

Strategic Issues in Managing the Public Administration

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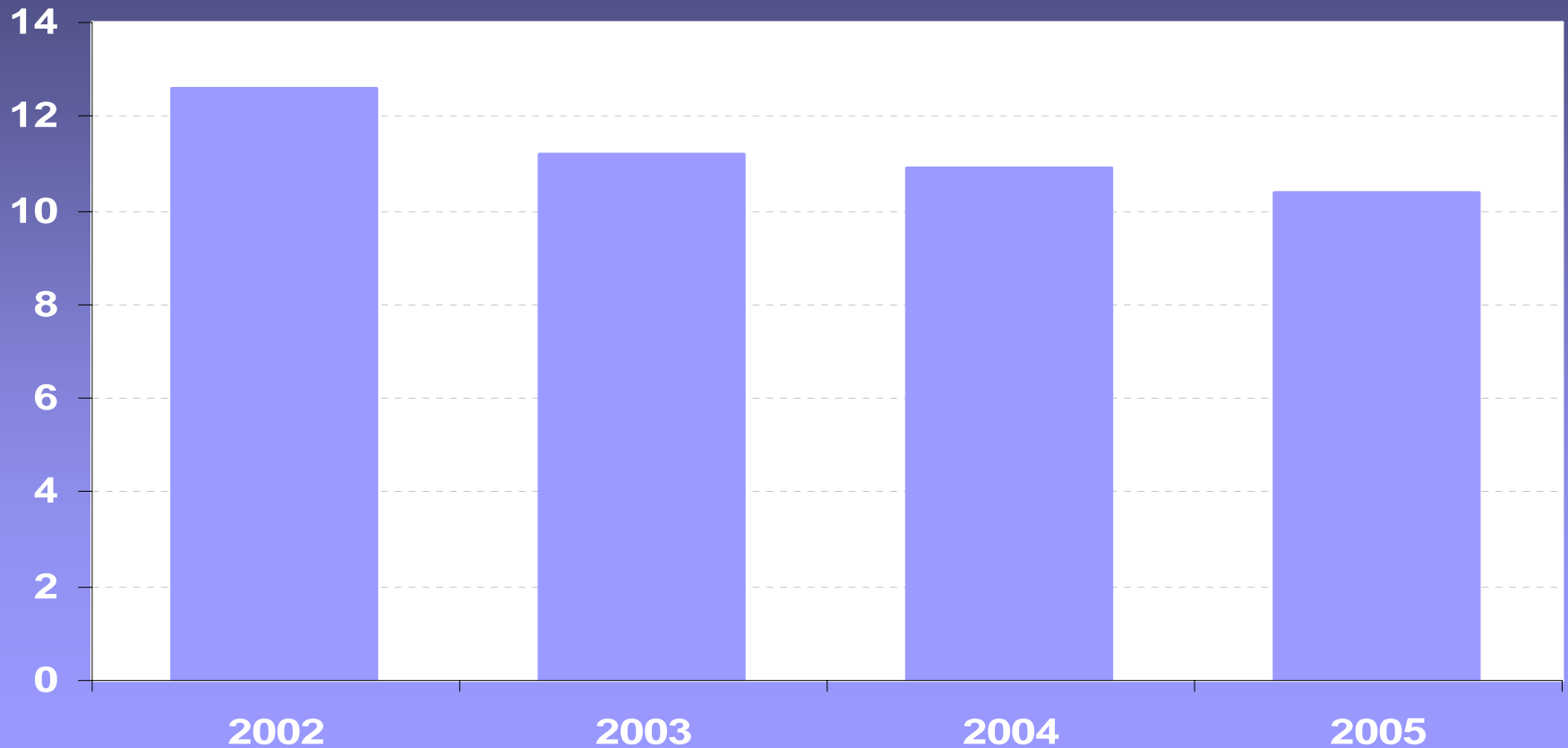
The World Bank, October 20, 2006

Overview

- The size and cost of public employment
- The impact of current pay practices
- Managing the cost of the public administration
- Recommendations

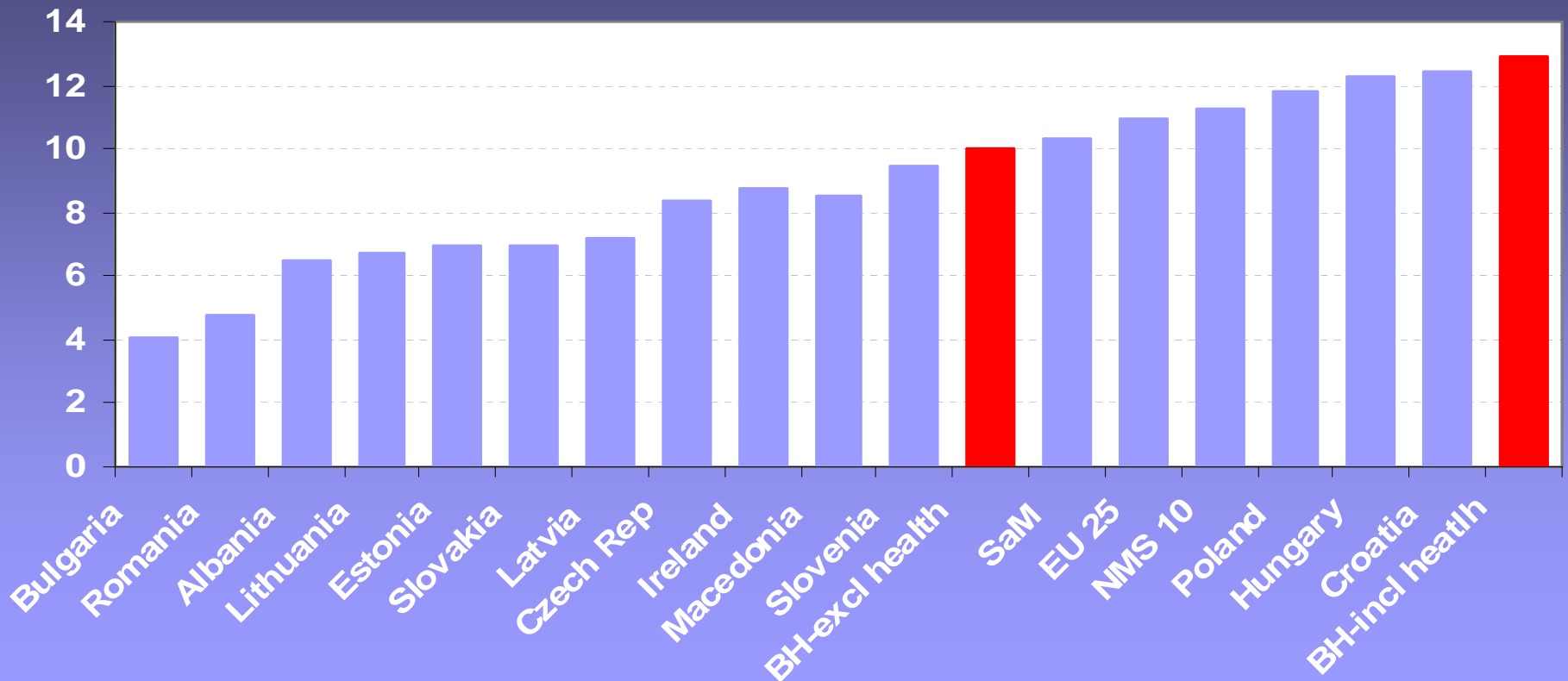
A. The public wage bill has been reduced ...

**General Government Wage Bill
(In percent of adjusted GDP)**



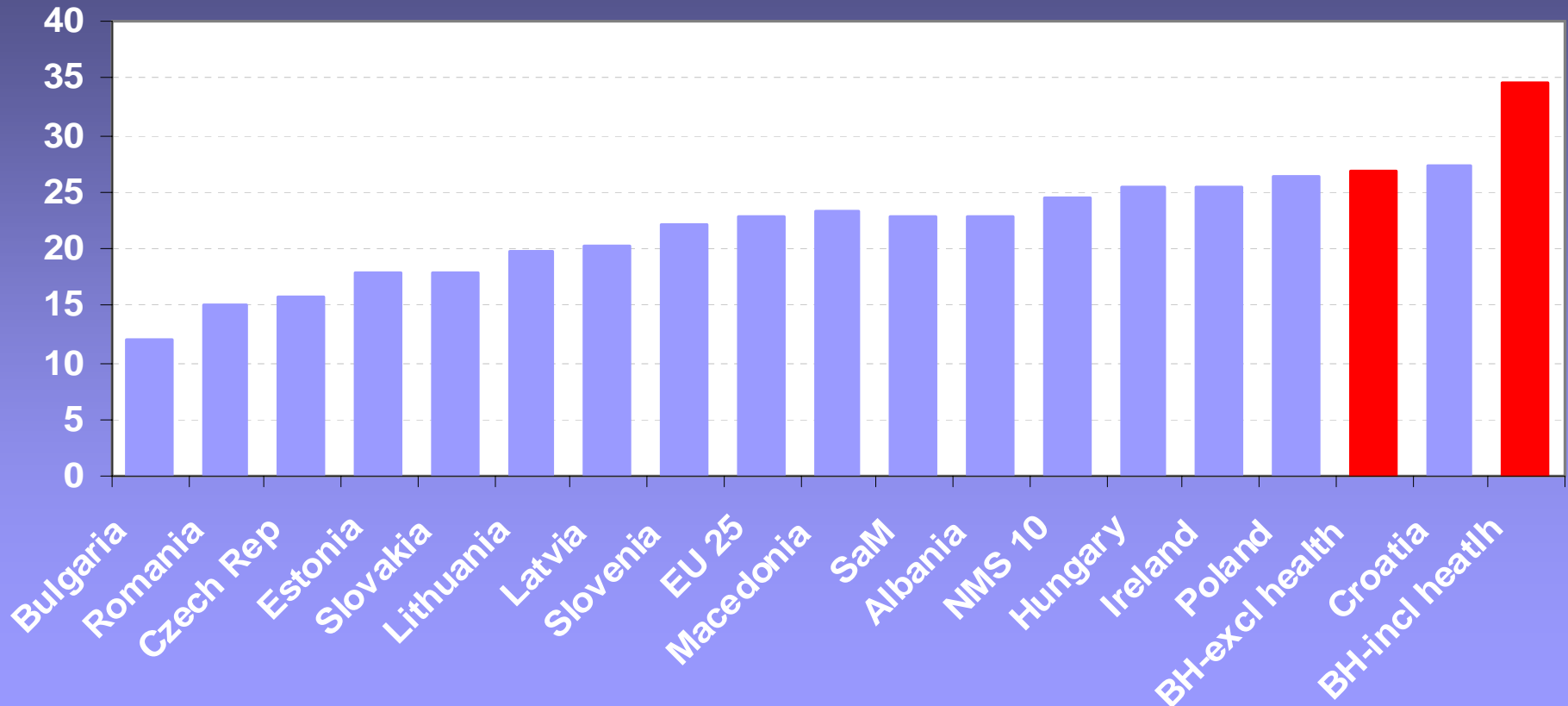
... but is still much larger than among countries in the region relative to GDP...

General Government Wage Bill, 2004
(In percent of GDP)

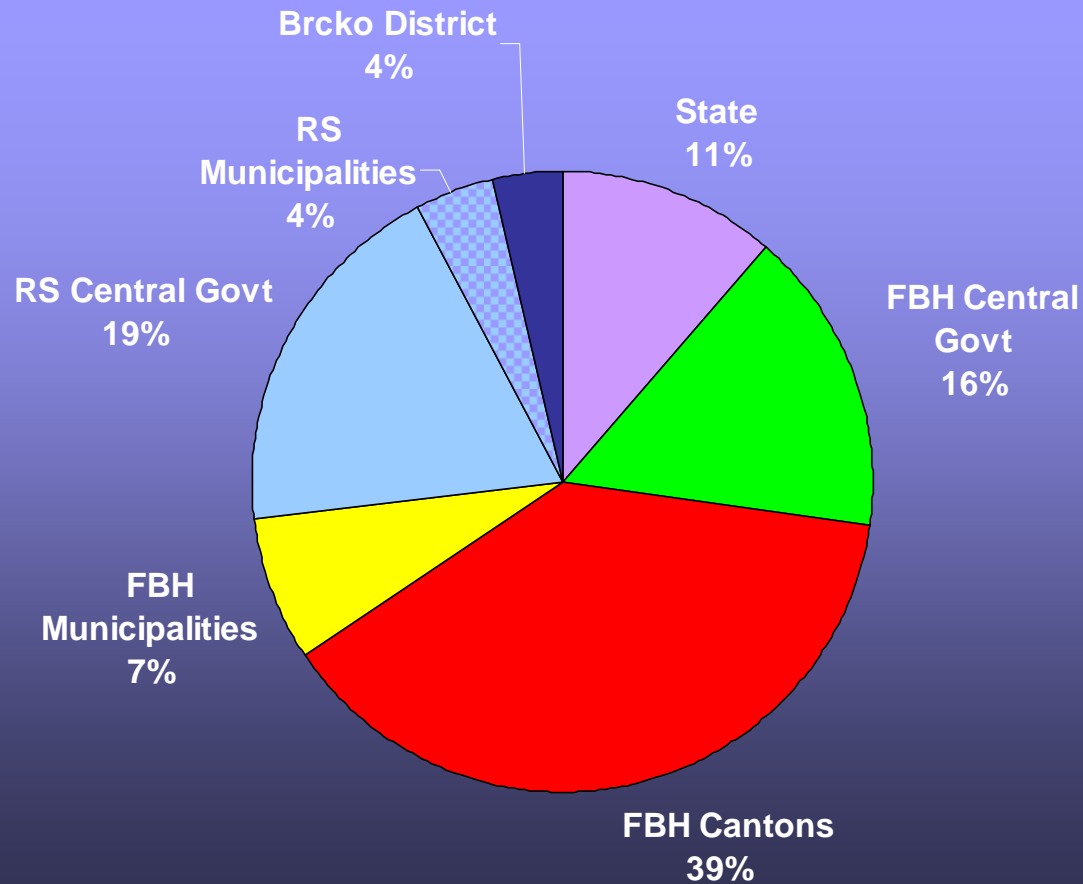


... and relative to overall general government spending.

**General Government Wage Bill, 2004
(In percent of Total GG Expenditures)**



The FBH accounts for an oversized two-thirds of the overall wage bill.



Civil Servants are Just a Fraction of Total Public Employment

	Total Public Employment	o/w Civil Servants	Total Payroll (In millions of KM)
State*	10,033	823	280
FBH**	61,141	n/a	1150
RS***	34,363	4,006	440
All	105,537	...	1,870

Sources: MoFs; Civil Service Agencies; the EU Systems Review; IMF; and World Bank staff estimates.

* State totals include Brcko District

** Federation total employment without municipalities, total payroll includes municipalities

*** RS total payroll includes municipalities; employment figures are RS central government only.

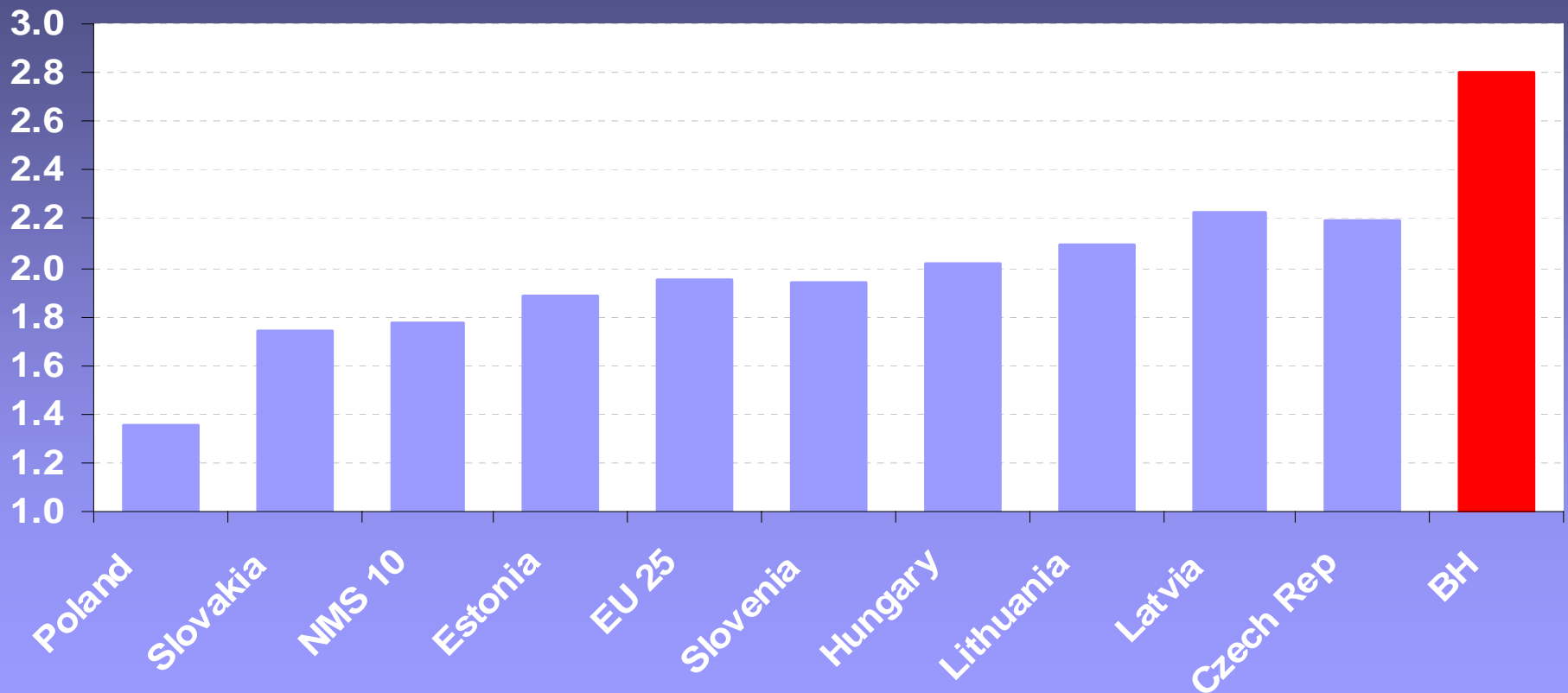
The bulk of the Wage Bill is Spent on Defense, Public Order and Education

Functional Allocation of the 2005 Wage Bill

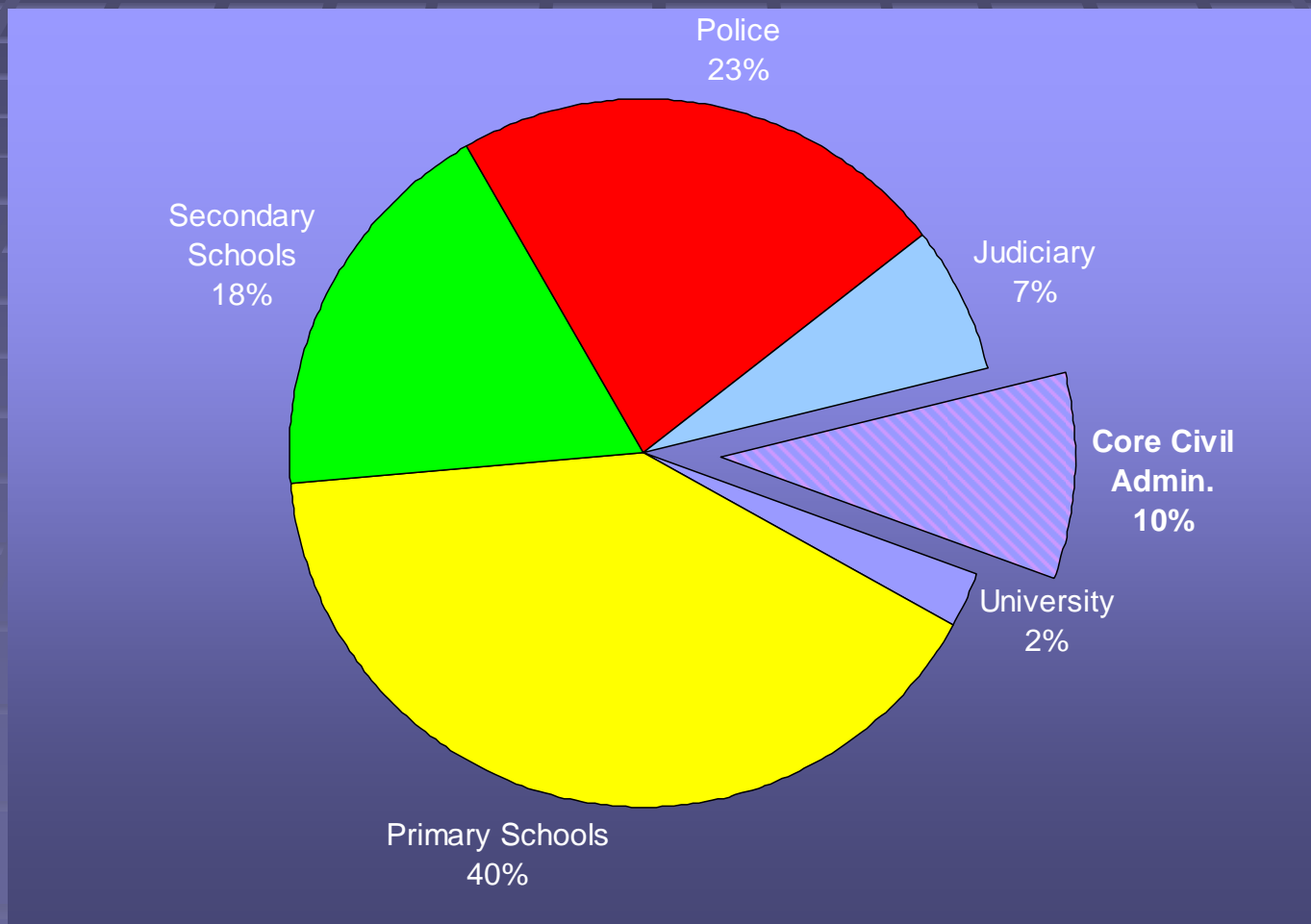
	In percent of the wage bill	In percent of GDP
Defense	11	1.4
Police/Security	16	2.1
Judiciary	6	0.8
Education	34	4.4
Other Civil Administration	33	4.3
Total	100	13.0

For example, spending on defense is quite high ...

Wage Outlays for Defense and Public Order, 2004
(In percent of GDP)



... but the core public administration is small
(example – the cantons)



B. Pay Practices

- Costly, weak link pay-responsibility
- Reforms needed – hard choices and improved national coordination
- Large variations even at the same level of government
- Pay and performance – the missing link
 - Compression, allowances and grades

How Competitive are Public Wages (1)

Job Title	Private Sector Median	State	FBH
Head of function / middle mgt	2,050	1,402	997
Senior professional	1,621	1,162	955
Experienced professional	1,166	1,090	945
Basic professional	950	1,018	924
Administrative clerk	791	874	664
Manual worker	685	730	664

How Competitive are Public Wages (2)

	State	FBH	Croatia	SaM
	In US dollars PPP			
Secretary General	3,588	2,227	2,963	2,192
Assistant Minister	2,977	2,117	2,963	2,192
Senior advisor	2,467	2,027	1,376	663
Senior associate	2,314	2,006	1,176	473
Associate	2,161	1,962	1,083	461
Clerk	1,856	1,410	851	411

Public Wages are Highly Compressed (wages for lower-grade employees are high)

	Title	Pay Coeff.	Pay Ratio
State	Assistant Minister, Advisor	4.8	1.50
	Head of Department	4.2	1.31
	Expert Advisor	3.8	1.19
	Senior Expert associate	3.5	1.09
	Expert Associate	3.2	1.00
FBH	General Secretary	7.2	1.20
	Assistant Minister	6.7	1.12
	Head of Department	6.4	1.07
	Expert Associate	6.0	1.00

D. Managing the Costs of Public Administration (1)

- Cut government spending. Curb increases at the state level and reduce costs at the sub-national level.
- Where given functions are transferred from the entity to the state, keep cost-neutral.
- Were costs to rise in the process, find offsetting savings elsewhere.

D. Managing the Costs of Public Administration (2)

- Option 1: Reducing Costs through Attrition
 - hard freeze
 - partial freeze
- Option 2: Targeted Reduction of Functions and Activities
- Option 3: Restraining Salary Growth
- Option 4: Reducing Nominal Wage Rates

Recommendations: Salary Policy and Pay Systems

- Decompress the salary structure. Freeze/cut wage rates for lower level civil servants and all non-civil service posts.
- Eliminate and/or consolidate all allowances into the base salary.
- Revise salary laws to create salary ranges for each grade level and permit incremental increases for tenure only within the salary range.
- Synchronize the wage laws for all levels of government.

Recommendations: Civil Service management and Planning

- Ensure greater consistency in the definition of a civil servant across governments (narrow).
- Develop consolidated personnel databases.
- Increase oversight of promotion and career advancement – transparency and merit.
- Refine the criteria for entry into the civil service (especially experience and advance degrees).

Recommendations: Rationalizing the Size and Scope of the Public Administration

- Establish a realistic target for reducing the size of public employment across governments.
- Implement a partial hiring freeze into the public administration, with preference for recruitment given to priority civil service posts.
- Follow through with significant reforms in defense, judiciary and security.