



PUBLIC SECTOR COMPENSATION: A Comparative Review

**Astana Civil Service Hub
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This study compares public sector compensation systems globally, analyzing factors that shape their structure and composition, including monetary and non-monetary rewards. It investigates the relationship between compensation levels and position, length of service, qualifications, and work performance. The review examines position grading and the fairness of compensation systems, both internally and externally, in terms of employment conditions and rewards. It also discusses the size of public sector compensation and the factors that influence compensation policies and practices in the long run, such as fiscal planning, competitiveness, and efficiency. The study highlights the importance of considering these factors when designing compensation systems in the public sector.

Comments and recommendations for advancing this work further are most welcome from the expert community and practitioners alike, by email at info@astanacivilservicehub.org.

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Prologue

Contemporary public sector remuneration systems have been mostly developed in a very different era and they have not practically changed much over the past five or six decades. They are all very similar in many ways as they are based on similar principles, however considerable differences also exist across systems, as the mix and balance of the elements included in the total compensation package vary from country to country.

These models were introduced, when the world was a very different place and at a time that management thinking was dominated by efficiency experts influenced by the scientific management principles. At that time, the government workforce was an “army of clerks”. Employees with a university degree were few in numbers. Senior administrators made all the decisions and directed their staff through layers of supervision. Most government employees started their career in entry level positions and with increased job seniority they could expect to follow predictable paths to reach the highest possible position in their career ladder. Government employees were expected to do what they were told and meet minimal performance expectations (OECD 2008b; Clements et al. 2010; Van der Meer et al. 2015).

However, the momentous political, economic, and social changes that have been taking place over the past decades, i.e., rapid scientific and technological progress, increased urbanisation, ageing populations, environmental degradation, globalisation of the marketplace, and increased interdependence among states - that continue nowadays - further aggravated by a global pandemic and a regional war have all led to the creation of complex and new relationships and networks.

These changes pose immense challenges (and opportunities) that need to be tackled effectively, and which certainly affect the way governments and public service systems will need to operate in the future. Thus, governments, recognising the necessity to confront such multifaceted and complex issues, they realise that they are in need to attract employees that possess the appropriate competencies and skills, and be adequately compensated, so that they can retain a capable workforce to cope effectively (Baimenov and Liverakos 2019).

Up until the 1970s, the approach for setting compensation levels was to measure the appropriateness of public sector compensation levels against similar roles in the combined public and private employment market [*the comparability principle*] striving to achieve equity in, and competitiveness of, the public sector compensation system.¹ In the 1980s, efficiency replaced equity as the key principle in determining compensation levels. Governments began to set compensation for public servants at a level sufficient to be able to recruit, motivate and retain capable individuals in competition with the private sector.² This policy, in theory, revealed a willingness to pay more in areas of high demand (or shortage) and less in areas of low interest (or surplus). At about the same time, the notion of affordability also became an important principle in determining public sector compensation levels, as a means of controlling public expenditures allocated for public sector compensation, in times of deteriorating fiscal conditions and budgetary constraints. In the 1990s, the compensation approach adopted was mostly based on performance and provision of incentives. In this case, it was assumed that public employees are accountable for their performance and thus they should be rewarded against some pre-defined measures of personal achievement.³

¹ This approach was initiated in the United Kingdom, and it is still used in the United States of America for determining federal employees’ compensation.

² However, even though this model considered private sector conditions, monetary compensation was nevertheless still discounted vis-à-vis the private sector, considering the total compensation that included such elements as the value of job security, tenure, and intangible benefits; elements that will be examined in detail later in the study.

³ This model is based on the “principal-agent” theory (Moe 1984), and it assumes that the interests of the employees are aligned with those of the owner / employer (shareholders in the private sector and taxpayers in the public sector).

These various approaches are not mutually exclusive, as all public sector employees' compensation policies contain elements of comparability, efficiency, affordability, and performance and the overarching basis for determining total compensation levels continues to be the need to recruit, motivate and retain capable individuals, by providing a mix of tangible and intangible incentives that would appeal to potential public servants (Bourgon 2008).

Nowadays, public sector compensation systems are evolving, as governments around the world design and implement compensation policies aimed at recruiting and retaining individuals with the appropriate competencies and skills needed in the public sector; while they also attempt to contain the total cost for public sector compensation, amid fiscal constraints and diminishing budgetary resources. Balancing between the two requires flexibility in adjusting the levels and composition of employment and a sound system of public funds management, to effectively respond to contemporary challenges and continue serving the needs of the people. Thus, governments are instituting policies that restructure the way work is compensated, as well as how the total rewards are organised and managed. The models that are evolving represent a significant departure in thinking, although developments to date suggest that no single "good practice" has emerged (Pyper et al. 2018).

This study entails a comparative review of public sector compensation systems in place around the world. It comprises an analysis of the essential elements and factors that influence the shape and form, as well as the structure and composition of public sector remuneration across the world. It begins by examining the notion of "total compensation"; encompassing monetary and non-monetary rewards provided to public sector employees, i.e., pay, benefits, learning and development opportunities, the working environment, etc. Then, the study turns to examining the relationship between levels of compensation and such elements as position, length of service, expertise, qualifications, competencies, and work performance; as well as promotion, as they are usually linked to salary differentiation, in most countries. In addition, it focuses on position grading, as grade systems in place also determine salary levels.

The review continues by exploring the fairness of public sector compensation systems, both externally, i.e., employment conditions and rewards vis-à-vis the private and non-governmental sectors; and internally, i.e., whether the pay differential among all public employees is aligned fairly to each position within a public organisation. External fairness is determined by the competitiveness of public servants' compensation in comparison with the private sector; and internal fairness by calculating the compensation compression ratios within the public sector.

The study continues with an overview of the size of public sector compensation around the world, as a percentage of a country's GDP, and of government revenues and expenditures. This is followed by a discussion of the factors that influence compensation policies and practices in the long run, i.e., fiscal planning, compensation competitiveness and flexibility, and efficiency, as any changes in salary and pension levels, and other benefits and employment conditions have an impact on government budgets, workforce composition, fairness of compensation systems, and the quality of public service delivery.

Public sector compensation systems are also influenced by institutional arrangements. For instance, budgetary and fiscal constraints affect decision-making on compensation and employment levels, as any such decisions have macro-economic and fiscal implications. In this sense, effective institutions and policies are required to ensure that increased spending on public employees' compensation is reflected in the cost-effective delivery of quality public services and in a fiscally sustainable manner. Failing to do just that, managing the compensation bill becomes an immense challenge with implications on fiscal planning, competitive compensation levels and efficiency of government spending (IMF 2016a).

This study concludes with a presentation of emerging trends in public sector compensation such as the movement towards flatter and more flexible organisational designs and compensation structures that are integrated and harmonised across different staff groups and with fewer grades;

generally composed of wide compensation bands. This trend has often been accompanied by “rightsizing” – a term referring to initiatives intended to determine optimal staffing configurations – that often lead to “downsizing” the public sector workforce; or a significant increase in collaboration with the private sector in delivering public services. The latter practice has often led to the creation of new organisations that draw on multiple workforces, and thus they need a new and unified approach to compensation (Brown 2012).

One may also observe a growing focus on the usage of job evaluation vis-à-vis functional responsibilities and position level within an organisation; as well as the use of skills and competencies’ approaches in setting compensation levels. Moreover, the supply and demand of individuals with specialised education, professional experience, and ability to perform, are also becoming increasingly important determinants of compensation (Korn Ferry 2017; WCO 2019). In addition, linking employee pay with performance in the public sector is still another recent development, along with the simultaneous elimination of seniority (years-of-service) related incremental increases, although this approach is more common for managers and professional staff.

Such practices bring to the forefront the notion of “individualised pay” for public employees possessing skills and competencies in high demand. In this context, considering that knowledge-based jobs are on the rise, public sector employers are introducing compensation policies that recognise the value of hiring suitable qualified workers with higher compensation. This approach allows governments to have considerable flexibility in pay by introducing differentiated compensation scales and providing additional allowances and incentives to attract, recruit and retain staff, especially in occupational areas that skills shortages exist (Brown 2018).

Yet, another emerging trend in public sector compensation is the delegation of responsibility for management and administration of compensation policy from a central authority to ministries and agencies. This development recognises the role compensation plays in staffing practices and work management and is very much in line with the growing practice of holding public managers accountable for the performance of their units and their personnel. Thus, the degree of discretion public managers may have in such matters as human resource management and with compensation policies and practices for their organisations is shifting to lower organisational levels within the government.

We sincerely hope that you will find this review informative, which will meet readers’ expectations on such an important topic, as it has strived to gather, compile, and disseminate useful information on public sector remuneration systems around the world and the latest trends in this crucial public policy. It is another contribution of the Astana Civil Service Hub, in congruence with its mandate for knowledge sharing among its participating countries; thus, fulfilling their explicit demand for contemporary knowledge and experience pertinent to the field of public administration and civil service development.



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Chairman
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About the Astana Civil Service Hub (ACSH)

The Astana Civil Service Hub is a flagship initiative of the Government of Kazakhstan and the United Nations Development Programme. It was created in 2013 by 5 international organisations and 25 countries; now comprising 43 participating countries. The geographical range of its participants stretches from the Americas and Europe through the CIS, the Caucasus, and Central Asia to ASEAN countries, demonstrating that partnerships for civil service excellence is a constant and universal need for all nations.

Its mandate is to assist in the promotion of public service effectiveness by supporting the efforts of governments of the participating countries in building institutional and human capacity; and thus, contributing to the improvement of civil service systems in the countries of the region and beyond.

The Astana Civil Service Hub is a multilateral institutional platform for the continuous exchange of knowledge and experience in the field of public service development, aiming at supporting government in the region through fostering partnerships, capacity building and peer-to-peer learning activities, and evidence-based research.

More information at www.astanacivilservicehub.org.

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Abbreviations & Acronyms

ACAS	Advisory, Conciliation and Arbitration Council
ACSH	Astana Civil Service Hub
APS	Australian Public Service
ASHE	Annual Survey of Hours and Earnings
AMD	Armenian Dram
AUD	Australian Dollar
CIPD	Chartered Institute of Personnel and Development
DC	District of Columbia
EC	European Commission
ECEC	Employer Costs of Employee Compensation
EL	Executive Level
EPSU	European Public Service Union
ETUI	European Trade Unions Institute
EUR	Euro
EUROSTAT	European Union Statistical Service
FES	Factor Evaluation System
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GS	General Schedule
IES	Institute of Employment Studies
IFS	Institute for Fiscal Studies
ILO	International Labour Organisation
IMF	International Monetary Fund
IPRP	Independent Peer Review Panel
HIC	High Income Country
HR	Human Resources
HRD	Human Resources Development
HRM	Human Resources Management
ILO	International Labour Organisation
IMF	International Monetary Fund
IPRP	Individual Performance Related Pay
KZT	Kazakh Tenge
LIC	Lower Income Country
LIDC	Low-Income Developing Country
MIC	Middle Income Country
MPM	Ministry of Personnel Management
NDPB	Non-Departmental Public Body
NHS	National Health Service
NISPA	Network of Institutes of Public Administration
NPM	New Public Management
OECD	Organisation for Economic Cooperation and Development
OME	Office of Manpower Economics

OPM	Office of Personnel Management
ONS	Office for National Statistics
PISA	Programme for International Student Assessment
PPP	Parity Purchasing Power
PPP	Public-Private Partnerships
PRP	Performance-Related Pay
PV	Present Value (present discounted value)
QANGO	Quasi-Autonomous Non-Governmental Organisation
RIPEC	Rhode Island Public Expenditure Council
SES	Senior Executive Service
SIGMA	Support for Improvement in Governance and Management
SOEs	State-Owned Enterprises
TSR	Teacher-Student Ratio
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
USA	United States of America
US\$	United States Dollar
WACAM	West African Customs Administration Modernisation
WB	World Bank
WCO	World Customs Organisation
WEO	World Economic Outlook (IMF)

1. Introduction

Government employment policies and public employees' compensation schemes are crucial determinants of the capacity and efficiency levels of public service operations, as provision of high-quality public services requires professional public servants to deliver them.⁴ Thus, it is vital for governments to offer fair and adequate compensation to attract and retain suitably competent and skilled individuals to work for the public service. On the other hand, however, compensation

Box 1. Characteristics of fair compensation

- (i) A clearly defined philosophy.
- (ii) Cultural alignment.
- (iii) Ability to attract excellent candidates.
- (iv) Incentives.
- (v) Internal equity.
- (vi) External competitiveness.
- (vii) Support for sound administration.
- (viii) Clarity.
- (ix) Legal compliance.

Source: *Handbook of Public Administration (1996)*

levels cannot be excessive, and they must maintain a balance for ensuring a fair value for money. In this sense, it is rather important to define what is "fair" by using pre-defined criteria to rationalise the optimal level of public sector compensation, which in turn provide a normative foundation for devising fair and effective compensation policies (Perry 2018).

This is usually achieved by determining compensation levels in proportion to the weight of each job, which are perceived as fair. Thus, compensation levels are often set by job grade levels determined by job evaluation assessments. Job evaluation is

considered by most to be the starting point for defining adequate and appropriate salary levels to a job position as proper and fair compensation management entails an accurate understanding of a job's duties, responsibilities, and span of control. In this instance, the grade level of a job represents a range of skills, knowledge, and responsibility that warrants a certain rate of pay. This is usually done by evaluating a job through the identification and weighing of factors that are significant for a position, i.e., major duties, work processes, functions, subject matter of work performed, qualifications required to do the work, level of difficulty and responsibility, and the combination of these factors, which have the greatest influence on the grade level. The sum of such calculations provides the information to classify a job post under a certain pay grade (OPM 1991, 2009; ACAS 2014).

Conversely, public sector compensation levels are subject to fiscal constraints on government budgets that have become more salient since the decade-old financial crises, and which have forced governments to focus more on the efficiency of government spending on public service compensation *vis-à-vis* overall spending on other policy areas. It has led governments to re-think the ways they compensate public employees and how the rewards for their work are organised and managed. Thus, public sector remuneration systems are changing and the models that are emerging represent a significant departure from existing practices.

Some countries have introduced structural pay policy reforms, which aim at aligning wages with job requirements and performance levels, usually manifested through rationalisation of allowances by way of introduction of a single pay band supplemented by performance-related compensation. In some other countries, government departments and agencies are being forced to restructure their organisation, often eliminating or redefining jobs and/or layers of management;⁵ and at the extreme, reducing the level of services provided to reduce costs (OECD 2012). Others have deployed an attrition-based employment reduction approach, through which recruitment for vacated positions is restricted to reduce total employment.⁶

⁴ The terms "public servant", "civil servant" and "public employee" are used interchangeably in this study; all referring primarily to those classified as civil servants. This is because it has not been possible to disaggregate public sector workforce of different countries into civil and other public servants due to different classifications systems in place.

⁵ Public sector restructuring usually begins with a functional review, followed by mergers of government units, process re-engineering, outsourcing, etc, all aiming at reducing public employment numbers and the associated financial cost.

⁶ Under a typical attrition rule of X: Y, only X out of Y positions are filled.

A variation of this measure is targeted employment reduction, through which public sector employment is reduced by voluntary (or involuntary) separation or early retirement schemes offered on a targeted basis. In other countries, ad hoc adjustments of public sector remuneration have been adopted as measures to rationalise government spending on public sector compensation (EC 2010; OECD 2012). A typical case is an across the board “wage freeze”.

However, freezing and/or cutting salaries affects the governments’ ability to attract and retain staff, with high performers leaving, or foregoing the public sector to pursue higher-paid opportunities in the private sector. Furthermore, such measures, although effective in reducing the size of the public sector compensation bill, in the short-term, they also tend to decrease morale, distort salary and employment structures, and thus affect service delivery adversely (OECD 2016).⁷ There is also a tendency to centralise human resources management to have full control overall the payroll of all public sector workers.⁸

Experience indicates that public sector payroll expenses can be adjusted in a sustainable fashion if they are anchored in a strategic management plan devised for the purpose, which may include sophisticated workforce planning, as well as through long-term staffing and compensation policy reviews and redesign of work functions.⁹ Without such a plan, governments’ capability for maintaining decent levels of service delivery at acceptable standards in critical sectors may greatly suffer to the detriment of the citizens. Recent experience also indicates that efforts to reduce costs may be more effective when public managers are given the flexibility to decide how to apply them across their organisations, as they possess a better understanding where inefficiencies may exist than decision-makers far away from daily operations.

Nowadays, countries around the world seem to adopt measures for the rationalisation of government spending on public sector compensation as an essential element of fiscal tightening, albeit for different reasons.¹⁰ Hence, it is crucial for governments to determine what changes in the policies and practices of workforce management are needed to maintain adequate public service delivery levels in an era of diminishing public resources. It is also crucial to determine whether current compensation levels are justified within the realm of contemporary labour markets and whether existing compensation systems support or impede the functioning of government agencies and organisations.

⁷ For example, in Portugal, approximately 20,000 public employees (3.2 percent of the public workforce) left the civil service in 2011, following the adoption of the austerity measures. Similarly, in Slovenia, the revised budget of 2012 cut public spending by at least 5 percent, aiming at salary cutbacks and reduction in the number of public employees. Furthermore, Greece and Ireland, at the start of the crisis, froze public sector salaries, and in some cases, reduced them drastically across the board, which led to an exodus of skilled personnel to other countries of the European Union, in search of decent employment.

⁸ Initiatives to centralise the management of public sector payroll yielded some other unexpected benefits. For example, a census conducted at the beginning of implementing the centralisation process of payroll services across the public sector identified ghost workers and double-dippers (IMF 2016b; OECD 2012; Clements et al. 2010).

⁹ While policy makers devise a new pay system should also consider the following issues: [i] role and responsibilities of the central human resource management government entity administering the system; [ii] roles of managers and other individuals involved in the administration of the system; [iii] extent of delegation of decisions on compensation to line managers; [iv] relative importance of performance in the total compensation package; and [v] envisioned degree of alignment with market rates (OECD 2012).

¹⁰ For example, advanced economies are confronted with the dual challenge of financing high debt levels, and with rising pension and health spending due to ageing populations (Clements et al. 2015; Pérez et al. 2016). These countries need to contain the size of public sector expenditures, as part of an inevitable fiscal consolidation. Conversely, emerging market economies and LIDCs need to finance expansion in public infrastructure, as well as in health care and education to support economic growth and poverty alleviation. This means that these countries require a strong focus on government spending efficiency – including the government employees’ compensation bill size – to balance resource mobilisation for development and competing expenditure needs (IMF 2016a).

Developments to date suggest that no single “good practice” model has emerged. An OECD review of salary programmes makes it clear that there is no single answer to the design and administration of government employees’ compensation programmes. The mix and balance of the elements constituting the total compensation package differs significantly from country to country, as the structure and composition of each country’s public sector compensation system is clearly rooted in a unique country-specific history (OECD 2012).

Overall government spending on public sector compensation constitutes a large share of all public expenditures in many countries. On average, public sector compensation expenditure varies between 7.5 percent of GDP in low-income developing countries (LICs/LIDCs) to 10 percent in high income countries (HICs), with middle income countries (MICs) lying in between. These cross-country variations in public sector compensation spending also reflect national choices about the government’s role and involvement in sectors of the economy and society, as well as variations in the levels of economic development and resources availability and/or constraints.¹¹ In contrast, the public sector compensation bill, as a share of total government spending is higher in emerging markets and LIDCs, constituting about 27 percent of total government spending, as opposed to 24 percent in advanced economies. On average, spending on the public sector compensation bill consumes about one-fifth of total government spending (World Bank 2018).

Although a pattern is clear, at least between HICs [advanced economies] and LICs [developing economies] and MICs [emerging economies], it seems appropriate to note here that some issues of comparability exist due to different ways in which governments provide public services, and which affect the size of the government payroll. For example, while France and the Netherlands have a similar level of total public health expenditure (approximately 8 percent of GDP), compensation expenditure for health care is only 0.3 percent of GDP, in the Netherlands, and 2.3 percent of GDP, in France. The difference is largely explained by the structure of the health care system. In France, most health care professionals are government employees, while in the Netherlands they are contractors, whose compensation is classified under “Goods and Services” expenditures, instead of “Compensation of Employees”. Furthermore, in some countries, public sector employees are engaged through a general labour contract and not a civil service contract and consequently may not be counted, as they do not constitute part of the core civil service, even though they may be engaged in performing public functions or are involved in the delivery of public services. Thus, it is always important to keep in mind that comparisons among different countries may be somewhat distorted, as it is not always the case that public sector employees are classified utilising similar methodologies across countries.¹² Although disaggregated data exist that could possibly validate more general observations, no single source has managed to provide an articulated picture of the public sector compensation realm given the methodological complexities associated with the subject.¹³

¹¹ See “Section 6 - Factors influencing compensation policies and practices” for the overarching factors influencing compensation policies and practices.

¹² The term public sector denotes all institutional units controlled directly, or indirectly, by the central and sub-national government, as well as public corporations that are engaged in a market-based activity. In other words, the public sector consists of the general government, and public or state-owned enterprises (IMF 2014:1). The general government consists of all institutional units in a country that fulfil the functions of government as their primary activity, which includes central and sub-national budget funded and non-market, non-profit institutions (IMF 2016:1). Moreover, this definition of public sector employment also corresponds to the ILO definition “*total public sector employment covers all employment of the general government sector, as defined in the System of National Accounts 1993, plus employment of publicly owned enterprises and companies, resident and operating at central, state (or regional) and local levels of government. It covers all persons employed directly by those institutions, without regard to the type of the employment contract*” (ILO 2021). Nevertheless, there are cases where it is difficult to disaggregate public sector employees due to issues of comparability emerging from the heterogenous definition of public employees across countries (World Bank 2022: 7). See also Appendix 1 where the IMF classification of the public sector is depicted in a diagram.

¹³ Some disaggregated data are available from various sources, i.e., EUROSTAT, GFS, ILO, IMF, OECD, WEO, etc that may be used depending on the approach of an analysis.

Information of the size of public sector compensation with respect to the Gross National Product (GDP) and as a percentage of total government expenditures, and public sector employment against total employment to allow for an initial understanding of the fiscal implications of the government wage bill and the impact of public sector employment on the overall labour market is presented in Table 1.

Table 1. Public sector compensation expenditures and employment in selective countries

Countries	Public sector wage bill (% GDP)	Public sector wage bill (% total expenditures)	Public sector employment (% total employment)	Females share of public sector employment (%)
Central Asia				
Kazakhstan	3.52	13.82	37.2	51.5
Kyrgyzstan	13.85	34.83	-	-
Tajikistan	7.01	23.63	29.5	-
Turkmenistan	4.98	38.73	-	-
Uzbekistan	8.00	28.26	-	-
Caucasus				
Armenia	5.56	17.84	19.1	58.6
Azerbaijan	9.24	22.90	12.0	53.5
Georgia	3.78	12.51	14.2	55.8
Eastern Europe				
Estonia	12.59	28.15	21.5	75.5
Moldova	8.64	23.49	30.3	63.6
Russia	9.62	24.79	44.9	41.7
Ukraine	12.29	26.10	38.7	62.1
Europe				
France	13.37	21.43	31.5	70.0
Germany	8.51	16.46	22.4	48.3
Greece	13.59	23.35	22.3	53.1
Sweden	13.07	24.63	-	-
United Kingdom	10.20	20.29	29.0	70.4
Middle East and North Africa				
Iran	4.56	25.41	13.3	-
Israel	10.59	28.32	-	-
Saudi Arabia	18.70	46.38	32.2	-
Egypt	5.00	18.42	25.4	23.1
Tunisia	17.57	46.89	22.8	34.2
North America				
Canada	12.11	29.52	21.0	45.3
Mexico	5.24	18.09	13.7	52.1
United States	9.50	20.58	12.9	55.6
South America				
Argentina	10.55	25.34	16.9	52.3
Brazil	10.65	24.92	12.5	57.6
Colombia	5.38	16.09	3.8	48.5
Chile	7.38	25.48	9.1	56.6
Venezuela	3.19	4.19	-	-
South Asia				
Bangladesh	2.02	13.63	4.2	26.2
Cambodia	8.03	33.21	7.6	25.7
India	5.48	17.70	8.5	31.3
Singapore	-	14.28	-	-
East Asia and the Pacific				
Australia	8.93	19.84	20.0	52.9
China	-	-	-15.0	56.6
Japan	5.13	13.77	-	-
Korea	6.59	32.33	-	-
New Zealand	9.18	21.62	-	-
Sub-Saharan Africa				
Kenya	4.48	17.44	7.5	36.3
Malawi	8.15	24.87	3.4	31.7
Nigeria	1.60	12.70	8.0	32.9
South Africa	12.74	31.76	19.5	56.0

Source: World Bank (2022); <https://databank.worldbank.org/source/worldwide-bureaucracy-indicators-wwbi>

The data are extracted from the Worldwide Bureaucracy Indicators (WWBI) dataset (updated in September 2022). The dataset is derived from nationally representative household surveys augmented with administrative data, thereby complementing existing, expert perception-based approaches. The first column shows the proportion of the wage bill against the country's GDP. Wage data denote the gross income (tax inclusive) associated with the public sector positions, but it excludes bonuses, allowances. Thus, the total cost to the public budget may be slightly higher than it appears in the table. The second column shows the proportion of the wage bill in proportion to total general government expenditures.¹⁴ The third column indicates the proportion of all individuals who are public sector paid employees as a percentage of all paid employees in a country including self-employed and other workers. And the fourth column presents the proportion of female public sector paid employees expressed as a percentage of the total number of paid employees in the public sector.

¹⁴ It may also be the case that the proportion may be little higher than it is shown in the table, as some additional outlays related to compensation are not included in the data.

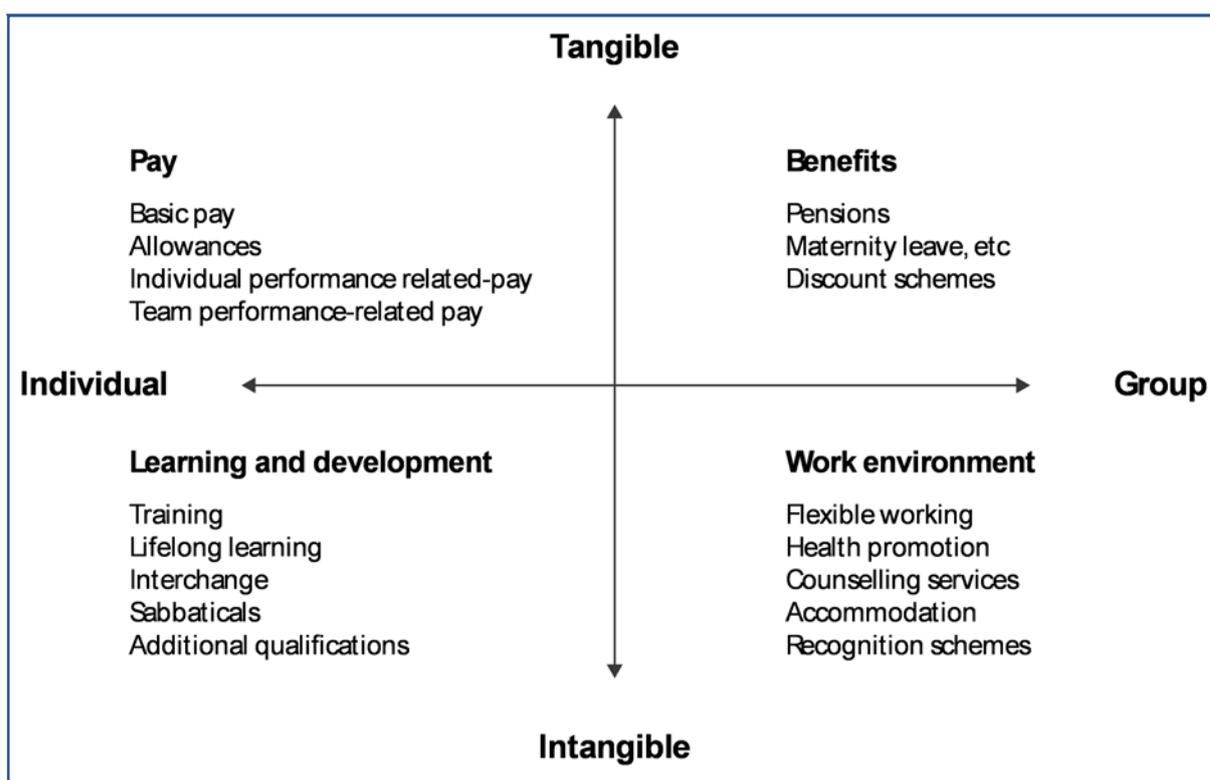
2. Defining public sector compensation

Even though there is no consensus on what total compensation should include, it is understood that the notion of “total compensation” encompasses monetary and non-monetary rewards provided to employees. However, in practical terms, this is contrary to what is conventionally called total compensation, which includes the wage bill payable to a government employee in return for work, which may include wages or salary, allowances, and social security and pension contributions made on behalf of employees by their employer (IMF 2014b).

Monetary rewards include wages or salary, allowances, bonuses, employer-provided health insurance and benefits. Non-monetary rewards include paid time-off for educational and life-long learning opportunities, flexible work arrangements, transportation and accommodation subsidies, holiday entitlements, etc. Total compensation – in the case of the public sector - ought to also include such intangible rewards as job security, status, etc; additional aspects that help attract and retain qualified individuals in the public sector. Although these features cannot be easily quantified, they nevertheless play a role in the motivation of individuals for joining the public sector.

In sum, public sector total compensation may be best described by a model that encompasses four aspects: pay, benefits, learning and development, and working environment. Some elements are tangible, and other are intangible. Some involve the individual and other the group (OECD 2016).

Figure 1. Public sector total compensation model



Source: OECD 2016

The Pay dimension includes a base salary, a variety of allowances and supplemental pay, as well as individual and team performance-related pay, where it exists. This dimension is common to both the public and private sectors, albeit significant differences exist in how they apply in each case. The Benefits component includes a comprehensive set of benefits, for example health insurance, dental insurance, vision programmes, long-term care, and disability insurance (otherwise called workers’ compensation), maternity leave, transportation subsidies, etc. The third and fourth dimensions comprise the so-called intangible rewards and they include paid time-off in the form of annual leave, sabbaticals, other life-long learning opportunities, flexible work hours, etc.

The elements comprising the total compensation may also be grouped according to their intrinsic and extrinsic characteristics, some of them tangible and other intangible. This classification is illustrated in Figure 2, where it is obvious that the monetary component represents only a portion of the total compensation package for public employees. It is also obvious that a substantial part of total compensation consists of the elements that public employees value most and usually motivates them to pursue a career in the public sector. It is also worth noting that although these two groups of elements are distinct, they interact with each other, and they can be traded off with one another depending on the system in place.

Figure 2. Intrinsic and extrinsic elements of total compensation for public servants

	Common examples	Reward elements	Definition	
Intrinsic <i>Elements that contribute to internal value or motivation</i>	<ul style="list-style-type: none"> - Quality of work - Work / life balance - Inspiration / values - Enabling environment - Growth / opportunity 	Engagement factors	Total compensation	
	<ul style="list-style-type: none"> - Tangible benefits, e.g., cars, discounts, etc 	Active benefits		
Extrinsic <i>Elements to which a monetary value may be assigned</i>	<ul style="list-style-type: none"> - Training & development - Sabbaticals 	Long-term rewards		Total Direct Compensation
	<ul style="list-style-type: none"> - Retirement - Health and welfare - Holidays, annual leave 	Passive benefits		
	<ul style="list-style-type: none"> - Annual individual bonus - Annual group bonus 	Short-term rewards	Total Cash	
	<ul style="list-style-type: none"> - Base salary - Allowances 	Base pay		

Source: Institute of Employment Studies (2018)

However, even though intrinsic elements are important to potential public employees for pursuing a career in the public sector, they do not seem to be explicitly incorporated into the total compensation equation. This is because broadening the number of components of contemporary compensation models would complicate even further the calculus for reaching a consensus (Perry 2018).

An interesting approach in overcoming this issue is the *public service motivation adjusted wage*, which addresses a potential perspective that joins the extrinsic and the intrinsic elements constituting total compensation. This concept implies setting pay that encourages high effort by public servants without however undermining public service motivation. Based on a study of fifteen diverse countries. e.g., Bulgaria, Israel, the Russian Federation, Taiwan, U.S.A., etc, it was concluded that public service motivation “... is a more cost-effective way to raise government employees’ effort than wages” (Taylor and Taylor 2010: 81).

In this context, governments ought to consider the total compensation model in terms of controlling the ratio of extrinsic to intrinsic rewards included in a public sector compensation package so that to avoiding making extrinsic rewards so large that become behavioural drivers that may crowd out public service motivation; a defining value of government institutions (Perry 1996, 2018).¹⁵

¹⁵ According to Perry and Wise (1990) compensation levels and public service motivation are intertwined, as public organisations that attract individuals with high levels of public service motivation are likely to be less dependent on utilitarian incentives to manage individual performance effectively. This is important as individuals seek to match their predispositions with incentives offered by organisations and such incentives provided by organisations are likely to be most effective if they are contingent on the motives of individuals. Therefore, providing financial incentive systems that rest on the assumption that individuals are self-interested and organisational goals are best aligned through the distribution of extrinsic rewards. These organisations will attract prospective employees who are primarily motivated by rational choice and thus are likely to find utilitarian incentives most effective.

3. Components of public sector compensation

Most compensation packages often include a fixed base salary part and various allowances, a benefits package that usually includes pension and health benefits, as well as paid time off, transportation and housing subsidies, etc, and a variable part consisting of bonuses and other incentives, such as performance-related pay. However, variations exist in the mix of components from country to country.¹⁶

Base salary

The base salary of public servants constitutes the main fixed part of their compensation. It is frequently calculated based on education qualifications and number of years of service, and it is usually defined by a relatively large number of narrowly defined grades and a span of steps within each grade. Public employees advance through steps and eventually through grades automatically – in most cases – as a reward for increasing work experience, measured through years of progressive service.

Progression through the grades – typically 10 to 15 - comes in increments linked to the length of service.¹⁷ Other compensation structures comprise of small number of compensation grades to allow for greater flexibility in pay than traditional grade structures. In this case, jobs of broadly equivalent worth are banded together into each of these few grades.¹⁸ In reality, number of bands vary greatly from country to country. For instance, there are cases such as the Philippines, where the grade structure includes 33 salary grades, or such as Cambodia with a salary grade system of four broad categories / grades at the other end of the spectrum (ACSH 2017).

The U.S. federal government base salary system has 15 grades – with GS1 the lowest, and GS15 the highest. The grade level of a job represents a range of education, knowledge, skills, and responsibilities. Each grade has 10 steps that are worth approximately 3 percent of an employee' salary from step to step. Step increases, within a grade, are based on an acceptable level of performance and years of service (ACSH 2023).

Table 2. U.S. federal government annual base salary by grade and step (in US\$)

Grade	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8	Step 9	Step 10
GS-1	20,172	20,849	21,519	22,187	22,857	23,249	23,913	24,581	24,608	25,234
GS-2	22,682	23,222	23,973	24,608	24,886	25,618	26,350	27,082	27,814	28,546
GS-3	24,749	25,574	26,399	27,224	28,049	28,874	29,699	30,524	31,349	32,174
GS-4	27,782	28,708	29,634	30,560	31,486	32,412	33,338	34,264	35,190	36,116
GS-5	31,083	32,119	33,155	34,191	35,227	36,263	37,299	38,335	39,371	40,407
GS-6	34,649	35,804	36,956	38,114	39,269	40,424	41,579	42,734	43,889	45,044
GS-7	38,503	39,786	41,069	42,352	43,635	44,918	46,201	47,484	48,767	50,050
GS-8	42,641	44,062	45,483	46,904	48,325	49,746	51,167	52,588	54,009	55,430
GS-9	47,097	48,667	50,237	51,807	53,377	54,947	56,517	58,087	59,657	61,227
GS-10	51,864	53,593	55,322	57,051	58,780	60,509	62,238	63,967	65,696	67,425
GS-11	56,983	58,882	60,781	62,680	64,579	66,478	68,377	70,276	72,175	74,074
GS-12	68,299	70,576	72,853	75,130	77,407	79,684	81,961	84,238	86,515	88,792
GS-13	81,216	83,923	86,630	89,337	92,044	94,751	97,458	100,165	102,872	105,579
GS-14	95,973	99,172	102,371	105,570	108,769	111,968	115,167	118,366	121,565	124,764
GS-15	112,890	116,653	120,416	124,179	127,942	131,705	135,468	139,231	142,994	146,757

Source: OPM (2022); <https://www.opm.gov/policy-data-oversight/pay-leave/salaries-wages/>

Conversely, theories about public service motivation begin with alternative assumptions about human nature. They assume that individuals are “internally motivated” by intrinsic rewards of public service that include the ability to make social contributions or the social acceptance of embracing particular normative values. Thus, public organisations most likely attract prospective individuals who are motivated by norm-based and affective considerations towards serving the public well-being.

¹⁶ See also Table 8 on page 23 for the mix of compensation packages in various countries around the world.

¹⁷ Waiting periods of 1 year at steps 1 to 3; 2 years at steps 4 to 6; and 3 years at steps 7 to 9. A new employee is usually hired at step 1 of the applicable grade. Under normal circumstances, it takes 18 years of service to advance from step 1 to step 10 within a single grade (GS), if an employee remains in that single grade.

¹⁸ A classic broad banding arrangement would place no limits on pay progression within each grade, although some employers have re-introduced a greater degree of structure into such systems, partly to counter concerns over equal pay issues.

Underlying the U.S. federal salary grade system is a classification system, the Factor Evaluation System (FES). The FES classifies each job in the general schedule using nine factors (Box 2). Each factor has multiple levels which are assigned points. A job is evaluated on each factor and the appropriate level is determined and points are awarded. The total points from all nine factors are summed to a total score. The score is then translated to a grade using a grade conversion table.¹⁹ Then, the General Schedule grades are tied to a base pay table (Table 2). Pay tables are further adjusted for locality pay (ACSH 2023).

The Australian public service base salary framework consists of 21 pay grades covering the Australian Public Service (APS), the Executive Level (EL) and the Senior Executive Services (SES). Each of these three categories is split into levels and each level is split into steps that are usually associated with years of service. The APS category is split into 6 levels with 14 pay bands (grades 1.1 to 6.4). APS levels 1 and 2 include general administrative and service roles, cadetship positions and trainees. Jobs of this level do not require any previous training and the minimum entry criteria are a high school certificate and limited previous experience in the role. Levels 3 and 4 typically include general roles, e.g., administrative support, technical or project-based roles, service, and graduate level positions. The general entry requirements for these levels are a university degree and/or some work experience in the role. Levels 5 and 6 include senior administrative, technical, project management service positions. Jobs at these levels may also possess some supervisory responsibilities. Most

Box 2. FES Factors

- Factor 1: Knowledge required for the position.
- Factor 2: Supervisory Controls.
- Factor 3: Guidelines.
- Factor 4: Complexity.
- Factor 5: Scope and Effect.
- Factor 6: Personal Contacts.
- Factor 7: Purpose of Contacts.
- Factor 8: Physical Demands.
- Factor 9: Work Environment.

Source: ACSH (2023)

Box 3. Annual base salaries and pay points of Australian Treasury employees

Pay Point	(AUD)	
APS 1.1	45,791	Broadband 1
APS 1.2	49,725	
APS 2.1	52,780	
APS 2.2	56,275	
APS 3.1	59,768	
APS 3.2	63,259	
APS 4.1	66,756	
APS 4.2	70,248	Broadband 2
APS 5.1	75,054	
APS 5.2	79,860	
APS 6.1	84,664	
APS 6.2	89,468	
APS 6.3	96,457	
APS 6.4	102,571	
EL 1.1	110,435	EL 1
EL 1.2	119,100	
EL 1.3	126,681	
EL 2.1	134,892	EL 2
EL 2.2	141,532	
EL 2.3	148,170	
EL 2.4	154,811	

Source: Australian Treasury (2017)

of the job roles at these levels require prior experience in the same or similar position.

The Executive level is split into two levels, and each level is split into 3 and 4 salary bands, respectively. It includes middle management positions responsible for managing day-to-day operations, with some responsibility over the strategic decision-making process. Significant amount of prior professional and/or technical experience in this role is typically required, paired along with strong leadership skills and ability to lead, and develop others. The Senior Executive Service job category is split into 2 levels with 2 salary bands. Most of the senior executive and top management jobs are part of this category. These positions demand significant responsibilities, related to strategic development and daily interaction with government leaders. Essential requirements for such jobs are extensive work experience, ability to lead and inspire people, and negotiation and decision-making skills.

Conversely, there are four pay scales for the German federal government employees. Pay scales A and B govern the remuneration of civil servants and military personnel.²⁰ Salaries in pay grades A2 to A16 are incremental, salaries in pay grades

¹⁹ To facilitate the evaluation of factors, the Office of Personnel Management (OPM) has created Position Classification Standards documents for every series in the 23 white collar occupational groups. They are available on OPM's website at: <https://www.opm.gov/policy-data-oversight/classification-qualifications/classifying-general-schedule-positions/#url=Standards>

²⁰ Pay scale W governs the remuneration of professors and lecturers at higher education institutions and pay scale R governs the remuneration of judges and public prosecutors. Pay scale R contains both incremental and fixed salaries (pay grades R1 and R2 are incremental, and R3 to R10 are fixed).

B1 to B11 are fixed. Pay scale B applies to outstanding positions such as state secretaries, directors-general, directors, heads of division, presidents of higher federal authorities, and generals. Pay scale A assigns the following pay grades to the different career paths for civil servants: (i) Ordinary service (“*einfacher Dienst*”): pay grades A2 to A6; (ii) Intermediate service (“*mittlerer Dienst*”): pay grades A6 to A9; (iii) Higher intermediate service (“*gehobener Dienst*”): pay grades A9 to A13; and (iv) Higher service (“*höherer Dienst*”): pay grades A13 to A16.

Table 3. Base salary for Grade A positions for the German federal government

Pay level	Basic Salary per month (In EUR)							
	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6	Step 7	Step 8
A3	2,370.74	2,424.23	2,477.74	2,520.81	2,563.87	2,606.95	2,650.03	2,693.09
A4	2,420.35	2,484.28	2,548.22	2,599.12	2,650.03	2,700.93	2,751.81	2,798.82
A5	2,438.59	2,518.20	2,582.14	2,644.81	2,707.47	2,771.42	2,834.04	2,895.40
A6	2,490.79	2,583.48	2,677.42	2,749.20	2,823.61	2,895.40	2,974.99	3,044.17
A7	2,614.79	2,697.03	2,805.37	2,916.26	3,024.59	3,134.23	3,216.46	3,298.67
A8	2,766.18	2,865.38	3,005.00	3,145.99	3,286.92	3,384.81	3,483.99	3,585.88
A9	2,985.43	3,083.32	3,237.34	3,393.94	3,547.92	3,652.61	3,761.51	3,867.71
A10	3,195.55	3,329.98	3,524.46	3,719.80	3,918.78	4,057.26	4,195.70	4,334.22
A11	3,652.61	3,858.28	4,062.62	4,268.31	4,409.46	4,550.62	4,691.78	4,832.99
A12	3,916.11	4,159.44	4,404.10	4,647.41	4,816.81	4,983.50	5,151.55	5,322.92
A13	4,592.31	4,820.84	5,048.02	5,276.57	5,433.86	5,592.51	5,749.77	5,904.36
A14	4,722.07	5,017.10	5,312.87	5,607.27	5,810.26	6,014.63	6,217.60	6,421.96
A15	5,772.62	6,038.82	6,241.80	6,444.82	6,647.81	6,849.46	7,051.12	7,251.40
A16	6,368.18	6,677.40	6,911.28	7,145.22	7,377.79	7,613.07	7,846.97	8,078.22

Source: Federal Ministry of the Interior (2022); http://www.gesetze-im-internet.de/bbesg/anlage_iv.html

Table 4. Base salary by Grade B positions for the German federal government

Pay level	Basic Salary per month (In EUR)
B1	7,251.40
B2	8,423.70
B3	8,919.75
B4	9,438.66
B5	10,034.23
B6	10,600.22
B7	11,146.01
B8	11,717.33
B9	12,425.82
B10	14,626.52
B11	15,074.80

Source: Federal Ministry of the Interior (2022); http://www.gesetze-im-internet.de/bbesg/anlage_iv.html

Table 5 presents the base salary by scale and step of public servants in the Republic of Armenia. The compensation framework consists of 11 salary scales – with 11 being the highest and 1 the lowest – and several steps for each of the two categories of public employees, specialists, and seniors. The specialist category has 8 steps, and the seniors’ category 5 steps, all in descending order, e.g., 1 is the highest and 8 the lowest. Basic salaries automatically increase either annually or every two to three years according to salary scale groups, e.g., base salaries for scales 10 to 8 are raised every three years, scales 7 to 5 every two years and for salary scales 4 to 1, annually. There is no base salary increase for scale 11.

Table 6 presents the base salary distribution for public servants in the Republic of Korea. The base salary framework consists of 9 grades – with 1 being the highest and 9 the lowest – and 20 steps within each grade. Grades 1, 2 and 3 comprise the senior civil service, e.g., Assistant Ministers, and Director-Generals. Grades 4 and 5 are for Division and Deputy Directors, and grades 6 to 9 for other public servants.

Table 5. Base salary by scale and step for the Armenian Public Service²¹ (in AMD)

Salary Scale	Basic Wage Increase	Specialist								Senior							
		8th	7th	6th	5th	4th	3rd	2nd	1st	5th	4th	3rd	2nd	1st			
11	No increase	111,115	128,973	150,799	175,932	205,695	240,750	291,016	353,188	291,016	353,188	429,249	523,167	638,251			
10		107,808	125,666	146,169	170,641	199,081	233,474	282,418	341,944	282,418	341,944	416,021	505,971	617,086			
9	Once in 3 years	104,501	121,697	141,540	165,350	193,129	226,199	273,158	331,361	273,158	331,361	402,793	490,097	597,244			
8		101,856	118,390	137,571	160,059	187,176	218,923	265,221	320,779	265,221	320,779	289,565	474,224	578,064			
7		98,549	114,422	133,603	155,429	181,885	212,309	256,623	310,858	256,623	310,858	377,659	459,012	559,544			
6	Once in 2 years	95,903	111,115	129,634	150,799	175,932	205,695	248,686	300,937	248,686	300,937	365,093	444,461	541,025			
5		93,257	107,808	125,666	146,169	170,641	199,743	240,750	291,677	240,750	291,677	353,849	429,910	523,829			
4		90,612	105,162	121,698	142,201	165,350	193,129	233,474	282,418	233,474	282,418	342,605	416,021	506,632			
3		87,966	101,855	118,391	137,571	160,720	187,176	226,199	273,820	226,199	273,820	331,361	402,793	490,097			
2	Annually	85,321	98,548	114,422	133,603	155,429	181,885	218,923	265,221	218,923	265,221	321,440	389,565	474,224			
1		82,675	95,903	111,115	129,634	150,799	175,932	212,309	256,623	212,309	256,623	310,858	377,659	459,012			

Source: Civil Service Commission, Republic of Armenia (2018)

Table 6. Base salary by category and grade for the Korean public service (in 000' Won)

Grade	Steps																				
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	
G-1	3,065	3,172	3,283	3,395	3,511	3,627	3,746	3,866	3,987	4,109	4,230	4,356	4,482	4,609	4,720	4,818	4,906	4,983	5,053	5,115	5,151
G-2	2,759	2,862	2,965	3,070	3,176	3,283	3,390	3,498	3,606	3,715	3,823	3,936	4,049	4,151	4,246	4,332	4,412	4,485	4,552	4,614	4,644
G-3	2,489	2,581	2,676	2,772	2,869	2,967	3,066	3,166	3,266	3,366	3,467	3,571	3,668	3,757	3,840	3,917	3,989	4,056	4,117	4,175	4,205
G-4	2,133	2,221	2,309	2,400	2,492	2,584	2,678	2,772	2,866	2,961	3,056	3,145	3,229	3,307	3,381	3,450	3,514	3,575	3,631	3,683	3,713
G-5	1,907	1,984	2,063	2,147	2,232	2,319	2,407	2,497	2,587	2,677	2,761	2,843	2,920	2,992	3,061	3,125	3,185	3,242	3,296	3,346	3,376
G-6	1,573	1,646	1,721	1,799	1,878	1,960	2,041	2,124	2,206	2,283	2,357	2,429	2,497	2,561	2,622	2,680	2,735	2,787	2,836	2,883	2,913
G-7	1,411	1,476	1,544	1,616	1,690	1,766	1,842	1,919	1,992	2,062	2,128	2,193	2,255	2,313	2,369	2,423	2,474	2,523	2,568	2,612	2,642
G-8	1,258	1,319	1,384	1,449	1,518	1,588	1,659	1,726	1,791	1,852	1,911	1,968	2,024	2,077	2,128	2,177	2,223	2,267	2,310	2,351	2,381
G-9	1,119	1,176	1,237	1,302	1,367	1,433	1,497	1,558	1,617	1,674	1,727	1,781	1,832	1,882	1,930	1,976	2,021	2,063	2,105	2,144	2,174

Source: Ministry of Personnel Management (2017)

²¹ It excludes diplomatic personnel, as well as tax and customs employees and law enforcement personnel.

Table 7 presents the monthly minimum base salary amount for Kazakhstan's public service by category for 2020. It also presents the maximum salary amount indicated in vacancy announcements that consider one's potential seniority (length of service). With expected bonuses, the final salary amount may be higher.

Positions in the civil service of the Republic of Kazakhstan are divided into political and administrative. For political civil servants, categories are not established. However, administrative civil service positions are grouped into categories A, B, C, D and E. Positions classified in categories A, B, and C are those financed by the Republican budget. Conversely, positions in category D are financed by the regional (*oblast*) budget and in category E through the district (*rayon*) budget.

Category A includes the posts of the Executive Office of the President of the Republic of Kazakhstan. Category B encompasses the positions in the government organisations that ensure the proper functioning of the supreme bodies of the executive, legislative and judicial branches of government, i.e., the Government, the Supreme Court, and the Parliament, as well as government bodies directly subordinate and accountable to the President. Category C consists of the positions in the central executive bodies and their departments and their territorial divisions. Category D includes the positions of the regional akims' administration, as well as those in the local executive and representative government bodies at the regional level. Lastly, category E positions are comprised of the akims' administration at the city, district, and rural levels.

In sum, most base salary scales for public servants are rather rigid and deterministic. Education and seniority are major factors in calculating compensation levels, and they are awarded independent of performance or productivity and/or economic conditions; which is usually the case in the private sector.²²

Advantages and disadvantages exist in using this incremental increase compensation model. On the one hand, linking compensation increases to length of service acts as a motivator in enticing individuals to remain in the public sector and it consequently reduces staff turnover. This practice also leads to savings in training costs for any new recruits and it allows for personnel to accumulate knowledge and become experts at what they do. On the other hand, a major disadvantage of this model is that there is no direct link between compensation and performance, allowing incompetent individuals to claim the same compensation increases as competent and productive public servants. This can be problematic, as the notion of equity is seen as an important motivator for employees, but perpetuate practice easily leads to a perception of inequity of treatment and a decline in morale and motivation among public workers (ACSH 2018).²³

²² Business entities operate with fewer and broader levels of compensation scales. Flexibility is more important than entitlement to advance one's career. Additionally, use of variable pay is also more widespread in the private sector, particularly among the most successful business entities, rather than in the public sector.

²³ There are some ways to address this problem besides reforming traditional pay scales. One is to weed out non-performers in the selection process or during the probationary period. Although these actions are seldom utilised, they could certainly have an influence in reducing, if not resolving, the non-performance problem.

Table 7. Monthly min-max civil servants' remuneration by category in Kazakhstan (2020)

Government Unit	Category	Position description	Min. salary (In KZT) ²⁴	Max. salary (In KZT)
Executive Office of the President	A-1	Head of Sector	363,319	490,030
	A-2	Inspector	314,830	424,728
	A-3	Consultant	280,674	378,893
	A-4	Expert	239,086	322,262
	A-5	Referent	154,141	207,409
Apparatuses of Chambers of Parliament; Office of the Prime Minister; Department for the Support of the Activities of Courts under the Supreme Court (apparatus of the Supreme Court); Apparatus of the Constitutional Council; Executive Office of the President; Office of the Central Election Commission; Accounts Committee for Monitoring Implementation of the Republican Budget; Agency for Civil Service Affairs and Anti-Corruption	B-1	Deputy Head of Department for the Support of the Activities of the Courts under the Supreme Court; Apparatus of the Supreme Judicial Council	643,817	869,631
	B-1	Head of Structural Unit	552,500	745,752
	B-2	Deputy Head of Structural Unit	293,947	397,298
	B-3	Assistant, Advisor to the Prime Minister of the Republic of Kazakhstan, Assistant, Advisor to the Chairman of the Chamber of the Parliament of the Republic of Kazakhstan; Assistant, Advisor to the President of the Supreme Court of the Republic of Kazakhstan; Assistant, Advisor to the Chairman of the Constitutional Council of the Republic of Kazakhstan; Assistant, Advisor to the Chairman of the Central Election Commission of the Republic of Kazakhstan; Chief Inspector of the Office of the Prime Minister of the Republic of Kazakhstan; Head of Department; Chief Inspector of the Agency of the Republic of Kazakhstan for Civil Service and Anti-Corruption	262,270	354,825
		Assistant, Advisor to the Deputy Prime Minister of the Republic of Kazakhstan; Assistant, Advisor to the Head of the Office of the Prime Minister of the Republic of Kazakhstan; Assistant, Advisor to the Manager of the President of the Republic of Kazakhstan; Chairmen of the Accounts Committee for Monitoring the Implementation of the Republican Budget, Agency of the Republic of Kazakhstan for Civil Service Affairs and Anti-Corruption; Assistant to the Deputy Chairman of the Chamber of the Parliament of the Republic of Kazakhstan; Assistant Chief of Staff of the Chamber of the Parliament of the Republic of Kazakhstan; Assistant Chief of Staff of the Supreme Court of the Republic of Kazakhstan; Head of Sector; Chief consultant; Ethics Commissioner	199,091	268,110
	B-5	Chief expert, Assistant to the Deputy of the Parliament	177,324	239,794
B-6	Expert	158,211	213,957	

²⁴ 1 US\$ was approximately 425 KZT in 2020.

Bodies directly subordinate and accountable to the President; Central Executive Bodies; National Centre for Human Rights; Departments of the Central Executive Bodies; Foreign institutions of the Republic of Kazakhstan	C-1	Deputy Chairperson of Committee of a Central Government Body ²⁵	383,140	517,991
	C-1	Department Director	289,700	391,104
	C-2	Deputy Department Director	204,046	275,719
	C-3	Head of Department; Deputy Head of Department; Assistant, Advisor to the First Head of the Central Executive Body; Press Secretary; Ethics Commissioner	154,141	208,294
	C-4	Chief expert	138,214	186,526
	C-5	Expert	104,102	140,746
	C-O-1	Head	182,456	246,519
	C-O-1	Head of Customs	170,422	230,592
	C-O-2	Deputy Head; Head of the Chancellery of the regional and equivalent court; Head of the Secretariat of the Ethics Council of the Agency of the Republic of Kazakhstan for Civil Service	163,166	220,682
	C-O-2	Deputy Head of Customs	162,105	219,089
	C-O-3	Head of Department; Head of the Department of the territorial body of the Agency of the Republic of Kazakhstan for Civil Service Affairs, Agency of the Republic of Kazakhstan for Combating Corruption (Anti-Corruption Service); Head of the territorial department - senior bailiff	141,576	191,482
	C-O-3	Head of Customs Post	152,371	205,639
	C-O-4	Deputy Head of Customs Post	145,823	196,437
	C-O-4	Head of Division, Bailiff	126,357	170,599
	C-O-5	Chief Specialist of Customs Post	109,898	148,124
C-O-5	Chief Specialist; Chief Customs Officer; Senior Bailiff of the office of the regional and equivalent court	108,306	146,177	
C-O-6	Leading Specialist of the Customs Post	106,536	144,054	
C-O-6	Leading Specialist, Leading Specialist of Customs	97,510	132,020	
C-R-1	Head of the regional territorial administration	142,461	192,366	
C-R-2	Head of the Chancellery of the district and equivalent court	127,418	172,369	
C-R-3	Deputy Head of the Regional Territorial Administration	106,359	142,815	
C-R-4	Chief Specialist; Senior bailiff of the office of the district and equivalent court	95,210	128,834	
C-R-5	Leading Specialist, Bailiff of the office of the district and equivalent court	84,415	114,854	
Customs Administration; Interregional and regional divisions of central government bodies and their departments; Units of central government bodies in the capital, city of republican significance; Chancelleries of regional and equivalent courts	C-1	Deputy Chairperson of Committee of a Central Government Body ²⁵	383,140	517,991
	C-1	Department Director	289,700	391,104
	C-2	Deputy Department Director	204,046	275,719
	C-3	Head of Department; Deputy Head of Department; Assistant, Advisor to the First Head of the Central Executive Body; Press Secretary; Ethics Commissioner	154,141	208,294
	C-4	Chief expert	138,214	186,526
	C-5	Expert	104,102	140,746
	C-O-1	Head	182,456	246,519
	C-O-1	Head of Customs	170,422	230,592
	C-O-2	Deputy Head; Head of the Chancellery of the regional and equivalent court; Head of the Secretariat of the Ethics Council of the Agency of the Republic of Kazakhstan for Civil Service	163,166	220,682
	C-O-2	Deputy Head of Customs	162,105	219,089
	C-O-3	Head of Department; Head of the Department of the territorial body of the Agency of the Republic of Kazakhstan for Civil Service Affairs, Agency of the Republic of Kazakhstan for Combating Corruption (Anti-Corruption Service); Head of the territorial department - senior bailiff	141,576	191,482
	C-O-3	Head of Customs Post	152,371	205,639
	C-O-4	Deputy Head of Customs Post	145,823	196,437
	C-O-4	Head of Division, Bailiff	126,357	170,599
	C-O-5	Chief Specialist of Customs Post	109,898	148,124
C-O-5	Chief Specialist; Chief Customs Officer; Senior Bailiff of the office of the regional and equivalent court	108,306	146,177	
C-O-6	Leading Specialist of the Customs Post	106,536	144,054	
C-O-6	Leading Specialist, Leading Specialist of Customs	97,510	132,020	
C-R-1	Head of the regional territorial administration	142,461	192,366	
C-R-2	Head of the Chancellery of the district and equivalent court	127,418	172,369	
C-R-3	Deputy Head of the Regional Territorial Administration	106,359	142,815	
C-R-4	Chief Specialist; Senior bailiff of the office of the district and equivalent court	95,210	128,834	
C-R-5	Leading Specialist, Bailiff of the office of the district and equivalent court	84,415	114,854	
Subdivisions of central government bodies and their departments in districts, districts in the city and cities of regional significance; Chancellery of district and equivalent courts	C-1	Deputy Chairperson of Committee of a Central Government Body ²⁵	383,140	517,991
	C-1	Department Director	289,700	391,104
	C-2	Deputy Department Director	204,046	275,719
	C-3	Head of Department; Deputy Head of Department; Assistant, Advisor to the First Head of the Central Executive Body; Press Secretary; Ethics Commissioner	154,141	208,294
	C-4	Chief expert	138,214	186,526
	C-5	Expert	104,102	140,746
	C-O-1	Head	182,456	246,519
	C-O-1	Head of Customs	170,422	230,592
	C-O-2	Deputy Head; Head of the Chancellery of the regional and equivalent court; Head of the Secretariat of the Ethics Council of the Agency of the Republic of Kazakhstan for Civil Service	163,166	220,682
	C-O-2	Deputy Head of Customs	162,105	219,089
	C-O-3	Head of Department; Head of the Department of the territorial body of the Agency of the Republic of Kazakhstan for Civil Service Affairs, Agency of the Republic of Kazakhstan for Combating Corruption (Anti-Corruption Service); Head of the territorial department - senior bailiff	141,576	191,482
	C-O-3	Head of Customs Post	152,371	205,639
	C-O-4	Deputy Head of Customs Post	145,823	196,437
	C-O-4	Head of Division, Bailiff	126,357	170,599
	C-O-5	Chief Specialist of Customs Post	109,898	148,124
C-O-5	Chief Specialist; Chief Customs Officer; Senior Bailiff of the office of the regional and equivalent court	108,306	146,177	
C-O-6	Leading Specialist of the Customs Post	106,536	144,054	
C-O-6	Leading Specialist, Leading Specialist of Customs	97,510	132,020	
C-R-1	Head of the regional territorial administration	142,461	192,366	
C-R-2	Head of the Chancellery of the district and equivalent court	127,418	172,369	
C-R-3	Deputy Head of the Regional Territorial Administration	106,359	142,815	
C-R-4	Chief Specialist; Senior bailiff of the office of the district and equivalent court	95,210	128,834	
C-R-5	Leading Specialist, Bailiff of the office of the district and equivalent court	84,415	114,854	

²⁵ C-1 appears twice, as a differentiation exists between a committee position and a department, the latter is positioned within a ministry, and thus have less responsibility than the Committee level.

Apparatuses of akims of regions, capital, city of republican significance; Apparatuses of maslikhats of regions, capital, city of republican significance; Apparatuses of the Audit Commissions of regions, capital, city of republican significance; Apparatuses (secretariats) of the Assembly of the People of Kazakhstan of regions, capital, cities of republican significance	D-1	Chairman of the Audit Commission	477,642	644,879
	D-1	Head of Maslikhat apparatus	182,388	246,519
Regional executive bodies; Executive bodies of the capital, cities of republican significance, financed from the local budget	D-2	Member of the Audit Commission	338,190	544,891
	D-2	Head of Apparatus of Audit Commissions of regions, cities of republican significance, the capital; Deputy Head of Akim's Administration; Deputy Head of Maslikhat; Head of the apparatus (secretariat) of the Assembly of the People of Kazakhstan	163,166	220,682
	D-3	Head of Structural Unit; Assistant, Advisor to Akim of the region, capital, city of republican significance; Chief Inspector; Spokesperson; Ethics Commissioner	141,576	191,482
	D-4	Chief Specialist	116,623	157,326
	D-5	Leading Specialist	98,926	140,514
	D-O-1	Head	182,456	246,519
	D-O-2	Deputy Head	163,166	220,682
	D-O-3	Head of Department	126,357	170,599
	D-O-4	Chief Specialist	108,306	146,000
	D-O-5	Leading Specialist	97,510	132,020
Apparatuses of akims of districts, districts in a city and cities of regional significance; Apparatuses of maslikhats of districts	D-O-6	Specialist	86,538	116,800
	E-1	Deputy Akims of districts, districts in the city and cities of regional significance	150,778	203,162
	E-2	Chief of staff	134,851	182,456
	E-3	Head of Structural Unit; Assistant, Advisor, Chief Inspector of Akim of the district	112,730	152,017
	E-4	Chief Specialist	100,696	136,444
	E-5	Leading Specialist	89,901	121,224
	E-R-1	Head of Division	142,461	192,366
	E-R-1	Akim of cities in district	248,997	336,420
	E-R-1	Akim of village, town, rural district	129,896	175,731
	E-R-2	Deputy Head of Department	127,418	172,369
District Executive Bodies financed from the local budget; Akims of cities of district significance, villages, towns, rural districts	E-R-3	Head of Sector	106,359	142,815
	E-R-4	Chief Specialist	95,210	128,834
	E-R-5	Leading specialist	84,415	114,854
	E-G-1	Deputy Akim	122,463	164,936
	E-G-2	Head of Structural Unit; Assistant, Advisor to Akim	101,581	137,506
Apparatuses of akims of cities of regional significance, villages, towns, rural districts	E-G-3	Chief Specialist	90,963	122,463
	E-G-4	Leading Specialist	81,229	109,367

Source: <https://www.gov.kz/memleket/entities/gyzme/vacancies/?lang=en> (2020)

Allowances

Base salaries are complemented by a wide variety of allowances. Most common allowances include annual paid leave and overtime, as well as for seniority, which however, is most often accounted for as an incremental increase of the base salary, as public servants progress from grade to grade, and from step to step within a grade over time in their career.²⁶

Other allowances may include:

- *Post adjustment*, for performing a job of higher responsibility;
- *Locality*, for serving in remote or close to border areas;
- *Expatriation*, for serving abroad, away from the home country;
- *Cost-of-living*, granted to public servants officially stationed at a post in a foreign country where the cost of living is substantially higher than their home country;²⁷
- *Housing*, either in-kind (free government housing) or in monetary form (subsidy);
- *Childcare*, most often provided in-kind, in the form of kindergartens at the workplace;
- *Transport*, usually offered in the form of subsidised mass transit fares or transportation provided by employers; and for senior positions in the form of a corporate car provided by needs of service;
- *Functional*, usually afforded to positions that require some expertise in high demand;²⁸
- *Hazardous work*, which is offered to employees for performing dangerous duties to mitigate the danger of hardship involved;²⁹
- *Overtime*, for work performed beyond normal working hours, etc.

Performance-related pay

Performance-related pay has become very popular in response to criticism of traditional pay models in the public sector, as many countries are focusing on performance, rather than just process compliance, in their quest to make their public sector more responsive to the needs of citizens. Thus, governments use such mechanisms as incentives to raise the quality of public service delivery and to promote productivity and performance improvements internally. In this context, they are placing additional emphasis on individual responsibility and performance on the job, by introducing objectives and accountability mechanisms that are accompanied by individual and/or group-based rewards, e.g., performance-based bonuses, and allowances (ACSH 2017).

The fundamental rationale for performance pay assumes that public servants will usually expend more effort in their work and thus increase the quantity and/or the quality of their output if their compensation is linked to their performance. Another assumption is that performance-related pay motivates public servants to pursue professional development opportunities, as this may lead to additional benefits for their work or their promotion and career advancement in general. In sum, it is assumed that performance-related pay improves productivity, in the short-run - supposedly because public servants work harder - and personnel development generates further gains in productivity, in the long run (Brown and Armstrong 1999; Propper and Wilson 2003; OECD 2005a).

²⁶ See also Table 8 for the variety and range of allowances paid in selective countries around the world.

²⁷ In international organisations such as the United Nations, the cost-of-living allowance (“post adjustment”) is a percentage of the base salary that ensures that all staff members at the same salary level have a similar purchasing power in every duty station by compensating for the differences in cost of living while taking currency fluctuations into account.

²⁸ Some government organisations’ employees have additional allowances than the rest of the public service, mostly associated with their functions. For example, public servants engaged with the state tax service, the customs service, immigration service, etc depending on the country. Such allowances may constitute an additional 25 to 30 percent to base salary (Korn Ferry 2017).

²⁹ For a comprehensive analysis of hazardous jobs in the public sector and the rationale for awarding public servants such an allowance, see: Liverakos, Panos (2017) Arduous and/or Hazardous Jobs Regimes in the Greek Public Sector and in selective E.U. Member States. Athens: Expertise France.

Experience to date shows that if performance-related pay and bonus systems are well designed with indicators linked to both individual and group performance, e.g., performance of departments, divisions, etc, and are effectively implemented, they may motivate public employees to improve their performance and their service delivery standards. Thus, in ensuring that this variable part of compensation functions well, it should be based on a holistic system of performance management that includes target setting – cascading down to the job level – and monitoring mechanisms of achievements to reward performance within a pre-defined period.

Performance incentives include career opportunities, e.g., promotion contingent to good performance – and pay. Performance-related pay is usually calculated as a percentage of the base salary. Its size may vary according to the range of positions to which it applies, whether the targets and the incentives apply to individuals and/or to groups, the extent to which rankings are used and the size of rewards. Overall, performance pay / bonuses [variable compensation] constitute approximately one-third of the total monetary compensation and the remaining two-thirds are made of the base salary and allowances [fixed compensation] ((Prentice 2007; Dahlstrom and Lapuente 2009; ACSH 2017).

Box 4. Performance pay modalities in selective countries

Country	Performance-based pay component
Australia	Broadband system of pay for performance based on achievement of individual goals and targets achieved
Canada	Discretionary lump sum amount paid for performance, ranging from 10 to 25 percent of base salary
France	No performance-based pay component
Kazakhstan	No performance-based pay component *
Malaysia	Annual salary increases, percentage of which is determined by individual performance
Moldova	Performance pay comprises an allowance for collective achievement of an organisation and an annual bonus for individual performance
India	No performance-based pay component
New Zealand	Based on degree of achievement of goals and targets set
Singapore	Based on degree of achievement of goals and targets set
U.K.	Through use of overlapping pay bands and performance pay
Ukraine	An annual performance evaluation bonus and a quarterly bonus based on civil servants' contribution to an organisation's overall performance
U.S.A.	Through use of overlapping pay bands; special fund exists for payment of performance pay

Source: ACSH (2017; 2020)

* There is no performance-based pay component in Kazakhstan, but some central government and regional organisations are currently implementing a pilot compensation project, which consists of fixed and variable components. The fixed part is based on a factor point scale and considers workload, seniority, complexity of work, etc. The variable part includes bonuses paid for performance. The pilot implementation was being assessed at the time this study was prepared. The fixed component is based on rank and seniority. The variable one contains bonuses and supplements which are not dependent on performance. For example, bonuses might be paid for: compliance with state and labour discipline; results of work for a certain period; exemplary performance of official duties; impeccable public service; performance of tasks of special importance and complexity, and other achievements in the work; performing urgent and previously unforeseen work, on the urgent performance of which depends in the future the normal (uninterrupted) work of this state body as a whole or its individual divisions; anniversaries and holidays, etc.

Most common type of performance-related pay is payment by results. Through this scheme, individuals (or groups) are paid bonuses based on achieving measurable outputs within specific time periods, following a formal and structured evaluation of the employees' performance. This type of performance pay is otherwise called individual performance-related pay (IPRP), as performance pay is awarded on an employee's performance against previously set objectives and whose achievements are reviewed using a formal performance management system. An IPRP can also be used for group-based rewards. That is, the performance of entire sections or departments can be measured against previously set objectives, with performance pay levels determined by the performance of the unit.

Korea is a country known to employ the IPRP system on the group level to reward performance. Korea's

system has been accepted by many as being a success story in the utilisation of pay for performance in the public sector. The crucial elements contributing to Korea's success are increased managerial autonomy and skills; reliable and timely information; adequate skills to supervise and evaluate workers based on solid criteria; and political will (MPM 2018). Spain is another example of a country that bases its public service performance measurement on an IPRP, which rewards its public servants with a "productivity complement", that represents up to 25 percent of an individual public servant's yearly salary (OECD 2012).³⁰

Overall, approximately 45 percent of countries around the world have a government-wide performance-related pay system, although only a quarter apply bonuses based on performance only. Thus, the extent of implementation of performance-based pay and bonus systems varies significantly. HICs make more use of performance bonuses than MICs and LICs.³¹

However, performance pay assessment results indicate that performance-related pay policies are still a challenge in many countries, as they have generally failed to increase productivity in the public service (OECD 2012). Many scholars have attributed failures of performance-based pay to poor implementation or weak management commitment.³² Another reason may be that due to a mixture of beliefs and experience, closely related to national culture and unionisation, public sector employees are less likely to want their compensation to be related to performance than their private sector counterparts (CIPD 2015). Thus, it seems that the performance pay rationale may be somewhat overrated as performance-related pay is not always a critical motivating factor for public servants to perform well, as the assumptions on which is based may be flawed. This view posits that public servants are primarily motivated by intrinsic rewards associated with public service engagement rather than extrinsic ones such as pay for performance (Perry 1986).

It should also be noted that there are several instances that it may be difficult to introduce performance-based compensation in the public sector. Particularly in the case where the work of public servants is difficult to define and thus to measure. For instance, it is often argued that performance-related pay is not appropriate for professional and managerial work, as many jobs are multi-faceted and complex, as they involve several and equally important dimensions, which are difficult to define and measure (Perry 1986; Dixit 2000). Even breaking down each objective into sub-components may be a difficult task. This means that it can be hard to find good measures of performance and the measures that are eventually adopted may impart relatively little information about the efforts of a public servant or an organisation (Propper and Wilson 2003). Consequently, there are cases that linking rewards to the achievements

³⁰ A good example of the Spanish experience with performance pay is the improvement gained in the Spanish social security system, where claims took six months to process in the past, and nowadays, claims are processed on an average of seven days. The Spanish case may also be considered as an example of performance pay by "piecework", in fact, the oldest form of pay for performance. In this instance, workers are paid for the number of cases and/or transactions that they conclude during a pre-defined period. This is a modality often used in cases government organisations provide direct services, such as social security claims or issuing licenses. A bonus is paid based on the number of claims / licenses processed in a pre-determined period. However, this type of performance-related pay may not be suitable for managerial personnel as their work output may not be as easily quantifiable. A system like the Spanish one was recently introduced (2022) in the Greek social security system. Its employees receive bonuses for concluding pension award processes within a pre-defined period and reaching a pre-defined number of concluded cases within a period of a month. It has had a rather positive effect on the time lag between a pension application and receipt of its payment, which was on average two years, and it is now down to three to five months. It is expected that, once the backlog of applications is cleared, the average time will be further reduced to thirty days.

³¹ Overall, public servants' monetary rewards for performance are generally lower and rather modest than in the private sector (Korn Ferry 2017a).

³² A Hay Group administered survey of public sector views on managing performance revealed that: 75 percent of respondents agreed that managers do not use the performance management process effectively; 55 percent agreed that their organisation tolerates poor performance; 52 percent agreed that their organisation differentiates good from bad performance; and 37 percent agreed that poor performance is dealt with effectively in their teams.

of certain targets does not always reflect actual performance, rendering performance management systems inaccurate and thus ineffective with respect to their intention.

Benefits

Benefits account for a substantial share of public sector employees' total compensation. They can range from 20 to 40 percent of the total compensation package; the rest consisting of the base salary and a variety of allowances and/or performance-related pay. Benefits range from health insurance and pension plans to lump sums on retirement, additional paid time off, flexible hours, etc. Most common benefits are health insurance for employees and their families, and pensions. In some cases, public employees may receive a lump sum upon retirement, over and above their regular pension (Aon 2016).

Overall, benefits in the public sector appear to be more generous than the private sector. This differential may be mostly a result of the trade-off for working in the public sector, e.g., job security, and attractive health and retirement plans, in compensation for a lower salary than the private sector (Reilly 2013). Some of the benefits provided to public sector employees are not tangible, those that offer intrinsic incentives, and they present a difficulty in placing a monetary value on them. Nonetheless, non-monetary benefits still serve the same purpose that monetary compensation does, that is to attract, retain and motivate public employees (Daley 2008). Box 5 contains information on the range of benefits public employees receive in a selective sample of countries across the world.

Box 5. Public sector benefits in selective countries

Country	Benefits
Australia	Health insurance; pension insurance (with superannuation); paid leave and sick leave; training and career progression programmes.
Armenia	Health insurance; non-cash vouchers used to provide public servants and their family members tuition fees, or additional health insurance.
Azerbaijan	Health insurance for public employee and family members; pension.
Canada	Health insurance; special pension insurance (with superannuation); early retirement.
France	Health insurance; pension; subsidised loans.
Georgia	No benefits package in place (in the process of design).
Germany	Subsidised medical insurance for public employees (free for military personnel); pension; financial aid; survivors' allowance.
Greece	Health insurance for public employees and family members; pension; lump sum pension allowance; paid time-off for education; paid sick leave.
Ireland	Pension contribution; lump sum pension allowance; temporary and permanent disability insurance.
Russia	Health insurance for public employee and family members; state pension; temporary and permanent disability insurance; paid time off for education; one time housing subsidy.
Singapore	Health insurance; pension schemes and social security pension; paid sick leave; paid time off for training and career progression education.
U.K.	Health insurance; pension; paid leave; flexible working hours.

Sources: Korn Ferry (2017); ACSH (2019)

Health insurance

Health insurance, along with pension plans are virtually mandatory for all public sector employees worldwide, as they are considered an invaluable tool in recruiting and retaining employees. A compensation package with health benefits can also be a strong retention factor. This is especially true where pre-existing conditions may be involved.

Health insurance plans may include additional provisions for prescription drugs, mental health, dental, and eye care benefits. What is included and the extent of that coverage varies substantially from plan to plan. In most cases, health insurance is provided not only for public employees but also for the

members of their families.³³ The cost of health and medical benefits are directly linked to salary levels and in many but not all countries, employees are required to pay a contribution towards the cost of these benefits. However, as wide variations exist, it is difficult to compare practices and associated costs across countries.

Pension plans

Pension plans are categorised either as “*defined benefit*” or “*defined contribution*” plans. Traditionally, most pension arrangements were defined benefit plans. Under a defined benefit plan, an individual is guaranteed from 50 to 75 percent of their highest salary upon retirement, or the average of the salaries over a course of the last three to five years of service. There are also cases where the pensionable salary is the average salary over the length of service used as a measure to calculate pension outlays upon retirement. Alternatively, the retirement benefit may also be calculated based on the highest salary multiplied by the number of years of service.

In defined contribution plans pension outlays are determined by the sum of contributions made during and over the work life of public employees. In both cases, employees contribute to the cost of their pension through a salary reduction contribution; and to which their employer makes a matching payment. Most plans require that public employees be eligible for receiving their pension at the age of 65, although this limit is being gradually pushed up to the age of 67. They are also eligible for early retirement beginning at the age of 55 or 62 but receiving pension at a reduced benefit level.

Annual leave

Public employees, in all occupational groups, receive paid annual leave. Although, annual leave is considered a benefit, it nevertheless has become a mandatory entitlement for virtually all salaried employees. Nonetheless, public employees also have the benefit of additional paid time off. The length of additional paid time off may vary depending on the number of years of service, usually an additional ten days annually, on average.

Paid time-off is currently still more generous than the average for private sector employees. For example, the average annual leave awarded to public sector employees in the U.S.– with 10-15 years of service – is 25 workdays per year. Overall, paid time-off amounts to at least 12 days more per year in the public than in the private sector, (OPM 2018).

Flexible work hours and remote work

For many years, most of public sector employees worked 40 hours per week over a 5-day working week, with relative few deviations from this pattern.³⁴ However, this convention has gradually become less rigid, as flexible work hours and the need to have services provided at different times have reduced uniformity in working hours patterns. Furthermore, the dramatic changes in the economic realm and the proliferation and utilisation of rapidly developing information and communication technologies are also affecting employment modalities in the public sector. The pandemic of COVID-19 has demonstrated the utility of digital technologies and communications in working remotely, and, thus, it has accelerated the way the way the public sector operates nowadays.

However, for flexible work hours schemes to become a norm, e.g., tele-commuting, significant organisational and cultural barriers need to be overcome before their full potential can be realised in the public sector. A notable example of flexible work hours arrangements is the Federal Public Service Policy and Support of the Belgian Federal Government (equivalent to a Ministry of Public Administration).³⁵ It has managed to adopt a flexible work system that seems to be working well, leading the way for other government units to follow.

³³ In the U.K., medical insurance is provided for employees only, as a rule, while private companies often provide insurance plans that cover family members (this is commonly part of the executive benefits package).

³⁴ In the public sector, approximately 40 percent of the employees work less than 40 hours per week; Handbook of Labour Statistics, US Bureau of Labour Statistics; <https://www.bls.gov/cps/lfcharacteristics.htm>

³⁵ <https://bosa.belgium.be/en/about-fps-policy-and-support>

Table 8. Public sector compensation packages in selective countries

Country	Base salary	Allowances											Benefits							Bonuses		
		Seniority Premium	Salary post increment	Overtime	Annual paid leave	Housing	Childcare	Locality	Family	Transport	Functional	Hazardous work	Health insurance	Pension	Lump sum on retirement	Additional paid time off	Extra annual leave time off	Flexible working hours	Tuition fee reimbursement	Performance -related	Other	
Australia	✓		✓		✓									✓		✓		✓		✓		
Armenia	✓		✓	✓																		
Azerbaijan	✓		✓																			
Canada	✓		✓																			
Estonia	✓		✓																			
France	✓		✓	✓																		
Georgia	✓		✓																			
Germany	✓		✓																			
Ireland	✓		✓																			
Japan	✓		✓	✓																		
Kazakhstan	✓		✓	✓																		
Korea	✓		✓	✓																		
Latvia	✓		✓																			
Lithuania	✓		✓																			
Russian Federation	✓		✓																			
Singapore	✓		✓																			
Tajikistan	✓		✓	✓																		
UAE	✓		✓																			
United Kingdom	✓		✓																			
USA	✓		✓																			

There are various types of “flexible and innovative working arrangements”. These can be broadly categorised in accordance with the duration, incidence, and location of working time, the contractual nature of that arrangement, as well as a range of measures designed to effectively balance work commitments and responsibilities outside the workplace (Humphreys et al. 1997). There are two main types of flexible work schemes: [i] temporal flexibility, which refers to variations in the number of hours worked;³⁶ and [ii] locational flexibility, which refers to variations in the location of work.³⁷

A survey carried out in 2018 found that the most popular flexible work option, available to public sector employees, is part-time work, offered by 94 percent of public organisations, followed by flexitime offered by 88 percent of the public organisations surveyed. Other popular flexible work modalities are fixed-term employment, including contracts (78 percent; teleworking/remote work (77 percent); job sharing (72 percent) and career breaks/special leave/secondments (69 percent).³⁸ For organisations or departments, which did not offer flexible working options, respondents were asked to state what the reasons were. The most common responses were business needs and requirements, company policy, management resistance, staff shortages and financial constraints.

In this context, two major challenges exist in managing flexible working options: [i] ensuring correct staffing levels to cover skills and knowledge; and [ii] ensuring fair and equitable application of flexible working policies for all employees.

To this question under half of the respondents (49 percent) agreed that it was challenging to effectively manage these two areas. Another 47 percent recognised the existence of too many manual processes and high levels of administration used in measuring employee performance as a challenge in shifting to flexible

Box 6. Public sector flexible work time arrangements in selective countries

Country	Benefits
Austria	Flexible working hours have been introduced in most Austrian institutions.
Belgium	Flexibility in working hours to achieve a better work-life balance.
Denmark	Vast majority of public sector employees have entered into agreements for “flexi-time”.
Finland	Flexible working hours; working hours bank systems; temporary childcare leave; job alternation leave.
Germany	Public sector collective agreements provide for flexible working time, including working time accounts and corridors.
Greece	Temporary childcare leave; parental leave; flexibility in working hours
Kazakhstan	No flexible work time arrangements in place. *
Netherlands	Flexibility in working hours to achieve a better work-life balance.
Norway	The Working Environment Act provides the right to reduced working hours for employees who, on health, social or welfare grounds, have a need to reduce their working hours.

Source: EPSU (2018); ACSH (2019)

* However, discussions about flexible working hours have been [re]vitalised in the context of the COVID-19 pandemic.

³⁶ Police and especially firemen are more inclined to have unusual and odd hours work schedules. For example, a fireman may work 24 hours, then have 24 hours off, work another 24 hours, and finally have 72 hours off. This schedule yields a working week of 2.3 days and 56 hours, a common schedule for firemen.

³⁷ However, these are not exhaustive, neither they are mutually exclusive. Numerous forms of flexible work arrangements exist, such as: [i] less than full time work, i.e. part-time; [ii] split / alternate weeks; [iii] term time and other forms of periodic work; [iv] job sharing; [v] flexitime; [vi] annualised / personalised days; [vii] enhanced maternity / paternity / parental leave; [viii] special leave; [ix] career breaks; [x] secondments; [xi] flexi-place / telecommuting; [xii] fixed-term employment, including contractual work, etc.

³⁸ The full list of flexible working options offered in the survey were: [i] less than full-time (i.e. part-time) working; [ii] flexible start and finish times around core hours (flexi-time); [iii] fixed-term employment (including contractual); [iv] flexi-place / teleworking / remote working; [v] job sharing; [vi] career breaks / special leave / secondments; [vii] annualised, staggered or compressed hours; [viii] term-time and other forms of periodic working; [ix] enhanced maternity / paternity / parental / adoptive leave; and [x] split/alternate work weeks. The survey was carried out in November 2018. It was emailed to 120,000 subscribers, with a 60+ percent response rate (Softworks.com 2019).

work modalities; as well as that public managers were not trained to manage remote workers (43 percent). The survey respondents also considered issues such as health and safety legislation compliance (44 percent) and employees building up too many hours and not using their time effectively (42 percent), as crucial in moving towards exploring flexible work options further.³⁹

Other benefits and rewards

The range of other benefits and rewards is considerable. Their primary aim is to make public sector employment attractive to prospective employees and to retain them. They comprise an array of tangible and intangible elements that may be less important than health insurance and pensions, but nonetheless they are still highly valued by public employees. Conversely, many of these benefits and rewards may be used for motivational purposes, as there is no obligation or need to automatically provide them to everyone.

These additional benefits and rewards have a considerable cost for the employers, however they are provided for free – more often than not – or a partial contribution is required by public employees. Tuition reimbursement and educational leave are common examples. They are two means of encouraging employees to enhance their knowledge and skills, as well as to motivate and retain capable individuals in public service.⁴⁰ Public servants are released for studies, on a part- or full-time basis, while their salaries and allowances are paid regularly. Prior approval is often required in tuition reimbursement programmes. Moreover, they stipulate that courses are job- or career-related and attendants must achieve high grades consistently to earn it. Educational leave may vary from a flextime arrangement (with work hours made up) to granting paid time-off for attending classes and undertaking progress assessments. A few public organisations (such as the military) even send employees to school as their duty assignment.

Public organisations may also subsidise living and transportation expenses. They provide housing allowances and/or they underwrite mortgages. In some cases, they may actually provide the housing itself – in locations convenient to the organisations. They also provide subsidies to offset transportation costs of public employees to and from work, or they may themselves provide transportation. In many cases, public organisations also provide child care for the children of their employees, either in the form of a subsidy or directly. Furthermore, public organisations may also make doctors available to employees at the work place, grant low-interest loans for complicated medical problems, etc.

Public sector total compensation often includes several other rewards, which are not usually found in the private sector, except in the case of multi-national business enterprises or international development organisations. These include training and personal development, work-life balance schemes and working environment, to mention a few. However, as considerable differences exist in the “non-cash” components of total compensation, from country to country, it is difficult to develop a coherent comparative analysis for the non-tangible components of the total compensation package of public employees. Further research is needed in this area.

³⁹ The full list of challenges managing flexible working options offered in the survey were: [i] ensuring correct staffing levels to cover skill and knowledge; [ii] ensuring fair and equitable application of flexible working policies for all employees; [iii] too many manual processes and a high level of administration; [iv] difficulties measuring employee performance; [v] ensuring compliance with health and safety / employment legislation; [vi] managers not trained to manage flexible workers / remote workers; [vii] employees building up too many hours and not using the time; [viii] not having central validity of who is on site / at work and who is out / not working; [ix] lack of technology to allow for flexible working – too hard to manage and monitor; [x] difficulties monitoring working hours; [xi] unable to generate reports / analyse absence patterns, and spot possible abuse of flexible working policies; [xii] organisational change and resistance to embracing new flexible working options; [xiii] difficulties management people remotely; [xiv] find it hard to meet operational needs due to a lack of visibility of staff availability; and [xv] no employee self-service facility to allow employees to check their own flexi balances / request absences, etc.

⁴⁰ Granting such benefits to public employees often also entails a commitment by employees to continue working in the public sector for a pre-defined period upon following their graduation.

4. Fairness of public sector compensation

Fairness of public sector compensation denotes clear and balanced compensation structures, which mitigate perceptions of “excess” for those at the top, or “exploitation” for those at the bottom of the compensation scale. It is also important that public employees at any level of the compensation scale perceive that they are justly and fairly rewarded for the work they perform, as compensation levels also have a significant impact on the morale, motivation, job satisfaction and performance, as well as retention of personnel (ACSH 2017).

Fairness of public sector compensation may be distinguished into external and internal. External fairness denotes that public workers’ employment conditions and rewards for their engagement is analogous to those workers in the private and non-governmental sectors. Assessment of external fairness entails considering the extent of alignment to what competing employers – both in the public and private sectors - pay to attract and retain employees, who have similar experience, skills, and responsibilities to perform a job. Conversely, internal fairness signifies whether the pay differential among all employees is aligned to each position within an organisation fairly.

To assess external and internal fairness of public sector compensation, this section looks at the compensation levels between the public and the private sector in the first case, and the compression ratio of compensation within the public sector in the latter case.

External fairness: Public sector versus private sector compensation

The comparability of public versus private sector pay has been a major issue over time as there has been inconclusive evidence whether public sector employees are compensated at a lower level than their counterparts in the private sector. For instance, many studies argue that public sector employees are paid less than those in the private sector, with similar education and work experience (Munnell et al. 2011).⁴¹

However, researchers’ views differ on the extent to which pensions and other monetary and non-monetary benefits compensate for the difference. Pensions are often perceived to be more generous in the public sector, although this perception is difficult to validate. A valid answer to the question of compensation parity between the two sectors requires a careful comparison between people with similar skills performing similar jobs. Unfortunately, such data does not exist to the extent that solid inferences can be derived. Thus, most inferences and results are based on estimates, which are, in turn, based on various assumptions.⁴² For instance, a major assumption used in calculating compensation differentials between the public and private sectors

is that the percentage of public employees potentially eligible for retiree health insurance is the same as those enrolled in employee health insurance, which is roughly 65 percent. This estimate is used to calculate the value of such a benefit.

Box 7. Public/Private compensation comparisons in selective countries

THE AVERAGE PUBLIC SECTOR BASE SALARY IN COMPARISON WITH GENERAL MARKET IS:

- In U.K. **13 percent below**
- In Singapore **2 percent above**
- In USA **6 percent below**
- In UAE **15 percent below**
- In Canada **1 percent below**

THE AVERAGE TOTAL CASH DIFFERENCE BETWEEN THE PUBLIC SECTOR AND THE GENERAL MARKET IS:

- In U.K. **19 percent below**
- In Singapore **8 percent above**
- In USA **10 percent below**
- In UAE **19 percent below**
- In Canada **7 percent below**

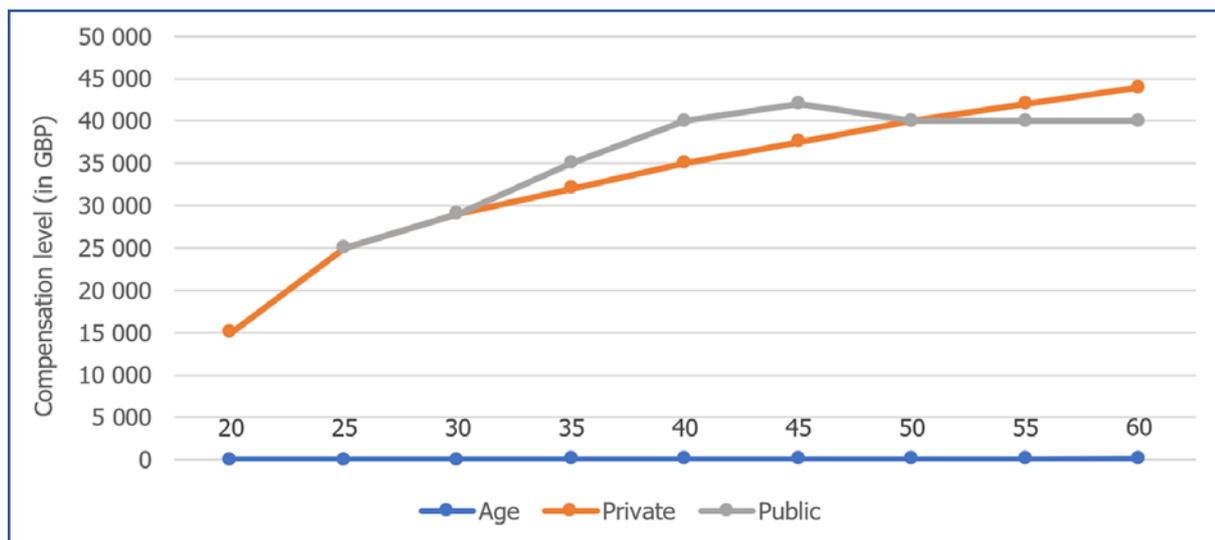
⁴¹ In general, the average salaries of civil servants are approximately 12 percent lower than those of employees of similar qualification in large private companies – specific figures vary from 2 to 21 percent depending on the country.

⁴² Most of the existing datasets with public sector compensation data and statistics – provided by international organisations, i.e., IMF, ILO, WB, etc - include mostly the tangible components of compensation. There are no data, or at least estimates, for the intangible components, i.e., training, subsidised accommodation, and transportation, paid or unpaid time-off, flexible working hours, etc.

Some studies suggest that total compensation over the lifecycle of workers is equalised. Yet other studies conclude that public sector employees' compensation demonstrates a clear advantage, if calculated over the lifecycle of workers. In other words, although the compensation of public sector employees is lower than those of similar posts in the private sector, the size of the total remuneration is generally higher (Danzer and Dolton 2011; Hutton 2011; Bewerunge and Rosen 2012). And yet, other studies demonstrate that the total compensation – including the cost of benefits, e.g., health insurance, pension plans, etc – is on average 10 percent higher in the private than in the public sector over the work lifetime (Disney et al. 2009; Postel-Vinay 2015).

Figure 3 presents data on the compensation levels of both the public and the private sector employees over their work lifetime in the United Kingdom. It is assumed that individuals enter the private sector job market at the age of 20 and the public sector at the age of 25. The data indicate that public sector employees usually start at a higher compensation level when entering employment than their counterparts in the private sector, while controlling for age at the time of entry. In other words, the compensation level of public sector employees at entry level (age 25) is approximately the same as their counterparts in the private sector at the same age, while the latter have already been working for the past five years.

Figure 3. Lifetime income differences between private and public sectors in the UK



Source: ETUI (2010)

The data also indicate that public sector workers are compensated better on average than their counterparts in the private sector for several years at work. This tendency seems to hold until the age of 50, when compensation levels of public and private sector employees are equalised again. Beyond the age of 50, the private sector employees seem to have an advantage, as they reach higher levels of compensation than their counterparts in the public sector. It should be noted, however, that such calculations ignore the effect of deferred benefits that public employees will receive when they retire (California Policy Centre 2010; Cockburn 2010; U.K. Essays 2018).⁴³

⁴³ The U.K. 2019 Annual Survey of Hours and Earnings (ASHE) data indicated that the public sector premium was 7 percent in 2019. This was calculated by modelling the average public and private sector earnings after for controlling for worker, job, and firm characteristics. The results of the survey showed that the average public sector earnings premium trended downwards by 3 percentage points between 2011 and 2019, with the exception in the case of low-skilled workers. The results based on total remuneration showed that, on average, employees in the public sector received a larger remuneration package than their counterparts in the private sector in almost every occupation grouping regardless of organisational size.

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/articles/publicandprivatesectorearnings/2019>

Cross-national wage regressions from labour force surveys reveal that public sector workers on average earn higher wages than observable similar private sector workers. Using a wage regression, where wages are a function of certain characteristics such as education, age (a proxy for work experience), gender location, and the sector of employment (public or private), public sector workers have approximately nineteen percent higher basic wages (excluding allowances and bonus payments) across 111 countries for which the World Bank has data. This finding also holds for gross wages that include employer social insurance contributions and allowances for the 27 EU Member States for which data is available (World Bank 2021; Finan et al. 2017).⁴⁴

In conclusion, studies that compare compensation levels between the public and the private sector, although they differ in many aspects, they also seem to share some areas of agreement. Almost all studies agree that when comparing similar employees doing similar work, then public employees at the bottom of the pay scales are compensated slightly higher than their counterparts in the private sector; while at the higher end of the pay scales, private sector workers seem to fare better with respect to their compensation. For those in the middle, different findings are often the result of different assumptions, as to what types of jobs are comparable and how to calculate the present value of future benefits,⁴⁵ e.g., health insurance and pensions and the value of “job security” in the public sector; and if so at what value (Slater and Welenc 2013; Dickson et al. 2014).⁴⁶

Internal fairness: Compression ratio of public sector compensation

The compression ratio is a useful indicator of the fairness and adequacy of pay within the public sector. The compression ratio is often distinguished into vertical or horizontal.⁴⁷ This study focuses on the vertical compression ratio, which reflects the proportionate difference between the top and bottom salaries. However, different ways in measuring the [vertical] compression ratio exist. One is to divide the salary at the mid-point of the highest public employee pay grade by the salary at the mid-point of the lowest pay grade (excluding any net present value of future pension entitlements and any estimated value of in-kind benefits). Another, more rigorous approach is to take the median of the highest monetary compensation grade and divide it by the median of the lowest monetary compensation grade. The OECD defines the compression ratio of compensation in the public sector, as the ratio between the median pay of the top and bottom 10 percent of public sector employees.

In general, a low ratio suggests that highly skilled workers are underpaid, while unskilled workers are overpaid. In fact, this situation seems to be typical of public sector compensation structures around the world. In other words, public sector employees’ compensation is above market rates for positions requiring less education, while is below market rates for positions with higher

⁴⁴ Public sector premia are likely to be higher globally when allowances and benefits, particularly pensions, are accounted for. A much higher proportion of public sector workers receive a job contract, health insurance, and pensions (social security) than private sector workers. For example, in Indonesia, Pakistan, and Thailand the inclusion of expected pensions benefits, monetised annually, increased the public sector wage premia significantly; in the case of Thailand, it rose from fifteen to forty-two percent (World Bank 2021).

⁴⁵ Present value (PV), also known as present discounted value, is a term used in economics and finance to calculate the value of an expected (future) income stream determined as of the date of valuation.

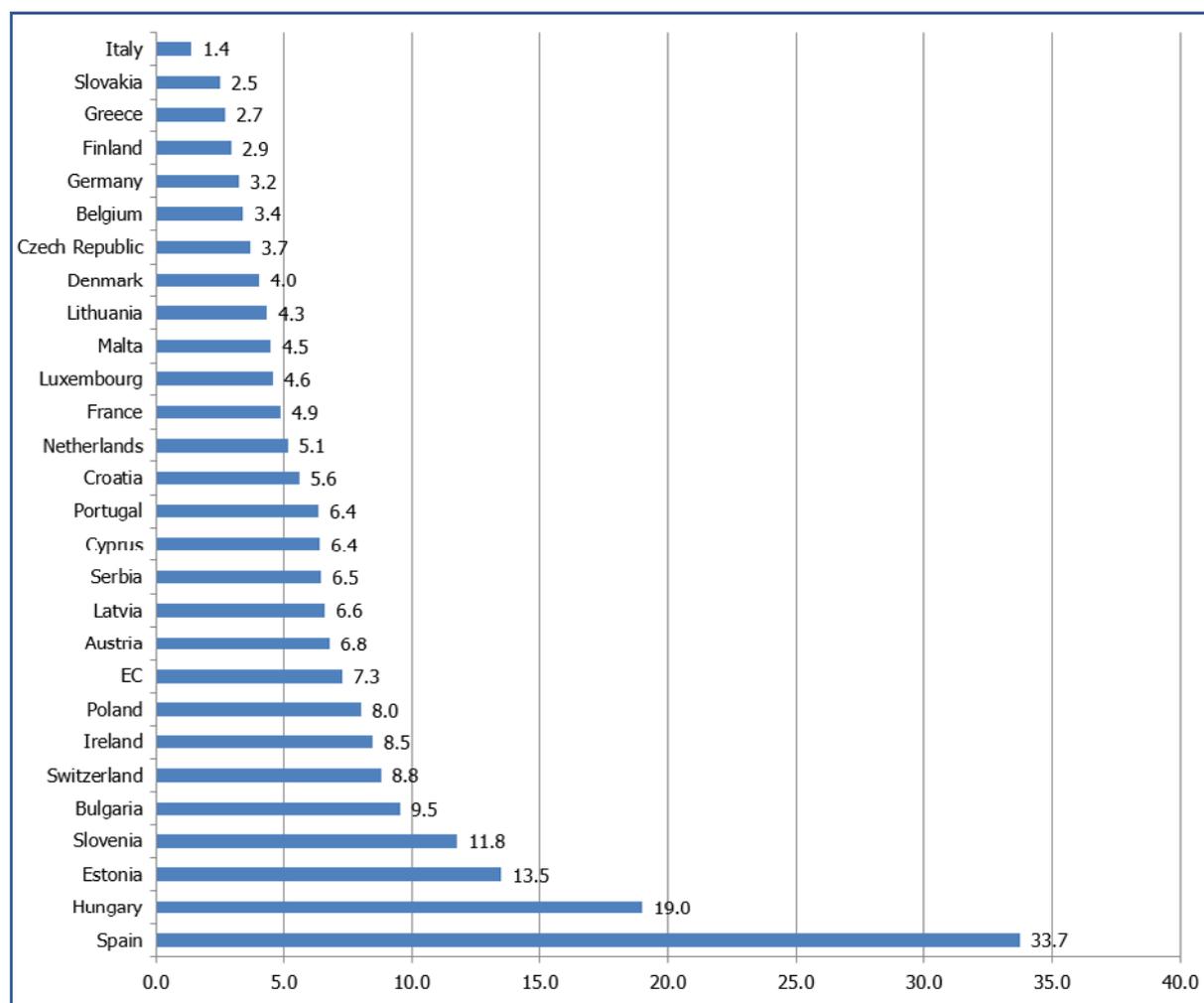
⁴⁶ In general, studies that derive a positive differential for the public sector, they calculate a “(true) value” of retiree benefits. Furthermore, other studies assign a value to public sector “job security” that makes public sector compensation higher.

⁴⁷ The horizontal compression ratio reflects the degree to which earnings differ for public sector employees at the same pay grade level in the same or different government organisations. It is the ratio by which the total remuneration of a public sector employee can differ from that of a colleague at the same level of seniority, because of discretionary allowances. It is usually measured by dividing the total monetary compensation, including all discretionary allowances, by the base pay without any discretionary allowances (Manning and Parison 2004).

educational requirements. This phenomenon of over-compensation of certain positions and under-compensation of other positions in relation to market rates is most often described as the “double imbalance” of public sector labour markets, and it is highly consistent with the findings of several other national studies that have been conducted on public sector compensation (Bender 2009).

Figure 4 presents the compression ratios of compensation between the highest and lowest 10 percent of public sector workers across several countries. Italy seems to have the lowest compression ratio at 1.4:1 and Spain the highest at 33.7:1.⁴⁸

Figure 4. Public sector salaries compression ratio across selective countries



Source: Mikkelsen et al. (2017)

Nonetheless, the public sector compensation distribution between the highest and the lowest pay scales is more compressed than it is the case in the private sector. In other words, the gap between the highest and lowest earners in the public sector is much smaller than in the private sector and there are fewer high earners and fewer low earners in the public sector.

⁴⁸ It should be noted that the calculations of compression ratios across countries are based on data that are not uniform, thus direct comparisons may be somewhat misleading. In most cases, compensation is the base salary part only. In other cases, compensation includes allowances that are often considered as part of the base salary. Overall, cross country comparisons may contain considerable bias, since existing data are not entirely comparable as what constitutes the public sector differs from country to country. For instance, in some countries, the lowest paid jobs are contracted out, making the ratio appear much lower than if these jobs were performed in-house.

However, public–private compensation comparisons must be approached with caution, as it is frequently unclear how jobs are compared. For example, in industrial countries, the jobs that are usually compared are clerical jobs in private companies. But this comparison may not be relevant in many developing countries, where the true employment alternatives of many public sector workers may be in the informal sector of the economy. Furthermore, public sector jobs may be under-compensated with respect to the “average” job. For instance, public sector jobs may pay a low salary, but offer health insurance coverage, annual leave, pension, and other benefits.

This section ends with a perennial question. What is a fair compression ratio? For example, the IMF was recommending a ratio of 7:1 in Eastern Europe in the 1990s as a fair ratio between the highest and the lowest pay grade in the newly created civil services for these countries. Yet, results of a subsequent survey, conducted by the IMF, revealed the existence of compression ratios between 1.5:1 to and 33:1 (IMF 2016).

Table 9 presents the annual salaries - expressed in US\$ PPP - by position in selective countries, accompanied by the corresponding compression ratios, for the cases information was available.

5. Size of the government sector compensation bill

This section examines the size of the government sector compensation bill as a percentage of gross domestic product (GDP), and of government revenues and expenditures.⁵¹ This is because the size of the compensation bill is important vis-à-vis the omnipotent fiscal constraints that government budgets are subjected to, and while considering that governments need to be capable to finance a multitude of crucial public functions and services that citizens need and want.⁵² The role fiscal constraints play with respect to the size of the compensation bill is discussed extensively later.

Overall, the government sector compensation bill worldwide represents 6 percent of GDP, 23 percent of government revenues and 25 percent of government expenditures approximately (IMF 2014b, 2016a; World Bank 2022).⁵³ Figure 5 presents the central government compensation as a percentage of GDP,⁵⁴ and of government revenues and expenditures by country income level.

The share of the compensation bill as a percentage of GDP in high-income countries is 6 percent, equal to the world average; whereas for middle-income countries is slightly higher at 7 percent and for low-income countries slightly lower at 5 percent.⁵⁵ However, the central government compensation bill as a percentage of government revenues seems to vary substantially. Specifically, for high-income countries is 20 percent, for middle-income countries 26 percent, and for low-income countries 28 percent, in

⁵¹ In this instance, general government encompasses all levels of government, e.g., central, state, regional, local. It includes ministries, agencies and government departments and non-profit institutions that are controlled and mainly financed by the public budget. State owned enterprises encompass legal units mainly owned or controlled by the government, which produce goods and services for sale in the marketplace, e.g., postal services, mining and extraction operations, banks, railways, etc. Public sector or more accurately the wider public sector includes those who are engaged in public service delivery, e.g., teachers, doctors, police, etc. Although methodological differences exist across countries, Figure 8 depicts a clear picture, despite such differences. For detailed information on public sector employment classification, please see OECD 2011, Annex D, pp. 199-208.

⁵² Some studies have estimated that one percentage point increase in the compensation bill as a share of GDP increases the fiscal deficit by about half a percentage point (Eckhardt and Mills 2014). This estimate is corroborated by IMF's (2019) findings.

⁵³ Some caution is called for in interpreting these percentages, due to issues of comparability inherent in the data, as governments around the world count differently their public sector and its sub-divisions, e.g., central government, education, health care, SOEs, etc. Therefore, it is important to keep in mind that comparisons across countries and regions of the world may be somewhat distorted, as it is not always the case that similar methodologies are utilised to classify public sector personnel or count them uniformly across countries. For example, in some countries, SOE personnel may be classified as public servants, but not in other; or in some other countries, local government employees may be classified as public servants, if their compensation bill is financed by the general state government budget. These deviations suggest that caution ought to be exercised while attempting to infer concrete conclusions or make comparisons across countries, based on the existing data. Unfortunately, there is no single source of information that can provide an articulate picture of public sector compensation more accurately, due to several methodological complexities. Nevertheless, even though such comparisons may not be as informative, as one would have wished for, they do demonstrate some general patterns that emerge though the analysis of available data.

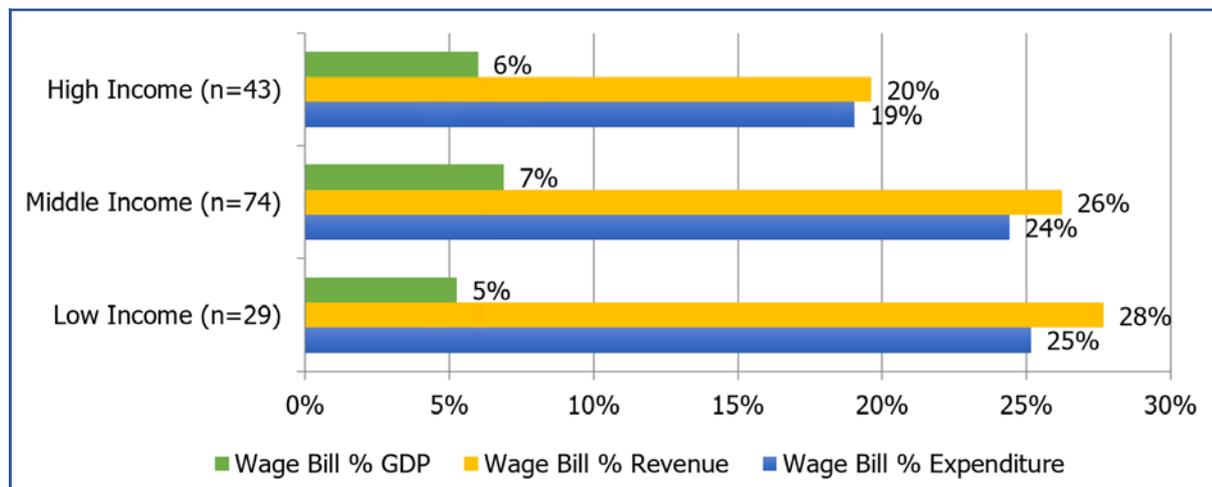
⁵⁴ In this context, total compensation includes wages and salaries, employers' social contributions to statutory social security schemes or privately funded social insurance schemes, as well as unfunded employee social benefits paid by the employer, including pension payments paid through the state budget rather than through employers' social contributions (mostly for some pay-as-you-go systems). The main limitations of the data are the less-than-full comparability across countries, and some lack of clarity regarding the level of social contributions and the differing costs of living across countries in capital cities, included in salaries as allowances.

⁵⁵ The World Bank (2018) classifies country economies as low-income (subdivided into low and low developing), middle-income (subdivided into lower, middle, and upper middle), or high-income. The main criterion for classifying economies is the gross national income (GNI) per capita. Low-income economies are defined as those with a GNI per capita of US\$ 1,025 or less; lower middle-income economies are those with a GNI per capita between US\$ 1,026 and US\$ 3,995; upper middle-income economies are those with a GNI per capita between US\$ 3,996 and US\$ 12,375; high-income economies are those with a GNI per capita of US\$ 12,376 or more. Further information on the methodologies utilised may be found at:

<https://datahelpdesk.worldbank.org/knowledgebase/articles/378834-how-does-the-world-bank-classify-countries>

contrast with the world average of 23 percent. Conversely, the central government compensation bill as a percentage of government expenditures is 19 percent for high-income countries, 24 percent for middle-income countries and 25 percent for low-income countries; and with the world average standing at 25 percent.⁵⁶

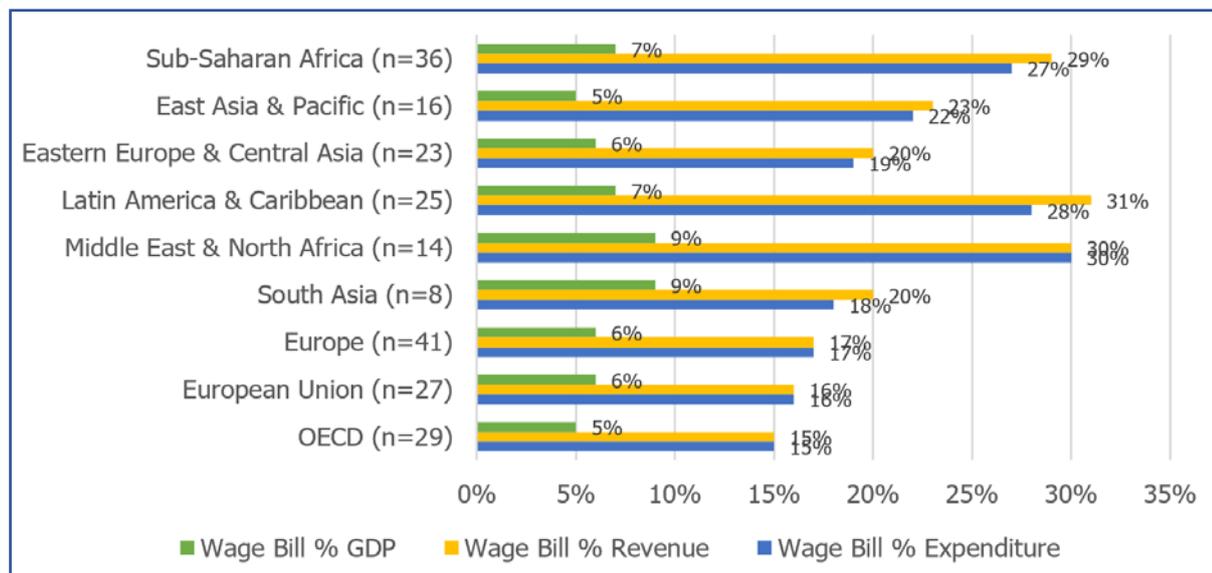
Figure 5. Central government compensation bill as percentage of GDP, revenues, and expenditures by income level



Source: IMF (2016); World Bank (2022)

Figure 6 presents the size of the central government compensation as a percentage of GDP, and of government revenues and expenditures by geographical region. The compensation bill as a percentage of GDP varies between 5 and 9 percent, among geographical regions. The highest percentage of GDP is observed in Middle and North Africa and in South Asia at 9 percent, and the lowest in East Asia and the Pacific region at 5 percent; the same percentage as in the OECD member countries.

Figure 6. Central government compensation bill as percentage of GDP, revenues, and expenditures by geographical region



Source: IMF (2016); World Bank (2022)

⁵⁶ Over the past decade, the government wage bill has stabilised in advanced economies, but pressure to increase the wage bill spending are mounting in response to a growing demand for public services – particularly in the health sector – due to rapidly ageing populations (IMF 2016a). Conversely, in low-income and developing economies, the wage has been on an upward trend over the same decade reflecting an expansion in public services in areas such as health and education. It is expected that over the coming decades, further increases in wage bill spending in these countries due to continued demand to expand the provision of key public services (IMF 2019).

With respect to government revenues, the highest percentage is observed in the Latin America and Caribbean regions at 31 percent, followed by the Middle East and North Africa at 30 percent and the Sub-Saharan Africa cluster of countries at 29 percent. In this case, the share of the central government compensation bill with respect to government revenues appears to be higher than the world average at 23 percent of government revenues, and considerably higher than the OECD member countries standing at 15 percent and the European Union and Europe at 16 and 17 percent, respectively.

Conversely, the highest share of central government compensation as a percentage of government expenditures is observed in the Middle East and North Africa regions standing at 30 percent, followed by Latin America and the Caribbean at 28 percent and closely by, at 27 percent, by the Sub-Saharan Africa cluster of countries. On the contrary, the lowest percentage is observed among the OECD countries at 15 percent, followed by South Asia at 18 percent and Eastern Europe and Central Asia at 19 percent.

Significant differences are observed across regions and countries in the size of their central government compensation bill, as a percentage of both government revenues and expenditures. This observation also holds true across countries classified by income, especially between the low- and high-income groups. Specifically, the OECD countries, the European Union, and Europe in general, spend the least on central government compensation as a percentage of their revenues and expenditures; between one-fifth and one-sixth. Most of these countries, if not all, are also classified as high-income countries. At the other end, the Sub-Saharan, Latin American, the Caribbean, as well as most of the Middle East and North Africa countries spend approximately one-third of their revenues and expenditures on the government compensation bill. The countries of these regions are also classified as low- or middle-income countries (IMF 2016b).

Thus, it seems that a pattern of spending on the public sector compensation exists that associates low-income countries with high spending, at the one end, and high-income countries with relatively low spending at the other end. Low-income, and developing countries, do spend more, because of their policies in expanding the provision of much needed public services. This is corroborated by the fact that low-income and developing countries compensation bill has been on an upward trend over the past decades, reflecting an expansion in public services, mostly however, in areas such as health and education (IMF 2019).⁵⁷ The phenomenon is consistent with “Wagner’s Law”, which assumes that government spending, including the compensation bill, tends to increase as a share of GDP, as countries develop, reflecting increasing demand for public services, but not as a share of government revenues and expenditures.⁵⁸

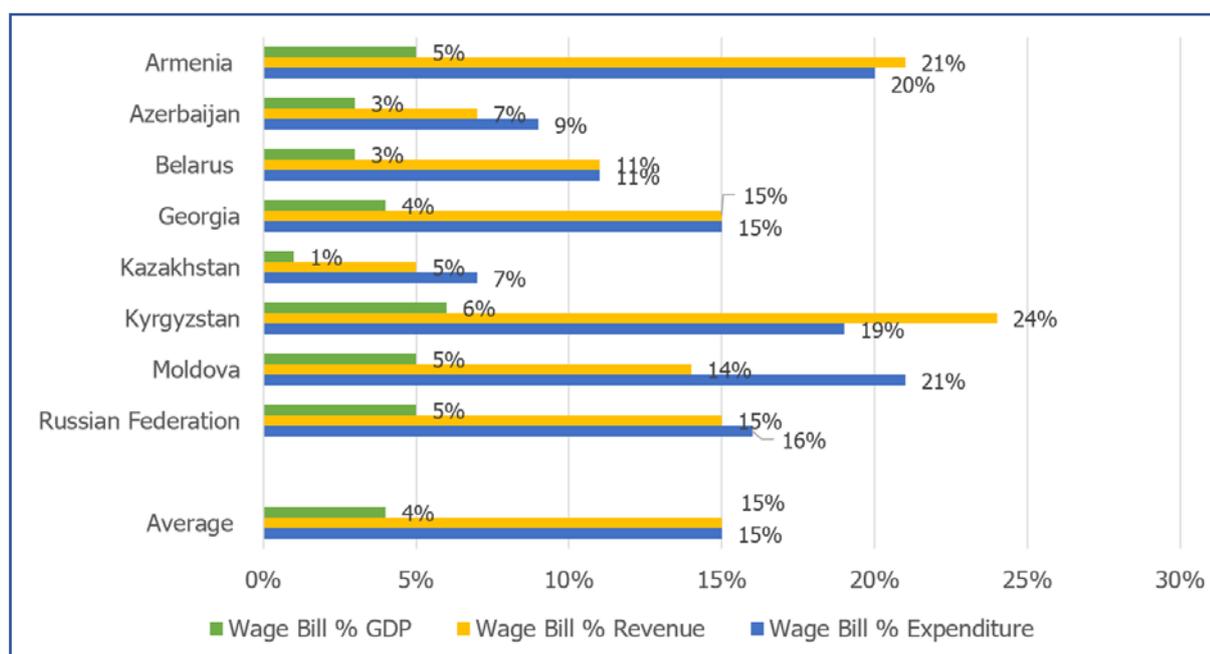
Figure 7 presents the size of the central government compensation as a percentage of GDP, and of government revenues and expenditures for a selective number of countries in our Region. The selection of these countries was determined by availability of relevant data rather than by

⁵⁷ The results of an analysis of 137 countries, conducted by the International Monetary Fund in 2016 reveal that changes in both revenue and other expenditure do not have a significant bearing on the wage bill development, neither in the short- or medium-term. Changes in the wage bill do not seem to follow changes in revenue or other non-wage expenditures. This finding suggests that wage bill adjustments are driven by factors other than the overall position of public finances of countries, and it contrasts with previous findings, which argue in favour of the cyclicity of wages. In sum, it was found that neither in the short- or medium-run, spending on compensation does not seem to be affected by changes in revenues or other spending. These results suggest that wages – and therefore compensation and employment – are not affected by changes in the overall budget position, which could reflect, for example, increases in revenues in the context of buoyant economic conditions. Instead, wage increases seem to be associated with other factors, such as wage negotiations, and political considerations, for example ahead of elections to boost political support (IMF 2016a).

⁵⁸ Wagner's law, known as the law of increasing state spending, is a principle named after the German economist Adolph Wagner (1835–1917). He first observed it for his own country and then for other countries. The theory holds that for any country, that public expenditure rises constantly as income growth expands. The law predicts that the development of an industrial economy will be accompanied by an increased share of public expenditure in the gross national product.

deliberate choice. On average, the eight countries included in this analysis, allocate approximately 4 percent of their GDP to finance their central government compensation; 2 percent lower than the world average. Among them, Kyrgyzstan seems to devote the highest share of GDP (6 percent) and Kazakhstan the lowest (1 percent) on their central government compensation bill. Armenia, Moldova, and the Russian Federation spend 5 percent, followed by Georgia with 4 percent, and Azerbaijan and Belarus with 3 percent of their GDP. The data also indicate that the eight countries of the Region devote substantially less than the world average for central government compensation as percentage of both their revenues and expenditures. Specifically, they devote 15 percent of their revenues and expenditures, whereas the world average is 23 and 25 percent, respectively.

Figure 7. Central government compensation bill as percentage of GDP, revenues, and expenditures for selective countries in our Region



Source: IMF (2016); World Bank (2022)

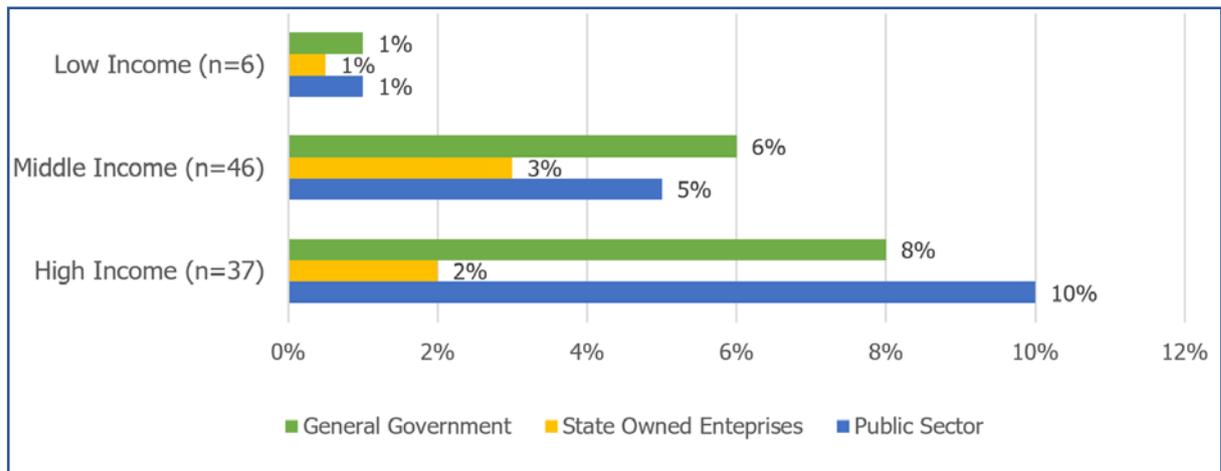
One explanation for such stark differences between Kazakhstan and Kyrgyzstan, as well as with the other countries included in this analysis is the availability of natural resources which may be an important factor in explaining the association between the compensation bill changes and other fiscal aggregates. This is because the ratio of the compensation bill to GDP, in resource-rich economies is lower than the level for non-resource-rich economies by about 2 percentage points of GDP. Furthermore, the average annual change in the compensation bill to GDP ratios is smaller in the case of resource-rich than non-resource-rich economies. In contrast, for resource-rich, the observed increase in revenues exceeds the average annual change of non-wage expenditures (IMF 2019).

This section concludes by looking at the size of the public sector as a percentage of the active population across countries around the world, as well as for a selective number of countries in the Region.⁵⁹ It is evident, from the data in Figure 8 that the higher the income of a country, the higher the percentage of people employed in the general government. For example, in HICs 8 percent of the population is employed in general government, in contrast with MICs employing 5 percent, and LICs a mere 1 percent of their total population. A plausible explanation for these differences is that higher-income countries tend to provide more public services, e.g., in the education and

⁵⁹ Active population comprises all persons who fulfil the requirements for inclusion among the employed or the unemployed during a specified reference period – usually 1 year. (OECD 2008; Glossary of statistical terms).

health sectors than lower income countries, resulting to a higher number of people employed by government.

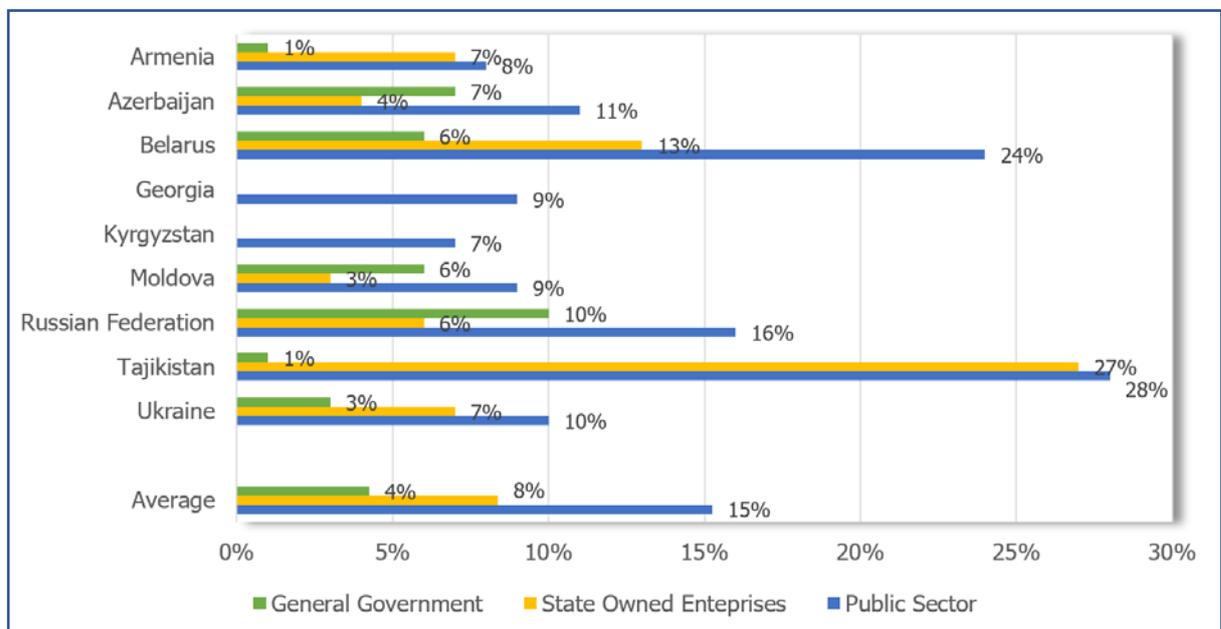
Figure 8. Public sector employment as percentage of population by income level



Source: OECD (2016)

Figure 9 presents the size of total public sector employment as a percentage of the active population in selective countries of the Region. It is obvious that Belarus' public sector employment is the highest at 24 percent, twice as much as the average for all eight countries. This is because a considerable number of people work for the country's state-owned enterprises that are classified as part of the country's public sector.

Figure 9. Public sector employment as percentage of population in selective countries of the region



Source: OECD (2016)

However, if one looks at the size of general government employment as a percentage of population across these countries a different picture emerges. Belarus employs 6 percent of its population in the general government – 2 percentage points above the eight-country average. Conversely, Armenia and Ukraine are below the eight-country average employing 1 and 3 percent of their population respectively in the public sector. At the other end lies the Russian Federation with 10 percent of its population employed by government, followed by Georgia with 9 percent. Azerbaijan and Kyrgyzstan employ 7 percent of their population in the general government,

whereas in the case of Kyrgyzstan, the general government is also the whole of the public sector in the country, like Georgia. Two countries employ around a quarter of their population in the public sector, namely Tajikistan with 28 percent and Belarus with 24 percent. Conversely, Armenia and Tajikistan employ only 1 percent of their population in general government followed by Ukraine at 3 percent. The average employment in the public sector of the region's countries included in the figure stands at 15 percent and in general government at 4 percent.

The proportion of the labour force working for the government is also an indication of how public services are delivered in a country – whether predominantly by government workers or through the private and non-profit sectors as well – and it is an important factor determining the cost-of-service delivery.

In sum, the public sector compensation bill represents a large and less flexible component of government expenditures with significant latent liabilities. A recent World Bank (2022) study estimates that the wage bill represents approximately 30 percent of government expenditures, with significant variations around this average. In many low- and middle-income countries, the wage bill can take up almost half of government expenditures and is an even larger share of expenditures for labour-intensive services like teaching and healthcare.⁶⁰ The wage bill, as a share of GDP, is larger in higher income countries, reflecting the bigger scope of government as incomes rise; but is higher as a share of expenditures in lower income countries (World Bank 2021).

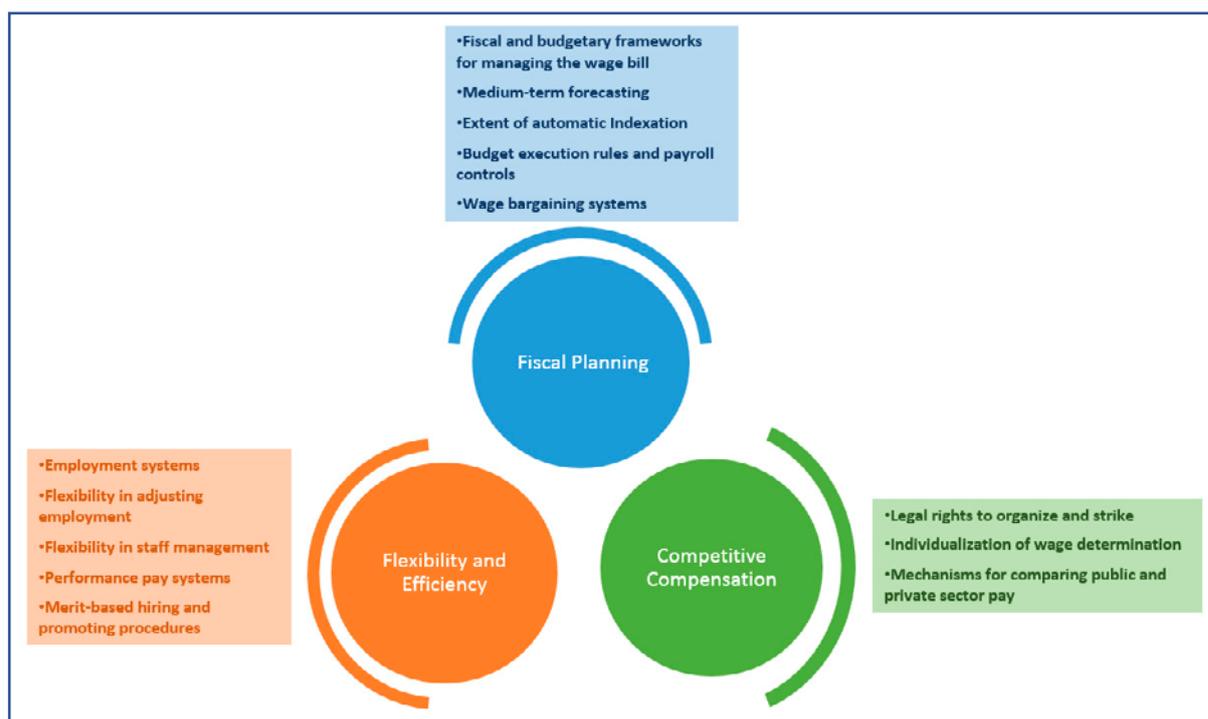
⁶⁰ For example, teacher salaries represent more than 80 percent of public education expenditures in developing countries (UNESCO 2017).

6. Factors influencing compensation policies and practices

Any potential changes occurring in the public sector employees' compensation packages must be always carefully weighed, as changes in salaries, pensions and other employment-related benefits, and employment conditions have an impact on government budgets, workforce composition, service delivery levels and on the external fairness of compensation. Public sector compensation systems are also influenced by institutional arrangements for managing the compensation bill. For instance, budgetary and fiscal constraints influence the decision-making on compensation and employment levels, as such decisions need to be consistent with overall financial policy and objectives, as these carry important macro-economic and fiscal implications for the economy of a country.

However, research indicates that over half of the OECD countries do not integrate decisions on public sector compensation changes into their medium-term budget planning processes, in a timely manner. Furthermore, half of the high-income advanced economies hold ad hoc negotiations with public sector employees, most often through their trade unions and associations. Over one-third of these countries makes decisions on pay increases during a given year without directly linking them to the budget planning process (OECD 2016). Nonetheless, over sixty percent of all countries impose a ceiling on the total compensation bill. HICs and MICs often combine ceilings with alternative approaches. Over a third of MICs have specific fiscal rules limiting growth in the public sector compensation bill, while HICs more often use fiscal frameworks to constrain wage increases (IMF 2016).

Figure 10. Factors influencing public sector compensation



Source: IMF (2016)

Setting optimal government employees' compensation and employments levels requires the consideration of the notions of effective fiscal planning, competitive compensation, and flexibility and efficiency, in developing the appropriate institutional arrangements to make compensation policy-related decisions. In other words, forecasting the size of the public sector compensation bill in the medium-term assists in ensuring better fiscal outcomes, as such forecasts are incorporated into medium-term budget frameworks, effectively improving the accuracy of fiscal planning for achieving envisioned fiscal objectives. Furthermore, composition and structure of government compensation schemes need to be competitive with the private sector for governments to be able to attract, develop and retain personnel with the required experience, skills, and competencies.

Moreover, a certain degree of flexibility is required to adjusting not only salaries but also the size and the composition of the workforce, in achieving service delivery objectives in a cost-efficient manner. In practice, there can be trade-offs between fiscal planning and flexibility and efficiency. For instance, during the peak of the recent global financial crisis, some countries centralised control and reduced flexibility in compensation-related matters to achieve their fiscal objectives. In conclusion, to effectively manage public sector compensation, fiscal considerations need to be considered while planning future policy, and at the same time, to ensure that the structure and levels of compensation in the public sector remain competitive, to achieve appropriate levels of competence and optimal composition of public sector employment, among other (IMF 2016).

Fiscal planning

Public sector compensation spending levels can impact fiscal balances and the composition of government expenditures. If compensation costs are not effectively integrated into budget planning, they can undermine fiscal planning. Increasing public sector compensation expenditure levels or increasing hiring – in particular, during cyclical turns of the economy – may hinder the stabilising role of fiscal policy and push higher a country's debt levels. Such policy choices are also hard to reverse during economic downturns, when austerity measures are called for. Disproportionate spending on government compensation can also crowd out priority spending on public infrastructure and social protection, which are crucial for economic growth and poverty reduction, and most critical for LICs (IMF 2016).

Regrettably, in many cases, public sector compensation spending is the major factor behind deteriorating fiscal balances. Higher compensation budgetary outlays are strongly associated with a fiscal balance deterioration in both developed and emerging economies. However, the impact on the balance seems to disappear in the short-term in advanced economies, as the additional compensations spending is fully compensated by higher revenues and lower other expenditures. In contrast, in the case of developing economies, a fiscal balance deterioration – or higher deficit – persists in the medium-term, as the compensation bill increase is only partially financed with revenues, while other non-wage expenditures remaining broadly unchanged.⁶¹ Conversely, the association between increasing compensation expenditures and fiscal balances is different in heavily indebted emerging economies. Furthermore, LIDCs exhibit a larger association between additional compensation expenditures and raising revenues (IMF2019).⁶² On the other hand, compensation expenditure increases in resource-rich countries bear no association with current revenues, suggesting that these countries have tended to leverage their resource wealth for this purpose (IMF 2016).

⁶¹ A strong correlation exists between the government compensation bill and fiscal deficits, at least in the OECD countries, which appears to be more frequent during economic upturn years. However, the impact is less frequent when government are more transparent, when there is more freedom of press and less union coverage; and in presidential regimes (Cahuc and Carcillo 2012).

⁶² Adjustments to the compensation bill are usually associated with a deterioration in the fiscal balance that persists in the medium term, as such adjustments are only partially financed by an increase in revenues while other expenditures remain broadly unchanged. Research indicates that a 1 percent increase in GDP caused by increases in the compensation bill is on average financed by revenue increases of 0.5 percent and deficit increases of almost equal magnitude. In other words, increases in the compensation bill are associated with a deterioration of the overall balance in the medium term, as these spending increases are only partially compensated with additional revenues (IMF 2016). This finding is consistent with previous work and the evidence from several country case studies that accompanied that work. Overall, the findings suggest that rather than crowding out other items in the budget, increases in the compensation bill have on average been associated with increases in other government spending and a deterioration of the overall balance as these spending increases are only partially compensated with additional revenues. On the other hand, an increase in government revenues does not improve the overall balance by the same amount as it tends to be accompanied by persistent spending increases. Revenue surges that represent 1 percent of GDP are on average associated with other non-compensation related expenditures being higher by about 0.3 percent of GDP. Therefore, the overall fiscal balance improves on average by about 0.7 percent of GDP (IMF 2019).

Considering that spending on the wage bill absorbs around one-fifth of total spending on average in advanced economies and nearly 30 percent in emerging markets and low-income and developing countries, small increases in compensation or employment levels could potentially have large unintended adverse implications for the fiscal balance, which in turn may require sharp adjustments in revenues or in other spending items to ensure fiscal sustainability (IMF 2019).⁶³

Consequently, robust institutions – tailored to countries' income levels and administrative capacities – are needed to effectively manage the compensation bill size over the medium-term. In countries, with low capacity, centralisation of the public sector compensation budgeting, salary levels and workforce management are usually entrusted to the Ministry of Finance or another central government agency to safeguard fiscal planning. As countries develop higher capacity and they modernise their governance and administrative systems, decentralisation of compensation management takes place progressively delegating the function to line ministries and agencies, as it contributes to governments adapting their services better to changing citizen demands and technological advancements. However, any decentralisation needs to be always guided by centrally set standards, which promote uniform decision-making mechanisms on hiring, promotion, and compensation levels based on qualifications, experience, performance and productivity and they ensure fairness (IMF 2016).

Competitive compensation

Government compensation schemes need to be competitive with those offered in the private sector for governments to be able to attract and retain personnel with the required competencies, skills, and work experience. In other words, if the level, composition, and structure of compensation packages offered in the public sector are not competitive with respect to the private sector, then governments will be unable to attract adequately qualified and experienced staff to provide public services of high quality. Research conducted, on behalf of the U.K. based Institute of Employment Studies in 2010, highlights the damaging effect of paying public sector workers below the market median rates, e.g., increased attrition (staff turnover) and absenteeism (Armstrong et al. 2010).

Conversely, if government compensation is too generous it may induce upward pressures on compensation levels in the private sector. In other words, higher public sector compensation can directly affect private sector compensation, especially if the private sector compensation setting process uses the public sector as a reference point.⁶⁴ Additionally, higher public sector compensation levels may also reflect discriminatory compensation setting practices in the private sector, e.g., against female or unskilled workers, or efforts to limit scope of corruption in certain public sector positions, e.g., regulators or revenue administrators.

In practice, the public versus the private compensation differential also depends on several other considerations. For instance, the public sector is likely to be motivated by factors other than profit maximisation since public servants' intrinsic motivation is often more important than external rewards. While higher compensation may be a way of recruiting skilled staff, it may not have a critical effect on individuals, who have an innate sense of purpose and are personally committed to working for the benefit of society. Thus, setting compensation levels should encompass both idealistic and materialistic aspects of public servants' expectations (ACSH 2018; Everest-Phillips 2018; Perry 2018).

⁶³ If wage bill increases are associated with a persistent deterioration in the fiscal balance, the result will be a worsening of public debt. If higher wage spending is compensated with cuts in non-wage spending, crucial spending for economic growth and poverty reduction - such as public infrastructure or social protection – could be crowded out. Alternatively, an increase in revenues to finance wage bill increases could be pursued but at the cost of eroding private sector competitiveness and ultimately having a negative impact on economic growth. Also, if wage increases are financed with surges in revenues during economic upswings, such wage increases will exacerbate output fluctuations by further stimulating demand and undermine the stabilisation role of fiscal policy (IFM, 2019).

⁶⁴ Analysis of government and private sector compensation trends in advanced economies between 1995 and 2015 shows that a 1 percent increase in the average real government salaries is associated with a 0.4 percent increase in private salaries over a period of three years. This relationship is stronger where the share of government in total employment in the economy is large and in less open economies (IMF 2016).

The relative competitiveness of public sector compensation may also fluctuate due to the ups and downs of the economic cycle. For example, being lower during upswings, but higher during downsizings, or reflect short-term fiscal consolidation efforts (IMF 2016). Competitiveness of government employees' compensation can also be influenced by institutional arrangements in place; for instance, the legal right of public sector employees to organise in trade unions, and to allow for collective bargaining and to strike. This could potentially lead to greater bargaining power to negotiate more advantageous compensation and employment conditions, which may result to a public sector compensation premium.⁶⁵

Another factor impacting the level of public sector compensation competitiveness is the size of the public sector workforce. For example, in cases where the government is the principal employer in a country, then government compensation policies have an impact vis-à-vis the private sector compensation levels by increasing the “reservation wages” and thus crowding out private sector employment.⁶⁶

Flexibility & efficiency

Achieving service delivery objectives in a cost-effective manner depends on the ability of governments to adjust not only salaries but also the size and composition of their workforce. For instance, high employment or high compensation can result in insufficient spending on other publicly funded services and inputs. They can also impede hiring of new staff with different skills and/or the re-training of existing personnel, or crowd out other key inputs such as the adoption of work practices based on new technologies that are important for the shift towards digitalisation of government for reaping the significant benefits associated with this transformation (Clements et al. 2010). Thus, the degree of flexibility government enjoys in adjusting employment levels and compensation spending can influence the levels of efficiency in service delivery.⁶⁷

In the real-world context, it seems that advanced economies have difficulties in adjusting employment levels in response to demographic and technological changes. For example, the sharp decline in the number of school-aged children over the past three decades has not been accompanied by a similar decline in the number of teachers resulting in large increases in the teacher-student ratio (TSR),⁶⁸ or a considerable increase in the number of retirees over the past two decades has not been accompanied by an increase in social care personnel leading to increased poverty among old-age people. Both instances may point to increasing spending inefficiency and excessive employment levels in the first case and insufficient employment levels in the second case (OECD 2010a).

⁶⁵ In advanced economies, an increase in public sector union membership is noted during the past two decades. However, in many of them, although public sector employees have rights stemming from their membership in trade unions, the right to strike can still be restricted by being obliged to provide essential services uninterruptedly.

⁶⁶ In labour economics, the term “reservation wages” denotes the minimum wage that a worker requires to participate in the labour market. It represents the monetary value of an hour of leisure (broadly defined as any non-labour-market activity) to the worker. If the wage offered does not meet or exceed the worker's reservation wage, then the worker's utility is maximised by remaining unemployed. The reservation wage of any given worker is determined by both micro- and macro-economic factors that affect the worker's marginal utility of leisure or marginal utility of consumption, when the worker is unemployed, i.e., personal preferences, household production activities, unemployment benefits and other non-labour income. An individual's reservation wage may change over time depending on several factors, like changes in the individual's overall wealth, changes in marital status or living arrangements, length of unemployment and health and disability issues. An individual might also set a higher reservation wage when considering an offer of an unpleasant or undesirable job than when considering a type of job, the individual likes (IMF 2016).

⁶⁷ Flexibility in staff management and delegating personnel management to ministries and other public organisations - as opposed to control by central agencies - can, in theory, promote improved performance and efficiency (Hood 1991).

⁶⁸ Increasing TSR is not necessarily associated with improving education outcomes – as captured, for example, by PISA scores.

Degree of flexibility in controlling employment levels is also important for controlling the public sector compensation bill in support of fiscal consolidation efforts. However, analysis of employment consolidation attempts indicates that fiscal adjustments have been achieved primarily through adjustment of compensation levels downwards, often across the board, rather than through employment reductions. Attempts to implement structural employment reforms, e.g., reallocation of positions when government agencies merge, have been met with considerable resistance, and thus not allowing for a more durable compensation bill rationalisation and consolidation.⁶⁹

Flexibility in adjusting employment is also impacted by rules and procedures for hiring, reallocating, and making staff redundant and the degree of employment protection. According to an IMF-administered survey, governments in approximately 60 percent of the countries included can hire contractual employees for a considerable number of job categories and a similar percentage of countries can make staff redundant with significant restrictions. Another 20 percent can do the same, however, without restrictions. In advanced economies, although employment protection is stronger, there exists greater flexibility to hire contractual staff and to create new posts. On the other end, emerging markets and LIDCs have fewer restrictions on adjusting employment levels. However, in a third of emerging markets and LIDCs, the creation of new posts requires the approval of the legislature, or the head of the executive government, e.g., president or prime minister (IMF 2016).⁷⁰ In several countries the human resources management related to hiring, placement and promotion decisions has to some extent been delegated to ministries and departments in advanced economies and emerging markets (over 65 percent), in contrast with the LICs, where there has been less delegation in this area (IMF 2016).

In conclusion, the structural changes that are taking place in the world economy, e.g., the decline in manufacturing in advanced economies, the emergence of an extremely skilled and occupationally diverse workforce, as well as employers' increasing quest for high performance and efficiency require considerable levels of flexibility in setting compensation and employments levels to match societal demand. This situation also demands more flexible and flatter organisational settings to cope with constant environmental changes, greater differentiation, and individualisation of compensation to attract individuals with specific skills and experience, and more delegation of responsibility for human resources management matters to lower levels; subjects that are discussed in the next section of this study.

⁶⁹ A good example is the case of Greece. The country forced to drastically reduce its government expenditures, in 2010, opted for an across-the-board reduction in public employees' compensation – more than 27 percent – instead of reducing the number of public sector employees (a policy also partially adopted, in 2012, nevertheless).

⁷⁰ Flexibility to manage the workforce and promote efficient, performance-oriented service delivery is also influenced by government employment systems, which can be divided into: [i] clientelist systems based on political or personal connections; [ii] career-based systems with open competition at the entry level only combined with life tenure and promotion from within; and [iii] position-based systems with fixed-term or task-based contracts, open recruitment at all levels and promotion based on merit and performance (ACSH 2017).

7. Trends in public sector compensation systems

Governments faced with a combination of rising demands for the provision of high-quality public services and the need for fiscal stability are always looking for ways and means to contain their compensation bill. And, at the same time provide compensation schemes that remain effective in attracting a workforce with the appropriate professional experience, skills, and competencies. In other words, governments aspire to strike a balance between ensuring adequate and attractive compensation so that they can continue to attract the needed human resources, while at the same time containing the level of budgetary outlays for salaries and benefits of public employees, in line with their fiscal policy targets. To achieve this goal, governments must adopt compensation policies aimed at effectively leveraging compensation schemes that are competitive, attractive, flexible, and efficient, while at the same time adhering to fiscal discipline considerations.

Public sector compensation systems have started changing, albeit slowly, as a response to the new globalised and technologically driven world, coupled with cost-control measures, and in some cases austerity measures. Governments have started introducing policies that restructure the way work is compensated and how the total rewards are organised and managed, as well as policies that transform organisational structures and modalities of work. What is emerging represents a departure from conventional thinking with respect to public sector compensation.

Box 8. Good practices in public sector compensation

- Governance procedures that allow for delegated authority within an agreed decision-making framework in determining individual compensation;
- Compensation policies and practices that achieve value for money in seeking to recruit, retain and motivate suitably qualified individuals;
- Disclosure, transparency, and audit procedures that are rigorously implemented to ensure fairness.

Emerging trends in public sector compensation include the movement towards flatter and more flexible organisational designs and compensation structures, individualised pay related to competencies and skills in demand, as well as performance-related pay for senior government executives to delegation of responsibility for compensation management from central to ministry and agency levels, and the increasing use of competencies models in recruitment and promotion and job evaluation and classification linking jobs to appropriate compensation levels.

Flatter and more flexible organisational designs

Governments are moving towards flatter and more flexible organisational designs that are accompanied by compensation structures that are integrated and harmonised across different personnel groups and which contain fewer grades, generally composed of wide compensation bands (OECD 2016; ACSH 2017). This process is often accompanied by “rightsizing” – a term referring to initiatives intended to determine optimal staffing configurations – that often lead to “downsizing” the public workforce aimed at reducing the size of the government compensation bill.⁷¹ In this process, government departments and agencies are subjected to functional reviews and organisational restructuring, often eliminating or redefining jobs and layers of management; and job descriptions are subjected to review and reassignment to salary grades anew (OECD 2012; ACSH 2017).

⁷¹ In essence, there is no real difference between rightsizing and downsizing. Typically, the term "rightsizing" is used more by those who reduce job positions and "downsizing" is used by those affected and other observers. Technically, rightsizing means adjusting the size of the workforce to its optimal size. In this case, it is plausible that one could “right-size” by adding workers or shuffling them to other positions. By contrast, downsizing must necessarily involve cutting positions. However, in general, the two terms mean the same thing and they are interchangeably used. But "rightsizing" sounds better and is therefore often used as a euphemism for "downsizing."

Additionally, public organisations are redefining their core functions and changing their views about what they should do themselves, as part of a change taking place in public service delivery modalities. This has resulted to a significant increase in joint initiatives and close collaboration with the private sector. In some cases, such collaboration is creating new organisations which draw on multiple workforces and thus need a new and unified approach to compensation. However, these initiatives take time to mature and require a shift in the balance of the workforce, which in turn requires new skills sets and a different culture and behaviour that need to also be supported and reinforced through a new compensation framework.

Individualised pay

The supply and demand of individuals with specialised education, professional experience, and ability to perform are also becoming increasingly important determinants of compensation, thus bringing to the forefront the notion of “individualised pay” for public employees possessing skills and competencies in high demand in both the public and the private sectors of an economy. In this context, considering that demand for “knowledge”-based jobs are on the rise, public sector employers are introducing compensation policies that may allow them to hire suitable and highly qualified individuals and thus compensate them at a premium, e.g., higher pay.

This approach allows governments to have considerable flexibility in pay by introducing differentiated scales and/or by providing additional allowances and incentives to attract, recruit and retain staff, particularly in occupational areas that skills shortages exist. For instance, occupations that are high in demand, such as those in technology and healthcare, command higher starting salaries. Nearly 60 percent of the OECD countries provide special allowances and over 35 percent have separate pay scales for certain professions, e.g., IT specialists, epidemiologists, etc.

Individualised pay is also relevant in the case of executive compensation intended for senior civil servants in the countries that have one in place. However, given that executive compensation is a politically sensitive issue and thus difficult to justify envisioned compensation levels for public sector executive positions that would be compatible with those provided in the private sector. As a result, public sector executive compensation is consistently below the levels in the private sector, although public sector executives manage budgets and are entrusted with operational responsibilities that are equal, in most cases, to those of many private sector executives. This pattern is not likely to change, as public sector executive pay is still seen as large to the public and thus difficult to advocate an increase.

Linking employee pay with performance

Linking employee pay with performance was first introduced in position-based civil service systems, and it was later extended to career-based systems, as a way of increasing flexibility in working practices and managerial discretion on pay and individual accountability (ACSH 2017). Even though performance-related pay is still a challenging and controversial issue in many countries, the transition to such pay modality will continue, given the persistent focus on government performance.⁷²

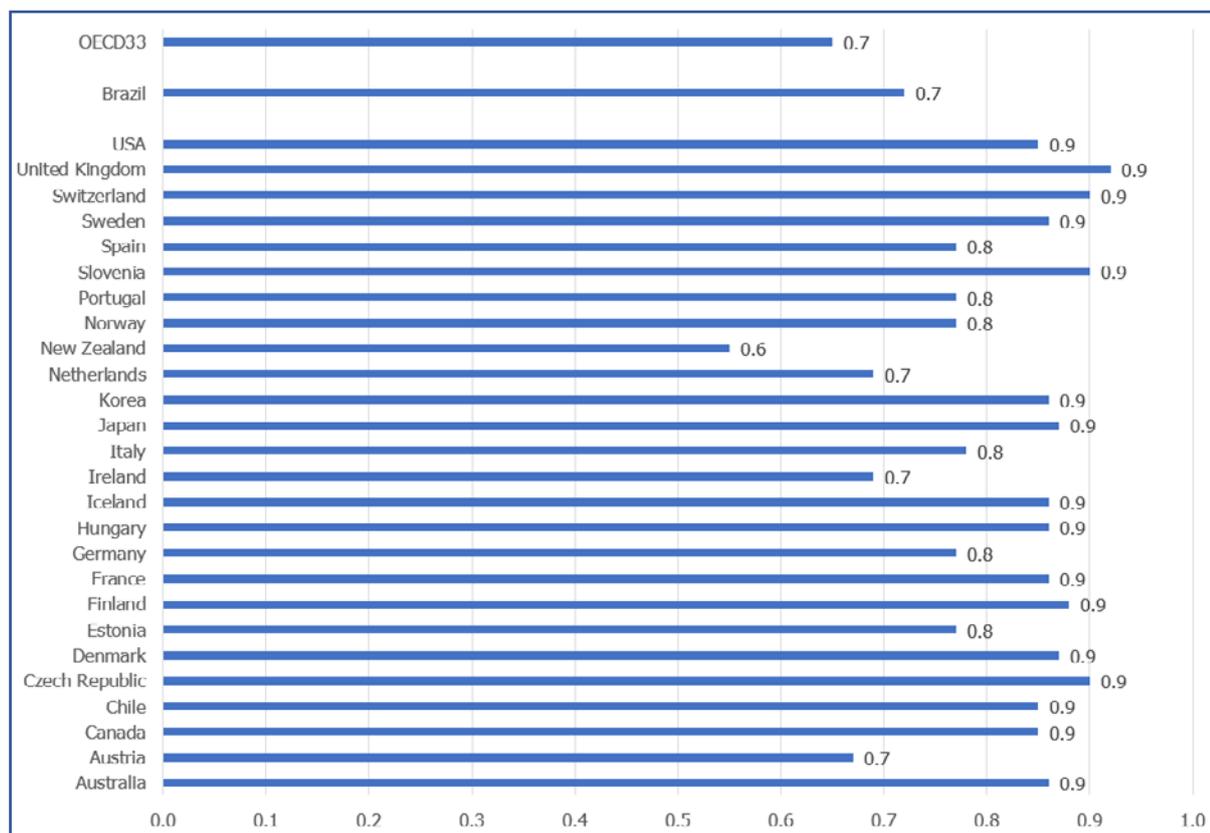
Thus, performance-related pay in the form of bonuses or merit-based percentage increases to basic pay is being used more frequently in recent years. Under various schemes, compensation is adjusted to reflect the assessed level of performance against a pre-determined set of objectives. The higher the results achieved, the higher the rewards. Performance-related varies in terms of the range of staff position to which it applies, whether targets and incentives apply to individuals and/or groups, the extent to which rankings are used, and the size of the rewards. Currently it is mostly used for positions at the executive level, e.g., public managers and for professional staff positions.⁷³

⁷² The difficulties of setting personal objectives in some roles in the public sector, let alone measuring them are recognised as a challenge in implementing performance-related pay systems. For a discussion of this issue, see also Section 2 of this paper.

⁷³ In certain cases, this arrangement is accompanied by the simultaneous elimination of seniority-related (years-of-service) incremental increases of basic pay.

Among the OECD countries, two-thirds have introduced links between performance appraisal and pay in their civil service systems, although only a handful can be considered to have an extended formalised performance-related pay system. There is relatively small variance among countries reporting the use of performance-related pay, with the Czech Republic, Switzerland and the United Kingdom applying performance-related pay more extensively than other countries and Austria, the Netherlands and New Zealand applying it the least. Six OECD countries – Belgium, Greece, Iceland, Mexico, Poland, and Turkey – report no use of performance-related pay at all.

Figure 11. Use of performance pay⁷⁴



Source: OECD (2012)

The countries' index scores are skewed towards high use as only those countries that have compensation systems in place linking pay to performance appear in the Figure. Thus, its primary value lies with presenting the countries that do have such a system in use, which all seem to display a higher index value than the OECD average.

Overall, performance-related pay systems may not achieve significant results by themselves, however they are a potentially useful complement to other elements of performance-oriented management, as has been the case in Canada, Denmark, Finland, Korea, the United Kingdom, etc. For example, career opportunities such as promotions and corresponding increases in pay.

⁷⁴ Figure 11 presents the degree to which countries around the world link employee performance with pay, expressed in the form of an index ranging from 0 (no use) to 1 (high use). Countries that do not use performance-related pay do not appear in the figure. The index gathers responses to 27 questions in the HRM Survey linked to several aspects of the human resource management function, i.e., design and implementation of HRM policy in recruitment, performance management, and pay, and delegation in HRM responsibility, among other. The data refer to 2010 and were collected through the 2010 OECD Survey on Strategic Human Resources Management in central government organisations. Respondents were predominantly senior officials in central government HRM departments. The survey was completed by all OECD member states (except Luxembourg). Definitions of the civil service, as well as the organisations governed at the central level of government, differ across countries, thus such differences should be kept in mind when comparisons are made across countries.

On the other hand, as performance-related pay schemes have not generally managed to yield the expected results, there is a tendency to move to new approaches altogether, for example skills- or competencies-based pay, or adopt hybrid schemes. The notion of linking pay to a wider definition of employees' "contribution" to an organisation rather than simple "performance" is gaining ground. This trend emphasises not only performance in the sense of the output – the result – but also the input – what the employees have contributed (Cotton 2018).

Delegation of responsibility

Another emerging trend in public sector compensation management and administration is the delegation of responsibility for compensation management from a central authority to ministries and agencies, and in some countries delegated still further to the level of managers and supervisors. This approach recognises the role compensation plays in staffing practices and work management and it is also very much in line with the growing practice of holding public managers accountable for the performance of their units and their personnel.⁷⁵

The key motive behind delegation is to empower and enable public managers to better direct their staff, allowing them to consider in the HRM-related decisions both the unique requirements of their own organisations and the merits of individual employees. In this context, as HRM-related authority is delegated, the role of the central human resource management bodies is also changing to one setting minimum standards and formulation HRM policies rather than implementing them.

Thus, the degree of discretion public managers have in such matters as human resource management, and with compensation policies and practices for their organisation is increasing, as such decisions are shifting to lower organisational levels in government departments and agencies. This practice is based on the idea that all organisations need to motivate their employees, including the ability to reward them for good performance and behaviour, and to sanction them for misconduct and unsatisfactory behaviour. Although employees may be motivated in many ways, some degree of delegated control over monetary rewards is probably one of the most effective ways.

However, experience demonstrates that to develop a decentralised compensation system, a clear agreement on the goals of and responsibility for such a system is in place. A consensus is needed on the nature of the system that will best meet the needs of government, as well as of public employees. A consensus is also needed on several other issues, namely [i] the role and responsibilities of the central human resource management body in programme management and administration; [ii] the role of managers and other individuals involved in programme administration, e.g. degree of discretion; [iii] the relative importance of the performance element; and [iv] the extent of alignment with contemporary rates of compensation.⁷⁶ And, of course, the cost of full implementation needs to be estimated and final approval to be secured. In addition, the policies, regulations, and administrative procedures need to be codified and training materials for managers and employees need to be developed. There must also be agreement on the procedures and criteria for assessing the system once it is implemented for a reasonable period.

It is observed that countries that have developed the strongest links between performance appraisals and compensation are the countries, which retain the highest delegation of responsibility in human resources and budgetary management. Conversely, countries with a rather low degree of delegation tend to focus on promotion to motivate their personnel and introduce the remuneration incentive only for specific categories of public employees or for those at management level (OECD 2005b).

⁷⁵ Although, there are also cases that the reverse is happening, under pressure for urgent fiscal consolidation due to financial difficulties some countries face, for them to gain more control over the total size of public sector compensation (Berry and Lowery 1987).

⁷⁶ In this case, the salary schedule needs to be defined and the number of grades and the size of steps (if any) need to be decided.

Delegation of responsibility and authority for such matters is often controversial, and it can also be complicated. The exact nature of the challenges depends on the cultural, political, and historical context of each country. This is because delegation of responsibility, or at least some discretion on determining levels of compensation entails major behavioural changes. Stakeholders need to comprehend the ultimate benefit, as well as they need to be convinced that maintenance of propriety and of the public service ethos is a critical factor after the delegation of such authority, to ensure that a fair system is in place. In this context, the need for developing and maintaining sufficient managerial capacity and competence becomes apparent. Thus, managers in organisations that are granted the delegated authority to handle compensation-related matters, need to be trained on the management of compensation issues as an integral part of the human resource management function (IMF 2016).

Table 10. Typology of autonomy in compensation-related matters in the U.K. public sector

	A⁷⁷	B⁷⁸	C⁷⁹	D⁸⁰	E⁸¹		
ENTIRELY PUBLIC	Directly controlled	Operational autonomy with pay framework	Operational autonomy	Arm's length	Remote	MORE PRIVATE	
	Government decides on remuneration	Mandatory pay scales or sectoral pay framework	Makes own pay arrangements	Given freedom to operate within a market – like private sector	Varied and difficult to define; the most independent		
	Central Government; Non-ministerial departments	Review Body Groups; Police; Executive Agencies	NDPB; ⁸² Local Authorities; Trust Hospitals; Academy schools; Further Education establishments	Public Corporations; Public Interest Companies; Universities	Public Private Partnerships; Outsourced provision; "Parastatal companies"; Charities & Trusts		
	Complies with the spirit of the code						
	Direct control		Influence		Conditional		
Full compliance with the code			Another code may apply				

Source: Institute of Employment Studies (2018)

Table 10 presents a typology of the degree of autonomy U.K. public organisations have in determining the levels of compensation paid to their employees along a continuum ranging from direct control to almost total independence. It is noted that operational autonomy in determining levels of compensation is related to the position a public organisation holds on the public to private continuum.

⁷⁷ Central government making decisions about remuneration.

⁷⁸ Public service operational autonomy with controlled remuneration framework, mandatory pay scales and a review body regime or similar.

⁷⁹ Public service operational autonomy, with freedom to make their own pay arrangements, either by constitutional position (local authorities) or by gaining additional freedoms from the previous category (academy schools, hospitals).

⁸⁰ Bodies that trade or operate in a market broadly defined, which have been intentionally given the freedom to behave like private companies in most respects.

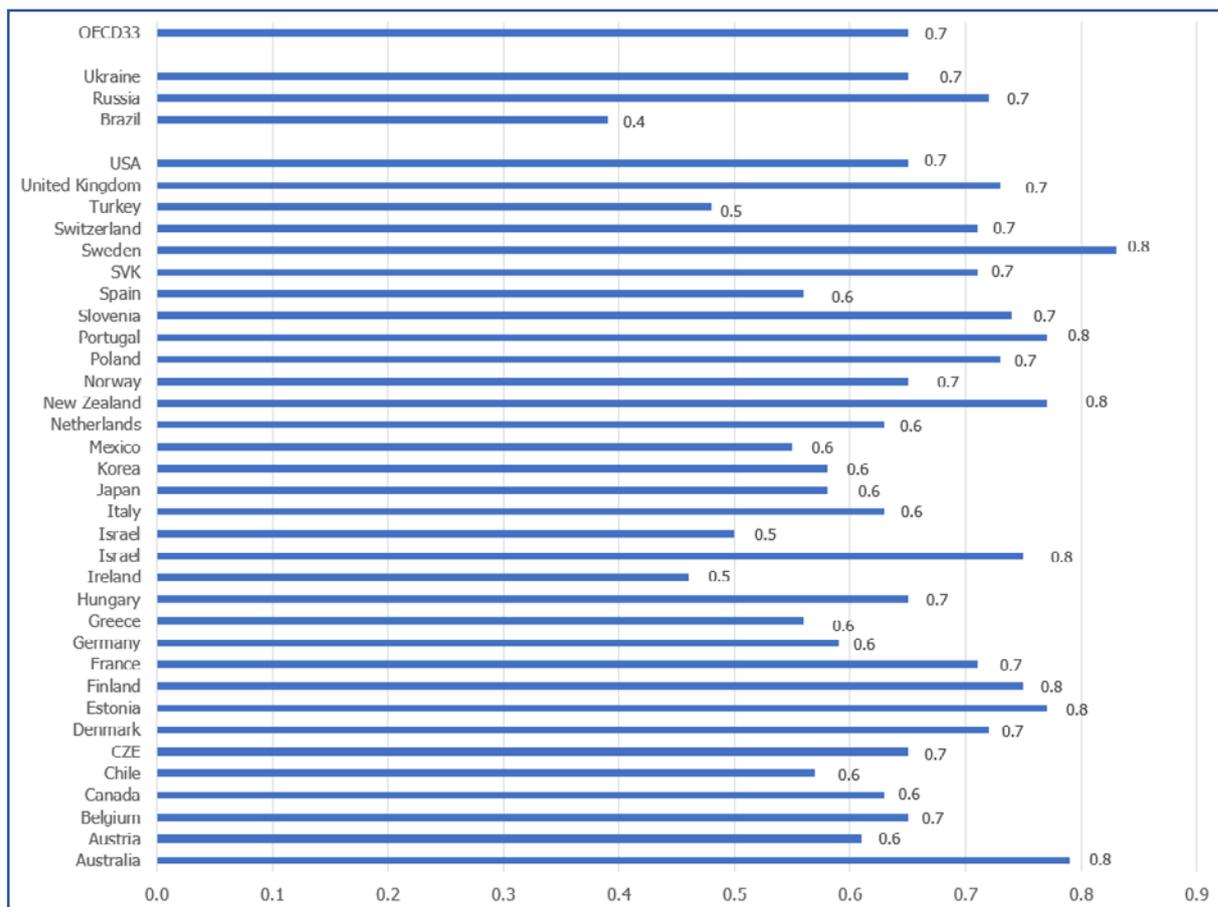
⁸¹ Peripheral bodies to the government.

⁸² NDPB is a classification utilised in the United Kingdom to describe the Cabinet Office, the Treasury, the Scottish Government, and the Northern Ireland Executive, as well as the QANGO. NDPB are not an integral part of any government department and carry out their work at arm's length from ministers, although ministers are ultimately responsible to parliament for the activities of the bodies sponsored by their ministries. The term includes the four existing types of NDPB (executive, advisory, tribunal and independent monitoring boards) but excludes public corporations and public broadcasters (Cabinet Office 2012).

Many OECD countries are moving towards a model of human resources management, whereby major decisions regarding employee selection, recruitment, remuneration, working conditions and dismissal are delegated from a centralised human resource management body to line ministries, departments, and agencies. This means that ministries, departments, and agencies are provided a large amount of managerial room of manoeuvring, allowing them more flexibility regarding their staffing levels, recruitment and for some working conditions. Performance-related pay and performance appraisal systems also tend to be delegated to ministries and agencies, although the general management of the overall compensation system remains centralised in many of the countries. The imperative of cost control and the institutional structure of collective bargaining in some countries may partly explain these trends.

Thus, there is no single model or common standards of delegation of responsibility, as the variance in the extent of delegation is considerable. In 2010, several OECD member countries demonstrated a high degree of delegation, with Australia and Sweden standing out as the most prominent examples. In these countries, line ministries and government departments have greater flexibility to determine their staffing needs, recruit staff and set conditions of employment. In comparison, Ireland and Turkey display relatively lower levels of delegation, with central human resource management bodies in these countries retaining greater responsibility over such decisions.

Figure 12. Degree of delegation of responsibility for compensation matters



Source: OECD (2011)

Eighteen OECD member countries have a central HRM body responsible for at least some key HRM functions. Exceptions are Germany and the Slovak Republic that do not have a centralised HRM body. Thirteen OECD countries (Australia, Austria, Belgium, Chile, the Czech Republic, France, Greece, Iceland, New Zealand, Portugal, Slovenia, Sweden, and the United Kingdom) have a central HRM body that plays a co-ordinating role across line ministries and is not formally

responsible for HRM functions. Approximately half of the OECD Member States have a high degree of delegation in place, where the rest of them are below the average for the OECD Member States overall.

The index values range from 0 (no delegation) to 1 (high level of delegation). The index value is derived by taking into consideration the following factors: existence of a central human resource management body; the role of line ministries in determining the number and types of posts within organisations; the allocation of the budget between payroll and other expenses; staff compensation levels; position classification, recruitment, and dismissals; and conditions of employment (OECD 2011).

Furthermore, it appears that countries which have moved towards more delegation have also introduced performance-related pay systems. This is not surprising given that performance-related pay requires enhanced discretion to manage. However, prerequisites for these systems to succeed are the creation of an adequate infrastructure for performance management and a transparent process, as well as establishment of trust on managerial delegation within an organisation.

Use of competencies' frameworks

A growing interest in the use of competencies and skills is also observed nowadays to allow public employers to select prospective employees who match the required skills for performing a job. This trend has picked up momentum lately as the emergence of “knowledge-based” jobs requires employers to focus more on selecting prospective employees with the appropriate competencies and skills for performing a job.⁸³ This is clearly a shift from the classic model of recruiting employees with the “right degree and experience”, as it goes beyond “credentials” to assess which candidates are truly capable of doing the work a specific position requires, by defining the necessary competencies of a position and then measure which employees possess such competencies and skills that are needed for a given position or a role.⁸⁴

Competencies are any observable abilities, skills, knowledge, motivations, or traits defined in terms of the behaviours needed for successful job performance; and they consist of core, functional, and leadership competencies. **Core competencies** are those that are fundamental to the organisational success and are applied across all jobs in an organisation. This type of competencies decides how organisations want to shape their employees, and their professional characteristics. **Functional competencies** are those technical and non-technical knowledge, skill, and abilities required to fulfil job tasks, duties, and responsibilities satisfactorily. **Leadership competencies** are basically skills and behaviours that contribute to superior performance, used to assess an individual's ability and skills to potentially be a leader (ACSH 2017).

Applying competency-based practices in human resource management ensure that organisations have an effective benchmark at their disposal for measuring employees' qualifications and suitability for filling a specific position. Consequently, applying this approach across any organisation, should lead to improvements in the quality of recruitment processes, more fairness in evaluation, proper career development, and increases in operational effectiveness contributing the achievement of organisational strategic goals (Rodriguez et al. 2002).

However, competencies-based human resource management to be effective and endure must permeate through organisational culture. It must become the new norm for both management and staff alike. Establishing a competencies-based human resource management system is just the foundation. The system needs to be operationalised and, most importantly, institutionalised

⁸³ Knowledge-based jobs are generally defined as those jobs, whose main capital is knowledge. Any job that requires to “think for a living”. Contemporary examples of such jobs include programmers, design thinkers, policy innovators, etc.

⁸⁴ Competencies-based models may also be utilised in other resource functions, beyond recruitment and promotion, as they are also integral in training and development and performance management.

for the organisation and the staff to fully reap the benefits of such a system in due course (WCO 2019). Moreover, opting for a competencies-based human resource management approach means that an organisation views human resource processes through a strategic perspective. In this context, human resource management units become critical actors in implementing the human resource component of any organisational development strategy, and thus a major contributor to organisational performance.

Use of job evaluation and job classification (and grading)

The recent evolution of public sector compensation systems includes the introduction of new tools and techniques in determining what is fair and competitive pay for a position, job evaluation and job classification.

The term job evaluation denotes the methods of determining the relative importance of numerous different jobs on a systematic basis (ACAS 2014). Job evaluation is increasingly being used in the

Box 9. Link between Job Evaluation and Job Pay Level

- Determine the characteristics of a job that may influence compensation, such as education, qualifications, work experience, skills, effort, responsibility, and working conditions;
- Break down each of these characteristics into a list of “factors” (and each factor into levels);
- Weigh factors according to their importance for an organisation;
- Evaluate each factor by awarding points for each factor level and assign a score;
- Total separate factor scores into a single score for each characteristic;
- Combine the characteristics’ scores to determine the overall job score;
- Rank the job in the hierarchy of jobs in an organisation;
- Evaluate job descriptions against the factor plan to determine the grade level and the compensation level for a job.

Source: ACAS (2014)

public sector, although in a simplified form (CIPD 2015; 2015a; 2015b). Typically, it is used to determine pay and grading structures, while ensuring a fair and equal pay system, as well as comparing rates against the internal or the external market. However, the primary focus of job evaluation is to rank jobs and their relative importance within an organisation, thus it does not determine grades and pay levels directly. It only produces a hierarchy – that may not mirror everyone’s perceptions – which may be used to set the grade – and thus the pay – for a job.⁸⁵

Job evaluation is also associated with organisational change, while restructuring existing government organisations or establishing new ones, e.g., autonomous agencies and/or PPP schemes, which often lead to new job designs and thus the need for determining the hierarchical standing and appropriate grade for such new jobs

and positions. It is also associated with technological advances and automation, which have altered the content of a considerable number of jobs, thus such jobs need to be designed anew (Batkovsky et al. 2019; Conceicao 2018).

Job evaluation is considered by most to be the starting point for defining adequate and appropriate salary levels to a job position. Proper and fair compensation management entails an accurate understanding of a job’s duties, responsibilities, and span of control. The most widely used job evaluation system in the world is that of the Hay Group that was first introduced in 1949. This system is based on points assigned to a series of “compensation factors”. The factors are subjectively weighed according to someone’s sense of their relative importance, with the weights allocating points along ordinal measurement scales (points are on ordinal scale since no true zero exists and the differences in point values do not have a constant meaning). Jobs are then “measured” against the scales via their compensable factors and points are assigned. The total number of assigned points are understood to be a measure of the job value but are also an index of where a job stands in the hierarchy of all jobs (Hay Group 2012).

⁸⁵ Conducting jobs’ evaluation can be tricky, as employees often identify very closely with the jobs they do, although job evaluation evaluates the job and not the job holder. Thus, determining the relative importance of jobs within an organisation inevitably causes anxiety, as well as raise expectations, for those involved.

Determining levels of compensation also depends on job classification. Job classification is the process to determine the relative rank [importance] of different jobs in an organisation. This is an important task, as the hierarchical position a job is classified underlies many human resource management related decisions. A good classification leads to fair, equitable, and consistent compensation ensures that senior jobs have higher requirements in terms of performance and capabilities and facilitates advancement to more senior roles.

Job classification is commonly used in large corporations, and increasingly in government organisations and other public institutions like universities. Job classification is a specific method of job evaluation. The latter is a systemic approach aimed at valuing a position. The most common factors taken into consideration, when evaluating a job are qualifications and experience, breadth of responsibility, complexity of functions, scale of communication and independence.

One of the advantages for using job classification techniques is that similar jobs can be classified and grouped together. This can help to streamline workflow and see if any groups' tasks can be compartmentalised within an organisation. This can help create a broadband pay structure, meaning that pay grades are consolidated into fewer pay ranges. On the other hand, however, pay ranges that are wider, give an employer the ability to offer pay increases to their employees without having to promote them.

Overall, the use of job classification creates parity in job titles, consistent job levels within the organisation hierarchy, and salary ranges that are determined by identified factors. These factors include market pay rates

for people doing similar work in similar industries in the same region of the country, pay ranges of comparable jobs within the organisation, and the level of knowledge, skill, experience, and education needed to perform each job. Most countries classify civil service positions by professional orientation, which is then used to assign jobs to a grade based on its classification (AIHR 2021). Based on the rankings of job evaluation and classification, a grade system is attached to the job, which is then linked to a pay range [a grade].⁸⁶

The International Standard Classification of Occupations 2008 (ISCO-08) provides a system for classifying and aggregating occupational information obtained by means of statistical censuses and surveys, as well as from administrative records. It is a four-level hierarchically structured classification that allows all jobs in the world to be classified into 436 unit-groups. These groups form the most detailed level of the classification structure and are aggregated into 130 minor groups, 43 sub-major groups and 10 major groups, based on their similarity in terms of the skill level specialisation required for the jobs. This allows to produce relatively detailed internationally comparable data as well as summary information for only 10 groups at the highest level of aggregation.⁸⁷

⁸⁶ As classification aims to create a well-defined comparison, it usually works with a structure of job families, functions, and jobs.

⁸⁷ It should be emphasised that, while serving as a model, ISCO-08 is not intended to replace any existing national classification of occupations, as the occupation classification of individual countries should fully reflect the structure of the national labour market and information needs for nationally relevant purposes. However, countries whose occupational classifications are aligned to ISCO-08 in concept and structure will find it easier to develop the procedures to make their occupational statistics internationally comparable.

Box 10. A typical job classification system

Job family	Group of jobs that involve similar work and require similar training, skills, knowledge, and expertise. Job families are based on function and not on organisational structure.
Job function / occupation	Specific occupational area within a family. It is a set of jobs whose main tasks, duties and responsibilities are characterised by a high degree of similarity; thus, they can be grouped in a job category based on similar characteristics or skills.
Job	A set of tasks, duties and responsibilities performed (defined in the job description), or meant to be performed, by one person, including for an employer or in self-employment.
Role	A role describes the part played by an individual employee carrying out their work. One job can have multiple roles.

Source: ILO (2010)

Pay grades are usually based on grade levels that are determined by job families, occupations, and jobs. A job family is a broad group of occupations, which are related in one of more ways such as: similarity of functions performed, transferability of knowledge and skills from one occupation to another, or similarity of materials or equipment worked on. An occupation is a subgroup of a family, which includes all jobs at the various skill levels in a particular kind of work. Jobs within an occupation are like each other regarding subject matter and basic knowledge and skill requirements. A job post includes duties and responsibilities which make up the work performed by an individual occupying a job post.

Table 11 contains summary information on how public sector positions are classified across countries, along with the classification criteria used to determine pay grades.⁸⁸ Overall, some variation is observed among the surveyed countries in how they classify their public sector positions, although it seems that a considerable number of them classify their public sector positions in family groups based mostly on the nature of the function(s) of positions, and some other criteria that seem to be common across most countries, i.e. Austria, Canada, Estonia, France, Kazakhstan, Latvia, Ukraine, and the USA. A small number of countries uses education level to classify public sector positions, i.e., Greece, Singapore, and Spain.

However, when classification criteria are observed, they seem to be common in most cases. Education and professional experience are a prerequisite in all cases, followed by numerous criteria such as level of responsibility of a position, organisation of work and its management, decision making powers, complexity of the functions performed, etc. In some case, the primary criteria are limited to length of service and professional experience along with education qualifications only. In some other cases, working conditions and hazards associated with the work performed are also considered, i.e., Finland, and France.

When the focus shifts to pay grades and salary steps, the variation is extremely wide across countries in the number of grades, the number of steps and other criteria that apply in determining the pay scales of public employees.

Table 11 also contains information on the government authority or authorities that are responsible for the classification of positions in the public sector. In some cases, dedicated organisations exist to perform such a function and in other cases the task is part of the Ministry of Finance mandate.

⁸⁸ The information contained in this table is based on a recent study conducted by the Centre for Adaptation of the Civil Service to the Standards of the European Union in Ukraine that covers the main issues on classification of civil service positions, and the application of grading systems in the remuneration of civil servants in twenty-one countries around the world. The Centre for Adaptation of the Civil Service to the Standards of the European Union is a subsidiary of the National Agency of Ukraine on Civil Service. the Centre's main responsibilities are (i) the improvement of existing and promotion of implementation of new standards and procedures for civil servants and local self-government officials, central and local government authorities, which are based on good practices from around the world; and (ii) the publication of analytical and informational periodicals for sharing new ideas and best practices in the area of civil service development; <http://www.center.gov.ua/en/>

Table 11. Public sector position classification, classification criteria and salary grade systems in selective countries

Country	Classification of public service positions ⁸⁹	Classification criteria for public service positions	Salary grades / scales / steps	Responsible Government Authority
Armenia	<ul style="list-style-type: none"> - Senior - Professional (8 groups) 	<ul style="list-style-type: none"> - Level of responsibility - Organisation of work and its management - Decision making powers - Significance of activity - Level of representation / contacts - Complexity of tasks - Professional experience / length of service (groups 1-5) - University level education (for groups 1-5) 	<ul style="list-style-type: none"> - 11 levels (grades) (11 highest – 1 lowest) - 8 steps within each level for specialists and 5 steps for senior civil service positions⁹⁰ 	Office of the Civil Service, Prime Minister's Office
Austria	<ul style="list-style-type: none"> - Groups of positions (15 groups)⁹¹ - Appointment groups (A1-A7)⁹² 	<ul style="list-style-type: none"> - Length of service / professional experience 	<ul style="list-style-type: none"> - 19 salary brackets (19 highest – 1 lowest) - 7 appointment groups (steps) within each salary bracket (A7 lowest – A1 highest) 	Federal Chancellery ⁹³
Azerbaijan	<ul style="list-style-type: none"> - Administrative (8 classification levels)⁹⁴ - Auxiliary (4 classification levels)⁹⁵ 	<ul style="list-style-type: none"> - Nature and subject of functions performed - Source of authority - Position in the hierarchy⁹⁶ 		State Examination Centre
Canada	<ul style="list-style-type: none"> - Occupational groups / families of positions (30 groups and 130+ subgroups)⁹⁷ 	<ul style="list-style-type: none"> - Nature and subject of functions performed - Knowledge and skills (education, experience, advanced training) - Efforts (metal, physical) - Responsibilities (quantity and level of subordinates) - Decision making powers - Nature of contracts - Working conditions 	<ul style="list-style-type: none"> - Pay grades vary across collective bargaining agreements; at least 17 such agreements in force for a variety of occupational groups 	Treasury Board

⁸⁹ In many of the countries surveyed, the classification of public service positions refers to all public sector employees, including teachers, nurses, military personnel, etc, e.g., Austria), while in others the information provided refers to civil servants only, e.g., Poland. This is not surprising as the concept of public / civil service is applied differently across countries. Thus, the information presented in the table is indicative, and no direct comparisons of the classification systems can be made.

⁹⁰ See also Table 4, p. 10 of this paper for an analytical presentation of pay scales per grade and step in Armenia.

⁹¹ (1) general administrative services and civil servants of general administration and in a trade field; (2) candidates for judges, judges, and prosecutors; (3) university professors and teachers; (4) teachers; (5) school quality management officials and technical inspectors; (6) executive service and security guards; (7) military including staff officers; (8) postal and telecommunication service officials; (9) nurses; and (10) telecommunication management officials.

⁹² Appointment groups contain numerous functional groups.

⁹³ European Commission (2018).

⁹⁴ (1) supreme; (2) first; (3) second; (4) third; (5) fourth; (6) fifth; (7) sixth; and (8) seventh.

⁹⁵ (1) first; (2) second; (3) third; and (4) fourth; mostly technical positions

⁹⁶ For example, the position of the Head of the Administration of the President is classified in the supreme classification, whereas the position of the Deputy Head of the Administration of the President in the first classification.

⁹⁷ The main occupational groups (families) of civil service positions are: (1) Air Traffic Control; (2) Aircraft Operations; (3) Applied Science and Patent Examination; (4) Architecture, Engineering and Land Survey; (5) Computer Systems; (6) Executive; (7) Audit, Commerce and Purchasing; (8) Border Services; (9) Computer Systems; (10) Correctional Services; (11) Economics and Social Science Services; (12) Education and Library Science; (13) Electronics; (14) Financial Management; (15) Foreign Service; (16) Human Resource Management; (17) Law Management; (18) Programme and Administrative Services; (19) Health Services; (20) Law Practitioner; (21) Non-Supervisory Printing Services; (22) Operational Services; (23) Police Operations Support; (24) Radio Operations; (25) Research; (26) Permanent members and reservists of the Royal Canadian Mounted Police; (27) Ship Repair Chargehands and Production Supervisors, Ship Repair, Ships Officers; (28) Technical Services; (29) Translation; and (30) University Teaching.

Croatia	<ul style="list-style-type: none"> - Managerial (4 sub-categories)⁹⁸ - Senior (5 sub-categories)⁹⁹ - Junior (3 sub-categories)¹⁰⁰ 	<ul style="list-style-type: none"> - Professional knowledge - Complexity of work - Independence in work - Nature of contacts (cooperation with other government entities and communication) - Degree of accountability and influence on decision making 	Ministry of Public Administration	
Cyprus	<ul style="list-style-type: none"> - Permanent (non-interchangeable) - Temporary (interchangeable) 	<ul style="list-style-type: none"> - Education level (4 levels)¹⁰¹ - Speciality - Qualifications and required work experience 	<ul style="list-style-type: none"> - 16 grades (scales) (A1 lowest - A16 highest)¹⁰² - 13 steps for each pay grade 	Ministry of Finance Civil Service Commission
Estonia	<ul style="list-style-type: none"> - Families of positions (80)¹⁰³ 	<ul style="list-style-type: none"> - Education level - Level of responsibility / span of control - Work experience - Complexity of tasks performed - Health and safety conditions at work 	<ul style="list-style-type: none"> - 7 grades (1 lowest – 7 highest)¹⁰⁴ 	Ministry of Finance
France	<ul style="list-style-type: none"> - Families of positions (13)¹⁰⁵ 	<ul style="list-style-type: none"> - Education level - Functional responsibility (control, coordination, or design)¹⁰⁶ - Technical knowledge - Professional knowledge - Experience and/or qualifications to perform job - Degree of transparency 	<ul style="list-style-type: none"> - 3 categories; 9 functional groups - Category A – 4 groups - Category B – 3 groups - Category C – 2 groups 	Ministry of Civil Service Transformation
Georgia	<ul style="list-style-type: none"> - Ranks (4)¹⁰⁷ 	<ul style="list-style-type: none"> - Degree of responsibility - Degree of difficulty in performing duties - Competencies - Qualifications - Work experience 	<ul style="list-style-type: none"> - 12 grades (1 lowest – 12 highest) - Grades awarded on performance and experience assessments every two years; they are not ranked-based 	Civil Service Bureau

⁹⁸ (1) Chief manager; (2) Senior manager; (3) Manager; (4) Junior manager.

⁹⁹ (1) Chief advisor; (2) Senior advisor-specialist; (3) Senior advisor; (4) Advisor; (5) Senior Associate.

¹⁰⁰ (1) Associate; (2) Senior clerk; (3) Clerk.

¹⁰¹ (1) high school certificate; (2) 3-year certificate after high school; (3) university education; and (4) university education and/or professional qualification.

¹⁰² High school certificate holders pay scales: A2, A5, A7; university education pay scales: A8, A10, A11; university education and/or professional qualifications pay scales: A9, A11, A12 – with specialty A13, A15 and without specialty A11, A13.

¹⁰³ Each family is divided into 2-7 levels according to the degree of responsibility.

¹⁰⁴ (1) manual workers, technical support; (2) qualified workers, beginner level specialists; (3) qualified workers, specialists; (4) senior and top specialists; (5) experts, first and second level managers; (6) functional managers, division managers; (7) top managers.

¹⁰⁵ (1) Social; (2) Administrative; (3) Construction and public works; (4) Education, training, and research; (5) Maintenance and service; (6) Greenery and landscapes; (7) State finance; (8) Justice; (9) Security and defence; (10) Housekeeping services and catering; (11) Medical care; (12) Sports, recreation, entertainment, and culture; and (13) Technical, IT and transport.

¹⁰⁶ Position classes: (C) Executive positions; (B) Supervision and monitoring; and (A) Design and management.

¹⁰⁷ (I) High level management; (II) Middle level management; (III) Senior specialist; and (IV) Junior specialist. Each rank includes nine positions.

Germany ¹⁰⁸	<ul style="list-style-type: none"> - Civil servants (permanent)¹⁰⁹ - Public employees (non-permanent) 	<ul style="list-style-type: none"> - Education level - Level of complexity - Relevance and responsibility of tasks performed 	<ul style="list-style-type: none"> - Scale A 16 grades (1 lowest – 15 highest); 6 steps for each grade from to 1 to 8 and 5 steps from 9 to 15¹¹⁰ - Scale B 11 grades (1 lowest – 11 highest)¹¹¹ 	Federal Ministry of Interior, Building, and Community
Greece	<ul style="list-style-type: none"> - Education level (5)¹¹² 	<ul style="list-style-type: none"> - Education level - Seniority / length of service 	<ul style="list-style-type: none"> - 5 levels (E lowest – A highest) - E: entry level/2 years¹¹³ - D: UE, TE, SE/2 years; CE/10 years - C: UE/5 years; TE/6 years; SE/8 years - B: UE, TE, SE/6 years; CE/22 years - A: UE/13 years; TE/14 years; SE/16 years 	Ministry of Interior, General Secretariat of Public Sector Human Resources
Japan	<ul style="list-style-type: none"> - General - Special - Level of government 	<ul style="list-style-type: none"> - Degree of complexity - Responsibility of tasks performed - Intensity of work - Working environment / conditions - Working hours 	<ul style="list-style-type: none"> - 82 grades for general positions - 10 grades for special positions¹¹⁴ 	National Personnel Authority
Kazakhstan ¹¹⁵	<ul style="list-style-type: none"> - Functional blocks¹¹⁶ - Categories (4)¹¹⁷ - Categories groups¹¹⁸ - Level of government 	<ul style="list-style-type: none"> - Education level - Qualification requirements - Functional responsibility - Complexity of tasks performed - Professional experience - Jurisdiction level of government entity 	<ul style="list-style-type: none"> - 64 grades¹¹⁹ 	Agency for Civil Service Affairs

¹⁰⁸ Information presented applies to the federal level of public administration.

¹⁰⁹ Positions in both classifications of public service positions are divided into four levels, according to qualification requirements: (1) regular service; (2) intermediate service; (3) high intermediate service; and (4) higher service, which in turn is divided into higher technical and non-technical service.

¹¹⁰ See also Table 3, p. 8 of this paper for an analytical presentation of pay scales per grade and step for Scale A public employees in Germany.

¹¹¹ Scale B applies to civil service positions where managerial functions are performed, such as Secretaries of State, Directors General, Heads of Departments, President of the Highest Federal Authorities.

¹¹² (1) Special; (2) University (UE); (3) technological (TE); (4) secondary (SE); and (5) compulsory (CE).

¹¹³ Number of years denote the time needed in service to advance to the next pay grade.

¹¹⁴ Special positions are the following: Prime Minister; Minister of State; Commissioners and Inspectors; Director General of the Cabinet Legislation Bureau; Deputies of the Cabinet of Ministers; Auditors of the Cabinet of Ministers on Crisis Management and Cabinet of Ministers for Information and Communication Policy Audit; Director of the National Security Bureau; Deputy Secretary General of the Cabinet of Ministers, Spokesman for the Cabinet of Ministers and civil servants for information of the Cabinet of Ministers; Prime Minister's Assistant; Deputy Ministers; Parliamentary Secretary; Assistant Ministers; Electoral positions; Government Representatives, Advisers; Members of the Japan National Commission for UNESCO; Members of the Japanese Academy; Members of the Scientific Council of Japan; Judges and other court officials; Employees of the Ministry of Defence; Officials of the administrative executive corporation; etc.

¹¹⁵ The country is currently transitioning from the existing position classification system to a factor point and scale based classification system of positions. The information provided here is a mix of both systems, although an effort is made to distinguish between the two.

¹¹⁶ According to the new remuneration system public service positions consist of four functional blocks: (1) SCS (senior management personnel); (2) A (main personnel); (3) B (favourable personnel); and (4) C (auxiliary personnel).

¹¹⁷ Categories of the existing system, prior to transition to the new remuneration system: (1) Corps A (managerial level administrative); Corps B (managerial level administrative not included in Corps A); Group C; and Group D.

¹¹⁸ Corps A: (1, 2, 3 categories); Corps B: group A (A1, A2, A3, A4, A5 categories); group B (B1, B2, B3, B4, B5, B6 categories); group C (C1, C2, C3, C4, C5, CO1, CO2, CO3, CO4, CO5, CO6, CR1, CR2, CR3, CR4, CR5 categories); group D (D1, D2, D3, D4, D5, DO1, DO2, DO3, DO4, DO5, DO6 categories); group E (E1, E2, E3, E4, E5, E6, ER1, ER2, ER3, ER4, ER5, EG1, EG2, EG3, EG4 categories). See also Table 6, page 11 of this study for a more elaborate presentation of the positions' classification in Kazakhstan.

¹¹⁹ See also Table 6, page 11 of this study for a more elaborate presentation of minimum and maximum basic salaries per grade classification in Kazakhstan, under the existing system. The new remuneration system, based on a factor point analysis may yield a more simplified system of pay grades across the public sector of the country irrespective of the level of government.

Korea	<ul style="list-style-type: none"> - Career service;¹²⁰ nine classes¹²¹ - Non-career service¹²² 	<ul style="list-style-type: none"> - Seniority / length of service - Degree of responsibility - Degree of complexity 	<ul style="list-style-type: none"> - 9 grades: Grades 1-2 (Deputy Ministers and Director Generals); Grades 3-4 (directors of structural divisions; Grade 5 (deputy directors); Grades 6-9 (all other civil servants) 20 steps for each grade¹²³ - 16 grades calculated on the basis of points allocated for each grade. 	Ministry of Personnel Management
Latvia	<ul style="list-style-type: none"> - Families of positions (57) divided into levels 	<ul style="list-style-type: none"> - Education and professional experience - Job specification (complexity of work, complexity of thinking / creativity, cooperation, and management) - Responsibility (for working processes and resources used, cooperation and management) 	<ul style="list-style-type: none"> - 16 grades calculated on the basis of points allocated for each grade. 	State Chancellery
Moldova	<ul style="list-style-type: none"> - Senior managerial (1 code / level) - Managerial (6 codes / levels) - Executive / Operative (9 codes / levels) 	<ul style="list-style-type: none"> - Education, knowledge, experience - Complexity, creativity, diversity - Responsibility for decision making - Management, coordination, supervision - Communication - Working conditions - Physical and mental efforts 	<ul style="list-style-type: none"> - 9 grades; 3 for each category of positions 	State Chancellery Ministry of Finance
Poland ¹²⁴	<ul style="list-style-type: none"> - On employment contract - Permanent - Appointed 	<ul style="list-style-type: none"> - Education level - Level of responsibility - Complexity of tasks performed - Competencies - Decision making powers 	<ul style="list-style-type: none"> - 6 grades, with multipliers determined by regulation, length of service, service rank, position allowance 	Civil Service Department, Prime Minister's Chancellery
Singapore	<ul style="list-style-type: none"> - Education level (4)¹²⁵ 	<ul style="list-style-type: none"> - Education, knowledge, experience - Level of responsibility - Level of complexity of tasks performed 	<ul style="list-style-type: none"> - 14 grades (ranges)¹²⁶ 	Civil Service Division, Prime Minister's Office
Spain	<ul style="list-style-type: none"> - Education level (3)¹²⁷ 	<ul style="list-style-type: none"> - Competencies (abilities, skills) - Problem solving (creativity) - Responsibility 	<ul style="list-style-type: none"> - 30 position levels (Group A 22-30; Group B 18-26; Group C 14-22); Group D (12-18); Group E 10-14; entry 1-10. 	General Directorate for the Civil Service

¹²⁰ General service staff (engineering, research and administrative); special services and military personnel (judges, prosecutors, diplomatic, police, fire, educational, military, national intelligence, other assigned to special services by law); technical service personnel.

¹²¹ First at the level of minister assistant with ninth class the lowest.

¹²² Political positions (elected officials, positions requiring National Assembly consent for appointment, high ranking political appointees); specially appointed staff (other political appointments and positions that require special talents or skills); contract staff (fixed term experts); workers.

¹²³ See also Table 5, p. 10 of this paper for an analytical presentation of pay scales per grade and step in Korea.

¹²⁴ Civil service positions are classified based on the level of authority and qualification requirements: (1) senior; (2) middle management; (3) coordination; (4) independent; (5) specialist; and (6) supporting positions.

¹²⁵ The four scales are based on broad levels of work experience and educational qualifications. Scale 1 requiring higher education (general administrative and professional families of positions); Scale 2 requiring a certificate of extended general education (executive and supervised families of positions); Scale 3 requiring a general education certificate (official. Technical and other families of positions); Scale 4 (employees engaged in manual or low-skilled routine work).

¹²⁶ (1 & 2) IV, V (Vice Prime Minister, Minister MR1; (3) III (Minister MR2); (4) II (Minister MR3); (5) I (Minister MR4); (6) B SR5 (Senior State Minister); (7) C SR6 (State Minister); (8) D SR7 (Senior Secretary of Parliament); (9) E SR8 (Secretary of Parliament); (10) R10 (Senior Assistant Secretary); (11) R11 (Chief Assistant Secretary); (12) R12 (Assistant Secretary); (13) R13 (Senior Assistant Administrator); (14) R14 (Administrative Assistant).

¹²⁷ Group A (A1 and A2) requiring higher education; Group B requiring senior technical specialisation; and Group C (C1 and C2) requiring either technical specialisation or secondary level education.

Ukraine ¹²⁸	– Families of positions (28) ¹²⁹ – Position level (9) ¹³⁰ – Level of government (3) ¹³¹	– Education level, knowledge, professional experience – Responsibility of the positions – Complexity of functions performed – Jurisdiction level of government entity	– 15 grades	National Agency of Ukraine on Civil Service
USA	– Families of positions ¹³²	– Education level, knowledge, professional experience – Level of complexity – Level of responsibility ¹³³	– 15 grades (GS1 lowest, - GS15 highest) ¹³⁴	Federal Office of Personnel and Management (OPM)

¹²⁸ Information presented on the types of positions, classification criteria and grading is based on the new remuneration system Ukraine introduced in 2020.

¹²⁹ (1) Administrative management; (2) Service administration; (3) analysis and formation of state policy; (4) Direct provision of administrative services and consultations; (5) Accounting; (6) Internal audit; (7) Economic functions; (8) State supervision and control; (9) Office work, chancery, and archiving; (10) Coordination and implementation of policy; (11) Procurement; (12) Prevention of corruption; (13) Information security; (14) Communication and information support; (15) Literary editing; (16) International cooperation; (17) Mobilisation training and mobilisation; (18) Rule-making and examination; (19) Organisation of meetings; (20) Legal support; (21) Protocol and ceremony; (22) Regime-secret activity; (23) Management of state property; (24) IT systems management; (25) HR; (26) Management and development of IT projects; (27) Financial management; (28) Civil protection and labour protection.

¹³⁰ (1) Categories A and B (heads of civil service in government entities); first, second, and third leading level; (2) Category B: fourth, fifth, and sixth leading level; (3) Category C: higher, professional, and entry level.

¹³¹ (1) government authorities with statewide jurisdiction; (2) government authorities with jurisdiction in the Autonomous Republic of Crimea; and (3) government authorities with jurisdiction at the local, district, and city level.

¹³² Divided into two main parts: (1) professional; and (2) trade, craft, and labour.

¹³³ One method used to assign grades to non-supervisory positions is the Factor Evaluation System (FES) that includes nine evaluation factors: (1) knowledge required by the position; (2) supervisory controls; (3) guidelines for performing the work; (4) Complexity; (5) Scope and Effect; (6) Personal contacts; (7) Purpose of contacts; (8) Physical demands; (9) Work environment.

¹³⁴ See also Table 2, p. 7 of this paper for an analytical presentation of pay scales and steps for the federal government employees in the USA.

8. Conclusions

Public sector compensation remains a salient issue nowadays for several reasons. On one hand, the rapid scientific and technological advances and globalisation of the marketplace, as well as increasing urbanisation, ageing populations and environmental degradation dictate the need for public administrators who possess the appropriate expertise and competencies to confront and resolve such multifaceted and complex issues, and who are adequately compensated so that they remain in the public service. On the other hand, as public sector compensation expenditures constitute a major part of overall government expenditures, they need to be balanced against expenditures in other prominent policy areas, while also considering the fiscal implications of such expenditures.

For instance, in advanced economies, ageing populations increase demand for health services, and environmental degradation requires public investment in remedial measures. However, the inherent inflexibility to adjust employment levels and composition of the public workforce in a relatively short period of time in response to such changes puts immense pressure on government expenditures to offset additional expenditures that are needed, for example, for health services.¹³⁵ Conversely, in many emerging market economies and LICs, the goal of expanding service delivery in key policy sectors such as education and health inevitably results in an increase of the public sector compensation bill that needs to be prudently managed in order to leave room for other vital expenditures, i.e., for development.

Nevertheless, in both instances it is imperative that while governments strive for a reasonable fiscal balance by efficiently managing and controlling public sector expenditures, and in particular the public sector compensation bill, they also need to keep in mind that for the public service to adequately perform all those tasks needed to ensure the collective interest that they need to recruit and retain adequately qualified and motivated professionals, who possess the appropriate education, competencies and skills that will allow them to cope with, and adopt to, the new reality lying ahead.

Hence, public sector compensation systems are evolving, as governments around the world design and implement compensation policies aimed at recruiting and retaining capable individuals, while they also attempt to contain the total cost for public sector compensation, amid, fiscal constraints and diminishing budgetary resources. Balancing between these two goals calls for flexibility in adjusting the levels and composition of employment in the public sector and a sound system of public management. Thus, governments are instituting policies that restructure the way work is compensated and how the total rewards are organised and managed. The models that are evolving represent a significant departure in thinking, although developments to date suggest no single “good practice” have emerged, or it is likely to emerge in the years to come (Pyper et al. 2018).

Thus, this study entailed a comprehensive review of public sector compensation systems around the world. To provide a deeper understanding on the topic of public sector compensation, it first analysed the essential elements and factors that influence the shape and form, as well as the structure and composition of, public sector remuneration; an exercise that involved an extensive discussion on the notion of total compensation, encompassing monetary and non-monetary rewards provided to public sector employees. It then examined the relationship between levels of compensation and elements that are linked to salary differentiation in most countries, i.e., position, length of service, qualifications, and expertise, etc; and while doing this, it also assessed the internal and external fairness of public sector compensation systems. Next, it looked at the public sector compensation bill as a percentage of a country's GDP, and of government revenues and expenditures, followed by a discussion of the factors that influence compensation policies and practices in the long run, i.e., fiscal planning, compensation competitiveness and flexibility, etc, as changes in compensation levels and employment conditions have a significant impact on government budgets, workforce composition and the quality of public service delivery. The study concluded with a presentation of emerging trends in public sector

¹³⁵ For instance, overreliance on hospital-based care instead of more cost-effective primary care has meant that increases in demand for health care have accelerated public health spending. Similarly, failure to decrease the number of teachers in line with the decline in school enrolment has resulted in excessive employment levels without any corresponding improvement in education outcomes.

compensation such as flatter and more flexible organisational designs, individualised pay, linking employee pay with performance, delegation of responsibility, the use of competencies frameworks in recruitment, training and promotion, and job evaluation and classification and how they are linked to grading and compensation levels.

The models that are emerging represent a significant departure from contemporary practices. Some countries have introduced structural pay policy reforms, which aim at aligning compensation levels with job requirements and performance levels, usually manifested through rationalisation utilising such techniques as job evaluation and classification and introducing single pay bands supplemented by a performance-related compensation component. In some other countries, government departments and agencies restructure their organisation, often eliminating or re-defining jobs and/or layers of management. And yet in other countries, flexible work arrangements, including remote work are introduced in order to save on operational costs.

However, experience indicates that any changes in public sector compensation systems need to be anchored in a strategic management plan devised for the purpose, which may include sophisticated workforce planning and long-term staffing and compensation policy review to be sustainable. Without such a plan governments' capability for maintaining decent levels of service delivery at acceptable standards, especially in critical sectors, may greatly suffer to the detriments of the citizens they serve. In any case, it is crucial for governments to determine what changes in the policies and practices of workforce management are needed to maintain adequate public service delivery levels in an era of diminishing public resources. It is also crucial to determine whether compensation levels are justified within the realm of contemporary labour markets and whether compensation systems support or impede the proper functioning of government agencies and organisations.

One of the overriding critical issues in introducing any new compensation system is the readiness for change. In this context, it is important that governments and public employees, in whatever country, work together to define the nature and content of any compensation system, based on their culture and values, and determine the nature and content of pay and rewards – financial and non-financial.¹³⁶

In conclusion, governments should consider the following while they are designing more effective and more competitive compensation systems (OECD 2012):

- [i] approach the compensation system as a management tool – shifting from rule-based governance and rule obedience to managerial discretion and accountability for results;
- [ii] incorporate flexibility into compensation systems – reorganising and restructuring work processes requires new pay programmes to compensate public employees;
- [iii] use compensation systems to influence employee behaviour – thus, better performers commit themselves to a career in public service; and
- [iv] use compensation systems to improve performance – new compensation programmes should include considerations of how they will influence employee performance, both on their own and in combination with other practices.

¹³⁶ It is considered imperative that public employees are involved from the start as they constitute an integral component of the change process. They should know what to expect, by internalising the nature of any new system and its end goals, as well as the steps planned for transition to a new system. For instance, if the compensation system is designed with the aim to reward performance, it is then essential that the performance management system is – and it is perceived – as credible and fair by public employees.

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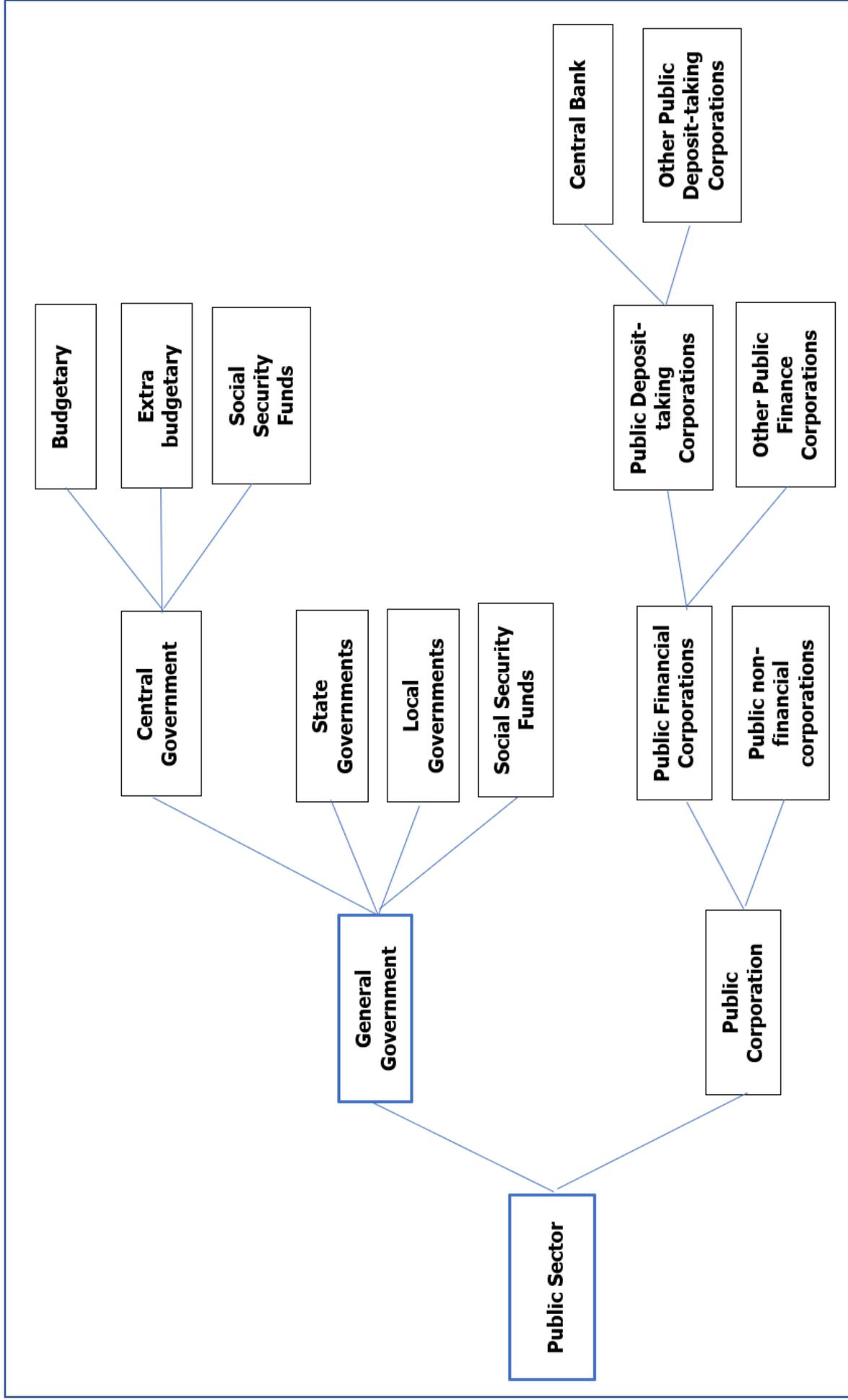
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10. Appendices

Appendix 1: Public sectoral organisational classifications



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