



Republic of Serbia

**Fiscal Council**

## **Pay grades and employment in the civil sector in Serbia: from an unfinished reform to a sustainable system**

### **Summary**

**An ordered salary and employment system in the public sector is one of the main pillars underpinning a functional government - and in Serbia, such a system does not exist.** A functional government is not identified solely by financial stability and a balanced budget, but also by its ability to provide its population with access to quality public sector services (healthcare, education, security, judiciary), developed infrastructure, good and consistently implemented legislation, preserved environment, efficient administration. In order for a government to fulfil all these important tasks, it is of key importance that it has at its disposal a suitable number of employees who are motivated to work and have the necessary qualifications - i.e. that it has an ordered salary and employment system. If this system is not properly set up, the government cannot function well either. On the other hand, improvement of the wage and employment system in the general government has a positive impact on the quality of life of all citizens, which is why the Government would have to show far more commitment to it than it has thus far. The public sector salary and employment system in Serbia is not properly regulated at the moment; it would be safe to say that it is chaotic, in fact. This is directly visible in the shortage of qualified staff in important segments of the public sector (healthcare, inspections, investment project management), vast differences in salaries for the same jobs in different parts of the public sector. It is also visible indirectly, through a large number of mutually non-harmonized legislative acts regulating this matter and the very low quality of basic services the government provides to its citizens. As a rule, Serbia is among the lowest ranking European countries on all relevant international comparison lists rating the quality of healthcare, education, infrastructure, the prevalence of corruption etc.

**Reform of salaries and employment is a massive professional and political challenge, but the majority of European countries have been able to respond to this challenge successfully.** Regulation of salaries and employment in the general government is one of the most complex reforms. To regulate the salary system, it's necessary to find good proportions between the salaries for tasks that differ from each other substantially (teacher, policeman, administration), to value similar occupations equally, and then, within the individual sectors, to identify key positions that need to be adequately remunerated by defining a wide enough range from the lowest to the highest salary. It is equally difficult to determine the adequate number of employees and employment structure. Using healthcare as a concrete example, that would mean that the government would have to commit to a suitable healthcare model, then turn that into an operative plan to define the necessary number of medical and non-medical staff, geographical distribution and appropriate size of primary, secondary and tertiary healthcare institutions, number and type of specialists etc. A mitigating circumstance, as far as the expert part of this

reform is concerned, is the fact that the majority of European countries have already regulated their salary and employment systems, meaning that Serbia can make use of the benchmarks and experiences of the comparable countries (a large part of the Fiscal Council's recommendations has, in fact, taken shape from comparative analyses). However, the main challenge of this reform is not its technical (expert) part - for that, the public administration has adequate capacities (although there is a lot of work to be done still). The problems that the Government has not been able to handle for years are political. In order to have an orderly general government salary and employment system, the interests and pressures of the most powerful unions have to be overcome and populist decision-making abandoned - which, all things considered, is the main reason why this important reform has not been implemented.

**Although implementation of the salaries and employment reform has been announced repeatedly since 2014, certain measures that the Government has implemented since then have additionally aggravated the already bad situation.** The reform of the salary and employment system has been on the Government's agenda since the end of 2013. However, instead of the expected improvements, the system has collapsed additionally in the meantime due to *ad hoc* increase of salaries in individual ministries (which have been implemented since 2016) and extension of the employment ban (which should have been lifted back in 2015). In the last four years, salaries were increased in individual public sector segments with no objective criteria, i.e. with employment in a particular ministry or institution as the criterion for salary increase, rather than remuneration adjusted to the task that the employee performs. This led to the absurd of an accountant in the Ministry of Interior receiving a 28% salary increase in the previous four years and an accountant in the Ministry of Agriculture a 12% raise - despite the fact that they both do the same job for the same employer (Government). Similarly, several years of employment ban have not only fixed in place the existing poor employment structure, but have additionally exacerbated the shortage of staff in some key positions in the public sector with the natural process of older employees retiring, with a low rate of replacement (medical doctors, tax inspectors etc).

**The latest postponement of pay grades introduction will cause additional damage and could be a sign that the Government has given up on salary reform altogether.** Although the salary reform in the general government has been plagued by delays of the defined deadlines since the very beginning (2013), until recently, there have been no doubts about the Government's commitment to the implementation of this important reform. However, events from the previous six months indicate that this reform is, perhaps, being abandoned completely. Thus, on 8 December 2018 the segment of the Law on wages in the public sector (from December 2017) prescribing that the pay grade system should come into effect on January 1st 2019, was amended at the last minute. This amendment pushed the legislative deadline for the implementation of the pay grades to 1 January 2020, allowing for an *ad hoc* increase in salaries of public sector employees in 2019. Not long after, the Government prepared a Draft Fiscal Strategy for 2020 which calls for the introduction of a pay grade system to be pushed even further, to mid-2020, with no explanation for this latest postponement. The deadline in mid-2020 means that there will be another populist *ad hoc* increase of salaries by general government sectors, with no clear criteria - which will take Serbia a step back from the regulated general government salary system. Therefore, despite the fact that the technocratic part of the Government has been working on introducing objective parameters for the introduction of a single salary system in the general government, it seems that the Government still favours increases in general government salaries according to political criteria - and the question is whether there is any will, at all, to change this in foreseeable future.

**An even greater danger than abandonment of the reform lies in adopting a bad pay grades system that would "seal in" the existing disorderly wage system.** The pay grade reform was envisaged, at the beginning, on solid principles. However, in time these principles

were derogated (not just by an arbitrary increase in salaries to individual government sectors that has been taking place since 2016). Namely, exemptions were made for the most powerful unions when determining salary coefficients (education); the salary range (from lowest to highest) was planned in too narrow a range (this would benefit the majority of public sector employees, but would leave no space for rewarding the small number of the most proficient employees); numerous sectors have been excluded from the unifying law (police, army, officials); no transitory period between the current status and the new pay grade system has been planned - meaning, in fact, that the new system would be fairly close to the current, inadequate system; minimum wage was increased using the economic productivity growth etc. In this study, the Fiscal Council (once again) provides economic arguments and principles, as well as concrete recommendations, as a base for the salary system reform in general government. If the Government is unable to achieve this in line with good economic practice, it would be best to give up on the reform altogether. Introduction of a poor pay grade system will just “seal in” the existing chaotic situation and make future, real reforms harder.

**General government employees should be paid equally for equal work, meaning that all general government sectors must be included in the single pay grade system.** One of the main principles of regulating salaries is to ensure equal terms for all employees of the government, i.e. that the same, generic positions should be paid equally no matter which Budget user the employee is working for. For this principle to be applicable, it is necessary to include all employees in the general government in a single pay grade system. However, this is not the case at the moment. About 20% of the general government employees are currently exempt from the pay grade system (police, army, officials), which is not the case in other European countries that have regulated their pay grade systems in the public sector (Slovenia, Romania). The Government plans announce that the security system shall be encompassed by the single pay grade salary system during 2019, <sup>1</sup> but these announcements are not overly credible and are often discredited in practice. Instead of harmonizing them with the rest of the general government, the Ordinance on salaries of police officers in November 2018 prescribes coefficients for police officers outside of those prescribed by the general Law. The fact that such exemptions cancel out the principle of a single pay grade system for all employees is not the only issue. Rather, it is a dangerous precedent based on which other, currently included sectors of the Government, which could possibly be dissatisfied with the new salary system, could demand exclusion from the Law based on the “specificity” of their jobs.

**If the Government wants to keep the well qualified people in the public sector, a wide enough range of salaries is needed - this is currently not the case and it is not planned for, either.** Average salary in the general government is currently about 20% higher than in the private sector, but the salary range for the majority of the public sector is relatively narrow - the salary of a specialist physician in Serbia is only three times higher than the lowest salary of an unqualified worker. This leads to the fact that the public sector in Serbia is attractive to persons with average and below-average qualifications (who would be more productive in the private sector) and de-stimulating for the most qualified and most needed employees, who end up leaving the public sector. This is one of the key reasons for the poor quality of services provided by the government, but at the same time, it works in favour of the vast majority of the public sector employees - meaning that it will take strong political will to introduce changes. International practice has shown that the most frequent range between the highest and lowest salary in European countries is 1:12. In Serbia, the new Law on the system of salaries in the public sector defines a 1:7.5 range from the lowest to the highest salary coefficient, which, in itself, would not be such a major problem (since top management positions, bearing the most

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<sup>1</sup> Even the Law on the system of salaries in the public sector prescribes that sector laws, regulating military and police salaries should be harmonized with the umbrella law by the end of 2019 - Article 39 of the Law.

responsibility, are currently excluded from the single salary system). The problem is that the salary base, that is multiplied by the prescribed coefficient, is planned too low - at the level which is just above a half of the minimal wage. That practically means that the lowest coefficients (in the 1 - 2 range) are pointless as all these employees would receive the same, minimal wage - and that the actual range between the lowest and highest salary in the general government wouldn't be 1:7.5 but closer to 1:4, which is far below any European standard.

**Salary base should be set close to the minimum wage, which would bring other changes, too - a longer transition time and new negotiations for coefficients in the education sector.** The Fiscal Council finds that the key part of the salary system reform is setting the salary base at the level close to the minimal wage. Only by doing so, the range between the lowest and highest salaries becomes sufficient to adequately pay the most competent employees performing the tasks with the highest responsibility. That would mean a large - and necessary - divergence from the current public sector wage management system and would have to come with some additional changes. First of all, a longer adjustment time for the transition to the new system would be required - at least three to five years. In this period, the salaries of the most competent employees in the general government would grow at a 10% annual rate, while the salaries of employees with average qualifications (which are already significantly higher than salaries in the private sector) would be adjusted only to inflation. The second important change compared to the current system would be to lower the coefficients in the education system. Namely, the syndicates of the education sector have managed to secure relatively high coefficients for this occupation, which would mean (if the Fiscal Council's proposal to set the salary base close to minimum wage is adopted) that the average salary of a high-school teacher would be about 100,000 dinars, almost twice the average salary in the country, which has not been recorded anywhere in comparable European countries.

**Termination of the employment ban in the public sector was necessary and inevitable, but this measure alone will not resolve the issue of poor employment structure in the general government.** New employment freeze has been introduced as a temporary measure at the end of 2013, initially planned to end at the end of 2015 (and was prolonged four times since). The idea behind this measure was to achieve fiscal savings by reducing the number of employees in the general government by having more people retiring than those being newly employed. However, the problem with this measure was that it is uncontrolled by definition, as employees who retire are both those who are surplus employees and those who are needed. Hence the ban did not only fix in place the inherited poor employment structure in the public sector, but after several years of its implementation, it has made matters worse - since it increased the number of termed labour contracts and led to a massive shortage of staff in certain parts of the public administration system. The Fiscal Strategy for 2020 announces the end of the employment ban and transition to a new, more flexible method of employment control. The Government's decision to abandon the employment ban model was necessary and, in a way, forced, since we are now in the sixth year of its implementation although only two years were originally planned. The issue that has not been resolved in the meantime, however, is the fact that the government still has no precise analysis that would show how many employees it needs per various sectors (and institutions within them) and with which qualifications. Without that, termination of the employment ban can only be a first step that will allow for the most critical positions to be filled but will not, in itself, lead to a sustainable management of the number of employees in the public sector, or to the improvement of the employment structure (dismissing surplus employees and hiring the necessary employees with adequate qualifications).

**In the upcoming year, precise plans for the number and structure of employees in line with objective needs of the government need to be prepared.** After repealing the employment ban, the system needs to be brought to a sustainable state as soon as possible - where human resources management should again rest on its basic instruments - job systematizations

and human resource plans of individual government institutions. For this system to work well, all systematizations and human resource plans need to finally be put into order based on detailed functional analyses of the necessary number (and qualifications) of the employees in all segments of the general government. This important activity has been announced every few years in the last two decades (the last announcement came with the adoption of the Public Administration Reform Strategy in 2014), but it has not been implemented to date. The upcoming year will, thus, be of key importance for the completion of all these analyses, as the management of the number general government employees cannot rest on the current arbitrary plans of individual budget users that have not been objectively verified - just as it could not rest on the employment ban in the previous years.

**Perhaps the most important requirement for the regulation of the salary and employment system is the publication of a register of all positions with the appropriate salaries.** Issues with publishing a comprehensive register of employees in the general government are perhaps the best illustration of all the wrong paths taken in the salary and employment system reform in the previous years. After having announced, at the beginning of the reform process (end of 2013), that such a register would be published, in January 2014 the first data on the number of employees in the public administration were made available on the Ministry of Finance website, together with the aggregated sums paid for their salaries. These records, however, were incomplete (covering but a minority of employees in the general government) and did not contain sufficient information on the structure of employment and salaries for individual positions. The worst part was that such a register was not used as the basis for its further improvement; instead, in mid-2015, even the publication of this incomplete data was halted. Transparent publication of the number of employees and their salaries is the key to showing all the irrationalities and illogical mechanisms of the existing system, which is the pre-requirement for correcting them. Thus, by the end of 2019, there should be regular, detailed publication (based on reliable data) on the number of employees (permanently and temporarily employed), the wage bill for their basic salaries and all the related additional payments on salaries in the entire general government. In the next step, at the beginning of 2020, the government should start to publish fully disaggregated data that should comprise all information on all salaries and remunerations for employees, by individual positions and institutions, as they do in other European countries.