



Cyprus at Crossroads:

A Public Sector for the Post-Crisis Economy

February 4, 2015



Objectives

An efficient, effective, and fiscally affordable public sector to support service delivery and emerging growth model

- Assessment of current HRM policies, institutions, and practices based upon following criteria:

Merit / Performance

Flexibility / Accountability

Affordability

Vulnerability to Politicization / Patronage

- Integrated set of reforms options to complement functional reviews conducted under WB program



Context

- Many well trained, competent and hard working staff
- Performed well in a crisis environment
- Realization that reform is overdue
- General openness to discuss ways to modernize the public sector



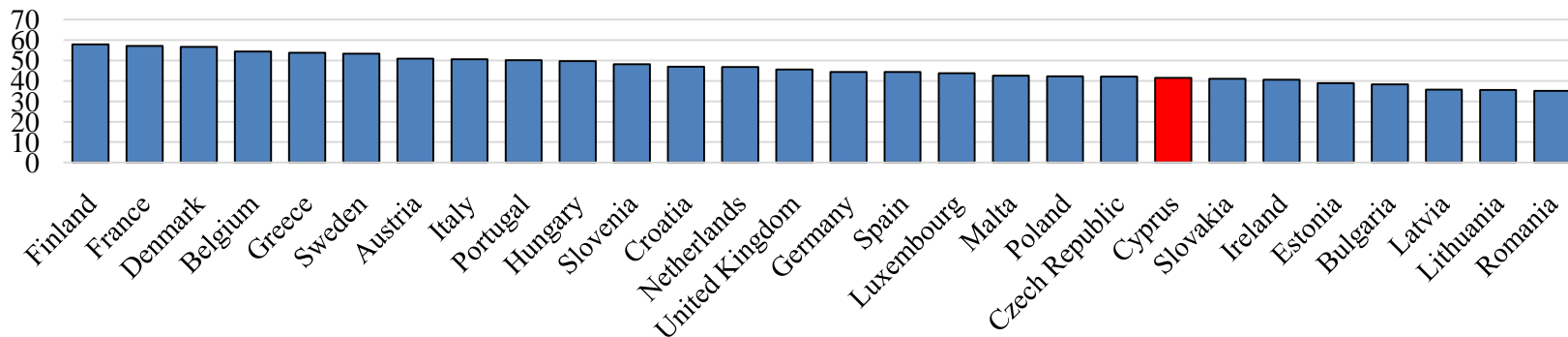
Key Issues

- Rigid and centralized HRM system designed to limit the influence of patronage
- Pay not linked to performance
- Limited differentiation among staff
- Wage bill not sustainable
- Salary structure does not deliver value for money
- Boundaries between public servants, politicians, and their appointees unclear

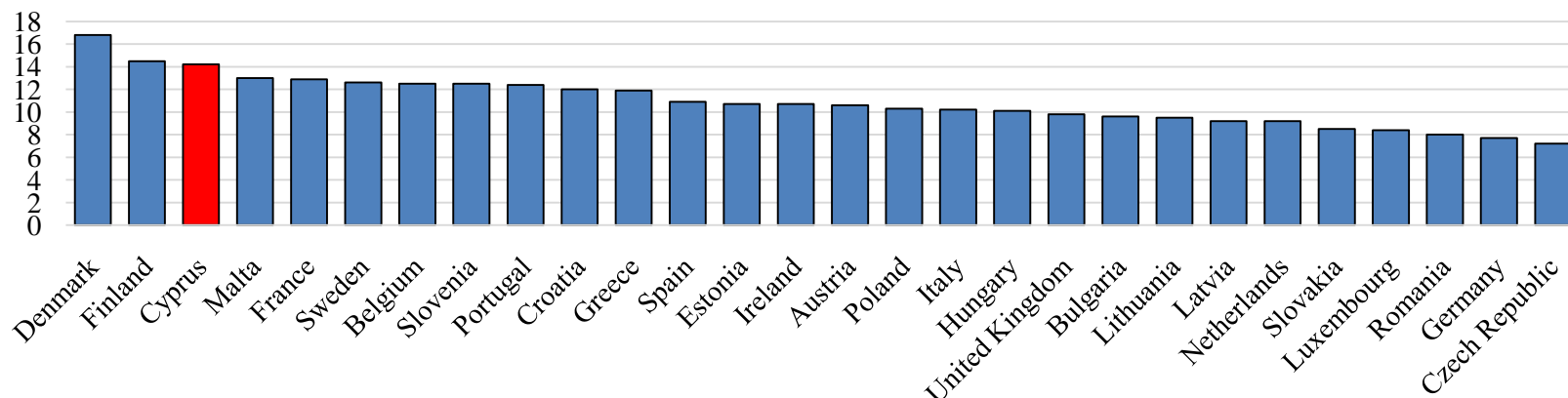


Fiscal Affordability Concerns

Total General Government Spending, 2013



General Government Spending on Compensation of Employees, 2013

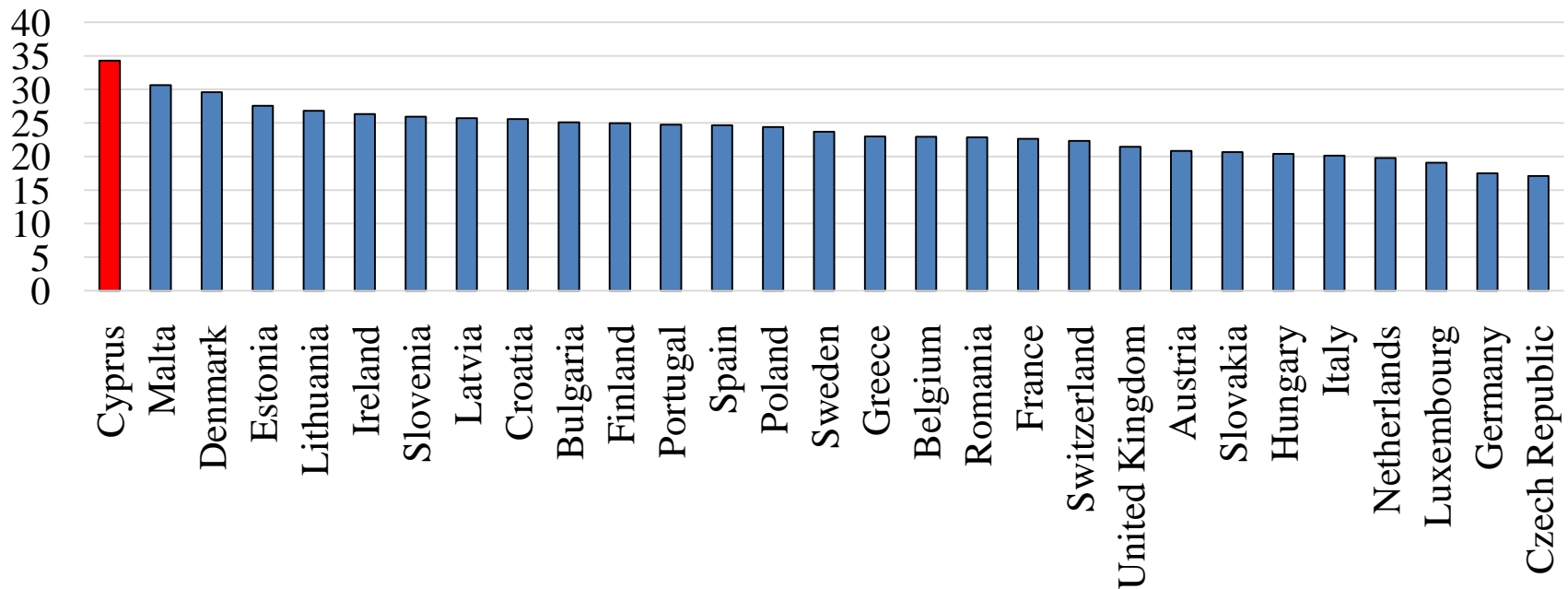




Crowding Out Effects

- Avoid situation where public wage bill crowds out other expenditures and reduces efficiency

Public Wage Bill as a Share of Total Expenditures, 2013





Pay Not Linked to Performance

- Wage increases have been driven by rules rather than performance
- Wage bill detached from resource availability
- Combined salary scales guarantee automatic wage increases for employees even if not promoted for virtually an entire career (18-29 years)
 - Reduces value of promotions
 - Very weak relationship between human capital / responsibility requirements of positions and remuneration



Combined Salary Scales

Salary Measures	Combined Salary Scale		
	A2-5-7	A8-10-11	A9-11-12
Entry Level Total Salary (Euros)	15,109	24,498	30,409
Salary Growth Potential without Promotion			
Maximum Total Salary Possible (Euros)	33,965	53,637	59,691
Total Possible Salary Growth (Euros)	18,856	29,139	29,283
Total Possible Salary Growth (%)	125	119	96
Maximum Number of Steps without Promotion	29	21	18



Other Pay Issues

- Public – Private Pay Gap
 - Pashardes (2011) study
 - Christofides and Michael (2013) EU-wide study
- Generous public sector pension provisions
- Very low turnover rate in the public administration (4.6%)



Reform Combined Salary Scales

- **Option 1:** Compress each combined scale
- **Option 2:** Eliminate combined salary scales



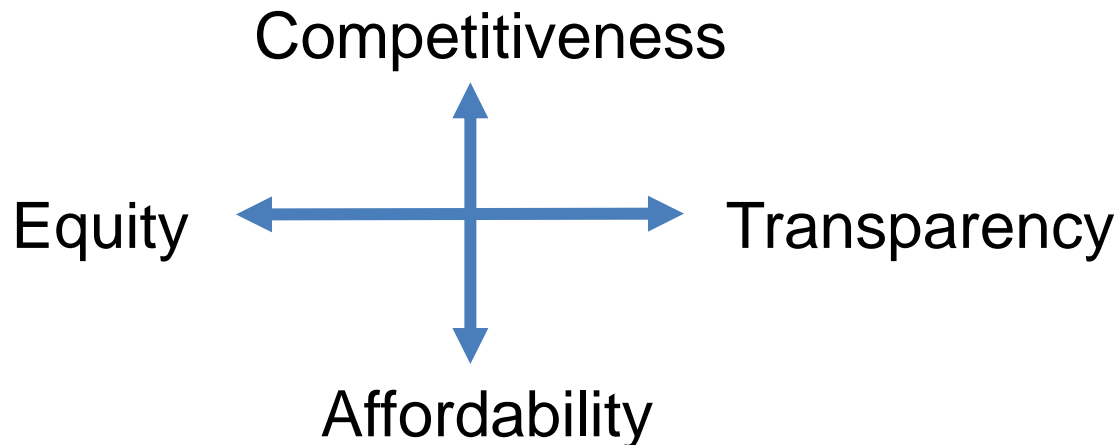
Reform Annual Increments

- **Option 1:** Limit number and value
- **Option 2:** Performance-related one-off bonuses
- **Option 3:** Combine with CoLA



Revise Pay Structure

- Short-term crisis measures taken, but do not address structural issues
- Opportunity to revise pay structure





New Benchmarking Survey

- A more rigorous comparison than analysis based upon Labor Force Surveys
- Should be undertaken every 2-3 years to continuously evaluate the competitiveness of public wages



Wage Bill Forecasting

- Allow policymakers to understand the fiscal impact of changes in pay policy and staffing numbers
- Manage tradeoffs between
 - Higher pay vs. higher employment
 - Across the board pay increases vs. targeted increases
- Identify likely winners and losers in any given pay reform scenarios



Rigid / Centralized HRM System

- Perverse incentives / unfairness
 - Ability, merit and performance are not the key determinants of promotions, salary increases, or career prospects
 - Discourage and hinder staff mobility
- Limited managerial discretion in HRM decision making
- Organizations do not prioritize performance



Detrimental Effects of Patronage

- Patronage determines key personnel decisions
 - Appointments, promotions, and transfers
- Extremely difficult to reduce or eliminate
- Consequences of current controls
 - Undue reliance on seniority
 - Performance appraisal not used to rank staff
 - HRM decisions taken by PSC, line managers not empowered



Unclear Boundaries

- Unclear boundaries between public servants, politicians, and their appointees
- Absence of an agreement on correct ethical behaviors and commonly accepted roles of public servants and politicians
- Effectiveness of other public sector reform initiatives will be limited without addressing these wider reforms



Focusing on Performance

- Strengthening performance in promotion decisions
 - Reduce or eliminate seniority as a criterion for promotion
 - Substitute “merit” for “qualifications”
 - Assess performance more comprehensively
 - NSGI performance appraisal support



Effective Oversight

- Change composition, mandate and responsibilities of PSC
 - Include not only Presidential appointees, but also members appointed through competitive and merit-based processes
 - Include HRM professionals, representatives of specific professions, or representatives of the civil service



Let Managers Manage

- Ensure that no major HRM personnel action can be controlled by any single agent
 - Break PSC's monopoly on major HRM actions
 - So no key personnel decision (appointment, promotion etc.) is decided by a single individual
- Devolve some responsibilities to line ministries and agencies, subject to checks
- Requires a Constitutional amendment



Challenge Function

- Ensure independent review and contestation of HRM actions
 - Merit -based selection requires that different entities are responsible for decision making at each stage in the selection process:
 - long-listing – Professional HRM Staff
 - short-listing – PSC
 - final selection – Immediate supervisor + 2 others



Addressing Grievances

- Create graduated, less confrontational lower transaction-cost means of addressing grievances regarding HR actions
 - Provides credible redress, while simultaneously reducing the average length of grievance resolution
 - Administrative court



Empowering Managers

- Enhance Managerial Responsibility
 - Align to MTBF reforms
 - Greater focus on performance
 - Hold managers accountable for the performance of their unit
 - Training on performance management



Enabling Mobility

- Reduce disincentives for staff mobility
 - Establish an internal market for all ‘promotion’ positions in the public sector
 - Abolish schemes of service and replace with more flexible job requirements
 - Add experience across ministries or private sector as a criteria or advantage for promotions



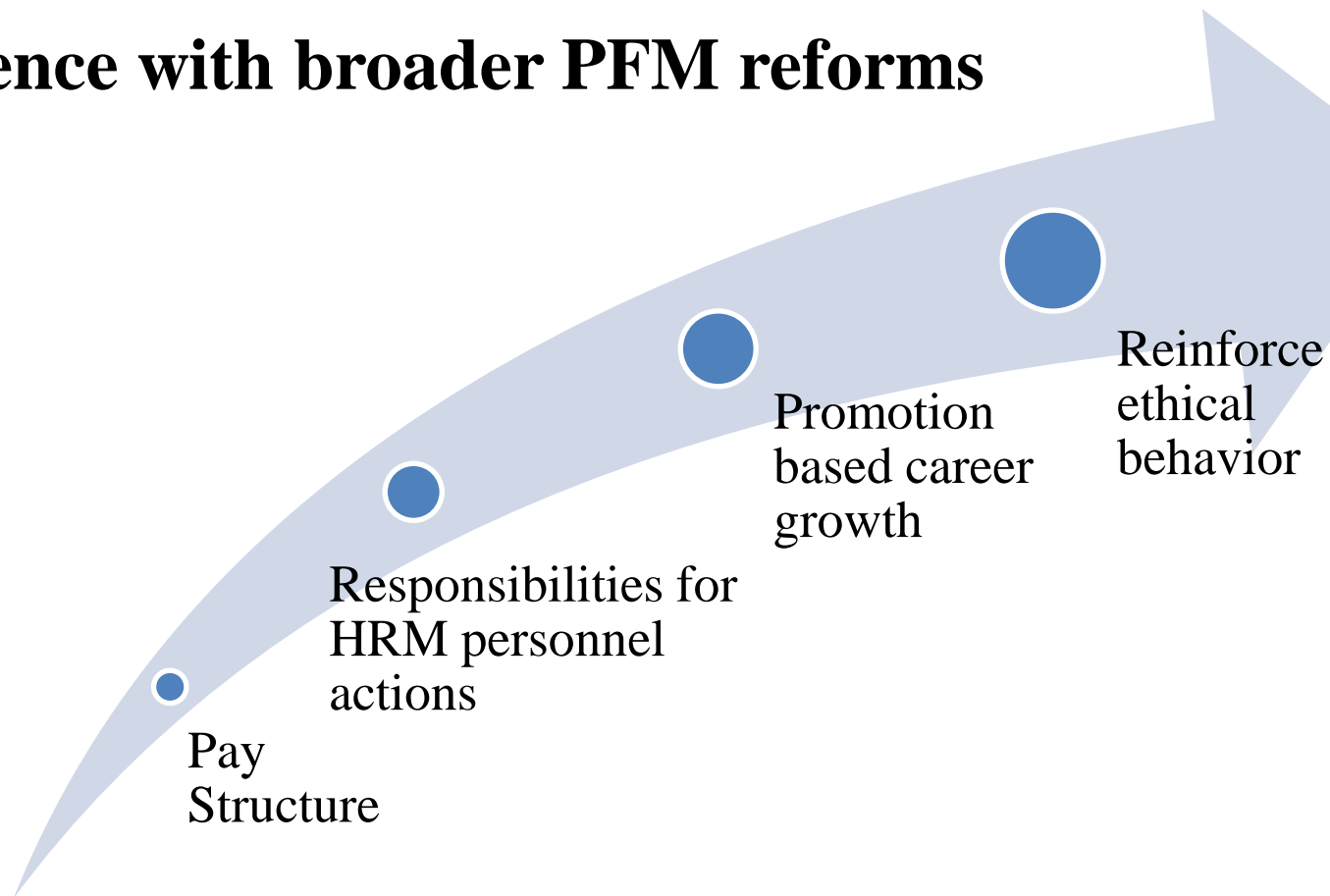
Ensuring Accountability

- Strengthen and/or establish codes of conduct for public officials and politicians with independent regulators to monitor and enforce compliance
- Introduce whistleblowing protections
- Initiate a wide-ranging public debate into the ethical standards within the public sector



Integrated Reform Approach

Sequence with broader PFM reforms





Integrated Reform Approach (1)

Area	Reform Options	Timeline
Address wage bill affordability	Undertake a new targeted survey to identify the public-private pay differential across various public sector professions.	3 months
	Decision on combined pay scales	6 months
	Decision on the number and value of annual increments across both individual and the combined pay scales.	6 months
	Undertake a phased, selective pay freeze for professions overpaid compared to their private sector counterparts.	2016 Budget



Integrated Reform Approach (2)

Area	Reform Options	Timeline
<i>Address Key HRM Challenges to Improve Productivity of the Public Sector</i>	Give more weight to merit/performance in recruitment and promotion decisions	2016
	Pass legislation to reduce disincentives for staff mobility across the public administration by adding experience across ministries as a criterion or advantage for promotions.	6 months
	Pass legislation to allow open within department promotions to internal competition across all the public sector.	6 months
	Pass legislation to diversify the membership of the PSC to include HRM professionals, representatives of specific professions, or representatives of the civil service.	1 year
	Devolve some HRM responsibilities (such as recruitment, selection, and promotion) to line ministries and agencies, subject to contestability requirements and checks on the execution of those responsibilities	1 year
	Create an administrative court to enhance contestability of HRM actions	1 year
	Revamp the performance appraisal process, which will require management training to evaluate performance (once the performance criteria are agreed).	2016
	Provide more ministry/agency level discretion on major HRM actions.	In line with broader reforms
	Hold managers accountable for the performance of their unit, which will necessitate the identification of ministry/agency/departmental level performance indicators.	In line with broader reforms
	Pass legislation to allow open competition to all public sector positions	18 months



Integrated Reform Approach (3)

Area	Reform Options	Timeline
<i>Undertake Wider Essential Reforms to Reinforce HRM Practices</i>	Initiate a wide-ranging public debate into the ethical standards within the public sector, involving all political parties and public actors to achieve a cross-party political agreement on acceptable standards and methods of monitoring and enforcement	3 months
	Strengthen and/or establish codes of conduct for public officials and politicians with independent regulators to monitor and enforce compliance	6 months
	Pass legislation to introduce whistleblowing protections	1 year
	Clarify the distinct roles, authority and responsibilities of politicians, politically appointed officials, and civil servants and the interactions between them	1 year



Thank you.