



# Reforming the Civil Service

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*Civil service reform often meets with resistance because it is seen only as a tool for curbing government spending through personnel and wage cuts. But the true aim of reform is the creation of a skilled and efficient government workforce.*

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**C**OST containment is an important aspect of civil service reform. But there are other, equally important, aspects. An efficient and motivated civil service is critical for governance, production and distribution of public goods and services, formulation and implementation of economic policy, and management of public expenditure. The broader aim of civil service reform is, therefore, the creation of a government workforce of the size and with the skills, incentives, ethos, and accountability needed to provide quality public services and carry out the functions assigned to the state.

## Some basic facts

The chart shows comparative data on government employment. Although cross-country comparisons of government employment are notoriously hazardous, it is possible, based on comparable information

for about 80 countries, to draw some general conclusions:

- Overall civilian government employment (which excludes public enterprise employment) is much smaller, relative to either the population or the labor force, in developing countries (less than 4 percent of the population) than in industrial countries (over 8 percent). (If the comparison is limited to non-agricultural employment, the difference between developing countries and Organization for Economic Cooperation and Development (OECD) countries is much smaller.) These proportions have been relatively unchanged since the early 1980s (see Heller and Tait, 1983).

- Among developing regions, government employment as a percentage of the population is highest in Eastern Europe, the countries of the former Soviet Union, and the Middle East and North Africa, and lowest in sub-Saharan Africa. Government employment is higher in Eastern Europe and the former Soviet Union because of the greater numbers of teachers and health personnel.

- Interregional differences in government administration are smaller, particularly for central government administrations, which employ around 1–2 percent of population in all regions. (Intercountry variance is low as well.) This suggests that certain basic functions of central government need to be performed everywhere, and that civil service reform that excludes local government and the health and education sectors is bound to be incomplete.

- Since 1983, local government has grown in all regions (especially Latin

America) except sub-Saharan Africa. Globally, local government is now about equal in size to central administration.

## Regional differences

A study of the evidence on the civil service in developing countries reveals some clear regional patterns.

In many countries in **sub-Saharan Africa**, the civil service has sharply deteriorated in almost every way since the 1970s. (Botswana is one of the few exceptions.) Beginning in the 1980s, a succession of fiscal stabilization programs has reduced government employment in Africa to the lowest level of any developing region. Thus, although additional downsizing may be necessary in some countries, most do not need to shrink the workforce but to overhaul the entire civil service system. Disappointingly, with few exceptions (e.g., Uganda—see box), civil service reform in Africa has been limited to tinkering around the edges. The emergence of local community self-help initiatives, spawned by the degradation of the official civil service, is cause for hope. Although these groups cannot substitute for a well-functioning public administration, they offer a way out of the current morass and can serve as models for improving the official civil service. Nevertheless, any genuine improvement in the civil service is likely to be fiscally costly. More generally, it is difficult to imagine how the civil service can be reformed on a lasting basis in most African countries without substantial improvements in governance: accountability, transparency, and adherence to the rule of law.

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Civil service systems in **East Asia** are generally seen as efficient, motivated, and professional. Indeed, it can be argued that the correlation in Africa between authoritarianism and economic decline is not found in East Asian countries partly because of their strong civil services. Although greater responsiveness and openness could legitimately be demanded of public administrations in some East Asian countries, civil service systems cannot be considered a problem; they are, rather, part of the solution to these countries' other problems.

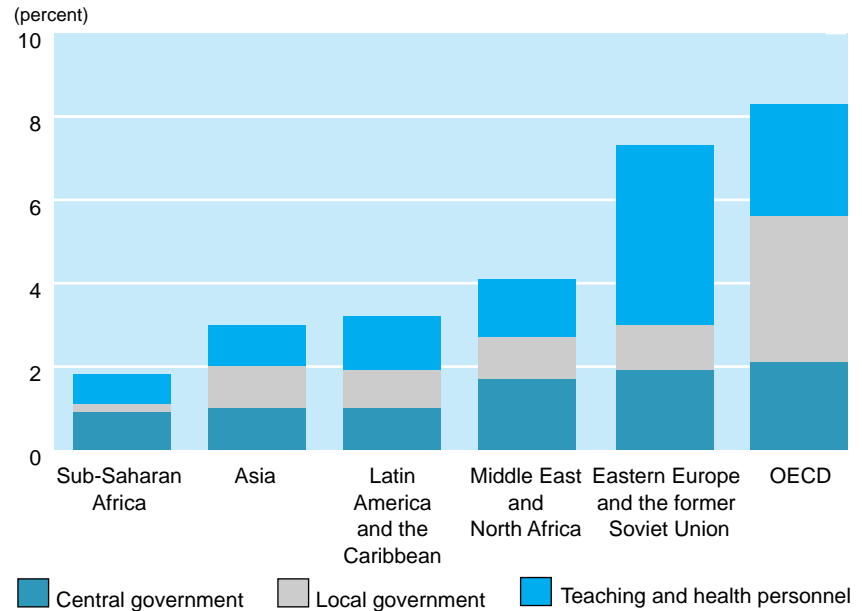
The situation is markedly different in **South Asia**, where civil service reform is a top priority. In contrast to Africa, the main problem in South Asia is not a demotivated and unskilled civil service but bloated public employment, a cause and result of overregulation. Thus, regulatory simplification and the contraction of public employment, although complex and politically difficult, could raise economic efficiency, improve the fiscal situation, and reduce corruption at the same time.

In **Eastern Europe and the former Soviet Union**, the main challenge is to reorient the state toward a role of "steering, not rowing" and, in all the countries of the former Soviet Union except Russia, to create a central government administration where none existed. To date, countries in the region have focused on establishing the political neutrality of government employees and their accountability to the legislative branch. Legislative oversight, however, has often gone too far, amounting to interference in routine operations. This was understandable in the early 1990s, when parliaments were the repository of legitimacy after the collapse of the Soviet Union, but a better division of labor between the legislative and executive branches is now needed to bring about lasting improvements in the civil service.

In several countries in **Latin America and the Caribbean**, central government administration still suffers from inefficiency, waste, and corruption. However, extensive decentralization over the past decade has had positive repercussions on overall administrative efficiency and the quality of public services. Decentralization has also been a major factor in the improvements in representative governance throughout the region. The key challenge now facing countries in the region (in addition to remedying the continuing weaknesses of the central civil service) is to assure that decentralization does not dilute accountability and weaken those

## Government employment as percent of population

(various recent years)



Sources: World Bank: Public Sector Management Team; country desks; various public expenditure reviews and country economic memorandums; various resident missions. IMF: *Government Finance Statistics Yearbook*, 1994; staff estimates. Organization for Economic Cooperation and Development: *Public Management: OECD Country Profiles*, 1992. Government sources: statistical yearbooks, yearly budgets. United Nations Educational, Scientific and Cultural Organization: *Statistical Yearbook*, 1995. World Health Organization: *World Health Statistics*, 1993.

Note: Local government includes all levels of government below central government. All averages are unweighted.

**Sub-Saharan Africa:** Angola, Botswana, Cameroon, the Central African Republic, Côte d'Ivoire, Ghana, Guinea-Bissau, Kenya, Senegal, South Africa, Tanzania, Togo, Uganda, and Zimbabwe.

**Asia:** China, India, Indonesia, Korea, Malaysia, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand, and Vietnam.

**Latin America and the Caribbean:** Argentina, Bolivia, Chile, Colombia, Ecuador, Honduras, Uruguay, and Venezuela.

**Middle East and North Africa:** Algeria, Egypt, Jordan, Lebanon, Morocco, Tunisia, and Yemen.

**Eastern Europe and the former Soviet Union:** Armenia, Belarus, Bulgaria, Croatia, Georgia, Hungary, the former Yugoslav Republic of Macedonia, Moldova, Poland, Romania, Russia, Turkey, and Ukraine.

**OECD:** All member countries of the Organization for Economic Cooperation and Development.

## Uganda: Repairing a broken-down civil service

At independence in 1962, Uganda had one of the strongest economies in sub-Saharan Africa. Beginning in the 1970s, two decades of political turmoil and gross economic mismanagement led to the breakdown of what had been one of the most effective public administrations in East Africa.

Capacity rebuilding began after the National Resistance Movement Government assumed power in January 1986. Because of budget constraints, raising salaries to attract skilled civil servants meant reducing staff. Initial reforms reduced the number of part-time employees and streamlined the number and functions of ministries. In 1990, a policy framework for comprehensive civil service reform was formulated by the Public Service Review and Reorganization Commission. Its implementation has resulted in significant real increases in salaries, a reduction in the number of ministries from 38 to 21, and the rationalization of their functions. Civilian government employment was cut in half, from 320,000 in 1989 to around 148,000 in 1995.

A number of issues still need to be addressed: improving central personnel management systems and regulations, increasing the transparency and efficiency of personnel administration, and widening accountability to the public. Among other things, a new salary structure is to be put in place in 1996, and a performance recognition system and code of conduct for civil servants are being developed. But the reform process is well under way.

government functions—primarily, macro-economic programming and monitoring—that need to remain centralized.

In the **Middle East and North Africa**, large central administrations were built up to handle the vast responsibilities assigned to the state in the 1960s and 1970s (and to guarantee employment for college graduates). Many governments in the region are now beginning to turn their attention to government inefficiency and the heavy fiscal weight of the central government wage bill (currently averaging 7 percent of GDP). However, civil service reform in this region is intertwined with issues of governance and the interaction of religion and society. Although these issues do not justify avoiding necessary adjustments, reforms need to be formulated and implemented in a manner consistent with the region's special circumstances. In any event, the first step in most countries must be to prevent further growth of central government employment.

### **Rightsizing**

Overstaffing is a relative notion. That central government employment may be high in a particular country is a useful “flag” but proves nothing in and of itself. The role of the government and degree of centralization vary from country to country. For example, although France's central civil service, as a percentage of population, is one of the world's largest (about 3.5 percent), and the United Kingdom's is one of the smallest (1 percent), total government employment accounts for around 10 percent of the population in both countries. What this proves is merely that the French have *chosen* a more centralized system of government. Determining the “right size” of a government workforce must be done on a country-by-country basis, taking into account the functions assigned to the state in that country, the degree of centralization, the skills profile, and, of course, the fiscal outlook.

Retrenchment can provide the wherewithal to improve incentives and produce fiscal savings. But overemphasis on retrenchment gives civil service reform a bad name and virtually ensures resistance. Moreover, retrenchment is almost always financially costly in the short term—and is often politically costly as well, particularly when unemployment is high. Political costs are not inevitable, however. Under certain conditions, public support for downsizing the government may offset opposition from those whose jobs are threatened, and inter-

national opposition can be defused if downsizing is managed candidly and equitably.

When downsizing is necessary, it should not be approached as an end in itself or merely as a reaction to fiscal problems. Without careful planning and respect for

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the “law of unintended consequences,” retrenchment programs carry major risks. The short-term risk is skill reduction, if the program inadvertently encourages the best people to leave. (Voluntary severance and early retirement can be especially problematic in this respect. The difficulty is that these downsizing measures are the easiest to carry out.) The medium-term risk is recurrence of overstaffing if personnel management and control systems are not strengthened. Long-term risks include staff demoralization, lower-quality service, and loss of credibility if retrenchment is perceived as arbitrary and opaque, particularly in societies ridden with ethnic, clan, or religious conflicts.

### **Wage policy**

The short-term fiscal savings from compressing wages are obvious but must not be allowed to drive wage policy. Determining the adequacy of wages requires a country-specific, in-depth comparison of public-private wage differentials for comparable skills. Certainly, when public wages are too high relative to private wages, public wage cuts improve both resource allocation and equity. However, developing countries typically have either barely competitive or inadequate public wages. In these cases, public wage cuts set in motion a vicious circle of demotivation, underperformance, and justification for further reductions. (Fortunately, the reverse may also be true: even small wage increases can trigger a positive dynamic.)

In practice, government wage reduction has usually entailed larger proportionate cuts at higher levels (or salary caps) and, thus, progressively greater salary compression. (Internationally, average public wages range between 3 and 6 times per capita income, and the “compression ratio” be-

tween the highest and the lowest salary ranges from 3:1 to 20:1, with a norm of about 7:1.) Although the short-term equity considerations are understandable, the long-term outcomes of such a policy are the departure of better employees, difficulty in recruiting qualified outsiders, and a “deskilled” labor force too poorly paid to resist temptation, cowed by pressures from politicians and influential private interests and unable to perform adequately. Beyond the deterioration of public goods and services, the result is a worsening economic climate for the private sector and an increase in transaction costs for the economy as a whole.

In recent years, governments have sought ways to target wage increases to essential skills or functions. This may well be the right policy, but a word of caution about “performance pay” is in order here. It is intuitively appealing to link bonuses to yearly performance in terms of specific output measures. However, the facts show that bonus schemes have been only marginally effective in improving performance, even in the private sector and especially in the public sector, where outputs are difficult to quantify. Performance pay schemes may also introduce an element of political control over a career civil service. And, in multi-ethnic or clan-based societies, such schemes can be lethal to a delicate social balance; even if such schemes are fairly administered, it is next to impossible to prevent the perception of favoritism. Performance *pay* may be worth considering—but only if due attention is paid to its effectiveness and risks. Meaningful performance *incentives* are a must, however. Nonmonetary incentives may include more challenging tasks, influential assignments, public recognition, and professional rewards, among other things. In any case, informed and candid performance assessment is a necessary foundation of any incentive system.

### **Accountability**

Without improvements in accountability, downsizing and more adequate incentives may result in a small and well-paid but no less inefficient or corrupt civil service. Accountability, like overstaffing, is a relative notion. The questions that need to be asked are accountability for what and to whom. (For example, greater “accountability” of civil servants to the political leadership may compromise the former's integrity and autonomy.) Strengthening civil servants' accountability to their

administrative superiors (and to their subordinates as well) may be necessary, but is rarely sufficient to improve the efficiency and quality of services, because of the probability of collusion between superiors and subordinates. External accountability is essential for the civil service to become more responsive to the public; it can be increased through various means (e.g., user surveys, wearing of name tags, whistleblower laws, and public opinion polls). Of course, increased individual accountability must be accompanied by appropriate consequences; the size of rewards and severity of penalties matter less than the certainty, swiftness, transparency, and fairness with which they are applied.

### Other reform measures

In addition to cost containment, civil service reform includes diagnostic and structural measures. Structural measures encompass reforming the salary structure, especially to restore competitiveness at higher levels; increasing the transparency and fairness of civil service regulations and giving greater weight to merit; increasing internal mobility; strengthening the capacity to manage personnel; providing training; and increasing accountability to the public.

Diagnostic measures include civil service censuses, functional reviews of ministries, user surveys, data collection, and preparation of compendiums of regulations. Even in countries where circumstances are not yet conducive to reform, governments are often interested in diagnostic measures. A particularly useful starting point is a civil service census, which, if well designed, will not only uncover “ghost” workers and fraudulent wage payments but also provide the foundation for a human resources database and improved personnel management systems—which are needed to, among other things, prevent the recurrence of irregularities.

### Some lessons of experience

Recent efforts at civil service reform have yielded a variety of practical lessons, including the following:

- A two-tier arrangement (as in Poland) can make it possible to recruit at a higher salary scale new staff who meet higher standards of qualification. Or, countries can improve their personnel at an acceptable fiscal cost through special arrangements for hiring high-level contractual employees (as in Lebanon), with the allocation of contractual posts decided at high levels and each appointment cleared personally by the top executive. All such arrangements, how-

ever, must be part of a transition to a permanent and uniform new personnel and salary structure.

- Even at low salaries, young, better-trained people can be induced to take up government employment for short periods if they are given challenging responsibilities and training (as in Estonia). Because their ranks must be replenished frequently, the training requirements are semi-permanent and therefore costly, but skill levels will rise throughout the economy, and administrative efficiency will increase.

- In practice, centralized personnel management systems are generally more cost-effective than decentralized systems.

- Individual salary negotiations between new staff and ministries (as in Guyana) should be avoided, because they result in distortions and inequities and compromise prospects for sustainable reform.

- Also to be avoided is the temptation to “fence off” reform projects to insulate them from an inefficient system. Creating enclaves does not work, and civil service reform efforts should be directed at the overall system. However, selectivity and proper sequencing of specific measures are necessary, and pilot projects can help, provided they are part of a coherent long-term vision of comprehensive reform.

- Well-designed reforms should hold the promise of potential benefits for all civil servants throughout the system: building in a “role for hope” can reduce resistance to change and revitalize human resources in public service.

### External assistance

Donor agencies have not given priority to providing assistance for civil service reform, and what assistance has been given has been concentrated in sub-Saharan Africa and Latin America. Does civil service reform merit more attention, and, if so, under what conditions?

Civil service reform is intractable only under a “kleptocracy” that exploits national assets for its own benefit and is, by definition, uninterested in efficiency and development. For this type of regime, the real risk of reform is loss of control. An underpaid, unskilled civil service is actually desirable—public employees dependent on the regime’s discretionary largesse are forced to become corrupt, cannot quit their jobs, and reluctantly become the regime’s accomplices. Providing external assistance to such countries for overall civil service reform would be a waste of resources. (Selected localized improvements may be possible, however.) In all other cases, civil

service reform is manageable, albeit difficult, complex, and slow.

For external assistance to be effective in this area, two crucial conditions must be met. First, there must be genuine ownership of reform—by the government as a whole if systemic reforms are attempted, or by a major government player if reforms are limited to a specific sector or function. Second, the government must formulate—with appropriate participation by the public as well as government employees themselves—a clear, long-term vision of reform in concrete detail, with quantitative targets, specific timetables, explicit criteria, and indicators of performance.

Other conditions for effectiveness include sensitivity to local customs and social constraints; stamina, because civil service reform calls for a long-term investment of imagination and resources; mobilization of local capacity (which can be developed as part of the reform itself); and a test of the government’s readiness to undertake genuine reform by requiring some specific action, no matter how modest (for example, opening some part of the personnel management process to public scrutiny).

Above all, it is essential to recognize the risks of wasted effort and loss of credibility if civil service reform, a delicate and lengthy process, is approached on a quick-fix basis. Civil service reform is worth doing only if it is done well. Nonetheless, even when circumstances are not ripe for genuine reform, governments and development institutions should keep a “watching brief” on civil service issues—recalling that the slide of today’s “failed states” can be traced back to, in part, the degradation of their public administrations. [F&D]

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#### *Suggestions for further reading:*

*Peter S. Heller and Alan A. Tait, 1983, Government Employment and Pay: Some International Comparisons, IMF Occasional Paper No. 24 (Washington).*

*Patricia Ingraham and David Rosenbloom, eds., 1992, The Promise and Paradox of Civil Service Reform (University of Pittsburgh Press).*

*George Mikovich and Alexandra Wigdor, 1991, Pay for Performance: Evaluating Performance Appraisal and Merit Pay (Washington: National Academy Press).*

*Barbara Nunberg and John Nellis, 1995, Civil Service Reform and the World Bank, World Bank Discussion Paper No. 161 (Washington).*

*Salvatore Schiavo-Campo, ed., 1994, Institutional Change and the Public Sector in Transitional Economies, World Bank Discussion Paper No. 241 (Washington).*