Balancing affordability and quality: Closed Internal Labor Market or Open systems, pros and cons

Effectiveness of controls: single spine vs. decentralized systems

Performance elements: credibility and impact
Principles

A few simple but important principles:

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

Regarding wage bill management

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

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

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

What have we learned (2)

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

Different forms of closed systems still prevail globally and resistance to dismantling them is strong, even in high income countries
What have we learned (3)

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

The pros and cons of different forms of closed systems

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

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

In the end most single spine systems buckle under pressure
Alternatives

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

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

Market based systems

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

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

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

Performance elements: how much and how to manage?

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

From a Wage bill management perspective:
◦ Trade off between productivity and controls (what do performance rewards buy, especially in terms of revenues)
◦ Envelopes and predictability

From an HR management perspective:
◦ Trade off between fairness/transparency and Equity
◦ Question of objectivity of awards and monitoring capacity

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

The main risk: PRP as a quasi grading system

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

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