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Executive-Legislative authority over public servants' pay: Lessons from Paraguay¹

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¹ This note was prepared by Mariano Lafuente (Research Analyst, LCSPS) and Nick Manning (Sector Manager, LCSPS). The authors would like to thank all senior government officials and scholars that responded the online survey on the Role of Congress on Public Servants' pay, providing information for 14 countries in Latin America and the Caribbean during the period April-July, 2009. Thanks are also due to Bob Beschel and Bill Dillinger, World bank, who provided very useful peer review comments. Jeffrey Rinne and Theo Thomas contributed significantly to the development of the framework for this paper. The paper is a revised version from the one presented at the CLAD XIV conference held in Brazil November 2009.

Abstract

This paper reviews the impact of the distinctive ability of Congress in Paraguay to determine public sector pay levels. Pay determination in Paraguay seems likely to have a dual impact on the ability of managers to motivate staff and implement programs effectively. On the fiscal side it creates the circumstances which require ad hoc under-execution of the budget, a form of unpredictability that reduces effectiveness. On the human resources management side, it seems to generate a de facto pay policy in which pay does not motivate as it is unlikely to be generally regarded as fair. In Paraguay, as Congressional involvement will not be reduced in the short term, one possible approach is to introduce, gradually, a variant on a "Single Pay Spine" model in which the relativities between different posts and occupational streams can be assessed and reviewed – and, crucially, where the fiscal impact of an aggregate pay increase can be readily assessed and, potentially, incorporated into a more formal process in which the fiscal space for salary increases is set by the Ministry of Finance at the start of the budget process. Conclusions drawn from this single case cannot be generalized and do not intend to be useful for *any* country with Congressional involvement in pay determination. However, looking at this extreme outlier can be instructive as there are implications for public management reforms in Paraguay and for public sector management data collection.

Introduction

This paper explores legislative involvement in pay setting in Latin America using data from an online survey completed by scholars and government officials from fourteen countries, and reviews the impact of the distinctive ability of Congress in Paraguay to determine public sector pay levels. Pay determination in Paraguay seems likely to have a dual impact on the ability of managers to motivate staff and implement programs effectively – on the fiscal side it creates the circumstances which require ad hoc under-execution of the budget, a form of unpredictability that reduces effectiveness, and on the human resources management side, it seems to generate a de facto pay policy in which pay does not motivate as it is unlikely to be generally regarded as fair. Conclusions drawn from this single case cannot be generalized and do not intend to be useful for *any* country with Congressional involvement in pay determination. However, looking at this extreme outlier can be instructive.

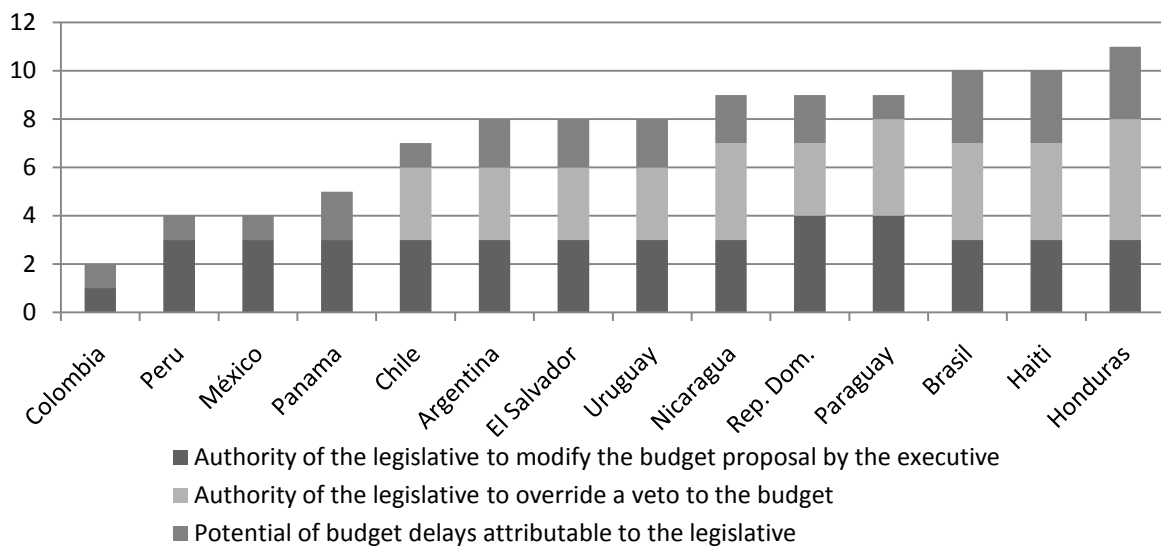
Political tension between the executive and legislature has been endemic to representative government from their earliest days to the present. Even where political power is strongly biased towards the executive, as in most Latin American democracies, power struggles between these two powers are commonplace. Recent public management literature analyzes extensively executive-legislative relations, often focusing on the respective roles of the executive and legislature in the budget cycle.² In Latin America, constitutions and legal frameworks tend to delegate the initiative on budget formulation to the executive (the president). In practice, the executive often dominates not only budget formulation but the entire budgetary process, including budget execution (purportedly to provide fiscal discipline). Meanwhile, legislatures have largely been perceived as mere ‘rubber-stamps’ (Santiso, 2004).

There does appear to be some recent evidence to support the assertion that executive dominance over the budget process contributes to fiscal discipline. The *hierarchical* budgetary systems, which centralize budgetary powers and procedures in the executive, were sometimes born as a response to the fiscal crises of the 1980s. These executive-led systems “limit the role of the legislature in expanding the size of the budget and the deficit, and attribute a strong role to a single individual, typically the treasury minister, in the budget negotiations with the government, limiting the prerogatives of the spending ministries” (Alesina et al, 1999: 255). A number of scholars argue that greater fiscal discipline is a direct consequence of these institutional rules.³ Still, these rules have imposed their own costs, as diminishing democratic inputs into the shape of budgets may have reduced the political and public legitimacy of the budget. Today, there is a perception that this relatively weaker role of legislatures is changing in some countries, and that a stronger oversight culture is slowly emerging. Looking more closely at budget rules in Latin America, we find that the exposure of the executive to have its budget amended by Congress varies considerably (see Graph 1).

² See Braun (2006), Hallerberg, Scartascini and Stein (2009), Manning and Barma (1999), Pelizzo and Stapenhurst (2005), Santiso (2004, 2005), Schick (2002), Stapenhurst (2008), Wehner (2004)

³ Alesina and Perotti (1995, 1996); Von Hagen (1992); Halleberg and Von Hagen (1999), in Santiso (2004).

Graph 1. Index on the exposure of the executive to have the budget amended by the legislature (0 very low exposure - 15 very high exposure)⁴



Source: World Bank online survey to senior government officials (2009)

One area where Congress sometimes becomes involved within budget formulation concerns its ability to determine the size of the public sector wage bill. In most countries, the faculty of defining public sector pay tends to be delegated to the president himself or to a specialized agency or commission reporting to the executive through the national constitution, laws and other written norms. Even when salary increases have to be approved by Congress, the legislature normally follows the increase suggested by the president or the executive body in charge of pay determination. However, this does not always occur. Using their attribution to approve the budget every year, Latin American legislatures can approve pay increases for public sector employees mainly driven by political reasons, exceeding the allocation in the executive's budget proposal.

Authority over the size of the public sector wage bill is important from a fiscal perspective as well as from a human resources management perspective. From the fiscal side, unexpected wage bill increases by Congress force the executive to under-execute other parts of the budget, a form of unpredictability that reduces the effectiveness of social and other programs. In addition, when increases by the legislature are targeted to specific regimes such as teachers or health workers and exclude others, these increases can create incentives in the excluded sectors to *catch up* with their colleagues, escalating the wage bill and leading to even a higher under-execution of the investment budget in the medium term. From a human resources management perspective, asymmetric pay increases may de-motivate employees if the pay increases are generally regarded as unfair. This is exacerbated when the increases are targeted to individuals in particular for political reasons, as they tend to demoralize staff, potentially producing a negative impact on service delivery.

To explore these hypotheses, this paper compares the executive-legislative authority over public servants' pay in a set of Latin American countries, and then reviews in greater detail the impact of the distinctive ability of Congress in Paraguay to determine public sector pay levels. The paper then recommends a possible alternative to introduce gradual pay reform in Paraguay.

⁴ See Annex 1 for the scoring methodology

The paper is structured into three sections and an annex. The first section explores legislative involvement in pay setting in Latin America using data from an online survey completed by scholars and government officials from fourteen countries. The survey captures the legal framework but also how salaries are determined in practice. The second section examines the relative benefits or negative consequences of congressional control over public servants' pay, analyzing the fiscal and managerial impacts of this practice. The third section offers an approach for pay reform in Paraguay. Finally, the paper flags three areas for new data collection that would advance a more nuanced understanding of the impact of arrangements for executive/legislative control over public employee pay policy. Annex I presents the survey administered to senior government officials and scholars.

Congressional involvement in pay setting in Latin America: Theory and Practice

A recent World Bank survey to senior government officials and scholars in Latin America on the Role of Congress on Public servants' pay⁵ tries to capture differences across countries through a composed index called *Congress influence on determining public servants' pay*. The index targets the mechanisms for approving salary increases for public servants and is built through two sets of multiple-choice questions.

Determination of public servants' pay in principle

The first set of questions deals with determination of public servants' pay in principle. National constitutions and/or organic laws tend to establish which power or agency is responsible for determining public servants' pay. Options in the survey range from the executive (President, specialized agency or commission) to the legislature, as well as a common intermediate solution that gives the executive the faculty to *initiate* salary increase proposals but that requires the legislature's approval. When approval from the legislature is needed, the survey tries to capture the flexibility Congress has to modify the proposal presented by the executive.

Survey results show that legislation determining public servants' pay differs across Latin America and the Caribbean. Within the sample, three variants can be identified. The first, represented by centralized governments like Colombia and Peru, gives the executive branch the exclusive faculty to determine salary increases. In Colombia, for example, even though the Congress – following article 150 of the national constitution – must approve the framework for the pay policy of public servants, the President has the faculty to determine increases in public sector salaries. Law 4/1992 mandates that salary increases must be approved each January by the national government (Executive).⁶ In Peru, another clear example of a strong executive control over public employee compensation, the President has the

⁵ Senior government officials and scholars from Argentina, Chile, Colombia, Dominican Republic, El Salvador, Grenada, Haiti, Honduras, Mexico, Paraguay, Peru, St. Lucia and Uruguay provided information for their countries

⁶ Artículo 150. Corresponde al Congreso hacer las leyes. Por medio de ellas ejerce las siguientes funciones: [...] 19. Dictar las normas generales, y señalar en ellas los objetivos y criterios a los cuales debe sujetarse el Gobierno para los siguientes efectos: [...] e. Fijar el régimen salarial y prestacional de los empleados públicos, de los miembros del Congreso Nacional y la Fuerza Pública.

Ley 04 de 1992. Artículo 4°. Con base en los criterios y objetivos contenidos en el Artículo 2o. el Gobierno Nacional, dentro de los diez primeros días del mes de enero de cada año: modificará el sistema salarial correspondiente a los empleados enumerados en el artículo lo., literal a), b) y d), aumentando sus remuneraciones.

exclusive faculty to determine public servants' pay. On top of that, the constitution prevents Congress from increasing or creating new public expenditures.⁷

A second group, which includes Brazil and Chile among others, has national constitutions that entrust the executive with exclusive authority to initiate salary increases for public servants.⁸ Although the legislature typically needs to approve the salary increase proposed by the executive, the legislature may only approve or reject the executive's proposal, having no margin for incurring in politically driven salary increases that exceed the fiscal projections by the executive. Uruguay would also be included in this group: although Congress can modify the executive's proposal for salary increases, it is limited to approve an increase of the same amount as suggested by the executive or lower.⁹

In the third group, which would include Mexico, Paraguay, the Dominican Republic and Honduras, the legal framework establishes that, although the executive initiates pay increases for public servants, Congress can approve an increase higher than the one suggested by the executive. El Salvador's constitution, going a step further, gives the Legislative Assembly the faculty to create positions and assign public servants' pay¹⁰.

Determination of public servants' pay in practice

In Latin America, there is an important gap between the formal powers and actual role of parliaments in public budgeting, and therefore the legal framework can only provide part of the story (Santiso, 2004). Thus, the second set of questions in the index focus on the *Influence of Congress for determining public servants' pay* in practice. Government officials were asked how the latest salary increase for public servants was authorized in each country, both in terms of the legal instrument used (law, decree) and in terms of which power was most influential in determining the size of the increase.

According to survey results, the latest salary increase for public servants in Colombia, Peru, Argentina, Panama, Uruguay, the Dominican Republic and Honduras were decided by a decree of the executive branch (that is, with no involvement from Congress). In Chile, Brazil, Mexico, Nicaragua, El Salvador and Haiti, the legislature approved the salary increase as suggested by the executive. Thus, Congress had a role in defining the salary increase, although it followed the executive's guidance.¹¹ Finally, in Paraguay,

⁷ Artículo 79º. Los representantes ante el Congreso no tienen iniciativa para crear ni aumentar gastos públicos, salvo en lo que se refiere a su presupuesto.

⁸ In the case of Brazil, Article 61 states that: " § 1º - São de iniciativa privativa do Presidente da República as leis que: II - disponham sobre: a) criação de cargos, funções ou empregos públicos na administração direta e autárquica ou aumento de sua remuneração;[...]". In the case of Chile, article 62 states that "Corresponderá, asimismo, al Presidente de la República, la iniciativa exclusiva para: [...] 4º.- Fijar, modificar, conceder o aumentar remuneraciones, jubilaciones, pensiones, montepíos, rentas y cualquier otra clase de emolumentos, préstamos o beneficios al personal en servicio o en retiro a los beneficiarios de montepíos, en su caso, de la administración pública y demás organismos y entidades anteriormente señalados, como asimismo fijar las remuneraciones mínimas de los trabajadores del sector privado."

⁹ Law 16903 establishes that the Budget and Planning Office and the Civil Service Office determine the salary increase based on available resources. Salary increases must take place each January or every six months, when inflation is higher than 10 percent.

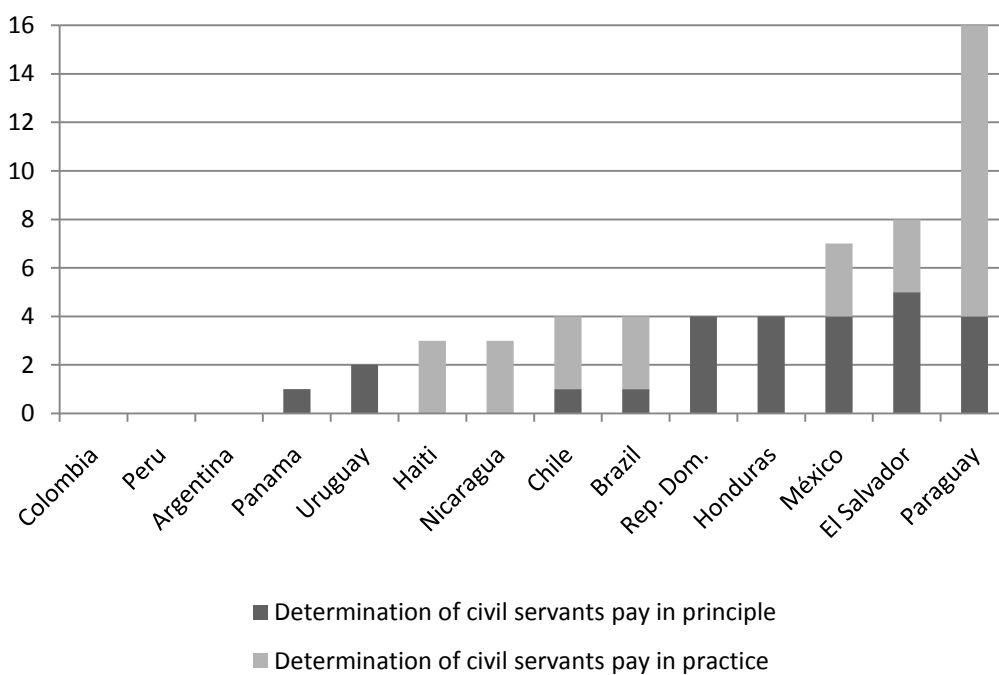
¹⁰ ARTICULO 131.- Corresponde a la Asamblea Legislativa: [...] 9º Crear y suprimir plazas, y asignar sueldo a los funcionarios y empleados de acuerdo con el régimen de Servicio Civil"

¹¹ This data may not reflect future practice. In Nicaragua, for example, the government suggested a salary increase of 12.5 percent with the budget proposal last year. Opposition representatives in Congress requested a 20 percent salary increase. The legislature, where the executive had a majority, finally voted in favor of the executive's

Congress approved a salary increase higher than the one presented by the Executive in the Public Sector Salaries Law (presented each year with the budget proposal).

In summary, as shown in Graph 2, the countries with the highest scores in the index (i.e., those countries where Congress plays a greater role in determining public servants' pay), are El Salvador, Mexico, and Paraguay. While the first two exhibit a stronger role in theory than in practice, Paraguay is the outlier of the sample, combining influence by Congress both in theory and, especially, in practice. Another conclusion that could be drawn based on survey results is that legislatures from the Latin American countries included in the sample have more power in theory than in practice to determine public servants' pay. While some legal frameworks assign an important weight to Congress in the determination of public servants' pay (see the darker section of columns) the role in practice (in gray in the chart, and receiving a higher weight in the index's methodology) seems to be weaker in most cases, showing that the executive is largely in charge of determining public sector pay policy.

Graph 2. Index of Congressional influence on determining public servants' pay (0 very low influence-20 very high influence)¹²



Source: World Bank online survey to senior government officials (2009)

proposal. Future administrations with a Congress where the opposition holds the majority of the seats could potentially face significant obstacles in the Congress on setting salaries in the public sector.

¹² The index's scoring methodology assigns higher weight to *de facto* policy. For more information see the full scoring methodology on Annex I

Should Congress determine public servants' pay?

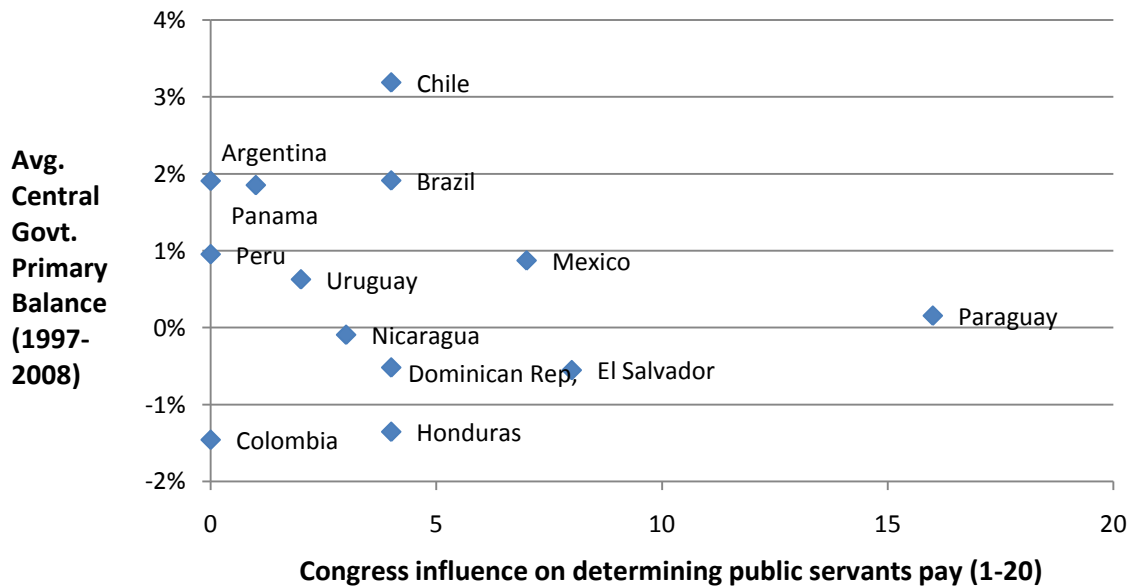
The discussion thus far has been empirical. We now raise a normative question. There is a widespread consensus in the public policy field that any public sector pay policy should include among its key objectives the ability to attract and retain suitable employees, to encourage them to develop their skills, and to encourage productivity and efficiency in the organization. If it is the case that Congress is likely to be influenced by short-term political considerations rather than strategic questions about effective implementation of programs or attracting and retaining talent, then *prima facie* having the legislature defining public servants' pay is unlikely to be a good plan. However, an absolutely right answer stating that Congress should or should not determine public servants' pay does not seem to exist.

An alternative approach to tackle the question could be to analyze recent experiences of any adverse impact of allowing Congress the authority to determine public servants' pay, mainly in two key areas: fiscal discipline and performance incentives. Regarding fiscal discipline, does Congress seem to disregard larger fiscal considerations in its eagerness to reward supporters within the public service with unsustainable pay rises? If so, what have been the consequences? On performance incentives, does Congress seem to produce a pay policy that fails to attract and retain suitable employees or encourage them to develop their skills? Does it fail to encourage productivity and efficiency, or fail to pay similar amounts for similar jobs?

The fiscal impact of Congress involvement in pay determination

Data over the last ten years show that greater Congressional involvement in determining public servants' salary increases is not correlated with primary deficits. Countries with a strong executive and relatively low influence of Congress in pay determination like Colombia and Nicaragua show average central government primary balances lower than Paraguay's, where Congress mandates salary increases every year over the executive's suggestion (see Graph 3).

Graph 3. Average Central Government Primary Balance (1997-2008) and Index of Congress influence on determining public servants' pay



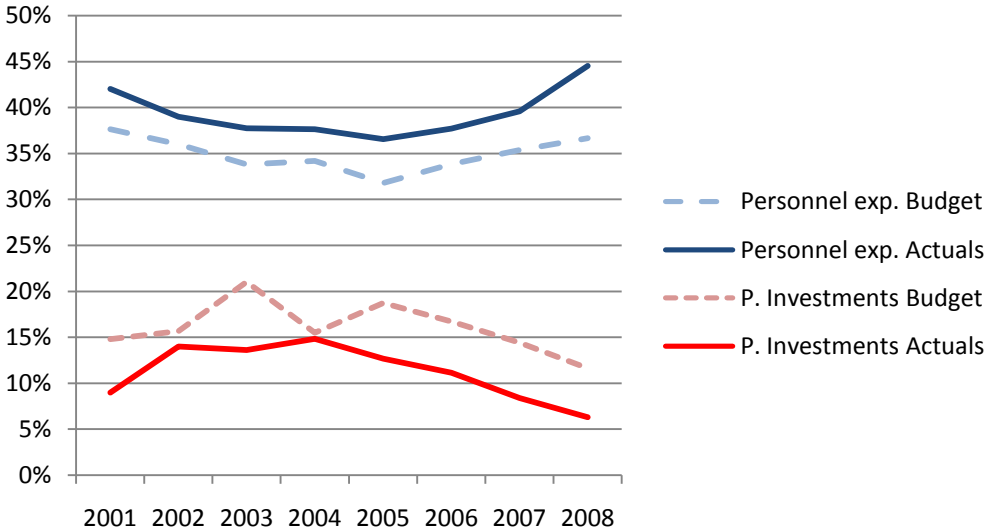
Source: World Economic Outlook Database and World Bank

Therefore, we can at least conclude that pay increases for public servants set by Congress have not necessarily led Latin American governments into aggregate fiscal deficits for the period 1997-2008. However, these data are too aggregate to conclude that limiting congressional influence limits primary deficits as there are many intervening variables that shape the outcome beyond this individual factor.

Ideally, we would accompany the data in graph 3 with some metrics that established where and when the wage bill has grown as a proportion of total government expenditures, driven by average public sector salaries and not by growth in total public employment, to assess the degree to which pay policy has crowded out other expenditures. These data are not available, but the question remains concerning how governments managed to finance the increase in their wage bills mandated by Congress. In Paraguay, perhaps the only country where the Congress has been consistent with the practice of approving pay increases above the proposal of the executive, this seems to have come at a price.

First and foremost, the aggregate fiscal position is maintained by occasional under-execution of the budget by the executive. This is a relatively common phenomenon in Latin America – particularly in relation to investment expenditures which are cut or postponed. Given the prevalence of hierarchical budgetary arrangements that constrain the deficit, when there is Congressional authority to increase the overall wage bill then the executive has no choice but to accept the increase in salaries approved by Congress and finance it by under-executing more flexible resources (i.e. the investment budget). Through this compensatory ad hoc fiscal response of budget under-execution, the government can manage to remain within the overall budget envelope but the country suffers a negative impact on the effectiveness of programs and the quality of public services (see Graph 4 for data on Paraguay).

Graph 4. Paraguay – Personnel versus Investment Expenditures, as a Percentage of Total Resources, Budgeted and Actuals¹³ (2001-2008)



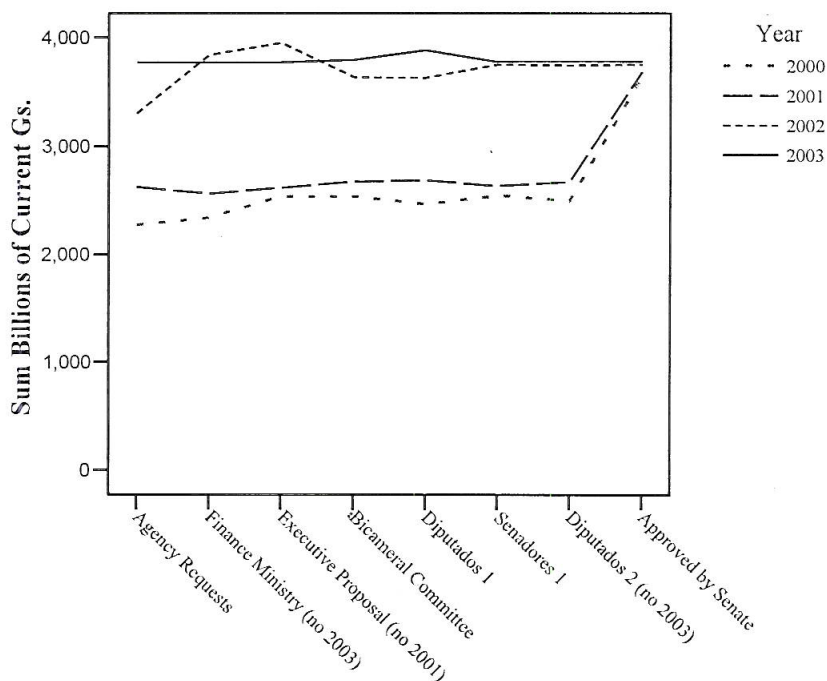
Source: Ministry of Finance, Paraguay

Second, and less common, the executive may face a situation where a cash flow shortage – due to a sudden reduction in revenues for example – does not allow the government to pay for the sanctioned

¹³ *Inicial versus Obligado*

higher salaries. Paraguay experienced this situation in 2001-2002, when the payment of public sector salaries (which had been increased by about 40 percent by Congress) (see Graph 5), was delayed. Anecdotaly, it seems that the nonpayment of salaries in Paraguay may have been a combination of a high increase in expenditures in the 1990's with a low tax burden¹⁴, and a potential reaction from the executive to what it perceived as excessive pay rises awarded by Congress.

Graph 5. Increase in Paraguay's Wage Bill along the Different Budget Formulation and Approval Phases (2000-2003)



Source: Molinas and Pérez-Liñán (2005)

Both of these problems generate significant problems for implementing programs and maintaining service quality. Thus, Congressional involvement in pay setting can lead to measures which reduce the ability of the executive to implement programs which, ironically, have previously been approved by Congress.

Pay policy and performance incentives

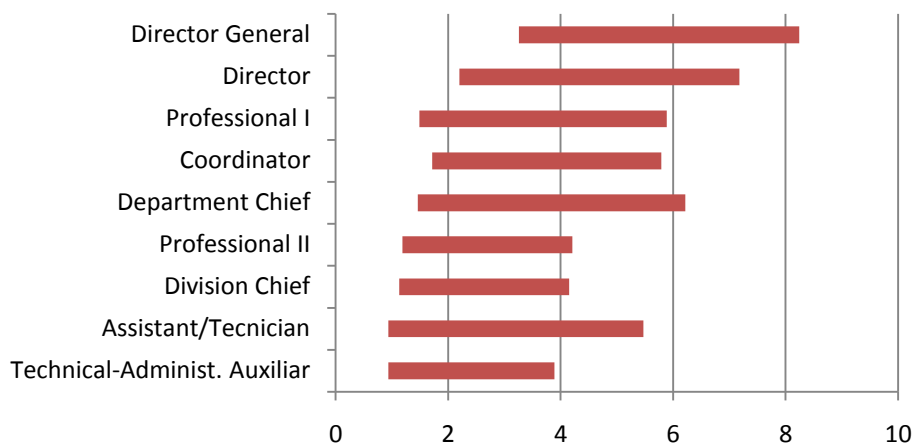
It is generally accepted that some of the main goals of public sector pay policy are that it should be widely regarded as fair or legitimate by paying similar amounts for similar jobs; it should attract and retain suitable employees and encourage them to develop their skills; and that it should encourage productivity and efficiency. Anecdotal evidence from Paraguay suggests that the involvement of

¹⁴ Total expenditures as a percentage of GDP increased from 13 percent in 1993 to 17.2 in 1998, while tax revenues increased from 8.5 to 10.6 percent respectively (Source: Ministry of Finance, Paraguay). Paraguay has one of the lowest tax burdens in Latin America and the Caribbean.

Congress in determining public servants' pay may work against these principles and severely distort pay scales.

Data collected by a recent World Bank study on public employment in Paraguay shows that the public sector does not pay similar amounts for similar jobs, creating a strong sense of unfairness (see Table 1). For example, in 2007, some administrative assistants (second to the bottom in the civil service classification) had a higher base salary than some directors (first in rank). All these positions were financed by the general treasury fund and were not related to projects financed by international organizations. Similarly skewed compensation amounts were also found between similar positions in different ministries, as well as between different occupational groups.

**Graph 6. Paraguay's Central Administration – Monthly base salaries in selected positions
Range of minimum-maximum salaries, by hierarchy, in millions of Guaraníes (2007)**



Source: 2007 Budget Personnel Annex, Ministry of Finance, Paraguay

In addition, Congress may have created distortions in classification in order to facilitate these modifications to the pay scales, delegitimizing the system and de-motivating staff. From 2005 to 2007, the number of subcategories of personnel increased by over 50 percent, from 285 to 435, of which 82 subcategories and their respective salary included only one person. These modifications are attributed to Congressional involvement in the “personnel annex” sent by the executive together with the budget each year. This personnel annex, which lists all positions and their salaries for each agency and unit within agencies, is not unique to Paraguay (it is used in El Salvador and Honduras, too.) Further research is needed to assess any distortions in pay and classification in those countries due to Congressional authority over individual salaries.

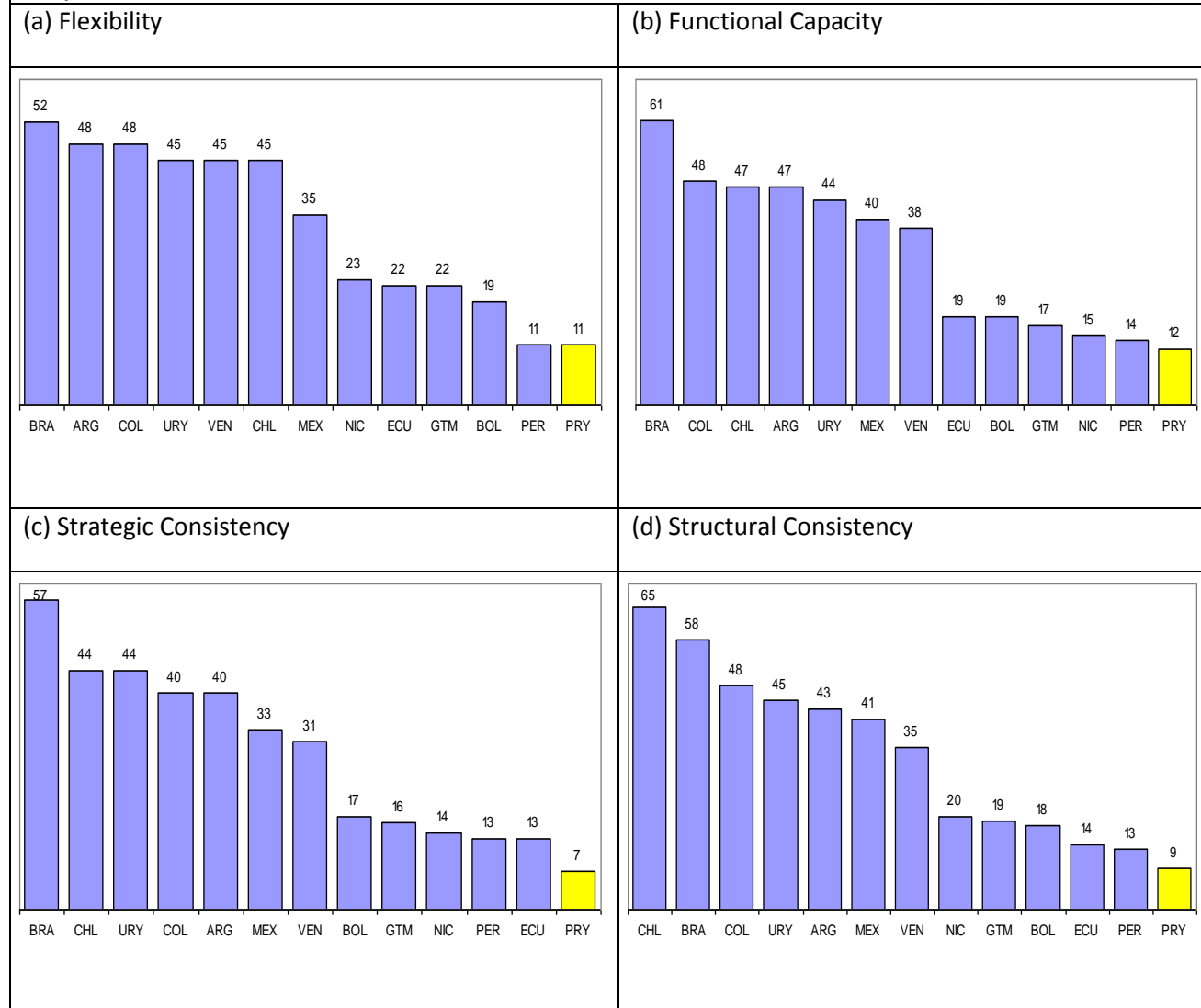
Finally, in terms of public service performance, Paraguay ranked in last place or close to last place on four indexes that measure public service performance in Latin America (see Graph 6). It also underperformed in its quality of public administration relative to its GDP per capita (see Graph 7). While the position on these rankings may not have been caused by the influence of the legislature in pay policy – Peru, a country where compensation is defined exclusively by the executive, ranked second to last in most of these indexes – strong salary distortions do not present sound incentives for performance.

In conclusion, pending further data collection, the characteristics of the Paraguayan pay policy do not seem to meet the generally accepted principles mentioned above. Although no statistics are available concerning the attraction and retention of suitable personnel, there is a widespread perception that the government is failing in this regard. Productivity and efficiency, measured by the imperfect perception-based indicators above, are argued to be lower than regional comparators and the country is outperformed by countries with lower GDP per capita levels. It seems likely that the perverse features of Paraguay's pay policy have emerged, at least in part, as a consequence of the unconstrained ability of Congress to set pay levels, driven, it appears, by political rather than managerial considerations.

The legislature's vast authority over pay setting for public employees appears to be undermining efficiency in service delivery.¹⁵

¹⁵ Despite considerable increases in public expenditures in the last decade, program delivery has been weak in key areas such as health and education in Paraguay. The country has one of the worst performances in Latin America in prevention of epidemic diseases and infant and maternal mortality. Budget increases in education have been allocated to cover recurrent expenditures, limiting investment spending and therefore reducing the sustainability of policies. In addition, citizen perception of the performance of public institutions continues to be more negative than other countries in the region

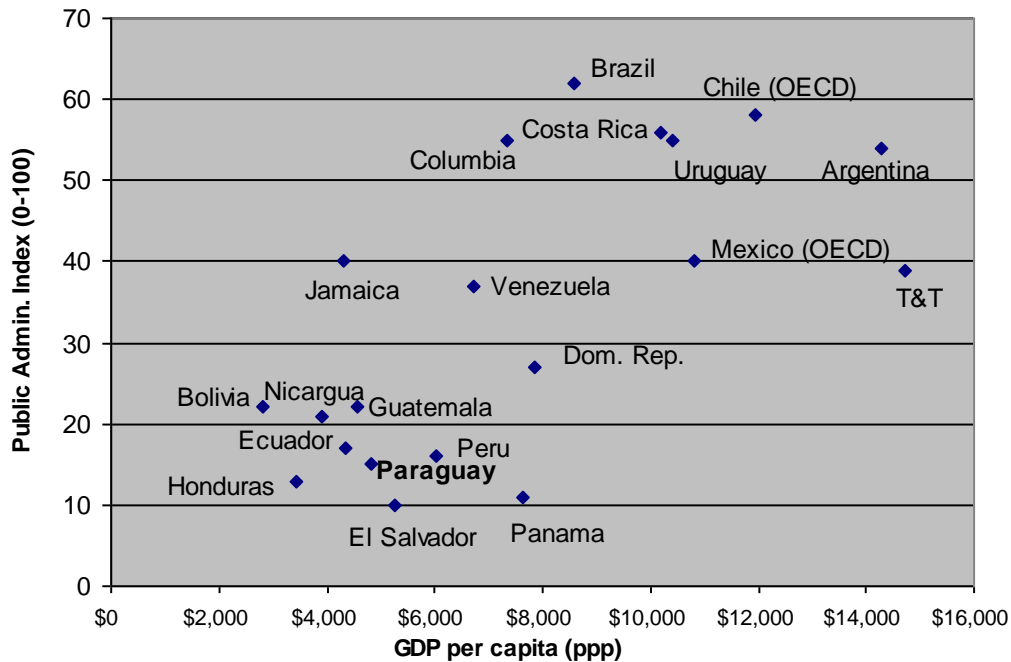
Graph 6. Characteristics of the Civil Service in Selected Latin American Countries (2005) (scale 1 – 100)¹⁶



Source: “Informe sobre la Situación del Servicio Civil en América Latina”, Inter-American Development Bank, 2006.

¹⁶ **References:** *Flexibility in the Civil Service:* Measures the degree to which policies and practices facilitate adaptation to changes and innovation. The indicator has been normalized from 0 to 100 with higher scores indicating favorable conditions for adaptation; *Functional Capacity:* Evaluates the capacity of the civil service system to positively influence the behavior of public employees. It is comprised of three subindexes: competence, efficacy of incentives and flexibility. The indicator has been normalized from 0 to 100 with higher scores indicating greater capacity of the civil service system to influence employee behavior. *Strategic Consistency:* Measures consistency between human resource practices and the strategic priorities of the government. The indicator has been normalized from 0 to 100 with higher scores indicating greater link between practices and governmental policy priorities. *Structural Consistency:* Evaluates the solidity and systematic integration of the civil service system, such that management practices, procedures and processes are aligned so as to permit the fulfillment of governmental strategic objectives. It is comprised of three subindexes: strategic, management and process consistency. The indicator has been normalized from 0 to 100 with higher scores indicating consistency of practices and procedures with strategic priorities.

Graph 7. Quality of Public Administration and GDP per capita (ppp) for selected Latin American and the Caribbean countries



Source: Quality of Public Administration (Lora: 2007)

A possible approach for pay reform

As described above, Congressional authority over pay determination in Paraguay seems to contribute to two negative results. On the fiscal side, it creates the circumstances which require *ad hoc* under-execution of the budget, a form of unpredictability that reduces effectiveness. On the human resources management side, it seems to generate a *de facto* pay policy in which pay does not motivate as it is unlikely to be generally regarded as fair.

While the practice of Congressional involvement has been in place for years and is not expected to be reduced in the short term, one possible reform approach to increase rationality would be to introduce, gradually, a variant on a *Single Pay Spine* (SPS) model¹⁷ associated with a pay and grading review exercise. A single pay spine is one of a set of management tools that, taken together, may be used by a single government employer to establish common pay and grading arrangements for all employees, while, at the same time, permitting a high level of flexibility in meeting the different management and organizational needs of different institutions within government. It is normally used as part of single, centralized pay-bargaining arrangements. It is unsuited to decentralized pay-bargaining. The SPS model establishes centralized arrangements for setting pay and imposes relativities between different posts and occupational streams that are regularly assessed and reviewed. A crucial characteristic is that the fiscal impact of an aggregate pay increase can be readily assessed and, potentially, incorporated into a more formal process in which the fiscal space for salary increases is set by the Ministry of Finance at the start of the budget process. All wage negotiations would centralize on discussing the financial values to be assigned to the single pay spine, thus avoiding the possibility of 'leap-frogging' when the government

¹⁷ Pay spines consist of "a series of incremental 'pay points' extending from the lowest to the highest paid jobs covered by the structure." Armstrong and Stephens (2005), p 197.

has to conduct separate pay negotiations with trade unions representing different labor regimes such as teachers or health workers.

As described by the World Bank (2009), this model seems to address the main issues in Paraguay's pay policy: first, it ensures equal pay for equal work; and second, it helps to ensure that pay is affordable in the medium and long term by centralizing and simplifying budget planning; and third, subject to affordability considerations and probably accompanied with a pay and grading exercise, it promotes competitive pay for government jobs related to the wider labor market.

The gradual transition to a variant on a *Single Pay Spine* model, and a pay and grading exercise, would prevent Director-level salaries from being assigned to low-ranked posts through the modification of the personnel annex, and would centralize the pay negotiation process, avoiding separate requests not only by different regimes such as teachers, the civil service or health workers, but also by civil service employees mapped to different ministries – as it is currently the case.¹⁸ However, any pay reform of this magnitude will require strong political commitment and an agreement between the executive and the legislative branches. Moving from the current model of determining public servants' pay, with its negative fiscal and human resources management consequences, to a model more similar to the ones followed by most of the other countries in the region would imply a change in the balance of power which has been in place since the 1992 constitution.

If this is a feasible way forward, then it would ideally require that government preceded its introduction with an explicit statement of its pay policy objectives, including consideration of the size of the total public service wage bill, the government position on competitiveness with relevant labor markets and on pay transparency and the use of allowances, and the importance of centralized pay-bargaining for all employees. A Single Pay Spine requires that a job evaluation process is undertaken in order to position jobs correctly relative to each other in a grade structure that takes account of the needs of government entities.

Implications for cross-national comparators

As in many areas of public sector human resources management, there are significant gaps in our knowledge and we have relied on commonly-perceived wisdom and self-proclaimed best practices. The paper has analyzed, with incomplete information, one case where Congress is strongly involved in pay determination. This fact calls for a cautious approach when drawing conclusions and prevents us from making any kind of generalizations. One key point that should be clarified is that this paper does not suggest that the alternative to congressional control over pay-setting is the president as an individual: presidents are also susceptible to strong political pressures.

There are three areas of new data collection that would allow a more nuanced understanding of the impact of Congress-driven the public servants' pay arrangements. First, data on budgetary under-execution is badly needed if we are to understand more about the constraints to effective service delivery and to assess the impact of particular budgetary arrangements such as the pay-setting powers of Congress. Although country-specific studies are available, research on this field with a regional perspective are limited.

¹⁸ The Ministry of Agriculture and Livestock, for example, obtained a salary increase for its civil service employees in 2008 after its Minister negotiated directly with Congress.

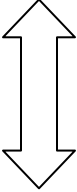
Second, data on the internal equity of public sector pay – equal pay for jobs of equal weight between ministries and staff perceptions of being recognized fairly for their contribution – and data on how public sector pay compares to the private sector would assist in illuminating some of the potential opportunities for improving public sector productivity.

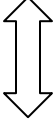
Third, data on the ability of Congress to micro-manage pay levels and create new pay scales, in particular for those countries where a personnel annex is submitted to Congress together with the budget proposal, would assist in understanding if Congress is in fact less likely to adhere to managerial principles of internal equity and fairness than the executive.

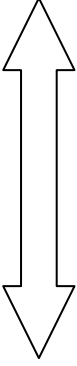
Finally, it is worth reemphasizing that conclusions drawn from this single case cannot be generalized and do not intend to be useful for *any* country with Congressional involvement in pay determination. Better data is needed to draw more robust conclusions. However, looking at the case of Paraguay, an extreme outlier, can be instructive for other countries.

Annex I. Survey Administered to Senior Government Officials

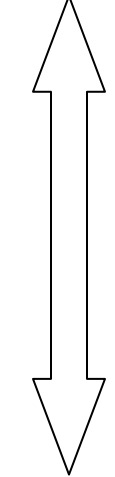
1. Role of Legislature in the Budget Process

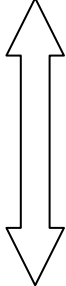
1.1. Authority of legislature (by statute or customary practice) to amend the budget proposal of the executive.		Points	
a. Can the Legislature propose and approve its own budget?		5	Stronger  Weaker
b. If the legislature must work with the budget proposal provided by the executive, then...	i. Can the Legislature amend the executive's budget proposal without significant restrictions?	4	
	ii. Can the Legislature amend the executive's budget proposal but under the constraint that aggregate changes must be offsetting? (i.e., expenditure reductions included to compensate for any expenditure increases or additional revenues to cover additional expenditure)	3	
	iii. Is the legislature constrained so that it can only accept or reject the budget - no amendments permitted?	1	
c. Other (please explain)			

1.2. Authority of legislature (by statute or customary practice) to override a veto to the budget. If veto to the budget law by the Executive is not allowed 5 points are assigned.		Points	
a. If the legislature can override a veto to the budget by the executive...	i. Can the legislature override a veto to the budget by the executive with a simple majority vote?	5	Stronger  Weaker
	ii. Can the legislature override a veto to the budget by the executive with an absolute majority vote?	4	
	ii. Can the legislature override a veto to the budget by the executive with supermajority (e.g., 2/3 vote)?	3	
b. Legislature cannot override a veto to the budget by the executive		0	
c. Other (please explain)			

1.3. Potential for budget delays attributable to actions (or inaction) by the Legislature.		Points	<div style="text-align: center;"> Low  High </div>
a. Can the legislature pass its own budget proposals and so has no reason to cause delays?		0	
b. If the legislature may have some reasons to cause delays...	i. Is the legislature considered dissolved if it fails to approve a budget?	0	
	ii. Is the executive's budget automatically enacted if the legislature delays passing the budget beyond a specified number of days?	1	
	iii. Does last year's budget apply (in its entirety) if the legislature delays passing the budget proposal?	2	
	iv. Does last year's budget apply on a month-by-month or quarterly basis if the legislature delays passing the budget proposal?	3	
	v. Do delays in passing the budget force the executive to submit a new proposal?	4	
	vi. Can the legislature delay passing the budget indefinitely - even if this might force a shutdown in the executive?	5	
h. Other (please explain)			

2. Role of Legislature in determining Public Servants' pay

2.1. How does the government determine public servants' pay <i>in principle</i> ? Please answer all questions		Points	<div style="text-align: center;"> Executive  Legislative </div>	
a. If the Constitution and/or Organic Law establish that the Executive (President or specialized agency) or pay setting commission have the <i>exclusive</i> authority to determine public servants' pay...	i. Is pay setting is the prerogative of the president or head of government?	0		
	ii. Is pay setting decentralized to the department/agency level (Executive)?	0		
b. If the constitution and/or Organic Law establish that either the Executive (President or specialized agency) or a pay-setting commission established by law or tradition have the exclusive authority to <i>initiate</i> proposals to set/modify public servants' pay, but the proposal <i>must be approved</i> by Legislature...	i. Can the legislature <i>only approve or reject</i> the proposal presented by the Executive or the pay setting commission?	1		
	ii. If the legislature can <i>modify</i> the proposal of salary increases by the executive or pay setting commission in the approval process...	I. Can the legislature only approve the proposal by the executive or pay setting commission with an equal or lower salary increase (i.e. Executive or pay setting commission proposed a 10% increase and Legislature can approve a 0-10% increase, but never a 10.1% increase)		2
		II. Can the legislature either increase or decrease the modifications proposed by the Executive or pay setting commission?		4
c. Does the Constitution or Organic law determine that the Legislature has the exclusive authority to determine public servants' pay?		5		
g. Other (please explain)				

2.2 Determining civil servants' pay <i>in practice</i> – How was the most recent salary increase for civil servants authorized? There should be only one “Yes”		Points	Executive  Legislative
a. By executive decree		0	
b. If by a law of the legislature...	i. By a law of Legislature (Budget law or other law), following the Executive's or pay setting's commission proposed increase	3	
	ii. By a law of Legislature (budget law or other law), with a <i>higher</i> salary increase compared to the Executive's or pay setting commission's proposed increase	12	
	iii. By a law of Legislature (budget law or other law), <i>with no relation</i> to an action initiated by the Executive or a pay setting commission	15	
c. Other (please explain)			

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