

Salary systems in public administration and their reforms

Guidance for SIGMA partners



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Public sector remuneration systems are shaped by an intricate interaction of administrative culture, economic conditions, and political systems. This paper discusses critical considerations to bear in mind when designing, planning and implementing reforms of public service wage systems. It explores key concepts such as job evaluation, pay structures, performance-related pay, market analysis for competitive pay levels and wage bill planning. It provides guidance on the process of reforming public sector salary systems to enhance their competitiveness, equity, transparency and affordability.

The paper offers insights drawn from the reform efforts of several EU Member States and SIGMA partners in the Western Balkans, Moldova and Ukraine, presenting real-life examples and updated guidelines for effective, sustainable salary system changes. The primary focus is on reforms of wage systems within central government administrations, acknowledging the complexity arising from diverse classifications of civil service and public employees, and the varying scope and structure of salary systems. This paper serves as a practical guide, presenting options along with their advantages and disadvantages to aid policymakers in aligning reforms with their national public administration context and strategies.



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Executive summary

Public administrations face challenges in recruiting, retaining, and inspiring talent amidst evolving demands and aging demographics. The attractiveness of the public sector as an employer can be enhanced by factors such as job stability, fairness, and the opportunity to serve the public interest. The salary policy plays an important role in designing an effective and attractive human resource management (HRM) system. Public sector remuneration systems are shaped by an intricate interaction of administrative culture, economic conditions, and political systems. Consequently, reforms aimed at ensuring these systems are fit-for-purpose, equitable, sustainable, and competitive can pose significant challenges. This paper discusses some critical considerations to bear in mind when designing, planning and implementing reforms of public wage systems.

Since 2014, SIGMA has been instrumental in guiding salary reforms in its partner public administrations by establishing foundational standards through the Principles of Public Administration¹. Despite the extensive literature on salary systems, little practical information has been available on the task of comprehensive reform. This paper attempts to bridge that gap, by providing targeted advice on defining the scope of reforms, managing the reform process and throwing light on essential concepts. It also offers insights drawn from the reform efforts of SIGMA partners in the Western Balkans, Moldova and Ukraine, presenting real-life examples and updated guidelines for effective, sustainable salary system changes.

The paper's primary focus is on reforms of wage systems within central government administrations, acknowledging the complexity arising from diverse classifications of civil service and public employees, and the varying scope and structure of salary systems. Examples drawn from EU and OECD Member countries are relevant for reform goals in SIGMA partner administrations, such as ensuring equal pay for equal work, maintaining fairness both internally and externally, creating competitive salary structures and managing the affordability of the wage bill.

This paper serves as a practical guide, presenting options along with their advantages and disadvantages to aid policymakers in aligning reforms with their national public administration context and strategies. It uses comparative reports and studies from the OECD and the World Bank to enhance clarity and support its recommendations, although caution is advised when using specific country data, given the possible changes in regulations and pay levels.

While the document draws from a comprehensive review of the academic literature and relevant case studies, it acknowledges limitations in the empirical evidence on the outcomes of specific design features of public sector wage systems, setting the stage for further research in this area. To ensure clear use of relevant concepts, the terms "pay", "remuneration", "salary" and "wage" are treated as synonyms, and a set of definitions and explanations is provided to bridge regional variations in terminology, facilitating alignment and comparison in different contexts.

¹ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

Salary reform processes: For ownership and effectiveness, ensure proper planning and representative structures tasked with reform design and transparent communication.

Public sector salary systems are evolving to adapt to the needs of modern public administrations. The traditional rigid hierarchical structures have made way for more flexible arrangements emphasising internal equity, job evaluation and fair classification of roles based on the responsibilities and the functions performed. Trends such as performance-based pay, decentralisation of salary policies, increased managerial autonomy and individualised pay have emerged, motivated by the need to enhance efficiency in the public administration, attract talent and remain competitive with the private sector.

Reforming salary systems requires a co-ordinated and inclusive strategy. A comprehensive assessment led by a designated institution or task force, which may include an independent commission and/or external experts, lays solid foundations for the reform process. This review phase identifies transparency, fairness and competitiveness issues. Subsequent stages include detailed fiscal impact analysis, robust stakeholder consultations, piloting of reforms in selected institutions, and careful monitoring and evaluation. Clear communication and engagement with all stakeholders – including public employees, trade unions and external experts – are crucial for the reform’s success and sustainability.

Implementation and transition arrangements require careful planning. Implementation can be phased to minimise disruptions and contain fiscal costs, allowing for ongoing adjustments. Transitional arrangements, often included in the legal text of the reform, protect public servants from salary decreases and ensure compatibility with existing union agreements to avoid legal challenges. Various strategies can be considered, such as introducing salary protection clauses, offering transitional allowances or running dual systems temporarily. Each option has implications for staff morale and financial planning, highlighting the importance of clear communication and legal clarity throughout the reform process.

Effective communication is crucial in securing support for pay reforms, both in the public sector institutions themselves and in society at large. Pay reforms can arouse anxiety among public employees, who may fear that their opportunities for advancement will be reduced or that their expectations for higher salaries will not be met. Proactively managing these concerns is essential. Job holders affected by the reform should be identified early in the planning process, and a comprehensive communication strategy crafted. To support transparency and encourage engagement, it is necessary to clarify the strategic objectives, detail the options being considered and the chosen approach, and provide transparent timelines and coverage details. Regular open dialogue meetings can be held, and helpful information disseminated, including guides on the transition measures, comparative remuneration tables, online salary and career simulators, dedicated web pages, FAQs, newsletters, and documents and research studies that are readily accessible.

Salary system design: For effective reforms, tailor the design to the context and build evidence-based wage structures, with a good balance of salary components, clear methodologies and rules for pay equity and pay competitiveness.

Reform of public sector salary systems requires a strategic approach considering pay structures, the institutional framework and the processes underpinning the salary system’s sustainability. This involves establishing clear rules for pay setting, obligations related to ensuring salary transparency, setting up evidence-based wage bill planning, and ensuring rigorous monitoring and adjustment mechanisms.

The design can address multiple dimensions: improving equity through equitable pay structures, enhancing competitiveness by aligning public sector pay with market trends and demands for emerging skills, and balancing centralised control with the flexibility afforded by decentralisation to meet sector-specific requirements. Successful reforms should implement a “total reward” system, combining financial incentives

with nonfinancial benefits such as professional development opportunities, challenging work tasks and work-life balance. This holistic approach will ensure that public sector employment remains attractive and competitive, encouraging a workforce that values monetary and intrinsic rewards and supporting overall productivity and effectiveness.

Key objectives guiding wage system reforms and reform dimensions can cover:

Improvements in equity	<ul style="list-style-type: none"> - An equitable pay structure with clear rules on pay progression. - Base wages linked to job ranking, based on job evaluation methods, whether analytical or not. - Variable pay and supplements that are rationalised to avoid distorting job classifications. - Clear rules and institutional roles for salary transparency.
Higher pay competitiveness	<ul style="list-style-type: none"> - Base wages adjusted to wage trends and the demand for emerging skills. - A reasonable compression ratio between the highest and lowest base salaries. - Adequate decentralisation, and specific pay structures for hard-to-recruit job groups. - A limited number of targeted pay supplements.
Aligning performance orientation	<ul style="list-style-type: none"> - Pay structure design tailored to context and job-based or individual-based systems. - Performance-related pay reflected in base salary progression or bonuses.
Increased relevance in the wider administrative context	<ul style="list-style-type: none"> - Salary reforms aligned with sectoral reforms or competency-based HRM processes. - Reforms that target skills needed in the public administration. - More relevant pay-setting arrangements, whether through decentralisation or individualisation.
Securing the affordability of the wage system	<ul style="list-style-type: none"> - Wage bill controls with limits and caps applied by institutions. - Mechanisms adopted for wage bill planning, monitoring, data collection, analysis and communication.

The design dimensions mentioned above are closely interlinked. For example, single grading structures and single pay “spines” are typical in systems with centralised features intended to improve pay equity and strengthen controls. A good understanding of the options and their implications is needed at the design phase. A single grading structure ensures a straightforward classification that supports pay equity. Conversely, multiple grading structures offer adaptability to specific sector requirements. The choice between a single and multiple grading system depends on the prevailing administrative practices and the goals of the reform. Single grading structures facilitate better pay equity control and are simpler to explain, but they can be inflexible. Multiple grading structures, while they are more versatile, need strong sectoral management to be effective.

Similarly, the equity of pay structures and job rankings can be enhanced by the application of job evaluation. Countries typically use analytical, non-analytical or a pragmatic combination of both methods, to achieve a balance between precision and resource efficiency. Gender-neutral job evaluation is essential in mitigating gender pay gaps and is sometimes mandated by the law. However, caution is advised against decentralising job evaluation in environments where administrative capacity is low, unless there is sufficient training and the resources to support such measures. In addition, it is important to ensure that a transparent classification of jobs into job catalogues not only facilitates an equitable pay setting but also supports other HRM functions, including workforce planning and mobility.

To ensure pay competitiveness and effective job grading, it is recommended to integrate job evaluation with market analysis of comparable positions. This helps maintain pay attractiveness and retain specialised talent. Pay competitiveness, or external fairness, is essential for encouraging equitable pay practices

across sectors. It is important to make specific comparisons between public and private sector salaries, especially in professions where there is difficulty attracting and retaining talent, rather than using broad aggregate comparisons. To make fair, equitable salary assessments, similar roles and qualifications should be compared across sectors. Meanwhile, it is important to acknowledge the unique challenges of aligning public and private sector compensation, due to differences in job content, responsibilities and the motivations for choosing public sector employment. Examples of such pay comparisons from EU Member States can inform models adapted to local conditions and capabilities for data collection and assessment.

Fair and competitive base wages are intrinsically linked to the hierarchical structure of public sector jobs. The design of grading structures and the efficacy of job evaluation processes are pivotal in ensuring the equity of base wages. Base wages are reflected in the pay scales, either as nominal values or coefficients, and these scales are transposed into pay structures (associated with the grading structure's specific pay levels or ranges for each grade). The pay structure may define a single value by grade, multiple values (or pay steps), or a range for each grade, enhancing the system's flexibility and responsiveness to varying job demands and employee performance. For example, a pay structure with multiple "steps" provides opportunities for horizontal pay progression (within a grade), based on seniority, performance or both.

The transparency of the pay system is greatly influenced by the share of the base salary in total monthly remuneration. Ideally, the share should be more than 70% if the system is to be manageable and fair. The balance between base salaries and additional components of pay, like bonuses and supplements, plays a large role in shaping perceptions of equity and transparency.

Another element that reflects the level of equity and competitiveness is the compression ratio, which measures the difference between the highest and lowest base salaries. While there is no universally ideal compression ratio, guidelines suggest maintaining a ratio lower than 1:10 to avoid significant disparities. The OECD advocates for transparency in the salaries of top public management to prevent discrepancies and to maintain public trust.

As for pay progression rules, seniority remains a key factor across most OECD countries, embodying a tacit agreement between employers and employees. However, performance-based progression is increasingly reflected in recent reform trends, requiring a thorough analysis to address challenges and risks and to ensure credible and fair employee performance evaluations.

Beyond the base salary, additional pay supplements and allowances can be used to recognise specific qualifications, to reward exceptional contributions or to compensate for unique conditions. While permanent supplements for seniority are commonplace, the emphasis on seniority in setting salaries has waned, with a greater focus on rewarding performance and competencies. Seniority-based payments may be integrated into base salaries or offered as distinct supplements. To avoid adverse effects, phasing out seniority allowances requires consideration of existing administrative traditions and overall HRM policies. A new trend is the introduction of market supplements based on external labour market conditions, to attract professionals in areas with skill shortages.

Pay supplements need to be set transparently, either as a percentage of the base salary or as fixed lump sums. Many countries impose no general ceiling on the total amount of supplements and bonuses, but some have introduced caps, especially when salary reforms have been introduced to address disparities caused by the proliferation of variable pay elements. This helps to maintain internal pay equity in the public sector.

Performance-related pay (PRP) linking employee wages to performance outcomes has become common as a part of reforms to enhance productivity and accountability. While PRP aims to provide incentives and reward employees beyond traditional seniority-based systems, implementing it can run into challenges. These can be related to the fairness of the performance evaluations, the potential for neglecting broader organisational goals, or even of undermining collaboration and intrinsic motivation and promoting a focus on short-term targets. Addressing these requires careful design and integration of PRP systems within

broader HR frameworks, incorporating controls against manipulative behaviour and recognising the value of nonfinancial incentives. Prioritising reform of the performance management systems themselves is crucial to ensure fairness.

Wage system management: Clear roles, data collection arrangements and processes for oversight and monitoring are essential if reforms are to be effective.

In managing wage systems, a reformed public sector wage system needs robust co-ordination and control mechanisms. This involves clearly defining the roles of key institutions such as the ministry of finance, which is essential in planning, monitoring and implementing wage reforms. Additionally, cautious decentralisation of wage-setting mechanisms is advised, to prevent fragmentation and maintain effectiveness, supported by strong institutional oversight. Establishing or enhancing a central HR role can be important for ensuring accurate job classification and coherent pay grading, with a professional central public employer office potentially playing a key role in streamlining classification, facilitating strategic workforce planning and co-ordinating key functions.

Wage bill planning should be linked to strategic workforce planning processes, although integrating the two presents significant challenges stemming from systemic issues including insufficient strategic planning capacity, reliance on annual headcount gaps or insufficient competency gap assessments. Political sensitivities further complicate matters, with elected officials sometimes prioritising short-term goals over sustainable human resource and fiscal strategies. Effective wage bill planning must be context-specific and aligned with structural reforms, underpinned by reliable data, detailed microdata for thorough wage analysis or, at a minimum, aggregated employment statistics by job type. The planning process depends on workforce analysis, efficiency measures and cost projections within a broader macroeconomic framework. While automatic indexation of wages is generally discouraged, macroeconomic indicators including inflation and GDP growth often guide wage bill and salary negotiation decisions. Effective co-ordination between the ministry of finance and line ministries, and stakeholder consultations, are integral to the planning process linked to overall budgetary planning.

Effective monitoring of public sector wages requires clear institutional roles and well-defined procedures, with data ideally sourced from integrated systems such as payroll or HRM information systems, ensuring relevant, timely, standardised, and verified data for accuracy and credibility. Wage system indicators covering aspects like general employment, equity, competitiveness, performance incentives and wage bill affordability should align with international best practices, making it easier to conduct cross-country comparisons and to make policy adjustments. A crucial focus is on the gender pay gap. Precise data can help reveal contributing factors like sectoral segregation, varying employment arrangements and career discrimination.

Finally, wage system reforms increasingly focus on enhancing mechanisms for pay transparency, which are crucial for accountability, trust, fairness in salary settings, and aligning wage policies with principles of legitimacy, meritocracy and anti-corruption efforts. This emphasis aligns with initiatives such as the recent EU Directive (2023/970) on equal pay, underscoring the commitment to pay transparency as a means to achieve gender parity in remuneration. In practice, transparency involves both procedural questions (helping employees understand how salaries are determined) and substantive aspects (disclosing actual salaries). Legal requirements often mandate annual publication of wage levels, while additional tools including wage calculators and annual reports enhance understanding, aid strategic communication, and help track progress and future adjustments.

Insights from selected recent reforms in SIGMA partners

Efforts to reform public sector wage systems typically aim to standardise salary structures to address pay discrepancies and enhance transparency. A key focus of such reforms is establishing an equitable hierarchy of jobs to set appropriate base wages and curtail excessive pay supplements, which can distort both pay equity and transparency. The importance of job evaluation in creating equitable and transparent wage systems is demonstrated in several case studies.

Reforms require an inclusive approach that gathers and makes good use of feedback from stakeholders, to ensure the legislation is equitable, acceptable and feasible. The evidence suggests that in complex governance environments, reforms must be adaptive. They require continuous adjustments to align diverse interests and expectations, and ongoing dialogue to ensure that public policies are effective and broadly accepted.

The success of reform efforts depends on robust institutional co-ordination and strong capacity for implementation. Civil service salary reform often involves the challenges of navigating remuneration system reforms in a fragmented administrative framework. This underscores the necessity for clear strategies, backed by administrative co-ordination and implementation capability. The case studies also reveal the importance of evidence from reliable data systems, such as HRM information systems, in guiding data-driven policy making.

Introduction

Public administrations are frequently challenged in their efforts to recruit, retain and inspire top talent. The allure of employment is influenced by various factors, with remuneration playing a moderately important role². Nevertheless, it is not just the absolute value of take-home pay that can entice candidates to seek positions in public administration. Factors such as stability, predictability, fairness and the opportunity to work for the public interest (adherence to public service values) also play a part. Simultaneously, governments are often pressed to curb or even cut the wage bill due to competing priorities, society's needs and numerous crises. The ageing demographics of public administration staff across the European Union (EU) present a critical juncture for governments, with the impending retirement of a significant percentage of civil servants over the next decade. Furthermore, governments need to adapt by acquiring new skill sets in areas such as artificial intelligence, cybersecurity and sustainability, while enhancing leadership capabilities. In the face of disruptive changes, ensuring modern and competitive remuneration frameworks is essential for the public sector to attract talent and remain responsive, underscoring the importance of this discussion in the current context.

Public administration reforms that modify legal frameworks, internal structures and procedures, empower managers, embrace digitalisation opportunities, transform the nature of work, or simply reduce the wage bill, are a few reasons why decision makers might need to adjust the most intricate and sensitive aspect of human resource management, namely the system of remuneration of public employees.

Salary systems in the public sector and, more specifically, in the public administration, are shaped by a multitude of factors: the overall human resource management (HRM) system features, the political system, administrative culture, societal values and perceptions of public employees, economic conditions, the power of public sector unions, and ultimately, government policies and priorities. For these reasons, once salary systems are instituted, comprehensive reforms are relatively infrequent. Targeted adjustments are more common, often resulting in complex systems bolstered by strong vested interests that become increasingly resistant to change.

SIGMA has been assisting countries with their salary reforms for many years. Since 2014, the Principles of Public Administration have set basic standards for the quality of the salary system in public administration. However, only limited guidance on conducting salary reforms is available, despite the abundant literature on specific aspects of the salary system (see references in the following chapters). This paper aims to fill the gap, with advice for those undertaking salary reforms, and to this end, it:

- helps define the scope and the content of a reform, by indicating the core questions that should be answered when planning a redesign of the remuneration system;
- provides some hints on how to plan and manage a salary reform and indicates when a reform is necessary and what are the prerequisites for success;

² OECD (2021), "Ageing and Talent Management in European Public Administrations. A report prepared by the OECD for the Slovenian Presidency of the Council of the European Union", p. 23. Salaries/wages are considered "moderately important" for a majority of respondents, but not as "very important", according to the answers to the survey question. <https://www.oecd.org/gov/pem/ageing-and-talent-management-in-european-public-administrations.htm>.

- explores in detail several of the key concepts and approaches used in the design of salary systems, to ensure their common understanding and provide suggestions based on a review of the literature and of countries' experiences;
- discusses the state of play of the salary system and attempts to reform it in selected SIGMA partner administrations, primarily the Western Balkans but also in Ukraine and the Republic of Moldova (hereafter, "Moldova");
- presents numerous real-life examples of salary tables, job classification systems, types of grades and legal provisions in force;
- provides SIGMA guidance on the public servants' salary systems, as indicated in the revised Principles of Public Administration.

The intended audience for the paper includes decision makers, ministers, senior civil servants, trade unions, consultants and academics contributing to salary reforms, primarily in SIGMA partner administrations, but also in the wider OECD environment, who are looking for a current body of knowledge on public sector salary policy arrangements in various countries and are asking the questions in the hope of improving policy outcomes.

The paper explores ways for building remuneration systems so that they are equitable, fair, attractive, competitive and transparent. It explains what these concepts mean in practice and how compensation affects attractiveness and retention in the civil service and influences the professionalism of civil servants. While the scope of the paper is wage system reform at public sector level, the focus is primarily on a selected part of the public service: central government administration³. This may overlap with national legislation on civil or public servants and the laws or regulations governing their salaries. However, national systems are so diverse that the focus of this paper and the scope of salary system for public servants (they can be wider or narrower, unified or decentralised, separate for top managers or common for all public sector employees) will rarely be the same.

To support the design framework of public sector wage system reforms that is proposed in this paper, various examples from EU and OECD Member countries are presented. Reforms analysed are oriented towards the goals that are of interest to SIGMA partner administrations, covering issues like equal pay for equal work, internal and external fairness and competitiveness with the private sector, introduction of a reasonable compression ratio and how to ensure wage bill affordability.

The publication is not intended to be a research paper, but a description of options with advantages and disadvantages that can help policymakers to choose the solutions most suitable to the countries' overall public administration structure and reform strategy. It capitalises, though, on available comparative reports, research papers and similar studies⁴, if the data or conclusions are helpful in providing more clarity on certain aspects of remuneration systems and reforms. Studies from the OECD and the World Bank are often cited to support specific conclusions and recommendations. However, specific country data should be treated with caution, because specific regulations and pay levels change frequently.

³ Salary instruments described herein may of course be applicable to regional and local administration, administration of independent institutions and Parliament (hence all public servants, in the SIGMA meaning) and beyond, to the entire public sector.

⁴ Cf. ACSH (2023), *Public Sector Compensation: A Comparative Review*, Astana: Astana Civil Service Hub, Kazakhstan, https://www.astanacivilservicehub.org/uploads/20230511_Remuneration_FIN.pdf.

Due to length limitations, the analysis and recommendations provided in this publication are not exhaustive, and their level of technicality is restricted⁵. However, numerous references to actual documents, laws and literature should help to address this constraint. For the same reason, the paper does not set out to summarise all the available literature or build a body of knowledge on salary systems, but merely to indicate the most significant matters that reformers should not overlook when planning and implementing salary reforms. The document is based on an extensive review of the academic literature and relevant case studies, but at the same time, there are limitations in the evidence on the outcomes of specific design features of public sector wage systems. In this sense, the document also provides a basis for further work in this direction.

Finally, the paper has the ambition of providing clear definitions and explanations of various terms used in remuneration systems, so that even if regionally different terms are more common, the explanations can help to identify matching concepts. For this publication, pay, remuneration, salary and wage are used as synonyms.

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⁵ *A handbook of employee reward management and practice*, by Michael Armstrong, 2nd Edition, 2007, has over 500 pages.

https://hrproblog.files.wordpress.com/2012/05/a_handbook_of_employee_reward_management_and_practice.pdf.

⁶ Research and Knowledge Management, Astana Civil Service Hub, UNDP Kazakhstan.

1. Salary reform dynamics

This chapter describes the policy and politics – the content and the process – of salary reforms: if and what type of reform is needed and what choices can be made on the allocation of public resources. It addresses the main reform goals, provides tips for salary system reform, and suggests key points for navigating the change from old to new salary systems, as well as providing a reform roadmap.

1.1. Introduction

Public sector salary systems are deeply rooted in history, administrative tradition, values, the political system, public service norms, labour market and general labour arrangements, the strength of the trade unions and the attitude of taxpayers toward public administration. These systems have often been characterised as overly bureaucratic and slow to change⁷.

Given their technical intricacies and societal sensitivity, major overhauls of salary systems are relatively rare. However, in recent decades, a shift can be observed: from traditional hierarchical salary scales to emphasising internal equity through job evaluation, to incorporating performance-based elements, decentralising salary policies, increasing managers' autonomy and moving towards individualisation of pay⁸. Common reasons for evolutions in salary policy have included the continuous drive to enhance public administration results, ensure better performance of public servants, compete with the private sector for talent, attract the best candidates, retain top performers and ensure that they continue to be highly motivated in their work. Concurrently, economic shifts, financial crises, international commitments and competing political priorities compel countries to maintain a stringent public sector wage bill, sometimes needing to limit the progress or even to impose substantial cuts. These conflicting goals lie at the heart of remuneration policy, rendering it – and any reform efforts – highly politicised.

This chapter attempts to shed some light on this very political reform in terms of *process*, while presenting it from a technical point of view. Written for practitioners and decision makers, it will not present theories or conceptual justification for the evolution of salary systems. Instead, it will provide a review of factors that triggered actual salary reforms in several OECD, EU and EU accession countries over the last two decades. Key stages of the process, institutional arrangements and good practices in approaching salary system reforms will be noted. The content of the reform in terms of wage system design (pay structures, the logic behind pay progression, rules for supplements, wage-setting rules, etc.) are covered in Chapter 2. So, while this chapter is focused on reforms as process (or the “How?”), the content to be designed/readjusted as part of a salary system reform (i.e. policy choices in terms of scales, compression, etc.) is reflected in Chapter 2 (as the “What?” of the reform), which also provides a brief conceptual framework of the salary system reform dimensions.

1.2. What does public sector salary system reform mean?

By a salary reform, we mean a significant modification of any of the key components determining the salary system for public employees. Across-the-board salary increases or cuts, sometimes automatic, resulting from salary indexation are not discussed here, although the mechanisms adopted to trigger such changes are explored. Comprehensive reforms overhauling the basic paradigms of salary policies are rare among

⁷ Llorens, J.J., “Compensation and benefits”, in: Knies, Eva and Steijn, Bram [eds.] (2021), *Introduction to the Research Handbook on HRM in the Public Sector*, <http://dx.doi.org/10.4337/9781789906622>, p. 113.

⁸ It is unclear whether salary reforms can be called “development”. They are not linear but turn in circles. Rigid salary scales have been introduced as a response to too much discretion, then slowly become supplemented with or replaced by individualised salaries with enhanced flexibility and discretion again.

EU/OECD countries, but do happen⁹. They are more common in administrations still under transition¹⁰, and are sometimes called “basic reforms” as opposed to “advanced reforms” (see part 1.6 of this chapter). More frequent are restrained modifications of the system in place that result from observed deficiencies or aiming to achieve specific results in HR management: modifications of salary scales or introducing additional grades for managers to enhance vertical mobility; introducing (or abolishing) performance-related components (bonuses); broadening bands (salary ranges) to allow more managerial discretion at setting salaries; reduction of seniority (length of service) or other allowances, accelerating or reducing the pace of pay progression. All such changes require a cautious approach, not only because of the potential financial cost of the reform, but also to maintain trust between the employees and the employer, the public servants and the state.

The global financial crisis of 2008 and forced budget cuts led public employers to rethink the way work is rewarded, organised and managed. At least 20 OECD member countries announced at that time plans to freeze and/or cut public sector salaries and benefits, accompanied by workforce reduction or caps on growth, but most of the measures were short-term¹¹. In some cases, however, comprehensive public service remuneration reforms were undertaken in response to fiscal crises, as in Latvia (2008-2009)¹², Greece (2009-2011)¹³ and Portugal (2005-2014)¹⁴, as will be discussed later in more detail.

Because salary systems are inherently linked with the laws regulating the public service human resource management (HRM) system, modernisation of these regulations may trigger changes in the salary schemes. Substantive reforms of the civil service usually have a salary component, or conversely, changes in the salary scheme are made for specific HR objectives. In Lithuania, recently, for example, remuneration reform carried out in 2022-2023 was part of the broader package of public service reform aiming to increase flexibility in human resource management and enhance the appeal of the public service, especially for higher managerial positions¹⁵.

Finally, salary systems need to follow broader trends in the evolution of public sector employment rules and to address new systemic challenges. Responding to COVID-19 challenges, many countries enhanced

⁹ Lithuanian Law on the basic amount of the salary and the conditions for recalculating the salary allocations, Official Gazette No. XIV-2011 of May 2023; Initial version of Law on Remuneration of Officials and Employees of State and Local Government Authorities in Latvia and its explanatory note,

<https://titania.saeima.lv/LIVS/SaeimaLIVS.nsf/0/971F0E7A788C9469C225766200358B2B?OpenDocument>;

Portuguese Law 12-A/2008 on employment, career and remuneration regimes approved in 2008 and General Law 35/2014 on Public Labour approved in 2014; Romania Framework Pay Law 153/2017.

¹⁰ Kosovo* 2019 and 2022, North Macedonia (ongoing), Ukraine (ongoing).

*This designation is without prejudice to positions on status, and is in line with United Nations Security Council Resolution 1244/99 and the Advisory Opinion of the International Court of Justice on Kosovo’s declaration of independence.

¹¹ OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264177758-en>.

¹² Latvian Law on Remuneration of Officials and Employees of State and Local Government Authorities (“Umbrella Law”), adopted on 1 December 2009.

¹³ D. Katsikas (2022), “Crisis, Clientelism and Institutional Resilience: Reflections on a public sector reform under the MoUs,” Hellenic Observatory European Institute and London School of Economics (LSE).

¹⁴ Portuguese Law 12-A/2008 on Employment, Career and Remuneration Regimes and General Law 35/2014 on Public Labour approved in 2014.

¹⁵ Lithuanian Law on the basic amount of the salary and the conditions for recalculating the salary allocations, Official Gazette No. XIV-2011 of May 2023.

flexibility in employment modalities¹⁶. To hire employees with the necessary skills, but for shorter-term contracts, more individualised sets of terms and conditions may be needed, allowing for a more flexible approach to compensation¹⁷. However, the level of flexibility in remuneration policies seems to be correlated with administrative capacity and overall level of development, as indicated in section 2.2.2. Furthermore, the need for upskilling or reskilling the public sector workforce is also needs to be considered in designing attractive salary systems¹⁸.

1.3. Reasons for and drivers of the reform

The key role of a public service remuneration system is to enable the government to attract, motivate and retain qualified personnel. If the existing system is not able to serve this purpose, a need for reform may be obvious. However, as noted throughout this study, salary alone is rarely sufficient to achieve these objectives.

Remuneration for public servants, however, is rarely at the top of any government's list (with some exceptions – Croatia and Slovenia recently incorporated wage system reforms into National Recovery and Resilience Plans and placed them high on the political agenda). Reforms of salary systems of government administration (contrary to the wider public sector, for example teachers or health professionals) are also not a common theme in electoral campaigns¹⁹. Non-governmental organisations and media likewise rarely put the compensation system for public servants on their agenda for change²⁰.

The issue of remuneration in many countries may be included on the government's agenda at a time of fiscal constraints or other crises, as was recently the case during the COVID-19 pandemic. The economic crises that began in 2008 forced many governments in Europe and around the world to reduce remuneration expenses and initiated a comprehensive debate on how to manage employee compensation more efficiently and effectively²¹. While most countries introduced swift policy measures, such as compensation and staff cuts, some European countries that were heavily hit by the crises, such as Greece

¹⁶ OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, <https://doi.org/10.1787/3b6ad37f-en>, p. 17 and 22.

¹⁷ OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, <https://doi.org/10.1787/938f0d65-en>.

¹⁸ Cf. the Ghent Declaration, adopted in Feb 2024 by 29 EU Member States on the challenges and common actions for European public administrations. <https://bosa.belgium.be/sites/default/files/documents/The%20Ghent%20Declaration.pdf>.

¹⁹ On the other hand, wage bill spending is influenced by the political cycle, with salaries or employment in the government sector rising ahead of elections. Several cases of such increases in Kosovo* are described in: Loxha. A. (2019), "New Law on Salaries: An examination of Potential Socio-Economic Effects", Group for Legal and Political Studies. Policy Analysis 08/2019, <http://www.legalpoliticalstudies.org/new-law-on-salaries-anexamination-of-potential-socio-economic-effects/>. The case of Moldova is cited in: International Monetary Fund (2016), "Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges," IMF Policy Paper, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>, p. 13.

²⁰ Notwithstanding individual cases of exorbitant individual salaries or bonuses.

²¹ Kickert, W., T. Randma-Liiv and R. Savi (2013), "Fiscal Consolidation in Europe: A Comparative Analysis", COCOPS Trend Report.

and Portugal, undertook a complete overhaul of their public sector remuneration systems in order to reduce the fiscal pressures and effectively manage their inflated wage bills²².

The prolonged use of austerity fiscal measures can, however, erode public service morale, potentially causing the departure of skilled employees and risking becoming a driver for “post-crisis” reforms. Over time, measures of fiscal constraint can disrupt established wage adjustment mechanisms, leading to a skewed compensation structure and a decline in public service attractiveness and motivation²³. This was the case in Latvia, when a growing gap in salary levels between the public and private sector in the public administration added to impetus for a remuneration reform aimed at increasing public service competitiveness²⁴. As salary erosion may be particularly disadvantageous for top managers²⁵, it may become a driver of more narrow and targeted reform efforts. This happened in Ireland, where an Independent Review Panel was established in early 2022, to review current recruitment and pay determination processes for senior public service posts, and particular arrangements in the Civil Service for secretaries-general²⁶.

Additional reform drivers include difficulties in managing the remuneration system due to high fragmentation and a lack of internal fairness in the system. These issues were, for example, one of the key reasons for a comprehensive remuneration reform carried out in Slovenia (2001-2011)²⁷, Moldova (2017-2018)²⁸ or in Kosovo* (2019-2022)²⁹.

Another channel through which remuneration reform comes to the attention of the policymakers may be public debate and concern that the level of government salaries, allowances and/or benefits appear too high compared with the compensation levels of other workers. Such concerns are, however, often just a

²² D. Katsikas (2022), “Crisis, Clientelism and Institutional Resilience: Reflections on a public sector reform under the MoUs”, Hellenic Observatory European Institute and London School of Economics (LSE).

²³ International Monetary Fund (2016), “Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges,” IMF Policy Paper, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>, pp. 30-31.

²⁴ “Comparative study on the amount of remuneration”, Fontes Vadības konsultācijas, (2016), SIA, Rīga, Latvia, https://www.mk.gov.lv/sites/mk/files/media_file/salidzinosais_petijums_par_atalgojuma_apmeru1.pdf.

²⁵ Nunberg, B. (1989), “Public Sector Pay and Employment Reform, Review of World Bank Experience”, World Bank discussion paper, the World Bank, Washington DC, p. 4.

²⁶ Independent Review Panel (2023), Review of Senior Public Service Recruitment and Pay Determination Processes, <https://assets.gov.ie/261668/07e3274f-caac-4174-975b-1a56f9306ba9.pdf> (19 November 2023).

²⁷ OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264167551-en>; Virant, Gregor, and Rakar, Iztok, “Implementing a Government-Wide Unified and Transparent Salary System in Slovenia” (June 26, 2018). The NISPAcee Journal of Public Administration and Policy, Vol. XI, No. 1, Summer 2018, SSRN (formerly known as Social Science Research Network): https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3410278.

²⁸ “The Concept of the Government No. 80/2017 regarding the development of a unitary wage system in the public sector in Moldova”, <https://www.mf.gov.md/sites/default/files/Conceptul%20privind%20sistemul%20unitar%20de%20salarizare.pdf>.

²⁹ In Kosovo*, prior to the 2022 reform, around 58 legal acts regulated the remuneration system in individual institutions.

reflection of a more general criticism of government, its cost and efficiency³⁰, and are rarely reasons for starting a comprehensive public sector remuneration reform.

Ageing populations and the need for specific skill sets (for example in information technology (IT), cybersecurity and sustainable development) offer a compelling catalyst for reassessing salary structures to bridge skill gaps. This adjustment is critical, as governments adapt to emerging roles and professions, emphasising the need for strategic reforms in public sector employment practices.

Worth mentioning, but not discussed at length in this paper, is building salary systems for civil servants in fragile and conflict-affected settings. This requires a nuanced approach, distinct from reforms in stable countries. Critical to reestablishing government functions in the immediate aftermath of conflict, remuneration of civil servants is essential for maintaining minimal public services. Timely salaries, especially for frontline service delivery staff, are thus critical, as delays in payments can demotivate staff and affect service delivery. A first pay system needs to be very simple and realistic. Restoring a civil service pay system comes next, but cannot aim at best international practices: “a good fit” system that aligns with local practices and political peculiarities should be sufficient in the initial stages. In fragile environments, managing wage expenditures, which can form a large portion of total public spending, is a significant challenge, as are developing parallel aid structures by development interventions (donors). At the same time, reintroducing a coherent pay system and determining the lowest acceptable salary may offer an opportunity to overhaul the previous system. However, errors made at this stage may have long-lasting, unintended consequences³¹.

1.4. The role of international partners

International partners may have a significant role in reform of the remuneration system. Pay reforms are undertaken together with employment reforms and have often taken place against a background of World Bank or International Monetary Fund (IMF) structural adjustment loans or other aspects of technical assistance. The European Commission also has an important role to play in this process, especially for countries that are in the process of accession to the EU.

The World Bank’s involvement in public sector pay reform has grown rapidly over the past few decades³². The character and extent of Bank interventions have varied, by using diverse types of lending instruments and analytical products. The remuneration issues have often been analysed together with employment levels, as part of the broader analysis of expenditure and wage bill management driven by the recognition

³⁰ OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264177758-en>.

³¹ Cf: Supporting Civil Service Restoration and Reform in Fragile and Conflict-Affected Settings, Guidance Note, United Nations Development Programme, (2018), <https://www.undp.org/sites/g/files/zskgke326/files/publications/Civil%20Service%20Reform%20Guidance%20Note.pdf>; (Re)Building Core Government Functions in Fragile and Conflict Affected Settings, Joint Principles for Assessing Key Issues and Priorities, 4. Government Employment and Public Administration, United Nations/World Bank, May 2017, <https://www.undp.org/sites/g/files/zskgke326/files/publications/rebuilding%20cgf%204%20government%20employment.pdf>, p. 8.

³² There are numerous examples of such involvement. The World Bank’s “Public Finance Review of Croatia of 2014” (World Bank, 2014, *Croatia Public Finance Review: Restructuring Spending for Stability and Growth*, <http://hdl.handle.net/10986/21282>) offers a case critical review of remuneration practices in the civil service (p. 52) and a set of recommendations including “reforming the wage system to reduce the wage bill in the short term, and proceeding with long-term structural reforms that will enhance public sector performance” p. 60).

that conditions of pay and employment may be key drivers or inhibitors of government performance³³. The World Bank has also recently developed an assessment framework for public sector employment and compensation around the world, as a tool for evaluating whether to embark on employment and remuneration reforms to enhance pay equity, competitiveness and affordability and as a response to the need to increase expenditure efficiency³⁴.

The IMF also has an important role to play in designing remuneration policies, especially in times of fiscal constraints, when individual countries use its lending instruments to overcome financial difficulties. The focus of the IMF interventions is usually on adequate fiscal planning to ensure appropriate financing and sustainability of the wage bill and the general government expenditure. IMF staff also regularly produce papers proposing new policies and exploring options for reform, including the issues of public service employees' compensation³⁵.

The European Commission each year adopts the "Enlargement Package", a set of documents explaining its policy on EU enlargement, including its Reports (previously "progress reports"), a detailed annual assessment of the state of play on the progress of reform in each country, with recommendations and guidance on reform priorities. A critical assessment of the public service salary system or a recommendation to improve it featured in 2022 reports on Albania³⁶, Bosnia and Herzegovina³⁷, Kosovo³⁸, the Republic of North Macedonia (hereafter, "North Macedonia")³⁹ and Serbia⁴⁰. Similar observations were included in the 2022 Commission's opinions on Ukraine⁴¹ and Moldova⁴². The remuneration system is one of the key components of the public service and human resource management (PSHRM) area covered by Public Administration Reform (PAR), which in turn is part of the "fundamentals

³³ B. Nunberg (1989), "Public Sector Pay and Employment Reform, Review of World Bank Experience", World Bank discussion paper, World Bank, Washington DC.

³⁴ Hasnain, Z. et al. (2021), "Public Sector Employment and Compensation: An Assessment Framework" (English), Equitable Growth, Finance and Institutions (EFI) Insight, Washington DC; World Bank Group. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

³⁵ IMF (2016), "Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges", International Monetary Fund, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>.

³⁶ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Albania%20Report%202022.pdf> p. 13.

³⁷ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Bosnia%20and%20Herzegovina%20Report%202022.pdf>, p. 16.

³⁸ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Kosovo%20Report%202022.pdf> p. 14.

³⁹ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/North%20Macedonia%20Report%202022.pdf> p. 14.

⁴⁰ <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-10/Serbia%20Report%202022.pdf>, p. 17.

⁴¹ Commission Opinion on Ukraine's application for membership of the European Union, 2022, <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-06/Ukraine%20Opinion%20and%20Annex.pdf>

⁴² Commission Opinion on the Republic of Moldova's application for membership of the European Union, 2022, <https://neighbourhood-enlargement.ec.europa.eu/system/files/2022-06/Republic%20of%20Moldova%20Opinion%20and%20Annex.pdf>.

cluster"⁴³ of the EU accession negotiations. This constitutes a strong incentive for the national governments.

The periodic communications by the European Commission are informed by SIGMA monitoring reports⁴⁴, which cover the PSHRM area, among other things, and provide assessment of the system of remuneration of public servants against the Principles of Public Administration⁴⁵ on the basis of a predefined methodological framework⁴⁶.

The influence of the European Commission on the EU Member States is more limited. Their public salary systems are not reviewed independently, but in the context of EU employment policy or the capacity to implement obligations in each policy area. The European Semester⁴⁷ is an annual process for analysis and a proposal for recommendations by the Council. Some related examples include:

- Spain has received a recommendation to reduce temporary employment in its public sector, in the context of the review of the functioning of the labour market (2019)⁴⁸.
- Greece has a recommendation to safeguard the efficiency of the public administration while ensuring that it can attract the right skills and preserve consistency with the unified salary grid (2022 and 2023)⁴⁹.
- Croatia has a recommendation to introduce harmonised wage-setting frameworks across the public administration and public services (2019)⁵⁰.

In addition, since 2021, the European Commission has increasingly focused its attention on the quality of public administration, with a dedicated annex on public administration in the country reports. It has

⁴³ COM (2020) 57 final, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, "Enhancing the accession process – A credible EU perspective for the Western Balkans", <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52020DC0057>.

⁴⁴ SIGMA Monitoring Reports: <https://sigmaweb.org/publications/monitoring-reports.htm>.

⁴⁵ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2023.pdf>. Previous version: OECD (2017), *The Principles of Public Administration*, OECD, Paris, www.sigmaweb.org/publications/Principles-of-Public-Administration_Edition-2017_ENG.pdf.

⁴⁶ OECD (2019), *Methodological Framework for the Principles of Public Administration*, OECD, Paris, www.sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-May-2019.pdf.

⁴⁷ https://commission.europa.eu/business-economy-euro/economic-and-fiscal-policy-coordination/european-semester/framework/european-semester-explained_en.

⁴⁸ Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Spain and delivering a Council opinion on the 2019 Stability Programme of Spain, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_.2019.301.01.0048.01.ENG&toc=OJ%3AC%3A2019%3A301%3ATOC.

⁴⁹ Recommendation for a Council Recommendation on the 2023 National Reform Programme of Greece and delivering a Council opinion on the 2023 Stability Programme of Greece, https://commission.europa.eu/system/files/2023-05/COM_2023_608_1_EN.pdf.

⁵⁰ Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Croatia and delivering a Council opinion on the 2019 Convergence Programme of Croatia, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_.2019.301.01.0064.01.ENG&toc=OJ%3AC%3A2019%3A301%3ATOC.

deployed a range of tools to support the administrative transformation of the Member States (including ComPAct⁵¹).

The International Labour Organization (ILO) issued a number of standards on wages that provide for regular payment of wages and the fixing of minimum wage levels⁵² (cf. section 2.5.4).

When reforms of salaries in the public service are prepared, and in particular when future changes can be considered unfavourable to certain groups (because of reductions of their salaries), it is advisable to analyse the jurisprudence of the European Court of Human Rights. Because salaries of civil servants are considered a “possession,” within the meaning of Article 1 of Protocol No. 1 (Protection of Property) of the European Convention on Human Rights, any reduction in salary must comply with the requirements of this provision⁵³. Several principles have emerged on when such reductions can be made: (i) Any reduction must be lawful and in pursuit of legitimate public interest. Economic difficulties or the need for a comprehensive reform of the salary system can be considered a legitimate aim, especially in times of economic crisis or for achieving budgetary balance. (ii) A fair balance must be struck between the demands of the general interest of the community and the protection of the individual's fundamental rights. The measure should not impose an excessive or individualised burden on civil servants. (iii) Under Article 14, (Prohibition of Discrimination), any differential treatment in the reduction of salaries must be justified on reasonable and objective grounds. Reductions should, in principle, be applied uniformly throughout the administration. (iv) The affected civil servants should have access to a fair procedure and effective legal remedies to challenge the salary reduction. (v) Deductions should be temporary, preferably including mechanisms through which the salary levels can be gradually restored to the previous level.

Ignoring these principles can lead, in some cases, to successful challenges to a reform in the courts⁵⁴.

1.5. The substance of a salary reform

In the process of preparing any salary reform, several policy questions may be addressed. This strategic exercise of political leadership can be facilitated by providing a technically well-informed range of options on key matters. The following non-exhaustive list suggests some of the most relevant issues and indicates those that will be explored in more detail in this paper. The list below captures key policy design features to explore; a structured analysis of these design features of any salary system is included in 2.

1. Whether pay reform will be treated in isolation, as an element in a broader HRM initiative, or as a still broader governance reform (e.g. reorganisation of state structures, rightsizing or simple budget cuts).
2. How much the government can currently afford to pay, and how much it aspires to pay in the future: the acceptable size of the wage bill and its evolution, including the impact on future pensions (cf. section 3.2).
3. To what extent pay decisions should be decentralised or centralised, depending on administrative tradition and capacity to manage decentralised systems (cf. section 2.2.1).

⁵¹ Commission Communication COM, (2023) 667 “Enhancing the European Administrative Space”, (ComPAct) https://commission.europa.eu/system/files/2023-10/Communication_Enhancing%20the%20European%20Administrative%20Space.pdf.

⁵² <https://www.ilo.org/global/standards/subjects-covered-by-international-labour-standards/wages/lang--en/index.htm>

⁵³ Cf. Council of Europe, Guide on Article 1 of Protocol No. 1 – Protection of Property https://www.echr.coe.int/documents/d/echr/Guide_Art_1_Protocol_1_ENG.

⁵⁴ See description of the reform process in Kosovo*, Chapter 4.4.

4. What methods should be used to compare and evaluate different types of jobs (cf. section 2.4.1). Whether narrow- or broad-band reform is to be considered and introduced (cf. section 2.3.2). Should there be room for salary progression (cf. section 2.5.6)?
5. How far comparisons with the private sector will be taken into account, and what role market circumstances should play in relation to internal job comparisons and evaluation (cf. section 2.4.2).
6. Whether performance-related pay should be considered and introduced, and if so, what it should look like in practice (cf. section 2.7); also what role seniority (length of service allowance) should play (cf. section 2.6.1).
7. What the new compression ratio (the difference between the highest and the lowest salary) should be (cf. section 2.5.3).
8. Whether there should be a “minimum salary” in the public sector and how it relates to minimum salary if established by law (cf. section 2.5.4).
9. Whether some groups of public sector employees will be singled out for a special, differentiated salary structure (especially in the case of talent management policies and for in-demand jobs) or offered a salary top-up (cf. section 2.6.7).
10. How to regulate the transition from the existing situation to the new system (cf. section 1.8.2).

If the policy objective consists primarily of increasing the level of compensation, there are several options. Only some of them would qualify as a fully-fledged salary system reform. The matrix, including advantages and disadvantages of three types of interventions, has been developed by the International Monetary Fund: (i) across the board salary scale increase, (ii) targeted pay increase and (iii) changes in the compensation structure:

Table 1. Selected channels to increase government employee compensation

Type of intervention	Channel	Objectives	Advantages	Drawbacks
Across the board salary scale increase	Percentage salary increase	Increase attractiveness of all government jobs; offset impact of inflation	Maintains existing salary differentials	Can be the costliest or contribute most to inflation pressures
	Fixed amount salary increase	Increase purchasing power of the lowest-paid government employees	Progressive	Compresses the salary scale (unless this is an objective)
Targeted pay increase	Differentiated percentage increases (greater increases for higher grades)	Target positions with staffing challenges (e.g., highly skilled workers or certain sectors)	Decompresses the pay scale	Risk of “leakage” to positions without staffing challenges
	Job regrading (moving jobs to higher grades)		Best for targeting certain sectors/occupations	Legislation may be needed
Changes in compensation structure	Increase speed of length-of-service-related salary progression	Improve retention	Encourages longer careers in government sector	Higher “wage drift” and faster growth in compensation spending
	Change bonuses and allowances	Target the pay increase at specific criteria	Easiest to target based on narrow criteria (e.g., geography, task)	Risk of proliferation of bonuses and allowances; can be less transparent

Source: Thévenot, Céline, and Sébastien Walker (2024), “How to Set Compensation for Government Employees.” IMF How to Note 2024/003, International Monetary Fund, Washington, DC. <https://www.imf.org//media/Files/Publications/HowToNotes/2024/English/HTNEA2024003.ashx>.

Linking salary reforms in the public sector to broader public administration or human resource management policies ensures that these reforms support and reinforce the overall goals and strategies of the public sector. For example, modernising public administration often aims to improve efficiency and effectiveness. Salary reforms can in such cases be a tool to promote these goals, by providing incentives for higher performance, attracting and retaining talented staff, and ensuring that pay scales are competitive with the private sector. They can also help in managing the wage bill effectively and sustainably, especially if broader reforms impact budgetary allocations. In this context, it should be considered whether pay reform is a separate policy issue deserving a slot on the government agenda and whether there is sufficient locally driven research to show that pay reform is required. This was the case with public service reform in Lithuania in 2022, where the issue of remuneration was part of a broader public service reform to strengthen the civil service management institutional framework and modernise organisational and human resource management⁵⁵. It is thus good practice to plan salary reforms in the framework of the Public Administration Reform, as illustrated in numerous cases of SIGMA partners (see Chapter 4).

Unless its objective is to realise savings, a public sector pay reform should not be implemented before the agreement on its budgetary impact is established and appropriate resources have been earmarked as necessary. The resources must be secured to ensure that the pay reform can be funded over the medium to long term; beyond designing the salary system reform, adequate transition scenarios are also important in this respect. If costs are likely to increase over time, growth in public revenues is also needed to sustain the reform (cf. section 3.2, on wage bill planning). Pay reform that reveals the high costs of implementation may in fact look prohibitive, and a government may delay enacting it, rather than taking the risk of stopping the reform in the middle of implementing it. In challenging times, the focus of the reform may be on how to realise savings in the wage bill, and in this case, public remuneration levels may need to be reduced⁵⁶. In some cases, salary system reforms are also accompanied by measures to downsize public employment, especially in the context of broader austerity measures (e.g. in Romania and Greece in 2009-2010). However, such measures are rarely accompanied by adequate functional reviews to inform the adjustments⁵⁷. Some countries even condition the application of some salary reforms on the rightsizing measures, as in Latvia, where the Law on Remuneration of Officials and Employees of State and Local Government Authorities for 2011 and 2012 included the possibility of “optimisation measures” (consisting of reducing employment and imposing part-time work).

The issue of whether pay should be centralised or not is also important to consider⁵⁸. Centralisation of pay may be useful to help to safeguard fiscal performance and to ensure higher pay equity in the context of low administrative capacity. As countries develop economically and administratively, however, decentralisation of pay setting, wage bill budgeting and employment decisions can help to improve

⁵⁵ Government of Lithuania, Concept Paper of Civil Service Reorganisation, adopted on 28 February 2022, in Lithuanian: https://vrm.lrv.lt/uploads/vrm/documents/files/LT_versija/VTI_koncepcija_2022_02_28.pdf.

⁵⁶ IMF (2020), “Issues When Cutting Government Pay to Help Reshuffle Spending in a Crisis”, *Fiscal Affairs*, IMF.

⁵⁷ Wouter van Acker and Zahid Hasnain (2019), “Wage bill and pay reform: a first glance and a look forward”, World Bank, <https://documents1.worldbank.org/curated/en/314931557750796768/pdf/Wage-Bill-and-Pay-Reform-A-First-Glance-and-a-Look-Forward.pdf>.

⁵⁸ Rexed, K. et al. (2007), “Governance of Decentralised Pay Setting in Selected OECD Countries”, OECD Working Papers on Public Governance, 2007/3, OECD Publishing. [doi:10.1787/210083427643](https://www.oecd.org/gov/38487114.pdf) <https://www.oecd.org/gov/38487114.pdf>; “Pros and cons of centralisation: Public service pay reforms in European countries”, <https://journals.sagepub.com/doi/pdf/10.1177/102425899700300106>, pp. 66-67).

outcomes⁵⁹. This process is often parallel to decentralisation of human resource management, which does not seem to have a prevailing trend⁶⁰.

Pay centralisation or decentralisation may also depend on the legal tradition of an individual country, as noted in Chapter 2. Several OECD countries, such as Germany, Austria, France and Slovenia, maintained a centralised arrangement of the payment system, which is regulated by primary and secondary legislation, in line with the continental legal tradition. This model was also accepted by most Western Balkan administrations (e.g. Bosnia and Herzegovina, Montenegro and Serbia), which also share continental legal tradition, in which salaries of civil servants are regulated by salary laws and accompanying bye-laws. Another group of countries, such as the United Kingdom and Sweden, have almost completely decentralised their systems and allowed individual administrative bodies to independently regulate the salaries of civil servants, with an important role for collective bargaining and a strong emphasis on transparency and managerial accountability.⁶¹ Poland and Italy are in the middle ranks, because the salary frameworks are regulated by law or a collective agreement, while the administrative bodies, due to the broadly set legal framework, have the freedom to determine specific remuneration levels⁶².

It is also worth considering whether to create a single pay spine, which may establish a common pay and grading system for all or for a group of employees, while permitting a high level of flexibility in meeting the different management and organisational needs of individual civil servants. A salary “spine” (or grid) is usually used as part of single, centralised pay-bargaining arrangements, but is not applicable to decentralised pay-bargaining⁶³. All these issues are reflected in Chapter 2.

1.6. ‘Basic’ versus ‘advanced’ reforms

The issues related to the substance of the reform noted in the previous section can be a subject of debate in both transitional and EU/OECD countries. Both groups face challenges in attempting to design a remuneration system that recognises the value of the public sector workforce at a time of the continuing challenging outlook for public finances.

Transitional countries arguably face particular challenges with their public sector reform systems, which are somewhat different from those in more advanced OECD economies. The content of the reform may therefore also be different.

In 2003, the World Bank introduced a distinction between civil service personnel management reforms, including compensation, that may be described as “basic reforms” in transitional countries, as opposed to those in OECD countries, which may be denoted as “advanced reforms”. The basic reforms usually refer

⁵⁹ IMF (2016), “Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges”, IMF, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>.

⁶⁰ See “*Delegation in human resources management*”, in OECD (2017), *Government at a Glance 2017*, OECD Publishing, Paris, https://doi.org/10.1787/gov_glance-2017-en, pp. 138-139.

⁶¹ At the central Government level in the United Kingdom, only the salaries of senior civil servants are still determined centrally, through regulations of the Government Cabinet.

⁶² Rabrenovic, A. (2019), *European Civil Service Pay and Benefit Systems*, Institute of Comparative Law, in Serbian, <http://ricl.iup.rs/266/1/2019%20-%20Evropski%20sistemi%20plata%20i%20nagradaivanja%20državnih%20službenika%20-%20Rabrenović.pdf>.

⁶³ World Bank (2009), *Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a “Single Pay Spine”*, GET Brief: Pay Policy Reform, Washington DC, November. <https://documents1.worldbank.org/curated/ar/871581468337281115/pdf/534630BRI0GET01n0title010GET0Briefs.pdf>.

to fundamental principles being secured in the salary system design (transparency, equal pay for equal work, etc.). They typically include enhancing job security, strengthening protection from political interference and creating a legally defined civil service cadre with common terms and conditions, including remuneration systems based on the principle of equal pay for equal work, predictability and transparency. Reforms that affect individual incentives in the civil service include the standardised application of promotion and reward rules, and encouraging long-term careers in the civil service, building a relatively “closed” career and remuneration system. However, they may allow for initial efforts to link pay with performance, albeit to a limited degree, due to a lack of existing public management performance culture.⁶⁴

Advanced civil service personnel and remuneration management reforms in OECD economies are in some ways just the opposite of the basic reforms. In career management, many advanced reformers are reducing tenure and aligning terms and conditions with those in the private sector. The unity of the Civil Service is being reduced, among other things, through fragmented and diversified pay arrangements, determined at the individual institutional level. These systems have been moving away from unified service-wide pay and benefits and terms and conditions to agency-specific arrangements suited to the needs of individual institutions⁶⁵. However, such “advanced” salary reforms are more effectively implemented with a managerial culture based on trust, managerial professionalism, low corruption and high stability.

The fiscal crisis, which severely affected both OECD and transitional economies, placed the reform discourse in both groups of countries on a similar footing: streamlining the remuneration system and reducing the wage bill cost. This is true of almost all OECD and transitional economies, no matter whether they are so-called “advanced” or “basic” reformers.

The question that naturally arises in the so-called “post-crisis” context is: should both groups of countries continue to follow the same reform path? Should transitional countries introduce the advanced reforms based on decentralisation and individualisation of pay, or stick to the “basic” reforms of improving transparency, fairness and predictability?

The advice of SIGMA for transitional countries on this issue is to start with the basics and slowly introduce elements of more advanced reforms. If the basics of a fair remuneration system – transparency, predictability and fairness – are not in place, managerial elements that have proved successful in more advanced economies will backfire in fragile transitional settings, with an increase in managerial discretion and arbitrariness.

1.7. What should the reform sequence be?

Pay reform is fundamentally a political issue, which entails political choices on the allocation of public resources. It is a mistake to consider pay reform a technical problem that can be resolved solely through technocratic devices⁶⁶. Managing the salary reform process is a whole-of-government operation that needs to be supported by high-level political will to sustain progress on significant salary reform.

Planning, drafting, adopting and implementing remuneration reform, like any large-scale, multi-stakeholder reform, is lengthy and resource-intensive. It will take at least two years, and in many cases, much longer

⁶⁴ Manning, N. and N. Parison, “International public administration reform: Implications for the Russian Federation (Russian). Directions in development”, World Bank Group, Washington DC. <http://documents.worldbank.org/curated/en/273151468024664202/International-public-administration-reform-implications-for-the-Russian-Federation>.

⁶⁵ Ibid.

⁶⁶ F. Cardona (2007), “Tracking Civil Service Pay Reform”, paper presented at the conference on civil service salary systems in Europe, Bucharest, SIGMA.

(e.g. Slovenia 2001-2008⁶⁷; Portugal 2005-2014), given different setbacks (e.g. government instability, crises or difficult negotiations) or because of the adjustments necessary for the new resource allocation (financial impact). If the process finishes in failure, resources are wasted and many opportunities missed. SIGMA experience shows that to avoid this, the process needs to be well thought through and as inclusive as possible, bringing all the players together at the right time, and in the right way.⁶⁸

The Principles of Public Administration offer a comprehensive set of standards that should be adhered to when preparing and implementing public policies, including reforms of the salary system for public servants. These standards include:

- the need to develop public policies on the basis of adequate analysis;
- the need to define realistically the issue they are targeting, in alignment with government and other policy priorities and objectives (policy coherence);
- the need to provide adequate information about the defined policy objectives, indicators for measuring progress toward the objectives with corresponding target values, and the description of a monitoring framework designed to ensure effective implementation of the policy;
- the need to complement policy plans with financial cost estimates aligned with medium-term and annual budgets, and with financial resources to ensure smooth and full implementation;
- the need to regularly monitor policy performance and results, including the achievement of policy objectives and outcome indicator targets and to develop publicly available monitoring reports;
- the need to design and implement policies in an inclusive manner;
- the expectation that major policies will undergo *ex post* evaluation, that evaluation results are published and that such results are effectively used for future policy (re)design.
- the need for the parliament to review implementation of major public policies regularly, to assess their effectiveness and hold the government accountable.⁶⁹

Major policy reforms require strong, co-ordinated efforts of multiple stakeholders. Developing and implementing such reforms is resource-demanding and challenging. Based on the Principles, SIGMA expertise and international good practice, SIGMA has developed a Toolkit to support policymakers in

⁶⁷ Salary reform in Slovenia (2001-2008) involved the whole public sector (the public administration at central and local levels, public health care institutions, public schools and universities, public social care institutions and public cultural institutions). It included the salaries of political officials (MPs, ministers, mayors etc.), judges and prosecutors. The chief aim was to remedy fragmentation, disparities and lack of transparency, and the salary structure for the public sector was unified. Basic salaries were defined by assigning a salary step to each type of position/job on a 65-step salary scale. Political positions, judges and prosecutors were enacted by an act of Parliament, managerial positions by a governmental decree and all other jobs by collective agreements. The central collective agreement for the public sector involved about 100 most representative jobs, and sector agreements assigned salary steps to all other jobs. As the basis for assigning salary steps to jobs, an evaluation methodology was agreed on beforehand by the government and trade unions. A large number of supplements that had caused fragmentation in the previous system were abolished, and the new system did not allow supplements for any element of the job evaluated in the basic salary. The supplements for hours worked under more difficult circumstances (for example on Sundays or bank holidays) were equalised throughout the public sector as a percentage of hourly basic salary.

⁶⁸ F. Cardona (2007), "Tracking Civil Service Pay Reform", paper presented at the conference on civil service salary systems in Europe, Bucharest, SIGMA.

⁶⁹ For more details see: OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2023.pdf>, especially Principles 3, 5, 6 and 7.

designing, implementing, monitoring, evaluating and co-ordinating such reforms⁷⁰. This Toolkit includes both conceptual and practical explanations of the different stages of policy design and implementation, as well as hands-on tools and templates that can support policymakers in the various stages of such reforms, from the initiation of the policy to its implementation and evaluation.

A successful public service pay reform is best anchored by judicious tactics and sequencing of the appropriate measures. The reform process should ideally consist of several key phases, as policy process elements, which may sometimes overlap (as shown in Figure 1).

Figure 1. Remuneration reform sequence/steps

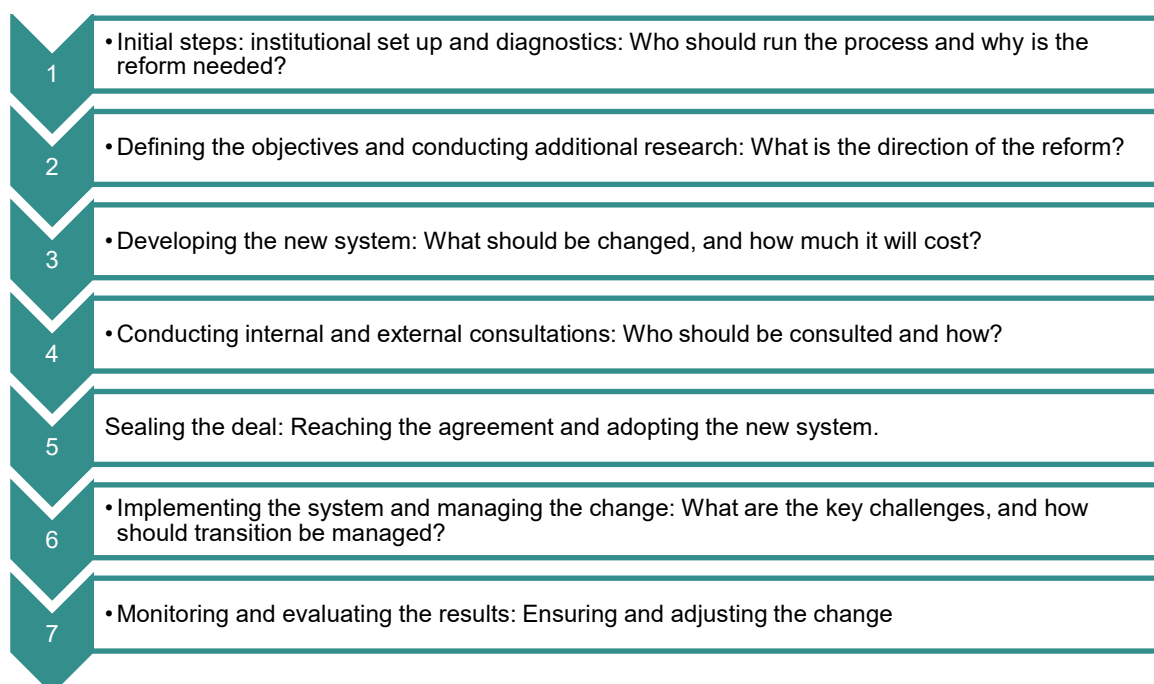
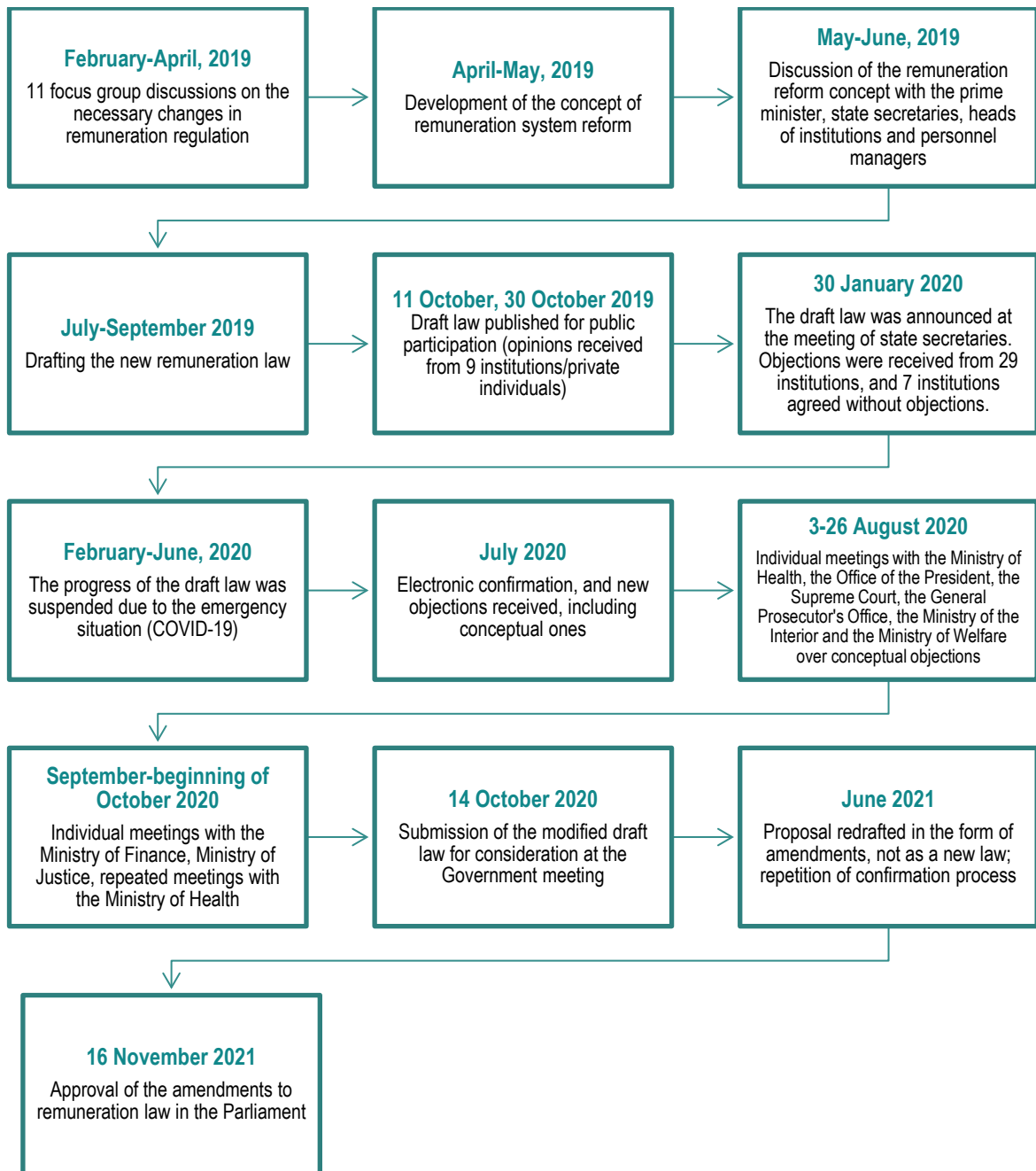


Figure 2 presents key steps in the design, development and validation of the reform of the remuneration system of public sector in Latvia in 2019-2021.

⁷⁰ Vági, P. and E. Rimkute (2018), “Toolkit for the preparation, implementation, monitoring, reporting and evaluation of public administration reform and sector strategies: Guidance for SIGMA partners”, *SIGMA Papers*, No. 57, OECD Publishing, Paris, <https://doi.org/10.1787/37e212e6-en>.

Figure 2. Reform of the remuneration system for the public sector in Latvia, 2019-2021



Source: State Chancellery of Latvia, 2022.

1.7.1. Initial steps – institutional set-up and diagnostics

Institutional set-up of the reform – Who should run the process?

When remuneration reform reaches a government's agenda, an initial step is to identify a structure responsible for preparing and managing the process. This arrangement is likely to be changed over time, with initial steps often being carried out by institution(s) responsible for salary policy, given the sensitive nature of any salary changes. In practice, reform is not prepared by the government but by a designed institution and, in operational terms, by a working group/task force of representatives of one or more institutions. A government should identify who will be responsible for preparing the initial assessment of the situation and later gather additional evidence and prepare the reform proposals⁷¹. In countries where administrative capacities are limited and technical capacity available outside the administration, it is useful to involve external technical assistance to assist the group.

Each country has its own way of carrying out the policy process, but common options for establishing an effective reform management set-up follow, and the options below can be combined:

- a) authorise a **single institution** to lead the remuneration reform process. The work of this leading institution may be supported by focus groups with major groups of stakeholders in the reform process. During salary reform in Latvia in 2019-2022, the State Chancellery was responsible for remuneration policy and organised focus-group discussions with representatives of different state bodies on necessary changes in remuneration regulation, to ascertain their position and needs⁷²;
- b) create a **task force (working group)** of key stakeholders, which can include representatives from the body in charge of public service remuneration (e.g. the Ministry of Interior, Ministry of Public Administration, etc.), Ministry of Finance, other public service bodies and more prominent HR heads across government. Interinstitutional task forces to prepare salary reform have often been set up in the past two decades, for example in Serbia (2003-2005)⁷³, Romania (2008-2010)⁷⁴, Moldova (2017-2018)⁷⁵ and Lithuania (2021).⁷⁶ Trade union representatives can also be included in this structure, to ensure their participation early in the process, as in the salary system reforms in Romania in 2010.

Working groups for the reform process can also involve representatives of academia and think tanks and even former civil servants, as in the Irish civil service remuneration reform in 2006⁷⁷. It is also desirable to involve trade unions and their members, to take advantage of their knowledge of the

⁷¹ OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264177758-en>.

⁷² State Chancellery of Latvia (2019), "Plan for designing salary system reform of 2019-2020", internal working document.

⁷³ The UK Department for International Development (DFID) and the Swedish International Development Co-operation Agency (2007), "Public Administration Reform in Serbia: Defining the Agenda and Improving Implementation", unpublished manuscript.

⁷⁴ Popescu, I. (2011), "The Global Crisis: An Incentive for Civil Service Reform? The Romanian Case", in R. Kattel et al., "Public Administration in Times of Crisis: Selected Papers from the 18th NISPAcee Annual Conference, May 12-14", 2010, Warsaw, pp. 85-98, <https://www.nispa.org/files/publications/ebooks/nispacee-warsaw2010.pdf>.

⁷⁵ The Concept of the Government No. 80/2017 on developing a unitary wage system in the public sector in Moldova, <https://www.mf.gov.md/sites/default/files/Conceptul%20privind%20sistemul%20unitar%20de%20salarizare.pdf>.

⁷⁶ Government of Lithuania, Concept Paper of Civil Service Reorganisation, adopted on 28 February 2022, https://vrm.lrv.lt/uploads/vrm/documents/files/LT_versija/VTI_koncepcija_2022_02_28.pdf.

⁷⁷D. O'Keeffe, (2007), "Report of the Public Service Benchmarking Body", Dublin Stationery Office.

work process. This should also reduce resistance to proposed changes. If technical assistance is available from international partners, they can also take part in the work of the task force⁷⁸.

- c) establish an **independent commission** appointed by the executive power or the parliament. Although this option may not be common in practice, it was used in Portugal in 2005, where an independent commission to review careers and salaries in the public administration was established to carry out the remuneration reform process. The commission members were selected by the government but approved and appointed by the Parliament⁷⁹. In Ireland, the reform of the pay determination process of senior public service posts was led by an independent commission established by the competent ministry in 2022. The independent commission carried out a public consultation process, interviewed domestic and international experts and provided detailed recommendations to the Government on how to improve the pay determination process⁸⁰;
- d) **an external individual expert or consultancy firm** may also be commissioned to study and make proposals. In Greece in 2011, the Government commissioned an independent evaluator (ICAP and Hay Group) to assess the operation of the remuneration system in the public sector.⁸¹ In developing economies, such assessment reports may be carried out with technical assistance from the donor community, including the World Bank, the EU and bilateral donors.

Forming a government intersectoral task force is one option commonly used, for which Lithuania serves as a good example (Box 1).

Box 1. Lithuania public sector remuneration reform, 2021-2023

In Lithuania, the Ministry of the Interior was responsible for the content of the reform. The direct and most visible political official presenting the reform to the public was the Vice Minister of the Interior, responsible for the civil service.

In June 2021, the Government mandated the Ministry of the Interior, with the Ministry of Social Security and Labour, the Ministry of Economy and Innovation, and the Ministry of Finance, to review public sector remuneration policy for all heads of public sector bodies and to submit proposals on how to regulate remuneration of the heads of public sector bodies by 1 January 2022.

In September 2021, a working group established by a Minister of the Interior carried out a review and prepared proposals that were later incorporated into the draft Civil Service Law and amendments to the other relevant laws.

Source: Government of Lithuania, Concept Paper of Civil Service Reorganisation, adopted on 28 February 2022.

⁷⁸ Most recently, SIGMA took part in the working groups for salary reforms in Kosovo*, Albania, North Macedonia and Ukraine. In several instances, representatives of EU technical assistance projects were also involved.

⁷⁹ Commission on Revision of the System of Career and Remuneration (2006), "Careers and Remuneration in Public Administration: Diagnosis and Prospects for Evolution", available in Portuguese at: https://www.dgaep.gov.pt/media/1100000000/09.09.2006_relatorio_de_diagnostico_crscr-final.pdf.

⁸⁰ Independent Review Panel (2023), "Review of Senior Public Service Recruitment and Pay Determination Processes", <https://assets.gov.ie/261668/07e3274f-caac-4174-975b-1a56f9306ba9.pdf> (19 November 2023).

⁸¹ D. Katsikas (2022), "Crisis, Clientelism and Institutional resilience: Reflections on a public sector reform under the MoUs," Hellenic Observatory European Institute and London School of Economics.

A comprehensive assessment of the 'state of play' – why is a reform needed?

Another key step in the reform process is to review the existing compensation system. The objective of this first phase is to obtain complete understanding of the context and of the problem, based on evidence (i.e. available data and in-depth discussions with managers and public servants) to establish whether and why a reform is needed.⁸² The ways in which the *problem* is conceived and portrayed strongly shapes the likelihood of a suitable policy response.

Only a few available frameworks are available to assess a salary system. Given the limited international instruments governing the issue of remuneration of public sector employees, SIGMA developed the Principles of Public Administration⁸³ and the Methodological Framework, which can serve as a valuable tool to assess the current system. As noted earlier, the World Bank has also recently developed an assessment framework for public sector employment and compensation, which pays special attention to salary competitiveness, equity and incentives⁸⁴. In most cases, countries use *ad hoc* methodology for analysis of the state of play.

The following observations were made at this initial assessment in several reform processes reviewed:

- **a lack of transparency**, because the remuneration system is defined in a set of several laws, decrees and decisions, which makes it difficult to comprehend both for public servants and general public⁸⁵. Transparency is also an issue when salaries heavily rely on various allowances, sometimes constituting up to 70% of the basic salary, rather than on a clear and straightforward basic salary, as observed with certain civil servant groups in Slovenia prior to reform⁸⁶.
- **inequality and fragmentation** of the pay system, due to unjustified pay gaps between different categories of civil servants (a lack of equal pay for equal work). These discrepancies usually assume different remuneration levels for jobs of the same level of complexity and responsibility within one institution or within the public service as a whole⁸⁷;

⁸² OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264177758-en>.

⁸³ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

⁸⁴ Hasnain, Z. et al. (2021), "Public Sector Employment and Compensation: An Assessment Framework (English). Equitable Growth, Finance and Institutions Insight, Washington DC: World Bank Group. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

⁸⁵ DFID, World Bank (2004), "Serbian Civil Service: Assessment of Pay and Benefit System, Final Report", PriceWaterHouseCoopers.

⁸⁶ Virant, Gregor and Rakar, Iztok, "Implementing a Government-Wide Unified and Transparent Salary System in Slovenia" (26 June 2018). The NISPAcee Journal of Public Administration and Policy, Vol. XI, No. 1, Summer 2018, p. 188, <https://ssrn.com/abstract=3410278>.

⁸⁷ World Bank (2019), "Baseline review of the national (Romanian) framework for HRM and its institutionalisation, Advisory Services on Developing a Unitary Human Resources Management System Within the Public Administration, <https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-1.1-Baseline-review-of-the-national-framework-for-HRM-and-its-institutionalisation.pdf>.

- **decoupling** of compensation from grade, tasks or performance, creates disincentives for assuming responsibility, taking the initiative and more generally improving productivity. Years of service and typical qualifications were often the principal criteria for moving up the wage ladder⁸⁸;
- **non-competitiveness** of remuneration levels in public administration reduce its appeal to new candidates (i.e. low salary levels, often due to unaddressed inflation over the years), which makes it difficult to retain specialists and professionals in the public service, and reduces the motivation of existing staff⁸⁹;
- **poorly implemented** benefits policy, where benefits vary greatly among ministries and other public service institutions⁹⁰;
- **lack of fiscally sustainable** remuneration policy, which jeopardises fiscal stability in both the mid- and the long term.

While reviews conducted during the 2008 crisis often pointed to fiscal sustainability of remuneration policy, fragmentation of the pay system and need for measures to manage public expenditure more efficiently and effectively, recent studies focus on other issues, such as the lack of competitiveness of public service salaries and insufficiently developed benefits policies. Such problems stem from austerity measures imposed during the economic crisis, which were gradually loosened in many countries but have had a long-term negative effect on the competitiveness of public service salaries⁹¹.

1.7.2. Setting the objectives and conducting additional research – What is a reform direction?

The next job for the reformers is to develop consensus on the general direction of the reform, i.e. the objectives and nature of the changes that will best address the issues identified in the initial diagnostic assessment. In some countries, reform objectives are established in strategic documents, such as public service reform strategies, plans or reform concepts. In Romania, the Government adopted the National Recovery and Resilience Plan (2021), which outlined the key objectives of the reform: ensuring a fair and fiscally sustainable salary policy⁹². In other administrations, good practice is to develop a concept note that identifies key issues, objectives and activities of the reform aimed at achieving the objectives. For example, in Moldova, the reform process was clearly structured in a Concept adopted by the Government, establishing reform objectives, key directions for reform, relevant international experience and process steps. It also

⁸⁸ D. Katsikas (2022), "Crisis, Clientelism and Institutional resilience: Reflections on a public sector reform under the MoUs," Hellenic Observatory European Institute and LSE, p. 13.

⁸⁹ Government of Lithuania, Concept Paper of Civil Service Reorganisation, adopted on 28 February 2022, available in Lithuanian at: https://vrm.lrv.lt/uploads/vrm/documents/files/LT_versija/VTI_koncepcija_2022_02_28.pdf.

⁹⁰ D. Katsikas (2022), "Crisis, Clientelism and Institutional resilience: Reflections on a public sector reform under the MoUs," Hellenic Observatory European Institute and LSE, p. 14.

⁹¹ See Law on Remuneration of Officials and Employees of State and Local Government Authorities in Latvia and its explanatory note, <https://titania.saeima.lv/LIVS/SaeimaLIVS.nsf/0/971F0E7A788C9469C225766200358B2B?OpenDocument>. The law was adopted on 1 December 2009, and came into force on 1 January 2010.

⁹² This was to be achieved by closing the current wage gap in the budgetary system, restoring the hierarchy of functions within and across areas of activity, reviewing the bonus system and establishing a performance incentive system.

included detailed indications on the specific objectives of the future salary system, the working arrangements for developing that system and the different phases of the process⁹³. Both documents may coexist.

It is common that governments propose broad, relatively vague policy objectives for their pay reform policies. They may be grouped around several key goals: improving the transparency of the system; enhancing fairness (internal and external equity of the system); improving predictability; improving incentives and motivation; increasing pay competitiveness and establishing fiscally sustainable salary policy.

Table 2. Examples of the goals and objectives of the remuneration reform

Goals	Reform objectives (as formulated in reform documents)
Improve the transparency of the system	<p>Develop a unified legal framework for all public servants (Slovenia 2001-2011); Romania (2008-2009)</p> <p>Develop a single law to regulate remuneration of all civil servants (Serbia 2003-2005)</p> <p>Create a simplified and unified legal framework to cover basic wages and all allowances of public servants (Greece, 2010-2015)</p>
Enhance fairness (internal equity of the system)	<p>Introduce new pay and grading structure based on job evaluation for all public sector employees (Slovenia, 2001-2011)</p> <p>Create a unitary payment system including incentives, allowances and salary increases and reduce inequalities among equivalent positions in different ministries (Romania, 2010, 2017)</p> <p>Improve salary equity at public sector level by establishing a unitary salary system based on comprehensive job evaluation of public sector jobs (Moldova, 2018)</p>
Improve predictability	<p>Carry out in-depth revision of pay supplements (Portugal, 2004-2015)</p> <p>Change proportion between fixed and variable elements to reduce discretion in pay determination (Latvia, 2018-2022, Ukraine ongoing)</p> <p>Reduce amounts of allowances (Romania, 2008-2017)</p>
Improve attractiveness of the public administration/public sector as an employer	<p>Make the system attractive for specialists and support retaining qualified staff (Romania, 2017) – to better align with workforce needs (filling skills gaps)</p>
Improve incentives and motivation	<p>Link professional and salary progression to performance (Portugal, 2004-2015)</p> <p>Link salary to performance, productivity and tasks 2010-2015 (Greece, 2010-2015)</p> <p>Link pay to performance and make the system attractive for young specialists (Moldova, 2018)</p> <p>Give managers more managerial leverage in setting the level of remuneration in their organisations (Lithuania 2021-2023)</p>
Establish fiscally sustainable salary policy	<p>Enable economically sustainable salary growth, leading to consolidated budgets and manageable inflation (Slovenia 2001-2011)</p> <p>Enable economic adjustment after the financial crises (Romania, 2008-2017)</p> <p>Reduce operational costs of public administration 2010-2015 (Greece, 2010-2015)</p>

⁹³ Concept of the Government No. 80/2017 on the development of a unitary wage system in the public sector in Moldova, <https://www.mf.gov.md/sites/default/files/Conceptul%20privind%20sistemul%20unitar%20de%20salarizare.pdf>.

Additional information needs to be gathered to allow for informed decisions on how to reach the set objectives. Which type of information is going to be collected depends on the reform objectives themselves. It could include information from within the public service system (job analysis and evaluation, etc.), externally based information (e.g. pay levels in the private sector for specific job families or positions), international experience in remuneration reform, or other necessary data.

In practice, things may not be as simple or straightforward. Gathering additional information may point the reformers in another direction or may even result in changing the reform objectives. This, however, should not be a cause of serious concern. It is more important to define/redefine realistic objectives that can be implemented, rather than aim for those that may be appealing but whose realistic chances for implementation are low. For this reason, a degree of flexibility in the process is always desirable.

If internal equity of the pay system is a concern, it is advisable to apply a job evaluation method to determine the job ranking (in the public sector, or limited to public administration – depending on the scope of the reform) and to determine relative pay in relation to the job ranking and grading decisions. Jobs that are usually analysed and evaluated are called “representative” jobs, because they need to be statistically representative in terms of employee coverage. Their job content needs to be core for fulfilling key roles in the public sector/public administration (e.g. manager roles may not be statistically significant, but their job is core) and also to include jobs that are not likely to substantively change in the short or mid-term. In this way, representative jobs are meant to represent the “backbone” of the future pay grades. Designing and applying a clear job evaluation methodology is recommended. For this a dedicated evaluation working group should be tasked with making an initial assessment of the relative worth or value of representative jobs. Furthermore, it is important to collect information on the current pay levels of these jobs, to provide the basis for creating the pay grading levels and carrying out a fiscal impact assessment of different pay and grading options (discussed in more detail in the next section). Once representative jobs are evaluated/ranked and the grading structure(s) is designed, the rest of the jobs can be mapped to the ranking through specific analytical or non-analytical methods (see Chapter 2). The final job ranking is also a policy decision, based on the job evaluation exercise. Some sectors can be prioritised due to specific challenges (for example, Romania’s 2017 salary system reform introduced preferential faster rates of growth for salaries in the health sector, to encourage doctors to remain in the country)⁹⁴.

Data on international experiences can provide significant insights for the reform process. Salary reforms are intrinsically context-dependent, influenced by a nation’s unique traditions and cultural norms, but the strategies and experience of other countries can be a useful repository of evidence on feasible and less feasible practices in salary reform⁹⁵. In selecting benchmark countries for comparison, it is vital to consider the diversity of pay structures and levels in the public sectors in the EU and OECD. Additional criteria need to be introduced, on the assumption that actionable benchmarking is meaningful only between somewhat comparable systems. Otherwise, benchmarking may remain an attractive but impractical tool.

⁹⁴ It is also useful to mention that the job ranking in Romania for the 2017 wage system reform was only partially based on the job evaluation exercise from 2010, being rather the result of negotiations with sectors.

⁹⁵ Seniority allowance, abandoned by numerous administrations, may be rooted so deeply in a country’s administrative tradition that removing it is rejected from the outset of reform preparation (cf. civil service salary reform in Ukraine).

Box 2. Benchmarking classification systems by NAUCS, Ukraine 2021

The National Agency for Civil Service in Ukraine, responsible for preparing a comprehensive reform and introducing a new remuneration model based on position classification, conducted a comprehensive review of international practice of the grading systems in the civil service. Altogether 21 countries from around the world feature in the publication. Some data is drawn from open sources and some from questionnaires or surveys conducted on other occasions. For each country, the following data is presented: classification of positions, grading system, responsible government authority, key legal and normative regulations.

Source: N. Aliushyna, ed. (2021), "International Practices of Positions Classification and Grading in the Civil Service, Center for Adaptation of the Civil Service to the Standards of the European Union", p. 129, Kyiv, Ukraine
[international-practices-of-the-positions-classification.pdf \(nads.gov.ua\)](https://nads.gov.ua/international-practices-of-the-positions-classification.pdf).

If competitiveness of the public sector remuneration system has been identified as an issue, it is necessary to collect information on how salaries in the public service compare with the pay of similar jobs in the private sector. Data on salary levels in the private sector are usually available in the reports of national statistics offices, different kinds of expenditure surveys conducted by national authorities or private consulting firms⁹⁶. The findings of these surveys vary significantly in quality, depending on the time invested by participating organisations in compiling the information⁹⁷. The challenges of such comparisons and some guidance on successful exercises are provided in section 2.4.2.

At the same time, if pay competitiveness is a challenge reformers intend to address, it is important to take public sector employees' motivation into account. In addition to financial considerations, salary system reforms need to recognise the broader employment package and the specific needs of public sector employees. Public sector employment conditions extend beyond wages to include workplace stability, work-life balance, predictability and stress reduction, as these factors play a pivotal role in the long-term commitment of public employees. Effective remuneration packages should adopt a "total reward" approach, combining both financial incentives and non-financial elements such as learning opportunities, challenging tasks and a supportive work environment, aligning with the Principles of Public Administration's recommendation for a competitive and comprehensive compensation package to attract, motivate and retain skilled employees. In this sense, reformers should have in mind the broader HRM system context and opportunities that public employees benefit from in a particular setting. Most salary system reforms cannot operate in isolation from other HRM system conditions that support staff motivation, such as adequate performance dialogue between managers and employees. This approach is part of the relevance of wage system reforms in the wider HRM system, as reflected in Chapter 2.

⁹⁶ A. Rabrenovic (2019), "European Civil Service Pay and Benefit Systems, Institute of Comparative Law", available in Serbian language at: <http://ricl.iup.rs/266/1/2019%20-%20Evropski%20sistemi%20plata%20i%20nagradaivanja%20državnih%20službenika%20-%20Rabrenović.pdf>.

⁹⁷ OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264177758-en>.

1.7.3. Developing a new remuneration system: What should be changed?

Once the weaknesses of the current system are known, good practices from other countries have been identified and goals and objectives of the future reform agreed upon, it is time to design a new remuneration system or the specific elements targeted in the reform. Specific design elements of the salary system to include in the reform are discussed in detail in Chapter 2. This section only provides a general overview and examples, with the aim of linking the content of the reform with the mechanics of the reform process. The emphasis may be placed on a single reform direction/objective, for example, to improve the fairness or internal equity of the system or competitiveness, or multiple objectives may be attempted, in a more comprehensive effort.

If fiscal pressures are a concern, the reform will probably include streamlining the salary allowances and making the system as transparent as possible to increase the effectiveness of payroll management. Such examples are discussed in Chapter 2, linked to the reform of the pay and grading system and the reform of pay supplements and bonuses. In some cases, allowances for automatic seniority (years in service) may be replaced by performance-related salary progression or bonuses, to emphasise efficiency and effectiveness. In Greece in 2010-2011, a single pay system for all public sector employees was established, based on a common classification methodology. Around 100 different allowances were integrated in the base pay, which made the system much more transparent and manageable (see Box 3). In Slovenia, the reform of the public sector pay system in 2001-2011 also resulted in a coherent salary system covering all public sector employees. This significantly improved the transparency of the pay system and viability of the wage bill⁹⁸. In a similar vein, reforms undertaken in Latvia in 2009-2010, resulted in streamlining the remuneration system by bringing together in a single “umbrella Law” all the provisions relating to the remuneration and social guarantees of public employees. The new Kosovo* law on salaries in the public sector, adopted in December 2022, also introduced a unified salary spine for all public sector employees, which replaced 58 legal documents regulating remuneration in individual institutions⁹⁹.

Box 3. Public sector remuneration reform in Greece, 2010-2011

The remuneration system developed in the midst of the fiscal crisis in Greece in 2011, introduced a single unified payment system for all public sector employees, terminating the unjustified fragmentation of payment by ministry or organisational unit. This made the system much easier to operate, more cost efficient and more transparent, for example substituting more than 100 different allowances with three basic allowances common for all public sector personnel.

The payment discrepancies that existed before the reform were reduced using a common methodology for determining wages, based for the most part on measurable typical qualifications, such as the level of education and work experience. After the reform, employees at a higher

⁹⁸ After the introduction of the nominal value of the salary base, equal for all public sector employees, it was easier to control the cost of the wage bill during the fiscal crisis in Slovenia. More effective salary management resulted in slower growth of salaries in the public sector than in the private sector, as opposed to before the reform. Virant, Gregor and Iztok Rakar, “Implementing a Government-Wide Unified and Transparent Salary System in Slovenia” (26 June 2018). The NISPAcee Journal of Public Administration and Policy, Vol. XI, No. 1, Summer 2018, p. 197, <https://ssrn.com/abstract=3410278>.

⁹⁹ Law No. 08/L-196 on salaries in the public sector, https://www.kuvendikosoves.org/Uploads/Data/Documents/Lawno.08-L-196_wqh6aKhPus.pdf; Loxha. A. (2019), “New Law on Salaries: An examination of Potential Socio-Economic Effects”; Group for Legal and Political Studies. Policy Analysis”, August, <http://www.legalpoliticalstudies.org/new-law-on-salaries-an-examination-of-potential-socio-economic-effects/>.

educational level and with more experience were paid more. The reform also rewarded employees in positions of responsibility.

The reform linked payment to a rank and introduced horizontal progression based on performance appraisal, since promotion through the ranks was designed to be primarily based on the assessment of the employees' performance according to certain criteria and targets. Details on the new public sector performance evaluation system were outlined in a presidential decree that, however, was not put into effect.

Source: D. Katsikas (2022), "Crisis, Clientelism and Institutional resilience: Reflections on a public sector reform under the MoUs", Hellenic Observatory European Institute and LSE, <https://www.lse.ac.uk/Hellenic-Observatory/Assets/Documents/Publications/GreeSE-Papers/GreeSE-176.pdf>.

Portugal offers another example of a comprehensive salary system reform. The content of the reform included creation of a single pay scale, rationalisation of pay grades and traditional allowances (e.g. seniority) and linking pay with performance (see Box 4).

Box 4. Content of the remuneration reform in Portugal, 2004-2015

The public service reform in Portugal included several important elements: abolition of the seniority allowance for majority of public service careers, introduction of performance bonuses, reduction from 1 715 to 54 careers and reduction of 522 dispersed salary positions to 115, in a single common pay scale.

Direct seniority allowance was abolished for the majority of careers and replaced by performance-related pay progression. In practice, only employees with inadequate performance are kept from progressing.

Pay allowances have been extensively limited in number and are granted for the performance of tasks that are more demanding than other jobs in the same career and category. Supplements were set in cash amounts and may only exceptionally be set as a percentage of the basic salary (e.g. night work; overtime work), paid for as long as the conditions last. Pay supplements are established and regulated by law or collective labour agreements.

Only employees (not managers) are entitled to performance pay, in the form of salary progression (one- step increase) or a biennial bonus (one monthly salary), non-cumulative, based on biennial performance assessment. A "relevant" or "excellent" grade is needed in order to be eligible.

Source: Law No. 35/2014, General Labour Law in Public Functions, Portugal, replacing Law 12-A/2008 and integrating other employment-related matters previously scattered through primary and secondary legislation. https://www.dgaep.gov.pt/en/upload//legislation/Final_version_Law_35_2014_updated_23Fev_PDFVF.pdf.

The focus of the reforms carried out in Latvia and Lithuania over the past few years was on introducing measures to increase the flexibility and competitiveness of pay. Reforms carried out in Lithuania in 2023 centred on increasing the level of basic salaries of heads of institutions and providing more discretion in setting salaries within an institution. In Latvia in 2022, the pay scale established a minimum level, middle level and maximum level of monthly salary for the grade, while only senior managers' salaries were fixed. Heads of institutions became responsible for determining individual salaries of public servants, taking into

account the available budget for salaries and additional individual salary criteria, such as qualifications, competences and performance.

The focus of remuneration reform in selected transitional countries in “post-crisis” years was on increasing the competitiveness of civil service pay, but also on improving its “basic architecture” – transparency, fairness and predictability. Creation of a single pay spine established in a single law, introduction of job evaluation methods and rationalisation of allowances appear still to be key pillars of the reform process, coupled with efforts to increase the salary levels to attract and retain candidates with adequate competences. One example is a comprehensive salary reform undertaken in Moldova in 2017-2018, which introduced profound changes in many aspects of the remuneration system, such as integration of allowances in the basic pay, introduction of a single pay spine based on job evaluation, with focus on performance, whose full effects have yet to be seen¹⁰⁰.

Given the political character of salary system reforms, the task force at the technical level may be subject to pressure from various stakeholders and may not be empowered (or simply may not be willing) to make choices that are political in nature. To cushion these pressures, the task force can prepare different options (alternatives) for the political decision makers to choose from. These might be differences in the differential between pay grades, pay steps, whether performance increases would be fixed or variable, etc. Presenting advantages and disadvantages of each option is a good practice, helping to make an informed decision. Serbia’s reform process serves as a good illustration of such an approach.

¹⁰⁰ In Moldova before the reform, the base wage was on average about 50% of total remuneration at public sector level, and 63% in the case of the civil service. As a result of the reform, the wage structure improved, with the base wages representing on average almost 80% of the total remuneration in the civil service in 2022. The problem of uncompetitive salaries, especially for execution-level civil service jobs and mainly in local public administration (where civil service positions are not eligible for bonuses) continue to make the civil service career unattractive for professionals in Moldova.

Table 3. Models of horizontal and vertical progression in a salary grid proposed in Serbia's pay reform, 2003-2005

<p style="text-align: center;">Model 1 Variable performance increases</p>	<p style="text-align: center;">Model 2 Fixed performance increases</p>
<p>In this model: There are 12 steps in each executive rank, and the differential between salary steps is 3%. The top 3 steps are reserved for staff whose performance is rated as 5 ("excellent") under the new performance evaluation system. Staff would be considered for one or more step increases each year based on performance. Proposed basis:</p> <ul style="list-style-type: none"> - Staff with performance rating 1 or 2 do not receive a step increase. - Staff with performance rating 3 or 4 progress by one step per year to step 5, then one step every two years to a maximum of step 9. - Staff with performance rating of 5 progress by two steps per year and can progress to step 12. 	<p>In this model: There are 12 steps in each executive rank and the differential between salary steps is 5%. All staff with performance ratings 3, 4 or 5 progress by one step per year. Staff with performance ratings 1 or 2 receive no step increase.</p>
<p>Model 1 has the advantage of creating an incentive for managers and staff to treat the new performance evaluation system seriously. However, if the performance evaluation does not work well, e.g. if managers tend to rate all staff at the highest performance levels, the system becomes expensive and meaningless.</p>	<p>Model 2 has the advantage of being easy to operate in a consistent way; but it makes no distinction between standard good performers and staff whose performance is excellent or exceptional. If model 2 is selected, this deficiency can be compensated for with a bonus scheme that allows for recognition of excellent or exceptional performance.</p>

Source: HELM, Proposals for Civil Service Pay Reform in Serbia, 2004, funded by the EAR project.

1.7.4. Calculating fiscal impact – How much will the reform cost?

Like any other reforms, public service pay reform comes at a cost. The total government wage bill, which includes the public service wage bill, has been steadily growing in many countries around the world, both in developing and developed economies¹⁰¹. Because affordability is of major concern for the government, being able to define the costs of reform not only in the short but in the long term is of crucial importance. Linking mid-term projections of potential gross domestic product (GDP) growth with the pay reform is also crucial. The government may be in a position to afford to implement pay reform in the short run, but it may face problems later, if the macroeconomic situation or the fiscal outlook deteriorate.

In EU countries, the budget projections and, implicitly, the personnel cost projections are planned as part of the *macroeconomic and fiscal framework* adopted for a three-year timeframe. The country-specific medium-term budgetary objective (MTO) is expected to be between -1% of GDP and the balance or surplus corrected for cyclical effects, and is revised every three years, or when major structural reforms are

¹⁰¹ World Bank (2021), "Public Sector Employment and Compensation: An Assessment Framework", Washington DC.

implemented with fiscal impact¹⁰². Based on the three-year macroeconomic and fiscal framework, more detailed planned funding for each sector is discussed with each line ministry, to determine allocations for programmes for the current year (in case of adjustments), the next year and for the following two years.

The cost of pay reform can be estimated from the bottom up or top down. In the top-down approach, a government estimates the total number of postholders in certain grade and their total costs of employment. For a bottom-up approach, all the existing posts are considered and the possible salary increases are appropriately calculated¹⁰³. Romania, for instance, used the bottom-up approach. All the existing positions were included in a database and the estimates made for the five years¹⁰⁴. In Slovenia, a model was developed based on the number of employees in different positions in the public sector, allowing for simulation of fiscal impacts of various options and negotiating positions. The advantage of this solution is that it enables policymakers in charge of salary reform to simulate different options and keep the reform within the acceptable/approved fiscal framework. In both models, the estimates should provide a multiyear approach to future expenditures and reflect the growth in the pay envelope relative to the potential increase in fiscal space and affordability. Ultimately, both approaches provide similar financial outcomes for the government, and pay estimates should not differ very much. Overall, estimating the wage bill is often difficult, thanks to non-transparent budgeting and accounting, weak data systems, and informalities in employment and compensation¹⁰⁵.

Both fiscal estimate approaches rely on the available information and require assumptions about the re-grading of public sector employees under the proposed new system. Therefore, priority must be given to the collection and continuous maintenance of a database with information on individual wages and allowances and on the distribution of public sector workers across individual public services and institutions. The usefulness of a comprehensive Human Resource Information System integrated with the payroll function in this context cannot be overestimated. In addition, to the extent possible, information resulting from strategic workforce planning should also be reflected in the process.

When detailed employment data is not available, aggregate employment numbers by job types are expected to be requested from the main budget holders, with average salary levels. This can enable a limited baseline analysis until more robust data can be collected at the individual level. Wage system reforms in Romania in 2010 and Moldova in 2018 were initially informed by aggregate employment data reported by institutions for each job type and not from centralised payroll systems (which are still being developed). As a follow-up, Romania introduced the legal obligation for institutions to report individual employment and salary data annually¹⁰⁶, until a centralised pay system is set up.

The results depend on the quality of the data input into the frameworks and on how realistic the assumptions are. Data requirements for these models include:

¹⁰² More detailed information is <https://www.europarl.europa.eu/factsheets/en/sheet/89/the-eu-framework-for-fiscal-policies>. Furthermore, as part of the surveillance mechanism, in April of each year, each Member State prepares a stability programme (in the case of Euro-area Member States) or a convergence programme (for non-Euro area Member States) to the Commission and the Council.

¹⁰³ World Bank (2009), "Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a 'Single Pay Spine'", GET Brief: Pay Policy Reform, Washington DC, November, <https://documents1.worldbank.org/curated/ar/871581468337281115/pdf/534630BRI0GET01n0title010GET0Briefs.pdf>.

¹⁰⁴ World Bank (2019), Guidance note on the methodological framework for monitoring public sector pay policy in Romania, including an analysis of 2018 pay data, World Bank, Bucharest.

¹⁰⁵ World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*, Washington DC.

¹⁰⁶ As stipulated in the Framework Pay Law 153/2017.

- a) the total number of public sector employees undergoing the reform process and their distribution across public sector services and institutions;
- b) a complete and updated payroll database from which the current and future payroll cost can be estimated, preferably with the reference of a country's GDP (wage bill/GDP ratio) and total public expenditure (wage bill/total expenditure ratio)¹⁰⁷.

As with any estimate, the projections may not always materialise, posing a risk for postponing certain elements of the reform, or even, in the worst case, abandoning the reform. Credible, robust data is crucial for costing public pay reforms. The first step, establishing the list of employees and the total current wage bill, can run into the problem of reconciling the staff lists and payroll. Establishing the total number of current and future positions makes it possible to define the median position and provide a general estimate of costs; or to cost all the positions as established, with their direct costs being defined.

Governments must consider where the money for extra salaries will come from (anticipated economic growth or increased tax revenues, decreasing expenditure, etc.). If no supplementary sources of revenues can be found, the only option is to abandon the pay reform effort. However, if a salary reform applies only to the core civil service and not to other larger public sector groups (health, education, military, etc.), the cost of the reform may not be excessive, since a relatively low share of civil service in total public employment reduces the share of public service wages in the government's general wage bill. The main political obstacle is usually the difficulty justifying to the general public raises to core civil servants rather than teachers, doctors and other public sector employees.

The costs of transitional provision cannot be overlooked. It is not uncommon to pay compensation to public servants whose "new" salary will be lower than it was previously; this compensation is most often temporary. The Pay Law 270/2018 Moldova adopted for the public sector salary system anticipated that where certain jobholders would receive a lower monthly salary than before the pay reform, a "salary difference" would be paid to them¹⁰⁸. In Kosovo*, transitional allowance was offered to public servants whose previous basic salary was higher than their full salary after the reform, an allowance of 100% of the difference in the first year and 50% in the second year¹⁰⁹. For employees who decide to leave the service, severance pay is offered (calculated on the basis of the previous legislation or on a transitional provision of the new law). In Slovenia, a transitional provision of the Law on the Salary System in the Public Sector ensured nominal "salary protection", covering both the basic salary and existing supplements from the previous system. This applied to the salary's total nominal value, excluding performance-related variables. Without annual adjustments, over time, the "new" salary exceeded the protected amount.

Unless they are inspired by the need for budgetary adjustments, salary reforms are typically based on the expectation that few, if any, civil servants will see a reduction in their salaries. It is advisable to maintain the existing salary levels of public employees so they are not financially disadvantaged by the reform (a point that will be explored in greater depth in the section on implementation). Ideally, public servants should

¹⁰⁷ World Bank (2009), "Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a 'Single Pay Spine'", GET Brief: Pay Policy Reform, Washington DC, November, <https://documents1.worldbank.org/curated/ar/871581468337281115/pdf/534630BRI0GET01n0title010GET0Briefs.pdf>.

¹⁰⁸ Law 2270/2018, Article 27, paragraph 3, https://www.legis.md/cautare/getResults?doc_id=109882&lang=ro.

¹⁰⁹ Article 41 of Law No. 08/L-196 on Salaries in the Public Sector, https://www.assembly-kosova.org/Uploads/Data/Documents/Lawno.08-L-196_wqh6aKhPus.pdf. Interestingly, this provision was recently declared unconstitutional by the Constitutional Court of Kosovo* (Notification of decision in case KO 79/23 <https://gjk-ks.org/en/notification-on-decision-in-case-ko-79-23/>). This has the consequence of maintaining the existing level of salaries in the public sector until the new salary (as determined through the contested Law), reaches the equivalent of the existing salary.

benefit from better salary conditions under the new pay regulations. This overall improvement should be calculated and communicated. Additionally, the reform may consolidate various salary scales into a single, unified scale, potentially addressing some forms of pay disparity. These adjustments may lead to increased costs in both the short and long term. In some cases, salary system reforms can also be accompanied by (i) measures of downsizing public employment, as noted earlier, and/or (ii) by limiting salary growth while preparing the reform, to accumulate resources for targeted increases, as in Slovenia¹¹⁰. Ensuring the long-term viability of the new salary system presents a notable challenge.

1.7.5. Internal and external policy consultations – Who should be consulted and how?

Remuneration reform assumes an intensive policy consultation within and outside the government. Key stakeholders in the government are usually bodies responsible for civil service reform and ministries of finance, who often see the remuneration reform, human resource management (HRM) and the financial perspective in a different light. Since all civil service institutions are typically affected by the reforms, it is important to involve them all in the policy discussion, through internal policy process mechanisms, especially the units responsible for HRM. Trade unions are also best involved early in the process. Other partners, such as civil society organisations, think tanks and international organisations, can also be consulted to obtain additional perspectives and feedback on the broader societal reform implications. A list of potential stakeholders to consult is shown in Table 4.

Table 4. Reform stakeholders for the consultation process

Public employees	These are the policy's direct beneficiaries or affected parties. Their input on salary, benefits and other remunerative aspects can add invaluable insights.
Trade unions and associations	In representing the collective interests of civil servants, these can provide feedback on the acceptability of the policy and potential areas of contention.
Human resources and financial/budget departments of public bodies	HR professionals have expertise in compensation, benefits and managing wage bills within institutions. Representatives of financial and budgeting departments can offer technical insights and highlight good practices.
Other ministries and public bodies	Depending on the country's administrative structure, certain ministries or departments (e.g. the Ministry of Public Administration or Ministry of Finance) may have jurisdiction over civil service remuneration. If they are not leading the reform or invited to the task force, they need to be consulted in the initial phases. Relevant parliamentary committees should also be involved early in the process.
Independent external experts	External consultants or experts can offer an unbiased perspective, benchmarking data and best practices from other sectors or countries.

¹¹⁰ In Slovenia, during the bargaining for collective agreements (2003-2007), the annual salary adjustments were below the rate of inflation and national productivity growth, so the real salary values stagnated, and the accumulated resources were used for the reform.

General public

Given that civil service remuneration is funded by taxpayers, soliciting public opinion can ensure transparency and acceptability. This can be done through public forums, online consultations or surveys.

Business may be interested in public sector salary reforms because of the possible spillover effects of increasing certain salaries.

Civil society and think tanks

These entities can offer research-based insights, comparative studies and feedback on the policy's broader implications for society¹¹¹.

International organisations

Entities like the World Bank, IMF or the OECD can offer technical assistance, best practices from other countries and insights on international standards.

The role of trade unions in salary reforms is of particular importance. The 2019 European Directive on Transparent and Predictable Working Conditions allows EU Member States to exclude public service workers from some of its key provisions¹¹². European countries differ on the extent to which their public servants have the right to organise, the right to collective bargaining and the right to take collective action¹¹³. Despite differences in the legal involvement of unions in negotiations concerning pay, working conditions, employment frameworks, the introduction of new tools of management in public services or the restructuring of public services, they play an important role in collective bargaining in general¹¹⁴.

A degree of trade unions' participation in the process depends on trade union strength and characteristics, history and the culture of industrial relations and government policy. Some Eastern European and Southern European countries set government wages by legislative decision, while Anglo Saxon, Nordic countries and Italy rely more on collective bargaining. In Slovenia, remuneration policy is determined both by primary and secondary legislation and by collective agreements with trade unions. In practice, however, the government often keeps seeking full approval of almost any change in the system from the trade unions, which may hinder the pace of the reform. In Bulgaria, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia, the government plays a leading role in establishing salary policy, leaving less room for collective action¹¹⁵.

¹¹¹ See 2017 and 2020 publications by the Centre for Economic Strategy on remuneration reform in Ukraine (https://ces.org.ua/wp-content/uploads/2017/06/public_wages_note_ukr1.pdf and https://ces.org.ua/wp-content/uploads/2019/05/public-wages_note_final.pdf), or the 2021 analysis on the new Law on Salaries in Kosovo* (https://www.legalpoliticalstudies.org/wp-content/uploads/2021/01/GLPS_PolicyAnalysis_Law-on-Salaries_Rr.H.pdf) by the Group of Legal and Political Studies.

¹¹² Article 1 (6) of Directive (EU) 2019/1152 of the European Parliament and of the Council of 20 June 2019 on transparent and predictable working conditions in the European Union, <http://data.europa.eu/eli/dir/2019/1152/oj>.

¹¹³ *Trade union rights in the public services: A report to the European Committee of Social Rights of the Council of Europe*, June 2022, <https://www.epsu.org/sites/default/files/article/files/EPSU%20EUROCCOP%20EUROMIL%20report%20to%20ECSR%20final%2030.6.22.pdf>.

¹¹⁴ For details on collective bargaining, see: International Labour Organization (2015), *Collective Bargaining in the Public Service in the European Union*, International Labour Office, Geneva, https://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---sector/documents/publication/wcms_429795.pdf.

¹¹⁵ European Commission, Directorate General for Economic and Financial Affairs (2014), "Government wages and labour market outcomes", *European Economy Occasional Papers* 190, https://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp190_en.pdf.

A distinction should be made between regular periodical salary negotiations between the government and unions and negotiations in the salary restructuring process. In many EU countries, the frequency of salary negotiations is annual but can also be held every two or three years. The role of unions is equally, if not more, important in the reform process. Slovenia, which included remuneration reform of the entire public sector, provides an example.

Box 5. Negotiations on public sector pay reform with trade unions in Slovenia, 1998-2008

In Slovenia, negotiations between the government and the representative trade unions on a proposal to modernise the public sector salary system began in 1998/1999. After a long negotiation period, a settlement was agreed; the first stage of a modernisation effort occurred with the implementation of the Public Sector Salary System Act and Civil Servant Act, which were adopted by the Slovenian Parliament in 2002. Vital parts of the implementation of the Public Salary System Act, including salary setting, could only be achieved through a collective agreement.

Negotiations between the government and the representative trade unions, however, continued after the adoption of the Public Sector Salary System Act in 2002, until a new salary system was agreed in 2008. In effect, negotiations on the existing salary system took nine years.

The outcome of the negotiations was carried out partially through legislation and partially by collective agreement. The reform – which became the existing public sector salary system – entailed substantial changes in relative salaries and the abolition of many supplementary cash benefits, which left both winners and losers at the individual level, as well as across public functions and professions. A key component of the agreement was the payment of a 13% salary adjustment to staff, eliminating disparities between agreed and actual wages, to help compensate staff for the long period of (partly) frozen wages during the negotiation period. Slovenian public employees went without salary increases for the negotiating period for the new salary system, and thus made a major contribution to the reform process. They could legitimately argue that the increases distributed were not new salary increases but a pay-out of salaries due for past work.

Source: OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris.

Other institutions can contribute to the preparation of the reform. During the Lithuanian remuneration reform in 2020-2023, the National Audit Office submitted a conclusion on the civil service reform in general and the salary system reform and evaluated the entire reform positively¹¹⁶. In Latvia, the State Audit Office carried out an audit of the Public Administration Reform Plan 2018-2020, which included a design of several elements in the area of the remuneration system¹¹⁷.

1.7.6. Adoption of remuneration policy

Before drafting any piece of legislation, it is a good practice to write a concept note (or “legislative intention”), a written analytical paper. Salary reforms are often technical and difficult to understand when reading legislative proposals. In order to clarify and obtain a common understanding of the problems and

¹¹⁶ <https://e-seimas.lrs.lt/portal/legalAct/lt/TAK/72da5a4306a011edbf9c72e552dd5bd?jfwid=-ftbtXH8v0>.

¹¹⁷ “Is the Public Administration Reform Plan 2020 going as planned and achieving the intended effect?” <https://www.lrvk.gov.lv/lv/revizijas/revizijas/noslegtas-revizijas/vai-valsts-parvaldes-reformas-plans-2020-norit-saskana-ar-planoto-un-tiek-panakts-ieceretais-efekts>.

the proposed solutions, a concept note/analytical paper is prepared and sometimes formally approved by the government. This provides a platform for developing legislative proposals (aligned with the government's intentions). In some countries, concept notes for the reform are adopted earlier in the reform process, pointing to the strategic directions in which the reform process is going (e.g. Latvia¹¹⁸, Moldova or Ukraine¹¹⁹). A concept document facilitates a discussion within government but also with stakeholders and allows for analysis of consequences of alternative models. An example of a Concept note adopted by the Government of Lithuania in 2022 is presented in Box 6.

Box 6. Content of the Concept Note adopted by the Government of Lithuania in 2022

The Concept Note on Civil Service Reform, approved by the Lithuanian Government in February 2022, had several key elements:

- a) general information explaining the objective of the concept paper, and elaborating on the civil service reform;
- b) a detailed description of the current situation, which stresses that the legal regulation of human resource management in the civil service does not attract suitable candidates to the civil service, does not create conditions for attracting the best and most competent managers and does not ensure the retention of civil servants in the civil service;
- c) public service reform goals, principles and directions, stressing the need to strengthen the group of heads of institutions, as a corps of professional managers paid competitively, to ensure continuity of work, political neutrality, efficiency, publicity, flexibility and high quality in the services provided and strengthening the performance orientation of civil servants towards results, with an emphasis on performance-based pay;
- d) civil service improvement guidelines (focusing on what is new by comparison with the existing situation);
- e) steps on how to implement the concept.

Source: Government of Lithuania, Concept Note on Civil Service Reform, 2022.

The next issue to consider is whether the new system or some of its elements can be piloted in a sample of institutions. Piloting is primarily an experimental phase where a new reform or system is carried out on a small scale to test its feasibility, benefits and potential challenges. The main objective is to gather feedback, observe outcomes and make necessary adjustments before broader implementation. If a salary reform introduces a new job evaluation system, it can usefully be tested in selected public bodies. If a new system of performance appraisal is a part of a new remuneration system, it can also be tested in selected institutions. Piloting has an advantage, as it provides cost-effective empirical evidence on the effectiveness of a new salary policy or its elements. It was used in Ukraine in 2021, where the National Agency for the Civil Service co-ordinated a process of classification of positions of four government institutions before the

¹¹⁸ "On the Concept of a Unified Pay System for Public Sector Employees", <https://likumi.lv/ta/id/102046-par-koncepciju-par-vienotu-darba-samaksas-sistemu-valsts-sektora-nodarbinatajiem>.

¹¹⁹ Order of the Cabinet of Ministers of Ukraine, dated 27 May 2020, No. 622, On the approval of the Concept of reforming the civil servants' remuneration system and the approval of the plan of measures for its implementation, <https://zakon.rada.gov.ua/laws/show/622-2020-%D1%80#Text>.

classification methodology was adopted¹²⁰. Piloting the new salary levels, on the other hand, may not be as easy in practice, for legal reasons. Remuneration is one of the key rights of public servants, and its level must be determined in accordance with the applicable legislation.

Adoption of the new remuneration policy is an important milestone in the reform process. It can be done by different legal means, depending on the legal and political tradition of an individual country. Only in Anglo-Saxon legal tradition can remuneration reform be carried out by tertiary legislation (e.g. instructions of a Prime Minister's Office or a competent ministry), while in countries with a continental legal tradition, adoption of primary legislation by a Parliament is usually a condition for a comprehensive reform process.

Although the final approval of the remuneration reform is usually through primary legislation, salary reform is rarely finalised within one act of parliament. Usually, secondary legislation or collective agreements with trade unions are developed (as in the case of Slovenia). A decision must be made, relatively early in the process, on what needs to be decided by the parliament and what is left for the government and trade unions, if they are involved in this phase of the process. It is also important to ensure that by whatever the date the primary legislation enters into force, the secondary legislation must already be in place. A good practice is to present drafts of such acts together with draft law to the parliament. The trade union negotiation process may be equally important in adopting the remuneration policy. In Slovenia, the collective agreement with the implementation details of the new salary system was negotiated on for almost a decade and finally signed by 24 representative trade unions in the public sector¹²¹.

Ensuring the balance between primary and secondary legislation (and collective agreements) is not only about the distribution of power. It also has practical legal and political consequences. Primary legislation is usually more stable and difficult to change, while secondary legislation and collective agreements can be amended more frequently. If a salary scale is set in the law as a nominal value (and not as a coefficient/multiplier of the base pay), salaries may not catch up with inflation, or each salary scale adjustment will open new political debates. On the other hand, central salary scales may cover public servants employed by the independent institutions, where government should not intervene. These issues need to be discussed before such strategic decisions are taken. The modernisation process almost always involves moving issues and mandates from the legislative to the executive sphere, and the creation of spheres of managerial discretion at sub-government levels, which may be more suitable for decentralised and more flexible systems¹²².

Finally, to avoid any unpleasant surprises during policy adoption, it is always important to secure comprehensive political support for the reform in the parliament. As remuneration policy usually involves a large number of public employees, there may be pressures from different interest groups – to gain privileged positions and opt out from the system – at every stage of the legislative process, and especially in the course of the legislative approval. In Moldova, before the final adoption of the Law 270/2018 on public service remuneration, the draft text was modified to accept exceptions to the application of a single reference value, by allowing the use of “transitory reference values” for some job categories. As a result, the unity of the pay system has been significantly compromised.

¹²⁰ Generalised report on the results of the classification of civil service positions in state bodies that are participants in the experimental project, <https://nads.gov.ua/storage/app/sites/5/zvit-klasifikatsiya-do.pdf>.

¹²¹ Virant, G. and I. Rakar (2018), “Implementing a Government-Wide Unified and Transparent Salary System in Slovenia”, 26 June, The NISPAcee Journal of Public Administration and Policy, Vol. XI, No. 1, Summer 2018, p. 194, <https://ssrn.com/abstract=3410278>.

¹²² OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris.

1.8. Implementation of the new system

1.8.1. What are the key issues for implementation?

The new remuneration system can be introduced either for all public service institutions at once or phased in. As noted above, piloting a reformed salary system can be problematic from a legal point of view, but there should be fewer concerns about implementing it in phases. A pilot is limited in scope, a short-term experiment whose aim is to collect feedback in order to make the necessary adjustments before implementation. The alternative is a gradual roll-out of the reform. Although there is some room for adjustments between phases, the core principles of the reform are typically fixed beforehand, and the intention is to cover the entire public service. The benefit of a phased approach is to ensure that implementation is manageable and disruptions are reduced. It may also have the positive financial impact of reducing the risks of fiscal uncertainties and preventing volatile wage bill increases. If, however, the size of the workforce covered by the new pay legislation is relatively small and includes only one element of the public service (i.e. the civil service), it is reasonable for the new remuneration system to be introduced for all categories of staff at once.

A dilemma may arise over whether to introduce the new system at the beginning of or during the fiscal year. During Serbia's pay system reform in 2007, the Ministry of Finance was of the view that it would be preferable to start the implementation in the middle of the year (on 1 July) rather than at the beginning of the year, because the reform package would have fewer effects on budget resources and would allow for additional adjustments in the system if needed. It also allowed more time to prepare and to communicate with civil servants on the nature of the upcoming changes.

1.8.2. Transitional arrangements – How to manage the transition?

Key implementation issues during the transition from the old to the new remuneration system should be accommodated by separate transitional provisions. They are usually presented in the final part of the legal text introducing the reform. These provisions should determine whether the new legislation will protect public servants whose salary in the new system will be lower than it was before the reform process. It should also be clearly stated how the reform aligns with existing union agreements and collective bargaining rights, to avoid any legal conflicts.

The timeframe for which transitional provisions will apply should be clearly defined. For instance, certain provisions might apply for two to five years after implementation or until the new system becomes beneficial for all. Transitional provisions can, to respect acquired rights, involve freezing disproportionately higher salaries over a period of several years. Running two systems (the old and the new) in parallel is another option (as in Belgium in 2014), with the old being phased out by natural attrition of the staff.

Several options are available for managing the transition. The first is to introduce a so-called "salary protection clause", allowing public servants whose salary would be lower in the new system to retain the existing level of pay, until their pay reaches a higher level in the new system. This requires calculating and comparing the levels of pay for individuals who will not benefit from the reform process in the short term or even longer¹²³. A second option is to adopt a so-called "personal difference" or "transitional" allowance awarded to civil servants who will lose part of their salary in the new system in a fixed period of time (two to four years for example), as laid down in Greece in 2011. The third option would be to unfold the new system with no transitional beneficial provisions. This option was chosen during the reform process in

¹²³ The level of pay maintained is expected to be the base salary and not necessarily the elements of the variable part of the salary (e.g. a performance bonus). For the variable part, the second option described in the text is sometimes used.

Portugal just after the beginning of the economic crisis in 2008. Such a choice is the hardest on civil servants who enjoyed higher level of salaries under the previous system and runs the risk of causing dissatisfaction, increasing incentives to opt out from the new pay system. It is also possible to keep both systems provisionally. With both the old and the new in place, only newcomers are subject to the new pay provisions, while existing staff continue to use the same pay formula until they retire or until the new system becomes more favourable for them. Austrian made this choice during its remuneration reform in the late 1990s and early 2000. Box 7 presents more information on these transitional options. Whichever option is adopted, the validity of the previous salary systems during the transition should be defined, ensuring that no ambiguity remains about which system applies at any given time. No matter which option is chosen, the fixed part of the salary is usually subject to protection. The reform legislation is expected to lay down explicitly the provisions for the protection of salary rights, the duration of applicability of such provisions and any transition rules.

Box 7. Transitional provisions in remuneration reforms in Greece in 2011, Portugal in 2009 and Kosovo* in 2022

During the remuneration reform in Greece in the second half of 2011, when the legal framework for the new remuneration system was under discussion, the government adopted a union proposal for a “personal difference” scheme. This was, in effect, a new benefit to bridge part of the difference between the pay public that sector employees had previously received and the new pay, to limit the losses due to the transition to the new system. The personal difference was to be abolished within two years of the entry into force of the relevant legislation. At the same time, a new performance bonus was introduced for units with quantifiable targets, as well as a new performance bonus specifically for employees responsible for fiscal revenues. Despite the obvious cost-benefit rationale, these bonuses were meant to make up for the losses from the benefits that had been abolished.

In a similar vein, the Law on Salaries in the Public Sector of Kosovo*, adopted in December 2022, provides that a public servant whose salary had been higher than under the new law is entitled to a transitional allowance to equal the difference between the current salary and the new basic salary. In the first year of implementation, the transitional allowance would amount to 100% of the transitional allowance, while in the second year, it would amount to 50% of the transitional allowance.

In Portugal, although almost all public sector staff were repositioned in new salary scales, Law 12-A/2008 stipulated that no salary increases would be applied until salary progression or career promotions arose normally. Since this was the onset of the financial crisis, social unrest and dissatisfaction among public servants was high. The “promise” of the new system, however, was a faster path through the new salary scales linked to performance, replacing the old system of slow seniority progression and very rare promotions. In 2011, with the intervention of the economic adjustment programme concluded with the European Commission, European Central Bank and the IMF (the “troika”), all these measures were frozen.

Source: D. Katsikas (2022), “Crisis, Clientelism and Institutional resilience: Reflections on a public sector reform under the MoUs”, Hellenic Observatory European Institute and LSE; Portuguese Law 12-A/2008 on employment, career and remuneration regimes; Article 41 of the Law on the Salaries of the Public Sector, Kosovo*, 2022.

Transitional provisions should also include other human resource management aspects if they are modified by the reform, such as job classification, performance appraisal, termination of employment and pension rights. If the reform redefines job roles or positions, there should be clear instructions on how public servants will transition from their current post to the redefined ones. If the reform introduces or modifies performance-based components, it needs to be explained how new performance appraisal rules will be

applied during the transition process (e.g. which new salary step each position/grade should be assigned to). It should also be ensured that changes in salary systems do not adversely affect the vested pension rights of civil servants and how the new salary system will affect those close to retirement or those who choose to resign during the transition period.

1.8.3. Ensuring and adjusting the change: monitoring and evaluation

Monitoring and evaluation of any reform implemented are indispensable stages in a policy development cycle – as prescribed by the Principles of Public Administration¹²⁴: “the responsible institutions effectively monitor policy implementation and ensure regulatory compliance, based on robust and relevant data, including evidence gathering through direct feedback and consultations with affected stakeholders, and ex post evaluation of major laws and policies is an integral part of the better regulation agenda and is linked to the analysis conducted during the development of the policy”. Monitoring several KPIs, preferably defined prior to the reform implementation, helps governments verify achievement of the reform objectives. Based on the results, adjustments can be made. Data related to salaries and employment levels is at the core of the monitoring process in salary reforms, helping to control expenditures (i.e. the wage bill) in the new regulatory framework. Section 3.3 is dedicated to salary system monitoring, and includes a selection of KPIs that can be used for this purpose.

Just as in conducting pre-reform simulations, human resource management information systems (HRMIS) integrated with the payroll system are the most useful tool for disaggregated data analysis. Periodic financial reports on spending levels may turn out to be too general to explain, for example, the reasons for increased spending. However, administrations often struggle to collect reliable and complete data on public employment and pay. This may be because of its fragmentation and lack of cross-validation; the lack of information technology systems to facilitate the reporting in the requested format; being responsible for various uncoordinated reporting obligations to several institutions (the ministry of finance, ministry of public administration, central statistical office, tax and social security institutions, etc.). Relevant KPIs are not always established with the objective of informing further policy adjustments. Finally, results of the monitoring are rarely publicly available.

Ex post evaluations of salary reforms should ideally be carried out three or four years after implementation, to assess the reform’s overall impact. In Lithuania, the *ex post* evaluation was set at three years¹²⁵, and in Latvia, four years after the start of the reform. In Latvia, the State Chancellery issued interim conclusions only after a year of implementation, also a good practice (see Box 8).

¹²⁴ Principle 6.c. and 6.d.

¹²⁵ The Ministry of Internal Affairs was mandated to perform, by 1 January 2027, an *ex post* assessment of the impact of the legal regulation established in the new Law on the Civil Service, to assess whether human resource management in the civil service is effective. Article 3 of the Law of 25 May 2023 amending the Civil Service Law No. VIII-1316. <https://www.e-tar.lt/portal/lt/legalAct/0892744006bf11ee9978886e85107ab2>.

Box 8. Interim conclusions of Latvia's State Chancellery on the reform, September 2023

Evaluating the changes achieved in the remuneration reform, and comparing private and public sector remuneration for equivalent work, the first steps of the reform are considered to have been successful. The objective of the remuneration reform is gradually being achieved in the long term, to ensure higher quality in the work of state and local government institutions.

- The compensation system is more transparent and understandable for each employee, because the approach has been modified. Instead of regular bonuses, a stable monthly salary is determined, and bonuses are awarded for special achievement.
- Reaching the minimum of the monthly salary scale and approaching the midpoint, the wage gap between institutions and the private and public sectors has gradually begun to shrink.
- As a result of the increase in remuneration, turnover of employees in the institution now appears to be decreasing, and less knowledgeable and experienced people are leaving the institutions.

Source: Ministru kabinets, *Equal pay for work of equal value in the public and private sectors*, <https://www.mk.gov.lv/lv/dati-par-darba-samaksu-un-nodarbinatajiem-valsts-parvalde>.

1.9. Communication and confidence building

Communicating the aims and objectives of the (impending) pay reform clearly and in a timely fashion is crucial for ensuring the support to reform both within and outside the public sector system¹²⁶. Pay reform arouses anxiety among public employees. They may hope for higher salaries, but these expectations are not always realised, leading to concerns about reduced opportunities. Instead of focusing on their work, they become preoccupied with the uncertainties introduced by the reform. The greater the level of uncertainty, the more negative the impact of the reform tends to be. This is because, unlike other reforms, pay reform affects every employee. It is thus crucial to identify early on those who may be negatively affected by the changes. Meanwhile, a communication strategy is needed to reassure the public, who, as taxpayers, fund these salaries through taxes, that the investment in reform is worthwhile. The goal is to show that the reform will benefit not only public servants but also wider society, by improving the efficiency and effectiveness of public services.

Many tools are available to help governments communicate with the public about a reform that is planned or being implemented. They may include: explaining the strategic objectives very early in the process; presenting employees the options being considered and ultimately, the one that has been approved; presenting information about the planned reform (when it will be launched, who will be covered); explanations of transition measures; publishing comparative remuneration system tables; an online simulator of new salaries and careers; meetings organised several times during the two-year process (or longer) with questions and answers; a dedicated webpage with FAQ; newsletters; all relevant documents on one page; research studies with information on the process and offering possibilities to get involved;

¹²⁶ IMF (2020), "Issues When Cutting Government Pay to Help Reshuffle Spending in a Crisis", *Fiscal Affairs*, <https://www.imf.org/-/media/Files/Publications/covid19-special-notes/enspecial-series-on-covid19issues-when-cutting-government-pay-to-help-reshuffle-spending-in-a-crisis.ashx>.

presentations used at public meetings, etc. The website of the National Agency for Civil Servants of Ukraine on salary reform is an excellent example of such efforts¹²⁷.

Table 5. Tips on how to communicate remuneration reform

Importance of communication	<p>Building trust: Transparent communication helps build trust among civil servants and the general public.</p> <p>Mitigating concerns: Addressing potential concerns proactively can prevent misunderstandings and resistance.</p> <p>Ensuring a smooth transition: Proper communication ensures that everyone is prepared and knows what to expect, making the transition smoother.</p>
Target audience	<p>PRIMARY AUDIENCE</p> <p>Civil servants: They are directly impacted by the reforms.</p> <p>Trade unions: Representing the interests of civil servants.</p> <p>SECONDARY AUDIENCE</p> <p>General public: To ensure public trust and understanding of the reform objectives.</p> <p>Media: A medium to disseminate information and manage public perception.</p> <p>Other stakeholders: Political entities, non-governmental organisations (NGOs) and international organisations with an interest in public administration.</p>
Key messages	<p>Rationale behind the reform: Clearly explain why the reform is necessary.</p> <p>Benefits of the reform: Highlight the advantages for civil servants, the public sector and the country as a whole.</p> <p>Transitional provisions: Assure civil servants that their rights and salaries are protected during the transition.</p> <p>Opportunities for feedback: Emphasise that civil servants' opinions are valued and that mechanisms are available for them to provide feedback.</p>
Timing	<p>Early communication: Start communicating as early as possible, even during the planning phase, to prevent rumors and misinformation.</p> <p>Regular updates: Provide updates at every major phase of the reform.</p> <p>Post-implementation: Continue communication after the reform is implemented, to address any concerns and provide clarifications.</p>
Tools	<p>Use multiple channels: Use various communication mediums – meetings, emails, websites, social media, press releases, etc.</p> <p>Interactive sessions: Organise town hall meetings, webinars or Q&A sessions where civil servants can ask questions and get clarifications.</p>

¹²⁷ <https://nads.gov.ua/oplata-praci-derzhavnih-sluzhbovciv>.

1.10. Key messages

- Public sector salary systems are deeply ingrained in each country's historical context, administrative traditions, political systems and societal values. These systems, often criticised for their bureaucratic nature and resistance to change, have witnessed a gradual evolution in the past few decades. While major overhauls are infrequent, due to their technical complexities and societal sensitivity, a noticeable shift has occurred. Traditional hierarchical structures have become more flexible, embracing internal equity through job evaluation and a fairer classification of positions, based on the responsibility and range of functions performed. Performance-based elements, decentralisation of salary policies, increased managerial autonomy and a move towards individualised pay are among recent trends. The motivation behind these changes has enhanced the efficiency of the public administration, attracting talent and competing with the private sector for skilled professionals.
- A successful salary system reform requires a well-orchestrated, inclusive approach based on a comprehensive assessment. The initiation phase involves identifying a lead institution or task force, with options ranging from authorising a single institution to establishing an independent commission or involving external expertise. Political commitment is crucial for sustained progress. A thorough review of the existing compensation system needs to be conducted, using frameworks such as the Principles of Public Administration, to identify issues like transparency concerns, fairness and competitiveness. A notable example is Lithuania's use of an intersectoral task force involving key ministries for the 2021-2023 public sector remuneration reform. The comprehensive assessment phase involves a deep dive into the existing compensation system, revealing such issues as lack of transparency, pay inequality and non-competitiveness. The subsequent policy design and development phase prioritise realistic objectives in alignment with government priorities, emphasising realistic financial planning, and adequate implementation plans. Once objectives are established, the reform process moves to designing a new remuneration system. The content of the reform depends on the specific objectives, which may range from improving fairness to enhancing competitiveness or maintaining levels of quality in human resources. For instance, if fairness is a concern, job evaluation methods could be applied to determine a fair job ranking system. Fiscal considerations may lead to streamlining salary allowances, as seen in Greece's 2010-2011 reforms, where a unified pay system replaced over 100 allowances, resulting in a more transparent and cost-efficient system.
- Calculating the fiscal impact of the reform is a critical step, involving bottom-up or top-down approaches. The fiscal estimates depend on factors such as the quality of data input, assumptions about regrading, and alignment with overall economic growth projections. It is crucial to establish the credibility and robustness of data to ensure the success of the costing process. The government must consider potential sources of funding for the reform, and protecting current public servant salary levels is often a priority to ensure the sustainability of the new pay system.
- It is highly important to ensure a robust process of consultations. Internally, key stakeholders such as civil service/public employees, trade unions, and HR and financial departments in public bodies should be actively engaged. Externally, input from independent experts, the general public, civil society, think tanks and international organisations is crucial for capturing and considering diverse perspectives. The role of trade unions is crucial, given their involvement in negotiations, varying across different administrative settings and various systems of collective bargaining.
- Once agreed upon, salary system reforms should also be piloted in selected institutions. The adoption process is typically reflected in primary legislation, with secondary legislation or collective agreements. Implementation plans can either follow a phased or all-in-one approach. Transitional arrangements are vital, offering options like guaranteeing pay levels, personal difference allowances, or the parallel existence of old and new systems.
- Monitoring and evaluation are also essential for the implementation phase, with the importance of setting key performance indicators (KPIs) and using integrated systems for data analysis. Clear communication is key throughout the reform process, involving strategies for early communication, regular updates and interactive sessions, ensuring transparency and addressing concerns.

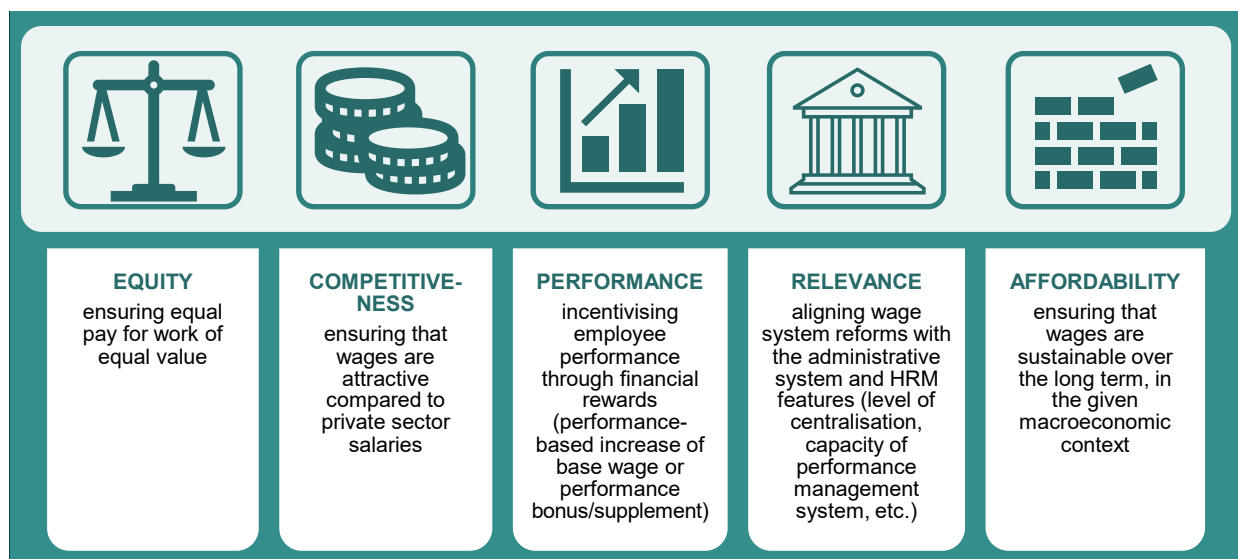
2. Salary system design

This chapter describes the elements of remuneration systems in the public service and approaches to their design. It provides good practice advice as well as addressing common challenges in designing base pay, using (or avoiding) variable pay, introducing pay supplements, allowances and benefits and making the best of non-financial rewards.

2.1. Introduction: An overview of salary system reform dimensions

Salary system reforms, as defined in Chapter 1, are complex to design, because they usually target more than one of the following key pillars of any salary system: equity¹²⁸, competitiveness (internal and external), performance orientation, relevance/adequacy in the wider administrative context, and wage bill affordability¹²⁹. These elements are often in tension because of inherent conflicting objectives. Reforms focused on ensuring more competitive wages than the private sector, for example, may not be affordable over the short to medium term. Reforms focused on incentivising performance may not be relevant or suited to the context-specific human resource management (HRM) conditions (e.g. by not ensuring sufficient capacity to manage performance-related pay). This can trigger undesired effects. The design of salary system reforms is expected to improve or radically change the status quo in relation to one or more of these five pillars, depending on the overall economic context, political agenda and wider HRM reforms. For example, the salary system reforms introduced in some EU countries in 2008-2010 were mainly triggered by the economic context and meant to improve overall wage bill affordability, while securing a higher level of pay equity. Public sector salary reforms introduced in Greece and Romania in 2010 involved salary cuts, harmonising salary scales, and radical adjustments in bonuses and supplements to improve equity and ensure wage bill affordability. Reforms that followed in 2017 and 2018 in Romania and Moldova were more focused on improving pay competitiveness and pay equity, with Moldova's based on a job evaluation exercise.

Figure 3. Five key pillars of salary system reforms



Source: Developed based on Hasnain, Zahid et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, World Bank Group, Washington DC. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

¹²⁸ Equity is often a key objective for public sector wage reforms. See also NISPA (the Network of Institutes and Schools of Public Administration), Aleksandra Rabrenovic, *Main principles and approaches to civil service pay reform: example of Western Balkan countries*, (2013), https://www.nispa.org/files/conferences/2013/papers/201305070652020_paper_Rabrenovic.pdf?fs_papersPage=4.

¹²⁹ Based on Hasnain, Z. (2018), *Public sector compensation: A framework*, World Bank, Washington DC.

Furthermore, the design of public sector salary system reforms requires considering the institutional framework and rules for salary system sustainability. This entails securing clear rules for salary transparency, evidence-based wage bill planning, sound salary system monitoring, rules for salary adjustments and ensuring adequate wage bill controls. These are design elements that are not directly captured in the pay elements but pertain rather to the institutional dimension of the wage-setting system.

In alignment with the reform objectives identified at the wider public administration system level and based on the five pillars previously discussed (Figure 3), the design of salary system reforms is expected to target one or more of the following six design elements¹³⁰: (i) salary system foundations: centralised/decentralised; job-based or individual-based; (ii) pay structure(s) and rules for pay progression; (iii) composition of salaries, including rules for base salary determination, compression ratio for base wages, rules for variable pay and supplements and potential use of performance-related pay (PRP); (iv) mechanisms for wage bill planning/salary adjustments; (v) institutions and rules monitoring and control and (vi) rules for salary system transparency. The design elements (i) – (iii) are discussed in the current chapter, with specific sub-factors that need to be taken into consideration, and (iv) to (vi) in 3.

Based on an assessment of the salary system challenges that require reform interventions, these can be oriented towards one or several of the following design dimensions:

1. Equity improvements, with a focus on:
 - a. *Equitable pay structure(s)*. Determining the adequacy of using one/multiple grading structures and the type of pay progression rules.
 - b. *A clear link between job ranking and base wages*. Ensuring that base wages are the main component of total salary and that they reflect the value of jobs, meaning that the job ranking is equitable within and across various sectors, as determined based on analytical or non-analytical job evaluation methods.
 - c. *Rationalising variable pay and supplements*. Ensuring that the composition of salaries does not distort the job ranking by payment of various bonuses and supplements that are not justifiable.
2. Having clear rules and institutional roles for *salary transparency*. Rules and controls for salary transparency contribute to enhanced pay equity.
3. Higher level of pay competitiveness, with possible focus on:
 - a. *Adjusting base wages considering wage trends in the economy and emerging skills demands*. Ensuring that salary adjustments for different job groups take into account evidence from market analysis, so that the public sector is neither a salary leader nor significantly lagging behind the private sector.
 - b. *A reasonable compression ratio*. Ensuring that the ratio between highest and lowest base salary is meaningful and adequate to attract entry-level employees, young specialists and to retain senior professionals and managers.
 - c. *An adequate level of decentralisation and definition of specific pay structures*. Sometimes some job groups that are hard to recruit may require a distinct pay structure, with different pay progression logic and higher salary levels (as can be the case for information technology, or IT, specialists).
 - d. Setting up a limited list of *targeted pay supplements* to attract specialists. A so-called market supplement can be used for specific professions.

¹³⁰ Based on: Hasnain, Zahid et al. (2007), *Public Sector Employment and Compensation: An Assessment Framework*, World Bank Group, Washington DC. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>; Gary J. Reid, *Public Administration Salary Setting: Principles and Mechanisms for Satisfying Them*, D.C.: World Bank Group.

4. Aligning the performance orientation of the system, through:
 - a. *Context-fitted design of the pay structure: job-based or individual-based system.* Under individual-based systems, base wages are flexibly determined at the institutional level but require strong performance management systems.
 - b. *Performance-related pay.* Aligning the performance orientation of the salary system with wider performance management features, through performance-based increases that are either reflected as progression in the base salary or as a bonus.
5. Increased relevance of pay in the wider administrative context, by:
 - a. *Aligning salary reforms with sectoral reforms.* Such reforms can include, for example, career restructuring for some professions or introducing a competency-based approach in the HRM processes in the civil service. This may require reconsideration of the logic of pay progression and the level of flexibility that is left to the discretion of sectors and institutions.
 - b. *Targeting reforms based on the skills needed in the public administration,* to ensure that reforms are relevant and future oriented.
6. Increasing relevance of pay-setting arrangements when decentralisation measures are already successfully pursued for budgeting and service provision, by ensuring *higher flexibility for institutions through salary system decentralisation and/or individualisation of pay setting.*
7. Securing wage system affordability, by:
 - a. Ensuring that *wage bill controls* are established. Rules and mechanisms need to be in place to ensure that limits and caps are applied by institutions and *ad hoc* adjustments are justified.
 - b. Adopting the right *mechanisms for wage bill planning and monitoring.* Institutions, data systems and rules are required for data collection, data analysis and data communication. Medium-term planning and annual monitoring processes are expected to rely on clear institutional roles and to be based on evidence (using a clear set of indicators).

At the same time, beyond the specific design elements, salary system reformers should have in mind that wages are not the only determinant of public sector productivity. They should also consider the wider employment package and the typical profile of public sector employees. On the one hand, employment conditions in the public sector are expected to ensure workplace safety, work-life balance, higher predictability and less stress. The long-term choice of public employees is thus also guided by these factors. On the other hand, these non-financial incentives are important because the public sector workforce is considered to consist of so-called “knowledge employees” for whom non-financial rewards can be quite effective (by ensuring learning and development opportunities, challenging job tasks, etc.)¹³¹. As a consequence, effective remuneration packages in the public sector should rather “combine both financial incentives and non-financial reward and recognition practices in a ‘total reward’ approach”¹³².

¹³¹ The term “knowledge worker” was first used by Peter Drucker to describe “an employee who adds value by processing existing information to create new information that can be used to define and solve problems”. He defined knowledge workers as “people who get paid for their ability to think”, as opposed to people who get paid for their manual skills. Another reference is *The Age of Spiritual Machines* by Ray Kurzweil, who defined knowledge workers as “those who work primarily with information, both to create it and to disseminate it.” Knowledge workers are individuals who primarily use their knowledge, skills and expertise to perform their job tasks. They typically work in professional or white-collar roles, such as managers, consultants, engineers, analysts and IT professionals. They are often responsible for creating, analysing or using information to make decisions, solve problems, or create new products or services. The terms can also be attributed to many public service jobs.

¹³² The Work Foundation (2014), *A Review of the evidence on the impact, effectiveness and value for money of performance-related pay in the public sector.*

“Total reward” encompasses both the financial and the non-financial elements of the employment package¹³³: the so-called “transactional rewards”, which consist of typical pay and benefits associated with the job content; and the “relational rewards” that refer to intangible benefits of the employment context: opportunities for learning and development, for contributing to meaningful projects/policies/services (and appealing to intrinsic motivation) and the work experience itself (including the recognition, appreciation and flexible working arrangements). Public sector salary reforms should also consider the overall content of the “total reward”, especially when the intent is focused on improving the performance orientation of the system and its competitiveness.

This holistic approach to the rewards offered to employees was adopted in the Principles of Public Administration. Its Principle 11.a. recommends that the public administration offer a competitive package of financial and non-financial compensation: remuneration and benefits, development and career opportunities, job security, and a respectful and inclusive work environment, to attract, motivate and retain employees and teams with the required skills and competences¹³⁴.

To sum up, the design of salary system reforms is expected to respond to specific policy objectives while considering the overall “employee value proposition” or total reward package, in a manner that ensures that remuneration is:

- **Fair** – consistent with the level of complexity and responsibility, ensuring “equal pay for work of equal value”, in line also with the International Labour Organization (ILO) Equal Remuneration Convention, 1951 (No. 100)¹³⁵ and the EU Directive on equal pay for equal work¹³⁶.
- **Predictable** – known in advance, with limited (if any) flexible part that does not damage the inner motivation and does not facilitate behaviour detrimental to goals of the institution and public service.
- **Competitive** – to help attract and retain competent employees.
- **Purposeful** – every element of the total salary should be designed with a clear objective, in alignment with context-specific needs.
- **Affordable and sustainable** – salaries are expected to be set within limits that are sustainable in the macro-economic context.
- **Transparent** – the system, regardless of its construction, should be well explained to public employees and the public, because the lack of transparency may lead to suspicion and distrust in the fairness and purposefulness of the whole system.

¹³³ Armstrong, Michael (2007), *A handbook of employee reward management and practice*, Kogan Page, p. 31.

¹³⁴ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

¹³⁵ The principle of “equal pay for work of equal value” is larger than “equal pay for equal work”, because it refers to jobholders who perform different work in terms of content, responsibilities, skills or the qualifications required, and working conditions, but which can be considered as being of *equal value* based on specific criteria that can justify such equivalence. Convention No. 100 mentions the importance of assessing the value of work to ensure equal pay, namely through job evaluation. https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_Ilo_Code:C100.

¹³⁶ Directive 2006/54/EC of the European Parliament and the Council on 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast), <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32006L0054>.

2.2. Salary system design: centralised vs. decentralised systems and job-based vs. individual-based systems

Reforms of public sector salary systems need to be anchored in the administrative tradition, to ensure the relevance of design and of the wage-setting rules and their acceptance by various stakeholders. In general terms, recent assessments identified two or three broad categories of traditions among EU countries. One differentiates between managerial, procedural and mixed systems, with the majority of the EU Member States' public administration being mostly procedural, despite the influence of managerial ideas along the New Public Management (NPM) movement. Only UK and the Netherlands are considered managerial public administrations¹³⁷. A more streamlined classification identifies¹³⁸:

- (i) systems that are rule-oriented, which consist of the so-called “normative” countries more focused on control, and which therefore generally have clearly regulated salary systems based on more rigid rules;
- (ii) systems that place emphasis on strong managerial systems, which consist of the so-called “operational” countries, and which rely on greater flexibility, including through individualised salary-setting arrangements.

The “normative” group covers Napoleonic, Germanic and civil law–based continental countries, where systems tend to be centralised and hierarchical, administration is mainly based on rulemaking, and the focus is on legal conformity. The “operational” group is broadly associated with Anglo-Saxon countries with a common law and a Westminster tradition. Central, Southern and Eastern EU countries are generally classified in the first category, while the second category is identified in countries like UK, Estonia and the Scandinavian countries. This general classification has important implications for salary system design. A radical move towards high levels of decentralisation and individualisation of salary setting, for example, can be difficult to introduce in a “normative” country.

The role of collective bargaining, union dynamics and the decision-making mechanism on salary policy adjustments are also important factors to allow for in designing salary system reforms. For example, beyond the generic grouping of EU countries into “normative” and “operational”, additional layers of classification account for factors such as: the scope of collective bargaining and union density, the type of process for pay policy decisions (whether through government decision or through collective bargaining), the level of centralisation. In this sense, the European Commission (EC), considering the different legal systems of labour relations across EU countries, concluded that the main differentiating factor consists of whether public wages are set mainly by legislative decision or by collective bargaining¹³⁹. Based on this principle, the majority of Eastern European and some Southern European countries belong to the first group, whereas Anglo-Saxon, Nordic and Continental European countries and Italy correspond to the second. These two categories are obviously not fully homogenous, given the diversity of legal regimes

¹³⁷ European Commission (2018), “A comparative overview of public administration characteristics and performance in the EU28”, p. 36.

¹³⁸ The two systems are described in T. Tsekos (2008), “Modelling Public Administration: Normative Versus Operational Administrative Tradition in EU Member States,” in *The Institutional Reforms in the Republic of Moldova in the Context of European Integration*, ed. A. Burian and X. Kontiades (Proceedings of the International Conference, Institute of History, State and Law, Academy of Sciences of Moldova, Chisinau, Moldova), pp. 102-106, https://www.researchgate.net/publication/239668000_Modelling_Public_Administration_Normative_Versus_Operational_Administrative_Tradition_in_EU_Member_States.

¹³⁹ European Commission (2014), *Government wages and labour market outcomes*, Occasional papers, https://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp190_en.pdf.

across EU states, and in many countries, the predominant salary system regime determination would broadly correspond to one category but include elements from the other category. Austria is a good example, where salary policy decisions at the federal level are based on government decision making, but the government decree on public wages is rooted in solid consultations with trade unions.

2.2.1. Centralised vs. decentralised salary systems

In addition, the level of decentralisation is a key feature of the governance system in which salary system reforms are expected to be designed and, as such, it is expected to guide some of the choices that need to be made in the design process. For example, more decentralised systems (such as systems that are horizontally decentralised, as described below) would typically opt for multiple grading structures, whereas the most centralised settings could even move towards a single grading structure and a single pay spine. Different arrangements for pay structure options are discussed in section 2.3.

Decentralisation is understood in the sense of transferring competence from a (central) competent authority to other institutional body(ies), in connection to two specific concepts: devolution and delegation. The former refers to transfer of competence and responsibility, whereas the latter implies that the central authority retains the responsibility and final decision. As for the scope of the process, decentralisation can be pursued in relation to (i) the statal structure (administrative decentralisation), based on which, for example, salary policy decisions could be made differently for national/federal/regional/local public administration and (ii) with the overall managerial framework (institutional decentralisation), based on which institutions and therefore managers can obtain a higher level of autonomy in making decisions, including setting pay-setting arrangements for public sector employees. This classification is also associated with “vertical” rather than “horizontal” decentralisation. “Vertical” decentralisation of pay setting implies a move from a single central pay-setting authority to several pay setters at lower organisational levels, while “horizontal” decentralisation means moving from a single, central pay setter to separate central pay setters in different institutions at the same administrative level, with different pay structures aligned with sectoral specific job classification and career progression features. Typically, more decentralised systems are also correlated with increased managerial and institutional autonomy, where the pay framework is set centrally but institutions have more discretion to operate based on more flexible rules. Typical examples of decentralised systems with a high level of institutional autonomy are associated with “operational” administrative settings, such as the UK and the Nordic countries.

While decentralisation has been increasingly acknowledged as a key feature of public sector salary systems across EU and OECD countries for the past 30 years, any generic classification into *centralised* vs. *decentralised* systems obscures a wide diversity of wage determination models. Most countries in the EU operate with decentralised salary system models in the public sector (as shown in Table 6), but there is considerable variation in the level of decentralisation and features of the salary system. Four potential models were identified in an OECD review¹⁴⁰, wage systems being classified as either *centralised*, *vertically decentralised*, *horizontally decentralised* or both *vertically and horizontally decentralised*. Further differentiation refers to the scope of decentralisation – whether it is delegation or devolution. For centralised systems, the pay determination models in Portugal, Slovenia and Romania are generic models of centralised wage systems, but with significant variations. Romania has been moving since 2017¹⁴¹ towards the highest degree of centralisation of authority for salary determination, all salary rights being set by a framework pay law. It also provides for the application of a single pay spine for all public sector employees, with very limited possibility for local public administration to set salaries for some job categories up to the

¹⁴⁰ Rexed, K., et al. (2007), “Governance of Decentralised Pay Setting in Selected OECD Countries”, OECD Working Papers on Public Governance, No. 3, OECD Publishing, Paris, p. 32, <https://doi.org/10.1787/210083427643>.

¹⁴¹ Through the adoption of the Framework Pay Law 153/2017.

limits stipulated in the Pay Law. In Romania, seniority is a key dimension of pay progression. In Portugal, the system also relies on a single pay spine but has more features of decentralisation, allowing higher flexibility for institutions to set individual pay levels and relying on performance-based progression¹⁴². In Slovenia, the current system is also largely centralised and “unitary”¹⁴³, as it also relies on central-level authority and the application of a single grading structure, but it has evolved since its introduction in 2008. Various supplements may now be negotiated at sectoral level to ensure differentiation in salaries across different institutions. In the decentralised category, systems in Denmark and Finland can be classified as a type of vertical delegation, because if local parties cannot reach an agreement, the authority reverts to the central parties, owing to the presence of a central collective agreement. In the UK, the system is also a type of more limited vertical delegation, given that its remit system also covers the bargaining parameters and other aspects of local agreements¹⁴⁴. In the Netherlands, the system is closer to a centralised model than Denmark and Finland. However, it applies a model of horizontal devolution to a small number of sector ministries, with some limited elements of vertical delegation in the education sector.

Table 6. Classification of EU countries and UK, based on key dimensions of government wage setting

Countries	Predominant regime of wage determination Bargaining (B) / Decision (D)	De jure centralisation of wage setting across government sector
AT	D	No
BE	B	No
BG	D	No
CY	B	Yes
CZ	D	No
DE	B	No
DK	B	No
EE	D	No
EL	D	Yes
ES	D	No
FI	B	No
FR	D	Yes
HR	D	Yes
HU	D	Yes
IE	B	Yes
IT	B	No
LT	D	No
LU	D	Yes
LV	D	No
MT	D	Yes
NL	B	No
PL	D	No
PT	D	Yes

¹⁴² DGAEP (2023), *Portuguese Central Public Administration Overview*, Directorate-General for Administration and Public Employment, Lisbon,

https://www.dgaep.gov.pt/en/upload//SiteIngles/PCPA_Overview_2023_Versao_Publicada.pdf.

¹⁴³ OECD (2011), “The Public Sector Salary System in Slovenia”, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264167551-en>.

¹⁴⁴ Rexed, K., et al. (2007), “Governance of Decentralised Pay Setting in Selected OECD Countries”, OECD Working Papers on Public Governance, No. 3, OECD Publishing, Paris, p. 3., <https://doi.org/10.1787/210083427643>.

RO	D	Yes
SE	B	No
SI	B	Yes
SK	D	No
UK	B	No

Source: Building on the classification in European Commission (2014), *Government wages and labour market outcomes*, Occasional papers, https://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp190_en.pdf.

For the civil service alone, generic classification of civil service systems into career-based or position-based decentralisation is associated with a transition towards position-based features. The traditional model of the career-based civil service, which relies on lifelong tenure and values progression and seniority, is typically accompanied by a centralised management system, including for wage setting¹⁴⁵. At the other end of the spectrum, the move towards position-based systems, in which focus is increasingly placed on individual performance and less on seniority, is correlated with more decentralised wage determination settings. However, such conclusions are based on general trends, and individual country examples can prove that mixed systems are also possible. Latvia relies on a position-based system, and introduced a pay reform meant to ensure a centralised system, but with a significant degree of flexibility in wage-setting, with the primary goal of improving pay equity (see Box 1). The Latvian public sector salary system is centralised vertically, relying on a single grading structure, but rather decentralised horizontally, allowing individual institutions to set pay based on individual performance and within available budgets. The pay scale, set by the law, describes the boundaries of the salary, but it does not make it compulsory to set a concrete level of salary for public servants. With a number of senior managers' positions, however, a concrete coefficient is set by the law and the salary must follow it directly. Setting individual salaries of public servants is the responsibility of heads of institutions, based on the available salary budget and evaluation of individual salary criteria (e.g. qualifications, competences and performance).

Box 9. Towards a centralised, unitary salary system in Latvia with a high level of flexibility

Latvia: A unified wage system, with a high level of flexibility

Public sector wages are regulated by the law on a unified remuneration system (2010, updated in 2022) covering the central and local levels. A single grading structure is meant to be applied for all public sector employees, but to ensure more competitive wages for certain professionals and managers, their wages are linked with the average salary in the economy and modified by a range of coefficients. At the same time, the remuneration system also depends on the financial capacity of the ministries and agencies, as some of them have managed to attract more budgetary resources than others.

Note: The law was adopted on 1 December 2009 and came into force on 1 January 2010. Cabinet regulations No. 361 of 21 June 2022, "Regulations of Regarding the Remuneration of Officials and Employees of State Authorities and the Procedures for Determining Such Remuneration and Also Regarding the Professions and Specific Fields to which a Market Coefficient shall be Applicable", <https://likumi.lv/ta/en/en/id/333463> Cabinet regulations No. 361 of 21 June 2022, "Regulations of Regarding the Remuneration of Officials and Employees of State Authorities and the Procedures for Determining Such Remuneration and also Regarding the Professions and Specific Fields to which a Market Coefficient shall be Applicable", <https://likumi.lv/ta/en/en/id/333463>.

Source: Initial version of Law on Remuneration of Officials and Employees of State and Local Government Authorities and its explanatory note, <https://titania.saeima.lv/LIVS/SaeimaLIVS.nsf/0/971F0E7A788C9469C225766200358B2B?OpenDocument>.

¹⁴⁵ Rexed, K. et al. (2007), "Governance of Decentralised Pay Setting in Selected OECD Countries", OECD Working Papers on Public Governance, 2007/3, OECD Publishing, Paris, p. 30.

As for the prevailing pay determination model (government decision/legislation or collective bargaining), decentralised pay policy frameworks usually rely more on collective bargaining and typically involve limited opportunities for legislative intervention in public sector pay matters. Denmark has minimal legislative involvement in wage matters, to a point where wage-related legislation is almost non-existent. The base salary for central government organisations is determined through one collective agreement, with the option for additional negotiations on bonuses and other incentives at sectoral, branch and individual levels. This system was established in 1998 as part of a pay reform initiative, aiming to decentralise pay decisions to entities with a deeper understanding of working conditions and workers' performance¹⁴⁶.

As for centralised vs. decentralised salary systems, both models have different advantages and shortcomings, but they also serve different reform objectives and depend on administrative capacity. Centralised systems are meant to ensure consistency in wage setting and equity across different administrative levels, job groups and institutions, while ensuring better control, especially when the administrative system is not well equipped for flexible differentiation of salary levels across administrative levels or simply by managers' decision. Centralisation also facilitates staff deployment and mobility, by ensuring a common set of pay and grading decisions based on common criteria¹⁴⁷. At the same time, a centralised system cannot properly account for regional or organisational variation, often being considered too rigid, and failing to factor in the organisational needs and workforce characteristics of different budget users. Decentralised features are increasingly being introduced across OECD countries, precisely to address these shortcomings, to tailor compensation to local circumstances and to provide more flexibility for institutions to attract and retain talent. However, decentralised salary systems, if not properly managed, can lead to pay inequities and potentially to higher transaction costs. Pay inequities tend to lead to internal competition for skills, and this is detrimental to the institutions that pay less ("poorer" ministries), resulting in increased capacity gaps and overall system instability. As such, "decentralisation of remuneration policies should therefore be accompanied by the introduction or strengthening of managerial elements aimed at ensuring a sufficient coherence in the decentralised assessments of individual competences and performances. The chief executives of sub-government organisations would also have to be more proficient in operational management than senior civil servants in centralised systems"¹⁴⁸.

Before engaging in pay decentralisation, some minimum preconditions appear to be essential. These are linked to¹⁴⁹: (i) the existence of a sound financial management framework, where budget control and pay bargaining roles are clearly established; (ii) the link with the decentralisation of specific aspects of HRM policies, ensuring clarity on what is expected to be part of a uniform framework and what can be adapted to institutional needs; (iii) investments in the proper functioning of the monitoring and assessment of decisions made by managers in pay-setting entities.

Despite the overall trend towards more decentralisation, centralised systems are still relevant whenever reform objectives are linked to improving pay equity and when system capacity is not adequate for allowing flexible wage determination arrangements. A good example is Slovenia, which introduced a centralised salary system in 2008 to improve pay equity and ensure improved control and transparency. The system

¹⁴⁶ Directorate-General of the Public Service, Spain (2010), "Public employment in European Union member states", p. 57, https://www.dgaep.gov.pt/upload/RI_estudos%20Presid%C3%A4ncias/Public_Employment_EUMS.pdf.

¹⁴⁷ David Marsden (1997), "Public service pay reforms in European countries", in Sage, May; <https://doi.org/10.1177/102425899700300>.

¹⁴⁸ Rexed, K. et al. (2007), "Governance of Decentralised Pay Setting in Selected OECD Countries", OECD Working Papers on Public Governance, No. 3, OECD Publishing, Paris, p. 34.

¹⁴⁹ Based on OECD (2007), *Decentralized Pay Setting in the Netherlands: Recommendations for a Continued Reform of Pay Arrangements in the Central Government Sector*, p. 10.

ensured more coherence and addressed previous imbalances, but gradually became too rigid to meet the needs of the modern public administration. An OECD assessment of the new system also recommended further flexibility in wage determination¹⁵⁰. The recent National Recovery and Resilience Plan for Slovenia, which sets reform objectives until 2027, provides a new reform of the wage system through decentralisation (Box 10).

Box 10. Slovenia's centralised wage system model to address pay inequities

In 2002, Slovenia introduced the Law on the Salary System of the Public Sector, providing a uniform salary system for all public servants. The law entered into force in 2008, after lengthy negotiations. A single pay scale was introduced for all public employees, supplements and bonuses were radically reformed and limited. Performance-related pay was introduced as a bonus. Slovenia's Public Sector Salary System Act governs the procedures for determining salaries, and the General Collective Agreement for the Public Sector establishes benchmark positions and job titles, and also outlines the bonuses and criteria for evaluating work performance. Supplements can only be paid if they are defined by the Public Sector Salary System Act, and their amounts are determined in accordance with the provisions of the General Collective Agreement.

The centralised model was well suited to a reform focused on improving coherence and pay equity. An initial reform in 1994 based on a centralised model had been substantially distorted by proliferation of allowances and exceptions to general rules. The rationale for the centralised model adopted in 2008 was intended to put the system into order and fixing inequities. An OECD assessment conducted in 2011 noted: "The recent reform was oriented towards creating order in a disorganised system. (...) The existing system is a foundation on which to build. (...) The recently introduced public sector salary system addressed a number of existing problems and represented an important first step towards a modernised public sector salary system."

A new reform is planned to be adopted and implemented by 2027, with a view to decentralising the wage system. This reform is enshrined in the National Recovery and Resilience Plan of Slovenia. The specific objective is to improve the relevance of the system, making it more flexible by introducing different pay and grading systems across several career groups and more autonomy for sectors.

Source: Based on: OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris; and the National Recovery and Resilience plan for Slovenia, which is <https://data.consilium.europa.eu/doc/document/ST-10612-2021-ADD-1/en/pdf>. Under Component 13, Milestone 1, Reform B, a "new remuneration system (...) which shall establish differentiated remuneration dependent on the public sector segment, which is expected to create more flexibility, and shall ensure that remuneration is linked to work performance."

2.2.2. A job-based vs. individual-based salary model

Another key pillar of the salary system, closely linked to the level of decentralisation, is whether the salary system model is **job-based** or **individual-based**¹⁵¹. The two approaches to pay setting are strongly correlated with the wider HRM system model and the degree of flexibility allowed for institutions and managers.

¹⁵⁰ OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews.

¹⁵¹ B. Gerhart and J. Newman (2020), *Compensation*, 13th edition, McGraw Hill Education, pp. 106-209.

On the one hand, the job-based salary systems imply that salaries directly reflect the content of the job. This underlying rationale requires a system for determining the value of jobs, relying on a solid job classification, job analysis and usually a type of job evaluation based on which evidence can underpin the ranking of jobs and pay decisions. Such a system is considered more equitable because the value of jobs is judged based on more objective criteria and does not rely on institutional or managerial discretion. Job-based systems correspond to a standardised pay-setting model, often relying on one common or only a few grading system(s) for all posts, where each grade is associated with a pay level or a pay scale with various steps. The progression within a pay scale is most often based on seniority, and individual merits and skills are generally only considered in selections for promotion to a post in a higher grade. Job-based systems are the most common across EU and OECD countries and are associated more with centralised and partially decentralised salary systems. Public sector salary systems in Portugal, Romania, Slovenia, France and Austria are job-based, and Austria's operates under a decentralised framework.

On the other hand, individual-based systems or person-based systems are linked not to job content but to individual competences, in an attempt to input into the pay equation an individual's performance, skills, experience, and contributions to the organisation. Individual salary is determined on an individual basis, rather than being based on a standard salary scale or pay grade. Structures that are individual-based rely mainly on institutional and managerial decisions regarding adequate pay differentiation. They thus have a much higher degree of flexibility and are expected to better incentivise employees, as their wages depend on personal factors and the level of individual effort. They are based on the assumption that the same salary for all is unfair, given the difference in skills and performance of various employees.

However, such systems are more complex to manage and require managerial capacity and solid performance assessments to determine individual pay adjustments. As a result, individual-based systems are more prone to contestation and inequity if such capacity prerequisites are not established. Employees may be more likely to compare salaries with their peers and raise concerns about fairness and equity, which can create challenges for the system. Person-based pay structures are typical of decentralised wage frameworks. If applied consistently, individual pay does not undermine the principle of equal pay for equal work, because, in jobs of the same grade (e.g. jobs of equal value) comparable levels of proficiency or performance can be remunerated equally. In practice, however, the fairness of individual pay is achieved less easily, because of (i) differences in salary budgets among institutions and because of (ii) challenges in objective evaluation, as the assessment of individual pay criteria, calibration and monitoring the results, communicating and explaining the salary levels to public servants, requires highly motivated and skilled managers and human resource specialists. Such systems can also be more prone to gender pay gaps¹⁵². Ensuring pay transparency is even more relevant in the context of a high level of flexibility (cf. section 3.4).

Sweden is one good example, where agencies in charge of public employment are responsible for managing their budgets, including allocating funds for staff salaries. Collective agreements are negotiated in a multi-step process, starting centrally and then within each agency, and finally on an individual basis. The goal is to maintain competitive remuneration by comparison with the broader labour market for similar roles¹⁵³. As a result, managers have the flexibility to decide whether the allocated wage bill is used for hiring or increasing salaries for individual salary levels (they are, however, limited by collective agreements).

¹⁵² Sun, Shengwei and A. Hegewisch (2022), "Equal Pay Policies and the Gender Wage Gap: A Compilation of Recent Research", Institute for Women's Policy Research, <https://iwpr.org/wp-content/uploads/2022/01/Equal-Pay-Policies-and-the-Gender-Wage-Gap-Compilation-20220125-FINAL.pdf>.

¹⁵³ Eurostat, Sweden (2016), "Reporting the remuneration of national civil servants for A65 purposes", https://ec.europa.eu/eurostat/documents/6939681/9010625/Sweden+-+Civil+Service+Remuneration_1_6.docx.pdf/77fc358d-693b-4dca-9b62-2e494ca08fbd.

In practice, a variety of mixed models with elements of both job-based and individual-based systems are found across EU and OECD countries. The traditional job-based features are prevalent in EU countries, as base wages are usually correlated with job complexity and job-related requirements and seniority is most often reflected in pay progression rules¹⁵⁴. However, while base wages are usually a function of a systematic classification of jobs and thus linked to job content or the value of jobs, additional elements of pay individualisation through performance-related pay (PRP) and other top-ups are also increasingly being introduced, to ensure more flexibility for institutions to incentivise public employees and reward top performers. In the public administration, almost two-thirds of the OECD countries use PRP, either in the form of bonuses (18 countries) or performance-based permanent pay increases (merit increments) (21 countries)¹⁵⁵. Specific arrangements for PRP are discussed in section 2.7 of this report.

The two systems – job-based and individual-based – are correlated with specific design choices in terms of pay structures, as noted in section 2.3 of this report.

2.2.3. Key messages

- **Administrative traditions and recommendations:** For effective design and stakeholder acceptance, reforms should embed key principles prevailing in the administrative system, whether “normative”, emphasising rule-oriented systems that rely on more prescriptive regulatory frameworks, or “operational”, which prioritise managerial flexibility.
- **Collective bargaining and decision making:** The framework for collective bargaining and decision making significantly influences salary system reforms. Tailoring reforms to the specific dynamics of each country’s framework is crucial for successful implementation and stakeholder buy-in.
- **Centralised vs. decentralised systems:** Centralised systems can ensure higher consistency and equity, but they may lack flexibility. In contrast, decentralised systems can be customised to specific needs at institutional/territorial (local) level but must be carefully managed to avoid pay inequities. Recommendations include considering the administrative scope, investing in sound financial management frameworks, and addressing the link with HRM policies before transitioning to more decentralised salary systems. This ensures coherence, clarity and effective monitoring of decisions taken at the local level.
- Salary systems in the public sector are predominantly categorised into **job-based** and **individual-based models**, closely tied to the level of decentralisation and overall HRM system flexibility. Job-based systems, common across EU and OECD countries, standardise pay based on job content and value, offering more objective criteria for salary determination, while individual-based systems focus on personal competences and performance, allowing for greater flexibility and incentivisation, but potentially leading to more complexity and challenges in ensuring fairness and equity.

¹⁵⁴ EUPAN (2017), Remuneration and benefits in Central Government Civil Service In the EU Member States and European Commission.

¹⁵⁵ OECD (2017), *Government at a Glance 2017*, OECD Publishing, Paris, p. 170, https://doi.org/10.1787/gov_glance-2017-en.

2.3. Pay grade structures – single vs. multiple and narrow vs. broad structures

Grading structures represent a systematic framework used to classify and categorise jobs. This constitutes the basis for setting and comparing pay levels. A grading structure is the backbone of the entire job classification and pay determination system. Grading structures usually consist of a series of grades, bands or levels that can be associated with jobs of comparable value¹⁵⁶. The positioning of a specific job in the grading structure has implications in terms of: (i) its relative value in comparison with other jobs, which may be in the same grade or other grades, and help to evaluate pay equity; (ii) its pay progression perspectives in relation to jobs in the same career system/same job family group/same sector. Thus, grading structures are essential for managing pay equity, for monitoring and controlling pay practices and for ensuring pay transparency.

To enable their practical application, grades are usually defined in relation to typical requirements of required education, complexity and responsibility of some representative jobs that are grouped in each grade. But broadly, grading structures can be defined in one of the following ways¹⁵⁷ or through a combination of them:

- 1) By reference to a range of points. If the grading structure was designed as a result of a job evaluation process, the grading structure can be defined by means of a range of evaluation points, which implies that jobs can be allocated to a grade/band if their job evaluation score falls within the range of points associated with that particular grade. A typical example is the system in Latvia, (Table 7), where the grades were designed by reference to points obtained based on the application of the Fontes job evaluation method (further details in section 2.4).
- 2) By reference to job characteristics for each grade. This entails extracting from the general features of jobs in each grade some key characteristics or “profiles” defining a typical level of education or specialisation, the level of responsibility required at different points in the hierarchy and expected impact. If the system was designed based on job evaluations, such profiles can be easily derived from the typical pattern of evaluation, applying the job evaluation criteria (i.e. the typical level of communication associated with jobs that are clustered in a given grade). A grading system in which grades are defined based on job characteristics is used in the UK civil service, starting with grade AA – for Administrative Assistants, reserved for typical jobs with a supporting administrative role and no management responsibilities, usually at entry-level positions and for apprentice opportunities – and going up to pay grades 6 (reserved for jobs responsible for setting priorities, setting targets and allocating responsibilities) and 7 (jobs accountable for outcomes in their policy area) and the senior civil service, which require bachelor’s or higher degrees, extensive experience and include leadership and strategic roles in government departments and agencies¹⁵⁸.
- 3) In relation with benchmark jobs, the grade “profile” can be described through the typical jobs that were placed in that grade. These typical jobs, when becoming representative for the grade, become “benchmark” jobs. These benchmark jobs are meant to be either statistically representative (numerically) for the sector/institution and/or to be highly relevant (core) for the functioning of the sector (for example, the job of director-general may not be numerically

¹⁵⁶ Based on Michael Armstrong (2018), *Armstrong’s Job Evaluation Handbook – A Guide to achieving fairness and transparency in pay and reward*, Kogan Page, pp. 157-159.

¹⁵⁷ *Ibid.*, p. 159.

¹⁵⁸ For detailed grading of civil service jobs in the UK, <https://www.instituteforgovernment.org.uk/explainer/grade-structures-civil-service> and <https://defrajobs.co.uk/working-here/civil-service-grades-explained/>, accessed December 2023.

representative, but it is a core job for the functioning of the civil service). A typical example is the system in Slovenia, which relied on the initial agreement through general collective agreement on the ranking in the grading structure of the so-called “orientation jobs” or benchmark jobs, based on which the positioning of the rest of the public sector jobs could be negotiated at sectoral levels (Figure 4).

The choice and design of a particular type of grading structure is inherently linked with the administrative tradition in each country and to the key features of the foundations of the salary system (as discussed briefly in section 2.2 of this report). To be sustainable and accepted by all relevant stakeholders, grading structures need to be “*appropriate to the culture, characteristics and needs of the organisation*”¹⁵⁹, or, in the broader sense, relevant for the public sector context. Relevance is a key dimension of the salary system. In this sense, grading structure arrangements that are more flexible (such as systems with multiple and specific grading structures and/or grading structures with broad grades) are usually identified in decentralised systems, whereas the choice of a single grading structure for most public sector jobs or the application of only a few such structures, usually with narrow grades, is more characteristic of systems that ensure a lower level of autonomy.

2.3.1. Single vs. multiple grading structures

In terms of classification, based on scope, public sector systems can operate either (i) a single *grading structure* or (ii) with few or *multiple grading structures*.

Systems that opt for a single grading structure usually correspond to “normative” countries with job-based systems and centralised salary determination. The design of only one grading structure for most public sector employees implies a clear classification system, where the value of jobs can be determined to place jobs from different career systems into the same grading structure. A general grading structure can cover the generic public administration, and only a few exceptions are usually prescribed, usually for small institutions but with a specific role and for specific jobs, like the National Bank or some specific regulatory entities.

Single grading structures

Systems with a single grading structure are not common in EU and OECD countries, but in some cases, such arrangements can prove effective in ensuring pay equity. Given the rigidity of single grading structures, countries with such systems present some specific elements of pay flexibilisation to accommodate specific local or sectoral needs. Portugal, France, Latvia, Romania and Slovenia have a single grading structure.

Latvia’s centralised pay system, for example, relies on a single grading structure for most public sector employees, defined in relation to the ranges of points derived from job evaluation. The Latvian public pay system underwent a significant overhaul in 2009¹⁶⁰, with the introduction of the Law on Remuneration of Officials and Employees of State and Self-government Authorities. The primary objective of this law, amended in 2021, was to establish equal pay for work of equal value. The single grading structure is a structure with 17 grades (initially 16), which are called “groups of monthly salaries”. The law includes a

¹⁵⁹ M. Armstrong and S. Taylor (2017), *Armstrong’s Handbook of Human Resource Management Practice*, 14th edition, Kogan Page, London, p. 690.

¹⁶⁰ Latvia, Law on Remuneration of Officials and Employees of State and Local Government Authorities, <https://likumi.lv/ta/en/en/id/202273-law-on-remuneration-of-officials-and-employees-of-state-and-local-government-authorities>.

detailed classification of public sector jobs into 51 job family groups¹⁶¹, which are mapped to the 17 pay grades. The pay grades were defined based on job evaluation, and their width is determined in relation to the range of points derived from job evaluation (Table 7).

Table 7. Pay structure in Latvia defined based on intervals of job evaluation scores

Grade	Minimum	Midpoint	Maximum
1	65	70	76
2	77	84	91
3	952	100	108
4	109	119	129
5	130	142	154
6	155	169	183
7	184	201	218
8	219	239	260
9	261	285	310
10	311	340	369
11	370	404	439
12	440	481	523
13	524	573	623
14	624	683	742
15	743	813	886
16	887	967	1 054
17	1 055	1 151	1 255

Source: State Chancellery of Latvia (2022), internal working document.

While the system is centralised and based on a common grading structure, some differentiation is possible. Elements of flexibility include, among other things: the use of performance-related pay and the application of a market coefficient. This ensures that the proportion of employees benefiting from the market coefficient does not exceed 15% of jobs in a state or local government institution and 30% in agencies that provide services. The institution must review the need of such coefficients at least once every two years¹⁶². While the law sets the intervals of coefficients per grades (Table 8), institutions have the flexibility to set salary steps within those intervals.

Table 8. Pay structure in Latvia's public sector: 17 grades with intervals of pay coefficients

Pay grades	Monthly salary intervals (coefficients against the base monthly salary)		
	minimum*	midpoint	maximum
1.	0.513	0.581	0.755
2.	0.513	0.592	0.769
3.	0.570	0.814	1.059
4.	0.582	0.832	1.080
5.	0.623	0.890	1.156
6.	0.666	0.950	1.236
7.	0.796	1.137	1.479
8.	0.850	1.220	1.579
9.	1.017	1.453	1.817
10.	1.230	1.757	2.197
11.	1.535	2.194	2.743

¹⁶¹ There were 57 job groups until 2022, when the classification was updated (Regulation No. 262/2022).

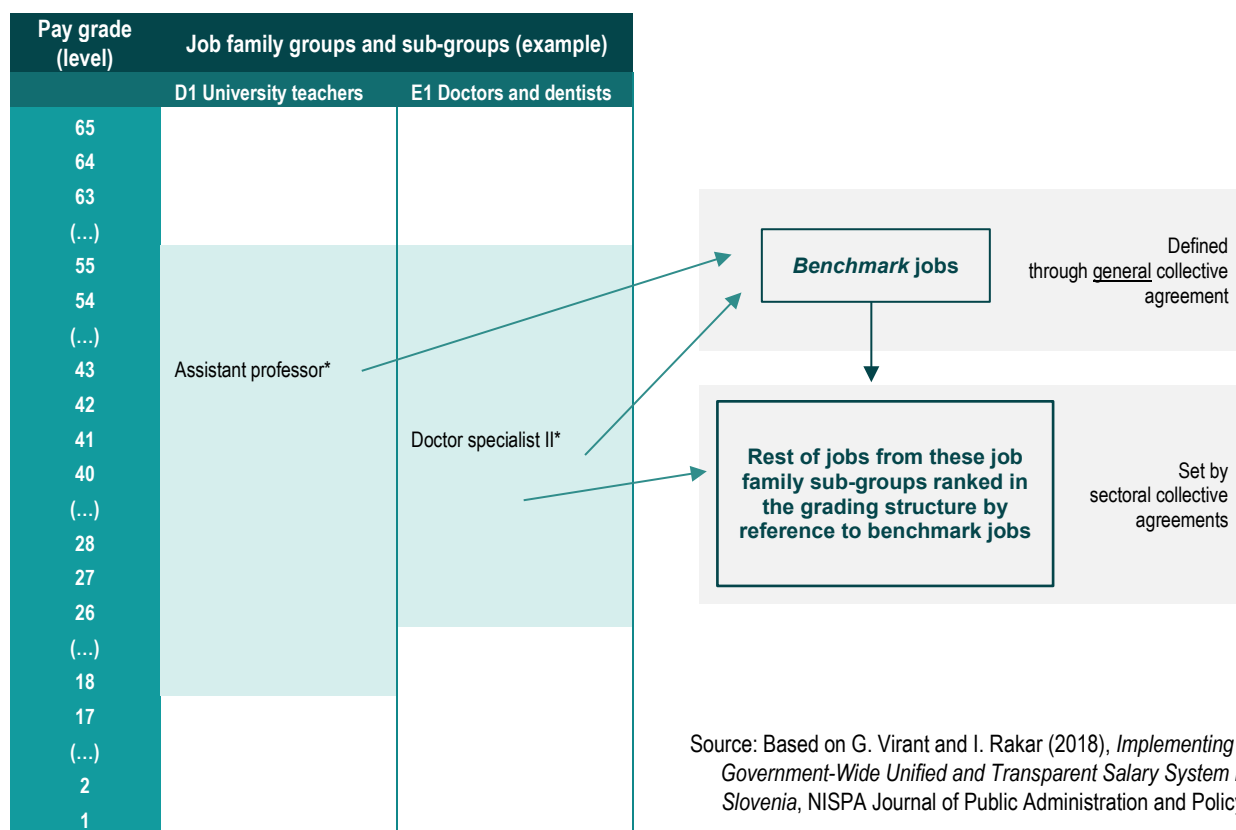
¹⁶² Latvia, Law on Remuneration of Officials and Employees of State and Local Government Authorities, <https://likumi.lv/ta/en/en/id/202273-law-on-remuneration-of-officials-and-employees-of-state-and-local-government-authorities>.

12.	1.911	2.730	3.276
13.	2.369	3.385	4.062
14.	2.836	4.050	4.860
15.	3.194	4.562	5.475
16.	3.355	4.793	5.751
17.	3.684	5.263	6.051

Source: Appendix 3 of the Law on Compensation of Officials and Employees of State and Local Government Institutions, <https://m.ljlkumi.lv/doc.php?id=202273>. The levels are minimum levels, to be applied until 2027.

Slovenia offers another typical example of a single grading structure. It has 65 grades or pay levels grouping all jobs into job families or salary groups and sub-groups mapped to the 65 grades. A set of benchmark jobs were mapped by national collective agreement and were used to facilitate the mapping process for the rest of the jobs through sectoral agreements (Figure 4). The recently adopted wage system reform in Croatia also introduced a single grading structure, aimed to address the previous salary fragmentation. Law 155/2023 provides the classification of all jobs in the civil and public services into a single pay structure with 16 grades. Government decrees from 2024 detail the pay structure and the mapping of jobs to grades.

Figure 4. Excerpt from the pay structure in Slovenia and ‘orientation’ (benchmark) jobs



Multiple grading structures

When a simple, hierarchical classification of jobs is exclusively applied, jobs of high complexity that are not managerial (e.g. high-level thematic experts) cannot receive salaries higher than those established for managerial jobs, including low-level management positions. This often creates problems in attracting and retaining high-level specialists and sometimes leads to *ad hoc* salary top-ups (cf. section 2.6.7). An approach to job classification based on a hierarchy of job grades, on the one hand, and of job families, on

the other, provides more flexibility. The job structure within job families may differ depending on the function (e.g. it may include more hierarchical levels in some cases and flatter structures in others). All jobs in different job families are placed in the same hierarchy of job grades but are adapted to the specificities of the job family.

Multiple grading structures represent the standard arrangement in most EU/OECD countries, but they require capacity to ensure that specific sectoral/institutional pay arrangements do not affect pay equity. Multiple grading structures reflect the career progression logic of different job groups and can be adjusted more easily without impacting the entire salary system. However, precisely because of this flexibility, they require adequate capacity for managing different salary systems.

Austria, Germany, Ireland and Lithuania have multiple pay structures, some specific to sectors (health, education), and others to specific institutions. In Germany, at federal level, civil servants' remuneration is governed by the Federal Civil Servants Remuneration Act and relies on four grading structures: A and B correspond to civil servants and soldiers, federal pay structure W is for professors in higher education institutions, and the federal pay structure R is reserved for judges and public prosecutors¹⁶³. Public employees have a separate grading system that is defined in the collective agreement for the public services, with 15 pay grades¹⁶⁴. Because they are specific, multiple grading structures can be correlated with narrowly defined job profiles, as they are in Ireland. Ireland is a relatively centralised state, but has distinct grading systems for (i) the civil service, (ii) defence sector, (iii) education sector, (iv) justice sector, (v) health sector and (vi) local authorities. In the civil service, the general grading system corresponds to narrow job profiles, including grades like Engineer Grade I, Engineer Grade II, District Inspector¹⁶⁵.

Some systems with multiple pay structures use the job family model, under which specific pay grades or levels are set for groups of jobs (job families) with similar characteristics or that require similar skills and qualifications¹⁶⁶. Pay levels are generally based on market rates for the different roles within each family. Such job families can be very specific, like finance, policy, administration or specialist roles like accountants. These systems can facilitate pay differentiation between different job groups in line with their market rates, but it can also lead to pay inequities. Decentralised systems that apply this model include the Netherlands, Sweden and Australia. The Netherlands has specific collective agreements for the central government administration jobs, for education, for research etc. In the function group for central government administration, several job family groups were defined, such as: business management, Advice, Supervision etc., each with specific job profiles¹⁶⁷. The collective agreement in force for 2022-2024 sets 19 different pay scales, each with 10 steps, which are applied to specific job families¹⁶⁸. For example, under the Supervision job family group, the job profile of Inspector uses pay structures 8, 9, 10 and 11.

¹⁶³ Federal Ministry of the Interior, Germany (2014), *The Federal Public Service – An Attractive and Modern Employer*, pp. 82-88, <https://www.bmi.bund.de/SharedDocs/downloads/EN/publikationen/2014/federal-public-service.pdf?blob=publicationFile>.

¹⁶⁴ Federal Ministry of the Interior, Germany (2014), *The Federal Public Service – An Attractive and Modern Employer*, 2014, pp. 93-94.

¹⁶⁵ For specific grades in different sectors, consult the Report of the Public Sector Benchmarking Body (2022), <https://www.lenus.ie/handle/10147/64793>.

¹⁶⁶ M. Armstrong and S. Taylor (2017), *Armstrong's Handbook of Human Resource Management Practice*, 14th edition, Kogan Page, London, p. 375.

¹⁶⁷ Job family groups in the Dutch central government are presented at: <https://www.functiegebouwrjksoverheid.nl/functiegebouw>.

¹⁶⁸ Collective labour agreement for the central government in the Netherlands 2022-2024, <https://ambtenarensalaris.nl/rijksoverheid/>.

The specific job classification and associated scale level depend on the character of the tasks performed: the level-determining aspects of a job classification indicated in a job profile must be predominant (and constitute 70% of activities), but the decision on individual salary increases and application of the higher salary scale belongs to the manager, depending on the performance of the employee¹⁶⁹.

While multiple grading structures appear to be better suited to the evolving needs of the modern public sector, the design choice needs to be informed by the reform objective and the administrative context. While their rigidity is seen as a disadvantage (Figure 5), this characteristic can prove useful in cases where reforms intend to restore pay equity, without the administrative capacity to manage flexible salary system arrangements. Systems like Slovenia's with multiple grading structures and no capacity to manage a fragmented pay system derailed into inequitable pay practices and later adopted reforms favouring a single grading structure¹⁷⁰.

Figure 5. Single vs. multiple grading structures

	Single grading structures	Multiple grading structures
Advantages	<ul style="list-style-type: none"> Better control of pay equity. Easier to explain to the public. Better control of the wage bill. More transparent. 	<ul style="list-style-type: none"> Higher flexibility, allowing for separate grading structures adapted to distinct sectors/institutions/career systems. Better correlation of the progression logic in the grading structure, with the career progression in different sectors. Allows for sectoral adjustments in the grading system, as needed, without affecting other sectors.
Disadvantages	<ul style="list-style-type: none"> More rigid. Pay progression is difficult to define uniformly across all job groups. Difficult to maintain without some elements of flexibility and risks proliferation of bonuses and allowances to circumvent the base wage, which is tied to the single grading arrangement. May lead to definition of numerous exceptions from the general rule, which can distort the single grading arrangement. 	<ul style="list-style-type: none"> Requires proper sectoral capacity to manage different grading structures and ideally, a central capacity to oversee the system and ensure equitable pay practices across sectors. May result in multiplication of pay systems for specific job groups in different sectors that in reality might have similar job content or similar complexity.

Note: Hybrid models with a single grading structure for the central government and some specific grading structures for specific state bodies.

¹⁶⁹ Cf.

<https://www.functiegebouwrjksoverheid.nl/functiegebouw/functiefamilies/beleid/beleidsondersteuner/functietypering> for differentiating between four different salary scales for “policy supporter”, clearly indicating the level-increasing elements compared to the lower level.

¹⁷⁰ Romania is another such example, but it is still transitioning towards a single grading structure after its 2017 pay reform, with new reform milestones included in its National Recovery and Resilience Plan (NRRP).

2.3.2. Narrow vs. broad grading structures

Based on the width of pay grades, grading structures can range from *narrow* to *broad*, broad-banding representing the most flexible arrangement.

Narrow-graded pay systems are common across EU and OECD countries. These structures usually include more than nine grades and the typical pay differentials within a grade are narrow, between 20% and 40%¹⁷¹. This type of structure is better suited to well-defined hierarchies, leaving less discretion for managers to place individuals within the grade. Pay progression is also restricted within the grade, so the cost is more predictable and easier to control. This also ensures better prospects for pay equity. Austria, Germany and Portugal use narrow-graded systems. Germany's pay structure A for civil servants at the federal level includes 16 grades, their width varied for 2020 pay levels between 13% and 36%, with wider grades in the middle and at the top, to afford adequate pay progression for specialists. Because they are narrower, horizontal progression within a grade is limited, with the risk that some jobs are artificially reclassified into upper grades, which is known as "grade drifting"¹⁷².

Table 9. Narrow pay grades for civil servants in Germany in federal pay structure A, 2020 levels

Grades	Monthly salary levels. 2020 – 8 steps								Grade width ¹⁷³
	Level 1	Level 2	Level 3	Level 4	Level 5	Level 6	Level 7	Level 8	
A2	2 216.34	2 265.70	2 316.41	2 354.40	2 393.69	2 432.96	2 472.21	2 511.49	13.3%
A3	2 301.21	2 353.13	2 405.07	2 446.88	2 488.68	2 530.48	2 572.30	2 614.10	13.6%
A4	2 349.36	2 411.41	2 473.48	2 522.89	2 572.30	2 621.71	2 671.10	2 716.73	15.6%
A5	2 367.07	2 444.34	2 506.40	2 567.24	2 628.06	2 690.14	2 750.92	2 810.47	18.7%
A6	2 417.74	2 507.71	2 598.89	2 668.57	2 740.79	2 810.47	2 887.74	2 954.88	22.2%
A7	2 538.10	2 617.92	2 723.09	2 830.73	2 935.88	3 042.30	3 122.12	3 201.92	26.2%
A8	2 685.05	2 781.34	2 916.87	3 053.72	3 190.51	3 285.53	3 381.81	3 476.83	29.5%
A9	2 897.87	2 992.89	3 142.39	3 294.40	3 443.86	3 545.48	3 651.19	3 754.27	29.6%
A10	3 101.83	3 232.31	3 421.09	3 610.70	3 803.84	3 938.26	4 072.64	4 207.09	35.6%
A11	3 545.48	3 745.12	3 943.47	4 143.12	4 280.13	4 417.15	4 554.17	4 691.22	32.3%
A12	3 801.25	4 037.44	4 274.93	4 511.11	4 675.53	4 837.33	5 000.45	5 166.19	35.9%
A13	4 457.62	4 679.45	4 899.96	5 121.81	5 274.49	5 428.48	5 581.13	5 731.19	28.6%
A14	4 584.18	4 869.95	5 157.05	5 442.81	5 639.84	5 838.22	6 035.24	6 233.61	36.0%
A15	5 603.31	5 861.70	6 058.73	6 255.79	6 452.84	6 648.57	6 844.31	7 038.72	25.6%
A16	6 181.40	6 481.55	6 708.59	6 935.65	7 161.40	7 389.78	7 616.82	7 841.28	26.9%

Source: Civil Servants' Remuneration Act (*Bundesbesoldungsgesetz*, or BBesG), https://www.bgbl.de/xaver/bgbl/start.xav?startbk=Bundesanzeiger_BGBl&jumpTo=bgbl118s1810.pdf#_bgbl_%2F%2F%5B%40attr_id%3D%27bgbl118s1810.pdf%27%5D_1702974153632.

Broad-graded structures are a more flexible alternative, with six to nine grades and a pay differential of 40%-50%. These structures ensure longer horizontal progression, usually based on performance, thus

¹⁷¹ O'Riordan, Joanna (2008); *A review of the civil service grading and pay system*; Committee for Public Management Research discussion paper No. 38, Institute of Public Administration (Ireland), pp. 15-16, https://www.ipa.ie/fileUpload/Documents/CPMR_DP_38_Review_of_the_Civil_Service_Grading_Pay_System.pdf.

¹⁷² M. Armstrong and S. Taylor (2017), *Armstrong's Handbook of Human Resource Management Practice*, 14th edition, Kogan Page, London, p. 375.

¹⁷³ Author's calculations of grade width, based on percentage difference between levels 8 and 1 for each grade.

avoiding the risk of grade drift. Because of this flexibility, however, they can be more difficult to manage and result in higher costs¹⁷⁴.

An even higher level of flexibility is ensured in broad-banded systems where the structure relies on a series of four to six pay “bands” with a differential of 50% to 80% that can be as high as 100%¹⁷⁵. These broad bands give managers more autonomy to offer competitive salaries and reward excellent performance, but also require sound management skills from managers and HR departments if they are to operate smoothly. The pay system for central government job families in the Netherlands operates under the logic of a broad-banded system. For example, based on the example provided earlier in this report, the job profile of Inspector uses pay structures 8, 9, 10 and 11. This implies that for this job, pay levels start from pay point 8.0 and can go up to pay point 11.10, implying a pay difference of 90% between starting and top levels, as shown in Table 10. However, without sound management systems, broad-banded structures can lead to pay equity issues.

Table 10. Grading structure for Inspector, Dutch pay system for central government, 2023

Pay level. 2023 (EUR monthly)	Salary scale 8	Salary scale 9	Salary scale 10	Salary scale 11
2 902.24	0			
2 974.08	1			
3 045.91	2		0	
3 119.04	3	0		
3 190.86	4	1	1	
3 262.69	5	2		
3 362.89	6	3	2	
3 477.56	7	4		
3 608.64	8	5	3	0
3 751.03	9	6		
3 896.00	10	7	4	1
4 054.15		8	5	2
4 214.85		9	6	3
4 374.95		10	7	4
4 527.43			8	5
4 688.14			9	6
4 848.81			10	7
5 055.5				8
5 279.83				9
5 503.57				10

Progression across **20 steps**,
with a **pay difference** of **90%**

Source: Collective labour agreement 2022-2024 for the central government in the Netherlands, <https://ambtenarensalaris.nl/rijksoverheid/>.

¹⁷⁴ M. Armstrong and S. Taylor (2017), *Armstrong’s Handbook of Human Resource Management Practice*, 14th edition, Kogan Page, London, p. 375.

¹⁷⁵ O’Riordan, Joanna (2008), *A review of the civil service grading and pay system*; CPMR discussion paper No. 38, Institute of Public Administration (Ireland), p. 16, https://www.ipa.ie/fileUpload/Documents/CPMR_DP_38_Review_ofthe_Civil_Service_Grading_Pay_System.pdf.

To summarise, while multiple grading structures with narrow or broad grades seem prevalent, single grading structures are useful for reforms focused on improving equity and building system control. Further flexibility can be introduced later with the capacity in place to manage more decentralised salary structures. This was recommended in Slovenia after its successful introduction of the single grading structure in 2008.

No general recommendations can be made for either broad or narrow banding, and the literature provides ample arguments and limitations for both approaches¹⁷⁶. Moving from narrow to broad bands is a salary system reform itself.

2.3.3. The single pay spine – a rigid but simple pay system arrangement for improved pay equity

A specific pay system is the **single pay spine**, which is usually applied in centralised systems with single or multiple grading structures. Single pay spines are not widely used in EU/OECD countries, and they are usually found as part of single, centralised pay-bargaining arrangements and are considered “unsuited” to decentralised salary systems¹⁷⁷. They consist of incremental pay points, usually with 2.5%-3% increments.

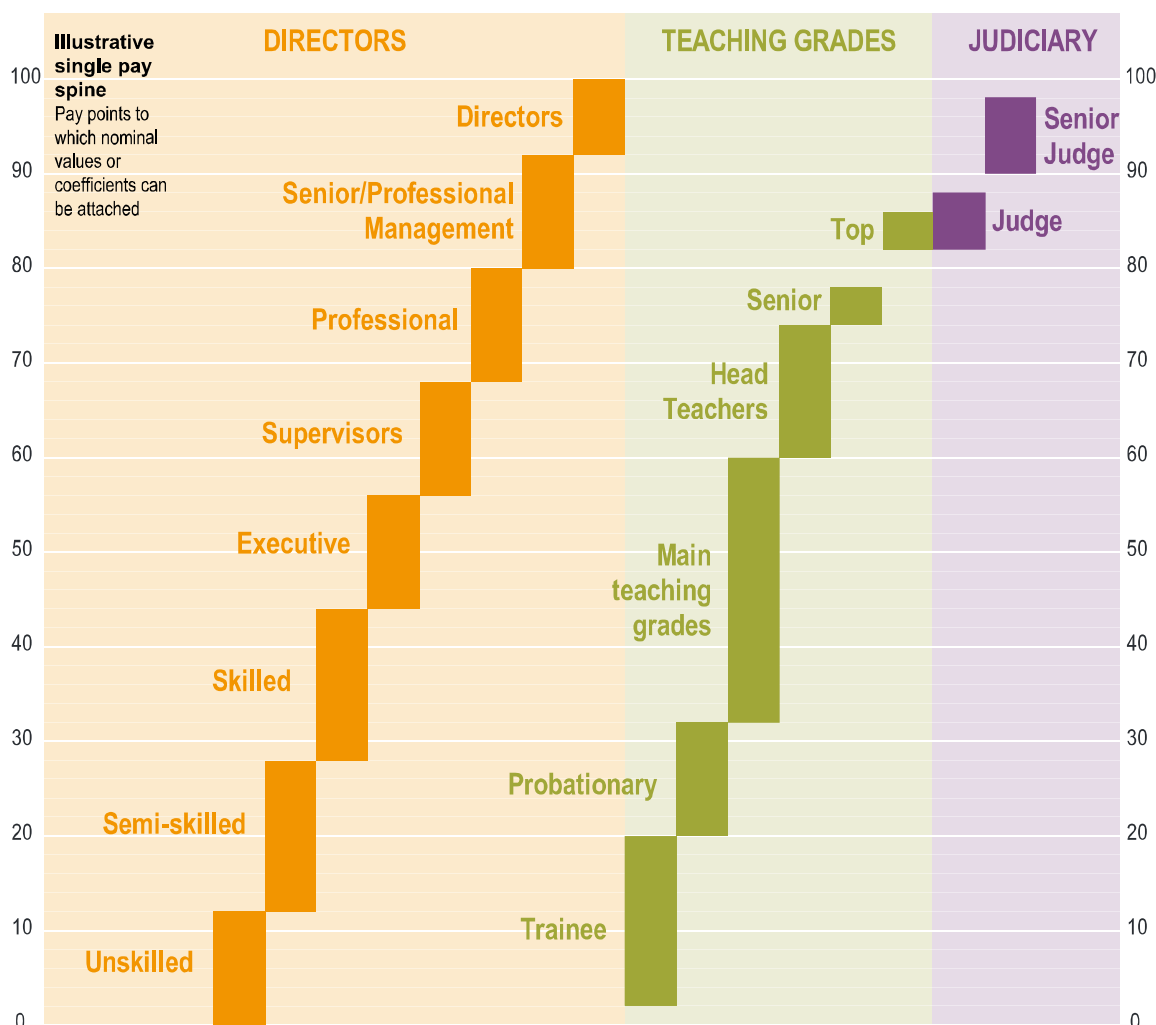
Single pay spines are usually introduced to improve pay equity, ensure better wage bill control and help simplify negotiations¹⁷⁸. However, such structures are considered rigid, even if multiple grading structures are mapped to the single pay spine, because they allow little room for adjustments in specific sectors without impacting the entire salary system. A typical illustration of multiple grading structures mapped to a single pay spine is shown in Figure 6.

¹⁷⁶ See for example, O’Riordan, Joanna (2008), *A review of the civil service grading and pay system*; CPMR discussion paper No. 38, Institute of Public Administration (Ireland) pp. 19-25, https://www.ipa.ie/fileUpload/Documents/CPMR_DP_38_Review_ofthe_Civil_Service_Grading_Pay_System.pdf.

¹⁷⁷ World Bank, Gets Brief (2009), “*Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a ‘Single Pay Spine’*”, p. 4.

¹⁷⁸ Ibid.

Figure 6. Illustration of a single ‘pay spine’ with several grading structures



Source: World Bank (2009), “Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a ‘Single Pay Spine’”,

<https://documents1.worldbank.org/curated/ar/871581468337281115/pdf/534630BRI0GET01n0title010GET0Briefs.pdf>.

Portugal offers a typical example of a single pay spine that has proved sustainable since its introduction in 2009¹⁷⁹. The single pay scale starts with the national minimum salary and uses nominal amounts. Changes in the minimum salary caused compression in recent years. To address this, additional pay steps were introduced at the top of the scale, particularly for highly affected careers.

¹⁷⁹ The single pay scale was introduced in 2009 by Government Ordinance 1 553-C/2008.

Table 11. Single pay spine in Portugal, 2021 levels

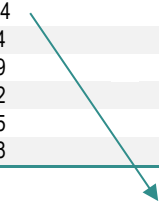
Pay point on the pay spine	Monthly base salary (EUR)	Pay point on the pay spine	Monthly base salary (EUR)	Pay point on the pay spine	Monthly base salary (EUR)	Pay point on the pay spine	Monthly base salary (EUR)
1	703.13*	30	1 979.78	59	3 477.53	88	4 975.28
2	703.13*	31	2 031.43	60	3 529.18	89	5 026.93
3	703.13*	32	2 083.07	61	3 580.82	90	5 078.57
4	703.13*	33	2 134.73	62	3 632.46	91	5 130.21
5	703.13*	34	2 186.37	63	3 684.12	92	5 181.86
6	750.26	35	2 238.01	64	3 735.76	93	5 233.51
7	801.91	36	2 289.66	65	3 787.41	94	5 285.16
8	840.11	37	2 341.30	66	3 839.05	95	5 336.80
9	895.21	38	2 392.96	67	3 890.70	96	5 388.45
10	946.85	39	2 444.60	68	3 942.35	97	5 440.09
11	998.50	40	2 496.25	69	3 994.00	98	5 491.75
12	1 050.14	41	2 547.89	70	4 045.64	99	5 543.39
13	1 101.80	42	2 599.54	71	4 097.29	100	5 595.03
14	1 153.44	43	2 651.19	72	4 148.93	101	5 646.68
15	1 205.08	44	2 702.83	73	4 200.58	102	5 698.32
16	1 256.73	45	2 754.48	74	4 252.23	103	5 749.98
17	1 308.37	46	2 806.12	75	4 303.87	104	5 801.62
18	1 360.03	47	2 857.77	76	4 355.52	105	5 853.27
19	1 411.67	48	2 909.42	77	4 407.16	106	5 904.91
20	1 463.32	49	2 961.07	78	4 458.82	107	5 956.56
21	1 514.96	50	3 012.71	79	4 510.46	108	6 008.21
22	1 566.61	51	3 064.36	80	4 562.11	109	6 059.86
23	1 618.26	52	3 116.00	81	4 613.75	110	6 111.50
24	1 669.90	53	3 167.65	82	4 665.39	111	6 163.14
25	1 721.55	54	3 219.30	83	4 717.05	112	6 214.79
26	1 773.19	55	3 270.94	84	4 768.69	113	6 266.44
27	1 824.84	56	3 322.59	85	4 820.34	114	6 318.09
28	1 876.49	57	3 374.23	86	4 871.98	115	6 369.73
29	1 928.14	58	3 425.89	87	4 923.63		

Source: DGAEP (2021), Portuguese Central Public Administration Overview, Directorate-General for Administration and Public Employment, https://funcionpublica.hacienda.gob.es/dam/es/portalsefp/funcion-publica/organos-colaboracion/relaciones-internacionales/union-europea/eupan/PCPA_OVERVIEW_2021-1.pdf.

Different career systems are mapped onto the single pay spine by determining the applicable pay points for each grade, as shown for civil service grades (Figure 7). In practice, this implies that for each career, a number of pay steps is determined, a pay step corresponding to a specific pay point in the general pay scale. For example, in the case of the civil service, the professional category encompasses 14 pay steps, implying a vertical progression from pay point 11 to pay point 57, jumping across some pay points to ensure reasonable and attractive career progression. The pay system is completely centralised, with fixed salary scales for each career/category mapped to the single pay spine and determined centrally by law.

Figure 7. General career grading structure in Portugal mapped to pay points of the single pay spine

Careers	Structure	Basic compensation amounts (EUR)		
		Number of pay steps	Starting	Maximum
Professional	Uni-category	14	998.50	3 374.23
Administrative staff	Co-ordinator	4	1 153.44	1 566.61
	Administrative	9	693.13	1 153.44
Auxiliary staff	Foreman General	2	1 050.14	1 153.44
	Foreman	5	840.11	1 050.14
	Auxiliary	8	665.00	840.11


 Corresponding to number of successive pay points from the single pay spine

Source: DGAEP (2021), Portuguese Central Public Administration Overview, Directorate-General for Administration and Public Employment, https://funcionpublica.hacienda.gob.es/dam/es/portalsefp/funcion-publica/organos-colaboracion/relaciones-internacionales/union-europea/eupan/PCPA_OVERVIEW_2021-1.pdf.

While single pay spines can be more transparent and predictable for employees and employer to project the future wage bill, they are more rigid and can be used as a first phase in reform processes intended to improve pay equity. As capacity is improved, more flexible forms of pay setting can be introduced.

2.3.4. Key messages

- Grading structures are foundational frameworks employed for the systematic classification of jobs, forming the basis for determining pay level. These structures typically include grades, bands or levels to categorise jobs based on their value. This categorisation plays a crucial role in ensuring pay equity and defining pay progression perspectives. They can be defined in relation to points obtained through job evaluation, by reference to job characteristics for each grade, or simply by listing benchmark jobs.
- Public sector systems can adopt either a single or a multiple grading structure approach. Single grading structures offer a clear classification system, promoting pay equity. Multiple grading structures allow for flexibility to accommodate sector-specific needs. The choice between single and multiple grading structures is influenced by administrative traditions and reform objectives. Single grading structures offer better control of pay equity and are easier to communicate but can be more rigid. Multiple grading structures provide flexibility, but require proper sectoral capacity for effective management.
- Grading structures can also be narrow or broad, with narrow structures having more grades and limited horizontal progression. However, they can be more suited if the reform objective is to increase pay equity. Broad structures offer greater flexibility but require effective management to prevent pay inequities.
- Single pay spines can enhance pay equity, simplify negotiations and control the wage bill. However, they can be rigid and may limit adjustments in specific sectors, without impacting the entire salary system.

2.4. Equitable and competitive pay structures: Job evaluation and public-private pay comparisons

2.4.1. Job-grading decisions based on job evaluation

As part of the salary system reform process, decisions on how to determine grade structure boundaries (number and width of grades) and on where to place jobs within a given grading structure need to be supported by evidence, to ensure consistency of the system and to enable constructive consultations. This job grading process is closely correlated with the job classification system. Public sector job classifications involve heterogeneous professions and job titles. For purposes of HR management and remuneration, they need to be structured in a logical way. Organisational hierarchy is one way of structuring jobs (setting several levels of managerial and specialist positions in a top-down sequence), but there are other, more sophisticated types of classifying jobs, allowing their objective comparison across more than one institution. The structure (hierarchy) of jobs created as a result of such structuring/classification provides the basis for determining the grading structures. For this, job descriptions are essential, or inaccurate job descriptions can lead to inflation in grades and thus increase the overall cost of the system¹⁸⁰.

Because using job classification to determine base salary is a prerequisite for predictability and prevention of arbitrariness, the Principles of Public Administration set this model as a requirement: Principle 11.b. – “The public administration promotes equal pay for equal work, both within individual institutions and across the public administration, by determining the basic salary on job classification”¹⁸¹. Job-based systems, as defined in section 2.2 of this report, are usually rooted in a solid job classification system, and base their grading structures (as characterised in section 2.3) on some form of job evaluation. This enables the development of the so-called “pay-for-grade” systems, which ensure a high degree of predictability for employees and reduce the likelihood of arbitrariness in determining individual salaries¹⁸². The main purpose of job evaluation is to establish the relative value of the different jobs¹⁸³. This process consists of an analysis of the content of the job, and not of the performance of the jobholder. The advantages of job evaluation methods can be summarised as follows¹⁸⁴:

- ensuring “equal pay for work of equal value”;
- determining the relative value of jobs based on fair and consistent decisions that can ensure the coherence of the job ranking and pay decisions;
- ensuring the evidence for designing grading structures and for placing jobs in the grading structure (grading jobs), that can ensure a solid basis for consultations and negotiations;
- ensuring the basis for market comparisons with jobs or roles that can be considered as being of comparable value.

¹⁸⁰ Dilemmas presented in OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, Paris, pp. 50-52, <https://doi.org/10.1787/9789264177758-en>.

¹⁸¹ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

¹⁸² Cardona, F. (2007), *Performance Related Pay in the Public Service in OECD and EU Member States*, p. 6, SIGMA, <https://www.sigmaweb.org/publications/38690351.pdf>.

¹⁸³ ILO (1986), “Job Evaluation”, International Labour Organization, Geneva, p. 202, https://ilo.primo.exlibrisgroup.com/discovery/fulldisplay/alma992468883402676/41ILO_INST:41ILO_V2.

¹⁸⁴ M. Armstrong and H. Murlis (2005), *Reward Management – A Handbook of Remuneration Strategy and Practice*, 5th Edition, Kogan Page: London.

There are two types of approaches to job evaluation – analytical and non-analytical, each with advantages and disadvantages. The choice of a specific approach needs to be correlated with the objectives of the salary system reform. If the focus of the reform is to improve pay equity, an analytical method or a mix of analytical and non-analytical methods is preferred, given that non-analytical methods imply a greater level of subjectivity. The choice of a specific method should take into account the following distinctions and classifications:

- **Non-analytical methods** allow for determining the relative value of different jobs within the public workforce, without using detailed analytical techniques, relying on more straightforward and often subjective criteria to compare and rank jobs based on their perceived value or importance within the organisation. Typically, they consider factors such as the level of responsibility and education required¹⁸⁵. The main non-analytical job evaluation methods include¹⁸⁶:
 - i. Non-analytical job-to-grade matching (job slotting) or job classification. This method implies that a job is broadly compared with the definition of a grade or grade characteristics to determine the grade to which it can be assigned. A popular tool used for job classification in public administration is a job catalogue, a comprehensive list of all the standard jobs within an institution/sector/public sector, organised in groups, usually called “job families”. It usually provides information about the duties, responsibilities and basic requirements of each job, including the skills and qualifications needed to perform the job. Jobs that are classified into a catalogue can also be evaluated analytically. Alternatively, the classification into job catalogue can be used in combination with an analytical job evaluation method, as in Latvia¹⁸⁷. Job catalogues are not only relevant in job classification for pay purposes but an important tool in the broader HRM system in any public administration setting.
 - ii. Non-analytical job-to-job matching. This process means broadly comparing the job under review with other jobs that are considered to be properly graded (the *benchmark jobs*, as referred to in section 2.3). The comparison is done “on a whole job basis”, meaning that the process does not require analysing the jobs based on detailed list of criteria, but rather relying on an overall perception of the level of complexity/responsibility.
 - iii. Job ranking is the simplest form of job evaluation and the most subjective, as it relies only on broadly comparing jobs with one another “on a whole job basis”, based on their perceived value for the organisation/sector, and then arranging them in order of this perceived importance. While this comparison is based on generalised concepts such as the level of responsibility, the comparison is not consistently broken down into quantifiable evaluation criteria. A mix of job ranking and non-analytical job-to-job matching can also be used, as it was in Slovenia in preparing the salary system reform introduced in 2008. First, a set of “orientation” jobs (benchmark jobs) were agreed on in terms of ranking at the national level, considering some criteria but without evaluating them analytically; then the rest of jobs were ranked non-analytically in reference to the benchmark jobs and agreed upon at sectoral level (Figure 4).
 - iv. Paired comparison ranking is similar to job ranking, but has a wider statistical basis. It consists of determining the ranking based on multiple comparisons, each job being compared as a whole with every other job and receiving 2 points for being of greater importance, 1 for equal

¹⁸⁵ Michael Armstrong (2018), *Armstrong’s Job Evaluation Handbook – A Guide to achieving fairness and transparency in pay and reward*, Kogan Page, p. 17.

¹⁸⁶ Ibid.

¹⁸⁷ A job catalogue for Latvia is available here: <https://likumi.lv/ta/id/332122-valsts-un-pasvaldibu-instituciju-amatu-katalogs-amatu-klasifikacijas-un-amatu-apraksta-izstradasanas-kartiba>. Estonia’s job catalogue: <https://www.riigiteataja.ee/akt/104012022011>.

importance and 0 for less. Statistically, this requires a large number of comparisons, which makes this method unsuitable for large public sector job groups, since to evaluate 50 jobs, as many as 1 225 comparisons are theoretically required.

- **Analytical methods** rely on a systematic process of assessing specific dimensions of jobs, which are equivalent to evaluation “factors” or “criteria”. For these factors, specific guidance is expected to be used, to ensure a consistent application of evaluation criteria and therefore a more objective approach to job evaluation. The analytical job evaluation methods are considered to be the most rigorous, accurate and comprehensive methods of job evaluation¹⁸⁸, which is why they are considered the only methods that can be used as evidence in case of an equal pay claim¹⁸⁹. There are two main methods for analytical evaluation:
 - i. **The point-factor rating method** is the most common method of job evaluation, commonly used both in the public and the private sector. Austria, Latvia and the UK use point-factor rating methods. This method consists in breaking down jobs into a set of measurable criteria considered representative of the value of the jobs. Each factor is divided into several levels, each with a specific description, based on which evaluators can decide to what extent the factor is applied to the job being evaluated. Each level corresponds to a specific number of points. The result of the evaluation for any given job, based on all applicable factors, gives a total score. The jobs can then be ranked based on their scores and their grading structures developed or updated, based on how the jobs are clustered based on their total scores. Typical factors refer to education, decision making, impact and communication.
 - ii. **Analytical matching.**¹⁹⁰ This method consists in determining to what extent the characteristics of a job are similar to those of a grade (job-to-grade matching) or of another job (job-to-job matching). To ensure the analytical dimension, grades are defined based on the evaluation factors and also characterised in terms of the points range derived from the evaluation of benchmark jobs. If a job cannot be easily matched analytically to a grade, it is evaluated based on the point-factor rating method. Job-to-job analytical matching requires predefined profiles to be developed for the benchmark jobs, as in the case of the health sector job classification or even for local public administration job evaluation schemes in the UK¹⁹¹. Then the rest of the jobs are evaluated against the benchmark jobs, factor by factor, based on the profiles. Job-to-grade matching and job-to-job matching can be used together to facilitate the evaluation process.

Various factors can be used to determine the value of any job and therefore contribute to determination of its corresponding base salary. The most common ones are presented in Table 12.

¹⁸⁸Also recommended by the World Bank (2009), Gets Brief, “Pay policy reform: Building a foundation for public sector performance through improved public sector pay policy by using a ‘Single Pay Spine’”, p. 4.

¹⁸⁹ Ibid., p. 14.

¹⁹⁰ Ibid., pp. 99-100.

¹⁹¹ More information on the use of role profiles is available in the NJC technical notes, p. 14, <https://www.unison.org.uk/content/uploads/2018/06/NJC-Technical-Notes.pdf>.

Table 12. Typical factors applied in job grading (for job evaluation and placing jobs in grading structures)¹⁹²

	Knowledge and skills required	Complexity of the job	Amount of judgement/ decision making	Impact of job on organisation	Amount of strategy/ planning	Responsibility for financial resources	Number of direct reports	Interpersonal skills required	Pace of the job	Physical skills required	Scope of role
All	92	72	71	60	57	44	35	32	21	20	11
Public services	97	63	84	51	65	54	35	27	11	14	2

N=229, % of respondents who report using pay structures, selecting either or both employee categories.

On the one hand, non-analytical, simple job ranking can be common practice in flexible salary systems, where compensation decisions and pay advancement are largely determined by individual managers. However, this does require a certain level of administrative capacity and system features, including robust management frameworks. If not properly managed, non-analytical evaluation can result in significant variations in the salaries for the same job across different organisations. At the same time, while non-analytical methods appear to be more prone to contestation, they can be less time-consuming than analytical methods and provide reasonable results if evaluators apply the method consistently, if stakeholders are involved in the job classification process and if broad consultations are conducted to ensure ownership. Many OECD countries rely on non-analytical job evaluation methods, mainly on some form of job classification and job ranking. Estonia is a good example of a country that uses non-analytical job matching to place or update jobs into job family groups. Its classification system is centrally reviewed once a year¹⁹³. Calibration meetings are conducted with the participation of all civil service agencies, ensuring that classification in the state is done according to uniform principles, with a high quality of classification data.

Analytical job evaluation methods ensure a higher level of credibility and pay equity, which is essential in salary system reforms. However, a fully analytical job evaluation process for all public sector jobs can prove difficult to conduct as a general rule. Considerable expertise is required to design analytical job evaluation, which is why in some cases, external experts will advise public services on developing their job evaluation systems. Analytical job evaluation methods are sometimes approved in the form of Cabinet regulations¹⁹⁴.

An OECD analysis showed that “substantial work is being undertaken in many OECD member countries on analytical job evaluation schemes aimed at determining objective relative salary levels for different jobs and competences”¹⁹⁵. It concluded, however, that analytical evaluations can be “cumbersome and expensive and only justified if the pay system that it produces is to stay fixed for a considerable number of

¹⁹² CIPD (2019), Reward Management Report, p. 10, https://www.cipd.co.uk/Images/reward-management-report-2019-2_tcm18-68009.pdf.

¹⁹³ In line with the provisions of Regulation No. 92/2012, <https://www.riigiteataja.ee/akt/108052020036>.

¹⁹⁴ For example, Latvia, Cabinet regulations No. 533 of 23 September 2003, “Regulations Regarding the Basic Methodology for the Assessment of Intellectual Work and Determination of Qualification Categories of Positions for Employees of Institutions to be Financed from the State Budget” <https://likumi.lv/ta/id/79305-noteikumi-par-intelektuala-darba-novertesanas-un-amatu-kvalifikacijas-kategoriju-noteiksanas-pamatmetodiku-no-valsts-budzeta>.

¹⁹⁵ OECD (2012), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris, p. 77.

years”¹⁹⁶. This is not typical for public sector salary systems, which need to be adaptable to respond to the needs of modern public administrations.

As an alternative, a mix of analytical job evaluation and non-analytical methods can be applied, or analytical methods can be applied in sectors that are more centralised and less prone to market competition, for example, the civil service. In Austria at the federal level, an analytical point-factor rating method has been used since 1995 for general administration staff, law enforcement officers and military personnel. This is an adapted version of the Hay Method job evaluation system¹⁹⁷. Job grading decisions are made based on the Hay Method, which includes three evaluation criteria: (i) the expertise required for a job; (ii) the problem-solving skills required and (iii) the accountability. Each factor has two or three sub-factors evaluated for each job on a point scale. This scheme is not applied for jobs of education staff in the public sector, which are subject to a simple job classification system and benefit from a separate pay scheme that has proved to be suitable and sustainable.

A mix of analytical and non-analytical methods can also be applied in case of a public sector salary reform intended to improve pay equity, as in Romania in 2010 or Moldova in 2017-2018. The two countries applied a similar point-factor rating methodology for a set of representative jobs, and the rest of the jobs were ranked non-analytically. The method was first applied in Romania in 2010, with support from the World Bank, as part of a public sector pay system reform process intended to introduce a “unitary pay system”, by integrating all public sector workers under a single grading structure¹⁹⁸. The representative jobs thus evaluated provided the ranking based upon which the rest of the jobs could be classified through sectoral negotiations¹⁹⁹. While the job ranking was not applied, because the Pay Law 284/2010 was never fully implemented, the reforms from 2017 (Framework Law 153/2017) used that job ranking as the basis for consultations and adjustments. The equity adjustments expected to be operated in Romania’s public sector salary system in 2024-2025, in line with the National Recovery and Resilience Plan (NRRP) reform milestones, are also meant to rely on a similar job evaluation method. In Moldova, the evaluation criteria that had been applied in Romania in 2010 were adjusted and applied in 2017-2018 to a set of statistically representative jobs to determine the grading structure, the rest being ranked through a simplified method, non-analytically, by job-to-grade matching. The job evaluation methodology in Moldova was also approved by ministerial order²⁰⁰, to ensure that changes in the job ranking were consistent with the process conducted in 2018.

Institutionally, job evaluation requires proper institutional roles to be defined and the capacity to apply the evaluation framework consistently. For schemes that cover entire sectors or even the entire public sector, a centralised job evaluation unit needs to be tasked for the process. Otherwise, if each institution conducts its own assessment without proper capacity, evaluations can end up being subjective and scoring can differ substantially across institutions for the same job content. Furthermore, the job evaluation method should be tested by evaluating a series of different jobs or levels of job catalogue. The results should be

¹⁹⁶ Ibid.

¹⁹⁷ Eurostat (2017), “Austria: Reporting the remuneration of national civil servants for Article 65 purposes”, https://ec.europa.eu/eurostat/documents/6939681/9010625/15-12-16+Austria_-_Civil_Service_Remuneration_1_2.pdf/10397b99-0cd4-4a23-8b7b-edf4f8b8a7d7.

¹⁹⁸ The reform was supported under a Development Policy Loan Agreement signed with the IMF, the World Bank and the European Commission in 2009.

¹⁹⁹ See details on this process in the Bipartite Commission Report: http://old.csm1909.ro/csm/linkuri/10_09_2010_34652_ro.PDF.

²⁰⁰ Order of the Minister of Finance on the methodology of job evaluation in the public sector in Moldova, No.15/2018, <https://www.mf.gov.md/sites/default/files/Ordin%20nr.15%20din%2019.01.2018%20metodologia.pdf>.

studied and discrepancies corrected. When a job evaluation exercise is first introduced, it is not advisable to decentralise, because the process is open to considerable subjectivity. Rigorous quality control should be observed to ensure a unified approach to evaluating all public sector jobs²⁰¹. If an administration does not have the resources to develop, test and ensure the quality of job evaluation, a simple job catalogue can often be a worthwhile alternative to analytical job evaluation.

Job evaluation and gender equity

As for gender equity, it is worth noting that job evaluation in the public sector can be a key tool for addressing and mitigating gender pay gaps²⁰². The Equal Remuneration Convention of 1951 (No. 100), a fundamental international labour standard, aims to combat remuneration discrimination by ensuring that both women and men receive equal pay not only for identical or similar work but also for work of comparable value. Evaluating the value and associated requirements of distinct jobs based on common and objective criteria is the basis of transparent efficient pay determination systems. A job evaluation free of gender bias makes it possible to compare jobs according to their value, taking into consideration their importance and complexity, regardless whether the job holder is a man or a woman²⁰³. Such job evaluation methods can facilitate the establishment of the relative worth of various jobs, ultimately determining whether compensation is fair. Organisations should focus on introducing objective criteria, ensuring that positions are evaluated based on skills, responsibilities and qualifications rather than subjective factors that may perpetuate gender bias.

The recently adopted *Directive (EU) 2023/970 to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms*²⁰⁴ also requires Member States to ensure that analytical tools and methodologies are available to guide employers and/or the social partners, to establish and use gender-neutral job evaluation and classification systems easily. This Directive needs to be transposed into national law by June 2026.

A gender-neutral job evaluation is expected to rely on: (i) gender-neutral formulation of job evaluation criteria and gender-neutral factor weightings (ensuring that factors oriented more towards male-dominated jobs do not weigh more); (ii) gender-neutral job descriptions that are used in the job evaluation process and gender-neutral job titles, to avoid bias; (iii) inclusive job evaluation committees for conducting job evaluation classification, with mixed-sex representation and with experts who are trained and accountable²⁰⁵. Training programmes on unconscious bias for evaluators and decision makers are crucial in mitigating gender stereotypes during evaluations. Review and control processes on how the evaluation was conducted are equally important to ensure gender-neutral legitimacy of the evaluation scheme. A recent assessment of the job evaluation process in several municipalities in Finland, for example, showed

²⁰¹ The job classification conducted in Ukraine 2023 made the National Agency for Civil Service (NAUCS) responsible for verification of decentralised job classification processes. In the initial phase of the project (November 2023) the majority of job classification results provided by individual institutions (32 out of 56) were rejected due to significant errors in applying the methodology. Information provided by the Head of NAUCS at the 30th PAR Coordination Council on 30 November 2023.

²⁰² For more information on job evaluation methods, see Martin Oelz, Shauna Olney and Manuela Tomei (2013), *Equal Pay, An introductory Guide*, ILO, and ILO (2008), *Promoting equity: Gender-neutral job evaluation for equal pay: A step-by-step guide*, Geneva.

²⁰³ ILO (2008), *Promoting equity: Gender-neutral job evaluation for equal pay: A step-by-step guide*, Geneva.

²⁰⁴ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L0970>.

²⁰⁵ Developed based on European Parliament (2015), *Equality between men and women in employment and occupation: Job Evaluation and classification*, p. 46.

that while almost all organisations claimed to use job evaluation, in most cases, analytical job evaluation had not been conducted. Wages that “seemed appropriate” were ultimately assigned, given the type of work and the individual employee, based on a “shared cultural understanding of the appropriate salary for a given job”. Ultimately, then, “gender inequalities were intertwined with salary determination practices”²⁰⁶.

Job evaluation, whether analytical or non-analytical, is a necessary step in designing a salary system, to enable informed decisions on how to grade jobs (designing a grading structure) and where to grade them (in which specific grades to place each job). Which method is chosen is a decision that should be based on administrative context, reform objectives and the readiness of the public administration to use detailed point-factor schemes for analytical job evaluation exercises. Whatever method is used, gender-neutral job evaluation aspects should be thoughtfully integrated into the scheme design process, and gender-neutral job classification systems should be adopted as key tools to fight the gender pay gap²⁰⁷. Gender-neutral job classification systems that use objective criteria of work-related characteristics, not worker-related characteristics, are mandated in certain contexts in 15 OECD countries in the public sector²⁰⁸. Moreover, Directive 2006/54/EC of the European Parliament and of the Council provides that where a job classification system is used for determining pay, it is to be based on gender-neutral criteria and should be drawn up to exclude any discrimination on grounds of sex. This stems from the principle that for the same work or for work to which equal value is attributed, direct and indirect discrimination on grounds of sex for all aspects and conditions of remuneration is to be eliminated²⁰⁹.

Finally, job evaluation methods are relevant for grading decisions, informing the design of grading structures and fitting jobs into grades. This means that job evaluation results largely determine the base wages in job-based systems. This method, however, is not the only instrument available for salary system design. Base wages depend not only on the job grading decision but on other factors linked to the progression logic and the rules for the various pay components (bonuses, allowances, supplements), including for performance-related pay.

2.4.2. Pay competitiveness – market analysis to inform salary setting

While job evaluation is the main method for ensuring equitable job grading, comparisons with market rates for similar positions are also useful to ensure that pay remains attractive and specialists can be retained. Such comparisons can lead to adjustments in base wages, the design of some specific grading structures or can be reflected in supplements (as discussed in section 2.6)²¹⁰.

Competitiveness of pay refers to the extent to which an organisation/sector’s pay practices, including base wage, bonuses and other financial or non-financial benefits, are comparable to the pay practices of similar employers in the wider labour market. Competitiveness of pay, sometimes referred to as “external fairness”, is a key factor in attracting and retaining top talent, as well as in promoting fairness and equity

²⁰⁶ Paula Koskinen Sandberg (2017), “Intertwining Gender Inequalities and Gender-neutral Legitimacy in Job Evaluation and Performance-related Pay”, in *Gender Work and Organization*, p. 20.

²⁰⁷ As recommended in OECD (2021), “Pay Transparency Tools to Close the Gender Wage Gap”, OECD Publishing, Paris, <https://doi.org/10.1787/eba5b91d-en>.

²⁰⁸ Ibid., p. 35.

²⁰⁹ Directive 2006/54/EC of the European Parliament and of the Council of 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (OJ L 204, 26 July 2006, p. 23).

²¹⁰ OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, p. 88, <https://doi.org/10.1787/938f0d65-en>.

in pay practices. Competitiveness of public sector pay and comparison with the market (private employers), is extensively discussed in the literature and is measured in terms of identification of a “wage premium” or of a “wage penalty” for some sectors, groups of jobs or specific jobs. Ideally, salaries in public service should be at levels that are competitive with the broader labour market. In practice, public servants’ salaries are often limited by the unwillingness of elected representatives, under pressure from public opinion, to devote resources to the wage bill.

The interplay between public and private sector salaries is complex. Over-generous public salaries may create upward pressure on private sector wages, potentially impacting a country’s competitiveness. Overcompensating public employees can mean wasting government resources and increasing the burden on taxpayers, while underpaying stalls the recruitment of high-quality workers essential for delivering quality services²¹¹. Linkages and interaction between public and private sector wages in the EU Member States are multifaceted and beyond the scope of this publication²¹².

The comparability of salaries in the public and private sectors is a matter of debate and can vary depending on a number of factors, such as the specific country or jurisdiction, the type of work being performed, and the level of skill and experience required for the job. It can be argued that job content, responsibilities and professional skills necessary in both sectors are so different that no reasonable comparison is possible. Moreover, the values and motivation of people who choose to apply for public service jobs differ significantly from those of people who prefer to work for private companies. On the other hand, it is a single labour market, and candidates must be competed for by both public and private sectors. The public sector usually disposes of fully declared, taxed salaries rather than tax-evading, hidden remuneration²¹³.

Methodological issues on what and how to compare are beyond the scope of this paper: e.g. Should future pensions, often higher in the public sector, be taken into account? What about in-kind (fringe) benefits, which are typically higher in the private sector? Is data on private sector salaries reliable? Comparing only the remuneration of government employees (civil servants) excludes from the public sector large sectors such as education, health and social services, where salaries are usually lower. A narrow focus on government wages would overestimate the level of salaries in the public sector. Moreover, the public sector usually hands out fully declared, taxed salaries rather than tax-evading, hidden remuneration.

A common opinion, shared by SIGMA in a 2007 note, was that the state cannot match the private sector’s flexibility in remuneration, given the importance of observing equity, fairness and transparency. Instead, the state can compete by providing a transparent, legally established salary that ensures a decent living, job stability, a sound pension plan and respect for social rights. Offering training, career growth opportunities, and minimising political interference can also attract and retain skilled professionals to the public sector²¹⁴.

²¹¹ Flannery, Darragh and Tom Turner (2018), “Assessing the wage gap between public and private sector employees in Ireland: Issues, evidence and challenges”, *Irish Journal of Management*, Vol. 37/1, pp. 51-64, <https://doi.org/10.2478/ijm-2018-0005>

²¹² Cf. European Commission, (2014), “Government wages and labor market outcomes”, Occasional papers 190, https://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp190_en.pdf, or Salto, Matteo. (2013), “The gap between public and private wages: New evidence for the EU, European Commission”, Economic Papers 508, October.

²¹³ Cardona, F. (2009), *Attractiveness of the public service: A Matter of Good Public Governance*, SIGMA, <https://sigmaweb.org/byexpertise/publicserviceandhumanresourcemanagement/44110902.pdf>.

²¹⁴ Cardona, F. (2007), “Tackling Civil Service Pay Reform, Conference on Civil Service Salary Systems in Europe”, Bucharest, April, <https://www.sigmaweb.org/publications/38651271.pdf>.

In theory, public sector wages should be set in relation to private sector wages, ideally resulting in a slight wage disadvantage for public sector employees that remains consistent over time. The “compensating wage differential” concept suggests that job compensation should account for non-wage factors²¹⁵. Considering both monetary and non-monetary advantages, such as job security, public sector pay for equivalent roles should be lower than in the private sector, to balance overall compensation across sectors. The public sector can remain competitive without causing distortions, but continuously monitoring the wage premium is necessary to prevent a significant gap between public and private sector wages from straying from this theoretical ideal. In practice, studies show that in the public sector, clerical jobs often receive larger wage premiums than senior managerial positions. Highly skilled employees tend to face a wage disadvantage in the public sector in many countries. The literature also suggests that the wage premiums are more pronounced for entry-level civil servants than for their senior counterparts²¹⁶.

A public wage premium (deficit) is said to exist when public sector wage levels are high (low) relative to levels for comparably skilled private sector workers. The private sector premium is generally greater in transitioning economies than in developed economies (with a 15%-28% pay penalty for the public sector workers in the early stages of transition) and that this pay gap diminishes with the progress of the economic transition towards those usually observed in developed economies²¹⁷.

In comparing global salaries in the private and public sectors in all Western Balkan administrations, public sector wages exceeded those in the private sector. This is partly due to the higher concentration of high-skilled workers in the public sector, which implies that the global comparison does not necessarily reflect a high wage premium. Around the early 2010s, salary disparities were less in Montenegro, Albania, and Kosovo*, becoming negligible when adjusted for worker characteristics. However, in Serbia, North Macedonia and Bosnia and Herzegovina, these differences were more pronounced, with public sector wage premiums significant and unexplained solely by worker characteristics²¹⁸. Similar results were obtained for some EU Member States: a 2011 study revealed that in 7 out of 10 countries examined, the salary earned by a representative public sector employee was higher than that of a representative private sector employee²¹⁹. This is because public sector employees are generally older, have higher educational degrees, are more likely to take managerial positions and (at least in some countries) are more likely to work full-time. Such distinctions are not always drawn in presenting country data²²⁰.

A study by the European Trade Union Institute concluded that the overall picture from comparative studies on public-private sector pay differentials is diverse and often inconsistent. In some countries, however

²¹⁵ Hasnain, Z. et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, Washington DC, World Bank Group, p. 16, <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

²¹⁶ Ibid., p. 18.

²¹⁷ Lausev, J. (2014), “What has 20 years of public–private pay gap literature told us? Eastern European transitioning vs. developed economies”, *Journal of Economic Surveys*, 28, pp. 516-550. <https://doi.org/10.1111/joes.12039>.

²¹⁸ Vladislavljivic, M., E. Narazani and V. Golubovic (2017), “Public-private wage differences in the Western Balkan countries”, https://mpra.ub.uni-muenchen.de/80739/1/MPRA_paper_80739.pdf.

²¹⁹ The ratio of public to private compensation per employee was found to be below 1 in the case of France, Germany and Belgium, and above for other countries: around 1.1 for Austria, around 1.2-1.3 for Italy, Spain, Greece, Ireland and Slovenia, and above 1.5 for Portugal. Raffaella Giordano et al., *The Public Sector Pay Gap in a Selection of Euro Area Countries* (28 November 2011), ECB Working Paper No. 1 406, <http://dx.doi.org/10.2139/ssrn.1965450>.

²²⁰ See caveats in Federal Ministry for Arts, Culture, the Civil Service and Sport (2022), *The Austrian Federal Civil Service 2022. Facts and figures*, p. 21, <https://oeffentlicherdienst.gv.at/wp-content/uploads/2023/06/The-Austrian-Civil-Service-Facts-and-Figures-2019.pdf>.

(i.e. Bulgaria, Czechia, Latvia, Estonia, France, Romania and Slovakia), a positive overall pay difference turns into a negative public sector pay gap when controlling for individual and occupational characteristics²²¹.

The UK data indicates that only 18% of respondents admit using market rates to set salaries in public services (in contrast to 64% for private sector services)²²². Some administrations do not systematically compare salaries from both sectors, and others do so occasionally. Globally, a third of the countries under IMF review conduct comparisons on an *ad hoc* basis, while fewer than 10% conduct a systematic annual or biannual comparison²²³. However, among OECD countries, as many as 21 indicated salary comparison studies had been conducted, with data collected and aggregated centrally for the whole or most of the central administration as a tool used to measure employer attractiveness²²⁴. In Ukraine, a draft law reforming the salary system provides for comparison of remuneration levels of typical civil service positions with the private sector of the Ukraine to be carried out annually by the central executive body (the National Agency of Civil Service of Ukraine, or NAUCS) in preparing the draft scheme of salaries for civil service positions²²⁵.

In addition to public sector vs. private sector comparison of salaries, for some countries and jobs, international benchmarking is recommended²²⁶. This is relevant when employees can freely move between countries and be employed in the public sector (e.g. within the EU²²⁷). The international labour market for civil servants, however, is limited by comparison with information technology (IT) specialists or English-speaking health specialists²²⁸.

²²¹ European Trade Union Institute, Müller T., and T. Schulten, "The public-private sector pay debate in Europe", Working Paper, 2015, p. 8. <https://www.etui.org/sites/default/files/15%20WP%202015%2008%20Public%20private%20sector%20M%C3%BCller%20and%20Schulten%20EN%20Web%20version.pdf>.

²²² CIPD (2019), Reward Management Report (2019), https://www.cipd.co.uk/Images/reward-management-report-2019-2_tcm18-68009.pdf.

²²³ IMF (2016), "Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges," IMF Policy Paper, p. 25, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>.

²²⁴ OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, p. 100, <https://doi.org/10.1787/938f0d65-en>.

²²⁵ Draft Law on Amendments to the Law of Ukraine "On the Civil Service", on the Implementation of Unified Approaches to Paying Civil Servants Based on the Classification of Positions, <https://itd.rada.gov.ua/billInfo/Bills/pubFile/1556837>.

²²⁶ Comparison to remuneration and work conditions offered by international organisations can also be made: c.f. the report commissioned by the Dutch Government (2017), "Comparing the remuneration at international organisations with that at national governments", <https://www.government.nl/topics/public-administration/documents/reports/2017/10/20/comparing-the-remuneration-at-international-organisations-with-that-at-national-governments>.

²²⁷ Cf. Regulation (EU) No. 492/2011 of the European Parliament and of the Council of 5 April 2011 on freedom of movement for workers within the Union, <http://data.europa.eu/eli/reg/2011/492/oj>. Limitations in the freedom of movement of workers can be justified on grounds of public policy, public security or public health (Article 8). The Court of Justice of the European Union has consistently held that restricting access to certain posts in the public service to a Member State's own nationals is to be interpreted restrictively and that it covers only posts involving direct or indirect participation in the exercise of powers conferred by public law and duties designed to safeguard the general interests of the State or of other public authorities.

²²⁸ Public Service Pay Commission (Ireland) (2017), *Report of the Public Service Pay Commission*, May, p. 48, <https://paycommission.gov.ie/wp-content/uploads/PSPC-report-2017-WEB.pdf>. The commission concluded that earning levels in countries like the UK have had significant effects on the Irish labour market for many years, and that

As for methods of pay comparison, to determine specific levels for public sector pay grades in reference to relevant market comparators, it is important not to rely on a simple comparison of average salaries in the public and private sector. Such a comparison can create a false narrative about pay levels. Instead, comparisons need to control for education and skills level for similar jobs. There are two typical approaches for comparing public and private sector salaries: (i) one is a job-to-job comparison approach, often employed by human resource consulting firms studying similar public and private sector jobs without considering worker characteristics; (ii) the second is a “worker approach” that considers the employee level, based on data from household surveys and controlling for observable worker characteristics (age, experience, education, occupation level, etc). Both approaches have limitations. The jobs approach relies on data from large, formal sector firms and is limited to explicitly classified jobs. It tends to find a wage penalty in the public sector. In contrast, the worker approach may capture a broader range of employment situations, including self-employment and informal activities, but may not cover all relevant job groups.

A typical process for comparing public and private sector salaries based on the first method noted above is described below, based on the experience of Latvia. The steps in the process are as follows:

- i. Determining the sample for comparison and adequate comparators based on a specific classification: titles, roles, hierarchy levels, institutions or sectors. Job groups to be compared can be classified based on the job evaluation method (using the same criteria), if such a method was applied for public sector jobs. A good example in that sense is Latvia, where the pay comparison is based on job groups classified based on the Fontes method.

Table 13. Salary comparison in Latvia, 2019, sample characteristics and references to the job evaluation method²²⁹

	Public sector	Private sector
Size of the sample	114 institutions	236 separate legal entities
Number of employees covered	27 227 employees	50 964 employees
Relevant period for data collection	Gross salary and supplements and bonuses calculated for employees of state administration from 1 November 2018 to 31 October 2019.	Organisations submit accounting data (gross salaries, supplementary payments and bonuses, including labour taxes) for the period from 1 May 2018 to 30 April 2019.
Job classification method	Classification is carried out according to the catalogue of positions of state and local government institutions and groups of monthly salaries. Catalogue levels have point values assigned, based on Fontes job evaluation methodology.	Positions are classified according to the Fontes job catalogue along with Fontes consultants. Catalogue levels have point values assigned, based on Fontes job evaluation methodology.
Limitations	The study did not include state and municipal capital companies and independent institutions, such as the State Audit Office, the Ombudsman of the Republic of Latvia, the Prosecutor’s Office of the Republic of Latvia.	Top managers and board members of organisations were not included in the study. The remuneration of the heads of institutions was compared with the heads of large structural units and operational ones.

in a limited number of sectors (e.g. the health sector), an international labour market prevails, with staff moving to and from other countries in significant numbers. If this is the case, setting pay levels considerably lower than international norms may impact recruitment and retention.

²²⁹ Market comparison based on Fontes vadības konsultācijas (2019), General salary survey data, State Chancellery of Latvia.

- ii. Matching public sector jobs (positions) to jobs “of the same value” in the private sector. The term “value”, “worth” or “size” refers to the results of job evaluation. Comparability is based on similarity of job factors, e.g. qualification requirements, job complexity, levels of accountability and other job characteristics. It is not based on individual characteristics of the job holder. If the point-factor method is being used for job evaluation, the point values of jobs are used as a basis for identifying matching jobs, e.g. when job matching is based on point value, the title of the position is less significant, but the job family is considered. If points are not available, other methods for matching jobs are used, finding the closest similar jobs based on function, title and level in the hierarchy.
- iii. Collecting salary data that is as complete as possible, following the same scheme in both sectors regarding base wages and other pay components (Table 14). The main items compared are monthly base wage, total monthly remuneration and their annual value.

Table 14. Example of table for data collection for pay comparison, Latvia 2019

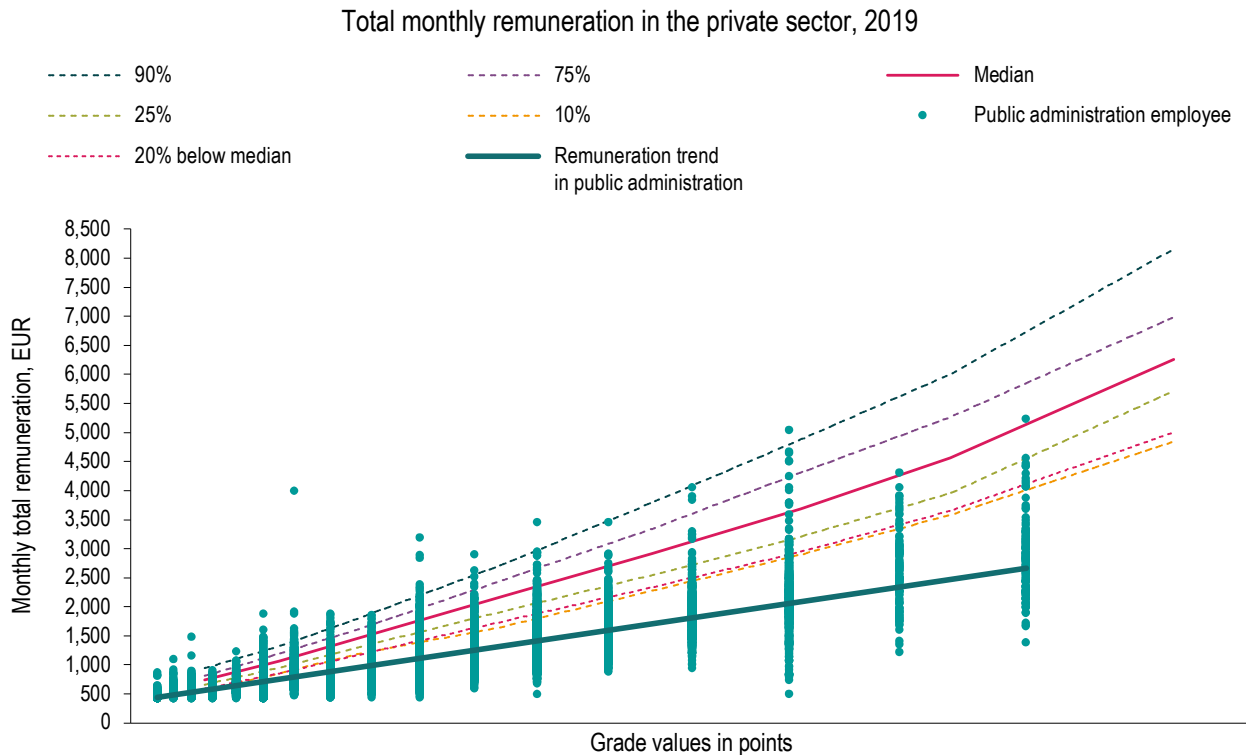
Ministry	Institution	Structural unit	Profession ID	Title of position	Job family	Job level	Grade	Employee ID
Ministry X	Institution X	Department X	422207	Customer service specialist	23. Customer service	IIA	6	20 899

Job value (points)	Monthly base salary, EUR	Monthly and quarterly bonuses, EUR	Monthly total remuneration, EUR	Annual and six-month bonuses, EUR	Annual base salary, EUR	Annual total remuneration, EUR
139	600	0	600	300	7 200	7 500

Source: Market comparison based on Fontes Vadības konsultācijas (2019), General salary survey data, State Chancellery of Latvia.

- iv. Comparing remuneration data. Remuneration statistics like average, median and various percentiles (e.g. 1st, 2nd, 7th, 9th) for the salaries in both sectors are calculated, providing a picture of the distribution of salaries. A trendline of pay level is drawn, showing the actual level of public service salaries, compared to their private sector counterparts (Figure 8). In Latvia, for example, the pay target is median minus 20%, meaning that the target level of public sector pay is lower than the median level pay of matching jobs in the private sector. This gap is explained by such aspects as stable and predictable working conditions, more fringe benefits (which is not always the case in many new EU Member States), and, most importantly, avoiding situations where public service is a driver of salary increases.

Figure 8. Public-private trends based on the salary comparison in Latvia, 2019



Source: Market comparison based on Fontes Vadības konsultācijas (2019), General salary survey data, State Chancellery of Latvia.

- v. Analysing discrepancies in the level of remuneration, for example, how far actual salaries are from the target salary (in case of Latvia, the target is median -20%) and distribution of pay (variety of salaries within the same grade, e.g. how similar or different salaries of the same job value are) are the main aspects analysed. Figure 8 shows that for lower grades, salaries are more similar (e.g. equal), whereas for higher grades, the distribution is much wider. Meanwhile, regional differences (salaries in the capital can be compared with the regions’); differences by sector (salaries of different ministry systems, for example a ministry and its subordinate institution), e.g. finances vs. culture vs. education, etc.) and differences by levels of institutions (ministries vs. agencies, etc.) can be analysed, based on the detailed comparison of remuneration data.
- vi. Drawing conclusions and inputting the results of the comparison into the design of the pay scale, as reflected in Table 15, taking into account:
 - o What is the desirable salary level for every grade, based on target level of pay (usually set out in a salary reform concept document)? If the target level is median minus 20%, then, based on median value of every grade, the pay scale is calculated as the median minus 20% for most grades.
 - o What is the desirable pay range, e.g. what is an acceptable variation of base salaries for the same pay grade? For example, the initial pay interval for the grade in the Latvian public administration was 50%, e.g. target salary +/- 25%, meaning that the lowest salary could differ from the highest salary by 50%.
 - o What is the necessary budget for implementing changes in the pay scale, based on the comparison with the private sector? When actual salaries are significantly lower than target salaries, a medium or long-term intervention plan is developed to increase competitiveness of salary levels.

Table 15. Pay scale adjustments based on public-private pay comparisons in Latvia, 2019²³⁰

Grade (after reform of 2022)	Maximum monthly salary before reform in 2022, EUR	Average total pay, 2018, EUR	Salary survey median, 2019, EUR	80% of salary survey median, 2019, EUR	Target gap from median, %	Midpoint of salary scale (median minus gap %), EUR
- (former grade 1)	450	473	578	462	5	549
1	530	487	597	478	5	567
2	608	570	608	486	5	578
3	705	599	807	646	5	767
4	802	664	902	722	10	812
5	899	711	930	744	10	837
6	996	841	1 092	874	15	928
7	1 093	991	1 380	1 104	20	1 104
8	1 190	1 125	1 414	1 131	20	1 131
9	1 287	1 291	1 760	1 408	20	1 408
10	1 382	1 559	2 157	1 726	20	1 726
11	1 647	1 826	2 461	1 969	20	1 969
12	1 917	2 315	2 890	2 312	20	2 312
13	2 264	2 844	3 868	3 094	20	3 094
14	2 353	2 960	5 650	4 520	30	3 955
15	2 441	3 010	6 048	4 838	30	4 234
16	-	-	7800	6240	40	4680
17	-	-	9343	7474	45	5139

When public-private detailed comparisons are not possible for detailed job classifications groups using a common methodology, it is possible to make inferences on the public-private wage differentials based on the standard statistical surveys (household budget surveys or labour force surveys), or to base aggregate statistical data for similar professions on the average salary levels for specific grades or job groups. In Latvia and Estonia, public service jobs were evaluated using the same job evaluation methodology that the salary survey provider uses to collect annual salary survey data. This allows for comparison based on similar job value, not titles or professions.

In Ireland, both salary survey data and statistical analysis of labour force survey data are used to assess public-private wage gaps. The first report of the Public Service Benchmarking Body was published in 2002 and the second in 2007, employing a methodology rooted in job evaluation techniques to assess public service remuneration (comparison between the pay of jobs of certain agreed-upon public service reference grades and pay for jobs of similar size and complexity in the private sector). It faced widespread critique for its lack of transparency and clarity. In response to the ongoing challenges in fairly comparing public and private sector pay, the Public Service Pay Commission was founded in 2016²³¹. This Commission adopted a more robust and varied methodological approach, including regression analysis of household survey data and administrative salary records. It aimed to compare wages across sectors by accounting for a comprehensive set of worker characteristics and also implemented job evaluations to enhance the fairness and accuracy of public and private sector pay comparisons.

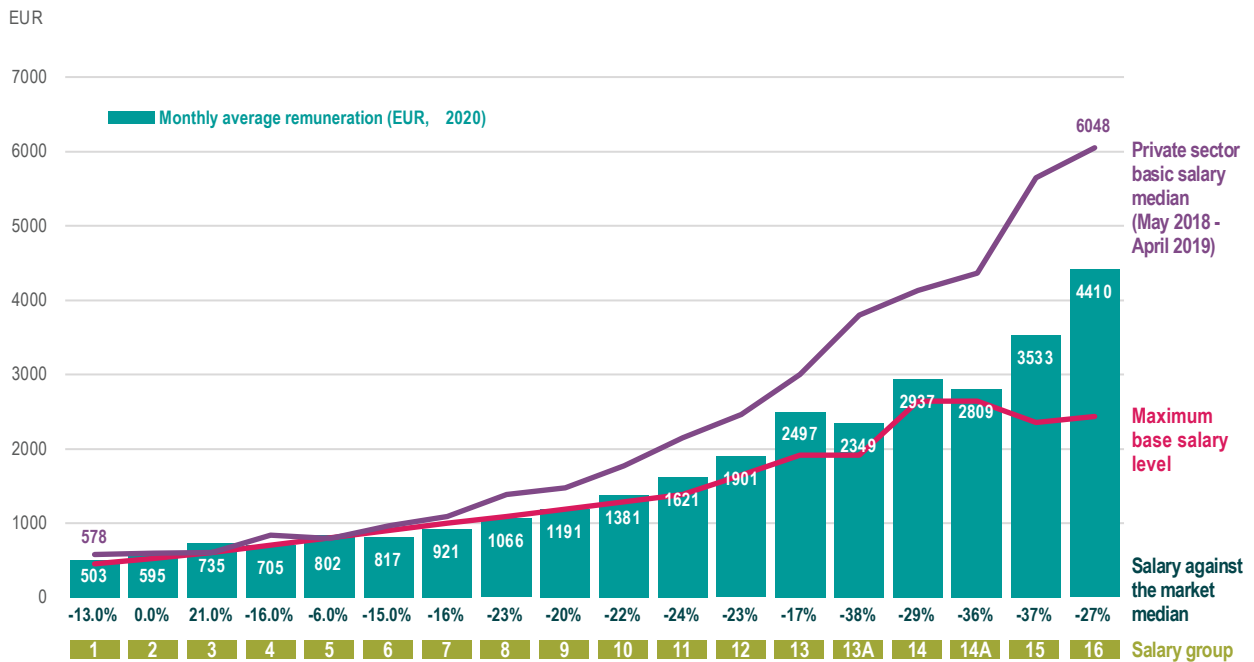
Results of public-private pay comparisons are essential in salary reforms to inform decisions on pay levels for the grading structure or for specific job groups. For example, when jobs of the same value are compared, the result in Latvia was not in favour of the public sector (Figure 9). For state secretaries, the

²³⁰ State Chancellery of Latvia, 2019.

²³¹ Report of the Public Service Pay Commission, May (2017), <https://paycommission.gov.ie/wp-content/uploads/PSPC-report-2017-WEB.pdf>.

highest-ranking public administration position, the maximum salary was EUR 2 441, the market median of 2018-2019 was EUR 6 048 and average total remuneration (e.g. salary plus additional payments) – EUR 4 431. For the lowest grades, there was either no difference between market median and average total remuneration, or public sector levels were even higher. The lack of competitiveness of public sector salaries was manifested, among other problems, in a 40% failure in open competitions (e.g. in 40% of cases, the open competition did not result in filling the vacancy). This was one of the leading reasons for the public sector salary reform in Latvia in 2020-2022.

Figure 9. Public-private sector pay comparison, Latvia, 2020 (before salary system reform)



Source: The State Chancellery informative reports on changes in wages and the number of employees; Salary and number of employees in state budget institutions in 2020; <https://www.mk.gov.lv/lv/media/9285/download?attachment> (slide 10)

Note: Other comparative data on wages and employees in the state administration for 2018-2023 period can be found on the website of State Chancellery of Latvia: <https://www.mk.gov.lv/lv/dati-par-darba-samaksu-un-nodarbinatajiem-valsts-parvalde>

When differences between salaries for similar jobs in the private sector and public sector are too great, the public administration may struggle to attract good candidates (this is commonly cited in the case of IT specialists). In such circumstances, flexible forms of improving pay competitiveness include the introduction of market supplements aimed at decreasing the pay gap, as discussed in section 2.6.

2.4.3. Key messages

- In the context of public sector salary system reforms focused on improving equity, it is advisable to apply a systematic job evaluation method. Countries may apply analytical, non-analytical methods or a combination of the two. While analytical evaluations are most precise, they are resource-intensive, and pragmatic combination of the two methods can ensure a credible yet adaptable system.
- It is important to underline the critical role of gender-neutral job evaluation in advancing pay transparency and mitigating gender pay gaps. The recently adopted EU Directive further underscores the necessity for member states to incorporate analytical tools and methodologies

- There are reasons for cautioning against decentralisation of job evaluation in contexts of low administrative capacity, without adequate resources and training.
- The classification of jobs into job catalogues can serve as a transparent tool for determining the ranking of jobs and informing equitable pay setting. Furthermore, job catalogues are relevant for other HRM system functions (workforce planning, recruitment, mobility).
- In optimising job grading and ensuring pay competitiveness, a comprehensive approach that integrates job evaluation methods with market analysis for comparable positions is recommended. While job evaluation remains the primary mechanism for equitable job grading, periodic assessments of market rates are useful to uphold pay attractiveness and retain specialised talent.
- The concept of pay competitiveness, synonymous with external fairness, becomes pivotal in fostering equitable pay practices across sectors. Comparisons between public and private salaries are not relevant at the aggregate level and should be made for specific professions trying to match like with like as far as possible, possibly also by focusing primarily on areas with clear attraction/retention problems. Debates around the comparability of wages in the public and private sectors underscore the challenge of fair comparisons, given the differences in job content, responsibilities and individual motivations for choosing public sector employment. This highlights the necessity of comparing wages for similar roles and qualifications to ensure equitable and competitive compensation practices.

2.5. Salary components: A. The base wage

2.5.1. Base wages – concept and link with pay equity

Base wage or **base salary** (also called “position salary”) is the element of the total remuneration that reflects the level of complexity and responsibility of the job or the job content in job-based systems, and sometimes also the level of expertise of the job holder (see section on individualised pay, in 2.2). It is the main, most stable and predictable part of public servants’ income, usually constituting the largest part of total monthly remuneration. Usually, the base salary is either set by law or through collective agreement, depending on the administrative system (see section 2.2) and it is expected to change only as part of the salary progression rules²³².

Base wages are expected to reflect the hierarchy of public sector jobs, and they are a direct determinant of pay equity. Base wages directly depend on how grading structures were designed (single/multiple, narrow/broad – see section 2.3) and on how robust the grading process was for various jobs (i.e. to what extent the positioning of jobs in the job hierarchy was informed by job evaluation, see section 2.4). A recent World Bank report concluded that fragmentation of grading structures and the absence of job evaluation are the main sources of base salary inequity²³³ (see section 2.4). On the one hand, multiple salary-setting regimes, with different grading structures for different occupational groups, territorial jurisdictions and even agencies, can ensure higher flexibility, but, in some contexts, they are instead the result of differences in pay bargaining power for some groups. This leads to high pay gaps for jobs of similar complexity. In

²³² However, exceptions exist: in Estonia, the basic salary of an official may be reduced unilaterally only if the following conditions apply: (i) if there is a general economic recession and the reduction of the budget of the authority is necessary for the maintenance of the trust in economic environment; and (ii) if the reduction of the salary does not exceed the percentage by which the budget of the authority is reduced. Civil Service Act of 2012, section 61(3).

²³³ World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*. EFI Insight-Governance, Washington DC, pp. 27-28.

Romania, more than 40 different general and specific salary systems were in place before the reform in 2010, whose aim was to introduce a “unitary wage system in the public sector”²³⁴. Pay gaps for similar positions in different institutions could be as high as 100% and the compression ratio for base wages was very high, at 1:29²³⁵. On the other hand, whatever the grading structure arrangements, placing of jobs in the pay structure (grading) can be determined *ad hoc* and not based on job evaluation, which can become a key source of pay disparities. For example, without robust job classification, university teachers in low-income countries are paid 4 to 5 times more than civil service clerks, and primary teachers 1.5 times more, while in high-income countries, the ratio between university teachers and civil service clerks is only half of that (2.1)²³⁶.

For higher pay equity, the pay structure needs to be simple and transparent, with the base wage the main component of the total monthly remuneration. Usually, the lower the share of the base salary in total remuneration, the less transparent the structure is considered to be. Even if the base salary is equitably determined and linked to a job ranking based on job evaluation, additional pay supplements, bonuses and allowances can distort that ranking. As a general principle, the base salary should constitute the main component of the total remuneration, ideally higher than 70% of the monthly salary; other rules for pay supplements and bonuses, as discussed in section 2.6, should be correlated with this general principle. For example, in the central public administration of Italy, Spain and France, the base salary typically represents close to 70% of the monthly remuneration²³⁷. This has become a good practice recommendation for salary system reforms, as shown, for example, in the World Bank recommendations for Romania in 2010²³⁸. The Principles of Public Administration indicate that performance-related component should constitute a limited proportion of the salary, and the assessment framework suggests that all variable elements that meet the criteria of a bonus be legally capped at under 20% of a civil servant’s total annual remuneration.

2.5.2. Expression of base wages: Pay scales, nominal values and coefficients

Grading structures, as described in section 2.3, become pay structures when pay levels (specific pay values) or pay ranges (intervals of values) are attached to each grade. As a general rule, each grade can either have an appropriate salary range, multiple specific pay levels (usually called **pay steps**) or a single pay level. The totality of pay levels for each grading system is the **salary scale**.

There are several approaches to designing and presenting the pay scale: (i) a single value per grade, (ii) a pay range, or (iii) a set of a values. Each of these three options can be expressed in nominal values or in coefficients.

²³⁴ Laws 330/2009 and 284/2010 abolished more than 40 normative acts regulating these various wage systems in different sectors or for specific functions.

²³⁵ As detailed in the statement of reasons for Law 330/2009, <https://www.cdep.ro/proiecte/2009/300/90/4/em394.pdf> (accessed January 2024).

²³⁶ *Ibid.*, p. 28.

²³⁷ OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, p. 30, <https://doi.org/10.1787/3b6ad37f-en>.

²³⁸ Under Development Policy Loan 2, the World Bank supported policy measures and structural reforms to achieve fiscal sustainability in Romania and one reform area of the public sector wage system. The Romanian government committed at the time to introduce a unitary wage system for all public sector jobs and to make the base wage the main component of remuneration, by limiting bonuses and supplements to below 30%.

Nominal values vs. coefficients

The majority of public sector systems in the EU and OECD express pay levels as nominal values, but coefficient-based systems are also common. A coefficient is meant to provide a clear expression of the value of the position, which is multiplied by a basic reference value. This reference value can be the minimum wage, the average salary in the economy, the salary of the lowest position in public service, or a specific value determined annually as part of the wage bill planning process. France, Croatia, Poland, Romania²³⁹ and Latvia, but also Kosovo* (since 2023), have salary system legislation that expresses salary levels through coefficients. In Romania, the reference value set by law is the minimum salary set at the national level²⁴⁰, but in practice, derogation values were determined to contain salary increases for job groups that already benefited from application of the coefficients. The World Bank also recommended to Romania in 2019 to delink the minimum gross salary from the pay scale in the public sector. It recommended establishing a distinct pay value for coefficient 1²⁴¹, while ensuring that staff employed in positions corresponding to that coefficient would still not be paid less than the minimum gross wage, taking into account successive increases in the minimum salary and the budgetary impact of the current mechanism.

A single value for every grade

This type of pay scale is simple and transparent and associated with specific career systems that are focused on vertical progression (through promotion). In other cases, if applied as a general rule for all public sector employees, this type of pay scale quickly becomes out of date. Without a mechanism for regularly updating the scale, a constant decline in the competitiveness of the public sector can be expected. Often this type of pay scale is accompanied by a long list of additional payments whose only purpose is to compensate for the lack of competitiveness of base salaries. Albania offers an example of a pay scale for civil servants with a single value per grade (Table 16), as does the scale for managers in the German federal civil service (Table 17, A).

²³⁹ In Romania, the gradual implementation of the wage system reform from 2017 was almost finalised, but the transition to coefficients was not completed. A new wage system adjustment is under preparation in line with the NRRP. As a result, the coefficients apply partially, for specific jobs.

²⁴⁰ Article 12, paragraph 2, of Law 153/2017 on the remuneration system for public sector employees, <https://legislatie.just.ro/Public/DetaliiDocumentAfis/190446>.

²⁴¹ World Bank (2019), *Methodology for monitoring the public sector wage system in Romania*, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

Table 16. Pay scale with single nominal values for different categories of civil servants in Albania

Category		Class salary (job positions for each category)	Position salary, ALL (Albanian lek) per month
1		2	3
High management level	I	I-1	235 000
		I-2	217 000
		I-3	205 000
		I-4	180 000
		I-5	170 000
Middle management level	II	II-1	155 000
		II-2	141 000
Low management level	III	III-1	115 000
		III-2	105 000
		III-3	95 000
Executive level	IV	IV-1	80 000
		IV-2	70 000
		IV-3	60 000
		IV-4	50 000

Source: Council of Ministers regulation on the approval of the salary structure, salary levels and other salary allowances of the deputy minister, cabinet officials, prefect, sub-prefect, civil servants and subordinates in some public administration institutions, <https://qbz.gov.al/eli/vendim/2023/05/31/325/0b2165b9-e34d-4962-8ed7-cf4e5634a450;q=vkm%20325%20%2F%202023>.

Multiple values per grade (pay steps)

Multiple values per grade are usually called pay (salary) steps. A pay structure with multiple “steps” usually provides the opportunity for horizontal pay progression (within a grade). As employees gain experience, demonstrate consistent performance or fulfil certain time-in-position (seniority) requirements, they can advance to the next in their current grade, which typically corresponds to a pay increase. The Austrian pay system for federal civil servants provides for narrow grades with salary steps, as shown in Table 17. The first grade (A1) is wider, since it is reserved for specialists with a university education, covering 16 salary steps with an interval of 112% difference between maximum and minimum pay steps. Grade A7, reserved for support staff with basic manual jobs (cleaning staff) covers a much narrower interval of steps, with 17% difference between the maximum and minimum pay steps. A mix of grades with single and multiple pay values is also possible for specific job family groups that include highly specialised senior levels of the career system attractive enough to retain staff and that do not require horizontal progression. In Germany, such a scale is applied for judges and public prosecutors in the federal civil service (Table 17 B). A similar mix of pay scale with single values for some grades and multiple steps for other grades is also used in Serbia, but it is expressed in coefficients (Table 18). Single-value grades are reserved in that case for senior civil servants.

Table 17. German federal civil service pay scale, with single (nominal) and multiple values, 2020

A. Pay scale B – Managers,		B. Pay scale R – Judges and prosecutors, 2020 levels								
Grade	Pay levels	Grade	1	2	3	4	5	6	7	8
B1	7 038.72	R1	4 457.62	4 886.92	5 317.55	5 698.61	6 078.32	6 459.36	6 837.78	7 221.41
B2	8 176.63	R2	5 416.70	5 694.68	5 971.33	6 349.75	6 730.76	7 110.51	7 491.56	7 872.60
B3	8 658.13	R3	8 658.13							
B4	9 161.83	R4	9 161.83							
B5	9 739.93	R5	9 739.93							
B6	10 289.32	R6	10 289.32							
B7	10 819.10	R7	10 819.10							
B8	11 373.67	R8	11 373.67							
B9	12 061.37	R9	12 061.37							
B10	14 197.53	R10	14 808.25							
B11	14 749.49									

Source: Federal Salary and Pension Adjustment Act 2018/2019/2020 (BBVAnpG 2018/2019/2020),

https://www.bgb1.de/xaver/bgb1/start.xav?startbk=Bundesanzeiger_BGBI&jumpTo=bgb118s1810.pdf#_bgb1_%2F%2F%5B%40attr_id%3D%27bgb118s1810.pdf%27%5D_1703231302730.

Table 18. Austrian federal civil service, salary grades with steps

Pay steps	Pay grades (job groups)						
	A 1	A 2	A 3	A 4	A 5	A 6	A 7
1	2 918.3	2 287.2	2 076.6	2 039.5	2 005.8	1 971.0	1 936.4
2	3 022.8	2 340.0	2 120.2	2 071.9	2 034.0	1 994.6	1 953.1
3	3 180.1	2 392.7	2 162.8	2 104.5	2 064.0	2 017.1	1 971.0
4	3 404.8	2 445.3	2 205.4	2 137.0	2 092.2	2 040.6	1 987.9
5	3 630.7	2 498.1	2 249.2	2 169.6	2 122.4	2 064.0	2 006.9
6	3 857.9	2 552.2	2 290.7	2 201.8	2 151.5	2 086.5	2 025.0
7	4 084.0	2 698.5	2 341.2	2 233.4	2 184.0	2 110.2	2 041.7
8	4 311.2	2 872.9	2 397.1	2 267.0	2 214.4	2 133.6	2 059.7
9	4 539.7	3 044.9	2 454.3	2 299.5	2 244.6	2 157.1	2 077.6
10	4 768.3	3 219.3	2 511.4	2 335.4	2 277.2	2 180.8	2 095.6
11	4 995.5	3 390.0	2 569.3	2 369.2	2 307.5	2 205.4	2 113.5
12	5 222.8	3 578.1	2 638.4	2 405.0	2 340.0	2 230.0	2 133.6
13	5 451.3	3 767.4	2 714.4	2 439.7	2 373.6	2 254.9	2 151.5
14	5 678.6	3 904.7	2 796.8	2 475.7	2 411.7	2 278.2	2 170.7
15	5 930.4	4 025.1	2 889.0	2 532.7	2 472.2	2 302.9	2 190.8
16	6 166.2	4 146.7	2 982.4	2 617.5	2 558.4	2 329.8	2 208.7
17	--	4 268.3	3 079.4	2 703.5	2 653.0	2 354.5	2 227.7
18	--	4 495.6	3 173.8	2 763.6	2 716.7	2 381.3	2 247.0
19	--	4 562.0	3 269.6	2 799.2	2 751.3	2 407.2	2 265.9

Source: Austria, Consolidated Federal Law: Complete legislation for the Salary Act 1956, version of 19 February 2023.

Table 19. Salary grades and steps expressed in coefficients (Serbia, civil service)

Position groups and job titles	Pay grade	Pay steps								
		1	2	3	4	5	6	7	8	
First group of SCS	I	9.00								
Second group of SCS	II	8.00								
Third group of SCS	III	7.11								
Fourth group of SCS	IV	6.32								
Fifth group of SCS	V	5.62								
Senior advisor	VI	3.96	4.15	4.36	4.58	4.81	5.05	5.30	5.57	
Independent advisor	VII	3.16	3.32	3.49	3.66	3.85	4.04	4.24	4.45	
Adviser	VIII	2.53	2.66	2.79	2.93	3.08	3.23	3.39	3.56	
Junior advisor	IX	1.65	1.73	1.82	1.91	2.00	2.10	2.21	2.32	
Associate	X	1.90	1.99	2.09	2.19	2.30	2.42	2.54	2.67	
Junior associate	XI	1.65	1.73	1.82	1.91	2.00	2.10	2.21	2.32	
Clerk	XII	1.55	1.63	1.71	1.79	1.88	1.98	2.07	2.18	
Junior clerk	XIII	1.40	1.47	1.54	1.62	1.70	1.79	1.88	1.97	

Source: Article 7-13 of the Law on the Salaries of Civil Officers and Deputy Officers, Official Gazette No. 14/2022. https://www.paragraf.rs/propisi/zakon_o_platama_drzavnih_sluzbenika_i_namestenika.html. The basis is determined for each budget year by the Law on the Budget of the Republic of Serbia.

An interval (a range) for every grade, with minimum and maximum levels

A pay range is a range of pay values assigned to a particular grade or job group in an organisation. The pay range defines the minimum and maximum salaries that can be paid to an employee in that job. This provides a framework for determining individual pay levels based on factors such as performance, market rates and experience, corresponding to the logic of individual-based systems. Scales with pay ranges are meant to ensure a higher level of flexibility, for institutions to determine individual salary levels based on their specific needs and direct knowledge of the work complexity and staff performance. Pay ranges are usually the expression of broad-banded systems (see section 2.3), especially if the range is broad. The pay range implies that similar jobs are paid similarly, although not identically. It can also help to support budgeting and planning efforts, by offering room for flexibility, limited by minimum and maximum values, in systems that have the capacity for adequate wage bill planning and wage bill control (see section 3.2). Pay ranges can also be used in centralised systems, to ensure more flexibility, as in Latvia, which applies a narrow single grading structure (section 2.3) with pay coefficients (Table 8), but which are also published in nominal values to facilitate salary calculation. Most often, the middle salary level of the interval is assigned to a person or job that fully fits the description of the grade. Levels that are more or less than the middle are awarded based on superior or less than average characteristics.

Table 20. Latvia's salary grades and ranges, expressed in absolute numbers (2024)

Grades	Salary ranges (intervals) EUR		
	Minimum	Midpoint	Maximum
1.	619	701	910
2.	619	714	927
3.	687	981	1 277
4.	702	1 003	1 302
5.	751	1 073	1 394
6.	803	1 145	1 490
7.	960	1 371	1 783
8.	1 025	1 471	1 904

9.	1 226	1 752	2 191
10.	1 483	2 118	2 649
11.	1 851	2 645	3 307
12.	2 304	3 292	3 950
13.	2 856	4 081	4 898
14.	3 419	4 883	5 860
15.	3 851	5 500	6 601
16.	4 045	5 779	6 934
17.	4 442	6 346	7 296

Source: State Chancellery of Latvia (2024), Base monthly salary for 2024, <https://www.mk.gov.lv/lv/dati-par-darba-samaksu-un-nodarbinatajiem-valsts-parvalde>. Originally (in the Law on Remuneration of Officials and Employees of State and Local Government Authorities), pay range is defined as coefficients. For the purposes of this example, the values in euros are calculated based on the formula stipulated in the law.

Salary ranges can also be defined by a minimum and maximum value of a coefficient, as in Poland (Table 21).

Table 21. Civil service pay scale expressed in ranges of coefficients (Poland)

Group of positions	Coefficient range
Senior management positions	2.0 to 8.0
Middle management positions	1.8 to 7.0
Co-ordination (senior expert positions)	1.8 to 6.0
Specialist positions	1.8 to 4.5
Support positions (within civil service)	1.8 to 3.4

Source: Regulation of the Prime Minister of 27 November 2023 amending the Regulation on the determination of official positions, required professional qualifications, official ranks of civil servants, multipliers for determining remuneration and detailed rules for determining and paying other benefits to which members of the civil service corps are entitled, Dziennik Ustaw 2023 r. poz. 2577, <https://www.dziennikustaw.gov.pl/DU/2023/2577>.

2.5.3. Compression ratio

While usually treated more like an analytical indicator in systems marked by pay inequity, the accepted difference between the lowest and the highest base salary is a key consideration in system design. This difference is expressed as the **compression ratio**. The larger the value, the bigger the difference is (so with the value of 1, the salaries are of equal value). This indicator and design factor is both a measure of equity and of the competitiveness of a remuneration system. Various ways of measuring this indicator are available: base salaries, total salaries or groups of salaries can be compared. SIGMA used to measure the compression ratio in relation to base wages. This measurement can be distorted if other components of total remuneration (supplements, bonuses) are significant, making base wages less significant in the salary calculation:

Base salary compression is a ratio between the base salary of the highest position and the base salary of the lowest position in the government's civil service salary scale (e.g. the base salary of a secretary general or equivalent position and the base salary of a junior expert or equivalent position).²⁴²

²⁴² OECD (2019), *Methodological Framework of the Principles of Public Administration*, OECD, Paris <https://sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-May-2019.pdf>.

The definition applied by the International Monetary Fund is similar (the ratio of the highest salary to the lowest on the government's main salary scale²⁴³), while the World Bank and OECD calculate it as the ratio between the medians of the first and ninth deciles of pay levels²⁴⁴ or the ratio of the 9th percentile wage to the 1st percentile wage in the salary distribution²⁴⁵. The ratio of highest and lowest values of the salary scale reflects the intentions and is relatively easy to calculate. The ratio of medians indicates the differences in actual salaries, but it cannot be easily measured without comprehensive and reliable data, usually available only to ministries of finance or central co-ordination bodies.

The compression of the base salary scale is a meaningful analytical tool if calculated *within a single remuneration system*, in which the weight of that component in the expected average total can be expected to be at least a rough constant. In theory a simple indicator, its value can easily be distorted if other fixed components or variable parts of the salary are significant, or if in-kind benefits are taken into account²⁴⁶.

The level of compression ratio is a choice made by the decision makers, but it can be limited by other factors: for the lowest salary – by the minimum salary as set by the national legislation; for the highest – sometimes it is limited by the level of salaries of ministers. Raising the minimum salary in the country or directly raising the salaries of the lowest-paid civil servants, while keeping managers' remuneration level untouched, reduces the compression ratio. This has direct impact on the attractiveness of more senior positions for existing staff, as the compressed salary structure (low compression ratio) may reduce incentives to pursue a long career in the civil service. But it can also be a result of contracting out (outside the civil service) the lower-level jobs²⁴⁷. An increase in the compression ratio is sometimes a reason for, or one of the objectives of, a salary reform, because a ratio that is too low discourages civil servants from taking on additional responsibilities if the increase in their salaries is not proportionate²⁴⁸.

Decreasing the ratio can be achieved by a combination of deliberately suppressing the salaries of those at the top to levels usually below the market and of raising the salaries of the unskilled and semi-skilled labour force above the market salary. Such reforms are rare in OECD or EU Member States, but were introduced

²⁴³ Clements, B. et al. (2010), "Evaluating Government Employment and Compensation", IMF Fiscal Affairs Department; Technical Notes and Manuals TNM/10/15; 21 September, p. 5, <https://www.imf.org/external/pubs/ft/tnm/2010/tnm1015.pdf>.

²⁴⁴ Lonti, Z. and M. Woods (2008), "Towards Government at a Glance: Identification of Core Data and Issues related to Public Sector Efficiency", *OECD Working Papers on Public Governance*, No. 7, OECD Publishing, Paris, <https://doi.org/10.1787/245570167540>.

²⁴⁵ Rogger, Daniel and Christian Schuster (2023) (eds.), "The Government Analytics Handbook: Leveraging Data to Strengthen Public Administration, Washington DC, World Bank, License: Creative Commons Attribution CC BY 3.0 IGO, doi:10.1596/978-1-4648-1957-5.

²⁴⁶ This distortion of calculation can happen when a significant part of total salary is made up of bonuses: performance-related pay (in Ukraine) or where other, mandatory components of significant value are included in total gross remuneration. In Italy, general managers' (D1) base salary constitutes 33%, and the position pay 49% of total remuneration. Without taking into account the position pay, the compression ratio for civil servants would be 2.38, and with it, around 6.28 (average total remuneration for each grade considered). The compression ratio for Italy, sometimes presented at the value of 1.4, represents the relation between the lowest and the highest base salary of functionaries and does not take into account managerial positions.

²⁴⁷ World Bank Blogs (2022), "Compression ratios in public sector pay reform: Time to decompress the discourse?" <https://blogs.worldbank.org/governance/compression-ratios-public-sector-pay-reform-time-decompress-discourse>.

²⁴⁸ Albania, in its Crosscutting Public Administration Strategy 2015-2020, planned to increase the compression ratio from 11.7 to 22.1: Monitoring indicator (a) for objective 7, https://www.dap.gov.al/images/DokumentaStrategjik/PAR_Strategy_2015-2020_English.pdf.

in a number of African countries where the compression ratio had reached levels of above 30 or more²⁴⁹. In salary systems that are very fragmented, reforms typically link the equity objective to a pay compression ratio deemed adequate in that context. For example, decreasing the compression ratio to 1:15 was one of the principles agreed upon in the 2009 salary reform in Romania²⁵⁰, followed by a further reduction of that ratio to 1:12 through the 2017 pay reform²⁵¹.

There is no recommended value for the compression ratio. Like the design of the salary system in general, it is a function of factors specific to each country. An appropriate compression ratio is one that is socially and politically acceptable in the country and depends on the dominant ideas about social equality. The World Bank indicated the value of “about 7” as a norm²⁵², and this value was recommended to Central and Eastern Europe countries in 1990s²⁵³. SIGMA used to accept the value as between 1:2 and 1:10²⁵⁴. The average salary compression ratio is lower for the public than for the private sector: 4.9 for the public sector and 6.3 for the private sector²⁵⁵.

Given the challenges of comparing international salaries, very few studies present the compression ratio from an international perspective²⁵⁶. An overview of the compression ratio from OECD countries based on World Bank methodology is included in Figure 10, but the accuracy of the calculations depends on the availability and level of coverage of reported data for base wages for various public sector groups²⁵⁷.

²⁴⁹ Kithinji Kiragu (2003), *Public Service Pay Reform Tactics Sequencing and Politics in Developing Countries: Lessons from Sub-Saharan Africa*, https://www.academia.edu/78962287/Public_Service_Pay_Reform_Tactics_Sequencing_and_Politics_in_Developing_Countries_Lessons_from_Sub-Saharan_Africa.

²⁵⁰ The ratio between the national minimum wage and the maximum salary in the public sector was 1:29 <https://www.eurofound.europa.eu/publications/article/2010/reform-of-pay-system-for-public-employees>.

²⁵¹ Framework Pay Law 153/2017, Romania.

²⁵² World Bank (2017), “Government employment and pay in global perspective: A selective synthesis of international facts, policies and experience”, https://documents1.worldbank.org/curated/en/113501468739142552/101501322_20041117163501/additional/multi-page.pdf

²⁵³ <https://blogs.worldbank.org/governance/compression-ratios-public-sector-pay-reform-time-decompress-discourse>.

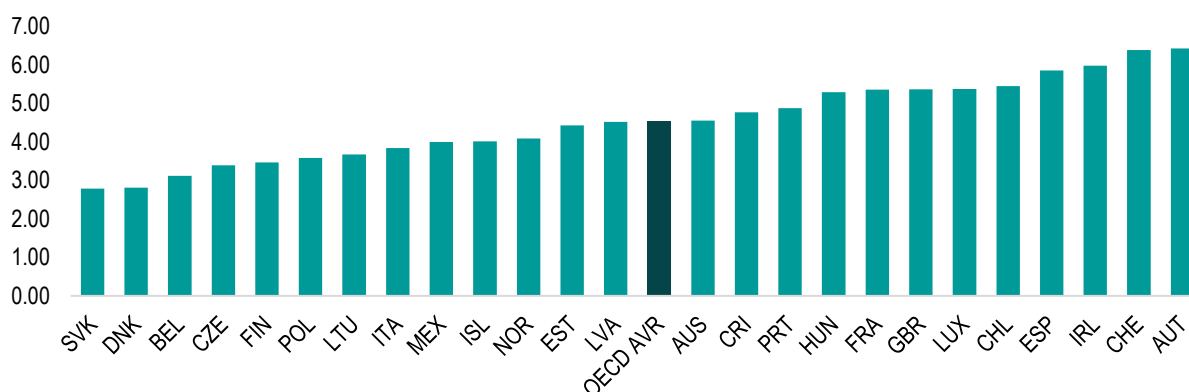
²⁵⁴ OECD (2019), *The Methodological Framework of the Principles of Public Administration*, OECD, Paris, <http://www.sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-May2019.pdf>.

²⁵⁵ Rogger, Daniel, and Christian Schuster, eds. (2023), “The Government Analytics Handbook: Leveraging Data to Strengthen Public Administration”, World Bank, Washington DC, p. 609, [doi:10.1596/978-1-4648-1957-5](https://doi.org/10.1596/978-1-4648-1957-5).

²⁵⁶ A chart was elaborated for EUPAN publication: Government Office of Slovakia (2017), *Remuneration and benefits in central government civil service in the EU members states and European Commission*, https://www.eupan.eu/wp-content/uploads/2019/02/2016_2_SK_Remuneration_and_Benefits_in_Central_Government_Civil_Service_in_the_EU_Member_States_and_the_European_Commission.pdf (p. 13) and republished recently in ACSH (2023). *Public Sector Compensation: A Comparative Review*, Astana Civil Service Hub, Astana, Kazakhstan, p. 27, https://www.astanacivilservicehub.org/uploads/research_pdf/20230511_Remuneration_FIN.pdf, will not be used here because its methodology is not clear and because of numerous issues identified with the data provided. Detailed analysis was made for two outliers: Italy (where the compression ratio was indicated as being at 1.4) and Spain (compression ratio indicated at 33.73).

²⁵⁷ Data for selected countries around the world from 1990 to 2008 is provided by the Wage Bill and Pay Compression, World Bank Group, <https://doi.org/10.57966/6dcn-2p89>

Figure 10. Pay compression ratio in public sector (ratio of 90th/10th percentile earners)



Source: World Bank Worldwide Bureaucracy Indicators (2017), (<https://datacatalog.worldbank.org/search/dataset/0038132>). Latest data available for a country considered (2013-2019)

2.5.4. Upper and lower limits of salaries

Minimum salary in the economy and the lowest salary in the civil service

Most countries, including most of the OECD countries²⁵⁸, had introduced minimum wage legislation²⁵⁹, in line with the International Labour Organization recommendation of 1970²⁶⁰. By 15 November 2024, all EU Member States will need to have it established, as will employers in the public sector, in line with the Directive on adequate minimum wages in the EU²⁶¹. Salary scales for public servants act *de facto* as wage floors, setting the lower limit of legal salaries. However, because of periodic adjustments of minimum wages (usually set by regulation), the lowest salary in the public service may be lower than the legal minimum wage, especially if the former is set in the primary legislation.

Some countries have introduced a provision stating explicitly that “the minimum salary of civil servants cannot be less than the guaranteed minimum salary”, as in Hungary²⁶², or that employees’ salaries below the minimum salary are automatically entitled to a supplement of up to the level of the minimum wage, as

²⁵⁸ As of 2022, 30 out of 38 OECD countries had a statutory minimum wage. In the 8 OECD countries without a statutory minimum (Austria, Denmark, Finland, Iceland, Italy, Norway, Sweden and Switzerland), sector or occupation-levels collective agreements include *de facto* wage floors for large parts of the workforce. OECD (2022), *Minimum wages in times of rising inflation*, <https://www.oecd.org/employment/Minimum-wages-in-times-of-rising-inflation.pdf>.

²⁵⁹ Minimum wages, statutory or negotiated, exist in 90% of the 187 ILO Member States, ILO, *Global Wage Report 2020-21: Wages and minimum wages in the time of COVID-19*, Geneva 2020, p. 16, https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_762534.pdf.

²⁶⁰ Minimum Wage Fixing Recommendation, 1970 (No. 135), https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO:12100:P12100_ILO_CODE:R135.

²⁶¹ Directive (EU) 2022/2041 of the European Parliament and of the Council of 19 October 2022 on adequate minimum wages in the European Union, <http://data.europa.eu/eli/dir/2022/2041/oj>

²⁶² Article 134 (2) of the Law CXXV of 2018 on Government administration, <https://net.jogtar.hu/jogszabaly?docid=a1800125.tv>.

in Slovenia²⁶³. Where salary scales set the lowest-level salaries below the minimum salaries, these levels can be removed or annotated as incompatible with relevant legislation²⁶⁴.

It may be advisable to guarantee that civil servants may not be paid less than the minimum wage, but caution must be exercised in introducing legal guarantees. A provision stating that “the minimum size of the official salary for civil service positions may not be less than double subsistence minimum established by law”²⁶⁵ as in the case of Ukraine would decrease the compression ratio every time the minimum value²⁶⁶ was increased, and if the salary scales are built as coefficients of the minimum salary of civil servants, this has an automatic and significant impact on the total wage bill.

Adjusting the minimum salary, as part of broader labour market policy, can affect the public administration salary system by potentially distorting internal equity. It equalises salaries for less responsible and complex jobs with those that are slightly higher. At the same time, such interventions may drive the entire salary scale upward, increasing the total wage bill. This potential impact of minimum salary adjustments must be taken into account, especially where numerous public servants earn minimum salaries.

Limitations of salaries of top managers in relation to those of ministers

The upper limit of public servants’ salaries can be influenced by the salaries of their superiors, namely the political appointees, usually ministers. National traditions, culture, ideology and politics may prompt countries to introduce legal instruments setting explicit relations between the salaries of these two groups. In some countries, salary scales for senior civil servants are set at a higher level than for political appointees, including the prime minister²⁶⁷. However, in centralised salary systems where a framework legislation defines salary grades for all employees of the public sector, base wages of ministers are usually higher than those of their subordinates – if not always (i.e. Spain). The relation between the actual salaries can be different, depending on additional (variable) elements of pay: seniority, allowances and performance-related components (bonuses).

In countries where different legal bases set the salaries for these groups, this relationship may not be as definitive. In some countries, special legislation is adopted to guarantee that senior government officials’ salaries do not exceed those of government ministers. This can be done by setting a precise value for the

²⁶³ Act No. 311/2001 Coll. Labour Code, section 120 (1) https://www.slov-lex.sk/pravne-predpisy/SK/ZZ/2001/311/vyhlasene_znenie.html.

²⁶⁴ Portugal (2023), “*Sistema remuneratório da administração pública*”, p. 4. The monetary value for levels 1-4 is deleted, with a footnote indicating the minimum salary level. The first allowed step is step 5. https://www.dgaep.gov.pt/upload/catalogo/SRAP_2023_20230421.pdf. The lowest coefficient in the Polish salary tables was increased from 1.5 to 1.8 on 1 January 2024, given the increase in the minimum salary. See footnote **Error! Bookmark not defined.**

²⁶⁵ Draft Law 8222 on Amendments to the Law of Ukraine “On Civil Service” on the introduction of unified subcodes in the remuneration of civil servants based on position classification, Article 51.2, <https://itd.rada.gov.ua/billInfo/Bills/pubFile/1556837>.

²⁶⁶ In this case, the minimum income (subsistence), but discussions are ongoing in Ukraine to replace it with the minimum wage.

²⁶⁷ In Belgium, the gross annual salary for band 7 (indexed, for 2023) is EUR 235 189, while the salary of the Prime Minister is set at EUR 227 000. See the Royal decree of 11 July 2001 on the weighting of the management and staff functions of the federal public service and fixing their remuneration: https://fedweb.belgium.be/sites/default/files/2001-10-11_%20KB%20-%20AR%2030-09-2021%20_%20AR%20pond%C3%A9ration%20des%20fonctions_1.pdf.

maximum salary in the regulation and declaring any payments exceeding this amount undue payments²⁶⁸. It can also be done by specifying that the base salary of the secretary-general should be 90% of the salary paid to the minister²⁶⁹. In other jurisdictions, the salary of a minister is determined in relation to the salary of public servants: in Germany, federal ministers earn one-third more than the highest civil servant²⁷⁰.

Another point to consider is the widespread phenomena of “freezing” salaries of members of parliament, ministers and other political appointees in response to strong public opinion. This may distort the initial relation between their respective salaries and lead to a situation where the salaries of top civil servants exceed the salaries of their superiors. This is the case in Romania, where even if the pay coefficients set for public dignitaries are the highest, the salaries for other managerial positions are higher than those of the top officials, because the coefficient for public dignitaries was multiplied using a derogatory reference value and not the national minimum gross salary.

Finally, uncompetitive pay is often cited as a barrier to hiring the right people in the public sector, particularly in leadership positions. Some public administrations are working to embed flexibility in their pay and reward systems so that, under certain conditions, compensation for some key positions and skill sets can come closer to matching relevant market rates²⁷¹. This is why top public managers usually have a separate system, as discussed in the next section.

2.5.5. Policies for top public management (TPM) salaries and in-demand jobs

There is no common approach to the salaries of civil servants occupying top public management (TPM) positions. EU Member States benchmarked for a recent SIGMA study²⁷² decide on the salary system for the TPM based on a variety of factors that affect conceptual arrangements, job classification and determination of base salaries and the composition of their salaries, including seniority and performance-related pay elements. Countries may base the TPM salaries on the same conceptual basis as the rest of the civil/public servants and include them in a common civil/public servants salary scale or even a single pay scale for the whole public sector²⁷³. Alternatively, they can be treated separately, as a distinct category. In such cases, their salaries (including their structure) are based on a separate salary table significantly different from the rest of the public service²⁷⁴. They can also be based partially on the same salary scale as for all public servants, but include specific categories or additional supplements or allowances for top managerial positions only²⁷⁵.

²⁶⁸ The Netherlands’ Act of 15 November 2012 regulating the standards for remuneration of senior officials in the public and semi-public sector (Standards for Remuneration) Act, <https://www.government.nl/binaries/government/documenten/publications/2015/09/28/standards-for-remuneration-act-the-netherlands/standards-for-remuneration.pdf>.

²⁶⁹ Estonia, section 61(7) of the Civil Service Act of 2012, <https://www.riigiteataja.ee/en/eli/517042023001/consolide>.

²⁷⁰ Germany: The members of the Federal Government receive an official salary of the basic salary of grade B 11, including allowances generally granted in addition to the basic salary. Section 11(1) of the *Bundesministertgesetz* (Act governing Federal Ministers), <https://www.gesetze-im-internet.de/bming/BMinG.pdf>.

²⁷¹ OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, <https://doi.org/10.1787/938f0d65-en>, p. 88

²⁷² Including Belgium, Estonia, Germany, Greece, Ireland, Portugal and Slovenia. It must be noted that the classification of top public managers (or top public management positions) varies significantly between the countries, but usually includes D-1 and D-2 positions below ministers.

²⁷³ Estonia (except for secretary-generals), Greece and Slovenia.

²⁷⁴ Belgium and Portugal.

²⁷⁵ Ireland and Germany.

It is common for countries to have a single/centralised salary scheme for the TPMs working in all ministries and ministerial bodies, which does not necessarily mean the same level of salaries, since they can differ depending on the institution. Estonia has adopted the opposite model; the salaries for its TPMs are decentralised and can differ in different ministries (within a range). Each public body is required to establish a salary guide, with procedures for the determination of salaries²⁷⁶.

In many EU countries, TPM base salaries are job-based. The value of each TPM position is assessed through classical job assessment criteria, based on the importance and difficulty of the position and its scope of responsibility. The base salary is equal for all TPM positions classified at the same rank. The number of different pay levels/base salaries for TPM in the ministries of the selected EU Member States varies from two to 12.

Table 22. Number of top public management (TPM) pay levels in selected EU countries

Pay levels	Country	Observations
2	Portugal ²⁷⁷	Two different base salaries, according to the two TPM grades ²⁷⁸
	Greece ²⁷⁹	Two different base salaries, according to the two TPM grades/ranks: service secretary and head of the general directorate. The TPMs' base salary is calculated based on the salary scale of their category (salary plus multiplier). A monthly allowance for the position is added to this salary ²⁸⁰ .
7	Belgium ²⁸¹	Seven pay bands, ranging from band 1 (the lowest) to band 7 (the highest), according to the seven TPM grades/ranks. TPM positions are classified after a specific job evaluation for each individual position.
8	Ireland ²⁸²	Eight different base salaries in total: 3 base salaries for secretary-general, according to their 3 levels 1 base salary for deputy secretary level 4 base salaries for assistant secretary levels, according to their levels
11	Germany ²⁸³	Eleven different base salaries, for the TPM grades/ranks B1 to B11.
12	Slovenia ²⁸⁴	TPMs are classified into 9 salary grades. However, as some are already directly assigned to a salary grade, there are in practice 12 salary grades for TPM 12 salary grades, applied to 6 TPM positions/categories.

²⁷⁶ Civil Service Act of Estonia (<https://www.riigiteataja.ee/en/eli/530102013082/consolide>).

²⁷⁷ Law No. 2/2004 15 January on approving the managers statute of state central, regional and local administration services and organisations, https://www.dgaep.gov.pt/EN/upload/legislation/Law_2_2004.pdf.

²⁷⁸ EUR 4 704 a month for Grade 1 and EUR 3 917 for Grade 2.

²⁷⁹ Law of Greece on the single pay scale for civil servants, https://www.minfin.gr/documents/20182/3022979/n4354_2015.pdf/85c4f2ec-58ac-4bd4-b460-33ec49f68e48.

²⁸⁰ Service Secretary – EUR 1 400, Heads of Directorates-General – EUR 1 000 (the same approach is used for political positions: Secretary-General and Special Secretary and Deputy Secretary-General).

²⁸¹ Royal decree of 11 July 2001 on the weighting of the management and staff functions of the federal public services and fixing their remuneration, https://fedweb.belgium.be/sites/default/files/2001-07-11_%20KB%20-%20AR%2030-09-2021%20_%20AR%20pond%C3%A9ration%20des%20fonctions_1.pdf.

²⁸² Civil Service Regulation Act of Ireland 1956, <https://www.irishstatutebook.ie/eli/1956/act/46/enacted/en/print>.

²⁸³ Federal Civil Service Remuneration Act/*Bundesbesoldungsgesetz* of 1975, <https://www.gesetze-im-internet.de/bbesg/BJNR011740975.html>.

²⁸⁴ Public Sector Salary System Act of Slovenia, http://www.pisrs.si/Pis_web/npbDocPdf?idPredpisa=ZAKO7276&idPredpisaChng=ZAKO3328&type=doc&lang=EN.

It is common practice to use technical advice, studies and data in setting TPM salaries. A Weighting Commission (a permanent technical body in charge of TPM grading) in Belgium, Federal Personnel Committee (*Bundespersonalaussschuss*, a permanent technical body)²⁸⁵, in Germany, Review Body on Higher Remuneration (a permanent external body, 1969-2009)²⁸⁶ in Ireland, and private consultation companies with relevant experience in Estonia provide evidence, advice and feedback on TPM salaries.

As for salary progression, salaries of TPM are usually limited to a fixed level. Progression through salary steps is not common in most countries reviewed. Performance influences the salary level in some countries like Greece, Ireland (for assistant secretaries only) and Estonia, where TPMs' salaries are reviewed every year after the performance interview, allowing for individualised increases within the range. The salary increase is only possible up to the upper limit.

To understand the actual value of TPMs' pay in any country, their salary can be compared to gross domestic product (GDP) per capita, to salaries of their superiors (ministers) and to salaries of non-managerial public servants. In some countries, public managers are paid salaries higher than ministers²⁸⁷; in others this is formally forbidden²⁸⁸. Comparing the TPM salary and GDP per capita reveals major differences in the sample countries. Slovenia pays TPMs 2.15 times the GDP per capita, while in Belgium, the ratio is as high as 6.38. Relations between salaries of their subordinate depend on the compression ratio (e.g. in Slovenia, the salary of a secretary-general is only two times the salary of a senior advisor), however, in Greece and Ireland, a lower limit is introduced, to ensure that civil servants subordinate to TPM are better remunerated. Even without formal regulation, in practice there are very few cases of regular civil servants being remunerated more than TPMs.

Finally, all sample countries ensure that the TPM salary information is transparent and publicly available. This is achieved via systematic publication²⁸⁹, or for each position (with the name of each specific TPM position)²⁹⁰, of salary tables²⁹¹ as well as indicating salary information relative to a specific TPM position in the job offer²⁹².

Aspects of other components of the TPM salaries are discussed as part of section 2.6 of this paper.

²⁸⁵ According to sections 199ff of the Federal Civil Service Act, the Federal Personnel Committee as the legal mandate to work towards a uniform implementation of the civil service regulations in the federal administration. The committee also has the power to allow exceptions to those regulations.

²⁸⁶ <https://9thlevel.ie/wp-content/uploads/Higherremuneration.pdf>.

²⁸⁷ Belgium, Ireland and Estonia. In Estonia, some TPMs may have a higher fixed salary than the minister or relevant political authority. However, the secretary-general's base salary may not exceed 90% of the salary paid to the minister.

²⁸⁸ The Netherlands, Germany, Greece, Portugal and Slovenia.

²⁸⁹ Belgium (www.cumuleo.be), Greece, Estonia (<https://www.fin.ee/riigihaldus-ja-avalik-teenistus/avalik-teenistus/personali-ja-palgastatistika#ametnike-palgaandmed>) and Portugal (some Portuguese public bodies disclose the individualised salaries of their TPM, even though this is not mandatory).

²⁹⁰ Slovenia (<http://www.pportal.gov.si/>).

²⁹¹ Belgium (<https://bosa.belgium.be/fr/themes/travailler-dans-la-fonction-publique/remuneration-et-avantages/traitement/bandes-de-salaire>), Germany (<https://www.gesetze-im-internet.de/bbesg/BJNR011740975.html>), Greece (<https://www.minfin.gr/web/guest/-/epharmoge-eniaias-arches-pleromes>), Ireland (<https://www.gov.ie/en/circular/64f5a-circular-02-2023-application-of-1-march-pay-adjustment/>), and Portugal.

²⁹² Belgium (<https://travaillerpour.be/fr/jobs/afg23711-directeur-general-po-mfx>) and Ireland (<https://www.publicjobs.ie/restapi/campaignAdverts/180238/booklet>).

Attracting and retaining employees with in-demand knowledge and skills is a global challenge for public sector organisations, a challenge that seems particularly acute in the case of digital skills. A variety of approaches are used for managing compensation for digital talent. In some countries, digital professionals are compensated using standardised public sector pay scales linked to job evaluation and job classification frameworks. Others have adopted a digital data and technology compensation strategy²⁹³, which employs a skill-based system for remuneration that allows agencies the flexibility to determine individual salaries within general caps, with even higher pay scales and extra allowances for critical roles²⁹⁴. (Interestingly, some of these systems have no automatic salary increases and the length of service is not a factor in compensation). Some countries even opt to have dedicated grading structures with competitive salaries to attract and retain skills that are in demand, for example in Austria, which has a dedicated salary system for IT specialists²⁹⁵. It is recognised that the public sector's main appeal for digital talent is to offer a good employee value proposition (not only attractive salaries and benefits but career development opportunities, work-life balance, work environment, organisational culture, values, missions and social purpose)²⁹⁶.

2.5.6. Salary progression (base wage progression)

Salary progression refers to the gradual increase of the base wage at specific intervals, typically based on such factors as seniority, job performance and education.

A distinction should be made between salary increases due to general adjustments to the grading structure as a result of inflation or other conditions (as a result of pay bargaining) and salary increases due to formal promotion to a higher grade or due to progression within the grade to another pay step²⁹⁷. The current section focuses on formal promotion, while general adjustments are addressed in section 3.2 on wage bill planning.

Pay progression can imply moving within the grade to a higher pay level or moving to a higher grade. Vertical progression to a higher grade is usually associated with professional promotion as part of the career system, which typically entails a change in job title. Progression within a grade is sometimes referred to as “horizontal progression” and is usually based on seniority and/or performance. It implies that the employee is on the same job (and retains the same job title) but is entitled to a higher base salary within the pay grade in which the job is classified. When the seniority increase is reflected in the base salary and not paid as a supplement, this implies that other bonuses are calculated using a higher base salary (taking account of seniority). Seniority-based increases are prevalent for two main reasons²⁹⁸. First, as employees

²⁹³ Government Digital Service (UK), <https://www.civil-service-careers.gov.uk/departments/gds-hub/>.

²⁹⁴ Andrews, D. et al. (2022), *Tech Savvy: Advancing GovTech Reforms in Public Administration*, World Bank Group, <https://documents1.worldbank.org/curated/en/099400004112257749/pdf/P1754970d6c6420f00ab5905f7004ba9c2f.pdf>.

²⁹⁵ A recent study suggested that over 35% of OECD countries have separate pay scales for certain professions, e.g. IT specialists. ACSH (2023), “Public Sector Compensation: A Comparative Review”, Astana Civil Service Hub, Kazakhstan.

²⁹⁶ For more on employee value proposition, see for example: OECD (2021), *Public Employment and Management 2021: The Future of the Public Service*, OECD Publishing, Paris, p. 91, <https://doi.org/10.1787/938f0d65-en>, or “Ageing and Talent Management in European Public Administrations”, a report prepared by the OECD for the Slovenian Presidency of the Council of the European Union, October 2021, <https://mfp.gouvernement.lu/dam-assets/publications/Ageing-talent-management-in-European-public-administrations.pdf>.

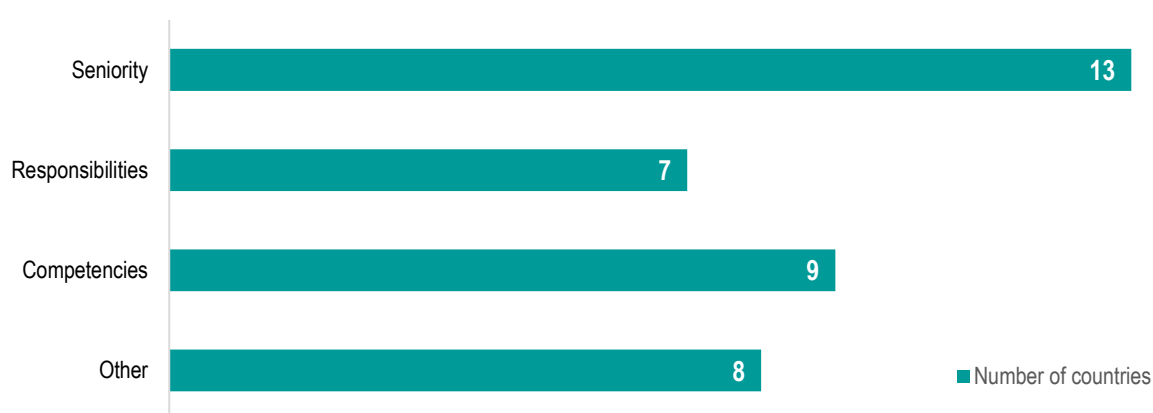
²⁹⁷ CIPD (2022), “Pay structures and pay progression. Outlines the purpose of pay structures and progression”, including the common ways of structuring pay and of determining, reviewing and controlling pay progression. <https://www.cipd.co.uk/knowledge/fundamentals/people/pay/structures-factsheet>.

²⁹⁸ OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, p. 30, <https://doi.org/10.1787/3b6ad37f-en>.

gain more experience in their roles, they tend to accumulate valuable knowledge and skills, which can result in increased productivity. The pay system is designed to reward the enhanced productivity that comes with tenure. Second, seniority-based pay increases are seen as an implicit contract between employers and employees. Employers are assumed to have an interest in retaining their staff, and offering incremental pay raises encourages employees to stay with the organisation in anticipation of benefiting from the productivity gains associated with seniority. This arrangement helps create a sense of job security and loyalty among employees.

In EU countries, seniority appears to be the prevalent logic underpinning pay progression. A 2016 survey conducted by EUPAN on the criteria for pay progression²⁹⁹ showed that seniority is the most common criterion in 13 countries, while in 9 countries, pay progression is based on evaluation of competences.

Figure 11. Principles of horizontal pay progression in EU countries (2016)



Source: EUPAN, Government Office of Slovakia (2017), Remuneration and benefits in central government civil service in the EU members states and European Commission, https://www.eupan.eu/wp-content/uploads/2019/02/2016_2_SK_Remuneration_and_Benefits_in_Central_Government_Civil_Service_in_the_EU_Member_States_and_the_European_Commission.pdf.

Overall, there are three generic types of salary progression mechanisms:

1. *Automatic* – salary is increased for a certain amount (for example, 3%) every second or third year.
2. *Semi-automatic* – salary is increased for a certain amount at regular intervals, unless there have been disciplinary violations, negative performance appraisal results, etc.
3. *Non-automatic* – salary progression is a result of performance assessment. This is also known as performance-related pay, which is consolidated into the base salary.

For any kind of salary progression, an important aspect is affordability. Automatic salary increases, though predictable, are also highly costly for large organisations like public service. Semi-automatic progression, although it seems less risky, can in reality be equally costly, if the conditions for salary increase are met easily (or are tricked around, for example, providing 99% of staff a positive performance appraisal).

²⁹⁹ EUPAN, Government Office of Slovakia (2017), Remuneration and benefits in central government civil service in the EU members states and European Commission, https://www.eupan.eu/wp-content/uploads/2019/02/2016_2_SK_Remuneration_and_Benefits_in_Central_Government_Civil_Service_in_the_EU_Member_States_and_the_European_Commission.pdf.

While non-automatic pay progression requires more effort, to design the criteria, to train managers and to monitor the implementation, it can also be more motivating for staff. However, the risks of performance-related pay (PRP) progression mechanisms need to be properly taken into account, as a PRP scheme that does not ensure sufficient credibility over how performance is assessed can have the opposite effects, disincentivising public employees and leading to accumulated costs that cannot be reversed because they are consolidated into the base salary. Thorough analysis and preparatory work is thus needed for the introduction of PRP reforms, as highlighted in section 2.7 of this report.

Besides these types of salary progression mechanisms, in the public sector, public servants' salaries can also progress as a result of regular or *ad hoc* updates or an indexation of the pay scale (possibly linked with economic indicators). This topic is addressed in section 3.2.

Salary progression is also inherently linked to the logic behind workforce planning and career system policies for various professions and roles. The appeal of public sector jobs is significantly influenced by the pay progression logic (steep or gradual), which must be carefully crafted to ensure competitive compensation. A clear, rewarding salary advancement path, reflecting experience and performance, is key to attracting and retaining talent.

The relevance of salary progression for motivating and fairly compensating public servants is noted in the Principles of Public Administration, which recommends that grading and pay structures provide for salary progression opportunities (Sub-principle 11.e.)³⁰⁰.

2.5.7. Key messages

- The concept of base wages, also known as base salary or position salary, plays a crucial role in the remuneration of public servants. It represents the stable and predictable portion of their income, primarily determined by the complexity, responsibility and expertise level associated with their job. Typically established by law or collective agreements, base wages are central to pay equity and directly related to the hierarchy of public sector jobs. The design of grading structures and the effectiveness of job evaluation processes significantly impact base wage equity.
- The expression of base wages is closely tied to pay scales; base wages are expressed either as nominal values or as coefficients. Pay scales become pay structures when specific pay levels or pay ranges are attached to each grade. The design of the pay scale can involve a single value per grade, multiple values (pay steps) or a range for every grade.
- In a transparent pay system, the base salary should constitute the majority of the total monthly remuneration, ideally exceeding 70%. The pay structure, balancing the base salary with additional pay components, influences the perceived transparency, fairness and manageability of the overall pay system.
- In salary system design, the compression ratio, representing the ratio between the highest and lowest base salaries, is significant for pay equity. There is no general recommendation for the ideal compression ratio, as this depends on the context, but based on SIGMA guidelines, it should be above 1:3 and below 1:10. It is crucial to consider the potential distortion of this ratio if other components of remuneration, such as supplements and bonuses, are a significant portion of the monthly salary. Additionally, the upper and lower limits of salaries, particularly influenced by minimum salary legislation and political appointees' salaries, require careful attention, to maintain equity and adherence to legal standards. The OECD encourages transparency in top public

³⁰⁰ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

management (TPM) salaries, emphasising the need for clear structures and mechanisms to avoid disparities and ensure public trust.

- Across EU countries, seniority remains a prevailing criterion for horizontal salary progression, aligning with an implicit contract between employers and employees. As countries grapple with designing effective progression mechanisms, a comprehensive analysis is recommended to mitigate the potential risks associated with performance-related pay progression and to ensure credibility in assessing employee performance.

2.6. Salary components: B. Pay supplements

Pay supplements are additional payments an employee may receive in addition to the base salary. Such supplements are provided to employees to recognise specific qualifications, reward specific contributions or to compensate for special circumstances (such as specific working conditions) or overtime work. These supplements are sometimes called **bonuses**, especially when granted for seniority or performance.

Allowances are additional payments made in addition to base salary, typically for specific purposes or in recognition of specific needs. Allowances may be taxable or non-taxable, depending on the specific allowance and the country in which the employee works. Typical examples include allowances for compensating costs for commuting to work, the resettlement allowance or the allowances granted to diplomatic personnel reserved for expenses incurred in establishing and maintaining relationships of value to a specific country in other foreign countries³⁰¹.

Typical pay supplements that are general in each country are stipulated in labour legislation applicable to both public and private employees. In addition, public employees have specific pay rights, some being sector-specific. For example, the health sector usually requires supplements and allowances to differentiate between specialties, qualifications and working conditions.

The typical pay supplements include the categories detailed below.

2.6.1. Permanent supplements, with general applicability

Permanent pay supplements are paid constantly, on a monthly basis, wherever the job is based in the sector, of the working conditions, the time of work or the volume of work. A typical pay supplement applicable to all public employees is the **seniority supplement**.

Seniority supplements are quite common across EU/OECD countries and are mainly used for supporting employee retention in the public service³⁰². They are not tied to performance or higher qualifications, even if, as may be expected, professional experience in the public service results in better skills and higher capacity.

In many OECD countries, the importance of seniority in formal salary-setting processes has diminished in recent decades. This is partly due to concerns that seniority-based pay schemes (where wages rise as a

³⁰¹ As in the US: https://aoprals.state.gov/content.asp?content_id=310&menu_id=75.

³⁰² An overview of seniority pay, including in the private sector, is presented in Iliev A., V. Grigoriova and R. Kraunkova (2017), "The Big Importance of the Small 'Seniority Grade': Bulgarian Experience and European Practices for Stimulating Professionalism, Analysis", Friedrich Ebert Stiftung, November, <https://library.fes.de/pdf-files/bueros/sofia/14223.pdf> and Eurofound (2019), "Seniority-based entitlements: Extent, policy debates and research", Publications Office of the European Union, Luxembourg, <https://www.eurofound.europa.eu/publications/report/2019/seniority-based-entitlements-extent-policy-debates-and-research>.

function of seniority rather than performance) are a barrier to continuing to work at an older age (at least in the private sector). A 2019 OECD report among key policy recommendations thus called for reviewing practices in setting pay to reflect productivity and competences, not years of service³⁰³.

Depending on the objectives of the salary reform in a given country, seniority-based increases can be fundamentally impacted. For example, in countries where the focus of reform was on performance (in cases where the performance management system is already established, see section 2.7), seniority has even been abolished and replaced by performance-related pay increases, as it was in Portugal (see section 2.7). In other systems, which intended to retain the seniority dimension but to encourage young people to join the public service, seniority increases were maintained. However, for example, their size might be differentiated, to secure higher increments after the first years of employment, as was the case for the seniority groups defined in the Romanian salary system after the 2010 reforms.

There are two main forms of seniority-based payment:

- (i) seniority-based base salary progression, which is not a supplement but means that the seniority is paid as an increase of the base salary. It is thus consolidated into the base salary, usually reflected as a “horizontal progression” within a grade. Sometimes, the horizontal pay steps are tied to both seniority and performance, as in Germany (cf. section 2.5.6).
- (ii) seniority supplements, which implies that seniority is an addition to the base salary and that usually, other supplements granted as percentage of the base salary are not calculated taking seniority into account.

The upper end of seniority increases can add 20%, 30% or even 50% to the base salary, introducing significant differences that are not always correlated with the quality or amount of work. The seniority-based pay can increase in linear fashion, sometimes at 1% per year. If the progression is faster (2% per year), the upper limit is achieved sooner, and the main incentive (continuous increase of salary) is lost. The increases may also come only every second and third year, as a function of specific groups of seniority intervals. By providing higher increases after the first years, the reform can encourage young people to join the public service. This was one of the reform objectives in Romania, where the first seniority group, obtained after three years in the public service, grants access to a 7.5% increase of the base salary, whereas further seniority entitlements are lower (5% and 2.5%), but are cumulatively applied to the base salary.

Figure 12. Seniority groups in the Romanian public sector after the 2010 wage system reform

Seniority intervals	Seniority-based additional increase
3-5 years	7.5 %
5-10 years	5%
10-15 years	5%
15-20 years	2.5%
Over 20 years	2.5%

Note: As defined by the Law 284/2010 on the unitary wage system in the public sector. These seniority groups were maintained by the Law 153/2017.

³⁰³ OECD (2019), *Working Better with Age, Ageing and Employment Policies*, OECD Publishing, Paris, <https://doi.org/10.1787/c4d4f66a-en>.

The increase in the seniority supplement in Albania, introduced in 2023, follows the opposite logic. The supplement can be as high as 24% of job position salary, but is divided into three bands whose value increases, rather than diminishes: only 0.6% after each year of work for the first 10 years; 0.8% after each year of work for the second 10 years, and 1% after each year of work for the third 10 years, up to 30 years in service³⁰⁴.

The seniority increase can be granted in the same form to all public sector employees. It is usually the case in countries with centralised salary systems and a unitary-salary setting framework (like Slovenia), but it can also follow distinct rules for different categories of public employees, as in Austria. At the federal level, the Austrian salary system ensures a seniority increase for civil servants that is granted as a pay step (see section 2.3 on grading structures and horizontal progression), whereas contract employees are not entitled to this pay right.

What is taken into account for calculating seniority varies. Some consider only employment in the sector or civil/public service, while others are applicable to all types of employment, including the private sector, based on the goals the seniority allowance aims to achieve.

Eliminating the seniority allowance is sometimes one of the elements of salary reform, but this needs to be in line with the administrative tradition, with wider human resource management (HRM) policies and it has to be adequately negotiated with relevant stakeholders. Normative countries tend to attach significant importance to seniority as a key dimension of public salary systems, being a key element for wage progression³⁰⁵. Ambitious salary reforms abolishing seniority can be reversed if they are not properly planned in this respect. For example, the elimination of the seniority supplement was part of the salary reform in Lithuania as planned in 2021, but it was eventually abolished only for the head of institutions and reduced from 30% to 20% of the basic salary, to ensure the reform was acceptable.

Rank supplements are a part of the base wage associated with a level in the hierarchy or a special type of employment (e.g. diplomatic rank, special service rank). Like seniority supplements, this is an element of pay usually associated with loyalty in the civil service corps. In the case of rank supplements, seniority-related prerequisites may be accompanied by specific conditions of performance. For example, the Polish civil service has nine official ranks, each with a corresponding multiplier that offers a linear increase to a specific category of civil servants only, as reflected in Table 23.

³⁰⁴ Decision of the Council of Ministers (DCM) No. 325/2023, of 31 May 2023, “On the approval of the structure and salary levels of civil servants, deputy ministers and cabinet officers in some public administration institutions”, as amended by DCM No. 621 of 1 November 2023 and DCM No. 793 of 28 December 2023.

³⁰⁵ T. Tsekos (2006), “Modelling Public Administration: Normative Versus Operational Administrative Tradition in EU Member States,” in *The Institutional Reforms in the Republic of Moldova in the Context of European Integration*, ed. A. Burian and X. Kontiades (Proceedings of the International Conference, Institute of History, State and Law, Academy of Sciences of Moldova, Chisinau, Moldova), pp. 102-106, https://www.researchgate.net/publication/239668000_Modelling_Public_Administration_Normative_Versus_Operational_Administrative_Tradition_in_EU_Member_States.

Table 23. Multipliers to determine the rank supplement in the Polish civil service, 2024 levels

Service rank	Multiplier applied to the base amount	Civil service supplement (in PLN)
I	0.47	1 235
II	0.65	1 709
III	0.85	2 234
IV	1.05	2 760
V	1.25	3 286
VI	1.45	3 811
VII	1.65	4 337
VIII	1.85	4 863
IX	2.05	5 389

Source: Poland, Regulation of the Prime Minister of January 29, 2016 on determining official positions, required professional qualifications, service ranks of civil servants, multipliers for determining remuneration and detailed rules for determining and paying other benefits due to members of the civil service corps, (Rozporządzenie Prezesa Rady Ministrów z dnia 29 stycznia 2016 r. w sprawie określenia stanowisk urzędniczych, wymaganych kwalifikacji zawodowych, stopni służbowych urzędników służby cywilnej, mnożników do ustalania wynagrodzenia oraz szczegółowych zasad ustalania i wypłacania innych świadczeń przysługujących członkom korpusu służby cywilnej, ze zm.), <https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU20220002024/O/D20222024.pdf>

2.6.2. Exceptional supplements, or the variable pay component

Exceptional supplements are paid only based on specific conditions and may vary from one institution to another, from one month to another. They can depend on work volume or be granted for specific workplaces in some institutions because of particular working conditions. In this sense, they are considered part of so-called “variable pay”³⁰⁶.

Some typical supplements are granted to all public employees for overtime, night work, work in shifts or work during holidays. These categories are usually regulated by the general labour legislation.

Additional pay can also be ensured when, for a certain period of time, the job involves additional responsibilities or more intense work (for example, a bonus for filling in for a colleague or manager or for a vacant job position or for extra workload (higher intensity of work). However, such supplements must be considered with performance-related bonuses, as they compensate for the same element – more intensive work, and a higher quality or quantity of results. To enhance managerial autonomy, managers should have some discretion in awarding such supplements, but in systems with low accountability, fixing their value by legislation may be preferred³⁰⁷.

Another category of supplements that are not permanent are ensured for additional complexity/importance of work, which cannot be generally captured in the job evaluation of a given job and its positioning in the pay structure, given institutional variation for the same generic job title. For example, a supplement can be granted for work with documents classified as state secret, but not all jobs are directly associated with this specific responsibility. Another type of supplement can be paid for work responsibilities considered more

³⁰⁶ This corresponds to the broader definition the World Bank uses. In the World Bank report (2019), *Methodology for monitoring the public sector pay law, Romania*, variable pay includes all bonuses and allowances that are not a permanent part of total remuneration. https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf

³⁰⁷ Cf. Civil Service Law of Ukraine (Article 52.3 as of December 2023), where payment for additional workload in connection with the performance of the duties of a temporarily absent civil servant is established at 50% of the official salary of the temporarily absent civil servant.

complex than other typical activities in the same institution or to the typical job content in other institutions, (e.g. the supplement for managing projects financed from EU funds that is granted in Romania, etc.).

A specific category of supplements that are not permanent, as they depend on conditions associated with the workplace, are those for working conditions. Such working conditions imply exposure to challenging circumstances, dealing with hazardous or life-threatening materials/environments or at risk of professional diseases. In other cases, working conditions can be compensated for to encourage staff to join a specific area of the sector where specialists are needed. This applies in Ireland to nurses entitled to a supplement for working in “occupational therapy” units in the health sector³⁰⁸, in which case they are closer to the so-called “market supplement” (see next category of supplements). When working conditions cannot be directly captured in the job evaluation scheme so that the grading of jobs correctly translate such requirements, a supplement can be used to compensate for exposure to particular circumstances or factors that are not generalised for all public sector jobs/for the entire sector. Working conditions supplements can help differentiate, for example, between a doctor in a hospital working with infectious diseases and a similar job in a general hospital.

Supplements for working conditions can also expand into a long list of bonuses that are not justifiable and are only meant to compensate for low base wages or reflect lack of transparency or specific groups’ bargaining power. Supplements paid for generalised attributes of the job (key characteristics related to required qualifications and job content), which can be accounted for in the job evaluation process, are not justifiable, as in the case of the bonus for “working conditions which require using a computer” that was one of the many supplements paid in the Romanian civil service before the 2010 wage system reform³⁰⁹.

Performance-related pay (PRP) is a typical part of variable pay. It is often considered a synonym of variable pay³¹⁰. A PRP increase is commonly applied in public sector salary systems across EU/OECD countries, often as a pay supplement. When the PRP increase is granted as a permanent increase of the base salary, it is part of the horizontal pay progression and not considered a form of variable pay (section 2.3). Given the complexity and challenges of PRP mechanisms, a separate section is devoted to this topic (section 2.7), and PRP is not covered in the current section of the report.

A special type of supplement is the **market supplement**. In special circumstances, it is justifiable to have exceptions from internal fairness of the system based on external, i.e. market considerations³¹¹. Some positions in the public sector, such as for high-level IT specialists or financial specialists, may be difficult to fill, due to the high level of remuneration that can be obtained in the private sector. For this reason, higher pay levels may be sometimes provided for specific jobs that are at a premium in the market. Such pay levels should, however, be regarded as exceptional. They require specific justification and should be subject to regular reviews. This is for example a key OECD recommendation for ensuring more flexibility in a traditional, seniority-based salary system like Israel’s. It also underlines the importance of developing

³⁰⁸ Ireland (2017), “Consolidated salary scales in accordance with the FEMPI acts, the Public Service Agreements and the Public Service Pay and Pensions Act 2017”, <https://assets.gov.ie/247981/c1571015-0269-482f-9550-f31073d3242a.pdf>.

³⁰⁹ Law 284/2010 on the unitary public sector wage system in Romania abolished a long list of supplements.

³¹⁰ See for example the study conducted by the IES: Paul Suff, Peter Rille (2004), *Flexing your Remuneration. Variable Pay at Work*, Institute for Employment Studies, Brighton, UK, <https://www.employment-studies.co.uk/system/files/resources/files/mp39.pdf>.

³¹¹ World Bank (2014), *Pay Flexibility and Government Performance*, <https://openknowledge.worldbank.org/bitstream/handle/10986/18959/884860WP0PayFI00Box385241B00PUBLIC0.pdf?sequence=1&isAllowed=y>.

job profiles that focus on competences and revising the job classification to ensure more opportunities to match pay with market wages for skill sets where it is hard to recruit³¹².

Market supplements for certain positions can either be paid as a percentage increase, a multiplier applied to the base salary or as a lump sum, for entire job categories in a given job family (like IT specialists) or for specific jobs in some areas (like teachers of science). For example, the recent reform adjustments in Latvia in the public sector salary system include the application of a market coefficient for specific positions, ensuring that the monthly salary multiplied by this coefficient does not exceed the monthly salary determined for the prime minister. The market coefficient can range between 1.1 and 1.5 (meaning a base wage increase ranging between 10% and 50%). The proportion of beneficiaries of the market coefficient cannot exceed 15% of the number of employees in a state or local government institution, or 30% in the case of service providers. The law stipulates the obligation of the state or local government institution to review eligible jobs at least once every two years and to provide a justification for the decision, with the Cabinet of Ministers having the final decision-making role on the professions and specific areas to which the market coefficient is applicable³¹³.

Market supplements are not limited to high level specialist jobs (IT specialists being the most cited example), but also to professionals in sectors facing significant skills shortages. For example, in UK, market supplements are granted as lump sums for nurses and social workers because of evidence-based conditions that require such policy intervention to attract and retain qualified staff³¹⁴.

While market supplements can prove a useful instrument, especially in a rigid grading system with a centralised structure or with high level of centralisation and limited autonomy for sectors and institutions (see section 2.3), their extended use risks undermining pay equity. Clear rules must be set up to specify the conditions when such market supplements are applicable and needed and also on the verification mechanism. A study conducted in the UK³¹⁵ showed that successful use of market supplements is linked to the following conditions, among others: (i) clear guidance on minimum conditions to be met and evidence required on evident skill shortages and recruitment and/or retention issues that are expected to be addressed; (ii) employees' representation and involvement in the design of the market supplement to ensure credibility; (iii) clear definitions on what is covered through the market supplement scheme; (iv) periodic monitoring and control on how the scheme is operated.

Market supplements as such are not in contradiction with the Principles of Public Administrations, provided they are justified by evidence, proportional, transparent and fair (cf. section on salary top-ups, 2.6.7).

³¹² OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, p. 7, <https://doi.org/10.1787/3b6ad37f-en>.

³¹³ Latvia (2009), *The Law on Compensation of Officials and Employees of State and Local Government Institutions*, updated, Article 4, paragraph 1.1.

³¹⁴ Brown, D., P. Reilly and C. Rickard (2017), *Review of the Use and Effectiveness of Market Pay Supplements – Project Report*, Institute for Employment Studies, Office of Manpower Economics, https://assets.publishing.service.gov.uk/media/5a81c6b2ed915d74e33ffff5/Review_of_the_Use_and_Effectiveness_of_Market_Pay_Supplements.pdf.

³¹⁵ Brown, D., Reilly, P. and Rickard C., Institute for Employment Studies, Office of Manpower Economics: *Review of the Use and Effectiveness of Market Pay Supplements – Project Report*, 2017, pp. 7-8, https://assets.publishing.service.gov.uk/media/5a81c6b2ed915d74e33ffff5/Review_of_the_Use_and_Effectiveness_of_Market_Pay_Supplements.pdf.

2.6.3. Other allowances as exceptional supplements

Other typical allowances that can be sector-specific or specific to some categories of jobs include the following categories:

- Allowances that cover expenses related to work or commuting to/from work (for example, transport allowance, communication allowance, per diem). Transport and commuting allowance are common across EU/OECD countries.
- Allowances supporting access to tools and equipment for work (reimbursement for a mobile phone, service car or service clothing). This type of allowance is intended to provide support for carrying out job duties. Lately, with the rise of remote work, the matter of compensating home electricity and internet bills has been widely discussed. In many countries, compensation to public servants for expenses associated with remote work has been introduced in remuneration legislation.
- Cost of Living Allowance: to help with the cost of living in a specific location, such as a high-cost city.
- Qualification allowance: for employees who hold a qualification (academic, professional and/or technical) which is both recognised and relevant to the duties pertaining to their grade/position;
- Representation allowance: to officials representing a state with a necessity to follow a certain dress code. This allowance is typical for the diplomatic service.
- Food ration compensation of basic allowance for subsistence: mainly applied for military or police posts; aimed at compensating meal costs;
- Resettlement allowance and compensation of expenditures related to resettlement: compensation for rental of living quarters and public utilities;
- Per diem: an allowance for days spent outside usual work location, to manage daily expenses (for example, during business trips).
- Holiday allowance: For example, in Portugal, in addition to 12 annual base wages paid to all public employees, they are also entitled to two additional base wages (for a total of 14 annual base wages), labelled as Christmas and Holiday allowances. Public servants in Poland (since 1919) are also entitled to one additional salary payment per year in the amount of 8.5% of their previous year's income³¹⁶. Such allowances do not compensate for any specific circumstances and can often be integrated in the base salary.

Allowances and supplements are disbursed as a percentage of a basic salary, as a concrete sum, set by remuneration regulations, or as reimbursement of actual expenses, based on the payment documents.

In general, it is advisable to limit the number of allowances to a minimum that is clearly justified. Justification needs to be aligned with current needs (for example reducing car allowances to promote ecological forms of transport).

³¹⁶ Law on additional annual remuneration for employees of public sector entities (Ustawa z dnia 12 grudnia 1997 r. o dodatkowym wynagrodzeniu rocznym dla pracowników jednostek sfery budżetowej, t.j. Dz. U. z 2023 r. poz. 1690) <https://isap.sejm.gov.pl/isap.nsf/download.xsp/WDU19971601080/U/D19971080Lj.pdf>.

2.6.4. Other benefits

Benefits represent a substantively different type of remuneration, both financial and non-financial. Their main goal is to provide support to employees in situations of personal importance (for example, childbirth, marriage, start of the school year, anniversaries, etc.) and provide insurance for preserving health and life. Providing benefits demonstrate that an organisation is a caring employer interested in people's well-being, making them feel valued and cared for. They are not the focus of this report, because they are not a main part of the wage system, but they need to be taken into consideration in considering the "total reward" strategy in a given public sector³¹⁷.

2.6.5. Limits for pay supplements

Limits for pay supplements are usually set transparently, expressed either as a percentage of the base salary or as lump sums. In most cases, a general cap is not established for the overall variable pay component.

However, when public sector salary reforms are triggered by the expansion of variable pay elements that distort internal equity, a target cap can be set for the overall supplements. In Romania's pay reform in 2017, supplements were limited to 30% of the overall amount of base wages calculated at the level of each institution (and at the level of each main budget authorising officer for health and defence)³¹⁸. Some exceptions are applicable (supplements for night work and for shift work) and in recent years, exceptions proliferated, affecting pay equity and pay system transparency. Some supplements were artificially labelled "increases" and exempted from the capping rules³¹⁹. In Latvia, reforms adopted in 2021 also limit supplements to a maximum 30% of the monthly salary. In Ukraine, the objective of the 2023 salary reform was to ensure a ratio between fixed and variable elements of the salary level at 70/30. To this end, the amount of monthly and quarterly bonuses was limited to 30% and 90% of the salary of civil servants.

SIGMA guidance on managerial discretion on the allocation of bonuses recommends that the proportion of bonuses in total remuneration should be kept below 20%. To ensure they have a motivating effect, the bonuses should not be awarded to a majority of employees³²⁰.

2.6.6. Pay supplements for top public managers

Across EU and OECD countries, TPM are rarely entitled to seniority supplements. In Slovenia, TPMs are entitled to a supplement of 0.33% of the position base salary per year of service: for a TPM in the highest position, with 20 years seniority, this means a 6.6% supplement. In Portugal, a TPM with 21 years of relevant seniority receives a 21% increase over the position salary. In Greece, all civil servants, including TPM, progress through the salary grades based on years of service in each grade.

Various approaches to performance-related-pay (bonuses) for TPM are used. Some sample countries pay no bonuses to TPMs, while others rely on PRP bonuses to reward high performers. The use and the amount of bonuses are well regulated, to retain their strictly motivational character. They are awarded to

³¹⁷ The importance for the health and well-being of all civil servants is underlined in the Ghent Declaration on the Challenges and Common Actions for the European Public Administrations, EUPAN, 27 February 2024, <https://bosa.belgium.be/sites/default/files/documents/The%20Ghent%20Declaration.pdf>.

³¹⁸ Romania, Framework Law No. 153/2017 on the public sector wage system, Article 25.

³¹⁹ Romania, Framework Law No. 153/2017 on the public sector wage system.

³²⁰ OECD (2019), *Methodological Framework for the Principles of Public Administration*, OECD, Paris, www.sigmaweb.org/publications/Methodological-Framework-for-the-Principles-of-Public-Administration-May-2019.pdf.

TPMs only for performing additional duties or for exceptional service-related achievements (e.g. if a ministry/agency successfully accomplishes tasks set by the Government Annual Work Plan). Their size is a small fraction of the TPMs' yearly take-home pay and a TPM bonus fund does not exceed a few percent of the total payroll of an institution. Bonuses are usually paid on an annual basis, and decisions to award bonuses to TPMs are taken by their immediate superiors with a certain degree of discretion.

TPMs rarely receive other components typically found in civil servants' salaries: overtime, hazardous working conditions pay or market supplements (although private sector salaries are sometimes considered in determining TPM salaries, for example in Estonia). They may be entitled to fringe benefits such as housing, car, representation expenses, etc.

2.6.7. Salary top-ups

There is no single definition of so-called salary "top-ups". In general, they are used to selectively increase public sector salaries. They refer to official salary supplements³²¹ for a position or group of positions received above what others do in the same grade and pay scale, such as supplements for EU-related work, donor-funded allowances³²², etc.

In the SIGMA partner administrations' environment, "a top-up" usually describes a salary element paid to a specific group of civil servants and awarded only to selected employees, often based on some special characteristics of this group and their special needs. It is a position-based allowance based on particular specialist expertise that civil servants can bring that is rare to find. "*Supplement for staff working in the IPA (Instrument for Pre-Accession) management structures in order to retain them at work*" is a typical example of a "top-up".

The need to attract and retain competent staff, in particular in "priority areas" as defined by national governments, is understandable. However, such arrangements should not contravene standards of sound public salary systems. SIGMA's criticism of top-ups is usually linked to the lack of analysis of root causes of the problem, arbitrariness in defining the target group, lack of clarity of the criteria for awarding "top-ups", all of which leads to inconsistencies in the salary system and poor transparency. Some proposals may be selectively beneficial but affect other divisions of the administration as well.

Most national proposals for top-ups³²³ are intended to reward specific groups of civil servants, either to reduce high turnover, to attract competent candidates with specialist skills or expertise (e.g. linguistic skills) who would otherwise not choose employment in the public sector, or sometimes, thanks to special circumstances permitting the use of EU funds to pay for top-ups for work dealing with EU-related matters.

Top-ups can entail disadvantages, including:

- Topping-up policies risk upsetting sound wage policy. Selective supplements can lead to an upward spiral in public salaries (after one top-up scheme has been introduced, a government may find it more difficult to reject demands from other professional groups). Supplementing the salaries of tax inspectors, collectors of fines, staff working with EU and other donor-related funds, are not

³²¹ Some definitions include in-kind rewards.

³²² Cf. most often quoted definition in Mukherjee, R. and Manning, N., 2002, *Salary Top-ups*, Administration and Civil Service Reform, World Bank, Washington D.C. <https://gsdrc.org/document-library/salary-top-ups/>.

³²³ "National" in the sense that they are proposed by government for a group of civil servants rather than individuals (where the head of an institution or immediate supervisor decide on salary arrangements of individual civil servants).

easy to justify to other public servants or the wider public. Such increases usually have a demotivating effect on those who do not receive them³²⁴.

- if top-ups are donor-funded, accountability and management challenges may ensue, preventing civil service reform (in particular salary reform³²⁵) and encouraging vital staff outside the top-up scheme to leave the civil service³²⁶.
- Topping-up of salaries by donors (either when civil servants remain employed by the administration or move on to work for donor-funded projects) have similar consequences: depriving other areas of the administration of competent staff and distorting the local labour market and public sector salary system. Arguments against top-ups, for example that they cause distortions in the labour market, inflationary pressure or affect the macro-economic situation, are usually not relevant for schemes involving a limited group of civil servants (e.g. in a single institution).
- Linking top-ups to performance is a separate issue. Top-ups are not individual bonuses for good performance (performance-related pay is discussed in section 2.7). Resolving low base-pay issues with performance-related bonuses is likely to undermine the performance management system. If top-ups are used as a substitute for low salaries, they will soon be perceived as a regular part of the income that does not rely on performance. Performance-related pay is usually controlled unilaterally by the employer, and unless it is based on objective key performance indicators (KPIs) and awarded automatically without managerial intervention, it can be a powerful tool for buying political or personal loyalty.
- As for the effectiveness of top-ups, academic research is scarce on the role of supplements and financial incentives to address recruitment and retention and skill shortages, especially concerning the evaluation of their effectiveness. Existing studies throw into question the suggestion that financial payments “generally and strongly” influence rates of recruitment and retention for specialist and sought-after staff³²⁷.

Some pointers can be set to determine whether a top-up scheme is advisable:

- In-depth analysis is needed to verify that the salary issue is the primary problem that needs to be addressed³²⁸. Proposals should be based on hard evidence: salary surveys, mobility figures,

³²⁴ Cardona, F. (2007), “Tackling Civil Service Pay Reform, Conference on Civil Service Salary Systems in Europe”, Bucharest, April, <https://www.sigmaweb.org/publications/38651271.pdf>.

³²⁵ Cf. position of the Ministry of Finance of Ukraine towards the salary reform undertaken by the National Agency of the Civil Service of Ukraine (NAUCS).

³²⁶ Salary top-ups and their impact on corruption, U4Expert Answer, 17 December 2013, https://knowledgehub.transparency.org/assets/uploads/helpdesk/Salary_top-ups_and_their_impact_on_corruption_2013.pdf.

³²⁷ *Review of the Use and Effectiveness of Market Pay Supplements – Project Report*; UK Office of Manpower Economics, Institute of Employment Studies Report, November 2017, p. 6, <https://www.gov.uk/government/publications/review-of-the-use-and-effectiveness-of-market-pay-supplements-november-2017>. This study focused on nurses and IT workers in four National Health Service organisations; nurses in the Armed Forces and social workers in selected local government.

³²⁸ Cf. SIGMA project PDS SFC101 and the note “Analysis of retention issues in IPA structures in North Macedonia”, May 2021, SIGMA Project LJ5101 and the Policy note regarding “*Performance-oriented remuneration system for staff working on the management EU funds in Croatia*”, February 2014, or *Regional Study on Retention Policy*, Open Regional Fund for South-East Europe, Promotion of EU Integration, (GIZ-funded) November 2017.

retention rates in comparison to other positions, effectiveness of recruitment for the specific jobs, etc. It is not sufficient to say that staff are leaving an institution and that their salaries need to be increased. Other factors may have caused high turnover.

- The problem should first be addressed by verifying the accuracy of the job analysis, job description, job evaluation and job classification system. The existence, regularity and accuracy of comparative analysis between public sector and private sector salaries, for different categories and professional groups, should also be checked (see above). Objective parameters need to be identified that establish that such positions are “more valuable” and paid more. Simply “dealing with EU affairs” or “working in IPA implementation structures” are criteria that have little to do with required skills, competences or job characteristics that can be reflected in the salary levels³²⁹. If “project management skills” combined with “good command of English” justify a top-up, civil servants from all institutions with such job requirements should be eligible (and not only the ones working in a particular institution). It is rarely justifiable to introduce top-ups for all employees of a specific institution, since it is unlikely that the positions have characteristics that distinguish them from other employees’. In any case, when these specific criteria are met, it should be reflected in the job classification and its evaluation “automatically” leading to higher salaries.
- Criteria for top-ups need to be fully transparent and set in a law or government decision that is publicly available.
- Use of top-ups should be monitored and measured against the objectives of the scheme (e.g. “Has turnover decreased to an acceptable level after the top-ups were introduced?”). They should also be regularly reviewed to verify whether the conditions for which they were introduced still apply.

Ideally, top-ups based on objective job-related criteria should be incorporated into the general salary scheme and become a part of the consolidated basic salary. The salary scheme needs to be reviewed periodically to reflect the realities of work requirements and the labour market. Such reviews may lead to increases in the basic salary of certain groups of positions. Such top-ups can become a regular part of a sound salary system.

2.6.8. Key messages

- In addition to the base salary, public sector salaries can include pay supplements and allowances, which serve to recognise specific qualifications, reward specific contributions, or compensate for special circumstances, such as overtime work or challenging working conditions. Permanent pay supplements, such as seniority supplements, are common across EU/OECD countries, providing constant monthly increases irrespective of job location, working conditions or volume. The significance of seniority in salary-setting processes has diminished in recent decades, reflecting a shift in rewarding performance and competences rather than years of service.
- Seniority-based payments can take the form of base salary progression or as a separate seniority supplement. Elimination of seniority allowances is sometimes part of salary reforms, but it requires careful consideration of administrative traditions and broader HRM policies to avoid unintended consequences.
- Other exceptional supplements, overtime pay and pay supplements for specific working conditions, contribute to the overall remuneration structure. Market supplements, granted based on external market considerations, aim to attract professionals in sectors facing skill shortages, but require clear rules to prevent concerns about pay equity.

³²⁹ On job evaluation, see section 2.4 of this publication.

- Limits for pay supplements are typically established with transparency, either as a percentage of the base salary or as lump sums. Many countries do not set a general cap for the overall portion of supplements and bonuses. In cases where public sector salary reforms are prompted by the expansion of variable pay elements that distort internal equity, some countries may set a target cap for the overall amount of supplements.

2.7. Performance-related pay

2.7.1. Concept and challenges of performance related pay

Performance-related pay (PRP) corresponds to the performance dimension of the salary policy, being one of the five key pillars of any salary system, alongside pay equity, competitiveness, relevance and affordability (see section 2.1). PRP or pay for performance (P4P) is a pay arrangement that aims to improve productivity and accountability, by generally linking a portion of the workers' wages to performance objectives. As such, the salary of employees is determined partially by a specific form of measured performance³³⁰. PRP is defined in opposition to the classic pay systems that focus on seniority (or “pay for grade”), PRP being expected to incentivise and reward performance.

In job-based systems³³¹, PRP is either paid as an increase of the base salary (a “merit increment” leading to salary progression) or as a supplement (bonus), but the base salary remains largely a reflection of the job content and not of the jobholder's performance. By this logic and especially in salary system reforms where the focus is on pay equity, base wages need to remain the main component of total remuneration, because they are expected to reflect the content of the job, the necessary knowledge and skills, the level of responsibility and the working conditions. In individual-based systems where institutions have much higher autonomy to set pay levels, individual wages become a function of performance.

PRP has been introduced in many OECD countries. In the past three decades, nearly all OECD countries have introduced some form of PRP, as noted in a recent report³³², but “only a few have succeeded in designing an effective system of bonuses”³³³. PRP was introduced in a majority of OECD countries in the central administration (civil service) and also for service delivery staff, mainly in health and education. In the public administration, almost two-thirds of the OECD countries use PRP, as bonuses (18 countries) or performance-based permanent pay increases (merit increments) (21 countries)³³⁴.

Despite its popularity, PRP remains a contentious topic. PRP requires preconditions to be fulfilled in order to have chances to produce results. If not properly managed, it can lead to unintended consequences. Critics of PRP underline the risk of misallocation of effort or the risk of gaming or cheating. Three main theoretical approaches are often underlined³³⁵, relying (i) on psychological theories on human motivation,

³³⁰ Z. Hasnain, N. Manning and J. H. Pierskalla (2012), “Performance-related Pay in the Public Sector, A Review of Theory and Evidence”, World Bank, p. 1.

³³¹ See section 2.2 for the differentiation of job-based and individual-based systems.

³³² OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, p. 32. <https://doi.org/10.1787/3b6ad37f-en>.

³³³ Ibid.

³³⁴ OECD (2017), *Government at a Glance*, p. 170, https://www.oecd-ilibrary.org/docserver/gov_glance-2017-en.pdf?expires=1567509046&id=id&accname=guest&checksum=6C02FE5C75ADF354AE548892FC7D607C

³³⁵ Hasnain, Z., N. Manning and J. H. Pierskalla (2014), “The Promise of Performance Pay? Reasons for Caution in Policy Prescriptions in the Core Civil Service”, The World Bank Research Observer.

(ii) on economic theories based on the principal-agent model, and (iii) on behavioural economics. From a psychological perspective, PRP is based on theories of human motivation proposing that employees will invest more effort to achieve better results in exchange for rewards. Proponents argue that PRP can help recruit and retain motivated staff, while opponents argue that its practical implementation can be challenging. This would depend on fair evaluation and measurement of outputs by managers, which can be difficult in the public sector, and can lead to a focus on easily measurable tasks and targets, potentially distorting results. From an economic perspective (Principal-Agent Model), PRP aims to align employee efforts with organisational goals, assuming that employees will work harder if they anticipate rewards for their performance. Critics caution that focusing solely on measurable outputs may lead to “gaming behaviour” and manipulation of results. Finally, behavioural economics distinguishes between intrinsic³³⁶ and extrinsic motivation, and in the public sector, employees are often seen as intrinsically motivated by the social value of their work. Opponents argue that financial rewards can have negative effects on internal collaboration, creativity and motivation³³⁷. They suggest that a focus on rewards may diminish the inherent satisfaction that comes from contributing to the public good.

On the negative side, PRP can be associated with effects like resentment and decreased morale among employees who do not receive the same level of performance-based pay. Additionally, there are concerns that performance-based pay systems can create an adversarial relationship between employees and management and lead to a focus on short-term goals at the expense of the long term view.

Furthermore, PRP schemes in the public sector require well thought-through and targeted design, to ensure all constraints are carefully balanced. PRP schemes oriented towards specific performance measures need to properly take into account the complexity of the public service “good”. Public services generate a multitude of outcomes, some of which are more easily measured than others. Also, PRP must reflect the multiple stakeholders in the public sector (service users, managers, unions, professional bodies, the government, taxpayers), which means it needs to be capable of reconciling the variety of outcomes from these multiple stakeholders and interests³³⁸. Control measures must be put in place to avoid gaming. When performance indicators become “high stakes”, employees may seek to maximise their gains while minimising effort or without increasing performance. This can lead to significant problems in the public sector, where outcomes have a social impact.

2.7.2. Before PRP, consider non-financial incentives

PRP requires adequate design and management capabilities, but other incentives need to be considered, given the various theories of motivation. In the public sector, non-financial incentives are highly relevant, because public workers are, as mentioned in section 2.1, “knowledge employees”³³⁹ for whom non-financial rewards can be assumed to be effective. Public service motivation is defined as “an individual’s predisposition to respond to motives grounded primarily or uniquely in public institutions”³⁴⁰.

³³⁶ S. Banuri and P. Keefer (2013), *Intrinsic Motivation, Effort and the Call to Public Service*, Policy Research Working Paper, World Bank.

³³⁷ D. H. Pink (2009), *Drive: the surprising truth about what motivates us*, Riverhead, New York.

³³⁸ The Work Foundation (2014), “A review of the evidence on the impact, effectiveness, and value for money of performance-related pay in the public sector”.

³³⁹ Peter Drucker used the term “knowledge worker” in his 1959 book *Landmarks of Tomorrow*. He defined knowledge workers as “people who get paid for their ability to think”, as opposed to people who are paid for their manual skills.

³⁴⁰ Perry, J. L., and L.R. Wise (1990), “The motivational bases of public service”, *Public Administration Review*, pp. 367-373.

Non-materialistic motivation is particularly strong in the public sector, and so-called “public service motivation” may be defined as an altruistic motivation to serve the interests of the community, which leads public sector employees to commit effort because of the value they attach to a social service or other public goal³⁴¹.

Non-financial incentives include aspects such as flexibility in working time, increased autonomy, public recognition, challenging work assignments, the possibility of working on projects of public servant’s choice, voluntary work, rotating managerial positions, short-term secondment, etc. A brief overview of various types of incentives is presented below, for consideration when the focus of the salary system reform is increasing performance orientation. Efforts can be invested not only in PRP design but also in the wider incentives achievable with less demand on the budget.

Table 24. Financial (PRP) and non-financial incentives

Financial incentives – extrinsic rewards	Non-financial incentives
<ul style="list-style-type: none"> • Base wage linked to performance (individualised contract tied to performance in individual-based systems or only performance-based merit increments of the base wage in job-based systems). • Performance supplements. • Insurance (health insurance). • Pension benefits. • Paid leave. 	<ul style="list-style-type: none"> • Job satisfaction. • Shared values. • Teamwork, appreciation and respect from colleagues. • Empowering managerial approach, adequate level of trust between managers and employees. • Existence of opportunities for personal and career development. • Access to learning programmes, coaching, mentoring. • Flexible working arrangements. • Positive work environment. • Recognition of individual and team achievements.

Note: Adapted based on Rose, M. (2014), “Reward Management”, Kogan Page; Watkins, J., and R. Beschel (2010), “Non-monetary Awards for Public Sector Programs and Institutions: Survey of Selected International Experience”, GET Note: Public Sector Awards Programs, and World Bank, Washington DC.

Managers have a key role in organising teamwork, providing recognition, and encouraging healthy and inclusive attitudes among employees. Investment in public service managers’ skills pays off, because being welcomed, appreciated, valued and seen costs nothing but motivates employees in any organisation³⁴².

Flexible working time and place arrangements also play a role, as do remote work, extra leave, work and life balance, a family-friendly workplace, ergonomic working conditions, etc. Flexitime and flexplace working arrangements offer advantages, especially after the upheaval of the COVID-19 pandemic. They also involve some risks, which need to be considered.³⁴³

³⁴¹ UNDP (2010), “Motivating Civil Servants for Reform and Performance”, <https://orbi.uliege.be/bitstream/2268/37467/1/Motivating%20Civil%20Servants%20for%20Reform%20and%20Performance.pdf>.

³⁴² CIPD (2022), “Employee recognition and non-financial rewards”, https://www.cipd.co.uk/Images/non-financial-recognition-scientific-summary_tcm18-105469.pdf.

³⁴³ R. Dimitriu, A. Butnaru and R. Moldovan (2022), “The Working Time Directive and flexible working arrangements in the public administration”, General Secretariat of the Government of Romania and World Bank,

The significance of new work arrangements for the motivation and well-being of public servants is acknowledged in the 2023 version of the Principles of Public Administration (Sub-principle 11.h. *Flexible work arrangements are available for public administration employees (office, teleworking, part-time, hybrid, etc.) at all levels of the organisational hierarchy to foster productivity and work-life balance and reduce the environmental footprint*)³⁴⁴.

The five major controversies over performance-related pay in the public sector were captured by the World Bank (Table 25).

Table 25. Five Key Design Elements of PRP Schemes

Individual- or group-based awards	Time horizon of the incentive	Nature of the performance evaluation	Size of the award	Probability of receiving the award
Individual awards can breed harmful competition, but team awards can encourage free-riding	Short-term annual bonuses or longer-term merit increments. Single- or multi-year performance appraisals	Quantitative performance targets may be more objective but are rare for public sector jobs	Small awards have limited effects, but very large awards can further encourage gaming and perverse incentives	If the probability of receiving the performance bonus is either close to 0 or 1, the incentive will have no impact

Source: World Bank (2014), Pay Flexibility and Government Performance.

<https://openknowledge.worldbank.org/bitstream/handle/10986/18959/884860WP0PayFI00Box385241B00PUBLIC0.pdf?sequence=1&isAllowed=y>

Despite the difficulties in operating the performance-related schemes and lacking clear evidence of success, countries have not abandoned attempts to design and introduce some forms of performance-related pay in their salary systems. In a 2017 survey on performance appraisal practices in the EU Member States and the European Commission, most respondents (21 out of 30) said they approved of performance appraisal results being used to set levels of remuneration (Table 28).

Interestingly, the study indicates that in the last 10 years, the number of EU countries that have introduced performance-related schemes has grown (Table 26). Among EU Member States, several countries have introduced a link between pay and performance in the past decade. Denmark is one exception.

https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-10.5_EN_Studiu-timpul-de-lucru-in-adminstratia-publica.pdf.

³⁴⁴ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

Table 26. Developments in performance-related pay 2007-2017, EU Member States

Performance-related pay	2007	2017
✓ YES	Belgium, Bulgaria, Denmark, Estonia, Finland, France, Germany, Hungary, Italy, Lithuania, Malta, Slovakia, Spain, Sweden,	Belgium, Bulgaria, +Czechia, Estonia, Finland, France, Germany +Greece, Hungary +Ireland, Italy, Latvia, Lithuania, Malta, +Netherlands, +Poland, +Portugal, Slovakia, +Slovenia, Spain, Sweden,
✗ NO	Austria, Cyprus ³⁴⁵ , Czechia, Greece, Ireland, Luxemburg, Netherlands, Poland, Portugal, Romania, Slovenia	Austria, Croatia, Cyprus, +Denmark, Luxemburg, Romania

Source: Staroňová (2017), Performance Appraisal Information in the EU Member States and EC, https://www.eupan.eu/wp-content/uploads/2019/02/2016_2_SK_Performance_Appraisal_in_the_EU_Member_States_and_the_European_Commission.pdf.

2.7.3. Types of PRP schemes

A key distinction in PRP scheme design is between consolidated and non-consolidated performance increases. When the performance increase is granted as a permanent pay right that becomes part of the base salary (as a new base salary, sometimes referred to as “pay step”), this is usually referred to as the so-called “consolidated” PRP, because performance becomes part of the wage to which all other supplements are applicable. These increases usually rely on annual performance appraisal and can be granted on an annual basis. When the scheme leads to salary increases that are paid as a non-permanent pay right (part of variable pay), this is usually referred to as a “performance bonus” or “award” (lump sum), which can be earned periodically or exceptionally (one-off). For example, in the UK, the senior civil service (SCS) performance management system is set centrally by the Cabinet Office and Departments can identify up to 25% of their SCS to receive an end-of-year award, and up to a further 20% for in-year rewards³⁴⁶. Both forms of PRP are non-consolidated, meaning that they do not become a permanent pay increase as part of the base salary.

An example of consolidated PRP increase is the system in Portugal, explained in Box 11 below. The PRP scheme was introduced as part of the salary system reform in 2008, accompanied by wider HRM reforms.

³⁴⁵ Note by the Republic of Türkiye

The information in this document with reference to “Cyprus” relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Türkiye recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Türkiye shall preserve its position concerning the “Cyprus issue”.

Note by all the European Union Member States of the OECD and the European Union

The Republic of Cyprus is recognised by all members of the United Nations with the exception of Türkiye. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

³⁴⁶ The Cabinet Office (2023), “Government Evidence to the Review Body on Senior Salaries on the Pay of the Senior Civil Service, https://assets.publishing.service.gov.uk/media/6482f635103ca60013039c48/Government_evidence_to_the_Senior_Salaries_Review_Body_on_the_pay_of_the_Senior_Civil_Service_June_2023_.pdf.”

Box 11. PRP in Portugal's public sector, linked to wider performance management reform

The Portuguese public administration system is more centralised than in most OECD countries, with 76% of its staff employed by central level authorities.

The pay reform adopted in 2008 accompanied wider HRM reforms in the public administration, as the career system in the public sector and recruitment were reformed substantially. The new civil servant statute transitioned from a career system to a position system, and employment regimes became similar to the private sector. The previous 1 715 careers were transformed into only three general careers.

Evolution in career and in pay became only linked to performance evaluation.

Reforms also meant the adoption of an Integrated Public Administration Management and Assessment System (SIADAP). A percentage system (quotas) was set up to differentiate performance, including that of managers: only 5% of employees can achieve an "Excellent Performance" and 20% a "Relevant Performance". The remaining 75% of employees cannot go beyond an "Adequate Performance" regardless of their effort and of the results achieved. This system determines progression in the pay scale.

The evolution in pay steps is based not on seniority but on performance, and rules are quite strict. The pay step change and the grant of performance bonuses depend on budget availability and on the employee performance appraisal.

There are two possible paths for pay progression:

By management decision, if:

Employees are included in the scope of the careers and categories defined by the organisation's top manager;

Employees must have obtained, in the most recent performance appraisals, an "excellent" rating, two consecutive "relevant" ratings or three consecutive "adequate" ratings;

The budget allocations to cover these charges are available.

An automatic change, if:

Regardless of careers and categories defined by the top manager, public employees have accumulated 10 points in the performance appraisals procedures (excellent rating – 6 points; relevant rating – 4 points; adequate rating – 2 points; Inadequate rating – minus 2 points).

Source: DGAEP (2021), Portuguese Central Public Administration Overview, Directorate-General for Administration and Public Employment, Lisbon, https://www.eupan.eu/wp-content/uploads/2021/04/PCPA_OVERVIEW_2021.pdf.

Consolidated PRP can be riskier, because the permanent merit-based increases reflected in the base salary cannot be rolled back, which can result in (i) frustration if the performance assessment results are not solid and based on trust, and in (ii) long-term accumulation of costs, leading to a continuously

expanding wage bill³⁴⁷. Non-consolidated performance bonuses are more flexible, rewarding performance linked to specific achievements without becoming a permanent cost.

The design and implementation of PRP systems can vary significantly in centralised and decentralised management settings (section 2.2). This variation is often related to the degree of decentralisation but also to the types of employees covered. For example, in countries like Australia, Canada, New Zealand and the UK, PRP policies may be centralised for senior management, while being partially decentralised for other staff. The countries with the highest index of delegation in human resource management (HRM) also tend to have a stronger link between performance appraisal and pay (Finland, UK, Sweden), while countries with low delegation, the link is limited to certain organisations or to the managerial level (France, Ireland, Italy)³⁴⁸.

PRP types of schemes can vary broadly, as follows:

- (i) In highly centralised settings, PRP is defined in detail by law or regulations, and strict rules and guidelines govern how PRP is applied across organisations or departments. This implies that there is limited flexibility for individual departments or units to adapt the PRP system to their specific needs³⁴⁹.
- (ii) In partially decentralised settings, the law or regulations provide a broad framework for PRP, but individual departments or units have some flexibility in the way they implement performance appraisal and determine the size and distribution of rewards. This allows for a degree of customisation, to better suit the unique characteristics of different organisational units.
- (iii) In highly decentralised settings, PRP is not defined by law or regulations, and organisations have almost complete autonomy in designing and implementing their own PRP systems. This can result in substantial variations in how performance appraisal is conducted and how rewards are allocated between different organisations.

Table 27. PRP type of scheme and employee coverage

	Senior management	Employees
PRP highly centralised	Australia, Canada, Ireland, New Zealand United Kingdom, United States	Germany, Hungary, Korea, Switzerland
PRP partially decentralised	Finland, Italy	Australia, Finland, Spain, United Kingdom, United States
PRP highly decentralised	Denmark, Sweden	Denmark, New Zealand, Sweden

Source: OECD (2005), *Performance related Pay Policies for Government Employees*, p. 45.

³⁴⁷ Hasnain, Z., N. Manning and J. H. Pierskalla (2012), "Performance-related Pay in the Public Sector, A Review of Theory and Evidence", World Bank, p. 3.

³⁴⁸ OECD (2005), *Performance-related Pay Policies for Government Employees*, p. 37.

³⁴⁹ See for example Model Regulation on bonuses for civil servants of public authorities, other state bodies, their apparatuses (secretariats) in Ukraine, Order of the Ministry of Social Policy No. 646 of 13 June 2016, <https://zakon.rada.gov.ua/laws/show/z0903-16#Text>.

The types of PRP schemes are also differentiated by the following features³⁵⁰: (i) the nature and range of targets covered by PRP; (ii) the individual versus team-based nature of the scheme; (iii) how performance is measured and (iv) the size and frequency of payments.

In terms of the nature and range of performance measures, the design choices focus on how performance is defined for the purpose of the scheme, and whether it is focused on process, inputs or outcomes. The choice also depends on the sector. For example, in the health sector, PRP schemes usually combine process and outcomes measures. Healthcare visits and process quality of care are the most incentivised performance measures (in 83% and 66% of schemes analysed in 29 countries)³⁵¹. In education, PRP that rewards knowledge and skills is focused on individual input in terms of competences, which are expected to be evaluated based on clear assessment frameworks. PRP focused on education outcomes is usually linked to results of students (test scores), school results and fulfilment of additional responsibilities outside the core role, etc.³⁵². Adequate measures of performance for civil servants are rarely so easily quantifiable³⁵³.

PRP schemes can also be individual or team based. Team-based pay arrangements seem more effective in stimulating co-operation and sharing of information and knowledge, and promote collaborative working arrangements. The Makinson Report published in the UK stressed that team-based pay structured around “individual offices”³⁵⁴ rather than smaller teams within an office ensures connectedness with the goals at the office level, with targets being more easily measurable³⁵⁵. While the evidence is not definitive, it appears that PRP schemes implemented in small teams may be more effective than those in large groups. This difference in effectiveness may be attributed to the risk of “free riding” in larger groups. In the context of PRP, free riding refers to a situation where some members of a group benefit from the rewards or incentives without making their fair share of effort or contribution. In smaller teams, it may be easier to monitor individual performance and ensure that everyone pulls their weight, reducing the risk of free riding. In contrast, in larger groups, it can be more challenging to track individual contributions, and this can lead to less effective PRP outcomes³⁵⁶.

In terms of the performance measurement system, PRP schemes can rely on absolute or relative measures. Absolute measures imply that rewards are linked to fulfilment of absolute targets, while relative

³⁵⁰ The Work Foundation (2014), *A Review of the evidence on the impact, effectiveness and value for money of performance-related pay in the public sector*, pp. 9-10.

³⁵¹ Roxanne J. Kovacs et al. (2020), *How are pay-for-performance schemes in healthcare designed in low- and middle income countries? Typology and systematic literature review*, BMC Health Services Research.

³⁵² Extracted from Herbert G. Heneman III, Anthony Milanowski and Steven Kimball (2007), *Teacher Performance Pay: Synthesis of Plans, Research, and Guidelines for Practice*, CPRE Policy Briefs.

³⁵³ US Office of Personnel Management (2017), *A Handbook for Measuring Employee Performance*, March, https://www.opm.gov/policy-data-oversight/performance-management/measuring/employee_performance_handbook.pdf; Hasnain, Z., N. Manning and J.H. Pierskalla (2014), “The Promise of Performance Pay? Reasons for Caution in Policy Prescriptions in the Core Civil Service”, *The World Bank Research Observer*, Vol. 29/2, pp. 235-264, <http://www.jstor.org/stable/24582417>.

³⁵⁴ Understood as local agencies and not as sub-structures within the same organisation.

³⁵⁵ S. Burgess et al. (2004), “Evaluation of the Introduction of the Makinson Incentive Scheme in Jobcentre Plus – Final Report”, University of Bristol, UK.

³⁵⁶ A study of a PRP scheme in the UK employment service showed team-based incentives worked better for small groups by allowing peer monitoring by colleagues and preventing free riding. S. Burgess et al. (2010), “Smarter Task Assignment of Greater Effort: The Impact of Incentives on Team Performance”, *Economic Journal*, 120, pp. 960-989.

measures focus on improvement relative to previous performance. Performance measurement can rely on linear or threshold-based performance increase³⁵⁷.

With respect to PRP forms and size, the effect of the performance measurement can result either in a salary increase (base salary increase or pay supplement) or in a salary decrease (performance penalty). A study conducted by the European Public Administration Network (EUPAN)³⁵⁸ on PRP systems in the civil service in EU countries showed that, in 2017, the majority of EU countries applied pay increases as bonuses, calculated as a percentage of base salary. Three Member States promoted civil servants to a higher salary grade as a result of a positive performance appraisal. Performance appraisal could also lead to salary decreases in four Member States (Hungary, Latvia, Greece, Lithuania).

Table 28. Typical forms of PRP in EU countries in the civil service, 2017

	Effect on pay	Countries
↑ Increase due to high performance	Merit increment (cumulative as % of base pay)	Bulgaria, Estonia, Netherlands, Sweden
	Variable component – bonus (added to base pay as % of base pay)	Czechia, Finland, France, Hungary, Ireland, Lithuania, Slovakia, Slovenia
	Variable component – lump sum	Italy, Latvia, Lithuania, Netherlands, Malta, Poland, Portugal, Slovakia
	Change in compensation step (salary progression)	Portugal, Slovenia
	Career progression – change in grade	Belgium, European Commission, Germany, Greece, Lithuania
↓ Decrease due to poor performance		Hungary, Latvia, Greece, Lithuania

Source: K. Staroňová (2017), “Performance appraisal in the EU Member States and the European Commission”, study for the 67th EUPAN Directors General meeting of the European Union Public Administration Network members (draft version).

2.7.4. Size and frequency of PRP

Regarding the advisable size of performance-related pay, it is recommended to keep the performance-related pay component moderate, usually below 20%-30% of the total remuneration as a maximum for top performers. This helps to maintain a balance between performance incentives and a stable base salary and ensures that performance-related pay does not become the primary driver of employee motivation and work satisfaction. The size of a bonus depends on the evaluation period. For example, if a yearly bonus is as large as 10% of a monthly salary, it may seem irrelevant or inadequate. If monthly bonus is as large as 50% of a monthly salary, the relevance of the base salary itself may be called into question.

³⁵⁷ The Work Foundation (2014), *A Review of the evidence on the impact, effectiveness and value for money of performance-related pay in the public sector*, p. 10.

³⁵⁸ K. Staroňová (2017), “Performance appraisal in the EU Member States and the European Commission”, study for the 67th EUPAN Directors General meeting of the European Union Public Administration Network members (draft version).

In a 2016 study on top public managers (TPMs) in Europe³⁵⁹, it was found that the most common PRP schemes for senior civil servants include: (i) permanent pay increments³⁶⁰, ranging from 5% of in Canada, to 20% of gross monthly salary in France, and with no limit on the proportion of base salary in Denmark; (ii) monthly bonuses (part of variable pay), at 20% of base wage in Estonia, for example; and (iii) one-off bonuses and bonuses for exceptional achievements, like in Germany, Denmark, Estonia, and Slovakia³⁶¹.

For the civil service, of a total of 17 PRP schemes analysed in the EUPAN study from 2017³⁶², 12 schemes included PRP bonuses below 50% of base pay, 8 schemes relied on bonuses of below 20%, while the typical merit increment leading to consolidated PRP was below 5%.

2.7.5. Preconditions for PRP

Beyond the design aspects, the success of PRP depends on a set of preconditions or factors that seem to be associated with scheme effectiveness. In general, PRP schemes are as effective as the performance management systems on which they are set, because they depend on the levels of trust in managers' capacity to assess performance and to ensure both "procedural and distributive justice"³⁶³. Weak performance management systems cannot ensure this distributive justice and can lead to frustration, demotivation and even productivity losses.

Overall, across OECD member countries, success factors seem to include³⁶⁴: (i) the existence of a framework of legitimacy, because a PRP system works if employees and employers agree that it rewards the right people for the right things; (ii) alignment of criteria between individual performance and organisational results and (iii) tools to deal with low performance, because the performance equation means not only rewarding top performers, but dealing with low performers; otherwise, managers might hesitate to use the PRP system at all.

Because of the problem of measurability of public sector outputs, especially in the civil service, PRP depends on the subjective evaluation conducted by managers. Even if assessment criteria are well designed, they rely on a qualitative appraisal process and depend on the performance dialogue between staff and their managers. An essential precondition for PRP success is to ensure prior investments in developing and strengthening the performance dialogue, which should include discussion on qualitative

³⁵⁹ H. Kuperus and A. Rode (2016), "Top Public Managers in Europe. Management and Employment in Central Public Administrations", Ministry of the Interior and Kingdom Relations, The Hague.

³⁶⁰ UK, France, Hungary.

³⁶¹ The one-off bonus can be as high as 100% of the salary tariff in Slovakia.

³⁶² Staroňová K. (2017), "Performance appraisal in the EU Member States and the European Commission. Study for the 67th EUPAN Directors General meeting of the European Union Public Administration Network members (draft version).

³⁶³ T.R. Tyler and R.J. Bies, (1990), "Beyond formal procedures: The interpersonal context of procedural justice", in Carroll J., *Applied Social Psychology and Organizational Settings*; Lawrence Erlbaum, D. McFarlin and P Sweeney (1992), "Distributive and Procedural Justice as Predictors of Satisfaction with Personal and Organizational Outcomes", *Academy of Management Journal*, Vol. 35/3.

³⁶⁴ OECD (2021), *The Public Sector Pay System in Israel*, OECD Publishing, Paris, pp.32-33, <https://doi.org/10.1787/3b6ad37f-en>.

and quantitative objectives and expectations³⁶⁵. In this sense, PRP can be used to support the improvement of the performance management system.

In terms of process, PRP design requires adequate co-creation with all relevant stakeholders, and ideally, a piloting stage, to ensure that the differentiation of target groups, performance measures, indicators and performance assessment methods work in practice. Monitoring and evaluation mechanisms are needed, in alignment with the general monitoring and evaluation of the salary system.

The effectiveness of PRP depends not only on technical salary system solutions, but more importantly, on the broader system of public sector organisational and human resource management: in skills of setting and measuring objectives; planning and monitoring execution; understanding and developing motivating organisational culture; preserving inner motivation; driving engagement, etc. The more advanced an organisation is in setting and measuring objectives, the more success it can achieve in performance-related elements of the salary system. At the same time, efforts must be invested to ensure a base wage that is fair, transparent, objective and purposeful.

For all these reasons, the guidance of the Principles of Public Administration in relation to PRP is balanced (Principle 11.f.): *Performance-related pay, if introduced, constitutes a limited proportion of the salary, is based on clear criteria, and provides incentives aligned with the public interest*³⁶⁶.

2.7.6. Key messages

- Performance-related pay (PRP) is a key area for salary policies in many countries aiming to enhance productivity and accountability by tying a portion of employees' wages to performance objectives. This departure from traditional seniority-based pay systems is intended to incentivise and reward performance, either as an increase in the base salary or as a bonus.
- Despite its widespread adoption in OECD countries, the successful implementation of PRP remains a subject of debate and poses several challenges. PRP implementation relies on managers' fair evaluation and measurement of results. This dependence on easily measurable tasks can distort results and divert focus from broader organisational goals. Psychological, economic and behavioural issues underpin these challenges, highlighting potential negative impacts on internal collaboration, creativity and intrinsic motivation in the public sector. Risks associated with PRP include resentment among employees and a myopic focus on short-term objectives.
- Addressing these challenges requires a well-designed and targeted approach to PRP in the public sector. Control measures must be in place to prevent gaming behaviour, particularly in contexts where outcomes have social impacts.
- It is also critical to consider the importance of non-financial incentives, recognising public service motivation beyond financial rewards.
- The successful integration of PRP within broader organisational and human resource management systems is essential, linking it with the performance management framework and ensuring adequate performance assessment capabilities.

³⁶⁵ Z. Hasnain, N. Manning and J. H. Pierskalla (2014), "The Promise of Performance Pay? Reasons for Caution in Policy Prescriptions in the Core Civil Service", *The World Bank Research Observer*, p. 23.

³⁶⁶ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

3. Wage system management

This chapter discusses key prerequisites for wage system effectiveness and sustainability related to institutional arrangements, covering institutional roles, processes and data-related aspects for wage bill planning, monitoring and transparency.

3.1. Wage system management: The institutional framework

As discussed in section 2.1, within the framework of the five key pillars³⁶⁷ of public sector salary systems³⁶⁸, wage system reform can range from a structural overhaul to small adjustments, depending on how they target one or several of the following design elements: (i) wage system foundations: centralised/decentralised; job-based or individual-based; (ii) pay structure(s) and rules for pay progression; (iii) composition of salaries, including rules for base wage determination, compression ratio, rules for variable pay and supplements (including PRP); (iv) mechanisms for wage bill planning/wage adjustments; (v) institutions and rules for monitoring and control and (vi) transparency rules. The design elements (i) to (iii) were discussed in 2. , and elements (iv) to (vi) are addressed in the current chapter.

Institutional arrangements are the cornerstone for securing legitimate, equitable, competitive and affordable decisions on public sector wage levels. Wage bill management, including the rules and mechanisms for wage bill planning, monitoring and control, cannot effectively function in the absence of a clear institutional framework for decision making and consultations.

Institutional roles in wage system management differ across countries, depending on the type of administrative system, the level of decentralisation and the scope for collective bargaining. Beyond central government entities and trade unions, heads of individual agencies and managers are increasingly empowered to play a role in wage setting, as there is an increased tendency to decentralise, moving away from the traditional centralised pay determination and control model towards more flexible systems in which individual institutions and managers can make wage decisions within affordable limits³⁶⁹ (see section 2.1).

Key institutional roles in wage system management include the typical policy-cycle areas: (i) policy development, strategic multi-annual and annual planning; (ii) negotiation/bargaining on wage system reforms/wage increases; (iii) development and providing guidance and support to implementing entities; (iv) day-to-day implementation of wage system rules related to wage determination and payroll; (v) individual wage decisions related to variable pay components, including responsibilities for performance evaluations (mainly PRP), promotions, etc.; (vi) monitoring of wage system data, data analysis and research (including, if possible, private sector data for comparable positions); (vii) control and compliance checks; (viii) communication and transparency of wage system functioning. Day-to day implementation is typically the responsibility of individual agencies, namely human resources (HR) units/budget units, with managers playing a more prominent role in flexible wage systems. But the key roles in planning, negotiation, monitoring and control can either be centralised in one or two ministries or delegated to sectoral ministries/individual agencies.

A key role in wage bill planning and control is usually reserved for the Ministry of Finance, given the inherent link with the budgetary planning process. This institution can collaborate with a department/ministry in charge of personnel policy at the public sector level or for each sector/occupational group. Clear and effective co-ordination arrangements are needed between the ministry and the public entities responsible for HR policy at the public sector/sectoral level.

³⁶⁷ Pay equity, pay competitiveness, incentivising performance, pay affordability and relevance of the pay system within the broader HRM system. For more information, see section 2.1 of this report.

³⁶⁸ Based on: Hasnain, Zahid et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, World Bank Group, Washington DC, <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>; Gary J. Reid (2007), *Public Administration Salary Setting: Principles and Mechanisms for Satisfying Them*, World Bank Group, Washington DC.

³⁶⁹ For more details on past trends, see OECD (2012), *Public Sector Compensation in Times of Austerity*, OECD Publishing, pp. 69-75.

In broad terms, for wage system management, the Ministry of Finance is expected to accomplish the following functions³⁷⁰:

- Conducting budgetary planning, including planning of funds availability for personnel costs over the medium term (this role varies across OECD countries, depending on the level of maturity of the budgetary programming process and the level of flexibility in programme budgeting; it sometimes includes staff costs).
- Ensuring correlation of wage bill ceilings and staffing levels in line ministries/sectors; the staffing levels communicated by line ministries to the ministry should rely on strategic (multi-annual and annual) workforce planning processes – this role is essential, especially in countries with weak budgetary processes and frequent *ad hoc* changes.
- Setting the annual and mid-term financial framework for salary reforms and negotiations.
- Often, assessing financial implications of wage system reforms and employment reforms and conducting/supporting wage negotiations (in some cases, this role can be ensured by another ministry responsible for public employment policies).
- Defining/adjusting the financial elements of the pay structure if this role is not ensured by another entity.
- Collecting and analysing wage data, if this role is not ensured by another entity.

In cases where administrative capacity is not sufficient to ensure the proper institutional functioning of wage system management, decentralisation can result in fragmentation and ineffectiveness. In general, but especially in such cases, a central HR role is usually needed to ensure proper job classification and a clear pay-grading system. In Slovenia, for example, the 2008 wage system reform introduced a single salary system across the entire public sector, which had become prone to fragmentation and proliferation of pay supplements. The new system introduced more coherent pay-setting rules, but it also became difficult to manage. More flexibility proved necessary, but moving towards decentralisation was not a direct answer without the capacity for decentralised wage setting. In this case, the OECD recommended strengthening a professional central public employer office, as a way of avoiding a return to a more fragmented system³⁷¹. A central human resource management (HRM) co-ordination body is expected to ensure a coherent classification of public service jobs and facilitate/co-ordinate strategic workforce planning as well as other HRM key functions³⁷² (recruitment, management of senior civil service etc.), including, in some cases, wage-setting rules and rules for pay supplements. This was intended to ensure a coherent input to the entity responsible for wage bill planning and control, the Ministry of Finance. Effective central HRM co-ordination bodies are found in many OECD member countries, for example in France (*Direction générale de l'administration et la fonction publique*), Belgium (*Service Public Fédéral, Organisation et Personnel*), Netherlands (Directorate-General for Public Administration and Digitalisation) or Portugal (Directorate General for Administration and Public Employment).

In cases where the wage system is centralised and relies on a single grading structure and/or a single pay spine, a single entity is responsible for wage system management, as in Portugal, Slovenia and Romania. However, the respective entity is expected to co-ordinate with the Ministry of Finance to ensure effective wage bill planning and monitoring.

In Portugal, management of the wage system and key HRM functions are ensured by the same entity: the Directorate-General for Administration and Public Employment (DGAEP). This guides institutions on the

³⁷⁰ Adjusted based on OECD (1997), *Budgeting and monitoring of personnel costs*, SIGMA Paper No. 11, pp. 12-13. <https://doi.org/10.1787/5kml6g63ffzv-en>

³⁷¹ OECD, *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, 2012, p. 65.

³⁷² *Ibid.*, pp. 65-66.

legal framework, as well as on management of pay systems, promotions, appraisal, recruitment and working conditions. The Directorate-General for the Qualification of Public Employees (INA) is responsible for development, training and recruitment. A Shared Services solution was also implemented, eSPap, supporting human resource management in public administration, including wage system implementation. The solution also facilitates the application of the Integrated Management of Performance Assessment of Public Administration (GeADAP)³⁷³, which is part of the wage determination logic, as progression depends on the results of the performance assessment (see section 2.7).

In Romania, the responsibility for strategic planning of public sector wage policy belongs to the Ministry of Labour and Social Solidarity (MLSS), which has a legal mandate for developing and monitoring salary policy. Its main responsibilities include the development of the legal framework on public sector salary policy, preparation of annual normative acts for the enforcement of the Framework Law No. 153/2017, guiding public institutions in the application of the wage system, and monitoring implementation of wage legislation (analysis of wage data). Sectoral line ministries collaborate with the MLSS to support a coherent application of wage system legislation and can develop normative acts/guidelines in the application of the Framework law, related to conditions for specific bonuses (such as the bonus for working conditions, which entails specific conditions to be regulated for each sector). The Ministry of Finance is responsible for wage bill planning and monitoring of budgetary expenditure (including personnel costs) and supports MLSS in the collection of pay data. Analysing the implementation of recent wage system reforms (2017) in Romania, the World Bank recommended strengthening institutional co-ordination on wage policy³⁷⁴, further clarifying institutional roles and improving data collection.

The Ministry of Finance can also be tasked with managing wage system policy and HR policy (usually at central level), as in Estonia (for the civil service) or in Finland. However, in both cases wage system policy is decentralised. In Finland, for example, the Public Governance Department of the Ministry of Finance is tasked with developing systems and practices and offering support to government agencies in HRM management. The department is also responsible for drafting legislation related to public officials in central government and their employment terms and promotes the competitiveness of the central government as an employer. Additionally, within the Ministry of Finance, the Office for the Government as Employer serves as the representative of the Government in collective agreement negotiations³⁷⁵.

A special case is the use of advisory bodies as part of the wage system institutional framework, as it is for example in Ireland or UK. This type of set-up is meant to ensure independent advice for wage system reforms or for annual salary adjustments, supporting strengthened wage system management. In Ireland, for example, the Public Service Pay Commission was a temporary, independent commission created in 2016, with the mandate to analyse the wage system and to advise the department responsible: the Department of Public Expenditure and Reform. The commission until 2018 produced a series of reports on how pay affects attractiveness, recruitment and retention³⁷⁶. In UK, the eight pay review bodies³⁷⁷

³⁷³ More information available in: European Commission (2018), "Public administration characteristics and performance in EU28: Portugal", p. 831, <https://ec.europa.eu/social/BlobServlet?docId=19963&langId=en>.

³⁷⁴ World Bank, Romania (2018), *Baseline Review of the National Framework for HRM and its Institutionalisation*, pp. 105-120, <https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-1.1-Baseline-review-of-the-national-framework-for-HRM-and-its-institutionalisation.pdf>.

³⁷⁵ Ministry of Finance in Finland, <https://vm.fi/en/government-as-employer>.

³⁷⁶ <https://paycommission.gov.ie/news/>.

³⁷⁷ Armed Forces' Pay Review Body; Review Body on Doctors' and Dentists' Remuneration; NHS Pay Review Body; Prison Service Pay Review Body; School Teachers' Review Body; Senior Salaries Review Body; Police Remuneration Review Body; National Crime Agency Remuneration Review Body.

established ensure a key input in the monitoring process and inform the wage adjustment process for over 45% of public sector staff (the rest being civil servants and local government employees)³⁷⁸.

In the context of wage system reforms, institutional roles and responsibilities for central oversight and guidance are the cornerstone for the effective implementation of policy reform plans. In centralised settings, central co-ordination and control are a key feature of the management system, while in more decentralised reform settings, central steering is oriented more towards ensuring the general framework and relies on the provision of recommendations and guidance. While specific wage reform committees or working groups can be set up to prepare or design future wage system features, these structures usually end their activity once reforms are adopted. It is equally important to design a robust institutional mechanism for managing the reformed wage system (especially when the previous institutional set-up was fragmented/ineffective). In Lithuania, for example, the legislation adopted in 2023³⁷⁹ for the civil service wage system reform relied on the work conducted by a working group³⁸⁰, while the management of the reformed wage system relies on central steering/guidance from the Ministry of Interior³⁸¹. Individual institutions are responsible for setting up and managing their own wage systems, in alignment with the general framework adopted by law. The new legislation is expected to be accompanied by Government recommendations of the wage system, as well as by evaluation criteria for grouping of the institutions and setting the basic salary for the heads of institutions from the range of basic salary coefficients set out in the new civil service law. Each civil service institution develops and manages its own pay system, based on the Government's recommendations.

Whatever the wage system model, institutional roles need to be clearly determined to ensure evidence-based, legitimate, compliant, effective and timely decision making and implementation, with proper monitoring and control loops built into the system. This is as true for wage system policies as for all public policy mechanisms. Public sector wage systems need also to reflect SIGMA Principle 3, A: "The government plans and monitors public policies in an *effective and inclusive manner*, in line with the government fiscal space; a. A harmonised and coherent policy planning, monitoring and reporting system, with clear procedures and *key institutional responsibilities*, is established."

Specific institutional roles in wage bill planning and monitoring are also included in sections 3.2 and 3.3 of this report.

3.1.1. Key messages

- Effective central co-ordination: Future management of a reformed wage system requires setting up effective central co-ordination and control mechanisms, especially in centralised settings, to ensure proper management and oversight of public sector wage systems. This includes clear roles for institutions, such as the Ministry of Finance, in planning, monitoring and implementing reforms.

³⁷⁸ More information at: https://www.instituteforgovernment.org.uk/explainer/pay-review-bodies#:~:text=Pay%20review%20bodies%20are%20independent%20panels%20that%20gather_year%20on%20pay%20for%20many%20public%20sector%20workers.

³⁷⁹ New Civil service law and the Law on the basic amount of the salary and the conditions for recalculating the salary allocations, [https://www.e-tar.lt/portal/lt/legalAct/TAR.D3ED3792F52B/OFRJDRInRe; https://e-tar.lt/portal/lt/legalAct/8253c29006c711ee9978886e85107ab2](https://www.e-tar.lt/portal/lt/legalAct/TAR.D3ED3792F52B/OFRJDRInRe;https://e-tar.lt/portal/lt/legalAct/8253c29006c711ee9978886e85107ab2).

³⁸⁰ Including representatives from the Ministry of the Interior, the Ministry of Social Security and Labour, the Ministry of Economy and Innovation and the Ministry of Finance.

³⁸¹ Responsible for the civil service.

- Decentralisation with caution: When considering decentralisation of wage-setting mechanisms, institutional oversight and responsibilities for guidance and monitoring are crucial, to avoid fragmentation and ineffectiveness.
- It is important to consider establishing/strengthening a central HR role to ensure proper job classification and a coherent pay-grading system. A professional central public employer office could ensure coherent classification of public sector jobs, facilitate strategic workforce planning, and co-ordinate key functions, ultimately contributing to effective wage system management.

3.2. Wage bill planning and salary adjustments/revision mechanisms

Wage bill planning is a key dimension of wage system management. It has significant importance for ensuring affordable and competitive public sector wages and is a crucial aspect of strategic human resource management (HRM). This topic is often discussed in terms of fiscal impact, due to its substantial share of government spending, representing 11% of GDP in OECD countries and about 20% of general government expenditures, according to OECD³⁸² or IMF data³⁸³. However, while fiscal affordability must be ensured, it needs to secure competitive wage levels to attract and retain qualified human resources and to incentivise them to deliver high-quality public services. Wage bill planning is therefore a key dimension of strategic human resource management, and it implies that wages over the medium to long term are inherently (i) linked to strategic workforce planning in the public administration, (ii) aligned with sound budgetary processes in which all relevant stakeholders are involved and (iii) based on reliable data to enable robust fiscal projections.

Unfortunately, in many instances, wage bill planning is not adequately linked to strategic workforce planning, as a result of systemic challenges. Weaknesses in capacity for strategic workforce planning, reliance on yearly headcount gap information, and insufficient competency gap assessment contribute to this disconnect. HR departments lack the technical knowledge and the strategic instruments to identify competency gaps correlated with the strategic objectives at the institutional, sectoral and national level. Another layer of difficulties faced by long-term strategic wage bill planning is related to the political sensitivity of the process itself, given that “elected officials are more interested in satisfying concerns ‘here and now’ and are unwilling to invest in longer-term HRM and fiscal strategies”³⁸⁴.

The objectives of wage bill planning are context-specific and, as best practice, they reflect correlation with specific structural reforms. First, this means that wage bill preparation requires a good analysis of the economic and fiscal context of the country. This analysis typically relies on data from the Ministry of Finance and international organisations on the overall economic situation, revenue projections and expenditure constraints. As part of the fiscal context, it is equally important to determine the solidity of wage bill controls – that is understanding to what extent wage bill ceilings are applied by line ministries and agencies. Analysing the information on deviations between budgeted and actual wage bill expenditures and differences between budgeted and filled positions provides evidence on the effectiveness of wage bill ceilings³⁸⁵ and can inform future adjustments. Secondly, when the context is

³⁸² https://www.oecd-ilibrary.org/governance/government-at-a-glance-2023_1c373f93-en.

³⁸³ Gupta, Sanjeev et al. (2016). “Managing Government Compensation and Employment-Institutions, Policies, and Reform Challenges”, IMF Policy Paper, April, International Monetary Fund, Washington DC.

³⁸⁴ Rogger, Daniel, and Christian Schuster, eds. 2023, *The Government Analytics Handbook: Leveraging Data to Strengthen Public Administration*. World Bank, Washington DC, p. 214.

³⁸⁵ World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*, EFI Insight-Governance, Washington DC.

clearly framed, the objectives of wage bill planning can be defined in relation to specific policies related to wage bill and employment management. The context may require better control of the wage growth because of fiscal constraints, or a more decompressed pay structure in some sectors to attract and retain good specialists to introduce important sectoral reforms. It may be necessary to call for limited or for no salary increases (potentially capped at the level of inflation), until a set of sectoral reviews are conducted to provide the evidence for targeted reforms in employment (for example, on sectors that are under- or over-staffed). In this way, wage bill management can be linked to structural reforms that support enhanced government spending when adequately pursued over the medium to long term. Examples of such structural reforms are numerous from advanced countries³⁸⁶, showing how functional reviews can inform efficiency programmes implying employee reallocation or employment downsizing, for example in the case of the Efficiency Programme in the UK in 2004-08³⁸⁷.

Various strategies are available to reform the wage bill that include both short-term wage and employment measures as well as structural and institutional reforms. Countries may rely on wage freezes (typically across the board) as part of the reform design, or modify the compensation structure. Consolidating employment levels by limiting new hiring, mainly by relying on attrition-based employment reductions, is another strategy. Finally, increasing payroll management or reducing government employment levels permanently through restructuring of the public sector is also possible³⁸⁸.

A robust definition of objectives for wage bill planning requires a solid foundation of reliable data. In advanced countries, microdata is available to inform detailed wage data analysis. In lower-capacity contexts, granular pay data is often missing, and wage data is not linked to payroll systems but depends on some aggregate reporting, sometimes without detailed employment characteristics. Such systems can even include “ghost workers”, who are only paid from the government payroll but do not effectively work in the public service. If, for example, an objective of the reform is to increase payroll compliance, indicators can also target ghost workers, based on specific employee characteristics³⁸⁹. A key question to consider is: Do we have a granular and credible set of comprehensive data on public employment and wages? If not, at least aggregated data on employment cohorts by job types and seniority levels is needed. More details on the importance of wage system data are available in section 3.3.

Wage bill planning, either centralised or decentralised, depends primarily on three main variables:

- **Workforce analysis**

In essence, payroll is expected to cover current personnel costs, costs with new personnel, and anticipated wage increases. The analysis usually encompasses the current composition of the public sector workforce, the number of employees per job type, their different seniority levels and characteristics to which allowances/supplements are linked to, and their distribution across different government agencies and sectors. The next step is to estimate future workforce numbers based on provisioned recruitment

³⁸⁶ OECD (2011), “Public Servants as Partners for Growth: Toward a Stronger, Leaner, and More Equitable Workforce”, OECD Publishing, Paris.

³⁸⁷ IMF (2016), *Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges*, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Managing-Government-Compensation-and-Employment-Institutions-Policies-and-Reform-Challenges-PP5044>.

³⁸⁸ An overview of practical implementation of these instruments can be found in International Monetary Fund (2016), *Case Studies on Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges*, Washington DC, June, <https://www.imf.org/external/np/pp/eng/2016/040816ab.pdf>. France, Ireland, Kosovo*, Moldova, Netherlands, Portugal and Romania, among others, feature in the study.

³⁸⁹ Rogger, Daniel, and Christian Schuster (eds.) (2023), *The Government Analytics Handbook: Leveraging Data to Strengthen Public Administration*, World Bank, Washington DC, p. 165.

processes, minus possible departures from the system (mainly through retirements). This analysis is usually conducted by each line ministry/institution responsible for a given sector (main budget holders). The Ministry of Finance is usually the institution that determines the consolidated level of budgeting for vacant positions. When this process is informed by strategic workforce planning and/or functional reviews, additional information is used regarding the competency gaps that can inform future recruitment over a three-year timeframe, but such assessments are rarely conducted even in advanced capacity settings³⁹⁰.

If detailed employment data is not available, at least aggregate employment numbers by job types need to be requested from the main budget holders, together with average salary levels and wage components, to enable a limited baseline analysis until more robust data can be collected at the individual level. The wage system reforms in Romania in 2010 and Moldova in 2018 were initially informed by aggregate employment data reported by institutions for each job type and not from centralised payroll systems (which are still being developed). Romania followed up with the legal obligation for institutions to report individual employment and wage data annually³⁹¹, until a centralised pay system was in place.

- **Efficiency measures**

Upon obtaining workforce projection findings, a comprehensive analysis should integrate this information with anticipated policies and reforms to enhance the efficiency and productivity of the public sector workforce (such as recommendations from functional reviews). These reforms need to be well understood, as they will impact the objectives of wage bill planning, as noted previously. Such policies might for example be linked with the introduction of a new performance management system, paying performance bonuses to high performers, under specific capping rules, or to downsizing some sectors (restructuring) while optimising work processes. Such policy measures have implications for wage bill planning and require co-ordination between responsible line ministries to determine the budget implications.

- **Personnel expenditure cost projections in line with fiscal targets/objectives**

The wage bill must be predictable over the medium term. The Principles of Public Administration state that “the salary system is fiscally affordable; the evolution of the wage bill is predictable” (Principle 11.c.)³⁹². In line with that principle, affordability means that cost projections for personnel are planned within the overall macroeconomic framework. Once estimated costs are known for the workforce and for the efficiency measures impacting the workforce, it is possible to develop cost projections using factors such as *inflation* and possible wage *increases* already expected/required by the sectors. These projections should be based on the various categories of public servants and different job types. Projections need to be balanced by the budget constraints, which means that the Ministry of Finance needs to develop scenarios on how to align possible increases and the *fiscal targets*.

For EU countries, the budget projections and implicitly the personnel cost projections are planned as part of the *macroeconomic and fiscal framework* adopted for a three-year timeframe. The country-specific medium-term budgetary objective (MTO) is revised every three years, or when major structural reforms

³⁹⁰ The studies reveal that even in EU member countries, competency gap assessment is rare. Cases of “political cycles in hiring” and therefore in wage bill expansion, may feature increases in public sector employment around election years. Based on World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*, EFI Insight-Governance, Washington DC.

³⁹¹ As provided under the Framework Pay Law 153/2017.

³⁹² OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

are implemented with fiscal impact³⁹³. Based on the three-year macroeconomic and fiscal framework, the more detailed planned funding for each sector is discussed with each line ministry, to determine allocations for programmes for the current year (in case of adjustments), the next year and for the following two years. As part of that technical process, the planned funding for personnel is developed within the available fiscal space, factoring in (i) the execution of expenditures for employees for the previous and current year, (ii) the negotiated increases already agreed upon with trade unions, and (iii) the possible wage-related impact derived from proposals for legislation and planning documents.

With respect to automatic indexation of public servants' salaries, as early as in 2011, the OECD observed that automatic inflation indexation was incompatible with active fiscal policies and cost management and that numerous countries that introduced this policy were withdrawing from the mechanism³⁹⁴. Automatic inflation indexation was introduced in some OECD member countries as a replacement for earlier formal or informal provision principles. These systems have thus been or are being phased out. Price movements may, however, still be one of the factors taken into account in setting public sector salaries. The International Monetary Fund (IMF) warns that automatic indexation of wages to inflation or other variables outside governments' control can potentially drive up the wage bill in a manner that is inconsistent with fiscal targets. Over 60% of the countries surveyed by the IMF in 2015 did not automatically index wages to inflation or any other variable³⁹⁵.

While there is no universal formula for adjusting public sector wages, some EU states do have some generic parameters they consider when planning personnel costs and for negotiating wage increases with the social partners, usually linked to inflation and GDP growth. A fix formula would not be possible, because the wage bill planning needs to accommodate different constraints. However, some economic and fiscal parameters need to be input into the analysis, to set the limits of the planning and negotiation processes. The so-called *Benya formula* used in Austria posits that public salaries are expected to increase by the inflation rate plus a part of GDP growth (usually measured as productivity growth for the past three years)³⁹⁶. In Latvia, the reference value to be multiplied by a coefficient can change every year, since it is calculated as follows: the increase of the average salary in the economy in the previous year is added to the previous year's inflation rate, and the sum is divided by 2; then the reference value of the current year is indexed with the number obtained in the first step³⁹⁷. In Belgium, the salaries of public sector employees are adjusted to inflation using a mechanism known as *indice-pivot* or "pivot index". When the consumer price index reaches a certain level, known as the pivot index, salaries and other benefits are automatically increased by a fixed percentage (usually around 2%). This adjustment is automatic and happens without

³⁹³ Further information at <https://www.europarl.europa.eu/factsheets/en/sheet/89/the-eu-framework-for-fiscal-policies>. Furthermore, as part of the surveillance mechanism, in April of each year, each Member State prepares a stability programme (in the case of Euro-area Member States) or a convergence programme (for non-Euro area Member States) to the Commission and the Council.

³⁹⁴ OECD (2011), *The Public Sector Salary System in Slovenia*, OECD Public Governance Reviews, OECD Publishing, Paris, <https://doi.org/10.1787/9789264167551-en>, p. 78.

³⁹⁵ International Monetary Fund 2016, "Managing Government Compensation and Employment – Institutions, Policies, and Reform Challenges," IMF Policy Paper, p. 23, <https://www.imf.org/external/np/pp/eng/2016/040816a.pdf>.

³⁹⁶ Gerhard Fenz, Christian Ragacs and Alfred Stiglbauer (2019), *Aggregate wage developments in Austria since the introduction of the euro*, Monetary Policy & the Economy Q1–Q2/19, published by the Oesterreichische Nationalbank. This formula was proposed to ensure a slow but steady growth of wages. However, the Benya formula only serves as a guideline, and in practice, public salaries were often indexed only to inflation or were even subject to below-inflation adjustments or no adjustment at all, in certain years (e.g. during the 2009–2010 financial crisis).

³⁹⁷ Article 4, paragraph 2, of the Law on Compensation of Officials and Employees of State and Local Government Institutions, 2018, <https://m.likumi.lv/doc.php?id=202273>.

the need for any new legislation or decision-making process. The frequency of these adjustments depends on the rate of inflation³⁹⁸.

The Ministry of Finance is usually responsible for leading the wage bill planning, based on data analysis that can be extracted from payroll systems, but also by ensuring close co-ordination with line ministries regarding (i) workforce planning data and (ii) efficiency measures. In most EU countries, the Ministry of Finance sets the budgetary limits and leads the budgetary planning process, including the wage bill component. In France, the process is transparent and can be followed closely through all preparatory and adoption phases³⁹⁹.

As for procedure, wage bill planning is part of the process for budgetary planning, and the main rules are often set through an organic law on the governance/management of public finances, preparing and adopting typical yearly annual budget legislation⁴⁰⁰. In Romania, the Law on Public Finances 500/2002 notes the leading role of the Ministry of Finance and the fact that budget holders need to limit workforce expenditure to the number of job posts approved within the organigramme of each institution⁴⁰¹. An operational procedure details the key milestones in this process in Romania. Workforce expenditure is determined at the level of each main budget holder, but the procedure is not prescriptive in terms of specific caps or rules for wage bill calculation. Such limits are determined annually, through the Annual Budget Law, in line with the medium-term fiscal projections⁴⁰².

In more flexible wage systems with a higher level of autonomy (closer to or relying on individual-based pay), the wage bill expenditure at the level of the institution is the limit within which managers have flexibility to adjust individual wages and to make employment decisions (whether to increase salaries or to recruit new staff). In Denmark, legislation on wages “is close to non-existent”⁴⁰³. The system relies on collective bargaining, with the possibility of further negotiation on individual levels. This implies that the wage bill is not linked to strict employment limits but to programmes and that therefore, institutions can decide whether to hire less and pay more competitively within an overall budget justified in relation to sectoral strategic plans. This ensures a high level of flexibility in wage bill planning, within an overall budgetary envelope determined centrally by the central budget authority (the Ministry of Finance).

In general, at least the following aspects are reflected in the relevant legislation, linking the wage bill planning process to overall budgetary planning (and not as a stand-alone procedure adopted separately):

- Role of the Ministry of Finance in defining the medium-term budgetary limits and wage bill targets as % of GDP and as % of expenditure.
- Role of a specific ministry/institution in charge of the public sector wage bill (typically the Ministry of Finance or Labour), for conducting comparisons with private sector salaries, for comparable jobs (in cases where public/private comparisons are conducted). This can inform possible targeted

³⁹⁸ *Indexation, principes généraux*, <https://bosa.belgium.be/fr/themes/travailler-dans-la-fonction-publique/remuneration-et-avantages/traitement/indexation-0#anchor-8>.

³⁹⁹ <https://www.budget.gouv.fr/>.

⁴⁰⁰ Organic laws cover areas of major importance for the state, as opposed to ordinary laws. For a brief overview of legal arrangements in EU countries: https://e-justice.europa.eu/6/EN/national_legislation?FRANCE&member=1.

⁴⁰¹ Law 500/2002, <https://lege5.ro/App/Document/geydsnjzgu/legea-nr-500-2002-privind-finantele-publice>.

⁴⁰² In Romania, annual legislation adopted by the Government would include fiscal measures also related to the application of the wage legislation and therefore impact wage bill planning – for example by determining that bonuses would not be applied as a percentage, but would be frozen and paid at the level they were in December 2022.

⁴⁰³ Mikkel Mailand and Patricia Thor Larsen, “The Danish public sector industrial relations and welfare services in times of trouble”, ETUI, p. 100, https://www.etui.org/sites/default/files/Chapter%202_13.pdf.

increases in some sectors. For example, Estonia, where the system is quite decentralised, conducts an annual pay review, producing detailed comparison of salaries by classification and grading⁴⁰⁴.

- The key phases and institutional roles in the wage bill planning process, as part of the overall budgetary planning – including yearly budget preparation and multi-annual planning, in line with multi-annual budgeting principles applicable in EU countries. Consultations, transparency and adoption phases are included.
- Sometimes rules linking workforce expenditure estimates at the institutional level with approved staff numbers (organigramme) are in force in countries such as Romania, Portugal, Austria, where pay levels are determined predominantly by law and managers have no flexibility at the institutional level to opt for higher individual wages and lower employment numbers.

At the same time, beyond the technical content described above, the process of wage bill planning largely depends on the overall administrative context, that is: on the legal and collective bargaining arrangements. Countries with a solid collective bargaining tradition have a well-established process followed every year. In Austria, at the federal level, the process is highly centralised and unfolds at the top level, following clear rules⁴⁰⁵. Social partners are invited every September to negotiate wage increases within a given budgetary envelope pre-determined by the Ministry of Finance in the summer, in collaboration with line ministries. That envelope ensures an adjustment of wages by at least the projected inflation rate. The process involves representatives of the Ministry of Finance, which is responsible for the civil service, and the main two trade unions. The ministries in charge negotiate based on possible scenarios of wage increases⁴⁰⁶, calculated using the actual wage data of all federal employees (from the payroll system). The agreement for specific increases is formalised in legislation and not in a collective agreement. In Romania, on the other hand, negotiations with trade unions are fragmented and undertaken in an *ad hoc* and less transparent manner, because different sectors can exert different bargaining power. There is no structured process for centralised bargaining on public sector wages, based on which salary increases could be determined, to inform wage bill planning and possible adjustments of the wage legislation. The Pay Law 153/2017 explicitly mentions that pay rights cannot be the subject of collective bargaining, meaning that wages can only be determined by law, but this cannot preclude trade unions in the public sector from initiating requests for adjustments, leading to negotiations with the government⁴⁰⁷.

Wage bill planning also depends on the level of centralisation/decentralisation. Systems that are decentralised and that have greater autonomy ensure higher flexibility in wage bill management, as in EU Nordic countries. In Finland, the Office for the Government as Employer in the Ministry of Finance approves agency-specific wage systems and represents the government as an employer in collective bargaining⁴⁰⁸.

⁴⁰⁴ In Estonia, the Ministry of Finance is responsible for the wage analysis and the development of public service wage policy. See: <https://www.fin.ee/riik-ja-omavalitsused-planeeringud/avalik-teenistus/palgakorraldus>.

⁴⁰⁵ Christoph Hermann (2011), *Collective bargaining and balanced recovery: The case of Austria*, International Labour Office, Geneva.

⁴⁰⁶ This implies ensuring that increases are meaningful for all employees, determining some overall minimum increases that apply as a percentage to all jobs, but not lower than a given monetary threshold that would be ensured for specific categories.

⁴⁰⁷ This should not be interpreted as a limitation of the right to negotiate on adjustments of the public sector wages, only that wages need to be formally set by law, under the rules envisaged by the Framework Pay Law 153/2017.

⁴⁰⁸ For more information, see <https://vm.fi/en/government-as-employer>.

Whatever the administrative tradition, the process of wage bill planning must ensure consultations with relevant stakeholders, to ensure credibility and limit pressure for in-year *ad hoc* adjustments. It may also involve structures such as fiscal councils or even academia, to create a culture of evaluation⁴⁰⁹.

Finally, consultations are equally important to reconcile top-down planning and bottom-up estimates. The tension between top-down and bottom-up wage bill planning in the public sector highlights a key challenge: aligning detailed departmental staff needs with overarching fiscal goals. Top-down approaches ensure fiscal discipline but may overlook specific needs, while bottom-up methods offer precision but risk budgetary excess. Balancing these strategies is crucial for efficient resource allocation and requires adequate processes with clear allocation of rules and responsibilities.

3.2.1. Key messages

- Challenges in wage bill planning: Systemic challenges often hinder the integration of wage bill planning with strategic workforce planning. Issues include poor capacity for strategic planning, reliance on yearly headcount gap information and a lack of competency gap assessments. Political sensitivity poses another layer of difficulty, as elected figures may prioritise short-term concerns over long-term human resource management and fiscal strategies.
- Context-specific objectives and structural reforms: Wage bill planning objectives need to be context-specific, and best practices involve aligning them with specific structural reforms. The level of centralisation or decentralisation and the role of collective bargaining usually lead to variations in the process across countries. Economic and fiscal analysis, including data from the Ministry of Finance and international organisations, is crucial for understanding the context. The linkage of wage bill management to structural reforms supports enhanced government spending over the medium to long term. This integration is exemplified by the efficiency programmes and functional reviews observed in advanced countries.
- Robust wage bill planning requires a foundation of reliable data. Microdata is essential for detailed wage analysis, but in the absence of such data, at least aggregate employment numbers by job type are needed.
- The process relies on three main variables: workforce analysis, efficiency measures and cost projections within the macroeconomic context.
- Automatic indexation is not recommended, but macroeconomic indicators related to inflation and GDP usually inform wage bill decisions and salary negotiations.
- Co-ordination between the Ministry of Finance and line ministries is essential, and legislation typically outlines the key aspects of wage bill planning, linking it to overall budgetary planning. Stakeholder consultations play significant roles in the effectiveness of wage bill planning processes.

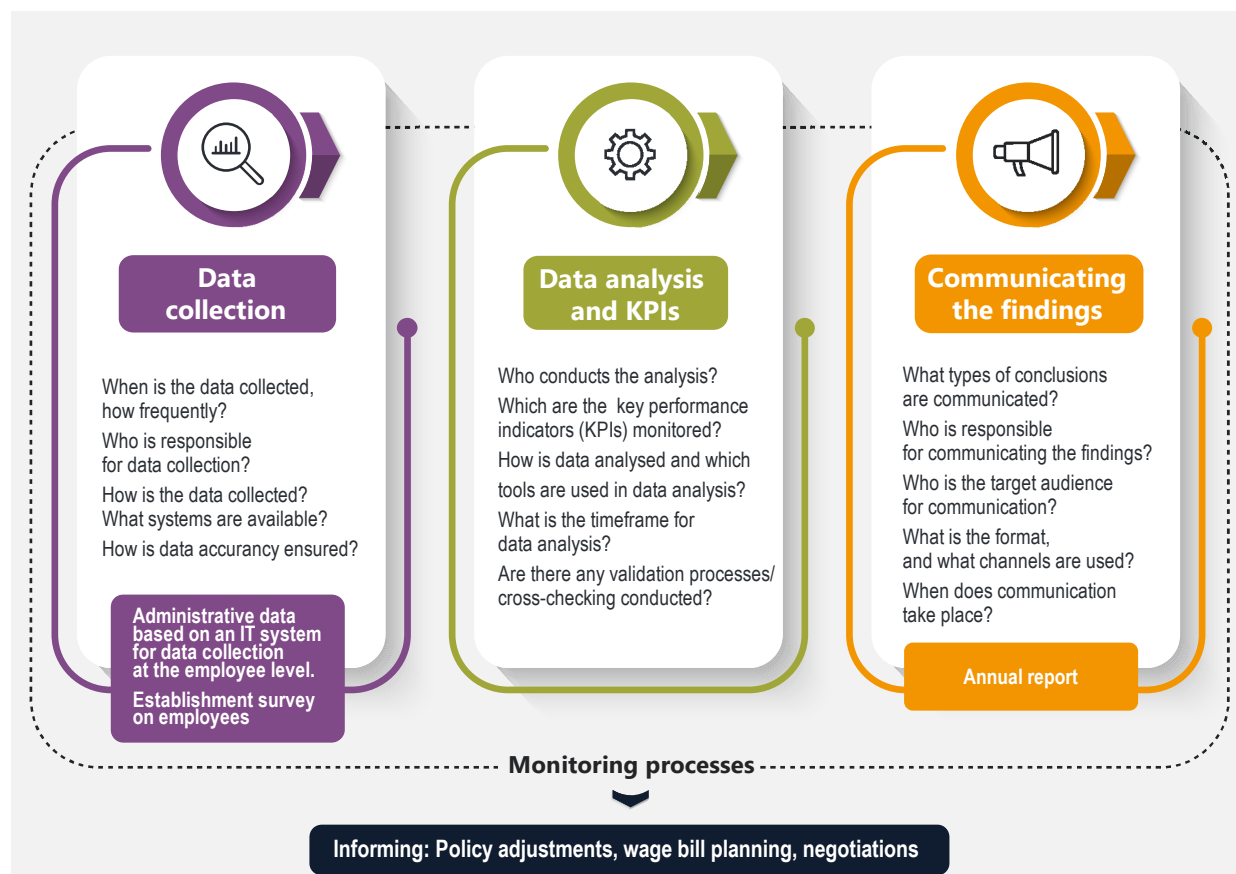
3.3. Wage data – wage system monitoring

Wage system reforms can also address system capacity for managing the public salaries, including monitoring capacity. The monitoring of public sector wages is essential for governments to ensure

⁴⁰⁹ As recommended by the World Bank, in WB (2021), *Public Sector Employment and Compensation: An Assessment Framework*, EFI Insight-Governance, Washington DC.

equitable and competitive salaries within the existing fiscal constraints, facilitating the delivery of high-quality policies and services. At the core of this monitoring process is the pay data. By monitoring public sector wages, governments can manage expenditure effectively while fulfilling their mission to the public in the confines of limited budgetary resources. Monitoring implies (i) clear institutional roles; (ii) procedures and formats for data collection, data analysis, data sharing, communication etc.; (iii) data systems (integrated payroll – human resource management information systems [HRMIS] or aggregate data). Wage data is at the core of the process.

Figure 13. Monitoring process in wage systems, based on the World Bank framework



Source: Based on World Bank (2019), Romania: Proposed Methodology for Monitoring the Public Sector Pay Law, p. 40. https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

In monitoring public sector wage systems, various types of wage data are needed to analyse transparency, fairness and compliance. In general, as in any policy monitoring and evaluation, data is expected to be⁴¹⁰: (i) relevant (limited to what is needed, to minimise the administrative burden in data collection); (ii) collected in a timely fashion, to be useful in the policy cycle for wage system adjustments/negotiations etc.;

⁴¹⁰ Developed based on general data characteristics for monitoring and evaluation as described in European Commission (2023), *Better Regulation Toolbox*, https://commission.europa.eu/law/law-making-process/planning-and-proposing-law/better-regulation/better-regulation-guidelines-and-toolbox_en.

(iii) reported/collected in a standardized format and in an automated manner using information technology (IT) systems, to ensure coherence and facilitate data analysis; (iv) collected based on common reporting standards to facilitate data integration/comparisons; (v) verified, cross-checked and validated, to secure credible evidence; and (vi) made available to relevant stakeholders⁴¹¹ to ensure transparency and credibility. Moving forward, in specific terms, public sector wage data that is relevant is expected to cover the following dimensions⁴¹²:

Administrative data (either a payroll or HRMIS system or collected on a regular basis for monitoring purposes): it needs to ensure sufficient information regarding public sector employment and wages and should cover all personnel in the scope of the public sector wage system. Data should cover:

- Reference data for the organisation: employer organisation name (including the fiscal code, to enable cross-checking with other databases if the data is not extracted from the payroll system).
- Job-related reference data: job title, job group to which the position belongs, specific job coding (based on the job classification system).
- Individual-level data: age, gender, education, seniority, worktime arrangements (full time/part time).
- Wage data: pay grade (if applicable), base wage and variable pay components, allowances, supplements.

Survey-based data: In the case of labour force/household budget survey data, these should allow for extracting information about jobs considered comparable to a specified set of public sector jobs, controlling for industry, occupation and worker characteristics. Special public sector survey data may be collected expressly for wage monitoring and job satisfaction (can be collected on a regular or irregular basis)⁴¹³.

To ensure accuracy, timeliness and relevance of wage system data, this should be extracted from government payroll management systems, if available. Such systems code every budgetary position and include detailed information on employment and wage dynamics, in a standard format⁴¹⁴. For example, Austria was already singled out by the OECD in the 1990s as a good practice example for its financial management system, which linked accounting, payroll and monitoring⁴¹⁵. The Personnel Management Information System in Austria contains statistical data drawn from the payroll systems for analyses of personnel and wage management and is based on SAP software⁴¹⁶. In other countries where data cannot be extracted automatically from payroll systems, wage data can also be monitored based on periodic sectoral reporting by public organisations. In such cases, additional effort is required for data cleaning and standardisation. In Romania, the monitoring process was intended to be strengthened after 2017, when the Framework Pay Law 153/2017 introduced the obligation for institutions to report public sector wage data annually at an individual level. Data was collected by the Ministry of Finance and shared with the Ministry of Labour, which is responsible for the Unified Pay System. This process was a step forward in

⁴¹¹ With due consideration to GDPR (EU General Data Protection Regulation) provisions.

⁴¹² World Bank (2019), *Romania: Proposed Methodology for Monitoring the Public Sector Pay Law*, p. 42. https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

⁴¹³ See for example: Global Survey of Public Servants, <https://www.globalsurveyofpublicservants.org/>.

⁴¹⁴ OECD (1997), *Budgeting and monitoring of personnel costs*, SIGMA Paper No. 11, p. 20, <https://www.oecd-ilibrary.org/docserver/5kml6g63ffzv-en.pdf?expires=1705064279&id=id&accname=guest&checksum=EE38C6AB96DB1EF97A54F03A2D90D584>.

⁴¹⁵ Ibid, p. 23.

⁴¹⁶ Payroll for Public Sector Austria (PY-AT-PS), https://help.sap.com/docs/HR_RENEWAL/bb03ecde44f043e5acde240fa6d6b165/cc32e153038a424de1000000a174cb4.html?version=1.4.latest.

ensuring the evidence for policy adjustments, but the process was prone to challenges⁴¹⁷. The task was an additional reporting requirement for institutions (and not linked to regular data management) and incomplete reporting and some errors (that in fact did not substantially compromise the dataset) were identified – because of the inconsistencies in the standard form for data collection and also as a result of an outdated Registry of job codes. Data systems need to be verified to ensure quality data, especially in the absence of a connection between human resource data and payroll. This weakens the motivation for agencies to update personnel records consistently, since there are no repercussions, such as missed salaries, linked to inaccurate data⁴¹⁸. In most Western Balkan administrations, modules related to salary and allowances are, in most cases, not integrated into the HRMIS, which diminishes the capacity of central civil service agencies to manage fully integrated HRM policies⁴¹⁹.

As part of the monitoring framework, a set of indicators need to be defined and integrated in the data analysis process. The indicators should reflect the key dimensions of the wage system (section 2.1) – pay equity, affordability, competitiveness and incentivising performance, together with public employment features, based on administrative and other data surveys, such as labour force or establishment surveys.

A set of indicators is proposed in the table below, in alignment with international best practice in wage system monitoring, relying on key performance indicator frameworks developed by the OECD and the World Bank⁴²⁰.

⁴¹⁷ For more information: World Bank, *Romania: Proposed Methodology for Monitoring the Public Sector Pay Law*, 2019, p. 38, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

⁴¹⁸ Hasnain, Zahid et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, D.C.: World Bank Group, p. 7. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

⁴¹⁹ ReSPA (2022), “Human resources management information systems in the civil services of the Western Balkans: a technological, functional and data perspective”, Regional School of Public Administration, October, https://respaweb.eu/download/doc/HRMIS_October+2022.pdf/653d284d0e9b0327469900c491462b03.pdf.

⁴²⁰ Drawing on: for the OECD: indicators used in *Government at a Glance*; for the World Bank: Hasnain, Zahid et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, World Bank Group, Washington DC, p. 7. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework> and World Bank, *Romania: Proposed Methodology for Monitoring the Public Sector Pay Law*, 2019, p. 38, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

Table 29. Proposed wage system indicators for monitoring purposes

General employment indicators	<ul style="list-style-type: none"> - Public sector employment (total numbers, to determine evolution in time). - Public sector employment as a share of total employment/as share of paid employment. - Public sector employee turnover. - Filled positions as a proportion of budgeted positions. - Median age of public employees. - Breakdown of public employees by education level. - Breakdown of public employees by worktime arrangements. - Breakdown of public employees by career grade. - Females as a share of public employees by wage quintile. - Females as a share of public employees by education. - Females as a share of public employees by job category (managerial/non-managerial).
Equity indicators	<ul style="list-style-type: none"> - Distribution of public sector workers by pay grade (including gender distribution by pay grade). - Public sector pay compression ratio by sector/ for specific occupations. - Relative wages between different occupations. - Within-occupation public sector pay dispersion. - Female-to-male wage ratio (public vs. private sector). - Gender pay gap: Female- to-male median wage ratio in public sector. - Staff views on the fairness of the compensation system within the public service (vertical and horizontal) (from survey data). - Staff views of the fairness of the job evaluation process (if applicable).
Competitiveness indicators	<ul style="list-style-type: none"> - Public vs. private sector wage premia (controlling for worker and job characteristics). - Public-private wage premia by occupation/by education level. - Pay compression ratios in the public and private sectors. - Public sector pay compression ratio. - Degree of staff satisfaction with their overall level of wages (from survey data).
Incentivising performance indicators	<ul style="list-style-type: none"> - Percentage of staff receiving the highest performance evaluations. - Percentage of staff (total, by sector/by occupational group) receiving a performance bonus/ performance increase of base salary. - The size of the performance bonus/performance increase as a percentage of the base salary.
Wage bill affordability indicators	<ul style="list-style-type: none"> - Wage bill as share of GDP, expenditures, and revenues. - Wage bill broken down by administrative and industry classification. - Deviations between budgeted and actual general government wage bill expenditures in the past three fiscal years (compliance with budgeted targets and actual vs. planned wage bill). - Pay structure (base salary vs. other pay components); for total wage bill and for specific sectors/occupational groups.

Note: Drawing on: for the OECD: indicators used in Government at a Glance; for the World Bank: Hasnain, Zahid et al. (2021), Public Sector Employment and Compensation: An Assessment Framework, World Bank Group, Washington DC, p. 7. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework> and World Bank, Romania: Proposed Methodology for Monitoring the Public Sector Pay Law, 2019, p. 38, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

The monitoring of employment trends is vital for discerning critical aspects of the public sector workforce, including its size, composition, age distribution and gender balance. Such analyses are also important in wage system reform contexts, making it possible, for example, to identify whether sources of wage bill growth are linked to employment levels when analysed in connection with international data from comparable countries. In international comparisons, emphasis is often placed on the ratio of public sector employment to total employment, providing a valuable metric for understanding government activities and service delivery approaches across countries. Additionally, variables such as age, gender and education play a crucial role in identifying trends that may require adjustments in wage system policies, including targeted measures to address workforce aging and attract diverse talent⁴²¹.

Monitoring wage equity indicators provides multifaceted information on possible sources of pay gaps. However, a key source of inequity can be introduced in the design of the pay grade system itself, especially if it is not based on robust job evaluation methods, using clear job descriptions and the right evaluation factors (see section 2.4 from this report). Once the system is set up, monitoring relative wages, pay dispersion and compression is essential for targeted wage system reforms in specific sectors. Governments need to find a balance to maintain equitable public sector wages, while ensuring attractiveness for highly skilled individuals. More details on the compression ratio and its importance for equitable wages are included in section 2.5 of this report.

A critical area to monitor is related to the gender pay gap. While there is significant variation in the average wage ratios for women across countries, wage inequality remains pronounced even in higher-income countries⁴²². For EU countries, the pay gap at labour market level has diminished in recent decades, reaching 12.7% in 2021, with considerable differences between EU countries, from less than 5% in Luxembourg, Romania, Slovenia, Poland, Belgium and Italy to more than 17% in Hungary, Germany, Austria and Estonia⁴²³. In OECD countries, a similar pay gap was reported in 2021: 13%, on average⁴²⁴. Monitoring the gender pay gap is essential for identifying root causes of inequities and adopting targeted action, even if the principle of equal pay has been enshrined in the European Treaties (Article 157 TFEU) since 1957. The monitoring process can help track the sources of the gender pay gaps, which include⁴²⁵: (i) sectoral segregation, with women concentrated in sectors that pay less; (ii) employment arrangements leading to unequal share of unpaid time (due to working arrangements, parental responsibilities etc.), (iii) career discrimination (discriminatory practices limiting promotion for or recruitment of women in senior and top managerial jobs); (iv) job discrimination as a result of the gender bias reflected in the job ranking, usually in the absence of robust job evaluation methods (with jobs perceived as women-dominated being paid less than similarly complex male-dominated jobs; or (v) individual pay discrimination because of management decisions, especially in individual-based pay systems. The World Bank found that, in general,

⁴²¹ For more on monitoring data on employment see: Rogger, Daniel, and Christian Schuster (eds.) (2023), *The Government Analytics Handbook: Leveraging Data to Strengthen Public Administration*, World Bank, Washington DC, [doi:10.1596/978-1-4648-1957-5](https://doi.org/10.1596/978-1-4648-1957-5), Chapter 10, "Government Analytics Using Human Resources and Payroll Data".

⁴²² Hasnain, Zahid, et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, D.C.: World Bank Group, p. 31. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

⁴²³ Latest data from European Commission https://commission.europa.eu/strategy-and-policy/policies/justice-and-fundamental-rights/gender-equality/equal-pay/gender-pay-gap-situation-eu_en.

⁴²⁴ OECD (2021), *Pay Transparency Tools to Close the Gender Wage Gap*, OECD Publishing, Paris, <https://doi.org/10.1787/eba5b91d-en>.

⁴²⁵ Based on Eurostat (2021), *Gender pay gaps in the European Union: A statistical analysis*, <https://ec.europa.eu/eurostat/documents/3888793/13484385/KS-TC-21-004-EN-N.pdf/69965821-22ed-7c56-c859-cd7b10e011c5?t=1633341826751>.

women employed in public administration, education and healthcare are at a wage disadvantage compared to men with similar qualifications⁴²⁶.

In addressing gender pay gaps, accurate data is essential for drawing conclusions about the sources of inequality, for example distinguishing whether pay gaps in the public sector are related to⁴²⁷: supplements paid to employees who work a certain number of hours or in certain occupations; distribution of working time patterns, access to promotion, education and training of part-time workers or those in women-dominated occupations; and type of employment contract/civil service status.

Transparent reporting on monitoring outcomes on gender pay gaps is crucial for raising awareness and supporting corrective action. This is part of the requirements for the wage system framework on communication and transparency (as discussed in section 3.4). In Ireland, each public organisation publishes annual updates on the gender pay gap, key findings and sources of the inequalities. Some organisations publish detailed reports, for example the Department of Enterprise, Trade and Employment, which in its 2023 report explains the cause of its 10.8% gender pay gap, noting that a higher proportion of women are employed in junior grades and are unequally represented in the most senior tier of management⁴²⁸. The report includes suggested steps for correcting imbalances.

Monitoring wage competitiveness is also essential for updating the grading structure(s) or for designing specific policy measures in sectors/occupational groups, sometimes justifying the application of market supplements for specific job categories. More details on market supplements are available in section 2.6 of this paper. Evaluating pay competitiveness for public employees requires more than a simple raw comparison of average wages between the public and private sectors. Such comparisons at an aggregate level may suggest that public sector employees are overpaid, but it oversimplifies the analysis. Personal and job characteristics, among other factors, significantly influence wages and must be considered in a comprehensive assessment of pay competitiveness⁴²⁹.

In terms of pay affordability, typical indicators utilised in monitoring are the wage bill as a percentage of GDP and as a percentage of government expenditures. Such indicators enable international comparisons and guide fiscal sustainability. More in-depth analysis is crucial, due to salary variations across the public sector. Identifying factors driving wage bill growth, understanding key contributor groups, and scrutinising the composition of total salaries, including bonuses and allowances, are essential for informed policy decisions, as shown in section 3.2 of this report.

⁴²⁶ Hasnain, Zahid, et al. (2021), *Public Sector Employment and Compensation: An Assessment Framework*, D.C.: World Bank Group, p. 31. <http://documents.worldbank.org/curated/en/324801640074379484/Public-Sector-Employment-and-Compensation-An-Assessment-Framework>.

⁴²⁷ Based on the Social Dialogue Committee for Central Government Administrations (2014), *Recommendations towards closing the gender pay gap*, https://funcionpublica.hacienda.gob.es/dam/es/portalsefp/funcion-publica/organos-colaboracion/relaciones-internacionales/Eupae/Recomendaciones_brecha_salarial_genero.pdf.

⁴²⁸ "Ireland: Report on the Gender Pay Gap in the Department of Enterprise, Trade and Employment" (2023), <https://enterprise.gov.ie/en/publications/publication-files/report-on-the-gender-pay-gap-in-dete-2023.pdf>.

⁴²⁹ World Bank (2019), *Romania: Proposed Methodology for Monitoring the Public Sector Pay Law*, p. 48, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

3.3.1. Key messages

- Clear institutional roles and procedures are essential for effective monitoring of public sector wages.
- Pay data should ideally be extracted from integrated payroll-HRMIS or other systems. Data collection should be relevant, timely, standardised and verified to ensure accuracy and credibility.
- Proposed Wage System Indicators: Indicators cover general employment, equity, competitiveness, incentivising performance and wage bill affordability. These indicators, in alignment with international best practices, facilitate cross-country comparisons and guide wage system policy adjustments.
- The gender pay gap is a critical focus, requiring accurate data to identify sources of inequality. Factors such as sectoral segregation, employment arrangements, career discrimination, job evaluation methods and individual pay decisions contribute to the gap.

3.4. Wage system transparency

The design of wage systems reforms should aim to develop or strengthen institutional mechanisms for ensuring transparency for public sector wage systems. Wage transparency ensures: (i) accountability and trust, allowing citizens to understand how public funds are spent; (ii) equity, helping to identify wage gaps and promote fairness in pay setting; (iii) attracting and retaining the right skills in public institutions, by allowing job seekers/staff to have a clear view on the public wage structure and their progression opportunities; (iv) legitimacy and meritocracy, by ensuring access to information on how wages are set and thereby limiting scope for corruption and nepotism and (v) support for policy monitoring and evaluation, providing evidence for possible adjustments.

Robust transparency mechanisms, underpinned by clear rules and well-defined pay structures, are also essential for effectively deterring corruption. Establishing standardised pay scales and transparent, merit-based criteria for wage determination ensures that deviations from established guidelines are quickly identified and addressed. This approach not only fosters fairness and equity within public sector employment but also strengthens public trust in government institutions by showcasing a commitment to integrity and accountability. Pay transparency is also supported by the European Commission (EC). As a part of its efforts to support equal pay between men and women, the EC adopted a Recommendation in 2014 (2014/124/EU)⁴³⁰. It recommends that EU Member States “encourage public and private employers and social partners to adopt transparency policies on wage composition and structures”, by adopting one or more of the following types of measures⁴³¹: creating mechanisms for employees to request information on pay levels; mandating organisations with at least 50 employees to regularly inform employees, workers’ representatives and social partners of the average remuneration by category of employee or position, broken down by gender; conducting pay audits in organisations with more than 250 employees, including an analysis of the job evaluation and classification system used and details regarding pay differentials on grounds of gender; and ensuring relevant statistical data is provided to Eurostat.

Moving forward in this direction, the recently adopted *Directive (EU) 2023/970 on strengthening the principle of equal pay for equal work or work of equal value between men and women through pay*

⁴³⁰ Commission Recommendation of 7 March 2014 on strengthening the principle of equal pay between men and women through transparency, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32014H0124>.

⁴³¹ Ibid.

*transparency and enforcement mechanisms*⁴³² ensures a solid framework of principles of rules that Member States must transpose into national law by June 2026. The Directive lays down minimum rules to reinforce the application of the principle of equal pay for equal work or for work of equal value, pay transparency and stronger enforcement of the right to equal pay. The Directive targets both public and private employers. In terms of transparency, Member States need to ensure, among other things, (i) the accessibility of analytical tools or methodologies for evaluating and comparing job values at the employer's level, (ii) technical assistance and training to support employers with fewer than 250 staff in meeting the directive's requirements, as well as (iii) measures to actively involve social partners.

To ensure wage system transparency, beyond the specific recommendations previously underlined, two dimensions should be considered in public sector wage system design:

Procedural or process transparency: This ensures that employees know how salaries are established, which are the criteria from which individual take-home payments are derived, what are the ranges or scales for each position and what it takes for an individual employee to earn more. Process transparency would be the bare minimum transparency threshold. The focus is on *how* salaries are decided.

Substantive transparency: This implies disclosure to all employees and the public at large how much all employees are paid. In some public sector organisations, this type of transparency is applied, especially for ministers, MPs and most senior civil servants. The focus is on *how much* employees are paid.

The obligation to report on public wages is enshrined in the legislation of some EU Member States. For example, in Estonia, the Civil Service Act contains specific provisions on pay transparency, stipulating the obligation for public institutions to publish the wage levels of civil servants annually, including base salaries and other pay components of the total salary⁴³³. A similar provision is included in the Framework Pay Law 153/2017 for the public sector wage system in Romania, establishing the obligation for all public institutions in all sectors to publish wage data for all employees twice a year (in March and September); if institutions fail to comply with this obligation, the head of the institution is nominated as directly responsible and can be fined; the Labour Inspection is mandated to control the application of this legal provision⁴³⁴.

To support a clear understanding of the wage determination mechanism in the public sector and of the applicable wage levels, detailed guidelines can be published by the responsible institutions. For example, BOSA (the entity integrating the Federal Public Service Personnel and Organisation, Budget and Management in Belgium) publishes detailed guidelines, facilitating a transparent communication of the public service pay-setting rules⁴³⁵.

Wage calculation tools can also be made available for employees and the public in general. They are an effective means of showing how wage setting rules are applied in practice. Such a wage simulator tool is made available by the Federal Office of Administration in Germany, ensuring transparent access to salary

⁴³² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023L0970>.

⁴³³ Estonia: Civil Service Act, Article 65, <https://www.riigiteataja.ee/en/eli/517042023001/consolide>.

⁴³⁴ Romania: Framework Pay Law 153/2017, Article 33, <https://legislatie.just.ro/Public/DetaliiDocumentAfis/190446>.

⁴³⁵ *Rémunération et avantages* : <https://bosa.belgium.be/fr/themes/travailler-dans-la-fonction-publique/remuneration-et-avantages>.

calculations for federal public employees⁴³⁶, and also in Belgium⁴³⁷ and Ukraine, in the framework of the recent salary reform⁴³⁸.

Procedural and substantive transparency can also be achieved through the publication of Annual Reports on public sector wages. These reports can also have a strategic dimension, communicating progress on specific reform dimensions (for example results obtained from monitoring of equity indicators linked to specific reform objectives in this area) and indicating future adjustments. The Australian Public Service Remuneration report, published annually, is a good example, providing key data and insights on how public wages evolved⁴³⁹. The UK Annual Report on Senior Salaries ensures a more detailed analysis and includes recommendations, published by the responsible Pay Review Body, which has a specific role in advising on wage policy (for more details see section 3.1)⁴⁴⁰. In other cases, wage system transparency is also captured in Annual reports on Civil Service management, which include a section on remuneration, as in France⁴⁴¹. Key trends and strategic directions are also transparently captured in annual reports published by central entities responsible for overseeing or co-ordinating the public sector wage system, as for example in the case of Ireland's Department of Public Expenditure National Development Plan (NDP) Delivery and Reform⁴⁴².

Transparency of salary system is an important factor in attracting candidates to the public service and in enabling mobility. When public sector pay tables are difficult to understand or in systems where base pay depends on variables such as years of experience and academic qualifications, candidates may not know what to expect in remuneration. Their experience can be enhanced by including a starting salary range and information on perspectives for salary growth in the vacancy announcement, which has consistently been recommended by SIGMA. Not including salary information in job descriptions is likely to have a negative impact on the pool of potential candidates, especially compared to other employers who include this type of information in their recruitment campaigns⁴⁴³. Pay transparency is also an important condition for facilitating mobility programmes, by ensuring access to relevant information on compensation in different roles and levels.

The relations between transparency (access to information) and protection of personal data are complex and understood differently in countries with different legal cultures and traditions. In Czechia, the Supreme Administrative Court stated that in the interest of effective public control, information on salaries (except

⁴³⁶ <https://bezuegerechner.bva.bund.de/>.

⁴³⁷ *Simulateur de salaire* (salary simulator): <https://bosa.belgium.be/fr/themes/travailler-dans-la-fonction-publique/remuneration-et-avantages/traitement/simulateur-de/>.

⁴³⁸ Розрахунок заробітної плати державного службовця (Calculation of the salary of a civil servant) <http://analytic.org.ua/site/calculate>.

⁴³⁹ <https://www.apsc.gov.au/remuneration-reports/australian-public-service-remuneration-report-2022#key-findings-for-2022>.

⁴⁴⁰ https://assets.publishing.service.gov.uk/media/62d6ca248fa8f50bfff50f34/SSRB_44th_AR2022_accessible.pdf.

⁴⁴¹ <https://www.fonction-publique.gouv.fr/toutes-les-publications/rapport-annuel-sur-letat-de-la-fonction-publique-edition-2023#:~:text=Le%20salaire%20net%20mensuel%20moyen,euros%20pour%20un%20agent%20contractuel>.

⁴⁴² Department of Public Expenditure NDP Delivery and Reform (Ireland): Annual reports <https://assets.gov.ie/263645/be5988c2-b456-4ef4-b5c6-477b8b10adf8.pdf>.

⁴⁴³ OECD (2023), "Strengthening the attractiveness of the public service in France: Towards a territorial approach", OECD Public Governance Policy Papers, No. 28, OECD Publishing, Paris, <https://doi.org/10.1787/ab9ebe85-en>.

for ancillary and service jobs) should be provided⁴⁴⁴. In the UK, the Guidance issued by the Information Commissioner Office states that the names, job titles and salaries are proactively disclosed on the open data portal⁴⁴⁵ as part of the government's policy on open data and transparency. Salaries are given in bands of GBP 5 000 (e.g. GBP 120 000 to GBP 124 999), while for more junior posts, only the job title and pay scales are disclosable⁴⁴⁶. In Ukraine, the Ministry of Finance portal provides access to an analytical tool ("dashboard") with data on numbers of employees and salaries in state bodies, local state administrations and judicial authorities in 2024⁴⁴⁷. In Spain, a recent Supreme Court decision stated that access to information on compensation and the qualifications required for positions in public administrations or entities in the public sector should, in principle, be the general rule. This not only applies to positions of trust and discretionary appointments but also to the technical staff. Information about qualifications and the compensation scheme is part of public entities' oversight and thus has significant public interest⁴⁴⁸.

The importance of transparency is underlined in the Principles of Public Administration. Principle 11.d. states explicitly: "*The salary system is transparent to employees and the public, while ensuring a sufficient degree of protection of sensitive personal data*"⁴⁴⁹.

3.4.1. Key messages

- Wage system reforms in the public sector should also consider the development or enhancement of institutional mechanisms for pay transparency, which are important for ensuring accountability, trust and fairness in pay setting, while aligning wage policies with principles of legitimacy, meritocracy and with anti-corruption efforts.
- Efforts to strengthen pay transparency are expected to be further consolidated across EU Member States, in line with the evolving EU framework in this area. The European Commission supports pay transparency as part of its efforts to achieve equal pay between men and women. Recently, the EU Directive (2023/970) on equal pay reinforced this commitment, establishing specific obligations for Member States and stressing the importance of transparency in achieving equal pay objectives.
- Transparency in public sector wage systems includes procedural transparency (ensuring that employees understand how salaries are determined, considering criteria, ranges and pay grades for each job group) and substantive transparency (disclosing actual salaries of all employees). Mechanisms for pay transparency can rely on legal obligations to publish wage levels annually. Guidelines and tools, such as wage calculators and annual reports, further contribute to transparency, helping employees and the public comprehend wage determination rules in practice and promoting strategic communication on progress and future adjustments.

⁴⁴⁴ Frumarová, Kateřina (2016), "The Right to Information: Whether or not to Publish Information on Salaries of Employees Paid from Public Funds", *Public Governance, Administration and Finances Law Review*, 1, pp. 96-101, <https://folyoirat.ludovika.hu/index.php/pgaf/article/view/5425>

⁴⁴⁵ www.data.gov.uk

⁴⁴⁶ <https://ico.org.uk/media/about-the-ico/policies-and-procedures/4025288/employee-information-disclosure-policy.pdf>.

⁴⁴⁷ <https://mof.gov.ua/uk/governance-649>

⁴⁴⁸ Tribunal Supremo, Sala de lo Contencioso-Administrativo, Sección 3.ª Sentencia 1653/2023, 11 December 2023, https://laadministracionaldia.inap.es/noticia.asp?id=1241624&nl=1&utm_source=newsletter&utm_medium=email&utm_campaign=22/2/2024.

⁴⁴⁹ OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmaxweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

4. Salary reforms in the Western Balkans, Ukraine and Moldova

4.1. Introduction

Over the past two decades, administrations of the Western Balkans, Moldova and Ukraine have launched public service (or public sector) remuneration reforms. The objective of being able to attract and retain qualified staff is valid, whether or not a country aspires to the European Union. The initial reform processes proved to be complex exercises, usually with several, sometimes conflicting, goals – to increase the internal equity of the system, make civil service remuneration packages more attractive and competitive, while at the same time taking into account firm fiscal constraints, especially during global economic downturns. Most of the reform activities concentrated primarily on the simplification of the existing pay systems, the reduction of the number of discretionary allowances, enhancing the internal fairness of the pay systems and increasing their transparency⁴⁵⁰.

The public administration of EU Member States has traditionally been outside the scope of EU rules. No specific requirements have been set out for the remuneration system, apart from general rules related to labour and employment conditions⁴⁵¹ and, more generally, contributing to effective public administration, capable of functioning as a peer in the EU structures and implementing the EU *acquis*. The Principles of Public Administration provide the most comprehensive guidance in this respect. Where the remuneration system is concerned, the Principles refer to competitiveness of pay; the principle of equal pay for equal work; fiscal affordability of the wage bill; transparency of salaries and regulations; salary progression opportunities, and limited and well-defined performance-related pay. Since the 2023 edition, these requirements have been put into the context of employee motivation, well-being and the general appeal of public service to employees⁴⁵².

In most Western Balkan administrations, remuneration systems continue to face challenges. As indicated in the 2021/2022 assessments, the quality of their remuneration systems varies significantly. The rationale based on a system of job classification, reasonable seniority progression and limited performance related bonuses exists in Montenegro, North Macedonia- and Serbia. However, in Montenegro, a fair allocation of base salaries has not been fully established, as a result of unclear and insufficient regulation on job

⁴⁵⁰ A. Rabrenovic (2013), *Main Principles and Approaches to Civil Service Pay Reform: Example of Western Balkan Countries*, paper presented at NISPAcee conference in Belgrade, https://www.nispa.org/files/conferences/2013/papers/201305070652020_paper_Rabrenovic.pdf?fs_papersPage=4.

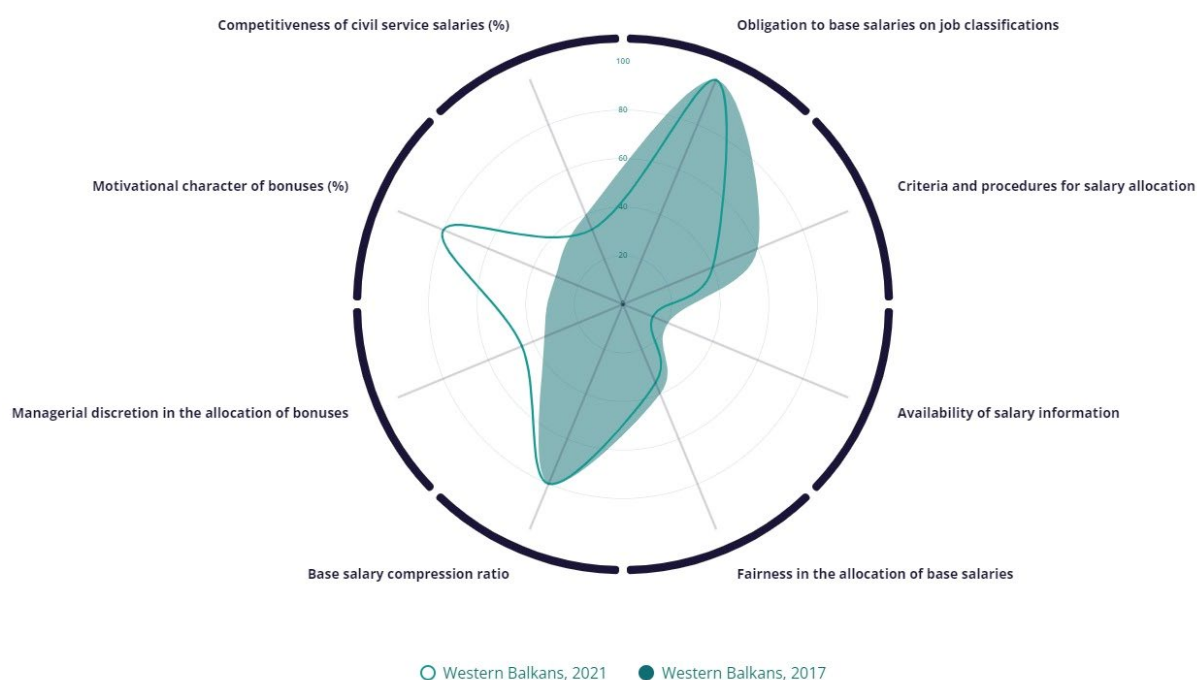
⁴⁵¹ For example, Directive 2006/54/EC of the European Parliament and of the Council on 5 July 2006 on the implementation of the principle of equal opportunities and equal treatment of men and women in matters of employment and occupation (recast), <http://data.europa.eu/eli/dir/2006/54/oj>.

⁴⁵² OECD (2023), *The Principles of Public Administration*, OECD, Paris, <https://www.sigmapweb.org/publications/Principles-of-Public-Administration-2023.pdf>.

descriptions, evaluation and classification, and criteria for granting some salary supplements. Salary reforms are pending in Albania and North Macedonia. Only Kosovo* managed to adopt and implement a comprehensive salary reform, in 2022 (after the 2019 version of the law was judged unconstitutional), but parts of the new Law on Salaries in the Public Sector, related, among other things, to allowances and transitory provisions of the Law, were recently annulled by the Constitutional Court⁴⁵³. Data on salaries is scarce and insufficiently transparent (due partly to an incomplete human resource management information system, or HRMIS, and does not allow for an accurate comparison with the private sector to assess their competitiveness. In Kosovo*, North Macedonia and Serbia, however, salaries do seem competitive with officially communicated private-sector salaries. Only in North Macedonia is precise information on offered salaries published in vacancy announcements. In Albania, Montenegro and North Macedonia, several salary supplements have been introduced, not always with clear allocation criteria, which has created distortions in the salary systems⁴⁵⁴.

The results of the SIGMA assessments on remuneration in Western Balkan administrations in 2017 and the progress made to 2021 are summarised in Figure 14. Detailed analysis of the state of play in each administration is presented later in the publication.

Figure 14. SIGMA assessments of remuneration systems in the Western Balkans, 2017 and 2021



Source: SIGMA Data portal, based on 2017 and 2021 assessment reports, <https://par-portal.sigmaweb.org/areas/3/indicators/49/?country1=AVG&country2=AVG&year1=2021&year2=2017>.

⁴⁵³ Constitutional Court, Notification on Decision in case KO 79/23, adopted on 16 December 2023, <https://gjk-ks.org/en/notification-on-decision-in-case-ko-79-23/>.

⁴⁵⁴ OECD (2022), *Summaries of Monitoring Reports, Public Service and Human Resource Management*, OECD, Paris, p. 16, <https://sigmaweb.org/publications/Summaries-Monitoring-Reports-2021-Public-Service-and-HRM.pdf>

Moldova and Ukraine have also made significant efforts to reform their public service remuneration systems in recent years. In Moldova, the salary reform carried out in 2017-2018 was a comprehensive and demanding exercise. Nevertheless, the salary system of civil servants still fails to ensure the competitiveness and internal fairness of remuneration⁴⁵⁵. In Ukraine, salary reform launched in 2020 continues despite the war, but the legislative proposal (currently in the Parliament) appears to be less ambitious than the concept note approved by the Council of Ministers.

The following section presents the state of play and the process and results of the most recent public service salary reform in each of the Western Balkan administrations, Moldova and Ukraine in the past two decades.

4.2. Albania

In early 2000, the salary system in Albania's public administration was based on a complicated scheme that allowed the institutions considerable discretion, especially in setting different bonuses and supplements. The scheme consisted of a basic salary to which supplements were added (e.g. for working conditions, working with dangerous materials, management supplements, etc.). In some instances, the incentives varied from 20% to 60% of the basic salary and were set by the head of the institution⁴⁵⁶. In general, the system suffered from lack of transparency and arbitrary implementation. The principle of "equal pay for equal jobs" did not apply.

With the approval of the civil service law of 1999, the salary structure in the civil service became much more transparent, objective, free from discretion, more difficult to circumvent and fair for employees. However, the new salary system was only introduced in 2003, even though the law entered into force in January 2000 and the government decree on salaries⁴⁵⁷ in January 2002. Due to the very narrow scope of the civil service at the time, the new salary system was implemented only in ministries' apparatus, office of the prime minister, and the administrations of the Assembly and President. The agencies reporting to ministries and the Office of the Prime Minister were not initially part of the scheme. Implementation of the salary scheme went hand in hand with the reorganisation of the ministries and implementation of the job evaluation methodology, as stipulated in the civil service law.

The salary structure, set by the 1999 law and by the Council of Ministers (CoM) decree, included four components: (i) *the basic salary*, a fixed component based on pre-entry qualifications for the job (linked to the level of education) and (ii) *the seniority supplement*, a percentage added each year to the basic salary. Due to the low level of the basic salary compared to the other components, the seniority supplement was almost irrelevant; (iii) *Qualification /special working conditions supplement*, which was first used for IT positions in order to compete with the private sector, where the demand and pay for these positions were more attractive than in the civil service. Increasingly, this component started to be invoked, based sometimes on unclear criteria. This supplement balanced the use of the hierarchy principle as the main factor in determining salaries; and (iv) *the position supplement*, the largest part of the salary (up to 80% for very senior positions), which reflects the importance of the position within the hierarchy. The value of

⁴⁵⁵ OECD (2023), "Public administration in the Republic of Moldova", *SIGMA Monitoring Reports*, OECD, Paris, p. 53, <https://sigmaweb.org/publications/Monitoring-Report-2023-Republic-of-Moldova.pdf>.

⁴⁵⁶ The CoM decides the ranges/bands of the supplements, and the head of the institution decides the exact percentage to be applied for a specific employee.

⁴⁵⁷ Decision of the Council of Ministers (DCoM) No. 711 of 2001.

this component was determined through a job evaluation exercise. With few changes, the same salary structure was retaken by the Civil Service Law (CSL) of 2013.

Given its advantages, the civil service salary model was gradually extended to all agencies under the ministries in 2006-2007, and to the education and health care systems, reaching the majority of public employees in the executive branch. In 2006, the Parliament⁴⁵⁸ approved a special law to regulate the salaries of positions of senior state officials by linking them to the salary of the president, the highest salary in the public sector. This law generalises use of the same categorisation system and civil service position titles as in independent institutions.

The CSL provided for the option of performance bonuses for civil servants, but they were paid out only in the early years and their use was later restricted. This was due to the unrealistic performance appraisal results used as the mechanism for distributing the bonus and the financial possibilities of the institutions. From 2006, the government decided to apply a uniform bonus across the board for all civil servants, whatever their performance. The bonus was small and the practice was completely abolished as of 2013, mainly for economic reasons, but also because the new CSL of 2013 introduced a different salary model, based on performance.

While the CSL salary model of 1999 had clear advantages over the previous system, it also had some limitations, in using the salary hierarchy factor as the main determinant of salaries and the lack of incentives for public employees in the form of bonuses or horizontal progression.

In 2013, the current civil service law was enacted⁴⁵⁹ to address the issues of the previous salary system. The salary structure defined in the CSL consists of more or less the same elements as the previous structure. The novelty was the introduction of salary steps for each position and the institution of a horizontal career for civil servants, to address the effects of the “hierarchy factor” dominant in the previous system. This progression is based on three criteria: length of service in the civil sector, performance evaluations, and the successful completion of designated training programmes for each step. Notably, the legislation does not include provisions for bonuses. The law authorises the government to formulate the system and procedures and then to start the implementation. Despite these stipulations, the government failed to elaborate a detailed procedure and was reluctant to introduce salary steps. The main reason was the performance appraisal results in the institutions. In most of the institutions, up to 95%-98% of the civil servants were appraised in the top grades, which would have resulted in an almost automatic promotion in salary steps if the system had been in place. Clearly, the financial burden would have been unsustainable for the government.

Consequently, the overhaul of the civil service salary system was once again identified as a strategic objective in the Cross-Cutting Public Administration Reform Strategy (CCPARS) for the period 2015-2022. The strategy emphasised the reorganisation of the civil service wage system to reflect job evaluations, annual performance reviews of civil servants, and outcomes from mandatory training⁴⁶⁰. Achieving this goal was to have been facilitated by several measures: the introduction of a new wage structure, the enactment of new wage-related decisions, the implementation of this new structure – taking the financial constraints into account – and a reassessment of the wage-ratio disparities, specifically between the maximum and minimum/average wages within the public administration.

⁴⁵⁸ Law No. 9 584 of 17 July 2006, “On salaries, rewards and structures of Constitutional independent institutions and other independent institutions created by law.”

⁴⁵⁹ Law No. 152/2013, “On the Civil Service” (CSL).

⁴⁶⁰ The Cross-Cutting Strategy on Public Administration Reform 2015-2022, Objective No. 7.

In practice, not much changed regarding salaries for civil servants, and the government's attention was focused more on other sectors of the public administration, especially health and education. For those sectors, as well as for other major categories of public employment, the salaries were increased.

In 2017, civil servants and public administration employees in Albania saw their salaries increase after the rise in the national minimum wage. The Council of Ministers also made adjustments to certain aspects of the salary regulations⁴⁶¹. These provided that remuneration would now include a basic salary, determined by the position's classification, with supplements for seniority and working conditions for various job roles. To balance the small increases in salary levels for the civil service, the institutions and the government started to rely increasingly on the "allowance for working conditions". Rather than a tool used in exceptional cases, this began to be used frequently in many institutions, without thorough scrutiny and based on political intervention. This reliance on the work conditions allowance compromised the system's coherence and equity⁴⁶².

The absence of performance-based bonuses or pay raises tied to performance evaluations, coupled with the indiscriminate extension of the working condition allowance to various civil servant groups, further undermined the transparency and openness of the system. This helped to make the civil service less competitive than the private sector⁴⁶³.

Despite long-standing recognition of the need to overhaul the remuneration system, a comprehensive draft proposal for reform was prepared only in 2020. The Department of Public Administration (DoPA), with technical assistance from an EU-funded project, developed a policy document outlining the implementation of the salary steps scheme⁴⁶⁴. This proposal, grounded in the principle of equal pay for equal work, suggested technical solutions for further debate, including raising salary values and increasing the number of job position classes. The document was shared with some Government members, but it was neither formally adopted by the Government nor pursued further. In 2021, DoPA initiated a consultation process on salary reform to evaluate the appropriateness of the current salary scheme, and in particular, the effectiveness of promotion through salary steps, to gather insights for potential reform. The findings of a small working group were shared with senior civil servants. No consensus on the measures to prioritise was reached, and the effort was abandoned.

In 2021, the Government outlined in its programme a commitment to economic growth to facilitate a significant increase in the salaries of public administration employees. It promised a 30% raise in salaries for these employees, with the aim of raising the average salary in the administration from ALL 72 000 (Albanian lek) per month to ALL 85 000 per month by the end of its third year in office⁴⁶⁵.

By 2022, the average gross monthly wage in the Albanian public sector was approximately 30% lower than that of other Western Balkan administrations, both in nominal terms and when adjusted for purchasing

⁴⁶¹ DCoM No. 187/2017, amending DCM No. 545 of 11 August 2011, <https://www.dap.gov.al/legjislacioni/per-administraten-publike/144-vkm-187-pagat-e-nepunesve-civile>.

⁴⁶² OECD (2021), *Monitoring Report, Albania*, OECD, Paris, <https://sigmaweb.org/publications/Monitoring-Report-2021-Albania.pdf>.

⁴⁶³ OECD (2021), *Monitoring Report, Albania*, OECD, Paris, <https://sigmaweb.org/publications/Monitoring-Report-2021-Albania.pdf>.

⁴⁶⁴ *Policy paper on the salary system*, Instrument for Pre-Accession project "Implementation of civil reform across the public administration" – Activity 1.1.a Component of the salary policy Albania (AL /IPA 2014/05).

⁴⁶⁵ *Ibid.*

power parity⁴⁶⁶. In response to this disparity and to fulfill the government's programme, DoPA, in collaboration with the Ministry of Finance and Economy (MoFE), concentrated its efforts in two main areas: increasing salary levels and reforming the salary structure. An analysis showed that the salary system for civil servants lacks both fairness and flexibility, jeopardising competitiveness. However, the system was transparent and the budget could cover the financial effects of a potential increase⁴⁶⁷. A general salary increase of 7% was applied for civil servants and other public administration employees, maintaining the existing salary scheme. These steps were part of a broader effort to improve compensation in the public sector and to address disparities in the regional context.

The Albanian government has embarked on a two-stage salary increase reform for 2023-2024, with the primary goal of retaining the labour force in the public sector and the country, as well as enhancing the competitiveness of public administration. In April 2023, it announced a broad intervention in the salary system for civil servants and for the public administration in general. For the civil service, the Government introduced the highest salary increase in years, with small changes in the salary structure. Salaries were increased on average: (i) for executive positions from 19%-41%; (ii) for low management level 28-34%; (iii) for management, 25%-35%⁴⁶⁸. The seniority supplement was initially calculated based on the "group salary", but is now calculated on the "position supplement"⁴⁶⁹, which represents around 80% of the overall salary. The increase in weight of seniority in the overall salary was used to compensate for the lack of salary steps in the structure. This aims to reward individuals with longer tenure in public service and to address wage disparities by enhancing the decompression of the wage structure⁴⁷⁰. Specifically, the compression ratio in the civil service was improved from 1:3.3 to 1:4, comparing the salary of the General Secretary of the Council of Ministers – the most senior level in the civil service – to the salary of specialists at the lowest level. This was made possible by the adoption of Law No. 34/2023 in May 2023, which raised the highest salary in the country (that of the President) by 60% and made room for other changes⁴⁷¹.

In addition, the government announced its objective to raise the average salary for public administration employees to EUR 900 by 2024⁴⁷². A further increase in salary level is anticipated for civil servants in 2024. However, the government did not modify the widely used "allowance for working conditions", which is considered the main element influencing the fairness of the system and the principle of equal pay for equal work.

⁴⁶⁶ IMF Country Report No. 24/7, Albania, 2023 Article IV Consultation – Press Release and Staff Report, International Monetary Fund, <https://www.elibrary.imf.org/view/journals/002/2024/007/article-A000-en.xml>.

⁴⁶⁷ Workshop presentation, 1 April 2022.

⁴⁶⁸ Decision of the Council of Ministers, No. AA737, dated 13 December 2023, "On approval of the PAR Roadmap 2023-2030", <http://qbz.gov.al/eli/vendim/2023/12/13/737>.

⁴⁶⁹ DCM No. 325/2023 on 31 May 2023, "On the approval of the structure and salary levels of civil servants, deputy ministers, and cabinet officers in some public administration institutions".

⁴⁷⁰ IMF Country Report No. 24/7, Albania, 2023 Article IV Consultation – Press Release and Staff Report, <https://www.elibrary.imf.org/view/journals/002/2024/007/article-A000-en.xml>.

⁴⁷¹ Law No. 34/2023 on some changes in Law No. 9 584, dated 17 July 2006, "On salaries, rewards and structures of independent constitutional institutions and other independent institutions, created by law", as amended, <http://qbz.gov.al/eli/ligj/2023/05/25/3..4>.

⁴⁷² DCM No. 737, dated 13 December 2023, "On approval of the PAR Roadmap 2023-2030", <http://qbz.gov.al/eli/vendim/2023/12/13/737>.

4.3. Bosnia and Herzegovina

Bosnia and Herzegovina (BiH) has four different administrative levels, with separate civil service systems: the State level, the Federation of BiH (FBiH), the Republika Srpska and the Brčko District. These have all undergone salary reforms in the past two decades. The remuneration system reform was part of broader public administration reforms set out under common public administration reform strategic frameworks.

The first Public Administration Reform (PAR) Strategy, which included common salary reform objectives for all administrative levels, was prepared in 2005 and adopted by all administrative levels in 2006⁴⁷³. One of the key objectives of the PAR Strategy and Action Plan I was to reform the salary structure to make it more attractive for existing and prospective staff. The objectives were also to develop a common basic salary scheme and a common approach across BiH, both to enable transfer of staff between different administrative levels and to harmonise salary levels. These principles could then be elaborated further at all levels, to take into account different costs of living and different budgetary possibilities⁴⁷⁴. This Strategic document initiated several reform efforts at different administrative levels, as will be explained later.

In 2012, to mitigate the effects of the economic crisis, the International Monetary Fund (IMF) Stand-By Arrangement was signed with all central Government levels, to address the remuneration issues⁴⁷⁵. The levels of BiH institutions and FBiH were required to reduce the base pay for most employees, along with sizeable reductions in various allowances⁴⁷⁶. The Republika Srpska was required to undertake a comprehensive review of the public employee compensation system as part of the reform of the public administration and to amend relevant legislation to ensure that changes in income tax rates or social contribution rates did not automatically lead to changes in the gross pay of public sector employees. The IMF assistance was consequently extended in 2016, under the Extended Fund Facility (EFF), to support the economic reform agenda⁴⁷⁷. These IMF arrangements had a profound impact on remuneration issues in individual administrative levels, especially the level of BiH institutions, FBiH and in the Republika Srpska.

In 2018, a new Strategic Framework for Public Administration Reform in BiH, including remuneration issues, was adopted⁴⁷⁸. One of its key objectives was to establish a fair, transparent remuneration system

⁴⁷³ Public Administration Reform Strategy, <https://parco.gov.ba/wp-content/uploads/2007/10/strategija-reforme-javne-uprave.pdf>. The text of the Strategy was prepared by the Public Administration Reform Coordination Office (PARCO) in co-operation with PAR co-ordinators from other administrative levels. Action Plan I (included as an Annex to the Strategy) included concrete measures, timelines and institutions responsible for the implementation of the Strategy; <https://parco.gov.ba/wp-content/uploads/2014/02/action-plan-for-par.pdf>.

⁴⁷⁴ Action Plan I of the Strategy for Public Administration Reform, <https://parco.gov.ba/wp-content/uploads/2014/02/action-plan-for-par.pdf>.

⁴⁷⁵ Bosnia and Herzegovina: 2012 Article IV Consultation and Request for Stand-By Arrangement – Staff Report; Informational Annex; Public Information Notice; Press Release; and Statement by the Executive Director for Bosnia and Herzegovina, p. 11, <https://www.imf.org/external/pubs/ft/scr/2012/cr12282.pdf>.

⁴⁷⁶ Ibid, p. 12.

⁴⁷⁷ <https://www.imf.org/en/News/Articles/2016/09/07/PR16396-Bosnia-and-Herzegovina-IMF-Executive-Board-Approves-Three-Year-Extended-Arrangement>.

⁴⁷⁸ Strategic Framework for Public Administration Reform in BiH, https://parco.gov.ba/wp-content/uploads/2021/12/Strategic_framework_par_eng.pdf.

through comprehensive analytical assessment of jobs and their classification and ranking, in order to apply the principle of equal pay for equal work⁴⁷⁹.

Key measures for achieving the salary reform objectives were identified in the Action Plan for the implementation of the Strategy⁴⁸⁰. They included: defining a legal obligation to carry out a job analysis and job evaluation; preparation of methodology for job evaluation; carrying out job analysis and job evaluation; amending acts on systematisation and organisation of jobs; and amending regulations to allow for the establishment of a remuneration system based on the appropriate job analysis and job evaluation⁴⁸¹. Although mechanisms of managerial co-ordination of PAR were established at all administrative levels of BiH, the details of administrative co-ordination were not formally adopted⁴⁸², which had a negative effect on the implementation record of the Strategy. The report on implementation of the Strategic Framework on PAR notes that unfortunately, in the period the Strategy was implemented (2018-2022), none of the planned measures on remuneration were carried out.

Although the strategic objectives of reforming the remuneration system were common to all administrative levels, each of the levels carried out remuneration reform in accordance with their individual needs and directions in the past two decades. Because each administrative level carried out the reform in a particular manner, they will be analysed separately.

In general terms, despite differences over the course of the reform, all four administrative levels appear to have similar pay system characteristics and weaknesses⁴⁸³. First, in a positive sign, the legislation clearly establishes that basic salaries are based on job. Second, a coherent methodology and procedure for job evaluation have not been set up (except to some extent at the level of BiH and FBiH institutions), which undermines the fairness of the job classification and the allocation of basic salaries. And third, in most administrative levels (except at the level of the Republika Srpska), many salary supplements and allowances make the system less transparent and less manageable. All these issues will require further changes in the pay system, which, at the time of writing this report, have not yet been provided for by a new common strategic framework.

4.3.1. State level

The competence of the State level of BiH is limited to strictly defined authorities determined by the BiH Constitution, while all other competences are vested at the level of entities (the FBiH and the Republika Srpska) and the Brčko District. The administrative level of joint institutions includes ministries and agencies responsible for foreign affairs, foreign trade policies, customs, monetary policy, financing of international

⁴⁷⁹ This objective was to be followed by monitoring the value of the indicator used in SIGMA reviews' "fair base salary allocation in the job classification system." The initial value for this indicator was 1 out of 4 in 2017, while the targeted value in the Strategic PAR Framework for 2022 was 3 out of 4. See Strategic Framework for Public Administration Reform in BiH, p. 37, https://parco.gov.ba/wp-content/uploads/2021/12/Strategic_framework_par_eng.pdf.

⁴⁸⁰ Action Plan for Public Administration Reform, https://parco.gov.ba/wp-content/uploads/2021/12/action_plan_par_eng1.pdf.

⁴⁸¹ OECD (2022), *Monitoring Report, Bosnia and Herzegovina*, OECD, Paris <https://www.sigmaxweb.org/publications/Monitoring-Report-Bosnia-and-Herzegovina-May-2022.pdf>.

⁴⁸² The "Common Platform" document, which was to set out the details of the co-ordination mechanisms, was not formally adopted at every level. Ibid, p. 14.

⁴⁸³ OECD (2022), *Monitoring Report, Bosnia and Herzegovina*, OECD, Paris <https://www.sigmaxweb.org/publications/Monitoring-Report-Bosnia-and-Herzegovina-May-2022.pdf>.

obligations of BiH, immigration policy, international criminal law enforcement, air traffic control, etc.⁴⁸⁴ According to the data portal of the BiH Civil Service Agency, the number of civil servants in BiH institutions in December 2023 stood at 3 892⁴⁸⁵.

In 2008, the unified salary system for BiH institutions was introduced for the first time by the Law on Salaries and Compensations in BiH Institutions⁴⁸⁶. The Law established a unified wage grid with levels of basic salary for each civil service grade through a coefficient and possibilities for horizontal progression in seven steps (from 0 to 6). In accordance with the Law, the basic salary is determined by multiplying a coefficient for each grade, as defined by the Law and the base pay. Base pay is determined by the Council of Ministers of Bosnia and Herzegovina under a bye-law⁴⁸⁷. The Law required a Council of Ministers to adopt a salary policy every four years, to determine the civil service base pay level⁴⁸⁸. In addition to a salary grid, the Law on Salaries and Compensations also provided for many allowances and side payments, which allowed for a discretionary determination of the individual remuneration⁴⁸⁹. Although the Law took effect right after its adoption, horizontal progression in the salary grid was not implemented for many years.

In June 2012, following the measures of the IMF Stand-By Arrangement, amendments of the Law on Salaries of Civil Servants in the institutions of BiH were adopted to streamline the number of allowances and reduce the level of basic salaries⁴⁹⁰. Several allowances were also reduced (e.g. transport, meals, etc.) to adjust the budget to the fiscal situation and comply with the requirements of the IMF. Salary levels were reduced by around 5%⁴⁹¹. These amendments were preceded by the adoption of the Salary Policy by the Council of Ministers of 2012⁴⁹² and negotiations with the trade unions⁴⁹³.

In 2013, a system of job evaluation based on the job classification method was introduced, aiming to improve the fairness of the salary system⁴⁹⁴. A working group of representatives of the Ministry of Justice

⁴⁸⁴ Article III of the Constitution of BiH stipulates that the following authorities fall under the BiH institutions' administrative level: foreign policy, foreign trade policy, customs policy, monetary policy, finances of the institutions and for the international obligations of BiH, immigration, refugee and asylum policy and regulation, international and inter-entity criminal law enforcement, including relations with Interpol, establishment and operation of common and international communication facilities, regulations of inter-entity transportation and air traffic control.

⁴⁸⁵ Portal of the Civil Service Agency of BiH, <https://www.ads.gov.ba/bs-Latn-BA/statistics>.

⁴⁸⁶ Law on Salaries and Remunerations in the Institutions of Bosnia and Herzegovina, Official Gazette, No. 50/2008, 35/2009, 75/2009, 32/2012, 42/2012, 50/2012, 32/2013, 87/2013, 75/2015, 88/2015, 16/2016, 94/2016 and 25 / 2018.

⁴⁸⁷ Article 7 of the Law on Salaries and Compensations stipulates that the salary base may not be less than 50% of the average monthly net salary in Bosnia and Herzegovina, expressed annually for the calendar year preceding two fiscal years in the year in which the base will be applied.

⁴⁸⁸ Article 3, point d, of the Law on Salaries and Remuneration in the Institutions of Bosnia and Herzegovina.

⁴⁸⁹ OECD (2012), Bosnia and Herzegovina Assessment Report 2012, SIGMA Country Assessment Reports, No. 2012/06, OECD Publishing, Paris, p. 9, <https://doi.org/10.1787/5jz2rqlcrnk-d-en>.

⁴⁹⁰ Law No. 32/2012 Amending the Law on Salaries and Allowances in the State Institutions of BiH.

⁴⁹¹ OECD (2015), SIGMA Baseline Measurement Report Bosnia and Herzegovina, OECD, Paris, <https://www.sigmaweb.org/publications/Baseline-Measurement-2015-BiH.pdf>.

⁴⁹² Decision on Adoption of the Salary Policy for the Period 2011-2014, Official Gazette No. 39/12.

⁴⁹³ OECD (2013), "Bosnia and Herzegovina Assessment Report 2013", SIGMA Country Assessment Reports, No. 2013/12, OECD Publishing, Paris, p. 3, <https://doi.org/10.1787/5jz2rqk3cts7-en>.

⁴⁹⁴ OECD (2022), *Monitoring Report, Bosnia and Herzegovina*, OECD, Paris p. 86, <https://www.sigmaweb.org/publications/Monitoring-Report-Bosnia-and-Herzegovina-May-2022.pdf>.

prepared a Decision on Classification of Jobs and Criteria for Job Description in the Institutions of Bosnia and Herzegovina, which was adopted by the Council of Ministers in 2013⁴⁹⁵. The decision introduced general job descriptions for each civil service rank and established criteria for job classification, which included: complexity of work, independence, duration of work, comprehensiveness, business communication and teamwork⁴⁹⁶. Job evaluation was required, however, only for the lowest civil service posts, such as the posts of expert associate, senior associate and expert advisor. All BiH institutions were obliged to reclassify these positions in accordance with this decision, and to adopt new regulations on internal organisation and systematisation.

The process of job reclassification was comprehensive but was not carried out fully in accordance with its purpose. Instead of analysing each job to determine its complexity, comprehensiveness, level of business communication, etc., job descriptions were changed so that they could be classified under an already existing title, regardless of the jobs being performed at a given date and workplace⁴⁹⁷. The chance to carry out a comprehensive job evaluation for each position was not effectively achieved. Nevertheless, the system of job evaluation established in the legislation provided a solid basis for the preparation of new job descriptions and their classification⁴⁹⁸.

In 2018, the BiH Council of Ministers adopted a new strategic document on remuneration policy, whose objective was primarily to secure fiscal stability but also to ensure fairness and motivation of employees. The document was called "Salary and Remuneration Policy in the Institutions of BiH for the period 2019-2022"⁴⁹⁹. The most important objectives and principles set out in the document were the principles of fiscal responsibility, equal pay for equal work and recognition and rewarding of excellent performance.

In 2020, horizontal progression in the Salary Law started to be implemented for the first time. Although criteria for the horizontal progression of employees through salary steps were initially determined by the Methodology for progression of an employee through salary steps, which was adopted by the Council of Ministers in 2011⁵⁰⁰, it was not applied in practice for more than ten years. The Council of Ministers adopted amendments to this methodology in October 2020⁵⁰¹, which enabled horizontal progression based on the following criteria: performance appraisal⁵⁰²; length of positively assessed service in the same job; work

⁴⁹⁵ Decision on Classification of Jobs and Criteria for Job Description in Institutions of Bosnia and Herzegovina, Official Gazette of Bosnia and Herzegovina, No. 30/2013.

⁴⁹⁶ Article 17, Decisions on job classification and criteria for job descriptions in the institutions of Bosnia and Herzegovina.

⁴⁹⁷ Rabrenovic, A. (2021), "Civil Service Salary System in BiH Institutions – In Compliance with International Standards?" in: M. Reljanović (ed.), *Regional Law Review*, Institute of Comparative Law, p. 106, <http://ricl.iup.rs/267/1/06%20Rabrenović.pdf>.

⁴⁹⁸ Analysis of the Salary System of Civil Servants in BiH, based on the SIGMA Principles of Public Administration, Annex 4 of the Final Report of the Project Strengthening Human Resources Management in BiH, EU-funded project carried out in 2020-2021.

⁴⁹⁹ Decision on the adoption of the Salary and Remuneration Policy in the institutions of BiH for the period 2019-2020, Official Gazette of BiH, No. 53/2018.

⁵⁰⁰ Council of Ministers of BiH, Methodology for assignment of employees within the pay grade, Official Gazette No. 235/2011.

⁵⁰¹ Council of Ministers of BiH, Methodology for assignment of employees within the pay grade, Official Gazette Nos. 235/2011 and 76/2020.

⁵⁰² In accordance with Article 4 of the Methodology, the employee is promoted to a higher internal salary grade in the following cases: when in the last two evaluated calendar years, he/she continuously receives the grade "particularly

commitment and acquisition of professional and scientific titles in areas that fall under the core business of the institution BiH⁵⁰³.

In August 2023, the Council of Ministers of BiH adopted a subsequent Pay Policy that emphasises the importance of effective monitoring of regulations and using a centralised payroll management system⁵⁰⁴. The key objectives of the pay policy are: fiscal sustainability, equal pay for equal work, performance-related pay (based on the earlier defined Methodology for progression of an employee through salary steps), more effective monitoring of regulations regarding remuneration of civil servants; and using a centralised payroll management system. The effects of these documents have, however, yet to be realised.

4.3.2. Federation of Bosnia and Herzegovina

In the FBiH, a unified remuneration system was established by the Law on Salaries and Compensations in the Authorities of the FBiH, which was adopted in 2010⁵⁰⁵. This law is applicable to institutions at the level of the FBiH, the administrative level of cantons and administrative level of local government (cities and municipalities).

Only a year after the adoption of the unified legal framework, in 2011, the Constitutional Court of the FBiH allowed the cantons to adopt their own legislation in human resource management in the civil service, including remuneration⁵⁰⁶. Eight of the ten cantons have adopted their own civil service laws, which also regulate civil servants' salaries⁵⁰⁷. Civil service legislation of the FBiH has thus become highly fragmented, complicating application of uniform remuneration principles⁵⁰⁸.

In June 2012, following the IMF Stand-By Arrangement requirements, the Law on Salaries of Civil Servants in the FBiH was amended to streamline the allowances and reduce the level of basic salaries, similarly to the amendments adopted at the level of BiH institutions. The level of salaries was reduced by an average

successful"; when in the last four evaluated calendar years, he/she has continuously received at least a grade of "successful"; when he/she is returned or when he/she returns to work after a period of at least four years spent in a public, advisory or similar position at the level of the institutions of Bosnia and Herzegovina, provided that his/her work for the specified period is positively evaluated. Promotion is made in relation to the employee's salary grade before appointment to any of these positions.

⁵⁰³ Article 54, paragraph 5, of the Law on Salaries and Remunerations in BiH Institutions.

⁵⁰⁴ Decision on Adopting Pay and Supplements Policy in the Institutions of BiH for the period of 2023-2026, <https://www.mft.gov.ba/Content/OpenAttachment?id=63210594-90f4-4339-93e6-189f5a7daee2&lang=bs>.

⁵⁰⁵ Law on Salaries and Compensations in FBiH Authorities, Official Gazette of the Federation of BiH, No. 45/2010, 111/2012 and 20/2017.

⁵⁰⁶ Decision of the Constitutional Court of FBiH No. U-27/09 of 22 February 2011.

⁵⁰⁷ West Herzegovina Canton in 2008 by the Law on Civil Servants in Civil Service Bodies in the West Herzegovina County, Official Gazette of the West Herzegovina County, No. 16/2008; Posavina Canton in 2010 by the Law on Civil Servants in Civil Service Bodies in the County of Posavina, Official Gazette of the County of Posavina, No. 7/10, 9/13, 11/13 and 2/14; Una-Sana Canton in 2012 by the Law on Civil Servants and State Employees in the Civil Service Bodies of Una-Sana Canton, Official Gazette of Una-Sana Canton, No. 5/2012; Canton 10 (West Bosnia Canton) in 2014 by the Law on Civil Servants and State Employees in Civil Service Bodies in Hercegbosna County, Official Gazette of Hercegbosna County, No. 1/14 and 5/16; Sarajevo Canton 2016 by the Law on Civil Service in Sarajevo Canton, Official Gazette of Sarajevo Canton, No. 31/16; Tuzla Canton in 2017 by the Law on Civil Service in Tuzla Canton, Official Gazette of Tuzla Canton, No. 7/17 and 10/17; Bosnia-Podrinje Canton 2018 by the Law on Civil Service in Bosnia-Podrinje Canton, Official Gazette of the BPK No. 3/18.

⁵⁰⁸ OECD (2017), *Monitoring Report, Bosnia and Herzegovina*, OECD, Paris, p. 72.

4.5% and some allowances integrated in the base pay (travel costs, meals, holidays, etc.) to ensure fiscal sustainability and comply with the requirements of the IMF⁵⁰⁹.

Since the level of fragmentation of the remuneration system in the FBiH had become excessive, the objective of the 2012 amendments was also to harmonise salary levels of different government structures in the FBiH: the federal level, cantons, municipalities and cities. Article 1 of the Amendments stipulated that cantonal governments, i.e. municipal mayors, have the right to determine the salary base in agreement with the union, but that this base cannot be higher than at the federal level⁵¹⁰. In addition, cantons, municipalities and cities may determine the area of salaries by their regulations, but they must determine the same coefficients for the same jobs within the same pay grades for civil servants and employees⁵¹¹.

In 2015, the Ministry of Justice of the FBiH started an initiative to improve the existing job evaluation system, as established by the Decree of 2004⁵¹². All tasks within the competence of civil service bodies are divided into two groups, as follows: (i) basic activities, and (ii) administrative-technical and auxiliary activities. However, job analysis of around 50 job descriptions conducted in 2015⁵¹³ revealed problems in the application of this regulation in practice, which posed a risk for the implementation of the principle of equal pay for equal work. In order to overcome these difficulties, the Ministry of Justice of FBiH in cooperation with the Civil Service Agency of the FBiH prepared amendments to the Decree, which were adopted by the Government of the FBiH in February 2016⁵¹⁴.

4.3.3. Republika Srpska

The Republika Srpska introduced a unified legal remuneration framework in 2007, through the adoption of the Law on Salaries of Employees in the Administrative Organs of the Republika Srpska⁵¹⁵. Within this legal framework, positions of civil servants were classified into a total of seven salary groups with fixed coefficients. Only salary groups that included positions of non-managerial civil servants had three salary sub-groups, which allowed for horizontal progression in three consecutive steps. Horizontal progression was linked to the results of performance appraisal.

In 2014-2015, a Working Group of representatives of the Ministry of Administration and Local Self-Government, the State Administration Agency and the Ministry of Finance, as well as several pilot institutions, prepared a new system of job classification, based on job evaluation. The working group

⁵⁰⁹ OECD (2015), SIGMA Baseline Measurement Report, Bosnia and Herzegovina, OECD, Paris <https://www.sigmaweb.org/publications/Baseline-Measurement-2015-BiH.pdf>.

⁵¹⁰ Article 1 of the Law on Amendments to the Law on Salaries and Remunerations in FBiH Government Institutions, Official Gazette of FBiH, No. 111/2012.

⁵¹¹ Article 2 of the Law on Amendments to the Law on Salaries and Remunerations in FBiH Government Institutions, Official Gazette of FBiH, No. 111/2012.

⁵¹² Decree on tasks from the basic activity within the competence of civil service bodies performed by civil servants, conditions for performing those tasks and exercising employment rights, Official Gazette of the Federation of BiH, No. 35/04.

⁵¹³ The analysis was conducted by the team of the project "Modernisation of human resources management in the civil service in BiH", in the EU-funded HRM project in 2014-2016, "Proposed methodology to be used in the civil service bodies of the Federation of BiH".

⁵¹⁴ Amendments to the Decree on Tasks from the Core Activities within the Competence of Civil Service Bodies Performed by Civil Servants, Conditions for Performing Those Tasks and Exercising Employment Rights, <http://80.65.161.138/pdf/Uredba1.PDF>.

⁵¹⁵ Law on Salaries of the Employees in Administration Bodies of the Republika Srpska, Official Gazette No. 118/2007.

carried out a job analysis and evaluation of around 50 representative jobs, using the point-factor scoring method, and created a new job classification and grading model of 11 pay grades. A special method of job evaluation based on the job classification method was developed, and examples of standard (general) job descriptions for each job category/grade prepared⁵¹⁶. All these activities were supported by the EU-funded project on Civil Service Modernisation (2014-2016). This work continued from 2020 to 2021, with job analysis, evaluation and categorisation of 50 more positions, and additional technical assistance from the EU. However, despite these efforts, the new job classification model has still not been implemented.

In 2018, the Parliament of the Republika Srpska adopted a new Law on Salaries of Civil Servants⁵¹⁷, following the requests from the IMF Stand-By Arrangements. This introduced a new salary concept, to ensure that changes in income tax rates or social contribution rates did not automatically lead to changes in the gross pay of public sector employees. These changes in calculating the level of salaries and taxation also required amendments to the Labour Law⁵¹⁸ and the Law on Income Tax⁵¹⁹. In the transition to the new system, a civil servant's gross salary remained the same, while the amount of civil servants' net salaries moderately increased⁵²⁰. The new legal framework also integrated the allowances for meals and holidays in the basic salary, a positive step towards consolidating and increasing the transparency of the RS civil service salary system. However, no improvements were made in the introduction of the job evaluation methodology.

4.3.4. Brčko District

Following the IMF arrangement of 2012, the Assembly of Brčko District in 2013 adopted the Policy of Salaries and Compensations in Public Administration Bodies and Institutions of Brčko District⁵²¹, establishing a unified policy of salaries and compensation in its public administration and institutions. It primarily emphasised the objective of fiscal sustainability (Article 4) and of assuring the principle of equal pay for equal work. Operationalising this principle was to be carried out by job evaluation, to ensure that salaries for jobs of equivalent complexity and responsibility had the same level of pay (Article 5). The document also emphasised the need to introduce performance-related pay, applied by determining the criteria for promotion of the employee within the pay grade (both transition to a higher internal pay grade and also assignment to a lower internal pay grade), depending on the results of the employee's original workplace (Article 6). Finally, this policy document stressed the obligation of institutions of Brčko District to achieve salary system transparency, by publishing salary levels for each job in the Official Gazette of the Brčko District of BiH. This would give employees and potential employees insight into the conditions and procedures for promotion and the additional compensation this entailed (Article 7).

⁵¹⁶ Support was provided by the EU-funded project "Modernisation of Human Resources Management in the BiH Civil Service", Sarajevo 2016. See the final report.

⁵¹⁷ Law on Salaries of Employees in the civil service of the Republika Srpska, Official Gazette, Nos. 66/2018, 105/2019, 119/2021, 68/2022 and 132/2022.

⁵¹⁸ Amendments of the Labour Law, Official Gazette, No. Z 66/2018.

⁵¹⁹ Amendments of the Law on Income Tax, Official Gazette, No. 66/2018.

⁵²⁰ The increase in these costs was borne by the RS and local community budgets. See: S. Popović, J. Popović, "Amendments to the legislation aimed at increasing salaries in RS", PowerPoint presentation, <http://www.vladars.net/sr-SP-Cyri/Vlada/Ministarstva/mf/Documents/Измјене%20законодавства%20са%20циљем%20повећања%20плата%20у%20РС.pdf>, 12 November 2020.

⁵²¹ Decision on Adopting the Salary and Compensation Policy in the Public Administration Organs and Institutions of Brčko District, Official Gazette, No. 3/2013.

In 2015, the Government of the BD adopted the Decision on Categorisation of Working Posts in Public Administration Bodies⁵²², classifying all civil service posts foreseen in the Civil Service law of 2014. However, no job evaluation process was carried out before categorising of jobs into defined categories, which calls into question how far the principle of equal pay for equal work was applied.

In 2019, a new Law on Salaries and Compensations in Public Administration Bodies and Institutions of Brčko District was adopted⁵²³. Just as with the State level of BiH, it classified certain categories of managerial positions (mandated positions of senior civil servants, managerial positions, positions of members of the Employment Committee and special positions) into salary grades and subclasses. The Law on Salaries and Remunerations determined salary grades and subclasses, with coefficients for these jobs as the basis for calculating salaries. The methodology for classifying these jobs into pay grades, however, was not transparent. The draft Decision on Job classification, prepared in 2021, defining the criteria for job classification, has not yet been adopted⁵²⁴.

4.4. Kosovo*

In recent years, Kosovo* has embarked on extensive reforms in public service remuneration, grounded in a wider Public Administration Reform (PAR) strategic framework. A primary goal outlined in the Strategy for Modernisation of Public Administration (2015-2020)⁵²⁵, specifically under Objective 1.1 in the Civil Service sector, was the “implementation of a new salary system for civil servants”. This system, focused on job position classification, aimed to be fair, transparent and adhere to the principle of equal pay for equal work. The initiation of this process was marked by the inclusion of the Law on Salaries in the Government’s Annual Work Plan for 2017⁵²⁶.

The task of drafting the concept document for the new Law on Salaries, along with its provisions, was assigned to the Ministry of Public Administration⁵²⁷. This ministry was also charged with orchestrating a consultation process involving both internal and external stakeholders across the public sector. According to the Government Rules of Procedures⁵²⁸, the Ministry of Finance played a crucial role in evaluating the fiscal impact of the proposed legislation. To facilitate public involvement, consultations were conducted

⁵²² Decision on Categorisation of Working Posts in Public Administration Bodies, adopted by the Government of BD on 30 April 2015.

⁵²³ Law on Salaries and Compensations in Public Administration Bodies and Institutions of the Brčko District of Bosnia and Herzegovina, Official Gazette, Nos. 10/19, 12/19, 39/20, 41/20 and 13/21.

⁵²⁴ Job positions subject to job evaluation are: head of a lower internal organisational unit, such as: head of department, head of service, president of the Council for the presentation of real estate data and determination of land rights, president of the Commission for Consolidation; inspector, assistant co-ordinator in the Office of the Co-ordinator of Brčko District at the Council of Ministers of BiH; expert advisor; senior associate; associate; and expert clerk.

⁵²⁵ Strategy for Modernisation of Public Administration 2015-2020, <https://kryeministri.rks-gov.net/wp-content/uploads/docs/Strategy-for-Modernisation-of-PA-2015-2020.pdf>.

⁵²⁶ Zhuja, R. (2021), “The New Law on Salaries in Kosovo*, what is missing, and what is needed to ensure an equal, efficient and non-discriminatory salary policy“, p.10, Group for Legal and Political Studies, http://www.legalpoliticalstudies.org/wp-content/uploads/2021/01/GLPS_PolicyAnalysis_Law-on-Salaries_Rr.H.pdf.

⁵²⁷ Draft concept document on the salaries paid by the Budget of the Republic of Kosovo*, <https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40275>.

⁵²⁸ Regulation No. 09/2011 of Rules and Procedure of the Government of the Republic of Kosovo*, <https://qzk.rks-gov.net/ActDetail.aspx?ActID=3259>.

through the Platform for Public Consultations. Additionally, public debates engaging both governmental and non-governmental organisations were organized, to foster broader discourse⁵²⁹.

Several prior attempts to fill the legislative void on public sector salaries in Kosovo* did not succeed. The reforms primarily addressed the civil service sector, rather than the public sector salary structure. The first Law on the Salaries of Civil Servants⁵³⁰, enacted in 2010, introduced a new salary structure based on job classification. However, despite being officially in effect, this law was not implemented⁵³¹. In 2015, a Draft Law aiming to regulate the salaries of all civil servants in the public sector was introduced. By the end of 2016, this draft law received the Government's approval and was forwarded to the Assembly for final approval. However, in March 2017, the Government withdrew the draft law for further consultations. The intention behind this withdrawal was to consolidate the draft law with two other significant pieces of legislation – the Law on Organisation of Public Administration and the Law on the Civil Service⁵³².

In September 2018, a revised version of the Law on Salaries in the Public Sector was presented to the Kosovo* Assembly. This proposal sparked extensive discussions across various parliamentary committees, and led to numerous modifications to the original draft. By January 2019, the Parliamentary Committee on Local Governance, Public Administration, Regional Development and Media in Kosovo* had endorsed the draft law, incorporating a total of 77 amendments, and subsequently forwarded it to the Assembly for consideration⁵³³.

Two significant amendments emerged as focal points in this process. First, the Kosovo* Intelligence Agency (KIA) and Kosovo* Security Forces (KSF) were exempted from the law, a decision made after a request from the Commission for Oversight of KSC and KIA. Secondly, the law was expanded to include the Radio Television of Kosovo* and the Trust⁵³⁴. These amendments reflected the dynamic and complex nature of the legislative process, showing the importance of thorough review and stakeholder consultation in shaping effective public policy.

The final draft of the Law on Salaries in the Public Sector sparked considerable public controversy. Key issues of contention included the exclusion of the Kosovo* Intelligence Agency (KIA) and the Kosovo* Security Forces (KSF) from the scope of law, which was criticized by security experts and opposition parties. The proposed reduction in the salaries of judges and prosecutors drew significant attention and debate, and the law also caused dissatisfaction among civil servants, whose primary concern was that their salary levels were not aligned with comparable positions in other sectors. Civil service unions argued that civil servants felt they were not being treated equitably under the new law⁵³⁵.

A significant challenge in developing the Law on Salaries in the Public Sector was a lack of transparency and effective communication with key stakeholders. This was particularly evident in the final version of the law. It was not clear how individual positions would be affected in terms of salary increases or decreases,

⁵²⁹ The draft law on Salaries of Public in Public Sector consulted through Public Consultation Electronic Platform, <https://konsultimet.rks-gov.net/viewConsult.php?ConsultationID=40400>. See also R. Z. Zhuja (2021), op. cit, p, 11.

⁵³⁰ Law No. 03/L-147 Salaries of Civil Servants of 25 June 2010, <https://qzk.rks-gov.net/ActDocumentDetail.aspx?ActID=2678>.

⁵³¹ OECD, (2017), *Monitoring Report, Kosovo** 2017, p. 73. <https://www.sigmaweb.org/publications/Monitoring-Report-2017-Kosovo.pdf>.

⁵³² Draft Concept document on Salaries, op. cit. pp.7-8.

⁵³³ Ibid.

⁵³⁴ http://www.kuvendikosoves.org/Uploads/Data/Documents/Ligjinr06L-111_TgJBmC48t4.pdf.

⁵³⁵ R. Z. Zhuja (2021), op. cit. p, 11.

pending the adoption of secondary legislation, and the lack of clarity sparked public inquiry. Responding to these concerns, the Ministry of Finance and Transfers eventually provided some clarification, to the effect that the specific salary details for approximately 42% of public service positions would be set only after the enactment of secondary legislation⁵³⁶.

Despite these concerns, the Assembly of Kosovo* passed the new Law on Salaries in the Public Sector in February 2019⁵³⁷, but the law's constitutionality was subsequently challenged. The Ombudsperson, acting upon numerous complaints, filed an action with the Constitutional Court to assess the constitutionality of the Law. Additionally, the Ombudsperson sought an interim measure for the "immediate suspension" of the law, which the Court approved. In June 2020, after considering the matter, the Constitutional Court decided in favour of the request and annulled the new Law on Salaries in its entirety⁵³⁸.

A central criticism levied by the Constitutional Court against the Law on Salaries in the Public Sector was its violation of the constitutional principle of legal certainty. The Court noted that the law failed to establish transparently the salary levels for public sector employees, delegating this to secondary legislation. It argued that this contravened the principle of legal certainty, which mandates that legal provisions be clear, predictable and easy to comprehend⁵³⁹. The lack of direct clarity in the law was seen as undermining the fundamental legal requirement for certainty and predictability in legislative matters.

The annulment of the 2019 Law on Salaries in the Public Sector resulted in further ambiguities over the regulation of civil service remuneration levels. In 2020, new secondary legislation⁵⁴⁰ was adopted for calculating salaries in line with the Law on Public Officials⁵⁴¹. This new regulation nullified the previous Decision on classification, which had been the foundation for salary calculations. Due to this shift and the resulting incoherence in the legal framework, the calculation of civil servants' salaries began to rely on the transitional provisions set out in the new Regulation⁵⁴².

⁵³⁶ Ibid., p. 16.

⁵³⁷ Law No. 06/L-111 on Salaries in the Public Sector, adopted in 2019, <https://gzk.rks-gov.net/ActDetail.aspx?ActID=18683>.

⁵³⁸ Constitutional Court of Kosovo* (2020), "Constitutional review of Law No. 06/L-111 on Salaries in Public Sector". Case No. KO 219/19, paragraph 74, <https://gjk-ks.org/en/decision/vleresim-i-kushtetutshmerise-se-ligjit-nr-06-l-111-per-pagat-ne-sektorin-publik-3/>. According to the Decision, the Law violated basic provisions of the Constitution, including: (i) the principle of the separation of powers; the constitutional order values in relation to the general principles of the judicial system; (ii) the organisation and jurisdiction of courts and the Kosovo* Judicial and Prosecutorial Council; (iii) the organisation of the Constitutional Court; and (iv) the principles of establishing independent institutions.

⁵³⁹ Ibid.

⁵⁴⁰ Regulation 26/2020 on the Classification of Jobs in the Civil Service, https://kryeministri.rks-gov.net/wpcontent/uploads/2020/11/RREGULLORE_QRK_Nr_26_2020_PËR_KLASIFIKIMIN_E_VENDEVE_TË_PUNËS_NË_SHËRBIMIN_CIVIL.pdf.

⁵⁴¹ Law No. 06/L-114 on Public Officials, <https://gzk.rks-gov.net/ActDetail.aspx?ActID=25839>.

⁵⁴² Regulation 26/2020, Article 31, as a transitional provision, provided that "until the approval of the Regulation on internal organisation and systematisation of jobs, which define the class and group to which a job position belongs, and the relevant Law on Salaries, the basic salary for civil servants is calculated according to the equivalence of the old system with the new system of classification determined by a decision of the Government of Kosovo*, upon the proposal of the ministry responsible for public administration and the ministry responsible for finance"; OECD (2021), *Monitoring Report, Kosovo**, OECD, Paris, p. 81, <https://sigmaweb.org/publications/Monitoring-Report-2021-Kosovo.pdf>.

In 2021, the Government of Kosovo* established a new working group tasked with drafting a revised salary law. This group included representatives from the Ministry of Internal Affairs⁵⁴³, the Ministry of Finance, Labour and Transfers, the Office of the Prime Minister, and other relevant institutions and stakeholders. This time, the consultation process was more transparent and comprehensive. However, it also led to significant disagreements among key stakeholders. These disputes culminated in strikes in the education and public administration sectors, at both local and central levels⁵⁴⁴.

Simultaneously, the drafting process of the salary law was accompanied by the development of a law for public officials⁵⁴⁵. This legislation was interconnected with the law on salaries of public officials, particularly regarding the classification of positions in civil service. It also covered the assignment of responsibilities to institutions for managing the public service, including the salary system. After undergoing a review by the Constitutional Court⁵⁴⁶, this law came into effect in September 2023⁵⁴⁷.

The new Law on Salaries in the Public Sector was ratified by the Assembly of Kosovo* on 22 December 2022, and took effect in February 2023⁵⁴⁸. It establishes fundamental remuneration principles that apply to all employees in the public sector but leave the specifics of remuneration for employees in parliamentary, judicial and independent institutions to be governed by their respective sectoral legislation⁵⁴⁹.

Salaries of civil servants are specifically addressed in sub-chapter I and Annex 10.6 of the Law. This section sets out the coefficients for civil service positions, while the monetary value of the coefficient is determined within the framework of the annual budget law⁵⁵⁰. Additionally, the Law imposes limits on various allowances. For example, the labour market allowance, performance allowance and workload allowance are capped at 0.5% of the total funds allocated by the budget organisation for the basic salaries of its public servants in a given financial year⁵⁵¹.

The 2022 Law on Salaries in the Public Sector includes transitional provisions detailing the shift to the new system. Article 41 of the Law addresses the situation of public servants who, prior to the enactment of this law, were receiving salaries higher than those stipulated by the new legislation. For these individuals, the law provides for a transitional allowance. This allowance is designed to bridge the gap between their current salary and the new basic salary defined by the law. As for implementation, the transitional allowance is structured to phase out gradually. In the year after the implementation of the new law, the

⁵⁴³ According to Law No. 06/L-114 on Public Officials (Article 11, paragraph 1.3) the Department for Management of Public Officials (DMPO) is responsible for preparing and supervising implementation of policies on the salaries of public officials and public functionaries. Through the new law, the DMPO has superseded the Department of Civil Service Administration, part of the former Ministry of Public Administration.

⁵⁴⁴ Prishtina Insights, "Government Reveals Coefficients for Wages in the Public Sector", <https://prishtinainsight.com/government-reveals-coefficient-for-wages-in-public-sector/>.

⁵⁴⁵ Law No. 08/L-197 on Public Officials and the Law on Salaries in the Public Sector, Law No. 08/L-196, were approved by the Assembly of Kosovo* on 22 December 2022, <https://www.kuvendikosoves.org/shq/per-publikun/lajmi/kuvendi-miratoi-projektligjin-per-zyrtaret-pu-31598/>.

⁵⁴⁶ Articles 38, 13, 19, 22, etc., of the Law on Public Officials.

⁵⁴⁷ Law No.08/L-197 on Public Officials, <https://gzk.rks-gov.net/ActDetail.aspx?ActID=81430>.

⁵⁴⁸ Law on Salaries in the Public Sector, Law No. 08/L-196.

⁵⁴⁹ Article 2 of the Law on Salaries in the Public Sector, Law No. 08/L-196.

⁵⁵⁰ Article 9 of the Law on Salaries in the Public Sector, Law No. 08/L-196.

⁵⁵¹ Article 24, paragraph 2, Article 25, paragraph 5 and Article 28, paragraph 4 of the Law on Salaries in the Public Sector, Law No. 08/L-196.

transitional allowance is set at 100% of the difference between the current and new salaries. In the second year, this allowance is reduced to 50% of the difference⁵⁵².

In December 2023, the Constitutional Court of Kosovo* declared invalid several key sections of the new Law on Salaries in the Public Sector. Among the annulled provisions were related to the restrictions on total funds allocated for allowances, including the market allowance, workload allowance and performance allowance. Additionally, the Court invalidated the transitional provisions outlined in the Law⁵⁵³. This decision by the Constitutional Court introduces fresh uncertainties in the determination of salary levels within Kosovo's public service. The annulment of these particular sections of the law indicates a need for further legislative review and possible amendments to align with the constitutional framework.

4.5. Moldova

Moldova undertook a comprehensive public service remuneration reform in 2017-2018, which was triggered by wider public administration reform objectives set in the *National Strategy on Public Administration Reform 2016-2020*⁵⁵⁴. The Strategy was elaborated in the wider context of the *Association Agreement* that Moldova signed in 2014⁵⁵⁵. The country committed to strengthen its institutions, increase administrative capacity and improve transparency through, among other things, improving the public wage system and incentives for performance.

The reform process was clearly structured in a Concept note adopted by the Government, which set out the key reform objectives and directions, relevant international experience and process steps⁵⁵⁶. The document was prepared by a Working Group led by the Ministry of Labour, Social Protection and Family, which included representatives from the Ministry of Finance, other central public authorities, the Congress of local public authorities and trade union representatives, while technical assistance was provided by the International Labour Organization (ILO)⁵⁵⁷.

The Concept note included specific objectives of the future wage system, the working arrangements and the different process phases, as follows:

- An analysis of the context and of the wage system features applicable in 2017 to all public sector categories of employees, including civil servants.
- An overview of key problems identified in the wage system applicable at that time. The problems referred primarily to the lack of attractiveness of the profession because of low wages, lack of transparency, absence of incentives and inequity in wage setting.

⁵⁵² Article 41 of the Law on Salaries in the Public Sector, Law No. 08/L-196.

⁵⁵³ <https://gjk-ks.org/en/notification-on-decision-in-case-ko-79-23/>.

⁵⁵⁴ Strategy adopted through Government Decision 911/2016, document accessed on 5 October 2023, https://cancelaria.gov.md/sites/default/files/document/attachments/strategia_de_reforma.pdf.

⁵⁵⁵ Article 4 of the Association Agreement signed in 2014 mentions the co-operation on domestic reform, including "further pursuing the public administration reform and building an accountable, efficient, transparent and professional civil service", [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0830\(01\)](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0830(01)).

⁵⁵⁶ Government of Moldova (2017), The Concept regarding the development of a unitary wage system in the public sector in Moldova, <https://www.mf.gov.md/sites/default/files/Conceptul%20privind%20sistemul%20unitar%20de%20salarizare.pdf>.

⁵⁵⁷ Government Disposition, No. 1/2017.

- Main takeaways derived from the analysis of relevant international case studies (Slovenia, Germany, UK), highlighting the need to ensure proper arrangements for social dialogue and to build the new system based on evidence (analysis of wage data).
- A proposed new vision and objectives for the new wage system.

The vision was to establish a system that would be “unitary, transparent, fair, attractive, especially for young specialists, non-discriminatory, simple to manage, able to reflect and reward performance in the field of activity”⁵⁵⁸. The objectives were to put in place a system that would be (i) more equitable, by ranking and classifying jobs based on job evaluation; (ii) uniform, transparent and easy to manage, by creating a grading structure and ensuring that all applicable rules are set through a single law at public sector level, based on data analysis; and (iii) able to incentivise performance and attract young specialists in the public service, by increasing the share of the base wage in total pay and by creating a mechanism for stimulating performance.

A succession of seven process phases was set out for the design of the new wage system:

1. Job classification. Defining job groups and sub-groups.
2. Job evaluation. Application of a job evaluation methodology.
3. Mapping jobs to a grading structure. Determining the optimum number of grades.
4. Determining components of the wage system (base wage and various types of supplementary pay rights).
5. Fiscal impact analysis. Determination of pay coefficients.
6. Legal drafting and elaboration of secondary legislation for setting rules for specific bonuses and for performance management.
7. Implementing the new wage system under a phased approach.

An Action Plan for the period July 2017-April 2019, covering all process phases, indicated as responsible institutions the Ministry of Finance, the Ministry of Labour, Social Protection and Family, the Centre of Government and other line ministries (for secondary legislation).

Key institutions in charge of the reform process were the Ministry of Finance⁵⁵⁹ and the State Chancellery, assisted by a team of civil servants from the central and local public authorities, as well as national and international experts funded by the ILO and the German Agency for International Co-operation and Development (GIZ)⁵⁶⁰.

The first steps were to prepare a Registry of jobs and job evaluation methodology, as a basis for conducting a job evaluation of a sample of jobs across the public service. From September to December 2017, the Ministry of Finance prepared the Registry, as an inventory of existing public service jobs. At the same time, the ILO consultants prepared a job evaluation methodology, based on the point-factor method.⁵⁶¹

From January to October 2018, intensive efforts were made on a job analysis and job evaluation of 300 representative jobs, to establish a new classification and grading structure, draft a new salary legislation

⁵⁵⁸ Ibid.

⁵⁵⁹ Division of Pay Policy and Employee Monitoring in the budgetary sector.

⁵⁶⁰ Preliminary Report on the assessment of the payroll system in the budgetary sector of the Republic of Moldova. Developed within the project: “Support to the implementation of the European Union High Level Advisers’ Mission in the Republic of Moldova 2019-2021”, EuropeAid/139263/DH/SER/MD, contract No. ENI/2018/400-566, July 2022.

⁵⁶¹ Seven criteria were used in the point-factor model: (i) education, knowledge and experience; (ii) complexity, creativity and diversity; (iii) decision-making responsibility; (iv) leadership, co-ordination and supervision; (v) communication; (vi) work conditions; and (vii) physical and mental effort.

and assess its fiscal impact. A job analysis working group was set up⁵⁶² and conducted a job analysis based on interviews with individual job holders. In April 2018, a job evaluation working group was established that conducted a job evaluation of the new job descriptions and prepared a new classification and grading structure. The content of the future draft law was also prepared, with key principles agreed upon (a centralised system, single pay spine, seniority increases and a structure of variable pay). The fiscal impact of the new draft was carried out by October 2018 and consultations with other public service institutions completed. The draft law was prepared, however, with minimum consultation with social partners.

In November 2018, the Parliament adopted a Law 270/2018 on Unified Remuneration System in the Budgetary Sector,⁵⁶³ which governs general principles of remuneration and wage settings for all public sector employees (all budget users). Salary levels of civil servants are regulated by Annex 3 of the Law. The Law introduced a unified wage grid, which is based on a new classification structure, to ensure transparency and elements of a performance-related pay system, to increase motivation. Salary levels for all public sector employees are defined by a unified salary grid, with 12 different salary grades and 130 salary classes designated by coefficients ranging from 1.00 to 15.00. To ensure uniformity, in the initial concept of the Law a single reference value was to be established by a budget law each year and a basic pay determined by multiplying a single reference value with a coefficient.

Although an initial concept of the Law was well designed, there were important changes to the substance of the Law in the final stages of its adoption, which distorted the logic of a unified and fair remuneration framework. Prior to the final adoption of the Law 270/2018, the text was modified to accept exceptions to the application of a single reference value, by allowing the use of “transitory reference values” for some job categories⁵⁶⁴. As a result, a new salary system started operating with eight different reference values, which compromised the fairness of the system and application of the principle of equal pay for equal work across the public service. The number of reference values were reduced from eight to seven in 2022⁵⁶⁵. Despite this positive development, according to IMF’s estimates, about 60% of government employees are still subject to exceptions of the single reference value, and their share has been increasing⁵⁶⁶.

The Law 2070/2018 was also subject to a number of amendments in recent years, which further upset the unity of the public service salary system. In the four years since its adoption, from 2018 to 2022, the Law was subject to 11 amendments⁵⁶⁷. One of the most important amendments increased discretion in determining the level of variable pay. The variable part was initially capped at 20% of the annual amount of the basic salaries at public authority level, with some exceptions. However, these provisions were repealed by the amendments of the Law adopted in 2020⁵⁶⁸. As a result, there is now no limit to the number

⁵⁶² The Working Group included civil servants from the MoF and other institutions and ILO consultants.

⁵⁶³ Law on Unified Remuneration System in the Budgetary Sector, Official Gazette No. 270/2018.

⁵⁶⁴ Article 29 of the Pay Law 270/2018; Preliminary Report on the assessment of the payroll system in the budgetary sector of the Republic of Moldova. Developed within the project: “Support to the implementation of the European Union High Level Advisers’ Mission in the Republic of Moldova, 2019-2021”, July 2022, pp. 12-13.

⁵⁶⁵ IMF, Fiscal Affairs Department, Moldova Government Wage Bill Management: Assessment and Reforms, aide mémoire, March 2022, p. 8.

⁵⁶⁶ Ibid.

⁵⁶⁷ Preliminary Report on the assessment of the payroll system in the budgetary sector of the Republic of Moldova. Developed in the project: “Support to the implementation of the European Union High Level Advisers’ Mission in the Republic of Moldova 2019-2021” EuropeAid/139263/DH/SER/MD, contract No. ENI/2018/400-566, July 2022, p. 14.

⁵⁶⁸ Amendments of the Law on Unified Remuneration System in the Budgetary Sector, No. 130/2020.

of bonuses that can be awarded to an individual civil servant⁵⁶⁹, creating a high level of pay discrepancy between different institutions⁵⁷⁰. A special allowance can also be granted to specific categories of personnel, which in some cases, can be up to 120% of the basic salary⁵⁷¹. Some additional amendments of the Law introduced more advantageous salary conditions for certain categories of civil servants, further reducing the uniformity of the system⁵⁷². Finally, there are significant salary supplements for various functions associated with external funds, which poses an additional challenge to the commitment of civil servants to their core statutory responsibilities⁵⁷³.

The existing challenges were identified in recently adopted two strategic documents: Public Administration Reform Strategy 2023-2030 and Public Finance Management Development Strategy 2023-2030⁵⁷⁴. Key issues for further reform in these documents include: ensuring competitiveness of the public service salary system with the private sector; reforming the bonus system; improvements in the job evaluation exercise; more competitive and equitable wages and introduction of a reliable human resource management information system (HRMIS), which should ensure adequate wage data analysis and evidence-based policymaking.

4.6. North Macedonia

The revision of the public sector salary system has been a key objective in North Macedonia, as outlined in the Public Administration Reform Strategy 2018-2022⁵⁷⁵. However, this goal was not fully realised in the planned timeframe and has been carried forward into the new Public Administration Reform Strategy for 2023-2030⁵⁷⁶. This reform is part of a broader initiative to overhaul public service and human resource management, initiated with the enactment of the Law on Public Sector Employees⁵⁷⁷ and the Law on Administrative Servants⁵⁷⁸ in 2014. The Law on Public Sector Employees established fundamental principles and a classification system for job positions, as well as a comprehensive registry of all public sector employees. Under this law, public sector employees were categorised into four main groups:

- Administrative servants, including both civil and public servants;

⁵⁶⁹ Government of Moldova, Public Administration Reform Strategy 2023-2030.

⁵⁷⁰ 2021 Ex-post Evaluation Report of the Public Administration Reform Strategy, available at [Ex-Post_Evaluation_of_PAR_Strategy_2016-2020_ro.pdf](#) to Q 1.2.1 2023 Moldova.

⁵⁷¹ Personnel from the field of national defence, state security and public order involved in special activities to fight terrorism are entitled to a special allowance. See Government Decision No. 1231/2018 for the implementation of the provisions of the Law No. 270/2018 on the unitary payroll system in the budgetary sector.

⁵⁷² For example, Law No. 204/2021 established the increase of salary classes for positions within the State Hydro-meteorological Service.

⁵⁷³ OECD (2023), "Public administration in the Republic of Moldova", *SIGMA Monitoring Reports*, OECD, Paris, p. 53, <https://sigmaweb.org/publications/Monitoring-Report-2023-Republic-of-Moldova.pdf>

⁵⁷⁴ Adopted through the Government Decision No. 71/2023.

⁵⁷⁵ https://mioa.gov.mk/sites/default/files/pbl_files/documents/strategies/srja_2018-2022_20022018_mk.pdf.

⁵⁷⁶ https://mioa.gov.mk/content/Strategija%20RJA_MK%2003.pdf.

⁵⁷⁷ https://portal.mioa.gov.mk/sites/default/files/pbl_files/documents/legislation/law_on_public_sector_employees.pdf.

⁵⁷⁸ https://obse.mioa.gov.mk/sites/default/files/pbl_files/documents/legislation/law_on_administrative_servants.pdf.

- Authorised officers working in various agencies and departments, such as the Ministry of Interior, the Army, the Ministry of Defence, the Intelligence Agency, prisons, judicial and financial police, the forest police, and the National Security Agency;
- Personnel providing public services in institutions like hospitals, schools, universities, theatres, museums, kindergartens and public enterprises;
- Auxiliary staff employed across all public sector institutions, including roles such as security personnel, drivers, cleaners, cooks, etc.

Building on this, the Catalogue of Public Sector Working Positions was created⁵⁷⁹, systematically classifies all roles in the public sector into specific groups and subgroups. This Catalogue assigns each position a unique code (indicating its group and subgroup), a title and outlines the general and special competences required, along with the minimum experience needed for each role. This framework is intended to serve as the basis for new, systematic legislation governing public sector salaries, which is to be drafted and enacted in the next few years. The forthcoming legislation is expected to establish overarching principles and guidelines for public sector salaries, paving the way for a comprehensive reform of salary subsystems across various sectors such as civil service, healthcare, education, culture and local institutions. In 2023, the draft Law on the System of Salaries in the Public Sector was developed and consultations were launched⁵⁸⁰, but it has not yet been officially adopted.

Currently, North Macedonia faces a complex and fragmented approach to regulating salaries in the public sector. The Law on Administrative Servants, enacted in 2014, includes Chapter XIV, which specifically addresses salary regulations. This chapter mirrors Chapter IV of the Law on Civil Servants⁵⁸¹, established in 2000, which bases the basic salary of administrative servants on factors such as education level and job position. A significant update occurred in April 2022, with amendments to the Law on Administrative Servants⁵⁸² integrating the country's minimum wage (regulated by a separate law) as a factor in calculating the basic salary for administrative servants. This adjustment represents the only notable reform in the salary system for administrative servants over the past two decades. However, the salary regulations stipulated in the Law on Administrative Servants do not universally apply to all civil servants. The law permits precedence for specific legislative acts and collective agreements, allowing for variations in salary regulations across different civil servant categories.

Leveraging this legal flexibility, many institutions in North Macedonia have developed their own salary regulations. For instance, in 2020, the National Assembly passed amendments to the Law on the Assembly⁵⁸³ that specifically govern the salaries of administrative servants in the legislative body. Similarly, all regulatory bodies have established their own collective agreements, which dictate salary structures. The salaries of civil servants working in the State Revenue Office and the Customs Department are also governed by such collective agreements. However, a notable issue is that these collective agreements are often not published on the respective institutions' websites, making them inaccessible to the public. In the case of the State Audit Office, salaries for auditors are regulated by the State Audit

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https://portal.mioa.gov.mk/sites/default/files/pbl_files/documents/KATALOG_NA_RABOTNI_MESTA_21012016_v8.pdf.

⁵⁸⁰ https://ener.gov.mk/Default.aspx?item=pub_regulation&subitem=view_reg_detail&itemid=77498.

⁵⁸¹ Law on Civil Servants, https://www.aa.mk/WBStorage/Files/ZDS_konsolidiran_106_2013.pdf.

⁵⁸² https://mioa.gov.mk/sites/default/files/pbl_files/documents/legislation/izmena_zas_sistem_plati.pdf.

⁵⁸³ https://www.sobranie.mk/content/Zakon%20za%20Sobranie/5-en-Amendments%20to%20the%20Law%20on%20Assembly_%202020.pdf.

Law⁵⁸⁴. This law employs a coefficient-based calculation method for salaries, as opposed to a point-based system. In the past three years, individual institutions have increasingly been negotiating and signing their own collective agreements to determine the salaries of their civil servants.

The Law on Execution of the Budget for 2022⁵⁸⁵ introduced a specific provision for civil servants in the central government, providing for an allowance of up to 30% of their basic salary. This allowance was designed to compensate for the specificity of their tasks and the increased workload they face. However, this law was limited to civil servants in the central government, leading other institutions to seek alternative solutions. Utilising the options provided by the Law on Administrative Servants, numerous institutions quickly began negotiating and signing their own collective agreements. This movement gained momentum, and a significant number of collective agreements were established at the institutional level in a relatively short period. The website of UPOZ (Union of Civil Servants)⁵⁸⁶ notes that there is a comprehensive list of 69 such institutional collective agreements⁵⁸⁷, as well as a collective agreement specifically for the Ministry of Agriculture, Forestry and Water Management. These agreements, signed over a period from 2019 to 2023, illustrate a widespread and growing trend towards institution-specific salary arrangements in the public sector.

The salary structure for the second category of public sector employees in North Macedonia, the authorised officers, is similarly complex and governed by a mix of laws and collective agreements. The salary system of each subgroup in this category is regulated by different legislation, highlighting the diversity in the regulatory approach. For instance, the salaries of authorised officers in the Ministry of Interior are determined by a collective agreement⁵⁸⁸. Meanwhile, compensation for both military and civilian staff in the Army is outlined in the Law on Military and Civilian Staff in the Army⁵⁸⁹. Salaries for authorised officers in prisons are governed by the Law on Execution of Sanction⁵⁹⁰. With 11 subgroups of authorised officers, 11 distinct legislative documents regulate their salaries. Despite this diversity, no substantial reforms or changes have been implemented in the salary systems for authorised officers in recent years. As with the broader public sector, a lack of a unified methodology persists for calculating salaries across these subgroups. This lack of standardisation extends to regulations on allowances, supplements and performance bonuses, resulting in inconsistencies and potential disparities.

The salary structure for public service providers in sectors like health, education and culture is primarily governed by collective agreements. Many of the salaries stipulated in these agreements, however, fall below the legally mandated minimum salary⁵⁹¹. This discrepancy indicates that despite the legal provisions setting a minimum salary, implementation in these sectors has not been effectively aligned with the law.

⁵⁸⁴ https://dzt.mk/sites/default/files/2021-08/State_Audit_Law_clear_text_2021_ENG_p.pdf.

⁵⁸⁵ <https://finance.fov.mk/wp-content/uploads/2021/12/zakon-mak.pdf>

⁵⁸⁶ <http://upoz.org.mk/mk/za-nas/dokumenti>.

⁵⁸⁷ . This list includes agreements for 51 municipalities, as well as for key institutions like the Cadastre, Official Gazette, Health Insurance Fund, State Audit Office, Commission for Prevention of Discrimination, Pension Insurance Fund, the Cabinet of the President of the Republic of North Macedonia and many others.

⁵⁸⁸ <https://mvt.gov.mk/predlozeni-zakoni>.

⁵⁸⁹ <https://mod.gov.mk/storage/2019/07/Zakon-za-sluzba-ARM-precisten-tekst-2019.pdf>.

⁵⁹⁰ <https://www.pravda.gov.mk/Upload/Documents/3MC19.pdf>.

⁵⁹¹ Center for Change Management (2023), *Report from monitoring of employment, allocation and implementation of budgets in public institutions*, Skopje, <https://cup.org.mk/publication/ANG%20ИЗВЕШТАЈ%203.pdf>.

No substantial reforms or adjustments to the salaries of service providers in these areas have been carried out for several decades, and their wages have not kept pace with increases in the minimum salary.

The salary situation for auxiliary staff in North Macedonia presents a unique case, as it is not governed by specific regulations or collective agreements, like other public sector groups. Instead, the Labour Law directly applies to this category of employees. As a result, the salaries of auxiliary staff are typically stipulated in their individual employment contracts, often at the country's minimum wage.

On July 18, 2023, the Minister for Labour and Social Policies and the President of the Union signed the General Collective Agreement for the Public Sector⁵⁹². This agreement introduces a new methodology for calculating the basic gross salary of all public sector employees. Under this approach, the basic gross salary will be set by multiplying the average gross salary by a workplace complexity coefficient. This new calculation method is scheduled to come into effect on 1 March 2025. The two-and-a-half-year period leading up to the implementation of this methodology will be crucial for thorough determination of the workplace complexity coefficient for every position in the public sector. This represents a significant shift towards standardisation and could potentially bring more uniformity and fairness to salary structures in the entire public sector.

4.7. Montenegro

The first reform of civil service remuneration in Montenegro was conducted between 2003 and 2005, as part of broader public administration reform efforts. In June 2003, the Government of Montenegro adopted an extensive Public Administration Reform (PAR) strategy, aiming to establish a modern public administration aligned with European standards and principles⁵⁹³. To facilitate this, the government established the Forum for Political Co-ordination of Public Administration, a body dedicated to providing political support to the PAR process, and an inter-ministerial technical committee. This committee of Deputy Prime Ministers and key Government Ministers and led by the Prime Minister, supported the implementation of PAR⁵⁹⁴. The Ministry of Justice, tasked with designing the new civil service system, including remuneration, played a pivotal role and was responsible for overseeing the reform process⁵⁹⁵. During the drafting of remuneration legislation, the World Bank became involved and stipulated the adoption of new legislation on civil servant and employee salaries as a condition for its structural adjustment credit to the Government.

In 2004, a new, unified and streamlined civil service remuneration framework, incorporating elements of performance-related pay, was adopted⁵⁹⁶. The Law on Salaries of Civil Servants and Employees established 39 distinct grades of payment. It also allowed for horizontal progression across three salary

⁵⁹² <http://sonk.org.mk/wp-content/uploads/2023/09/Општ-колективен-договор-за-јавниот-сектор-Сл.-весник-бр.154-од-20.07.2023-година.pdf>.

⁵⁹³ The Government of Montenegro, Public Administration Reform Strategy 2002-2009.

⁵⁹⁴ World Bank (2006), Republic of Montenegro, Public Expenditure and Institutional Review, World Bank, Washington DC, Report No. 36 533, p. 40, <https://www.gov.me/en/documents/a307fb0d-9cd3-4759-95fc-72e0d266467b>.

⁵⁹⁵ World Bank (2004), Serbia and Montenegro, Public Administration Development: Creating the Conditions for Effective Economic and Social Reform, Policy Note, World Bank, Washington DC, <https://documents1.worldbank.org/curated/en/966091468763776291/text/285530YU.txt>

⁵⁹⁶ Law on Salaries of Civil Servants and Employees, adopted in 2004, <https://www.gov.me/dokumenta/51df82b7-90de-45d1-9ce6-3b6bbb607d0b>.

steps for mid-management and expert-level civil service positions⁵⁹⁷. For the first time, performance-appraisal pay was introduced, directly linked to horizontal pay progression⁵⁹⁸. The outcomes of these performance appraisals served as the basis for awarding a special bonus – a variable portion of the salary contingent upon receiving an excellent rating and managing an increased workload. The criteria for determining an increased workload were to be defined by the Government. Under the Law, the total budget allocated for variable pay was not to exceed 10% of the overall civil service wage bill. Additionally, the compression ratio was raised from 4.1 to 5.1⁵⁹⁹, and the number of allowances was reduced, streamlining the salary structure.

A significant milestone of the 2004 legal framework was the centralisation of pay. The Ministry of Finance gained the authority to decide the fixed part of the salary (basic pay) for individual civil servants⁶⁰⁰. This ended the practice of giving individual civil service institutions the discretion to operate autonomous salary systems, which had previously allowed for a considerable degree of subjectivity in pay decisions⁶⁰¹.

However, despite these reforms establishing a solid foundation, several issues persisted. One major concern was the absence of a job evaluation system; no such exercise was conducted either before setting up the job classification system, or after its implementation began in 2005. Another issue was the substantial proportion of the total pay attributed to allowances for years in service (seniority)⁶⁰². Lastly, the Government's policy of allocating apartments or housing to civil servants, based on criteria that were not transparent, jeopardised the fairness of the overall pay and benefits system⁶⁰³.

In 2009, Montenegro adopted a revised civil service salary framework, which allowed for greater discretion in determining civil service pay levels. While the law retained the option of horizontal progression for civil servants⁶⁰⁴, it did not specify the criteria for this progression. The variable pay component, previously linked to performance appraisal, was retained but significantly modified. Under the new system, heads of civil service institutions could award variable pay to civil servants demonstrating "exceptional results" of up to 80% of the average salary. The criteria for determining these awards were not clearly defined, however⁶⁰⁵. The Ministry of Finance was responsible for deciding on the variable salary component, based

⁵⁹⁷ Article 9 of the Law on Salaries of Civil Servants and Employees.

⁵⁹⁸ Article 10 of the Law on Salaries of Civil servants and Employees provided that civil servants who received an appraisal of "good" three times in three years, or "excellent" twice, would have the right to promotion to a higher salary grade.

⁵⁹⁹ World Bank (2006), "Republic of Montenegro, Public Expenditure and Institutional Review", World Bank, Washington DC, p. 41.

⁶⁰⁰ Article 22 of the Law on Civil Servants and Employees, adopted in 2004.

⁶⁰¹ World Bank (2004), "Serbia and Montenegro, Public Administration Development: Creating the Conditions for Effective Economic and Social Reform, Policy Note", World Bank, Washington DC.

⁶⁰² Ibid.

⁶⁰³ World Bank (2006), "Republic of Montenegro, Public Expenditure and Institutional Review", World Bank, Washington DC, p. 45.

⁶⁰⁴ Article 11 of the Law on Salaries of Civil Servants and Employees, Official Gazette, No. 86/2009.

⁶⁰⁵ Decision 25/2011 on criteria and method of determination variable portion of salaries of civil servants, Article 4; OECD (2015), SIGMA Baseline Measurement Report, Montenegro, OECD, Paris, p. 38.

on proposals from the heads of institutions⁶⁰⁶. The 2009 legal framework also introduced the possibility of a special allowance for certain civil service positions, to be determined by a specific Government act⁶⁰⁷.

In 2016, Montenegro's Parliament passed a new Law on Salaries of Public Sector Employees, establishing a unified salary framework. This applies not only to the civil service but also to employees of agencies, other legal entities set up by the Government, local governments, independent or regulatory bodies and publicly owned enterprises⁶⁰⁸. The Law specifies coefficients for calculating the base salary across all public sector roles, including civil service positions. These coefficients are applied to the base pay, which the government determines annually⁶⁰⁹.

Although the Law emphasises the principle of equal pay for equal work, the process of drafting and implementing the new legislation did not consistently apply a job evaluation exercise⁶¹⁰. This oversight has raised questions about the fairness of the established pay grades⁶¹¹. The validity of these concerns was underscored by a 2018 research study conducted for a unit of the Ministry of Interior⁶¹². The study revealed that different job titles and ranks, despite having varied salary grades, often involved performing nearly identical tasks⁶¹³. On a more positive note, some institutions, such as the Police Directorate, undertook a comprehensive job analysis. In 2021, it developed a Catalogue of Standard Job Descriptions for Police Posts⁶¹⁴. However, these job descriptions were not directly linked to pay grades, suggesting a disconnect between job roles and remuneration levels.

The remuneration system for Montenegro's public service includes several non-transparent allowances and bonuses, which constitute a significant share of the total pay. Firstly, an allowance for working in certain positions can account for up to 30% of the basic salary⁶¹⁵. While secondary legislation specifies the eligible authorities, job categories and the maximum amount for this allowance, it does not have clear criteria for determining the specific amount of allowances⁶¹⁶. Secondly, a "special allowance" is designated for employees dealing with organised crime, corruption, money laundering, terrorism and war crimes⁶¹⁷. An employee may receive both allowances, but their combined share in the total pay is capped at 45% of the basic salary⁶¹⁸. Additionally, employees with "exceptional results and quality of work" are eligible for a

⁶⁰⁶ Article 16 of the Law on Salaries of Civil Servants and Employees, Official Gazette, No. 86/2009.

⁶⁰⁷ Articles 19 and 20 of the Law on Salaries and Employees, Official Gazette, No. 86/2009.

⁶⁰⁸ Law on Salaries of Public Sector Employees Official Gazette, Nos. 16/2016, 83/2016, 21/2017, 42/2017, 12/2018, 39/2018, 42/2018 and 34/2019. SIGMA report 2017, p. 67.

⁶⁰⁹ Article 12 of the Law on Salaries of Public Sector Employees.

⁶¹⁰ Article 5 of the Law on Salaries of Public Sector Employees.

⁶¹¹ OECD (2017), *Monitoring Report, Montenegro*, OECD, Paris, p. 68.

⁶¹² CIDS (Center for Integrity in the Defence Sector) (2018), Job analysis of the Bureau for Legal and HRM affairs of the Ministry of Interior, unpublished manuscript.

⁶¹³ Ibid.

⁶¹⁴ Catalogue of Standard Job Descriptions in the Police Directorate of Montenegro, 2021, <https://www.gov.me/dokumenta/263aea94-1d94-4966-aef6-c563260e77ae>.

⁶¹⁵ Article 17 of the Law on Salaries of Public Sector Employees.

⁶¹⁶ Decision on performing work at specific job positions of 30 September 2017, Official Gazette No. 060/2017, 036/2018, 059/2019; OECD (2021), *Monitoring Report, Montenegro*, OECD, Paris.

⁶¹⁷ Article 18 of the Law on Salaries of Public Sector Employees.

⁶¹⁸ Article 19 of the Law on Salaries of Public Sector Employees.

bonus considered a variable part of the pay⁶¹⁹. The Government has limited this variable pay to 50% of Montenegro's average basic salary⁶²⁰. However, due to the absence of explicit criteria, its allocation is solely at the discretion of the head of an institution⁶²¹. In practice, bonuses were not excessively used; in 2020, they amounted to only 0.8% of the wage budget and were awarded to just 17% of civil servants⁶²².

In the past year, the Human Resource Management Service has initiated the design of a job evaluation system. This development is significant, as it aims to enhance the fairness of the remuneration system and embed the principle of equal pay for equal work – a concept that had not previously been systematically applied in the Montenegrin civil service. This effort, supported by SIGMA, represents a hopeful step towards greater equity in compensation, although it is not yet fully in place.

4.8. Serbia

Serbia embarked on a thorough civil service remuneration reform from 2004 and 2006, forming a crucial part of the wider civil service overhaul. The goals of this reform were established in the Public Administration Reform (PAR) Strategy, which the government at the time approved in October 2004⁶²³. A primary aim of the reform was to establish a robust legal framework to support the development of a professional civil service capable of attracting and retaining qualified experts. In 2004, an extensive analysis was conducted to assess the existing remuneration system, laying the groundwork for the subsequent reform of civil service pay⁶²⁴.

The crucial policy design and implementation tasks for the civil service pay reform were allocated to three government entities: the Ministry of Public Administration and Local Self-Government (MPALSG), the Legislative Secretariat and the Ministry of Finance⁶²⁵. The Legislative Secretariat was responsible for drafting the legislation and the MPALSG was in charge of both the overarching policy framework and execution of the reform. The Ministry of Finance played an integral role, participating actively in every stage of the reform process.

In 2004 and 2005, representatives of these three key institutions, essential to PAR, convened regularly. Their collaboration focused on the legal drafting of crucial legislation on remuneration. This effort culminated in two significant legislative achievements: the adoption of a Government Decree on job

⁶¹⁹ Article 21 paragraph 1 of the Law on Salaries of Public Sector Employees.

⁶²⁰ Decree on the variable part of salary of 20 May 2016, Official Gazette No. 032/2016, 028/2017, Articles 3-6.

⁶²¹ OECD (2021), *Monitoring Report, Montenegro*, OECD, Paris, p. 73.

⁶²² Ibid.

⁶²³ Government of Serbia, Public Administration Reform Strategy, adopted in October 2004.

⁶²⁴ World Bank, DFID (2004), "Serbian Civil Service: Assessment of Pay and Benefits System Final Report", CNTR 02 3951, PriceWaterhouseCoopers.

⁶²⁵ Ben Gera, M. and A. Rabrenovic (2007), "Public Administration Reform in Serbia: Defining the Agenda and Improving Implementation", report prepared for SIDA (the Swedish International Development Cooperation Agency) and the UK Department for International Development (DFID).

descriptions and job evaluation in December 2005⁶²⁶, and the enactment of the new Law on Salaries of Civil Servants in mid-2006⁶²⁷.

The new legal framework marked a significant milestone in the Serbian civil service, by introducing job evaluation and a unified wage grid for the first time. Central to this reform was the model of job classification, which involved the meticulous preparation of detailed job descriptions for each civil service position. These descriptions were then thoroughly evaluated to assign each post to an appropriate new civil service rank and salary grade. This extensive job (re)classification process, which took several months to complete, was supported by substantial donor assistance⁶²⁸.

A major achievement of the reform was the establishment of a unified pay system. This system brought several large institutions under its umbrella that had previously operated under separate salary systems, notably the Tax Administration, Customs Administration and the Treasury Administration. The unified wage grid introduced featured eight horizontal steps, each representing a 5% salary increase. This structure was designed to allow civil servants to receive salary increments based on their work experience and annual performance appraisal.

The introduction of the new salary system significantly increased the wage compression ratio, from 1:4.9 to 1:9, leading to a series of cascading effects. First, this change made positions at the senior level of the civil service more appealing. However, it also reduced the motivation of staff in civil service positions at the lowest levels⁶²⁹. This imbalance prompted labour unions in subsequent years to advocate for the enhancement of salary levels for lower-ranking civil servants⁶³⁰.

Responding to these initiatives, amendments to the Law on Civil Service Salaries were passed in December 2010 aimed at rebalancing the wage structure. Specifically, the salary coefficients for the lowest two tiers of civil servants, namely junior clerks and clerks, were increased by 40%. Additionally, the coefficients for the second-lowest level ranks, which include junior associates and associates, were raised by 30%⁶³¹. Consequently, these adjustments brought down the civil servants' salary compression ratio from 1:9 to a more balanced 1:6.4, a ratio that has been maintained to the present day.

Shortly after the implementation of the new unified remuneration legal framework in the Serbian civil service, deviations began to emerge, as some institutions were exempted from the unified salary model. Significant pressure arose from the staff of the Tax Administration, advocating for a return to their previous system⁶³². Under this system, they had had the autonomy to determine their own salary levels, which were substantially higher than those in the rest of the civil service. These demands led to the establishment of

⁶²⁶ Decree on Evaluation of Job Posts and Criteria for Job Description of Civil Servants Posts, Official Gazette, 117/2005.

⁶²⁷ Law on Salaries of Civil Servants and Employees, Official Gazette, 62/2006.

⁶²⁸ Rabrenovic, A. (2013), "Main Principles and Approaches to Civil Service Pay Reform: Example of Western Balkan Countries", paper presented at NISPAcee Conference in Belgrade in 2013, pp. 9-10, https://www.nispa.org/files/conferences/2013/papers/201305070652020.paper_Rabrenovic.pdf?fs_papersPage=4.

⁶²⁹ Rabrenovic, A. (2009), "Civil Service Pay Reform in Southeast Europe: Creating Incentives for Performance", in: M. Vintar, P. Pevcin (eds.), *Contemporary Issues in Public Policy and Administrative Organization in South East Europe*, University of Ljubljana, pp. 294-213.

⁶³⁰ Ibid.

⁶³¹ OECD (2011), *SIGMA Assessment Report, Serbia*, OECD, Paris.

⁶³² Rabrenovic, A., "Main Principles and Approaches to Civil Service Pay Reform: Example of Western Balkan Countries", paper presented at NISPAcee Conference in Belgrade in 2013, pp. 9-10, https://www.nispa.org/files/conferences/2013/papers/201305070652020.paper_Rabrenovic.pdf?fs_papersPage=4.in

distinct salary levels for Tax Administration staff. This was achieved by enacting a special Law on Tax Procedure and Tax Administration, which laid the foundation for a separate pay system exclusively for tax administration employees⁶³³. Similarly, the Administration for the Enforcement of Penal Sanctions operates under its own unique salary regime⁶³⁴. This is governed by a specific regulation, based in the Law on Enforcement of Penal Sanctions⁶³⁵, which dictates the salary levels for its employees. Such developments indicate a shift from the uniform salary structure across various civil service institutions that was initially intended.

In 2014, the reform of the overall public sector salary system was initiated, in parallel with the rightsizing (downsizing) of public administration and wage bill control through salary reduction⁶³⁶. The general direction of the wage system reform was outlined in the Public Administration Reform Strategy adopted by the Government in 2014⁶³⁷. The objectives of the remuneration reform were: introduction of the principle of equal pay for equal work; strengthening budget control and manageability of the wage bill and increasing the transparency of the wage system⁶³⁸.

Based on the analysis and comparison of different policy options, the Government opted for the approach of adopting of an umbrella (framework) law for all public sector employees, calling for mandatory, gradual harmonisation of all the necessary regulations, i.e. adoption of new laws or amending the existing laws on salaries for certain sub-systems of the public sector. The Law on the Salary System in the Public Sector⁶³⁹, a systemic piece of legislation designed to establish the foundational principles and transparently regulate the salary system across the public sector, was passed in 2016, covering all 509 943 public-sector employees⁶⁴⁰. The Law provides for classifying all public sector employees into 13 pay grades, based on a common job-evaluation system and a unique base pay⁶⁴¹.

The full implementation of the Law on the Salary System in the Public Sector, however, has yet to be realised. While the Catalogue for employees in public services, covering public institutions in sectors such as health and education, has been adopted⁶⁴², the Catalogue of civil servants, which details titles and

⁶³³ Rulebook of Tax Administration, *The Official Gazette of the Republic of Serbia*, Nos. 43/19 and 78/20.

⁶³⁴ Decree on the Coefficients for Calculation and Payment of Salaries in the Administration for the Enforcement of Penal Sanctions (*The Official Gazette of the Republic of Serbia*, Nos. 16/07, 21/09, 1/11 – decision of the CC, 83/11 and 102/11).

⁶³⁵ Law on Enforcement of Penal Sanctions, Official Gazette Nos. 55/2014 and 35/2019.

⁶³⁶ Fiscal Council of the Republic of Serbia, Wages in General Government: Current State and Guidelines for Reform, Fiscal Council, <https://www.fiskalnisavet.rs/doc/eng/Summary-Wages-in-general-government-current-state-and-guidelines-for-reform.pdf>, accessed 14 December 2023.

⁶³⁷ Public Administration Reform Strategy, Official Gazette, Nos. 9/2014, 42/2014 and 54/2018, <https://www.pravno-informacioni-sistem.rs/SlGlasnikPortal/eli/rep/sgrs/vlada/strategija/2014/9/1/reg>.

⁶³⁸ *Ibid.*

⁶³⁹ Law on Salary System in the Public Sector, Official Gazette, Nos. 18/16, 18/2016, 108/2016, 113/2017, 95/2018, 86/2019, 157/2020 and 123/2021.

⁶⁴⁰ OECD (2017), *Monitoring Report, Serbia*, OECD, Paris p. 58, <https://www.sigmaweb.org/publications/monitoring-report-2017-serbia.pdf>.

⁶⁴¹ OECD (2019), *Monitoring Report, Serbia*, OECD, Paris, p. 79, <https://www.sigmaweb.org/publications/Monitoring-Report-2019-Serbia.pdf>.

⁶⁴² Regulation on Catalogue of job position in public services, Official Gazette, Nos. 81/2017, 6/2018 and 43/2018. <https://www.paragraf.rs/propisi/uredba-o-katalogu-radnih-mesta-u-javnim-sluzbama-i-drugim-organizacijama-u-javnom-sektoru.html>.

ranks within the civil service, is still pending. The implementation of the new salary system has been postponed several times since 2017 and is currently planned for 2025⁶⁴³. It is expected that the new system will introduce more transparency and cross-sectoral comparability and significantly improve the salary arrangements for the wider public sector⁶⁴⁴.

As for civil service remuneration, a sound system based on job classification is still in place. The key weaknesses of the system are a lack of performance-related bonuses and a sufficient level of transparency, as salary information is not indicated in vacancy announcements, and data and statistics on salaries are scarce.⁶⁴⁵ On a positive note, according to official data, salaries in the public administration are, on average, competitive with the private sector⁶⁴⁶.

The Public Administration Reform Strategy for the period of 2021-2030 and the Action Plan for its Implementation of 2021-2025⁶⁴⁷ anticipate measures for reforming the civil service salary framework in 2024 and 2025. The Appendix of the Strategy provides a description on the state of play in the implementation of the salary reform in the public sector, including the civil service. The Action Plan for the Implementation of the Strategy plans for the preparation of a draft law to regulate salaries of civil servants and state employees in line with the Law on Salaries in the Public Sector in the second quarter of 2024, while implementation of the overall public service remuneration law (including the new Law on Civil Servants' Salaries) is anticipated for 2025.

4.9. Ukraine

The salary system for civil servants in Ukraine was first regulated in 1993, with the enactment of the Law of Ukraine "On the Civil Service"⁶⁴⁸. This law established general guidelines for civil service salaries, authorising the Cabinet of Ministers (CMU) to determine key aspects such as the minimum base salary, bonuses and additional pay conditions. It also introduced an administrative classification for civil service positions, which was based on the placement of state bodies within the administrative hierarchy. The 2006 SIGMA assessment⁶⁴⁹ highlighted several issues with this system, noting that civil service salaries were not unified across the public administration and were relatively low, making competition with private companies challenging. The report also pointed out that internal fairness and equity were weak, and that the system was overly complex, consisting of a confusing array of bonuses awarded for varying and often unjustifiable reasons, leading to arbitrary determinations of a significant portion of total remuneration.

On 1 May 2016, a new Law on the Civil Service (LCS) came into effect in Ukraine⁶⁵⁰, overhauling the previous salary regulation system. This law established a uniform salary structure for all civil service

⁶⁴³ Article 40 of the Law on Salary System in the Public Sector, Official Gazette, Nos. 18/16, 18/2016, 108/2016, 113/2017, 95/2018, 86/2019, 157/2020 and 123/2021.

⁶⁴⁴ OECD (2021), *Monitoring Report, Serbia*, OECD, Paris, p. 79, <https://www.sigmaweb.org/publications/Monitoring-Report-2021-Serbia.pdf>.

⁶⁴⁵ *Ibid.*, 79.

⁶⁴⁶ *Ibid.*

⁶⁴⁷ <http://mduls.gov.rs/wp-content/uploads/Action-plan-2021-2025-for-the-implementation-of-the-PAR-Strategy-in-Republic-of-Serbia.pdf>.

⁶⁴⁸ <https://zakon.rada.gov.ua/laws/show/3723-12/ed20151210#Text>.

⁶⁴⁹ https://www.center.gov.ua/attachments/article/38/sigma_ukraine_governance_assessment_final.doc.

⁶⁵⁰ <https://zakon.rada.gov.ua/laws/show/889-19#Text>.

positions within the public administration. It set both the lower limit of the base salary and upper limits for certain variable pay components, linking the base salary size to the civil service position's rank in the administrative hierarchy. The CMU retained the authority to regulate base salaries, review them annually, and oversee the procedures for awarding bonuses and other performance-related pay (e.g. for work intensity or significance).

In the same year, the CMU approved the Public Administration Reform (PAR) Strategy for 2016-2021 and its Action Plan (AP)⁶⁵¹. This strategy aimed to develop and introduce a classification system for civil service positions and ensure the financial stability of reforms in civil servant remuneration, taking into account macroeconomic indicators. It emphasised that reforming civil servant salaries should be considered alongside improving management efficiency and optimising the number of executive authority employees. The Strategy's vision was to establish a transparent and competitive pay structure for civil servants, aligned with the general labour market level. The AP outlined four general actions for salary reform but did not provide cost estimates for these reforms.

Towards the end of 2016, the CMU adopted the Concept of Reform Support Positions (RSP)⁶⁵², aimed at enhancing public administration capacity by recruiting skilled specialists into the civil service. A key feature of the RSP Concept was a special salary arrangement offering considerably higher salaries for RSPs than standard civil service roles. This pilot programme, supported by the EU, allowed civil servants to earn salaries comparable to the private sector. However, it had limited impact on the chronic issues in the civil service salary system, as the RSP salary arrangement largely depended on performance-related pay.

In its 2018 Baseline Measurement report⁶⁵³, SIGMA evaluated Ukraine's civil service salary system, as reformed by the 2016 LCS. The report characterised the system as having a complex salary structure, unclear criteria for variable pay, excessive managerial discretion and bonuses with low motivational impact. Additionally, it noted the lack of transparent salary information and the failure to implement the principle of equal pay for equal work. The implementation of the report's recommendations was delayed due to political changes in Ukraine in 2019 and the COVID-19 pandemic in 2020.

The CMU outlined its plans for the salary reform in the "Concept of Reforming Civil Service Salary System" in May 2020⁶⁵⁴. This concept aimed to better structure the civil service salary reform within the broader context of Public Administration Reform (PAR). Developed by the National Agency of Civil Service of Ukraine (NAUCS) in collaboration with various governmental bodies and with support from SIGMA and the EU4PAR project, the Concept highlighted the issues previously identified. Its objectives included simplifying the civil servants' salary structure, introducing a classification system for civil service positions, setting base salary sizes based on job value, making the fixed salary a predominant component of remuneration (at least 70% of total take-home pay), and implementing the principle of equal pay for equal work. However, the Concept did not provide cost estimates for the reform, and the accompanying Action Plan (AP) listed 13 actions with NAUCS as the principal implementer.

The implementation of this Concept began with drafting necessary legal changes and initiating a pilot job classification project. In June 2020, the CMU submitted the Draft Law (DL) on Amendments to Certain Legislative Acts of Ukraine on Improvement of Civil Service (DL No. 3 748) to the Parliament. Drafted by the NAUCS with the support of EU4PAR project, this draft law proposed introducing a mixed functional-

⁶⁵¹ <https://zakon.rada.gov.ua/laws/show/474-2016-%D1%80#n268>.

⁶⁵² <https://zakon.rada.gov.ua/laws/show/905-2016-%D1%80#Text>.

⁶⁵³ OECD (2018), *SIGMA Baseline Measurement Report: Ukraine*, OECD, Paris, <https://www.sigmaweb.org/publications/Baseline-Measurement-Report-2018-Ukraine.pdf>.

⁶⁵⁴ <https://zakon.rada.gov.ua/laws/show/622-2020-%D1%80#Text>.

administrative job classification as the basis for civil servant salaries, defining salary components, eliminating certain salary allowances, reducing others (e.g. seniority allowance), limiting bonuses, and charging the NAUCS with developing regulations for forming salary funds. Despite its comprehensive approach, the Draft lacked cost estimates and was rejected by the Parliament in September 2020 without prior deliberations.

Parallel to legislative efforts, the NAUCS began preparing for job classification, initially as a pilot project covering a few state bodies, in line with the Action Plan of the Concept document. In November 2020, the Cabinet of Ministers endorsed the NAUCS-sponsored resolution “On the Preparation and Implementation of a Pilot Project on the Introduction of a System of Remuneration of Civil Servants Based on the Classification of Positions”⁶⁵⁵. This resolution appointed NAUCS as the co-ordinator and included the Secretariat of the Cabinet of Ministers of Ukraine (SCMU), Ministry of Finance (MoF), Ministry of Digital Transformation (MinDigit) and NAUCS, with its territorial offices in the seven-month pilot. The pilot aimed to develop a draft civil service salary system based on position classification, encompassing analytical studies⁶⁵⁶, the drafting and approval of a catalogue of typical civil service positions and criteria for their classification, training for classification committee members, and a methodology for classification. It also included comparing civil service remuneration with market levels, grading, preparing a draft salary model, and providing ongoing methodological and informational support from NAUCS. This pilot was also presented and discussed at a special parliamentary hearing on civil service salaries in November 2020⁶⁵⁷.

With input from an EU-financed technical assistance project, the NAUCS developed and adopted a Methodology for the Classification of Civil Service Positions⁶⁵⁸ and a Catalogue of Typical Civil Service Positions with criteria for assignment⁶⁵⁹. This Catalogue proposed a mixed functional-administrative approach, featuring 28 position families, 9 levels of positions (6 for managerial and 3 for non-managerial), and 5 types of state bodies distributed across three levels of jurisdiction.

The classification process began with a training session for members of the classification committees at each pilot institution. Over five months, these committees classified 1 844 civil service positions across the participating bodies. The NAUCS then developed a grading model that included 15 grades for civil service positions, with each grade determining the level of base salary. Positions were assigned to grades based on classification codes, jurisdiction level and factors such as complexity, responsibility and communication level. However, the base salaries were set at 52% below market medians.

Although the NAUCS declared the pilot a success in its final report⁶⁶⁰, the principle of equal pay for equal work was not effectively implemented. The base salary of a civil servant was still largely determined by the institution's place in the administrative hierarchy.

⁶⁵⁵ <https://zakon.rada.gov.ua/laws/show/1414-2020-%D1%80#Text>.

⁶⁵⁶ <https://nads.gov.ua/storage/app/sites/5/%D0%9E%D0%BF%D0%BB%D0%B0%D1%82%D0%B0%20%D0%BF%D1%80%D0%B0%D1%86%D1%96/za-rezultatami-opituvannya-sistema-oplati-pratsi-derzhavnikh-sluzhbovtziv17122020.pdf>.

⁶⁵⁷ http://komsamovr.rada.gov.ua/documents/dijal_komit9skl/sluhannia9skl/kom_sluhannia9skl/81499.html.

⁶⁵⁸ <https://zakon.rada.gov.ua/laws/show/z1219-20#Text>.

⁶⁵⁹ <https://zakon.rada.gov.ua/rada/show/v0246859-20#Text>.

⁶⁶⁰ <https://nads.gov.ua/storage/app/sites/5/zvit-klasifikatsiya-do.pdf> and <https://nads.gov.ua/storage/app/sites/5/01.07.21/zvit-uryad-reforma-01-07.pdf>.

In July 2021, the Cabinet of Ministers of Ukraine approved a new Public Administration Reform (PAR) Strategy and its accompanying Action Plan (AP)⁶⁶¹. This strategy included tasks related to salary reform, largely reflecting ongoing developments such as salaries based on job classification, integration of Reform Support Positions (RSP) into the general salary scheme, and the emphasis on base salary as the key component of remuneration.

During the pilot implementation, the NAUCS, with the involvement of the EU4PAR project, and the Reform Delivery Office of the CMU (RDO CMU), prepared a draft law titled “On Amendments to the Law of Ukraine ‘On Civil Service’ on the Implementation of Unified Approaches to Paying Civil Servants Based on the Classification of Positions”. This draft law largely reiterated the provisions regarding civil service salaries found in the previously mentioned Draft Law No. 3 748. However, its supporting documents did not include a cost analysis. After several co-ordination meetings led by the Minister of the CMU in July 2021, the NAUCS submitted this draft law to the CMU for consideration on 3 November 2021. Internal discussions within the CMU, influenced by the Ministry of Finance’s stance, delayed the approval of this draft law before Russia initiated its full-scale aggression against Ukraine on 24 February 2022.

The CMU renewed its focus on civil service salary reform in mid-2022. On 17 June 2022, it established an Inter-ministerial Working Group (WG) on this subject, chaired by the Minister of the CMU. The WG presented its findings at a co-ordination meeting on 20 September 2022, chaired by the Prime Minister. It was agreed that the NAUCS would revise the text of the aforementioned draft law and resubmit it to the CMU. The government approved the updated draft law on 22 November 2022⁶⁶², and it was registered in the Verkhovna Rada of Ukraine as Draft Law No. 8 222⁶⁶³.

The provisions of Draft Law No. 8 222 largely mirrored those of Draft Law No. 3 748 and the 2021 proposal. Additionally, it included new provisions for transferring civil servants employed in state bodies with special status⁶⁶⁴ to the general civil service salary scheme. However, it represented a step back in regulating some allowances, and overall, the reform proposed was less ambitious than initially intended in the CMU’s Concept. The responsible parliamentary committee⁶⁶⁵, requested from SIGMA an opinion on its alignment with the Principles of Public Administration.

On 26 June 2023, the committee recommended Draft Law No. 8 222 for approval in the first reading but decided to exclude provisions regarding the transfer of civil servants in special status state bodies to the general salary scheme. The draft law was also reviewed by parliamentary committees dealing with various areas like social affairs, law enforcement, budget, human rights, digital transformation, anti-corruption, energy independence, and procedural issues. To promote Draft Law No. 8 222, the NAUCS, in collaboration with the committee and supported by the EU4PAR project, organised two public events: “Civil Service Remuneration Reform as Part of the European Integration”⁶⁶⁶ in February 2023 and “Discussion on SIGMA and Ukrainian Stakeholders’ Positions Regarding Introduction of Single Approaches to Civil

⁶⁶¹ <https://zakon.rada.gov.ua/laws/show/831-2021-%D1%80#Text>.

⁶⁶² <https://www.kmu.gov.ua/news/uryad-shvaliv-zakonoproekt-shchodo-vprovadzhennya-yedinih-pidhodiv-v-oplati-praci-derzhsluzhbovciv-na-osnovi-klasifikaciyi-posad>.

⁶⁶³ <https://itd.rada.gov.ua/billInfo/Bills/Card/40885>.

⁶⁶⁴ Several anticorruption, law enforcement agencies and market regulators.

⁶⁶⁵ Committee on the Organisation of State Power, Local Self-Government, Regional Development and Urban Planning.

⁶⁶⁶ <https://www.kmu.gov.ua/events/13-liutoho-kruhlyi-stil-reforma-systemy-oplaty-pratsi-derzhavnykh-sluzhbovtziv-jak-skladova-ievrointehratsii>.

Service Remuneration” in June 2023⁶⁶⁷. Throughout the reform, NAUCS published key documents on a dedicated website⁶⁶⁸.

On 28 July 2023, the Verkhovna Rada of Ukraine adopted Draft Law No. 8 222 in its first reading, following the committee’s recommendations. A three-week period was allotted for Members of Parliament (MPs) to submit their suggestions and proposals regarding this draft law. MPs contributed 125 suggestions, prompting the committee to establish a Working Group (WG) to review all submissions and prepare recommendations for acceptance or rejection. This WG, comprising MPs, representatives from the NAUCS, SCMU, MoF, judiciary administration, special status institutions, trade unions, and national and international experts, including SIGMA and EU4PAR project, convened six times between September and November 2023. At these meetings, the WG reviewed all 125 and recommended acceptance or rejection for only a small portion of the suggestions, leaving the rest for the committee to decide. As of mid-December 2023, the committee had not set dates to consider these suggestions with the WG’s recommendations, nor was it known when the Rada would consider Draft Law No. 8 222.

Simultaneously, in July 2023, based on a proposal from the NAUCS, the CMU launched a pilot project to establish a salary fund for various state institutions⁶⁶⁹. This pilot, encompassing 6 ministries, 3 executive agencies, 22 local state administrations and 10 territorial offices of the NAUCS, was initiated four years after the task was assigned to the CMU in the current LSC. The resolution declared that the purpose of the pilot was to introduce unified approaches to forming civil servants’ salary funds and gathering data for legislative improvements. However, by mid-December 2023, no information on the progress or outcomes of this pilot had been made publicly available.

In a parallel development in mid-2023, the MoF drafted its version of the civil service remuneration reform as part of the annual budget process. Presented in mid-September 2023, within the Draft Law on the 2024 State Budget (DL No. 10 000)⁶⁷⁰, the reform was approved in November⁶⁷¹. Set to begin on 1 January 2024, its key aspects were: (i) in 2024, the state bodies could use either the salary system set by the current LCS, limiting the performance-related bonuses to a maximum of 50% of the base salary at the individual level or a new system based on job classification; (ii) the provisions on new salary system to be used would resemble those stipulated by DL No. 8 222 (salary components, sizes of bonuses and allowances; (iii) elimination of excessive vacancies (to 10% of factual headcount); (iv) calculation of the 2024 institution salary fund based on factual headcount as of 1 July 2023 plus 10%. Although the 2024 State Budget included a 10% salary increase for most state bodies, the actual cost of the reform remained unknown.

To facilitate the job classification outlined in the 2024 State Budget Law, on 23 October 2023, the CMU adopted a Regulation on “The Catalogue of Typical Civil Service Positions and Criteria for Position Classification”⁶⁷² and “The Algorithm of Position Classification in Wartime” (a methodology for the job classification). These documents were based on those used in the pilot. The regulation required state bodies to classify their positions within 30 days, with the NAUCS authorised to approve the classifications.

⁶⁶⁷ https://www.rada.gov.ua/news/news_kom/237816.html.

⁶⁶⁸ <https://nads.gov.ua/oplata-praci-derzhavnih-sluzhbovciv>.

⁶⁶⁹ <https://zakon.rada.gov.ua/laws/show/734-2023-%D0%BF#Text>.

⁶⁷⁰ <https://itd.rada.gov.ua/billInfo/Bills/Card/42796>.

⁶⁷¹ <https://zakon.rada.gov.ua/laws/show/3460-IX#Text>.

⁶⁷² <https://www.kmu.gov.ua/npas/pro-pidhotovku-do-zaprovdzhennia-umov-oplaty-pratsi-derzhavnykh-sluzhbovtziv-na-osnovi-klasifikatsii-posad-u-2024-rotsi-i231023-1109>.

As of the end of November 2023, the NAUCS reported that 87% of central-level state bodies (94 out of 108) had classified their positions and submitted results for verification.

The NAUCS and MoF were also working on base salary schemes for civil servants for 2024, but no drafts were publicly available as of mid-December 2023.

The ongoing reform of Ukraine's civil service remuneration, with a history spanning 30 years, remains a complex and challenging endeavour. The year 2024 will be pivotal, with two civil service salary systems co-existing, requiring significant effort from responsible institutions to manage this complex and potentially confusing situation.

4.10. Key messages

- Efforts to reform public sector wage systems in the countries analysed usually aim to establish a uniform salary system to address pay discrepancies and to improve transparency.
- Recent reform processes reveal that comprehensive wage system reforms require a coherent approach and adequate planning. Fragmented reform efforts risk undermining coherence and transparency, as in the case of Albania until 2020.
- Reform attempts need to focus on establishing an equitable hierarchy of jobs as a basis for setting adequate base wages and on limiting pay supplements, to avoid distorting pay equity and pay transparency.
- The case studies analysed also reveal the importance of job evaluation for establishing equitable and transparent wage systems. For this, a well-designed job evaluation methodology is essential, as shown in the case of Bosnia and Herzegovina or Moldova.
- Reform processes can be very complex and require an inclusive approach aiming to incorporate feedback from all affected parties to ensure equitable, acceptable and implementable legislation. The experience of Kosovo* and Ukraine, for example, demonstrates that reform efforts in complex governance contexts must be prepared for iterative adjustments and ongoing dialogue to reconcile diverse interests and expectations, ultimately contributing to more effective and accepted public policies.
- Institutional co-ordination and implementation capacities are essential for effective implementation of reforms. For example, Bosnia and Herzegovina's experience with civil service salary reform illustrates the complexities of reforming remuneration systems within a fragmented administrative structure and emphasises the need for clear, comprehensive strategies supported by strong administrative co-ordination and implementation capacity to achieve meaningful and sustainable reform outcomes.
- Recent attempts at reform highlight the importance of solid data systems to provide the evidence for reforms. The aim of introducing HRMIS systems to support data monitoring and evidence-based policymaking is anticipated as part of the strategic policy framework, as in Moldova.

Glossary of terms

Concept	Definition ⁶⁷³
Allowance	Additional payments made on top of base wage, typically for specific purposes or in recognition of specific needs (for example to cover travel costs, or the cost of clothes for employees with a specific level of representation). A typical example is the allowance for representation granted to diplomatic personnel reserved for expenses incurred in establishing and maintaining relationships of value to a specific country in other foreign countries ⁶⁷⁴ .
Base wage/base pay/base salary	Synonym concepts, used in this paper to reflect the fixed part of the total monthly gross wage that the employee receives regularly. The base wage reflects the requirements and complexity associated with an employee's position and is expected to be similar across similar positions ⁶⁷⁵ .
Bonus	An additional, variable element of remuneration paid on an occasional basis and related to quality and quantity of work, rewarding performance, work volume, specific types of activities (priority project, etc.). Payment of bonuses can contain some element of discretion. This definition also includes performance-related pay based on quantified results. Bonuses do not include elements of pay that are based on objective factors such as seniority allowances, education allowances and geographical allowances.
Collective agreement	Agreement in writing on working conditions and terms of employment concluded by the social partners as an outcome of collective bargaining ⁶⁷⁶ . Can be concluded at national level, at sectoral or branch level or even at the organisational level.
Collective bargaining	Covers negotiations between an employer, a group of employers or one or more employers' organisations, on the one hand, and one or more workers' organisations, on the other, for

⁶⁷³ Definitions proposed in this paper are meant to reflect international concepts as used by international organisations, in alignment with different sources which were analysed during the research phase: OECD classifications, World Bank conceptual frameworks, ILO recommendations.

⁶⁷⁴ https://aoprals.state.gov/content.asp?content_id=310&menu_id=75.

⁶⁷⁵ Reflects the World Bank definition from World Bank (2019), *Romania: Proposed Methodology for Monitoring the Public Sector Pay Law*, https://sgg.gov.ro/1/wp-content/uploads/2010/01/Livrabilul-7.1_EN_Metodologie-monitorizare-legea-salarizarii.pdf.

⁶⁷⁶ Ibid.

	determining working conditions and terms of employment; and/or regulating relations between employers and workers ⁶⁷⁷ .
Compression ratio	Indicator that is calculated as the ratio between deciles 9 and 1 of salaries or as the ratio between the highest and lowest salary. The compression ratio in relation to base wages can be distorted if other components of total remuneration (supplements, bonuses) are significant.
Equal pay for work of equal value	Principle that implies that all employees (in particular women and men) have the right to equal pay if they do identical or similar jobs, and that they should also earn equal pay if they do completely different work that can be shown to be of equal value when based on “objective” criteria ⁶⁷⁸ . The relevant International Labour Organization convention and EU Directives on this topic are discussed in the paper.
General government	Covers all institutional units controlled directly or indirectly by central or regional governments, and includes all workers employed by these organisations in different sectors (e.g. public administration, education and health) ⁶⁷⁹ .
Grade (in a grading structure)	One of the classes or intervals delimited as part of a grading structure, based on the fact that they group together jobs of comparable value or relatively similar levels of complexity. All jobs in a grade have the same pay level or the same pay interval ⁶⁸⁰ .
Grading structure	A set of grades or levels at or within which jobs of comparable value are placed, based on a job ranking of the job evaluation process and eventually also taking into account external comparable positions. The grading structure provides a clear perspective for horizontal and vertical progression for different jobs and for various career systems.
Job classification	A systematic approach utilised in human resource management to organise and categorise jobs in an organisation or within a system. It is based on such specific criteria as job responsibilities, level of effort, complexity, education and qualifications. This method aims to facilitate workforce management by providing a structured framework for job descriptions, salary levels and career development opportunities. It is often used as part of the job evaluation processes, to ensure that jobs are classified in a relevant and transparent manner and that their ranking derived from evaluation is coherent with the classification, where human resource personnel and/or social partners assess and rank jobs within an organization, based on objective criteria.
Job evaluation	A systematic process for determining, based on an analytical judgement, the relative worth of jobs in an organisation/sector/public sector, with the aim of establishing the internal relativity

⁶⁷⁷ Based on the text in the European Commission’s Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union COM (2020) 682 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0682&from=EN>.

⁶⁷⁸ Based on the definition used in OECD (2021), “Pay Transparency Tools to Close the Gender Wage Gap”, OECD Publishing, Paris, p. 14, <https://doi.org/10.1787/eba5b91d-en>.

⁶⁷⁹ World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*, EFI Insight-Governance, Washington DC.

⁶⁸⁰ Based on Gerhart, B. and J. Newman (2020), *Compensation*, McGraw Hill, New York.

	(an equitable job ranking) and to provide the basis for designing fair grade and pay structure(s) ⁶⁸¹ .
Minimum wage	The minimum remuneration an employer is required to pay to workers for the work performed during a given period, calculated based on time or output ⁶⁸² . This minimum remuneration cannot be reduced by collective agreement or an individual contract ⁶⁸³ .
Pay affordability	The capacity to sustain (over the medium to long term) and to manage reasonable payroll costs without compromising financial stability, in alignment with budget constraints and economic conditions.
Pay equity	Means ensuring salary levels for jobs with comparable attributes, including education, professional qualifications, complexity, responsibility, impact. It is a core wage system pillar, derived from the principle equal pay for work of equal value, which implies that jobs need to be ranked based on evidence, ideally through a method of job evaluation ⁶⁸⁴ .
Pay grade structure	A systematic arrangement of wage grades, levels, points or bands that connect related jobs within an organisational hierarchy. The placement of jobs is ideally determined by internal value through job evaluations, sometimes from external market rates from surveys, and/or occasionally negotiated rates. Salary structures facilitate both horizontal and vertical pay progression for employees ⁶⁸⁵ .
Pay indexation (or wage indexation)	An automated mechanism for adjusting salaries to safeguard the purchasing power of employees against inflationary pressures. Within the public sector, such indexation mechanisms are sometimes embedded in collective bargaining agreements or institutionalised through governmental policy frameworks (explicit legal provisions), aiming to provide competitive remuneration to government personnel. Adjustments can be pegged to a predetermined inflationary index, for instance, the Consumer Price Index (CPI), and are made an annual basis, to align salaries with the incremental cost of living.
Pay policy in the public sector	Wage system objectives, principles, pay and grading structures and rules for wage determination that are applicable to all public employees, as enshrined in the legal and/or collective bargaining frameworks adopted at national/statal/regional/local level.
Pay progression	Refers to the process of how an employee becomes entitled to a higher base wage level. Criteria related to pay progression can include individual performance, skills development and

⁶⁸¹ Armstrong M. and H. Murlis (2005), *Reward Management – A Handbook of Remuneration Strategy and Practice*, fifth edition, Kogan Page, London.

⁶⁸² In alignment with the text in the European Commission's Proposal for a Directive of the European Parliament and of the Council on adequate minimum wages in the European Union COM (2020) 682 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0682&from=EN>.

⁶⁸³ ILO, Minimum Wage Fixing Recommendation, 1970 (No. 135), International Labour Organization, https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:12100:0::NO::P12100_INSTRUMENT_ID:312473.

⁶⁸⁴ See ILO Equal Remuneration Convention, 1951 (No. 100), and the EU Directive on equal pay for equal work.

⁶⁸⁵ Based on the definition formulated by the Chartered Institute of Personnel and Development, UK, 2022, <https://www.cipd.org/en/knowledge/factsheets/pay-structures-factsheet/>.

	seniority ⁶⁸⁶ . Pay progression can take various forms, including step increases (usually for seniority or for seniority and performance), merit-based raises and promotions to higher pay grades (which entail a change in job title).
Pay/wage/salary (compensation/remuneration)	Synonyms used interchangeably in this paper, since organisations have different preferences on the use of these terms. Monthly pay/salary/wage means all salary rights of an employee, including the base wage and all additional supplements and bonuses.
Pay scale	Also known as a salary scale or wage scale, a structured system that includes the pay points/levels/rates or ranges for each position in an organisation or system. A pay scale covers all possible pay levels/points and, when attached to a grading structure, determines the minimum and maximum salary that can be earned in each job grade or level, taking into account factors such as experience, education, skills, seniority and/or even job performance.
Public sector	Often used as a synonym for the general government when discussed in relation to public employment and pay, but can also include, in addition to the general government, state-owned companies (SOEs) ⁶⁸⁷ . Those entities are mainly owned or controlled by the government, and produce goods and services for sale in the market ⁶⁸⁸ (post offices, railways, etc.). To clarify, in this paper the concept of the public sector does not include SOEs.
Supplements	Additional payments that an employee may receive in addition to the base wage to recognise specific qualifications, seniority or to compensate for special circumstances (such as specific working conditions) or overtime work. National legislation may call supplements “bonuses” (especially when granted for seniority or performance), as there is no systematic classification of these concepts across countries.
Total reward	A holistic approach to salary planning, including salary rights (base wage, bonuses, supplements), other benefits (health insurance, retirement plans), working arrangements, career progression opportunities, learning and development opportunities. The OECD recommends approaching public sector wages under a “total reward” approach ⁶⁸⁹ .
Variable pay	Also referred to as the variable component, it includes various bonuses and allowances that are not permanent, and that can vary from one month to another, depending on the fulfillment

⁶⁸⁶ Definition based on the text of the Directive (EU) 2023/970 of 10 May 2023 to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32023L0970>.

⁶⁸⁷ Based on World Bank (2021), *Public Sector Employment and Compensation: An Assessment Framework*. EFI Insight-Governance, Washington DC.

⁶⁸⁸ OECD (2011), *Government at a Glance*, p. 102, https://www.oecd-ilibrary.org/docserver/gov_glance-2011-en.pdf?expires=1707135346&id=id&accname=guest&checksum=265C84CBC6593A28E88CF66E1EC088D1.

⁶⁸⁹ OECD (2021), *The Future of the Public Service: Preparing the workforce for change in a context of uncertainty*, p. 35, https://www.oecd-ilibrary.org/governance/public-employment-and-management-2021_1a9499ff-en.

	of specific conditions or subject to work performance ⁶⁹⁰ . In some cases ⁶⁹¹ , the concept is more narrowly defined to reflect pay increases/bonuses granted based on performance (performance-related pay supplements/bonuses). In this paper, variable pay is used in the broader sense.
Wage bill	Total expenditure from the general budget allocated for salaries, including allowances, supplements and social security contributions made on behalf of employees. The aggregate cost of remunerating public employees is a significant component of public expenditure.

⁶⁹⁰ Definition consistent with the application of the concept by the World Bank. See for example the 2009 report *Romania: Public Sector Pay Practices Overall Public Sector Trends and Detailed Analysis of Local Government Contract Employees*, p. 7, <https://openknowledge.worldbank.org/server/api/core/bitstreams/d0bbc3b0-c611-5a31-9388-4b58ec2a56c0/content>.

⁶⁹¹ See for example the meaning from this manual published by the ILO (2023), *Human resource management: A manual for employer and business membership organizations*, p. 3.

Salary systems in public administration and their reforms

Public sector remuneration systems are shaped by an intricate interaction of administrative culture, economic conditions, and political systems. This paper discusses critical considerations to bear in mind when designing, planning and implementing reforms of public service wage systems. It explores key concepts such as job evaluation, pay structures, performance-related pay, market analysis for competitive pay levels and wage bill planning. It provides guidance on the process of reforming public sector salary systems to enhance their competitiveness, equity, transparency and affordability.

The paper offers insights drawn from the reform efforts of several EU Member States and SIGMA partners in the Western Balkans, Moldova and Ukraine, presenting real-life examples and updated guidelines for effective, sustainable salary system changes. The primary focus is on reforms of wage systems within central government administrations, acknowledging the complexity arising from diverse classifications of civil service and public employees, and the varying scope and structure of salary systems. This paper serves as a practical guide, presenting options along with their advantages and disadvantages to aid policymakers in aligning reforms with their national public administration context and strategies.