Technical Working Group on Public Administrative Reform

Joint Government-Donor Strategy for Phasing Out Salary Supplementation Practices in Cambodia

(Approved by the TWG Meeting on 26 January 2006)

A. Objective

1. The Strategy has been jointly agreed as the basis for phasing out salary supplementation arrangements. The strategy has been prepared through a collaborative process within the PAR TWG. Implementation will depend on the active cooperation of all those involved, ministries and development partners. The strategy takes account of the views received from ministries and development partners. It is consistent with the Harmonization and Alignment Plan for Cambodia in matters relating to donor funded salary supplementation and attempts to fulfil the recommendations in the Paris and Rome Declarations, as well as the work of the DAC/OECD Committee.

2. The 1st of the 2004 CG's Priority Monitoring Indicators for Public Administration Reform provides for "Agreement between government and donors on a strategy to phase out donor-funded salary supplements and redirect them in support of pay reforms in priority areas by June 2005."[1] The 3rd of the 2004 CG Joint Monitoring Indicators for Public Administration Reform provides for, "Pilot implementation of pay and employment reform initiatives—that are fully consistent with each other—and that reward performance and promote merit in at least 3 sectors or professional streams during 2006."

B. Summary of The Main Features of the Proposed Strategy

3. The Strategy uses the provisions of Sub Decree 98 of 2005 as a basis for negotiations with development partners on how to phase out salary supplements at the sectoral level. Under Sub Decree 98, Ministries initiate negotiations with development partners on greater use of the PMG mechanism to support development and reform priorities.

4. The Strategy establishes a step-by-step approach enabling an orderly phasing out of salary supplementation in each sector. In implementing Sub Decree 98, Ministries will invite donors to use the PMG mechanism as one way to move forward on salary supplementation. One option is to implement the basic PMG mechanism. A second option, where it is considered necessary and subject to negotiations between the Ministry, the CAR and development partners, is to implement the enhanced PMG model along the lines of the recent MOU on PMG/MBPI signed with the Ministry of Economy and Finance (MEF) and development partners. Pay and employment arrangements may be negotiated between Ministries and donors if they fulfil the agreed features of the PMG/MBPI.

[1] Studies on pay policy issues are currently underway

5. Handling negotiations at the sectoral level will provide flexibility for each sector to fashion the particular solution and timing that is best suited to their circumstances and needs. However, in the longer-term, the objective is to move from a sectoral approach and to achieve consistency across government.

6. To give effect to the Strategy, Ministries and their development partners must undertake the following tasks though the TWGs:

(1) By 28 February 2006:

(a) describe and assess the current situation of salary supplementation practices in the sector, including the completion of a questionnaire on current supplementation practices in the sector;

(2) By 30 June 2006:

(b) develop a sectoral action plan to phase out salary supplementation guided by sub decree 98;
(c) where feasible and as soon as possible, Ministries are to invite development partners to consider and to collaborate on implementing PMGs or, if necessary, PMGs/MBPIs as the mechanisms to mobilize funds to support priority missions of Ministries (including through the reallocation of funds currently used for salary supplementation);
(d) when and where required, Ministries and their partners must first harmonize salary supplementation practices and make them transparent, pending the implementation of the PMG or PMG/MBPI mechanism.

7. Donors funded harmonised salary supplements will be phased out as the Royal Government continues to increase pay to levels where it provides sufficient incentive for performance. This will reduce and eventually eliminate the need for donor funded salary supplementation. Current analytical work that is being undertaken by CAR, to be completed before 30 June 2006, will inform on the development of an overall remuneration strategy and the likely pace of pay reform. The remuneration strategy is to be finalised and agreed by the end of June 2006. The remuneration strategy will include specific benchmarks on phasing out salary supplements and donor funding to PMGs and MBPIs.

8. Advice on issues related to implementation of this strategy can be sought from the CAR Secretariat or members of the PAR TWG.

C. Background to the Proposed Strategy

9. Having regard to the reality that the low levels of civil service salaries do not provide a living wage, different development partners have felt there are good reasons for providing salary supplementation so as to enhance project participation and performance.

This has lead to a diversity of salary supplementation (SS) practices across all sectors of development in Cambodia.

10. The outcome has been a growing range of supplementation arrangements that lead to payments being made to civil servants in ways that may not accord with Cambodia's development priorities; that are varied within and across sectors; that are not transparent; that distort the public sector labor market; and which may create unhealthy competition between donors and within government for scarce and capable human resources.

11. Over recent years, there have been a number of policy responses by Government on issues related to salary supplementation. They include:

- the creation of the Priority Mission Group (PMG) mechanism in 2002, with a number of performance and merit related features;

- The signature in May 2005 of the MOU in the Ministry of Economy and Finance relating to the PMG/MBPI; and

- The issue in August 2005 of Sub Decree 98 on the implementation of the merit based pay supplement.

D. Establishing Transparency in the Current Situation

12. By the end of February 2006, the Government and its partners will *complete* an information gathering exercise, to establish the full extent and nature of the salary supplementation arrangements that exist in each sector. Therefore, each Ministry will work with their development partners, at the sectoral level, to gain a better understanding of the existing situation on salary supplementation in the sector.

13. At this stage, the information that is being sought from development partners needs to establish:

- the names of particular projects and programs that are providing supplementation;
- the development partner who is providing the supplementation;
- the number of recipients as well as their names and the positions they hold;
- the nature of the supplementation arrangement, the payment modality and the amounts that are payable monthly.

14. To ensure all possible supplementation arrangements are identified, development partners should take a broad definition of what is salary supplements and not just what is strictly described as salary. Salary supplements paid by donors and their implementing partners, including NGOs and private contractors, should be taken to include regular monthly payments that are received as salary; contracts for specific pieces of work paid at a daily rate; employment of civil servants on leave without pay; part time employment of civil servants; payments either made to individuals or to a team, group or unit; all other financial payments (both internal to Cambodia or for overseas) that are received by civil

servants such as travel or other allowances, per diems, sitting fees, honoraria, payment of expenses; as well as other sorts of benefits that are received but which are not provided as a cash payment such as overseas travel or gifts.

E. Sub Decree 98 of 2005

15. The Sub Decree 98 enacted in August 2005 provides policy guidance on how Ministries are to negotiate on salary supplementation issues. It is the tool for conducting sector level negotiation with development partners on SS issues.

16. In giving effect to Sub Decree 98, it is the responsibility of Ministries to take up implementation with development partners in each sector:

a) Through negotiation, Ministries and their development partners are to use the PMG mechanism in designing and implementing development programs and projects that support Government priorities and reforms;
b) Where a PMG is agreed on, the processes established by Government for the creation and operation of merit and performance based PMGs are to be implemented under the relevant Sub Decree relating to the creating and functioning of the PMG Programme (of July 2002) and the PMG Guidelines;
c) Pay allowances and incentives (where agreed) that are to be payable are to be as outlined in the Schedule to Sub Decree 98. PMG allowances that are paid are not to be treated as salary.

17. Under Sub-Decree 98, it is recognized that there is a choice to be made in the course of a particular negotiation as to whether the allowances that are to be paid are set at the PMG rate as set out in the Schedule to the Sub-Decree; or, if agreed with CAR and development partners, at the higher incentive rate specified in the Schedule. It is envisaged that the higher allowance would only be applicable in those instances where there exists a broad based reform program supported by development partners.

18. PMGs are flexible instruments to enhance performance that provide for the payment of allowances in addition to base salary in return for specific set results being achieved within a given timeframe in support of priority missions of ministries or agencies. Their establishment, management, monitoring and evaluation uphold good governance principles of transparency, accountability, merit and fairness. CAR will provide further guidance for development partners on using the PMG mechanism, including the dissemination of a concise guide on creating and operating a PMG.

F. Sectors where Immediate Action is proposed on Implementing the Phasing Out Strategy

19. In addition to MEF which has already signed a PMG/MBPI MOU to support the Public Finance Management Reform, the Ministry of Commerce, the Ministry of Land and the Ministry of Health are early candidates.

20. In line with the MEF MOU, future MOUs establishing a PMG/MBPI to support their sectoral reform will need to respect the following:

a) Linkage to a sector wide strategic approach based on an agreed reform program;
b) Inclusion of merit and performance based employment elements;
c) Plans for rationalization of all other payment practices in the sector;
d) Payments to be transparent, through use of a special payment modality;
e) Specification of the Government contribution and the contribution of development partners- over time, the Government is to make an increased contribution, where that is fiscally sustainable,
f) A recipient who is working full time cannot receive performance allowances from more than one source.

21. Whether and how pooling by development partners is to support the establishment of a PMG or PMG/PMBI will be decided on at the sectoral level.

G. An Action Plan for phasing out Salary Supplements

22. After government and development partners have gathered information on supplementation practices, a joint action plan should be developed to phase out salary supplements for each sector by 30 June 2006. The action plan should address, step by step, and taking account of the circumstances and readiness of the particular sector for reform:

a) how transparency in, and rationalization of supplementation practices is to be achieved;
b) when and where required, any intermediate steps to harmonize salary supplementation practices;
c) the areas where the strategic priorities of the sector require the establishment of a PMG or where a PMG/MPBI is required for the sector;
d) how the condition precedents for establishing a PMG or PMG/MBPI are to be met;
e) the steps and the timetable for establishing the PMG or PMG/MPBI;
f) how the process of implementation is to be pursued;
g) the process whereby sectoral level partners may, over time, reach agreement with the government on reducing and phasing out supplementation, based on an increasing level of government contribution.

H. Quality Assurance

23. The CAR Secretariat, with the support of the PAR TWG, will monitor implementation of this strategy. An independent review of the implementation of the strategy shall be undertaken in late 2006.

I. Conclusion

24. This strategy provides government and development partners an opportunity to phase out salary supplementation practices and to use government mechanisms to meet needs of development projects. Overtime, the phasing out of salary supplementation funding by development partners will coincide with gradual increases in the remuneration of the Civil Service. As part of this process the Royal Government has committed to gradually increase the number of staff it is prepared to fund as part of PMGs over the coming years. Gradual increases in the contribution of government toward specific PMGs or PMGs/MBPI is subject to the national budget and to fiscal sustainability and will be negotiated as part of MOUs between ministries and their partners at the sectoral level. The successful implementation of Sub-Decree 98 will facilitate the harmonization of current practices and allow for an orderly phasing out of salary supplementation.