

Public Sector Wage Bill management, global perspectives

Tony Verheijen, World Bank

Some critical issues

- ▶ Balancing affordability and quality: Closed Internal Labor Market or Open systems, pros and cons
- ▶ Effectiveness of controls: single spine vs. decentralized systems
- ▶ Performance elements: credibility and impact

Principles

A few simple but important principles:

- Equal pay for equal work across public sector systems
- Transparency and simplicity (rule of thumb: base pay should equal at least 80% of take home pay)
- Performance elements: jury is still out and experience is mixed

Regarding wage bill management

- ▶ Interface between finance and HR: often rife with tension (control vs. due process)
- ▶ HR/PA ministries often a weak link: weak enforcement over 'large systems' such as health and education
- ▶ Building trust within systems: MoF 'letting go' of micromanagement is often a challenge (payroll and HR system linkage etc.) (e.g. Serbia)
- ▶ Degree of perceived patronage remains a decisive factor in decisions on delegation
- ▶ Yet, decentralized reform implementation has often worked (e.g. Slovakia) while centrally controlled systems are undermined

What have we learned

- ▶ 'Market' systems can be attractive where:
 - a. Politicization is a relatively low risk
 - b. Competition for skills is a core issue (and public sector cannot compete on other conditions)
 - c. Budget management systems are decentralized, ministries can make trade offs within budget envelopes, and budget ceilings are credible

A growing number of OECD states is moving in this direction (Nordic states, the Netherlands, some English speaking countries etc.), though not without controversy

What have we learned (2)

- ▶ Closed systems are more appropriate where:
 - Risks of politicization is high
 - Public Sector can compete for skills based on different conditions (permanency etc.) OR has a de facto function to absorb excess labor
 - Control environment is weak

Different forms of closed systems still prevail globally and resistance to dismantling them is strong, even in high income countries

What have we learned (3)

- ▶ Even among closed systems there is significant variance:
 - Extent to which pay and grading systems are centrally defined or left to sectors
 - Number of elements and composition of pay
 - Central or decentralized establishment and wage control

The pros and cons of different forms of closed systems

- ▶ Single spine systems
 - The most rigid of civil service systems
 - Works on the (flawed) assumption that a diversity of professions can be captured within a single system

Result:

- Negotiated bonuses and other additional payments have often made systems meaningless and contravened HR objectives (mobility)
- Staffing shortages arise in professions in demand, raising pressures for special status
- Living conditions in specific locations not considered (creating issues in hard to live areas)

In the end most single spine systems buckle under pressure

Alternatives

- ▶ Linked but sector specific systems, based on single framework legislation, but having their own pay and grading for professionals

Main risks:

- Grades and steps set based on who negotiates best rather than on merit
- Can Fuel strife between generalists and specialists
- Capability in MoF and MPA to impose reasonable and objective controls/ceilings is critical

Market based systems

- ▶ Relies on ability to benchmark jobs against private and non-governmental sector equivalents
- ▶ Wage system cost may be forbidding for all but higher income countries
- ▶ Requires decentralized budget management systems based on ceiling and sector envelopes

Different modalities of control

- ▶ Single spine and coordinated wage bill management systems put the onus on MoF when it comes to management and controls: system depends on strict enforcement of establishment control rules (problem of temporary contracts)
- ▶ Decentralized and market based systems rely on priorities and judgment of line ministries, within broad budget parameters

One significant risk is decentralizing controls in systems with weak discipline: staff numbers will rise at the cost of other expenditures

Performance elements: how much and how to manage?

- ▶ Performance elements have become increasingly popular, but remain controversial....
 - Question of purpose (productivity-related for specific institutions or across the board)
 - Individual vs. team performance
 - Question of linkage with performance management (hierarchy of objectives)

Wage bill vs HR management

From a Wage bill management perspective:

- Trade off between productivity and controls (what do performance rewards buy, especially in terms of revenues)
- Envelopes and predictability

From an HR management perspective:

- Trade off between fairness/transparency and Equity
- Question of objectivity of awards and monitoring capacity

Tension has been difficult to resolve,
Note that sophisticated systems often go for team/unit awards (Canada, Chile), which are seen as more appropriate for public sector (collective performance)

The main risk: PRP as a quasi grading system

- ▶ Efforts to introduce PRP elements can create parallel systems (instead of addressing constraints in existing ones)
- ▶ While this can be beneficial tactically, the risk of it becoming 'permanent' is serious (as flagged in Indonesia): adding additional distortions and creating a further layer of uncertainty

Conclusions

- ▶ Choices on framing wage systems are highly contextual: affordability, equity and transparency are the elements that matter, instead 'ideology' tends to prevail
- ▶ Central capacity to manage systems determines the best mix between centralization and decentralization of wage bill and HR management (but often this is not the starting point in design)
- ▶ Current trends on using extensively PRP are not well grounded in evidence and need to be more carefully considered