necessarily be the goal of civil service compensation systems—because civil service employment offers job security and significant additional benefits; and because governments often simply can’t afford to pay all their civil servants at parity with private sector comparators. When pay experts offer opinions as to reasonable public to private differentials, these estimates tend to state that public sector pay levels of 65 to 75 percent of private sector pay are appropriate, given the other benefits of public sector employment. The current compensation practices of the Lao civil service fall squarely within this range. A wise target, rather than parity, is consistency in the ratio of public to private compensation across different types of positions. In this respect, the regular compensation practices of the Lao civil service look to be quite rationally structured. As far as concerns about a greater gap at the top of the pay scale, moreover, senior government officials worldwide tend to earn less than their private sector counterparts. They benefit instead from a ‘compensating differential’ from greater employment security, their status and ability to exercise influence, and the opportunity to serve their country.\(^{59}\) Such motivational factors were corroborated in the incentives assessment reported in Chapter 4.

131. Delving further into the complexity of compensation practices in Lao PDR, however, reveals that the private sector premium in terms of regular monthly compensation most likely disappears when factoring in other duty-related compensation—particularly savings from per diem payments. Taking into account the potential maximum amount of such earnings supplements, civil service compensation is essentially at parity with private sector comparators (based on the jobs analysis) for all positions except that of the director general.\(^{60}\) When non-monetary benefits are also considered, the civil service most likely has an edge over the private sector in its ability to recruit and motivate the requisite staff at all professional grades.

132. Both the worker and jobs approaches find that the private to public compensation ratio stays relatively constant across all ranks of the civil service (with the exception at the director general level). This relatively constant ratio across all grades may be a sign that the public sector is actually the ‘wage-leader’ in Lao PDR. As described above, about one-third of all formal sector employment is in the civil service and, due partly to the relatively recent nature of Lao PDR’s transition from socialism, it could be that private sector enterprises are essentially benchmarking their salary structures upon official civil service compensation practices. The civil service may in fact be the predominant salaried labor market in the country, such that private companies and SOEs are conceivably taking their cues from the civil service on HRM issues such as compensation and even benefits. It is important to note a caveat to this supposition—reasonably adequate levels of government pay in Lao PDR coexist with a relatively abundant supply of labor, especially unskilled workers. Hence, while larger private employers might follow the government’s lead on wages, smaller enterprises might be able to satisfy their employment needs at lower wages.\(^{61}\)

133. The pay comparator analysis indicates that, in terms of regular monthly compensation, private pay in Lao PDR is for some positions and some workers, somewhat greater than public pay—but not by any degree of magnitude. Taking into the account the supplementary compensation and additional benefits enjoyed by civil servants, and factoring in such issues as hours worked and work environment, the differences between public and private sector compensation in Lao PDR are likely quite small. This

\(^{59}\) As noted in Filmer and Lindauer (2001): 14.

\(^{60}\) It is possible, moreover, that the worker analysis under-reports civil service earnings—if government employees are simply reporting regular compensation in the form of salaries and allowances and not reporting additional duty-related income such as per diem savings. If this is the case, then the private sector/SOE premium found in the worker analysis would also disappear.

\(^{61}\) See Lindauer (1994) for a discussion of the ‘government as wage-leader’ phenomenon in African countries. He elaborates upon the logic presented briefly here.
conclusion does not even factor in the additional non-duty-related income sources available to government employees as a result of their civil service status, such as income from moonlighting and the receipt of extra payments or gifts from clients. It is to a wider picture of additional income and benefits to which we now turn in Chapter 4, in order to more fully understand the incentives facing civil servants in joining and staying in the public sector.
CHAPTER 4: A CIVIL SERVICE INCENTIVES ASSESSMENT

Introduction

134. This report has so far focused on the formal compensation earned by civil servants in Lao PDR. Like their counterparts in many developing countries across the world, they also enjoy a range of non-regular compensation and other benefits made available through their civil service status. These benefits range from non-regular, duty-related compensation such as government per diems and daily subsistence allowances from donors, to additional income sources made possible through civil service status (e.g., teachers charging for tuition), to non-monetary advantages, such as job tenure, work environment, and social status. Such benefits might even motivate individuals to join and remain in the civil service even when regular monthly compensation itself is relatively low.

135. This chapter probes the magnitude and impact of these additional incentives related to civil service employment, summarizing the findings of a series of focus groups comprising a sample of civil servants from each grade and across sectors and geographic locations. Although this cannot be a systematic survey of civil service incentives, the qualitative methodology employed permits an assessment based on emerging evidence that complements the analysis of the composition and adequacy of compensation presented above. The views and voices of civil servants themselves were solicited to contribute to the understanding of monetary and non-monetary compensation practices in the Lao context; and to provide a sense of their experience of the motivational factors embedded within the broader human resource management system, including issues such as hiring and promotion.

136. The five questions addressed in this chapter, along with the key findings, are as follows:

- **Do civil servants perceive their earnings as adequate?** Civil servants generally felt that their formal compensation packages—comprising base salary and allowances—are too low, particularly failing recently to keep up with rising living costs. Views on what would constitute a ‘fair’ salary level were most typically expressed in terms of the need to cover basic expenses. The significance of non-regular per diems in supplementing regular monthly compensation became very apparent—for some staff, per diems can result in multiples of regular compensation. There was consensus that the overall compensation package should be better in remote rural areas due to the inconvenience of remoteness and the lack of additional income sources—participants broadly agreed that higher salary and allowances, access to training, and a ‘fast track’ to a permanent contract were some of the changes that would make rural postings more attractive.

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

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

- The ability of civil servants to earn additional income varies widely, with opportunities reportedly more limited in scope for civil servants in rural locations and for those in junior positions with limited networks. Staff in urban planning (engineers) and in agriculture and forestry can often earn large additional incomes through contact with private construction companies. For the majority of medical personal, additional incomes appeared to be in the range of 50 to 200 percent on top of their official salary. Teachers reported the lowest rates of additional income, with the highest stated total income double official salary.

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

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

Assessment Methodology and Objectives

137. Due to the exploratory nature of this assessment as well as the delicate nature of some of the issues covered, we employed a semi-structured qualitative approach, through which respondents would have some freedom in discussing aspects of interest within a defined number of domains. Focus group discussions (FGDs) and in-depth-interviews (IDIs) were used in order to capture normative aspects and viewpoints surrounding questions of compensation, as well as individual details on career choices and challenges. Data was collected though FGDs and IDIs in four different locations: in Vientiane capital, and Vientiane, Luang Prabang, and Savannakhet provinces. In each location, civil servants representing the Agriculture, Education, Health, Industry and Commerce, and Planning and Investment sectors were included; and students in Vientiane capital studying in different sectors were also included in the sample. Annex 4 provides specific details on the methodology used, including a description of the sample. A detailed report of the focus group and interview findings is available. Here, we summarize the key findings, illustrating the views expressed with selected quotes from the participants.

138. The methodology itself and this chapter place an intentional emphasis on teachers and health workers. Together, these two cadres comprise almost two-thirds of the civil service: Ministry of
Education employees number 58,130 (or 53 percent of the civil service) and Ministry of Health employees number 12,013 (11 percent). Civil service employment in the health and education sectors, moreover, clearly evidences the paradox of low compensation yet high demand for jobs. The 2006 Public Expenditure Tracking Survey (PETS) found that teachers’ and health workers’ salaries were low: total compensation was around 390,000 kip for primary school teachers and 450,000 kip for lower secondary school teachers and health workers. 95 percent of teachers and 90 percent of health workers reported that their salaries were insufficient to cover their living expenses. Many teachers take on additional jobs to supplement their income, e.g., in agriculture (in rural areas) and extra tuition (in urban areas). Yet, despite low salaries and frequent and common delays in salary payment, teachers and health workers for the most part reported high job satisfaction and morale and are seldom absent from work.

In response to service provision challenges, the GOL is considering the establishment of an entirely separate cadre for the health and education sectors, under different contractual conditions from the civil service. From an empirical perspective, however, it is very difficult to determine what constitutes adequate compensation for the majority of teachers and health workers. In the rural areas of the country in which many health and education employees work, there is no real alternative job market to speak of—making impossible a comparator analysis parallel to that reported in Chapter 3 for white collar civil servants in Vientiane capital. In this context, it was decided that the incentives facing teachers and health workers, along with a sense of how they cope with current levels of monetary compensation, could best be illuminated by FGDs and IDIs. The assessment has the added advantage of validating and complementing the findings presented above on the composition and adequacy of white collar civil service compensation.

Incentives Assessment Findings

Perceptions on Salary and Allowances

Civil servants in focus groups and interviews expressed two major sets of concerns about their formal compensation packages, comprising base salary and allowances. First, they generally felt that compensation is too low, particularly failing to keep up recently with rising living costs. Second, the more junior among them advanced the opinion that there should be more equity in compensation between different levels of the civil service—i.e., the compensation structure, including allowances, should be more compressed.

The absolute level of compensation. Civil service salaries are highly appreciated for their regularity but are perceived as too low. Salary levels are perceived as inadequate to cover basic household expenses, except for young, unmarried, recent graduates living with their parents. One of the reported consequences of low compensation levels is that families with “double-civil-servant-income-with-children” decide, more often than others, that one of the spouses should leave the public sector to secure the necessary higher income level for the household. Specific views were expressed as follows:

- They should base their calculations on the real [living costs] situation and give us enough salary to live on. [Teacher]

62 Based on the 2008 base salary multiplier, current salaries would be more like 585,000 kip for primary school teachers and 678,000 kip for health workers.


64 The Ministry of Education already plans to overhaul the teacher salary structure and build in significant pay increases in the next decade—projecting that by 2015, primary and lower secondary teachers salaries would essentially double. Source: Teaching in Lao PDR (2007). East Asia HD and Ministry of Education.
142. Compensation was also perceived as low in comparison to the private sector and SOEs, with the latter perceived as a good comparator:

- *How come [SOEs] get very high salary even though they are also run by the government? Those who work at the state-owned bank get 3-4 million kip.* [Senior civil servant]

143. It was acknowledged, however, that a comparison of compensation levels between the public and private sectors was difficult to make because in the private sector work hours are much longer, qualifications higher, and jobs more insecure.

- *... working with the private sector, it is true that you get high salary, but you have to work very hard ... Besides, their working system is strict, they are not flexible about timing ... it is not secure.* [Nurse]

144. Monetary and in-kind allowances plus non-regular but duty-specific compensation are provided on top of base salary, as detailed in Chapter 2. Civil servants questioned the levels of such allowances—in particular, the child allowance is not perceived as real support for bringing up children, and the spouse allowance was criticized for being restricted to male civil servants.

- *Child allowance is only 19,000 kip: I give it to my children to go to school, in two days it’s already gone ... and spouse allowance is only for wife, not for husband, so a female civil servant loses this advantage.* [Nurse]

145. Civil servants were asked to make a proportional assessment of the amounts received in salary and in allowances per month, including non-regular per diem payments, in order to complement and validate the earnings analysis presented in Chapter 2. The more junior respondents tended not to be aware of the exact composition of the salary structure and answered that they simply noticed the total amount; it appeared that many, as a result, underestimated the proportional importance of various allowances. More senior civil servants, by contrast, were very aware that allowances and per diems constitute a significant proportion of their total compensation. Table 15 presents the typical range of reported levels of allowances for junior and senior civil servants in comparison to base salary. Confirming the compensation analysis in Chapter 2, there were significant differences reported in the relative importance of allowances between junior and senior civil servants—for junior technical staff allowances were of minor importance and ranged from 10-30 percent of the total compensation package, whereas for senior staff allowances and per diems combined could exceed base salary and form over 50 percent of total compensation.

146. Technical staff reported earning per diems during work in rural communities and the daily allowance rate was reported to vary from 15,000 kip to 50,000 kip depending on whether the per diem was financed by the government budget or a project. For nurses, the highest reported proportional impact of per diems on monthly total compensation was up to 50 percent during months of community outreach, the equivalent of around 300,000 kip—but these supplements, while appreciated, are highly irregular and insecure since they are linked to shorter term activities based on external funding.

147. Civil service seniority increases the frequency of per diems and their level—partly due to higher rates but also due to more opportunities for meetings and longer field trips. The official GOL per diem

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65 The following is based on estimates from civil servants holding permanent positions since the other contract types are not eligible for the full package of allowances.

66 Some districts were reported not to be able to afford the official government rate or the rate agreed with international donors; civil servants were in these cases receiving up to one-third less than their entitlement.
rate for overnight stay, including accommodation, was reported to be 180,000 kip; officially, senior civil servants may receive up to 30,000 kip more per night for accommodation. Medical doctors working in districts on implementation of international programs and senior civil servants in all sectors reported having the opportunity to earn the equivalent or more of their base salary (600,000 – 800,000 kip) in field- and meeting-allowances in several months of the year, with no major differences across sectors. Staff at the central level reportedly have the most opportunities to earn per diems—for some, the per diem could for a number of years result in several million kip of additional income.

- I travel to provinces with my boss two weeks per month and I get 3 million kip per month. Sometimes I don’t pay for food or accommodation because the province takes care of that; when the head of the department goes, they pay for every meal and accommodation ... from the administrative budget of the province. [Senior civil servant]

<table>
<thead>
<tr>
<th>Sector and position</th>
<th>Grade</th>
<th>Salary (monthly)</th>
<th>Allowances (monthly unless indicated)</th>
<th>Estimated per diem for field trip or training</th>
<th>Estimated monthly total</th>
</tr>
</thead>
</table>
| Senior CS at central level in Agriculture | 4/10 | 864,000 | - Position allowance 10,000  
- Years of service (21) 31,500  
- Fuel allowance 150,000 (coupons) | 1,000,000 | 2,055,500 |
| Senior CS at provincial level in Education | 4/8 | 810,000 | - Child allowance 19,000  
- Position allowance 7,000  
- Years of service  
- Fuel allowance 50,000  
- Telephone allowance 50,000 | 400,000-500,000 | 1,336,000 - 1,436,000 |
| Nurse at district hospital | 2/13 | 585,000 | - Child allowance 19,000  
- Position allowance 7,000  
- Infectious disease allowance 18,000  
- Night shifts (depending on workload) 180,000 | 5 x 15,000 | 884,000 |
| Teacher at elementary school | 4/3 | 699,000 | - Child allowance 19,000  
- Spouse allowance 15,000  
- Years of service 15,000  
- Grading allowance ~ 15,000 annual  
- Exam proctoring allowance > 10,000 annual  
- Extra teaching hour allowance 1,000 kip/hour (usually not over 18 hours); calculated on annual basis, minimum more than 100,000 kip | No per diem | 758,000 |

Source: Civil servant focus groups and in-depth interviews.

a Payroll deductions for tax and social security contribution have not been estimated; the relevant rates are presented in Chapter 2.

148. Participants also discussed their perceptions on urban versus rural compensation levels. There was broad consensus that the overall compensation package should be better in remote rural areas due to the inconvenience of remoteness, the lack of additional income sources, and the strong urban preference of civil servants in terms of location. Even though it was acknowledged that a remote rural location
would imply lower living costs and more opportunities for farming, participants broadly agreed that higher salary and allowances, access to training, and a ‘fast track’ to a permanent contract were some of the changes that could rather easily make rural postings more attractive. The Ministry of Education was reported to have implemented a rural location allowance in order to attract teachers not originating in rural areas to these locations.

149. **Cost of living.** Civil servants expressed concern that salary levels were not keeping up with inflation. Respondents had experienced a substantial reduction in the value of their payroll during the last decade.

   - *It is true that the salary has increased, for instance a 10 percent increase, but the general price at the market has also increased up to 30 percent—so salary is not enough, it did not follow expenditure.* [Doctor]

150. Weighted average base salaries have been increasing in real terms, through the multiplier applied to the indexed salary structure (see Figure 8). But participants broadly agreed that salary increases seriously lagged the risings prices of everyday goods. Future earnings expectations were also framed by concern over continued increases in costs of living. Participants generally expected the government to increase salaries considerably over the next few years due to economic development in the country, but many were concerned that their expenditures would follow suit if all civil servants got a raise.

   - *I think that the salary level will increase because of the market economy and high inflation rate. If government staff salary remains the same, it will not be enough, especially for those who do not have other activities to do after work.* [Doctor]

151. On compensation levels, in summary, there was a broad consensus that official salary and allowances are insufficient for civil servants to live on—and increasingly so due to rising costs of living. Civil servants’ views on what would constitute a ‘fair’ salary level were most typically expressed in terms of the need to cover basic expenses. Our compensation analysis in Chapter 3 confirms that more junior civil servants are indeed unable to cover household consumption expenditures through their formal compensation packages alone (see Table 8).

152. **Equity across compensation levels.** Most FGDs were populated by relatively junior staff, who expressed the viewpoint that they receive too little in comparison to their more senior colleagues. They agreed that the years of service and position allowances per se are quite small; but they perceived an imbalance in other regular compensation such as fuel and telephone allowances, as well as in the per diems given to more senior staff.

   - *They have increased the incentives such as money for fuel for the high positions—they get 300,000-400,000 kip/month—but we do not get it, or money for the phone card. If you add the incentives to [senior] salaries, they get about 1-2 million kip/month, while we get only 400,000-500,000 Kip/month.*

   - *When high position staff have attended meetings or have been to the field, they might get about 2-3 million kip per month ... my boss gets a per diem of $25/day (212,500 kip), while we as the technical staff get $10/day (85,000 kip).*

153. In-kind benefits mentioned included the following: telephone cards, gasoline coupons, access to motorcycle or car (including repairs), land, house repairs, and partial scholarships for children’s education. Regulations governing these in-kind allowances were not clear to the respondents—except that they are restricted to senior staff, which interviews with senior civil servants confirmed. Anecdotal
reports confirmed our analysis that many of these in-kind benefits are distributed in an ad hoc manner that prevents a systematic assessment of their impact.

- I am using an office motorbike funded by a project ... some technical staff in my office also got a motorbike. Most are funded by the project [but] my department will consider buying a motorbike for a staff if needed. [Agriculture]

- [About 10 percent of available school seats are provided] in terms of a scholarship quota or a scholarship for descendants ... Most of the applicants for the scholarship are children of the leaders, but children of technical staff are also allowed to submit the applications ... a teacher at Vientiane Upper Secondary School is allowed to bring 2 students to study at this school, they can be either their relatives or other people. [Doctor]

- Government staff can make a request to get a full or partial scholarship for their children’s education. It is not guaranteed that every person can get this scholarship for their child but I never got it. I heard people say that to get your child a partial scholarship in a medical college, you have to pay about 20,000 Thai baht (5 million kip).” [Doctor]

154. Such in-kind benefits are very valuable, especially scholarships for children; due to increased competition for admittance to colleges in Vientiane, a number of informal practices have evolved for securing a place. The unequal distribution of these benefits was of some concern for the groups of staff not eligible for receiving them. The market price of scholarships was described as being in the range of 20,000 to 50,000 Thai baht (5-13 million kip). FGDs among students revealed high expenses and acute concerns in gaining access to colleges, with the medical college reportedly the most expensive school at which to get accepted. Knowing a civil servant who has contacts at a particular school is one of the shortest routes to acceptance.

Reasons for Choosing Civil Service Employment

155. Choosing to enter civil service employment is, of course, based on more than compensation levels. Respondents in this study mentioned a range of factors linking compensation to personal motivations as well as broader views on the development of Lao PDR. Identified drivers for choosing public sector careers related to three interlinked areas:

- **Material benefits:** job security until retirement; sick pay during shorter and longer illnesses; health insurance (including family coverage); flexible working conditions and leave; and pension.

- **After-work opportunities:** accepted practice of earning additional income related to job after working hours; opportunities to improve educational qualifications.

- **Non-monetary motivation:** personal social status; opportunities for party affiliation and career progression; working for the development of the country.

A ranking of the relative importance of these incentives was not possible, in part because they are seen as interlinked. Instead, we provide below some of the typical views voiced by civil servants.

156. Respondents unanimously agreed that job security is an essential part of the attractiveness of government employment—a permanent contract is perceived as secured until retirement and this insurance is highly appreciated.
I have never had the idea of changing my job to work with the private sector. I am proud to work with the government because it is secure even though the salary is small. [Teacher]

Young students also mentioned life tenure as an advantage of the civil service; when probed, they articulated negative expectations of the private sector, such as a high risk of salary deductions or getting fired and hence constant job rotation. A second explanation was the trust they placed in the recommendations of their parents and relatives to follow in their footsteps in the public sector.

The second most frequently mentioned reason for working in the public sector relates to social benefits and sick leave in particular. Civil servants continue to receive salary during illness episodes, even longer ones; respondents considered this very important and linked it to a view of the government as generally taking care of and being responsible for its employees.

Satisfaction levels on health insurance, and more specifically the Civil Servant Scheme (CSS), varied considerably between users and non-users. Expectations around the scheme were generally positive; but enrolled civil servants who have not yet used the scheme expressed confusion on service coverage as well as concerns about the risk of lower quality treatment and slow reimbursement. In spite of these implementation problems with the scheme, only a few users had preferred to leave the program and join the Community Based Health Insurance (CBHI) scheme or simply pay out of pocket instead.

Flexible working hours and leave were also mentioned as important material benefits in the civil service. Most participants cited an acceptance for delays in arriving at work, taking a day off, and extending the fifteen days of official vacation when necessary.

If you work in the public sector, you can take a day off easily. If your son is sick, you just call your office and say you are busy and will take a day off. ... We stop working at 4 pm every day. If we want to go home early, we can ask permission from the boss. [Nurse]

We can leave office ahead of time and can come to work late, but if you work with the private sector you would get a salary deduction if you were late or left early. [Engineer]

Working with the government is good especially for lazy and easy-going people, because they can remain there since the government working system is a family-friendly one; government doesn’t abandon its staff; it is secure and more flexible. I don’t really know about the working system in the private sector; I only heard from my son complaining that he has a lot of work to do—he eats lunch while he is working. [District based civil servant]

The option of taking on additional employment after working hours and the potential for extra income were described as major advantages of public sector employment. Respondents described this as a consequence of low formal compensation levels and increasing job opportunities. Civil servants—particularly those based in urban areas—saw their ability to mix a regular salary and social benefits with additional income as an attractive combination. Civil servants in rural areas have fewer opportunities in the private sector but additional income through farming is more important. These combinations of employment and income sources are discussed in greater detail below.

Opportunities to improve education levels, provided to permanent civil servants by the government, are appreciated as benefits, especially by younger employees. The chance to go back to school for a year or two to improve basic skills, while earning current salary, was mentioned as one of the comparative advantages of working in the public rather than the private sector. Access to further

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67 In one of the four study areas, not all respondents had yet been offered the chance to enroll in the scheme.
education is also highly valued since ranking in the career grid, and hence compensation level, is based on educational qualifications.

163. Participants identified another set of non-monetary motivations for working in the public sector. Setting salary aside, a sense of higher purpose was a common theme in discussions, and relates to the personal, political, and patriotic aspects of being a civil servant. For those who had been in the civil service for more than ten years, it had been assumed that they would work for the government after their education; as little as ten years ago, the private sector was very limited and social services were exclusively provided through the government. But younger civil servants also expressed a pride in working for the government and emphasized that it was an explicit choice to work for the good of the country.

   - In my understanding people work with the public sector because of their patriotism, and because they want to help other people, their parents, their families. [Nurse]

   - Before our country became independent, our ancestors devoted themselves for our county. As one Lao … I want to contribute to the development of Laos. [Agriculture]

   - Even though my salary is not a lot, I am satisfied that I have a role in society as a civil servant [and] make a contribution to society … If I stop working, many people will come to ask for my service. My wife was a civil servant and had stopped working—she is now the village chief because the government still recognizes her role. [District level civil servant]

   - I like to work in this field because of medical ethics; we have to help sick people and to regard them as our own blood … we help to save people’s lives from an illness; we make people who come with tears leave happily. [Doctor]

164. Social status and respect was also expressed as a major advantage of civil service employment, even making up for relatively low compensation.

   - Working with government, you’ll get a chance to know many groups of people from different offices … those who work in the public sector will gain more respect than those in a private company … People ask me where I work, and when I reply that I work with the government at the provincial department, people show respect. [Senior civil servant]

   - When I worked in the rural areas, I told [people that my husband] was a civil servant. Then it seemed that villagers talked to me nicely and treated me as one of their relatives; whatever they had, they wanted to give me as a gift. But if I told them that my husband was a trader, it seemed that they would not be interested in talking with me. [Nurse]

   - I have seen some people who left their [civil service] jobs want to return, because even though they now have money, they don’t gain respect and they don’t have power. They realize that working with the government is more beneficial for them in terms of social status and power. [Senior level administrator]

165. Respondents also mentioned that working in the public sector as young professionals keeps the door open for future involvement in political work and thus an opportunity to affect the longer term development of the country. Students described how during their college education they are encouraged by teachers and others to become members in the mass organizations in order to qualify faster for party membership. Together, these factors indicate a set of motivations and a broader awareness of roles and responsibilities as civil servants that go beyond compensation and the working environment.
**Additional Income Opportunities**

166. Civil servants reported that additional work is essential for their welfare since their formal compensation packages—including base salary, monetary and in-kind allowances, and non-regular payments such as per diems—are generally too low to live on.

- *If we don’t have any extra jobs or additional income we would not continue working for government.* [Agriculture]

- *As medical staff or nurses ... we can earn money throughout our lives and anywhere we live ... After working hours when we go home, we still have about three hours; we can use this free time to earn extra income. If we did not do extra work, of course the salary alone would not be enough.* [Nurse]

- *If we don’t have enough to live, we can do some other extra jobs. I would call my salary ‘additional money’—not the main money for living, since it is not enough.* [District based civil servant]

167. Civil servants reported three main avenues through which they earn additional income in order to cope with low compensation levels and manage to support themselves and their families, as this section details. It is formally permitted to take on other jobs after work hours—often known as ‘moonlighting’—although there are some restrictions. Civil servants also earn additional income more informally and, finally, sometimes bordering on illegitimately.

- *People see that government officials earn low monthly salary but have more choices of additional income sources from their duties and function. In comparison with businessmen or traders, government officials are believed to have good relationship with high ranking officials and also we know each other well ... People expect that government officials can help them ... so there is an opening for government officials to earn some additional income.* [Industry & Commerce]

168. In order to assess the relative magnitude of additional sources of income, focus group respondents and interviewees were asked to make a proportional comparison of their official compensation (salary, allowances, and per diems) to their total income. The type and scope of additional income sources varies by sector, seniority, and location. A list of identified additional income sources by sector is presented in Table 16. Not presented in the table or analysis is the common practice of engaging in a range of income-generating activities—such as farming, raising livestock, weaving and handicraft trade, and shop-keeping—unrelated to a civil service profession.

169. Urban civil servants are most likely to engage in activities to earn extra cash income—and this may be more necessary for them since the costs of living are rising faster in urban areas. By contrast, civil servants in rural areas are more likely to generate non-income sources of subsistence through activities such as farming and raising livestock, which are far more possible in rural areas. Indeed, the households of some rural civil servants may be able to cover the bulk of living costs through subsistence agriculture and income-generating activity, such that a significant portion of cash salary can be saved.

170. One particular additional income source is worth defining—the receipt of what are listed in the table as “extra payments/gifts.” The Lao wording for this is sin nam chai, which translates as “money or items (gifts) for being helpful and kind.” The giving of sin nam chai ranges from the poor woman who gives a nurse 5,000 kip out of appreciation for a well-handled childbirth, to the routine adding of 30,000 kip to speed a signature on a tax document Vientiane, to 1 million kip given to civil servants...
working with private construction companies. In other words, it spans tokens of appreciation—constituting informal income associated with a civil service position—to bribes (sin bon in Lao) for special treatment, which represent the abuse of public office for private gain; and there is broad variation in the practice today between urban and rural areas.

171. In describing these practices, the civil servants participating in the incentives assessment were themselves ambiguous about the perceived legitimacy of these payments, offering varying opinions. Although some of these payments are no doubt illegitimate, our interpretation in this report is that these sin nam chai transactions cover a broad span of practices and expectations in different settings, many of which are culturally appropriate tokens of appreciation, given as voluntary gifts—and hence they are captured in the ‘informal sources of income’ column in Table 16 (below). This captures the spirit, for example, of the health sector’s decision that it is illegal to ask for extra money but not illegal to receive it.

172. The interdependence of public and private roles and sources of income is explicit for doctors, since initial employment as a civil servant is a requirement to gain authorization to establish a private clinic or pharmacy. For nurses and public employees in other sectors, opportunities for earning additional income occur to a large extent as a result of their duties and roles as civil servants—for example, informal sources of private care offered by nurses can involve the provision of care for newborn, chronically sick, or old patients they have helped at the health facility; engineers establish contact with construction companies in their role as civil servants but are offered additional tasks after hours; teachers suggest that their own students take additional after-school lessons for a fee.

173. Additional income opportunities are reportedly more limited in scope for civil servants in rural locations and for civil servants in junior positions with more limited networks. Civil servants described very large variation in the success of mobilizing additional income, reported by sector in Table 17 (below).

174. The sector reporting the highest levels of additional income was urban planning, where respondents were trained as engineers. A number of large construction companies are active in Lao PDR and, with large ongoing investments in infrastructure, it was clear that highly educated younger engineers from the civil service are in high demand in the private market for both design work and construction site supervision. Staff in agriculture and forestry also had opportunities to earn large additional incomes through contact with private construction companies or investors from neighboring countries; their role often appeared to be that of a middleman between investors and communities. In the medical sector, a few very successful doctors have popular private clinics of general medicine, pediatric care, or plastic surgery; but for the majority of medical personal, additional incomes appeared to be in the range of 50 to 200 percent on top of their official salary. Teachers reported the lowest rates of additional income, with the highest stated total income double official salary. Teachers in mathematics, English, and technology were the most successful in finding additional jobs, particularly in private colleges.

175. Extra payments or gifts, in cash and in kind, were received by all professions within the civil service for offering faster or better service—for example, signing authorizations or applications for companies, and forms for receiving pension, health checks, and health insurance for individuals. The function and scale of extra payments and gifts were considered increasingly important by urban respondents; civil servants in rural areas were more likely to mention the economic constraints of clients in giving extra payments/gifts in cash but often received them in food. Since extra payments/gifts have been declared illegal at some hospitals the practice is currently a topic of discussion, especially among health workers. Civil servants were therefore diligent in emphasizing that extra payments/gifts are never asked for but simply offered by patients, parents, or clients.
Table 16: Additional income sources reported by civil servants

<table>
<thead>
<tr>
<th>Profession</th>
<th>Additional income in private enterprises</th>
<th>Informal sources of income</th>
<th>Illegitimate sources of income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Doctors</td>
<td>• Own and/or work in private clinic or pharmacy after hours</td>
<td>• Sublet authorization for running a private clinic/pharmacy</td>
<td>• Signing health check forms, insurance forms for private sector workers without proper diagnosis</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Provide treatment to patients at the home of the doctor or the patient</td>
<td>• Issuing false documentation of treatment to CSS</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sell medicines in informal practice</td>
<td>• Sell own medicines to patients at the health facility or encourage patients and colleagues to buy medicines at their private facility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Extra payment/gifts from patients</td>
<td>• Working at private or informal clinics during work hours</td>
</tr>
<tr>
<td>Nurses</td>
<td>• After-hours work in private clinics/pharmacies</td>
<td>• Provide treatment and care to patients at the home of the nurse or the patient</td>
<td>• Sell own medicines to patients at the health facility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Sell medicines in informal practice</td>
<td>• Working at private or informal clinics during work hours</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Extra payment/gifts from patients</td>
<td></td>
</tr>
<tr>
<td>Teachers</td>
<td>• Teaching at private schools or colleges</td>
<td>• Additional tuition from parents</td>
<td>• Accepting gifts for student quotas (college level teachers)</td>
</tr>
<tr>
<td></td>
<td>• Tutoring students</td>
<td>• Processing forms and applications for clients related or unrelated to the school</td>
<td>• Accepting gifts for passing exams or for grades during the school year</td>
</tr>
<tr>
<td></td>
<td>• Use of skills outside the school, i.e., English teachers work as tourist guides; technology teachers in IT-support</td>
<td>• Extra payment/gifts from students</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Exam preparation or tutoring of own students</td>
<td></td>
</tr>
<tr>
<td>Engineers</td>
<td>• After-hours work for construction companies or other firms they are in contact with as civil servants</td>
<td>• Processing forms and applications for clients</td>
<td>• Working for private companies during work hours</td>
</tr>
<tr>
<td></td>
<td>• Starting own private companies in the field of expertise</td>
<td>• Extra payment/gifts from companies</td>
<td>• Accepting gifts for granting authorization or contracts to investors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Providing information to investors on forthcoming projects</td>
<td></td>
</tr>
<tr>
<td>Agriculture workers</td>
<td>• Buying and selling logging quotas and land</td>
<td>• Processing forms and applications for investors</td>
<td>• Working for private firms during work hours</td>
</tr>
<tr>
<td></td>
<td>• After-hours work in shipping company (timber), as accountant for saw mill, or for irrigation construction companies</td>
<td>• Extra payment/gifts from companies</td>
<td>• Accepting gifts from investors who seek contact with villages concerning cash crop cultivation, risking unfair representation of the interest of farmers</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Providing information to investors on coming projects</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Extra payments/gifts for inspecting irrigation construction sites and follow up activities</td>
<td></td>
</tr>
</tbody>
</table>
Table 17: Reported range of additional income by sector

<table>
<thead>
<tr>
<th>Medical sector</th>
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<tbody>
<tr>
<td>In the medical sector the most typical range of estimated additional income per month is between a few hundred thousand to 1.5 million kip comprising informal treatment and gifts:</td>
</tr>
<tr>
<td>o My expenditure is about 60 percent higher than my salary … I do rice farming twice a year; my family looks for food for family consumption. Some of our officials work extra in a clinic and can earn 800,000-1,000,000 kip per month, or they can treat patients at home and earn about 400,000 kip.</td>
</tr>
<tr>
<td>o In Vientiane capital, we mostly do extra work … during the weekend and after working hours. Within a month, if a nurse did extra work every day from 4-7pm, she could earn about 1 million kip.</td>
</tr>
<tr>
<td>Extra payments/gifts:</td>
</tr>
<tr>
<td>o I also receive payment in kind—such as rice, fish, chicken, vegetables—worth about 200,000-300,000 kip per month.</td>
</tr>
<tr>
<td>o Patients sometimes gave me 20,000 kip; it’s up to them to decide how much they want to give. Usually, if they have a serious illness, I would not get extra payments/gifts since they already spent a lot of money for their treatments. Nevertheless, I sometimes get 50,000 kip from those patients who have money.</td>
</tr>
</tbody>
</table>

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

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

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

<table>
<thead>
<tr>
<th>Engineering / Urban planning / Planning and investment</th>
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<tbody>
<tr>
<td>o My extra income sources are definitely higher than my base salary. Extra income covers three-quarters of my total income and one-fourth is my salary.</td>
</tr>
<tr>
<td>o My income from extra jobs is ten times higher than my salary.</td>
</tr>
</tbody>
</table>

176. Extra payments and gifts from private companies were reported to be of a different scale from those received from individuals.

o ... mostly, it is the private companies who give extra payments/gifts. Some people get extra payments/gifts around 300,000-500,000 kip … [and they receive these payments] many times in a month.
Generally speaking ... extra payments/gifts are higher (2-3 times) than base salary ... Some staff get extra payments/gifts at least 1,000 baht (250,000 kip), and maximum is around 2,000-3,000 baht (500,000-750,000 kip) per time depending on their work; some would get extra payments/gifts three to four times per month.

177. Sometimes collective extra payments/gifts are made to groups of staff in an office, who then distribute the payment amongst themselves. A focus group discussion with engineers revealed that in addition to individual extra payments/gifts, companies sometimes offer an additional sum of money—one million kip per month was mentioned as an example—to be shared by the staff in the department that are not involved in the work in the field. Through this mechanism, all staff receive a benefit even though some receive far less than others. A similar mechanism was mentioned in agriculture, where additional budgets are requested from NGOs:

There are many NGO projects working in collaboration with our department, but since we do administrative work we have no opportunity to go for fieldwork as do the staff working closely with the projects. Therefore, our boss has requested money from the offices of several NGO projects concerned to add to the salary of administrative staff. Some projects give us 500,000-600,000 kip per month; for the big projects we get 1,000,000 kip/month. Then we divide this money among all administrative staff from the boss to the common staff, and each receives 100,000 to 50,000 to 30,000 kip according to rank. This can be considered as money for the motivation of our staff.

178. A second payment-sharing strategy mentioned was that in units where civil servants worked extra for private firms they had encountered through their official duties, a defined percentage of their additional earnings should be paid back to the division and shared among colleagues. Some works units reportedly enforce a system of sharing additional income for per diems as well, with funds being used for office parties and even staff healthcare pools.

179. Respondents were asked about the consequences (positive and negative) on the performance of civil servants of the large scale of additional jobs and the widespread practice of accepting extra payments/gifts. The majority of respondents explained that the jobs are carried out strictly after official working hours—a view borne out in existing data by a low incidence of absenteeism—but others pointed to the difficulties in guaranteeing this in practice. Other negative consequences mentioned were lower service provision quality due to absence of specialists and the risk of mistrust of civil servants’ motives. The latter issue was mainly raised by older civil servants who had noticed the growing number of additional jobs being performed by civil servants—and along with that the growing risk of conflicting interests and loyalties between the population served and private companies.68

Alternative (Non-Civil Service) Employment Options

180. Attracting and retaining qualified staff are two central human resource management challenges for any organization, including governments all over the world. In Lao PDR, job opportunities in private companies have steadily increased since the late 1980s and the gradual shift towards a market-based economy. In order to explore reasons that might prompt civil servants to leave the sector or, alternatively, to never enter the public sector, respondents were asked to think about the career choices of their fellow students, in particular the top performers, from their time at college. Substantial differences emerged

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68 This topic was not fully captured in the study due to time limitations in the discussions. The study was most concerned about potential negative impacts, but doctors emphasized that the increased experience they gained in their own clinics with better equipment helped to improve the quality of care provided in public facilities. Other professions mentioned similar arguments but time was too short to capture any detail.
between the responses of younger civil servants just beginning their careers and older civil servants reaching the end of their careers.

181. For middle-aged and older civil servants in all sectors it was clear that their expectations all along had been to work in the public sector. The vast majority of fellow students had entered the public sector and stayed in it, and are now supplementing their income with additional jobs. The top students of their classes are now directors and senior civil servants. For younger civil servants the picture was more mixed and the frequency with which new graduates did not work in the public sector was described as higher than ten years ago. Several focus group discussions, especially those with students, presented a picture of family-based-preferences in the choice of profession and sector. Civil service was said to “run in families” in much the same way as family businesses. Top students from business families were described as one of the main groups that knew they would work in the private sector after graduation.

182. Low compensation levels and the sometimes long wait for permanent positions in the public sector were mentioned most often as a negative factor that led former top students who originally entered the civil service to later choose to go elsewhere. Frustration at a lack of career advancement was also mentioned in the case of some civil servants who choose to leave.

- I still see my fellow students, who studied medicine together with me and worked at the hospitals. But, since income is not enough when both husband and wife are working with the government, they decided either husband or wife would resign from government work … thus some of my friends have resigned to work with NGO programs. [Doctor]

- There are civil servants who have quit their job and chosen to work for private businesses. The reasons are: low incomes that cannot cover their expenses, and high competence, knowledge and skills [with which they can get the] money they need. [Agriculture]

- [Some civil servants] have worked for government for a long time but they cannot get a high-ranking position and therefore they don’t want to continue as government officials. They have skills and knowledge but they don’t use them. [Agriculture]

183. Some female civil servants leave the public sector after they marry. Other reasons mentioned for choosing not to enter or to leave the civil service were logistical challenges—such as long distances between workplace and family residence (nurses or teachers assigned to remote rural locations were mentioned)—or that the staff had a job description that did not match well with his/her field of expertise. It is increasingly common, partly due to the wider choice in educational specialization now available in Lao PDR, that some individuals have strong personal motivations for building a career in a particular field. Young civil servants expressed a lower tolerance for being assigned to a job they were not directly trained for, while older civil servants often described a career where they were assigned to one position after another and learned to appreciate even jobs they were not trained for and were originally dissatisfied with.

184. Top students in the younger generation, especially those in the fields of urban planning, business administration, and to some extent agriculture and forestry, were perceived to have a real choice in terms of whether to work in the public or private sector.

- For those who are the outstanding students, they can choose anywhere they want to work after graduation. They are wanted by the government but most of them will choose to work with those who can pay them more money, and at the same time they will continue upgrading their knowledge. Once they have high qualifications and come back to work with the government, they will … be promoted quickly. [Senior civil servant]
Some smart students wanted to work with public sector but it takes too long to get a permanent contract and ... to get promoted to a higher position. [Engineer]

If the public sector wants to get these smart students we have to improve a lot of things to attract them, such as recruiting them with a permanent contract, providing a higher salary of maybe two million kip per month and giving them difficult assignments to challenge their fresh knowledge. [Teacher]

Overall, however, the number of new graduates who prefer not to work for the public sector was so far described as limited. Newly graduated top students in nursing and teaching are seen to have few alternatives to establishing themselves in the public sector. Furthermore, the number of high paying private jobs with stable management and some job security is described as still limited—albeit growing. There are many smaller family-based companies but these are seen, according to some respondents, as too insecure to risk a career on. A general notion was that since networks of civil servants are strong, and technical expertise and political management lines are integrated, many other advantages in the public sector apart from the official level of compensation still make government employment very attractive.

The vast majority of participants in this study had already worked for the public sector for a number of years and were planning to retire in the public sector. The newly graduated, on the other hand, were mainly focused on landing a permanent position and not much discussion took place on alternative career paths. These questions were of greater relevance, however, for students and volunteer workers without permanent contracts. Contract workers who had waited more than two to three years for a permanent position were clearly worried that they might not be able to find a permanent position, although this varied widely by sector. They worried that it would be perceived as failure by parents and others if they did not manage to stay in the public sector; at the same time they worried about actual salary levels if they decided to apply for jobs in the private sector.

Nurses did not see any full-time alternative jobs options, while medical doctors were thriving in combining private and public work. Teachers in some locations have the option to work full time for private schools or colleges but there were divergent opinions on which sector provides the better conditions. When comparing in-kind allowances and benefits, such as free housing in some districts, a number of teachers had come to the conclusion that their disposable income was higher when staying within the public sector.

Overall, the number of alternatives to the civil service is perceived as relatively limited, except for the relatively few senior civil servants with business management experience, teachers with English or technology skills, and engineers or other technical staff who could see themselves working in construction companies full time. The respondents that looked positively on their future career were typically already working in private sector activities after hours and were hoping to continue this mix of public and private employment, while pursuing advancement in the civil service.

Career Advancement

The prospect of career advancement is recognized as an important motivator in improving work performance. Formal policies on career advancement are detailed in the HRM assessment in Chapter 1; they emphasize merit but also explicitly include membership in the Lao People’s Revolutionary Party as a criterion for advancing to senior civil service positions. In order to better understand HRM practices and

Note that the FGD findings reported here contradict earlier anecdotal reports (see, for example, SIDA 2003: 54) that few youth are interested in civil service jobs or that younger graduates from teaching colleges often fail to remain in the profession.
their impact on civil servants’ motivation, participants in the incentives assessment were asked about the perceived criteria for promotion and the extent to which HRM processes are clear to them.

190. “It is not enough to be smart” was a typical opening comment when addressing the prospects of career advancement. It was, moreover, stressed that although there are a series of policies or guidelines from the Party and from PACSA and personnel departments in terms of defined criteria for promotion, implementation of these policies is uneven at best. Respondents’ views and concerns on promotion practices circled around five criteria: (i) seniority, (ii) educational background and performance, (iii) following government code of conduct; (iv) political performance including memberships; and (v) personal connections or networks (see Table 18 below). As will be clear below, multiple criteria were seen to affect the route to promotion but different weights were ascribed to them; the list is therefore not ranked.

191. Overall, political performance—i.e., party membership—appears to be the sole factor without which advancement to senior civil service positions is not possible. There was, however, a general sense that two criteria are gaining in importance for career advancement, namely technical performance and capacity to network through personal connections. These changes could have implications for future civil service recruitment.

192. There is an increasing number of young civil servants with higher degrees, often earned through scholarships abroad, who have more technical knowledge than their supervisors. This creates some tension between younger and older civil servants and, in parallel, a tension between technical and political knowledge or HRM criteria. Experienced civil servants with low levels of education notice that less experienced but highly educated colleagues earn almost the same regular compensation package—an artifact of the career regime-based salary structure, as discussed in Chapter 2. Younger civil servants, on the other hand, sometimes feel frustrated that they cannot advance faster with their skills.

- Overall, I feel satisfied because the benefit of my position is that I can apply my technical knowledge and skills ... Nevertheless, I sometimes feel discouraged because I have been working in this office for many years, but there are not many opportunities for me to develop myself.

193. Attitudes as to how qualifications should be rewarded and assessed in career advancement diverged considerably; as illustrated by this particular exchange:

- Some people who graduated with a high level of education don’t get a position which matches their qualifications, so they feel discouraged. For instance, they have a master’s degree and their position is just as technical staff, while their boss has an intermediate or lower level of education. [R1]

- This means that this person has not yet understood the government political theory. ... Actually, it is not possible for someone who has a higher level of education to expect immediately to get a high position within the public sector ... There are two main lines of management within the government sector; one is ... Party line management, the other is ... professional line management. If one fails to meet the Party criteria, it is impossible for one to become the boss or get promoted. [R2]
Table 18: Perceived criteria for promotion

<table>
<thead>
<tr>
<th><strong>Seniority</strong></th>
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<tbody>
<tr>
<td>Nowadays, they don’t want to base it only on the numbers of years you are working; they will also see your performance. But if one person works here longer, like 5-6 years, and we work only 1-2 years, that person will have more opportunity to be a permanent staff [or be promoted].</td>
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</tbody>
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<table>
<thead>
<tr>
<th><strong>Education and performance</strong></th>
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<tbody>
<tr>
<td>They will look at your knowledge and skills, your character, whether you can do the job or not, and your performance and good manners. One of the most important criteria is your level of education ... Additionally, the most important criterion for promotion is to be a party member. If you have a master’s degree but you have not been a party member, it is not possible to get promoted to a higher position.</td>
</tr>
<tr>
<td>Regarding criteria for getting promotion, they will look at many aspects such as your behavior, moral and political commitment ... Besides, they will also look at your knowledge and capacity. It is also important that staff has become a party member.</td>
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</tbody>
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<thead>
<tr>
<th><strong>Code of conduct</strong></th>
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<tbody>
<tr>
<td>Good attribute means those who are always aware of what they should say, are not boastful or do not show that they are superior, and respect their bosses all the time.</td>
</tr>
<tr>
<td>To work in the public sector, you must be patient and behave appropriately because they will watch you all the time. They will watch you not only at work but they will follow you home. For example: if you are their target to be a provincial party member, they will go to see the head of your village to ask what you have done and how you behave. If you behave inappropriately, it may affect your career path in the public sector.</td>
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<thead>
<tr>
<th><strong>Political performance</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Being a member of a mass organization such as pioneer organization, Youth Union, Lao Women’s Union, and Trade Union Federation can be started from primary and lower secondary school. At vocational schools, students can be accepted as temporary party members, so that when they become civil servants they will have the opportunity to become party members more quickly ... and if we became members of mass organizations since we were studying at schools, a chance to become civil servants is easier.</td>
</tr>
<tr>
<td>It is important that a staff is a member of the mass organizations in order to show that they follow the rules and regulations of the civil servants’ code of conduct. Membership of the mass organizations is a starting point to become a party member, which is one of the most important criteria for a staff to be promoted.</td>
</tr>
<tr>
<td>If a person is not a party member, then he/she does not even need to talk about being appointed or promoted.</td>
</tr>
<tr>
<td>Nowadays becoming a party member is not as difficult as before, because now it is not a secret process. We know who are the party members and who will observe your achievements if you want to become a party member, but you must have been a member of the trade union and youth union first in order to become a party member.</td>
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<thead>
<tr>
<th><strong>Personal Connections/Networks</strong></th>
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<tbody>
<tr>
<td>Overall, the process of recruiting new staff is not quite clear because there are ‘yellow sticky notes’ from the provincial department and sometimes from the ministry. We, who do the real work, know which staff is suitable and who is not, but when there are these yellow sticky notes we cannot do anything.</td>
</tr>
<tr>
<td>They look at all aspects such as your technical knowledge and your social behavior. Most importantly, it’s your ability, whether you can do the job and lead or not. Previously, they promoted those who had worked for a long time and those who had contributed to the revolution even though they could not do the technical job. A person like me during that time would not get promoted because I was not involved in the revolution. At present, being a party member is the key for job promotion, and also they look at your work achievement and capacity. Nevertheless, there are some gaps for job promotion. If you ... get along well with your boss, you will have a better chance to get promoted.</td>
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</table>

194. Civil servants must complete technical as well as political courses in order to advance in the public sector; and this dual political-technical structure was described as being as strong as ever. Nevertheless, a few participants with working experience in central and provincial administrations commended an emerging new management approach affecting career advancement, described as giving more attention to technical performance outcomes and less to political theory per se.
195. Party members saw the criteria for promotion as clear, although they expressed some concerns about the influence of personal networking possibly giving the better connected a faster track to promotion. Younger non-party members expressed a worry that they might not be selected for party membership and thereby lose the possibility of promotion. Party membership is perceived as being harder to attain in urban areas due to increasing numbers of highly educated civil servants. The majority of student respondents were already members of mass organizations, positioning themselves better for faster party membership and hence stronger careers in the public sector.

196. The increased competition to enter the public sector and in particular to be considered for a permanent staff position has resulted in the widespread perception of increased nepotism and corruption in HRM decisions. One frequently mentioned obstacle to the implementation of promotion criteria, particularly merit, is the growing practice of leaving “yellow sticky notes” (in Lao, chia leuang or chia noy chia nyai) on which requests from well-connected people are made to HRM decisions-makers concerning promotions or permanent positions.

   ○ There are some high-ranking people who sent us a small letter [“yellow sticky note”] asking us to consider their children; in that case, we could not refuse.

   ○ I have tried to help those volunteers who are hard-working but there were children of top people specified, sometimes, from the ministry

197. Concern about an informal market around permanent quotas was also discussed, although the frequency of this practice could not be captured.

   ○ Unofficially, [a permanent position] must be paid for or be supported by a relative or acquaintance working there.

   ○ I heard from one man who just got a permanent staff contract that he spent 10,000-20,000 baht (2.5 to 5 million kip). I also heard that another man also had to pay probably around 20,000-30,000 baht (5 to 7.5 million kip).

198. Until the past year, the allocation of permanent staff quotas followed the vertical government management line from central through provincial to district level. The GOL has recently made an attempt to minimize opportunities for nepotism and corruption in hiring through a change in the procedures, moving to allocating quota positions from the center to the district based on district requests—bypassing the provincial administration, which is often reported to be the level at which the most nepotism or corruption would usually occur.

**Overall Incentives Assessment**

199. The demand for civil service positions in Lao PDR far exceeds the number of available jobs, even though—by the telling of civil servants themselves—regular formal compensation is inadequate to cover living expenses. Civil servants cope with their low official earnings by supplementing them with additional sources of income through moonlighting and other informal, sometimes illegitimate, practices. Yet these practices risk conflicts of interests, illustrated by the apparently widespread practice of service receivers and private companies giving extra payments/gifts to civil servants.

200. At the moment, the availability of full-time job alternatives are limited for most civil servants—including particularly teachers and health professionals—although top new graduates and some seasoned civil servants in engineering, agriculture and forestry, and business administration see more opportunities outside the civil service. Retaining qualified staff does not appear to be a problem today but, with a
growing private sector, stronger competition for qualified recruits could be expected to emerge as a future challenge for the civil service.

201. In analyzing the attractiveness of the public sector and civil servants’ own motivations, a commitment to the broader development of Lao PDR emerged. Additional advantages include social status in a country where the government and Party remain extremely important in all walks of life. Young students express the importance of actively pursuing membership in political organizations in parallel with their formal education. The duality of Lao tradition and reforms is embodied in the finding that both social networking and technical performance were identified as the criteria gaining in importance for achieving a successful civil service career.

202. It is important to note, finally, that a sense of frustration appears to be building over the increasing significance of payments and family connections as apparently important factors in permanent appointments, party membership, and career advancement. The government and the older generation of civil servants may be relatively comfortable with these practices now; indeed, an evolving system of increased political control over senior posts may be a pragmatic approach to ensuring the delivery of complex administrative and service delivery agendas in a capacity-constrained environment. Yet the younger generation of civil servants, who increasingly bring with them advanced technical and professional skills, appear to view current practices as unfair—and there are signs that evolving generational expectations might create pressures to change the approach to career progression.
CONCLUSION: WAYS FORWARD FOR CIVIL SERVICE REFORM

Core Civil Service Reform Principles for GOL to Consider

203. This report has presented as comprehensive a picture as possible of the Lao civil service pay and compensation system, and its strengths and challenges. It has characterized the macro wagebill situation as one that is emerging as a cause for some concern. It has reviewed in detail the GOL’s current civil service pay and compensation structure and provided a comprehensive assessment of the total compensation packages, including both monetary and non-monetary components, for civil servants across grades, job descriptions, and geographical deployment. It has provided a nuanced judgment of the relative adequacy of compensation across all grades of the civil service using a number of different metrics and approaches. And it has summarized a civil service incentives assessment that captures the magnitude of non-regular compensation, such as per diems, along with additional income sources made available through civil service status, and probes the alternative labor market available to civil servants.

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

205. In light of these growing challenges, we propose the following set of potential reform options. These recommendations tailor good practice in civil service management to the Lao context described in this report and the country’s current capacity constraints. In particular, they are elaborated in a manner to align with the GOL’s own incentives as it deals with an evolving civil service. We present the recommendations in increasing order of difficulty—considering both the technical requirements for implementation as well as possible political constraints. Yet they should not necessarily be viewed as a linear sequence; rather they should be seen as a menu of options that serve as building blocks toward enhanced civil service performance within a fiscal constraint. We propose that the analysis and recommendations presented in this report form the basis for a series of workshops though which the GOL could work with the World Bank and other development partners to develop a program of civil service reform going forward.

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

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

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

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

210. Enhancing establishment controls. The government could move to implement partial steps in establishment control to achieve some measure of performance-oriented reform. The HRM and incentives assessments presented in this report illuminate a number of such potential steps. One important action in this regard would be to control the tide of inevitable progression within the career structure by reforming the criteria for advancement. The GOL could mandate that only educational qualifications with direct relevance to job performance would result step or grade advancement, going some way toward emphasizing merit and job performance in career progression. The government could also, for example, reduce the discretionary ability of provincial governments to bypass establishment controls—which they currently do by hiring contract workers who are then made permanent civil servants—by instructing MOF’s Treasury Department not to process payment for any payroll records that do not include MOF approval for the post being created or filled. Taking such steps in establishment control would yield a three-fold benefit. First, they would help to reign in aggregate wagebill growth by focusing on the employment side of the equation rather than simply compensation itself. Second, they go some way toward addressing the growing perception, on the part of the younger generation of civil
servants, that traditional career advancement routes are unfair. Third, to the extent that they can move some way toward compensating employees for the job performed rather than the position held, they help to build toward a culture of performance in the civil service.

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

212. **Ensuring compensation adequacy.** At present, our findings do not indicate that Lao civil servants are systematically under-compensated, nor that performance-focused recruitment and motivation in the civil service is threatened by compensation levels. Nevertheless, a more comprehensive analytical exercise that proceeds on the basis of detailed job evaluations and establishes a benchmark set of private sector and SOE jobs could help to put in place a system equipped to continuously ensure that the private to public compensation ratio stays relatively constant across all ranks of the civil service. Full parity with private sector comparators should not necessarily be the goal of the civil service compensation system—both because civil service employment offers job security and significant additional benefits; and because the government may simply not be able to afford to pay all civil servants at parity with private sector comparators. A wise target is rather consistency in the ratio of public to private compensation across different types of positions, in which respect Lao civil service compensation appears to be quite rationally structured.

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

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

**The Contours of a More Rational Pay System**

215. As the micro analysis of civil service earnings has illuminated, the pay and compensation structure currently in place for the Lao civil service does not achieve the objective of ‘equal pay for equal
work,’ nor does it adequately rank and thereby compensate jobs on the basis of the content of work. In other words, two civil servants performing essentially the same job can have quite different compensation packages; and the base salary grid, because it is based on educational qualifications, does not necessarily ensure that senior civil servants with more responsibility are being compensated more than their junior staff. Allowances are currently being used to introduce some elements of compensation equity based on job description (e.g., through the job title allowances and other position-based allowances) and to decompress the compensation structure by providing senior managers with additional compensation.

216. A more rational pay system, one which ensures equal pay for equal work and relative ranking and hence compensation of jobs based on work responsibilities, is within GOL’s reach. Building such a system would entail three sequenced steps. In a first step worth undertaking by itself, the government would need to simplify and reform the pay system by quantifying non-regular compensation such as per diem savings; monetizing, as far as possible, in-kind allowances; and converting the bulk of all non-salary forms of compensation (including monetary allowances) into base salary. Second, the government could consider reforming at least some elements of its career-based civil service regime to a more job-based system, where government employees are compensated according to the content of the job they perform rather than on the basis of their education qualifications. This step could also entail the creation of a handful of differentiated civil service cadres, in order to ensure service delivery workers can be motivated adequately, along with a more sophisticated exercise of benchmarking civil service compensation to the private sector to ensure compensation adequacy. Third, to establish a well-functioning control framework for pay and grading, as well as to attain greater control of the wagebill, the government could improve payroll management systems by ensuring that payroll, the HR database, and a register of posts are all linked.

Simplifying Pay and Compensation

217. The first step toward a more rational pay system is simplifying pay and compensation. This would entail the following sequence of steps:

- Quantify by position the average amount of non-regular, duty-related compensation—in particular, the earnings supplement through savings from per diems—received by civil servants;
- Monetize by position the amount of in-kind allowances received by civil servants—e.g., gasoline and telephone allowances, as well as housing and/or land allowances received by senior officials;
- Convert these and other non-salary forms of compensation—including monetary allowances—into base salary.

218. The end goal is to convert all previously opaque or ‘hidden’ compensation payments into base salary in order accurately reflect how much any individual civil servant is actually being compensated in one transparent and easily calculable figure. If a reform of this sort was undertaken, civil servants would still receive the same total amount of total compensation—at least, on average, because non-regular compensation varies by individual—but would receive it in the form of base salary. The analysis presented in this report has gone some way toward calculating the total compensation figure for a sample of civil servants, illustrating how a broader pay simplification exercise would need to be undertaken.

219. Simplifying pay and compensation appears to be a reform step that comes with the added benefit of responding to concerns that civil servants themselves expressed about unfairness and inequity in the compensation system. The incentives assessment presented in Chapter 4 noted, for example, the dissatisfaction with the amount of the child and spouse allowances or the simmering resentment expressed by non-managerial ranks about the more substantial compensation provided to senior officials in the form
of gasoline and telephone coupons. Converting these allowances into base pay would eliminate a source of disgruntlement within the civil service in a fiscally neutral manner.

Reforming the Grading Structure

220. Having simplified pay and compensation, the government could subsequently consider reforming the civil service grading structure by moving from the current career regime, which ranks civil servants on the basis of their educational qualifications, to a job-based system, which ranks and thereby compensates civil servants on the basis of the job they are performing. Such a reform to the grading system is a complex undertaking and would require a sequence of activities, as follows.

<table>
<thead>
<tr>
<th>Job Family</th>
<th>Job Requirements</th>
<th>Example Jobs</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Manager</td>
<td>Set objectives; plan; control</td>
<td>State Secretary</td>
</tr>
<tr>
<td>6. Senior Professional</td>
<td>Manage major function</td>
<td>Senior Engineer</td>
</tr>
<tr>
<td>5. Professional</td>
<td>Operational management</td>
<td>Medical Officer;</td>
</tr>
<tr>
<td>4. Senior Technician</td>
<td>Execute technical processes</td>
<td>Unit Officer</td>
</tr>
<tr>
<td>3. Supervisor/ Technician</td>
<td>First line supervision</td>
<td>Senior Secretary;</td>
</tr>
<tr>
<td>2. Basic</td>
<td>Perform well-defined tasks</td>
<td>Senior Mechanic</td>
</tr>
<tr>
<td>1. General Service</td>
<td>Unskilled, simple duties</td>
<td>Cleaner, Driver</td>
</tr>
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221. Job classification system. The Lao civil service does not currently have a comprehensive job classification system. PACSA is undertaking a comprehensive job description exercise with the assistance of the UNDP through the Government Public Administration Reform program. Building on this exercise, a first step to grading reform would be to assess a representative sample of job descriptions in order to establish a number of job families and build a simple job classification system (illustrated above). For most civil services, seven to ten job families is an appropriate number; too many would introduce less meaningful distinctions among jobs.

222. Pay and grading structure. Taking into account the types of functions performed by these job families, they can then be positioned relative to each other along a universal pay spine that encompasses a number of pay grades (see illustration). The goal is to rank job families relative to each other on the basis of the job content they perform. Note that job families may overlap on the pay spine—it is not unreasonable, for example, for a senior technician with many years of service to be compensated more than a new civil servant in the professional job family.
223. Some occupations may require their own cadre, because their career structure is different—many countries, for example, have separate cadres for teachers, health workers, the uniformed services (police), judges, and political positions (ministers). These will usually be bands of several pay points, which can then provide for upward salary movement without changing profession. Differentiating cadres in this way can provide financial incentives not available in the current system, where progression through the civil service grades is limited. A teaching cadre, for example, would allow career progression and salary increases within the profession, on the basis of career-specific performance criteria, without needing to place teachers within the administrative cadre. Particularly as younger entrants to the Lao civil service increasingly see themselves on specific professional tracks—e.g., accountants, legal experts, information technology experts, engineers—as opposed to generalist administrators, a differentiation of cadres may be an attractive reform option. In turn, the introduction of distinct career streams within the civil service would enable the GOL to build upon and benefit from deeper technical expertise within those career streams.

224. The various cadres can then be positioned relatively against each other in relation to the overall pay spine, by benchmarking like jobs in each cadre. For example (see illustration), the teaching cadre might be positioned such that a senior teacher is compensated similarly to a junior engineer in the professional job family in the administrative cadre. This fixes the relative position between job families, but does not yet set actual money values of pay.

225. The final step for pay and grading reform is to assign kip values to the pay spine. If the goal is to ensure compensation adequacy in comparison to the private sector and SOEs, then jobs within each job family and within each professional cadre should be identified for benchmarking against like jobs within the broader labor market. Such benchmarking ensures that numerical pay values are established with some clear rationale and that the relative positioning of cadres against the pay spine is correct. It is important to caution that moving to a pay spine approach means that the government must be prepared to take a policy stance on pay relativities across the pay levels of different cadres or occupational groups.

*Improving Payroll Management Systems*

226. A well-functioning control framework for civil service pay and grading ensures that three systems—the payroll, the human resource (HR) database, and a register of posts—are interlinked (see illustration). A robust HR database should include a unique personnel ID for each employee, along with personal and HRM data. The personnel information management system (PIMS) currently being developed by PACSA records much of this data, although the precise specifications of the system and forms of data captured will likely have to be reviewed.
Lao PDR does not currently have a register of posts, which is a record of all the jobs in the civil service—rather than the individuals occupying the job. In such a register, each post would be associated with an ID number, and a job title, grade, and description, and be associated with a particular job unit. A register of posts can therefore comprise more posts than existing civil servants—and is thereby a means by which the government can identify specific job vacancies that need to be filled. It is also a means of ensuring that civil servants are being compensated for jobs that are actually being performed (i.e., avoiding the problem of ghost workers).

The payroll, operated by the Ministry of Finance, then calculates an individual civil servant’s pay by using these systems as follows:

- Identify the employee in the HR database;
- Match the employee to an approved post in the register of posts;
- Look up the approved rate of pay for that post (which will match the employee’s job title and grade);
- Calculate pay and pay employee.

Finally, because payroll calculations are made on the basis of specific, cross-checked data in this fashion, projecting the wagebill implications of compensation reforms becomes a relatively easy task. If the pay spine is expanded to provide an across-the-board salary increase, for example, the approved rates of pay for posts and the employees who occupy them will change accordingly—and the estimated fiscal impact can be modeled accordingly.

Achieving this level of control over civil service pay and grading is not possible without taking crucial initial steps to first simplify pay and then reform the grading structure so that civil servants are compensated on the basis of the job they perform. With the sequence of steps outlined above, however, the Government of Lao PDR can go a long way toward rationalizing its civil service pay and grading structure so that it is equipped to attract the necessary skills into the civil service, financially motivate employees throughout their careers, and ensure strong fiscal controls on the civil service wagebill. In turn, these will be crucial planks in modernizing the Lao civil service and enhancing its administrative performance subject to fiscal constraints.
REFERENCES


Annex 1: Key Civil Service-Related Regulations

1. Decree on the Civil Service of the Lao PDR. Decree 82/PMO, dated 19 May 2003; Instruction 508/PMO, dated 10 October 2003 and other supporting regulations to decree 82;

2. Directive on Appraisals of Civil Service Activities in Lao PDR. Directive 01/DPA dated 22 September 2005 (subsidiary regulation to decree 82);

3. Decree on Organization and Actions of Public Administration and Civil Service Authority. Decree 64/PMO, dated 17 May 2004;

4. On the Social Security System for Civil Servants. Decree 70/PMO (2004);

5. Decision of the Prime Minister on Improvement of Base Salaries, Allowances and Benefits in Public Expenditure. Decree 88/PMO dated 11 November 2008;

6. Decree on Administrative Positions Within the Government of Lao PDR. Decree 99/PM dated 23 June 2008;

7. Labor Law (Amended). No. 06/NA dated 27 December 2006;


Annex 2:  **Semi-Structured Interview Guide for Employer Survey**

The purpose of the survey is to collect information on the private sector and SOE salaries and benefits that apply to a series of jobs at support, professional, and management levels in Lao PDR.

**Organization Profile**
1. Main sector of operation
2. Number of years in operation
3. Legal status (e.g. private limited company; family-owned; Lao owed (only); internationally owned or some international investment?)
4. Number of employees in Lao PDR
5. City where located, and any branch offices (in other provinces, etc.)

**Basic Salary**
1. Official working days/hours; actual vs. official (i.e., is it common to work longer hours)
2. Do you have written rules or guidelines for establishing salary levels for employees? (e.g., a table of job levels and salaries for different job levels)
3. What currency are salaries quoted in? (Kip? US dollars? Other currency?)
4. Do you pay gross or net salaries?
5. Are salaries quoted as monthly earnings? Or other period?
6. Do you give regular salary increases (e.g., each year)?
7. Last salary increase (date and percentage)
8. Next planned increase (date and estimated percentage)
9. Overtime: Do you pay overtime for extra hours worked by any employees at professional and management levels? (If so, which categories/levels are paid overtime?)

**Allowances / Benefits – Cash or In-Kind**
Do you provide any allowances / benefits, in cash or in-kind? For example:
1. Transport to/from work
2. Subsidized meals or drinks
3. Loans for house purchase
4. Loans for other purposes (e.g., car purchase)
5. Free or subsidized housing
6. Other housing benefits (e.g., electricity, water)
7. Company car
8. Car expenses (e.g., fuel, maintenance, insurance)
9. Vacation benefits (e.g., travel costs, holiday apartments)
10. Sports / leisure facilities (e.g., membership of sports club)
11. Education of employee’s children
12. Entertainment allowance
13. Per diems for foreign travel or travel in-country
14. Telephone / mobile phone
15. Any other allowances / benefits – please describe.

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70 This text was adapted from an interview guide developed by Hugh Grant (World Bank consultant) for a similar employer survey for a pay comparator analysis.
Please provide details of above Allowances / Benefits:
- Who is eligible (which categories or grades)
- Amount of allowance / benefit
- Is the allowance / benefit taxable?

Bonus/Incentive Plans
Do you pay any bonuses, for example:
1. Fixed bonus (e.g., 13th month)
2. Variable bonus (i.e., a bonus based on individual or company performance)
3. Any other bonuses (e.g., company shares or share options)

Details of Bonuses
- Who is eligible for bonus (which categories or grades)
- Average amount of bonus
- Frequency of payment (e.g., annually, monthly)
- Is bonus paid gross or net?

Social Benefits
Leave:
- How many days of paid annual leave do you provide?
- How many days of paid sick leave

Medical Assistance:
- Do you provide any contribution to employees’ medical costs, through social security or other (e.g., visits to clinics, medications, hospital treatment)

Pension / Retirement Benefits:
- Do you provide a monthly pension or lump sum payment when an employee retires?

Job Profile
1. Job title
2. Responsibilities
3. Monthly salary – range (minimum/maximum), average, or actuals for a specific incumbent,
4. Allowances and benefits (see checklist)
5. Bonus
6. Years on the job
7. Approximate age of job-holder
8. Prospects for salary growth after 1 – 2 – 3 years on the job, etc.
9. Background – education, work experience, etc.

Other Questions
1. Employee turnover: What percentage of employees leave the organisation and have to be replaced each year?
2. Skills shortages: Are there any functions where you find it difficult to recruit and retain employees? (e.g., IT staff, financial staff)?
3. Languages: Which languages do you require employees to be fluent in?
4. Training: How many days training per annum do you provide to employees at professional and management levels? What percentage of training is provided in Lao PDR vs. outside Lao PDR?

Other Comments/Notes
Annex 3: Benchmark Civil Service Jobs for a Pay Comparator Survey

A systematic comparator pay analysis based on the ‘jobs approach’ ideally determines how much alternative employers pay for a number of given bundles of human capital skills that match key points in the civil service grade structure. The current grading regime in Lao PDR is a career regime, which grades and thereby compensates employees according to educational qualifications and years of service/experience. A meaningful comparator pay analysis ought instead to proceed on the basis of job descriptions, such that bundles of skills are being benchmarked rather than simply qualifications and experience. The pay comparator analysis presented here thus proceeded in two steps.

The first step was to develop a simple job-based classification. A human resource management (HRM) consultant, worked with PACSA and line ministry personnel department officials to develop basic job descriptions for the five key white collar, professional positions in the civil service—technical staff, deputy division head, division head, deputy director general, and director general.

The second step was to carry out a comparator analysis of compensation offered by the private sector and state-owned enterprises, on the basis of the simple job-based classification developed. This enabled the comparison to be made on the actual job performed, rather than on the basis of qualifications and years of service. The details of the pay comparator analysis based on the jobs approach are presented in Chapter 3.

This annex identifies and characterizes a selection of civil service positions that served as ‘benchmark’ jobs for the pay comparator survey.

Defining Benchmark Jobs

The rationale underlying selection of benchmark jobs was to:

1. Represent a range of civil service positions from bottom to top (director general, the most senior position overseen by PACSA, the Public Administration and Civil Service Agency).
2. Include common types of positions (managerial, professional, administrative, support/general services).
3. Reflect the composition of the core civil service by influence as well as number, e.g., managerial positions with relatively few job-holders, and rank-and-file positions with large numbers of workers, e.g., technical staff.\(^{71}\)
4. Focus on a limited number of benchmarks to enable comparison without being so numerous as to be burdensome.\(^{72}\)
5. Include examples of positions that are likely to be hard-to-fill.

Information sources used to select and characterize benchmark jobs included:

1. Interviews with civil servants in Vientiane (February 2009 mission).
2. Written job descriptions obtained from government counterparts.

\(^{71}\) Official data show civil servants only by grade and level of educational attainment, rather than by job title or specific educational credentials, thus selections are estimates.

\(^{72}\) A previous World Bank survey for calibrating salaries in country offices looked at 12 positions (6 managerial and professional, and 6 support, administrative and general.) Surveys in Russia and Moldova examined 5 (3 management, 2 professional) and 6 (3 managerial, 3 professional), respectively.
3. Pay and employment data and organizational charts obtained for a sample of ministries (February 2009 mission).
4. Data from Ministry of Finance and PACSA on composition of the civil service by grade, sector and educational attainment as of 2007-08.
5. Prior World Bank analyses of civil service issues in Lao PDR.
6. Review of benchmark jobs commonly used for other pay comparator surveys, including the World Bank’s survey for country offices and civil service surveys in other client countries.

Given the substantial variation in job content and responsibilities even across positions with the same job title, characterizations of benchmark jobs for comparator purposes in other surveys have of necessity been simple and fairly broad. This approach has been adopted for Lao PDR as well.

The dimensions considered for characterizing benchmarks for the Lao PDR were:

1. General professional standing or level of responsibility
2. Point in career (e.g. new entrant vs. more experienced)
3. Reporting arrangements
4. Responsibility for managing staff and activities
5. Minimum required professional experience (e.g., as specified in job descriptions)
6. Minimum required educational qualifications (as specified in job descriptions)

The benchmarks aim to describe key features of the job more so than the job-holder. In practice, formal descriptions of the job are likely to diverge from some jobholder characteristics. For example, Lao PDR’s career system gives workers an incentive to upgrade their educational credentials in order to move to a higher grade/step in the pay scale. In practice, actual professional experience (notably for managers) may exceed formal requirements since career advancement in the administration is reportedly slow.

**Benchmark Jobs**

The benchmark jobs described below represent managerial, professional, administrative, and general work streams. They draw upon a mix of formal and practical information—including specific job summaries from one ministry (presented below)—and should be considered as general guides rather than definitive descriptions.

**Managerial**

1. Director General (DG) of a ministry department

*Top position in the ministry that has civil service status.*

- Senior manager, reporting to organization’s top leadership.
- Overall responsibility for a major business unit. Typically oversees 2-3 levels of subordinate managers.

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73 The size of budget managed was not used for several reasons, including difficulty of gathering consistent data and the fact that some fields of activity (e.g. construction) involve inherently larger budgets than others.
74 This is most straightforward for some professions (e.g., health care, engineering) but less so for white collar and managerial posts.
2. Deputy Director General (DDG) of a ministry department

Reports to the Director General. Described here as middle management because a single department may have 2 or 3 DDGs. As an example, the personnel department in one particular ministry had 2 DDGs, both of whom had about 30 years experience prior to being named to their posts.

- Middle manager
- Reports to director general of the department
- Experienced manager, previously served in a lower-ranking managerial position
- Substantial responsibility for a major function/business unit within a medium to large-sized organization. May share responsibility and decision-making authority with 1 or 2 peers.
- Typically oversees 1-2 subordinate levels of managers
- Staff management: Oversees up to about 20 professional staff (technical staff) in all subordinate units
- Minimum educational attainment: Upper secondary school diploma

3. Head of Division

- Junior manager
- Reports to deputy director general (middle manager)
- Typically has 1 level of management below
- Staff management: typically responsible for up to about 10 professionals
- Previous managerial experience
- Minimum educational attainment: Upper secondary school diploma

4. Deputy Head of Division

- Entry level manager/supervisor
- Generally the lowest-ranking managerial post, though larger organizations might have one additional level below.
- Staff management: typically responsible for a small number of professionals.
- Several years previous professional experience in relevant area
- Minimum educational attainment: Upper secondary school diploma

Professionals—general

5. Technical staff, new entrant

- Carries out tasks in an area of specialization, with supervision
- No management responsibility
- Minimum educational attainment: Upper secondary school diploma

6. Technical staff, 3-5 years experience

- As above, with increased expertise and less supervision

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75 Sample job descriptions for a range of positions—ranging from director general to driver—specified completion of upper secondary school as the minimum educational requirement. Government data on educational attainment do not distinguish between white collar civil servants (such as ministry staff) and service delivery workers; yet it seems plausible that ministry staff and managers in particular will, in practice, have more advanced educational credentials.
Administrative, support or general staff

7. Clerk
   - performs general administrative work in an office
   - Minimum educational attainment: Upper secondary school diploma

8. Secretary
   - Manages documents record-keeping, typing, assists manager.
   - Minimum educational requirement: upper secondary school diploma

9. Driver
   - Drive staff and deliver documents. Responsible for day to day care of vehicle.
   - Minimum educational attainment: Upper secondary school diploma

Professionals—hard to recruit or retain\textsuperscript{76}

New entrants and after 3-5 years experience:

10. Engineer – specialization to be specified
11. Information technology specialist
12. Lawyer
13. Economist
14. Finance specialist

Indicative Job Summaries

As background for characterizations of benchmark jobs, the following summaries describe the content of selected jobs based on informal translations of job descriptions in the Personnel Department of the Ministry of Transport and Public Works.

(1) Director General, Department.
Responsibilities include (in addition to political) researching techniques for managing and training staff, and other tasks as assigned by the ministry leadership. Cooperates with other ministries, party central committee and vertical line departments of the ministry at provincial level. Minimum education: Upper secondary school graduate. Attended high level political school. Experience: Previously deputy director for at least 3-5 years, or in charge of equivalent areas for 5 years, or served as head or deputy head of a state-owned enterprise under this ministry for 3-5 years.

(2) Head of Division, Division of HR management and development.
Main tasks: Work with management; in charge of all areas of work within the division, focused on institutional areas. Responsibilities: Dissemination of political ideology and of instructions and orders on the work of the personnel department; stay abreast of division’s files; research and submit staff numbers for new recruitment; handle contract staff issues; research, managed and improve job descriptions; duties related to institutional structure of division; manage lists of “key staff”\textsuperscript{77}. Minimum education: Upper secondary school graduate. Attended political theory and administration school. Experience: Previously

\textsuperscript{76} In the absence of formal analysis that identifies specific jobs that are hard to fill in Lao PDR, this list draws on general experience of other countries.

\textsuperscript{77} This term refers to staff with political training who are in line for promotion.
held deputy head position, or 3-5 years managerial experience, or 5 years experience equivalent to deputy head position.

(3) Deputy Head, Policy division.
Main tasks: to assist the division directors. Responsibilities: Research regulations on implementing social welfare. Research and implement policy for allowances and support to employee’s family, death benefits and invalid/disability benefits. To visit staff in case of illness. Research and assess candidates for internal awards. Research and submit documentation for disciplinary proceedings. Minimum education: Upper secondary school graduate. Experience: Previous experience as technical staff in relevant areas for at least 5 years.

(4) Technical staff, Finance and accounting.
Works under head of salary and administration division. Main tasks: finance and cashier. Responsibilities: prepare withdrawal papers, receive and pay out salaries, distribute office supplies, prepare summary of income and expenditure for the unit; draft decisions or other papers for submission; develop budget plans for the unit. Education: Upper secondary school graduate. Experience: at least one year prior experience. (The job description suggests that this position fit into grade 4 step 1 or grade 3 step 1.)

(5) Technical staff, Labor and salary.
Works under head of Administration Division. Main task: Assist head of division in administering grades and steps. Responsibilities: Move staff to next grade and step on regular basis; collect statistics on employee’s number of years experience, number of children. Check wage & salary accounts. Upgrade trainees to regular staff status. Monitor personal data of employees. Data entry. Minimum education: Upper secondary school graduate. Experience: at least one year prior experience.

(6) Technical staff - secretary, Administration and salary division.

(7) Driver.
Responsibilities: Receive and deliver documents. Drive and assist in unit’s work. Keep vehicle clean. Check that vehicle is in good working order. Make plans for car maintenance and repair. Education: Upper secondary school graduate. Experience: At least one year prior experience.
 Annex 4: Focus Group Methodology

1. Data was collected in four different locations: in Vientiane capital, Vientiane province, Luang Prabang Province, and Savannakhet Province. In each location, civil servants representing Education, Health, Agriculture, Industry and Commerce, and Planning and Investment sectors were invited for focus group discussions (FGD) and/or in-depth interviews (IDI). The table below provides details of the study sample.

<table>
<thead>
<tr>
<th>Location</th>
<th>Focus group participants and in-depth individual interviews</th>
<th>Number of focus groups (number of participants)</th>
<th>Number of individual in-depth interviews</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vientiane capital</td>
<td>Two focus groups composed of central government civil servants at the technical/professional level (i.e., primarily grades 3 and 4). Care was taken to ensure representation across line ministries and variation in length of service. One focus groups composed of teachers One focus groups composed of nurses In-depth interviews with senior civil servants representing medicine, education, agriculture &amp; forestry and industry &amp; trade.</td>
<td>4 (24)</td>
<td>6</td>
</tr>
<tr>
<td>1 Central Province; 1 Northern Province; 1 Southern province</td>
<td>In each province, 3 sets of focus groups composed of civil servants from the provincial and surrounding district level administrations: Civil servants (variation across grades and sectors) Teachers Nurses In each province, 4 set of interviews with senior civil servants representing medicine, education, agriculture &amp; forestry and industry &amp; trade.</td>
<td>9 (56)</td>
<td>18</td>
</tr>
<tr>
<td>Vientiane capital</td>
<td>5 focus groups of students who might seek employment in the civil service: Nursing students Medical students Teacher college students Polytechnic students Accounting students</td>
<td>5 (35)</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>18 (115)</td>
<td>24</td>
</tr>
</tbody>
</table>

A PACSA representative assisted with organization and facilitation of the FGDs and IDIs—but was not present in interviews, to avoid potentially biasing the discussions.

2. For each FGD a list of screening criteria of eligible respondents were developed to secure external heterogeneity in terms of sectors and internal heterogeneity related to contract type, number of years in the civil service and gender. Civil servants in senior positions were interviewed separately to minimize large differences in social and political status in FGDs. To shed light on future expectations on labor market preferences, five FGDs were carried out with students from these sectors in Vientiane capital. Students are well positioned to answer these questions since they soon face labor market choices without yet having conflicting interests in discussing formal as well as informal practices.

3. The scale and composition of the data collection made it possible to present a reasonable assessment of the meanings and values attached to working as a civil servant and, more specifically, the attitudes and experiences related to compensation and incentives. The mix of civil servants from different sectors can be seen as a validation of the perceived norms related to more sensitive aspects of criteria of
promotion and additional income sources. For many of the questions some respondents chose to provide a formal response—but for the majority of respondents, the questions seemed to be of great relevance which made the discussions pointed, personal, and practice-oriented. In order to secure the confidentiality of respondents, only references to their educational background and sector and level of civil service employment are provided, as relevant. For issues related to the most sensitive issues of nepotism and corruption there are, for the same reason, only references to age group and/or sector and level.

4. FGDs and IDIs were carried out following guides that were pretested and revised; these field guides are available, as are the focus group summaries. The majority of focus groups and interviews were recorded and translated from Lao to English; for the few occasions where interviews were not tape recorded, the note taker took more detailed notes. A conventional content analysis was carried out (Hsien & Shannon 2005), in which quotes from respondents were categorized in broad themes; for each theme a summary was made. These summaries were finalized by a comparison of contrasting views when applicable within one FGD; and thereafter between FGDs and IDIs with civil servants working in the same sector. For most topics, a general point of view crystallized rather clearly although an understanding of the relative importance of some practices was more difficult to assess.