

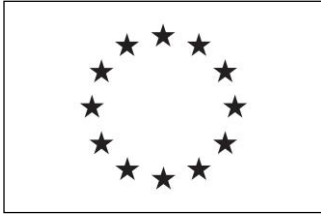
Remuneration of the Civil Service in Slovakia: Transparency and Predictability of the System

A decorative graphic consisting of a cluster of semi-transparent circles in various colors (grey, pink, yellow, orange, blue, green) arranged in a roughly triangular shape, pointing downwards from the left side of the page.

INŠTITÚT PRE DOBRE SPRAVOVANÚ SPOLOČNOSŤ

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Introduction

The Civil service is facing ever increasing demands to produce more and better results, to deliver higher quality services with higher efficiency and effectiveness. In fact, current debates about effective executive government are central to this issue. Therefore, the way it organizes, manages and rewards its staff is crucial. Remuneration in this is a key component of public service *bargain* (Hood, Lodge 2008), in which employees contribution in the forms of skills and competencies towards organizations goals are exchanged for remuneration.

There are several factors that influence decisions over remuneration in civil service. First factor relates to the New Public Management and its idea of emphasizing **management by objectives** and results and organizational autonomy to let the managers manage. Thus, in terms of remuneration "pay for performance" has impacted the manner in which civil servants are paid in OECD countries. Thus, the increasing influence of performance management in the EU is expected to play an important role in Slovakia as well, particularly, if pay for performance has changed pay differentials within civil service.

Second, several authors and publications pay quite some attention to **transparency**. For example Brans and Peters (2012) show how the level of transparency in Rewards for High Public Officials has decreased since their first research conducted on the issue ten years ago. In many countries the details of many pay for performance contracts for civil servants are not made public. On the other hand, they show that the level of transparency for politicians has increased thanks to the introduction of ethics schemes on the rewards for politicians, such as caps on outside earnings or transparency registers for multiple occupations. Still, there exist countries with high levels of transparency, such as Sweden, US, Norway and the Netherlands (Brans and Peters 2012). In these countries all basic information about remuneration is published and available online, with the exception of some information about performance contracts. Likewise, most of the information about benefits is transparent so that citizens can find what the total remuneration package is for civil service. Also, the structure of remuneration is rather straightforward so that what one sees is what they got.

European Administrative Principles (1998) also talk about **transparency** as one of the two important dimensions of remuneration in civil service (the other one being **predictability**) and for increasing motivation of the civil service, for attracting qualified people into civil service and their retainment. SIGMA OECD in this document relates transparency to the possibility of outside scrutiny and supervision and when examined closely, it can be "seen through" (p.11). OECD (2007) adds yet another important dimension for keeping civil service motivated and decreasing turnover – **adequate level of pay**. Thus, when analyzing the remuneration systems, the analysis has to focus on two crucial elements – its internal and external fairness (Rabrenovic 2013). External fairness refers to the competitiveness of civil servants salaries with the private sector, whilst internal fairness points to transparency and predictability of the remuneration system.

Remuneration systems are closely connected to career growth systems in that promotion is ideally linked to salary increase, which enhances motives for promotion. It becomes increasingly important, based on what criteria one is promoted. The criteria of promotion usually express the values that the system supports. When analyzing civil service systems, literature usually

uses the dichotomy between the traditional Weberian-type bureaucracies, and the New public management reform (Ondrušová, Beblavý 2011). While the former accents seniority as a value typical for promotion, the latter emphasizes pay for performance. This dichotomy may be applied to analyzing the remuneration systems as subsystems of civil service.

Finally, **decisions** about remuneration are increasingly being made in the context of citizen distrust of government and political leaders. The level of citizen discontent continues to increase and citizen participation falls. Therefore, this article is concerned with discretionary decision-making in remuneration. At one hand discretionary decisions are necessary since the Civil Service law cannot foresee all the circumstances that may arise, on the other hand, this can be potentially dangerous and harmful (see for example famous equation for corruption based on discretion power and monopoly). Thus, the question remains how constrained and structured discretion is.

The goal of this research is to characterize the features of remuneration system in Slovakia as of 2015. The focus is on three questions: 1. How predictable and transparent is the system of remuneration? 2. What reward elements of PSB prevail? 3. What role does the discretion play in the remuneration system (are there any constraints or structure)? The analysis provides us with material to test PSB.

Methodology

We studied two elements that relate to transparency and internal fairness of the remuneration system of the civil service:

1. predictability of the system (ratio of salary components on the overall salary),
2. salary differences between employees (vertical and horizontal de-compression ratio).

We gathered data on both elements. To answer the question of predictability, we basically looked at the ratio of salary components on the overall salary. The higher the ratio, the less transparent and internally fair the system. The eligibility criteria for obtaining components was also assessed. If the component was related to work performance or work tasks, it was considered more fair. If it was related to other circumstances, such as family allowances, it was considered less meritocratic and hence less fair. Similarly, if the components were related to managerial tasks, we considered the system less fair, as it does not affect meritocratic principles.

The salary differences element involved calculation of the decompression ratio (both horizontal and vertical), which we calculated by dividing the highest salary in highest pay scale and grade, by the lowest salary in the lowest pay scale and grade.

Our research required mainly qualitative methods, namely content analysis of legal documents, such as laws, regulations and explanatory notes but also internal documents of the individual ministries.

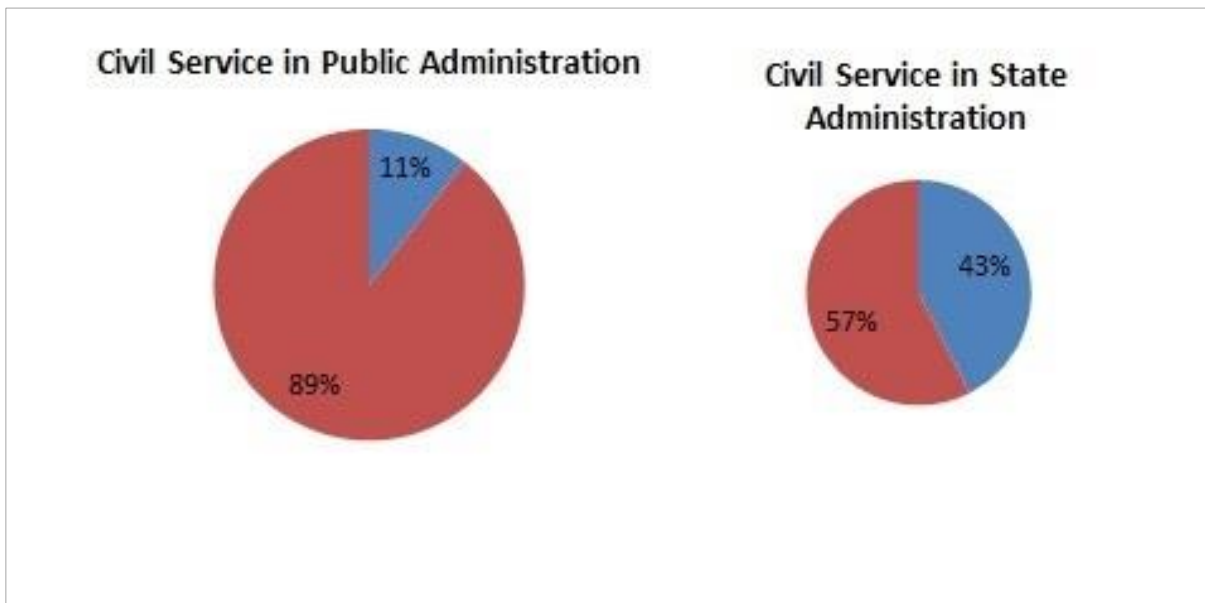
1. Civil Service in Slovakia

Although the adoption of the civil service law was not part of the *Acquis Communautaire*, the EU put this up as an informal request for entry of Central and Eastern European countries in 2004. The reason was mainly the uncertainty about the quality of administrative capacities of individual states (Beblavý 2009), most of which had a communist past and the corresponding state of the state administration. Thus, Slovakia initiated civil service reform as late as 2001, mainly under pressure from the EU (Staroňová and Láštic 2012). The reform aimed at professionalizing the public sector by introducing two separate provisions in 2001: the Law on the public service (Act No. 313/2001), which defines the public service and covers service such as local government employees, health and education; and the Law on civil service (Act No. 312/2001), which regulates the civil service in state administration bodies.

Legislative framework that regulates the remuneration of **public officials** is a very complex set of laws, formal parliamentary, government and judicial council's resolutions and other formal and informal agreements on ways and amounts of remuneration. Those regulations that are stipulated by the law are easily accessible, although difficult to find the precise information in practice. These regulations usually provide a general skeleton of rules and figures (such as the base salary and fixed sum for the post held) to be further supplemented by additional regulations (lump sum allowances, business trip allowances, benefits, pensions, health care, etc.) and decisions (performance and personal bonuses). In general, there are approximately 15 laws that regulate remuneration in public administration, together with a numerous number of internal Rulings of individual Ministries, which are not readily available. As a result, the system is fragmented (although internal linkages exist), non-transparent and extremely difficult to get real figures on salaries paid to public officials.

In this study we look only at civil service which constitutes only 11% of employees from the overall public administration employees and 43% of employees in state administration (see Figure 1). Thus, we look only at **officials which are regulated by the Civil Service Law** and disregard all public employees which are regulated by the Law on Employees in Public Interest (such as teachers, doctors, self-government employees, etc.) or which are in other types of employment (the above mentioned other laws that regulate army officials, police, judges, firefighters) but also those which are under employment with Labour Law.

Figure 1: Civil Service in Slovakia as of 2015



Civil service law relates only to officials in central government institutes (ministries) and their subordinated state agencies. Thus, it does not cover municipal employees, teachers, doctors, judges. At the same time, central government institute can employ three types of employees: a) governed by Civil Service Law b) governed by Law on Public Services c) governed by Labour law depending on the type of work providing.

Figure 2: Number of Civil Service in Slovakia as of 2014



Source: Ministry of Finance of the Slovak Republic

1.1. Civil Service Remuneration Prior to Civil Service Act

The rise of the Czechoslovak state in 1918 was also reflected in the creation of the civil service remuneration system. The act that provided a legislative basis for managing personnel issues of civil servants was the Work Pragmatics, a law inherited from the Austro-Hungarian empire legislation and transposed into legislation of the first Czechoslovak republic. The system of remuneration was initially based on education and job content criteria, referred to as "work performance". The act introduced seniority as the main criteria of promotion, to solve problems caused by systemization, i.e. forward planning of civil service posts, which made promotion of employees rather difficult and random, depending on which position was vacant. The seniority principle completely overthrew the work performance principle, which was inherent in salary classes, but diminished with the rules of promotion. It soon led to an excessive number of civil servants in highest positions, damaged competition based on merit as well as internal fairness by attributing the same entitlement to promotion to servants with different qualifications and work performance. The amendments of the remuneration system dealt with elements of the remuneration system introduced by Work pragmatics, such as systemization, seniority as a principle for promotion, existence of salary components and salary grade system, used to compress salaries in order to prevent leverage. The 1926 Salary act represented solutions to problems caused by the Work pragmatics – solutions, which were solved by its reversal, not by new innovations.

During the communist era, the public and private law was not distinguished and so the civil service became a part of the general work relations legislation. Work Pragmatics and the Salary Act were abolished with the introduction of the new Labour law in 1950. Nevertheless, the remuneration system in the communist Czechoslovakia did not structurally deviate from the Work pragmatics of the first Czechoslovak republic between the wars. It was made of the same elements of the remuneration system – it employed systemization, used salary grades, salary components, as well as seniority principle. However, the evaluation of the system based on internal fairness shows us major deviation from the previous system. Differences between salaries were low, seniority principle became dominant and salary components increased – all of which made the system less internally fair.

The remuneration system used in the transition period is not much different from the one that was used in the communist era, when it comes to calculation of tariff salary. The law kept the communist grade (in Slovak "functional") salary component for management and control of work and also other components, e.g. work at night or weekends. The system introduced personal allowances, i.e. salary components for above the standard work performance and long-term results. Personal allowances seemingly tried to introduce an element of merit, but granting this allowance as well as establishing its amount was up to superior officers, which of course increased the risk of abuse. Personal allowance could go up to 100 % of the tariff salary, but only in the case of employees of the highest grade, i.e. 10-12. Lower grades were limited to 40 %.

The system of remuneration used during the transition period stemmed from the communist legislation, making personal allowances the only new component, presumably to make civil service positions more attractive for new employees, which were at the time very much

needed. The component itself was very non-transparent, as it gave discretion to superior officers who could grant the component to almost anyone under a very wide set of conditions.

1.2. A Review of Pay Reform Initiatives since Adoption of the Civil Service Law in 2001

The initial Civil Service Act of 2001 followed the complex and rigid approach of the Labour Code: tariff salary based on grades and categories with a fixed amount in each category. The Civil Service Act brought only small incremental changes in the systematisation (classification) where the civil servant was assigned to a grade and a tariff salary based on the number of years of experience, qualifications, training, duties and activities. The lack of reform in salaries has led to the "freezing" of salaries in the public sector for a long time, while salaries in the private sector, especially in Bratislava, increased rapidly, causing more problems in the recruiting new employees.

In 2003, an endogenous reform of remuneration system took place that brought about innovative elements (see Table 1). It followed up on the strategy for reform of employment, whose goal was to create a competitive, high-quality, flexible and impartial public administration (Staroňová 2013). According to the strategy, it was necessary to introduce greater differentiation in pay, but also in demands on performance so that the public sector could keep up with the private sector. The reform package touched mostly the human resource functions of recruitment and remuneration that brought innovative elements into the civil service system, such as *fast stream recruitment*, *performance appraisal* and *nominated civil service* (senior civil service). These innovative elements were to strengthen the capacity to attract and retain good calibre staff at all levels, since the previous delays in the adoption of the Civil Service Law led to a situation where ministries were over-staffed, as those that remained in the administration were generally not interested in changing jobs, while new posts were unable to attract staff (Staroňová and Láštic 2012). This created problems in particular for new functions, such as policy analysis posts, project management, reform implementation and civil servants dealing with EU matters.

Table 1: Innovative Elements Introduced into Civil Service in 2003 Reform Package

HR aspect	Measure	Goal
Professionalization	Temporary civil service	to tackle political nominees (advisors) in civil service (rights and duties as civil service)
	Nominated civil service	to introduce senior civil service with tenure (professionalization of civil service)
	Posts of superior significance	to attract professionals from practice for key posts
Recruitment	Fast stream system	to attract young qualified candidates for the civil service that can be parachuted into higher grades (career)
	Pooled recruitment	to attract young qualified candidates for the civil service
Incentive system	Personal allowance	to increase flexibility in the pay system in order to motivate high calibre staff (decrease gap between public and private sectors)
	Performance allowance	to start merit based remuneration linked to performance
	Special allowance	to attract and remunerate civil service in posts that are difficult to fill or where good salaries should serve as a prime anti-corruption measure (posts of superior significance)

Source: Staroňová (2013)

However, fundamental changes introduced in 2006 abolished most elements of the merit system¹. The Civil Service Office was terminated, and its functions were largely decentralized to the ministries or simply ceased to exist (e.g. the entry examinations became simple job interviews). In the absence of central direction the system carries significant dangers; bonuses granted at the discretion of managers have become a major part of take home pay and some ministries have proved to be in a better position to make use of the flexibility than others (Staroňová and Brown, 2006).

In 2009 a new Law on Civil Service was prepared that abolished all innovative elements from 2003 reform (performance appraisal, fast stream recruitment and nominated civil service) and left the confusion between a career based and a position based system.

At the moment, the Government has passed a new Strategy on the management of human resources in civil service for the period of 2015 – 2020. The strategy is the most complex document since the fall of communism which analysis current situation, brings data from

¹ The reform happened just few weeks before elections in 2006 with official reason provided that the Civil Service Office was inefficient and costly. Its demise meant that there was no central control whatsoever over civil service management and that the development of the civil service was given to the hands of individual ministries. At that point, however, it was clear that there will be government change and this provision opened the space for better coalition formation.

internal audit of the system and envisions radical reform in remuneration. Nevertheless, it is not clear if radical reforms will actually take place, although a new Law on Civil service (which at the time of writing of this report is in the inter-ministerial review process) counts with some of new elements in remuneration, such as return of the performance management and its linkage to remuneration (personal allowance).

Table 2: Main characteristics of Civil Service in Slovakia (Legal basis and HR policy)

Characteristic features	1990 - 1st April 2002	1st April 2002 – 1st January 2004	1st January 2004-1st June 2006	1st June 2006- 1st November 2009	1st November 2009- up to date
Legal basis for the civil service	Labour Law, partial amendments	Civil Service Law 2001 (came into effect in April 2002)			Civil Service Law 2009
Overall HR policy/ strategy	Non-existent				
Co-ordination	Decentralized decisions	Civil Service Office	Decentralized decisions		
		Politically independent Civil Service office until 2006. Its operation was terminated prior to effective working. Lack of strong leadership and political support.	Important personnel related decisions are made on the level of „heads of service“, which are only partially regulated. Heads of service are responsible for human resources, although they are politically nominated and thus can fulfill political interests.		
		Systematization of civil service posts and relevant financial resources.			
Role of the Head	Political post	Non-political post	Political post		
Human Resources Coordination	Non-existent	So-called	Non-existent		
		(annually a number of civil services posts is declared with a corresponding volume of finances)			

Source: Staroňová (2013)

Table 3: Main characteristics of Civil Service in Slovakia (Recruitment)

Characteristic features	1990 - 1 st April 2002	1 st April 2002 – 1 st January 2004	1 st January 2004-1 st June 2006	1 st June 2006- 1 st November 2009	1 st November 2009-up to date
Recruitment	Civil Service Posts				
recruitment	Delegated to ministries	Centralized (Civil Service Office)	Hybrid System Centralized (tzv. pool and nominated civil service)	Delegated No standardized and objective tools for recruitment and criteria for selection	Delegated No standardized and objective tools for recruitment and criteria for selection
			delegated (other posts - Decree 93/2003)		
		Vacancies must be advertised in Official Gazette and in press. Nevertheless, the vacancies are often „tailored“ on preferred candidate.			
Advertising vacancies	Non-existing	Vacancies must be advertised in Official Gazette and in press. Nevertheless, the vacancies are often „tailored“ on preferred candidate.			
		Open to public (open and internal tracks)	open and internal tracks (temporary civil service does not require selecture)	open and internal tracks	open and internal tracks
			Regulated by Civil Service Office	(temporary civil service does not require selecture procedure)	New institute „selection“ (non-managerial post)
Selection Procedure	Non-existent		Regulated by individual ministries and agencies	Move (head of unit can be selected by moving a post of different head of unit)	
		COMMITTEE	COMMITTEE		COMMITTEE
		(Civil Service Office)	Order set by the committee and is binding for the Head of Service		With selection procedure
Criteria of Selection (Method of Selection)	Non-existent				With „selection“ no committee.

Source: Staroňová (2013)

Table 4: Main characteristics of Civil Service in Slovakia (Entry exam, Career path, Remuneration)

Characteristic features	1990 - 1 st April 2002	1 st April 2002 – 1 st January 2004	1 st January 2004-1 st June 2006	1 st June 2006- 1 st November 2009	1 st November 2009- up to date
Entry exam to civil service	Non-existent	existing	Existing only for so-called nominated civil service and with pool recruitment	Non-existent	
		(so-called qualification exam for testing existing employees of the state administration from temporary and preparatory service into permanent service)	Qualification exam terminated (1 June 2006)	Individual ministries regulate entries by their own regulation	
Career path	Seniority principle	existing	Hybrid system	Non-existent	Non-existent
		Civil Service Law sets career system based on seniority principle and several exams	Career system elements (seniority and merit) terminated on 1. January 2004). Performance based career inacted.	Nominated civil service terminated as of 1 November 2009 (non functioning since termination of Civil Service Office)	
			So-called nominated civil service created for career opportunities.		
Tenure	Non-existent	Non-existent	Reserved for so-called nominated civil service (top)	Non-existent	
Remuneration	Low salaries in state administration, big discrepancies between private and public sector		Flexibility with high discretionary power introduced into remuneration to overcome gaps between private and public sectors		
Civil Service Salary	Set by Labour Law	Set by Civil Service Law	Set by Civil Service Law	Set by Civil Service Law	
	No other types	No other types	Special Service Salary (approved by government)	Special Service Salary (approved by government)	
				Personal Salary (approved by minister)	

Source: Staroňová (2013)

In the context of CEE civil service reforms, Slovakia lacked any comprehensive reform program and all the efforts were of ad hoc nature. For example, the innovative reform package of 2003 was initiated by Ministry of Labour, whereas the 2006 reform measures were initiated by Ministry of Finance right before the elections. Hungary and Lithuania, on the other hand, developed a comprehensive program in which all reforms were anchored. According to Meyer Sahling (2009) Slovenia and to a lesser extent the Czech Republic have been active administrative reformers, but the civil service has played a subordinate role in these activities. Poland has concentrated on the fight against corruption but it has lacked both a civil service reform plan and a wider administrative reform strategy for most of the postaccession period.

2. Transparency of the system: Components of Remuneration of Civil Servants

The total remuneration of civil servants is composed of several components. Pay structure centers on the distinction between **base** – so called **basic salary** and additional **allowances** and various kinds of **bonuses**. It can be generally said that the system is more transparent when additional salary components account for a low percentage of the overall salary. In general it can be assumed, the lower the ratio for allowances and bonuses the more transparent the system is. The ideal percentage for the basic salary according to OECD (2005) is around 10-20%, according to the World Bank 90% of the overall pay. OECD data (2005) show that in general the basic salary comprises between 50-90% of the overall pay. In countries, that had suffered most because of the effects of the financial crisis, such as Greece for example, this percentage was around 80%.

2.1. Basic Pay

Basic salary can be defined as the regular, fixed, periodic salary which is typically based on the grade of the civil servant and not on the job or function that is actually performed (Bossardt et al 2001). There are two approaches towards defining the basic salary, depending whether the civil service system is career or position based. In the civil service career model, basic salary is typically based on the grade of the civil servant and not on the job or function that is actually performed. The actual basic salary that the civil servant receives is based on a simple calculation of seniority (number of years in the service) in relation to the initial salary grade. In position based civil service system, it is more common to establish the pay-value of a particular job based on a thorough job evaluation. However, currently there is a tendency in several countries not to reward according to grade or job, but to introduce more contingent approaches which assess the value of the person doing the job on the basis of skills, competences and performance.

The arrangements for determining the **basic salary** have varied over time but as of today, the basic pay is calculated based on eleven grades. The grades reflect education and level of competency required. They do not reflect seniority which was abandoned in 2003 reform package (Staroňová 2013). Nevertheless, de facto seniority was added as part of the basic pay in 2009 reform in the form of "**service years allowance**" which is a predictable nondiscretionary cumulative addition to the grade pay and thus part of the basic salary – one percent per year of service up to a maximum of 32 years of service. There is an ongoing struggle on determining what counts as a year of service (e.g. whether service in any public

organization or state institution only, if international organization such as International Monetary Fund or European Commission counts as service years). Thus the basic salary, a so called **grade salary**, sums the salary base based on the grade table and service year allowance, which is cumulative.

2.2. Regular Allowances

On top of the basic salary it is common to receive more or less fixed allowances, which are often connected to a particular purpose. Thus, they can be functional (related to a certain profession or specific position and which are not performance related or for managing a department), social (family, household or residence allowances) and performance allowances. Other types of allowances can relate to compensation for overtime work and allowances for dangerous work. There exist also personal allowances, that allow directors to decide on to whom, for what and in what amount should they be given. Allowances, depending on their amount, have the ability to motivate employees to the activity they are for. That is why allowances for performance are considered to have an effect on the quality and quantity of work in public sector. Allowances for managing, on the other hand, may motivate to create managerial positions or for civil servants to become directors.

Beside the basic salary there is a big number of all kinds of **allowances** linked to various types of additional work activities enumerated in the Civil Service law, such as management, substitution, work on Sundays, work under difficult circumstances, etc. Basic salary together with allowances constitute so called "grade salary" (in Slovak term "functional salary" is utilized) which is contractual for a civil servant. The civil service law alone enumerates 16 types of allowances (which has increased with time since the adoption of the Civil Service Law).

Allowances vary in terms of function and discretion and the system has been revised several times since the adoption of the Civil service law. We have created our own categorization of allowances (see Table 1) on the basis of its degree of variance (to what extent does the law set exact amount of the allowance or sets a range) and discretion (to what extent the law sets exact criteria for granting the allowance or leaves the decision on the granting to the superior). Thus, non-variable allowances are those where the law sets unified amount for a certain type of activity, whereas variable allowances have a range from which the amount is to be determined. Similarly, non-discretionary allowances are those which are automatically granted whereas discretionary allowances do not have clear criteria set in the law but are dependent on ad-hoc decision of the superior who many times is a political nominee (e.g. minister, head of the service office). Thus, discretionary allowances differ across line ministries since it is up to the ministry if it creates internal guidelines or criteria, though it is not obliged to do so.

The salary system includes several allowances that are variable, but non-discretionary.

Table 5: Types of Allowances

	non-discretionary	discretionary
non-variable	10 e.g.allowance for night work	
variable	4 e.g. allowance for shifts	Personal allowance (up to 100%) Managerial allowance (5,5 – 90%) Special allowance* (30-100% for posts of superior importance OR 50% for nominated civil service)

Source: author

Note: * Special allowance was abolished in 2009 with the termination of the nominated civil service

The most important allowances in terms of the volume and usage are both variable and discretionary. The first most important discretionary allowance is so called **personal allowance**. The personal allowance may be as high as 100 % of the basic salary. Each ministry decides internally on the amount and mechanism of the payment of personal allowance for its civil servants and this information is not publicly available on the grounds of data protection. The personal allowance is granted by immediate supervisor and approved by the minister. The law itself does not provide any criteria for providing personal allowance or its amount. Thus, some ministries can utilize (and do utilize as said during the interviews) this allowance for performance remuneration which otherwise is not part of civil service salary. This is the case of Ministry of Finance and Central Statistical Office, for example (interview). However, the lack of clear criteria and discretionary nature of the allowance suggest that this allowance can be utilized also for political control and reward.

Second highly variable and discretionary allowance is **allowance for management**. Although, the Civil Service law states four management levels with stated percentage range for each level, the range is too broad for each range – approximately 40% - which gives big discretionary power to the superior on the decision about the amount of the management allowance.

Finally, an important nonvariable and nondiscretionary allowance used to be permanent **special allowance** which was reserved for a specific group of "senior executive civil service" (so called nominated civil service) only with reward for these top officials with an automatic 50 percent pay increase. This was abolished in 2009 together with the termination of this specific senior civil service group.

At the moment there is no official performance related salary allowance. As noted before, some ministries utilize personal allowance for allocating increases of basic salaries based on performance evaluation. In the past, there used to be **performance allowance** which was variable but non discretionary. It was introduced in 2003 and abolished in 2009 due to its non functional usage. The performance allowance was based on performance points system from 0 – 4 where 4 points lead to a 3 percent increase, 3 points to 2 percent increase and which

were cumulative in nature. Research conducted by Staroňová and Brown (2006) revealed that 96% of civil servants received the two top points and thus they suggested that the mechanism has not been used for genuine performance evaluation, but rather as a substitute for annual salary increase.

In addition, since 2009 reform civil servants of several selected institutions are guaranteed an automatic **supplement of 20%** of their basic salary. This supplement is automatic, thus nonvariable and nondiscretionary. Thus, civil servants from Chancellery of the Parliament, President, Constitutional Court, Ombudsman, Supreme Audit Office, Supreme Court, Judicial Council Office, Specialized Penal Court, General Prosecutors Office and Government office are automatically granted this supplement.

2.3. Bonuses

Another form of individual component are bonuses, which often should be results based and tend to be end-of-financial year. Apart from this non regular component, there can be also all kinds of non-financial benefits (e.g. such as availability of a car, assistant, etc..).

The other important variable and discretionary element of the salary system in Slovakia are bonuses which created yet another possibility to raise the basic salary of civil servants by originally up to 100 percent. The payment of bonuses is subject to the discretion of the minister and the head of service office. Bonuses are set annually and there are no standards or procedures set centrally and thus there might be huge differences between the ministries. Each ministry can determine its own allocation mechanism as well as the amount of finances reserved for the bonuses which are not publicly available due to personal data protection regime.

Although differences exist across the Ministries in the average personal bonuses paid, Staroňová and Láštíc (2012) calculated the trends in the remuneration in the civil service and clearly showed that liberalization of the Civil Service Law in 2003 brought the possibility for the ministries to provide higher bonuses for top civil servants and this possibility actually increased the compression ratio and brought it to the level of private sector managers. The calculation of the annual take-home salaries of Directors General in 2008 showed that in some ministries they would earn up to three times their basic salary, i.e. the basic salary was equivalent to 35 per cent of the final salary (Staroňová and Láštíc 2012). Whereas flexible payment of bonuses helps to overcome the problems of the highly formalized and grade based base pay system, the lack of clearly defined criteria for the allocation of bonuses as well as the ad hoc nature of the system, based as it is on artificially construed salary budgets, make it vulnerable to politicization and risks creating salary budget levels that have little to do with the real needs of the administration.

As a result, 2009 civil service law reform introduced a cap at 20 percent as the maximum proportional salary increase in relation to basic pay. Still, the budget for remunerating civil servants with bonuses in some ministries does not allow for very high supplement. However, there are opportunities for creating funds for paying these bonuses by not filling in planned vacancies. In this way, no additional finances are needed for bonuses and ministries are motivated to slim their offices, particularly by reorganization (Staroňová, Brown 2006).

Insights gained through personal interviews with representatives of various ministries revealed that as a consequence ministries deliberately overestimate vacancies which are then not filled in order to receive finances for those posts and utilize them for bonus fund in the ministry. This practice is supported by data from the Ministry of Finance on the difference between planned and actually filled civil service posts in central government 2014.

Table 6: Civil Servant's Pay Components in Slovakia from Historical Perspective (Grade Salary)

	Period of Effectiveness	FUNCTIONAL SALARY							BONUSES
		BASIC PAY (TARIFF SALARY)			ALLOWANCES				
		Grade	Performance allowance	Services years allowance	personal allowance	managerial allowance	Special allowance	other allowances	
Law No. 143/1992 on remuneration of employees in budgetary organisations, accompanying Labour Law	1st May 1992 - 1st April 2002	12 grades based on education and years of service	no	no	yes (up to 100 % of the basic pay for 10 – 12 grades and up to 40 % of basic pay for lower grades)	fixed sum based on managerial level	no	8	yes (Government decree)
Law on Civil Service (new) 312/2001	1st April 2001 – 1st January 2004	9 grades based on education and years of service	no	no	no	variable sum 4-65% of basic pay based on managerial level	no	11	up to 100% of basic pay
2003 reform (ammendment 551/2003)	1st January 2003 – 1st November 2009	11 grades based on job description (no years of service)	0 – 3 % cumulative annual allowance (point system)	no	yes (up to 100% of basic pay)	variable sum, 5,5 - 90% of basic pay based on managerial level (4 levels)	yes 50 – 100 % for posts of special importance 50 % for senior executive service (nominated CS)	10	up to 100% of basic pay
2009 reform (new CS Law 400/2009)	1st November 2009 – up to now	11 grades based on job description (no years of service)	no	1 % cumulative allowance for one year of service		variable sum, 5,5 - 90% of basic pay based on managerial level	no	12	cap of maximum 20 % of annual functional sallary

Source: author

2.4. Personal Salary and Special Salary

Besides the **grade** salary (regulated by Civil Service law in terms of components – see chapters before), the Civil Service law recognizes two additional types of civil service salaries whose amount is dictated by market (and not by grade table regulated by the law): **special salary** which is approved collectively by Cabinet for „posts of special importance“ and **personal salary** which is a discretionary decision of one person – minister and thus is highly vulnerable for the political misuse.

Whether or not to grant a **personal salary** instead of grade salary is a highly discretionary decision of one person (minister) since the Civil Service law only mentions that those who „undertake specifically important or demanding tasks“ are to be provided specific salary competing with market. There is no further specifications on the purpose of the institute or no available data giving number of such posts or amount, not even to a central governmental body such as Government office which currently is given the task to oversee the coordination of civil service. Simply, there are no rules or standards for stating the number of posts, amount of salary granted or time limit within which this person undertakes these „specifically important and demanding tasks“. At the same time, there is no oversight body in existence that would check the relevance of the tasks, amount of the pay and post if in line with overall governmental priorities rather than ministerial.

The Strategy on managing human resources in the civil service (2015) has identified a total of 141 posts with personal salaries in line ministries as of 2014, widely differing in both the number of posts per ministry and minimum/maximum paid. The minimum amount paid is 1.200 EUR, whereas the maximum is 3.500 EUR, mean being 2.352 EUR. In addition, regardless whether a civil servant was granted grade, special or personal salary, there is also „bonus“ that may be paid (but not allowances). Also, some line ministries do not have any of these posts, whereas some have as many as 30 posts.

Historically, there were two types of posts of superior importance approved by the collective body of the Cabinet: one *with permanent special allowance* (regulated by the Civil Service Law) and one with **permanent special salary** (pay outside of the grade tables stipulated by law). The former one, approximately 300 posts, was particularly utilized around accession period during second Dzurindas government in order to cope with capacity problems related to work in working groups of the EC. The latter one, were designated by ministers and heads of office in appropriate Ministry and approved together with the proposed salary by the Cabinet in order to oversee the process. The salary was calculated on the basis of comparison with private sector. Under Dzurinda’s government in 2002-2006 this was used for the following five posts quite successfully (Staroňová, 2014): Head of the State Treasury, Head of the Debt Management Agency, Chief Economist at the Ministry of Finance, Head of the Anti-corruption Unit at the Government Office, and Head of Programming of Structural Funds at the Ministry of Labor, Social Affairs and Family. Posts of superior significance had the aim of attracting and remunerating civil servants in posts that were difficult to fill or posts where good salaries should serve as a prime anti-corruption

measure. Staroňová (2014) evaluated these measures very positively because highly qualified staff was attracted and also the obligations under this regime were a counterbalance for higher base salary.

The new law on Civil Service in 2009 has abolished the institutes regulated by law (nominated service, special allowance) and replaced it by *post of superior importance with superior salary* and a new institute of *personal salary* (both pays are outside of the pay tables stipulated by law). Thus, as of today, there exist simultaneously two salary institutes not regulated by the Civil service law but rather by market: *posts of superior importance with superior salary* and *personal salary*. Both offer salaries based on market rather than grades for "strategic" positions and tasks of importance to the government. The only difference is that while the former is approved by a collective body of the Cabinet (both position and salary), the latter is approved by minister solely (see Table xy). However, the introduction of variable discretionary market-related type of salary – personal salary – decreased the number of officials that were approved by Cabinet in favour to increase of number of official approved solely by the Minister.

Table 7: Salary types and Amounts in Central Offices of the Government

Type of salary (allowance)	Type of post	Post Approved by	Salary Amount Approved by	2005-6	2014
Grade salary	Regular Civil Service	Minister + Ministry of Finance (systematization until 2006)	Regulated by CS law	Cca 15.000	14.571
Grade salary + 20% lump sum	Regular Civil service (selected institutions) since 2009	Regulated by CS law	Regulated by CS law	-	n/a
Grade salary + special allowance	Nominated civil service (2003 – 2009)	Civil service office + Ministry	Regulated by CS law	5	-
Grade Salary + Special allowance	Posts of superior importance (2003-2009)	Minister (list to be approved by Cabinet)	Regulated by CS law	350	-
Superior salary	Posts of superior importance (since 2009)	Designed by Minister and approved by Cabinet	Designed by Minister and approved by Cabinet	8	1
Personal salary	No specific name for posts (since 2009)	Minister	Minister	-	141

Source: Staroňová (2015)

In sum, the system of remuneration is non-transparent and nonpredictable. Table 5 shows the various types of salaries utilized in central offices of the Government relative to discretionary power in the approval of the post and amount in time. An employee in the central office can be regulated by Civil Service Law, Public Service Law or Labour Law, depending on the type of work. Typically, civil servants (under Civil Service Law) have grade salary regulated by Civil Service Law. However, other types of salaries exist with various discretionary procedures (collective vs. individual) rather than regulated by law which makes the system even less predictable.

3. Predictability of the system: Salary levels as a ratio between components of remuneration vertically and horizontally

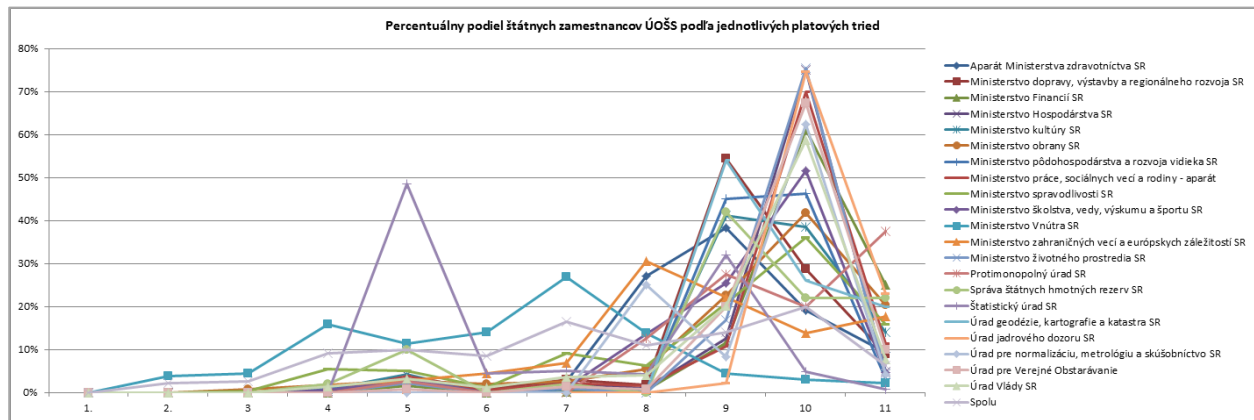
3.1. Vertical (de)compression

The most serious indicator of salary levels is the *vertical decompression ratio* or the **differential in base pay salaries** between the lowest salary in the lowest salary grade and the highest salary in the highest salary grade. Normally, the higher differential makes senior job more attractive in any country, and since these jobs require critical and scarce skills, this measurement is important. A small difference between salaries of civil servants, who have different responsibility creates a feeling of internal unfairness and de-motivates from career growth. That is why the number of salary grades and scales is also important, as a higher number implies smaller differences between individual grades and scales. If the compression ratio is too small, the country may encounter significant problems in attracting, motivating and keeping high qualified top cadres in civil service, which is also the problem of Slovakia (see Staroňová 2016 for discussing high turnover rates on top posts of civil service). According to OECD, this ratio should be 1:4-5, according to the EU it should be 1:6, whilst World Bank recommends an even higher ratio 1:7-10. Reid, Orac (2007) show that several countries, such as Croatia, the Netherlands and United Kingdom have compression ratio bigger than 1:7. This means a reasonably big difference between salaries of civil servants in different positions.

However, more pertinent than the number of grades is the manner in which the grade structure is implemented. In particular, it is critical to make sure that grades are well defined, thereby making it transparent and easier to differentiate between them and ensure the best fit. As shown in the previous chapter Slovakia has 11 salary grades, allowing for distinctions to be made between different levels of responsibility and thus making it theoretically possible to differentiate between the lowest and highest salary grade. However, it is questionable whether there is an adequate, objective base for categorizing jobs within the system. Particularly, as the minimum salary raise but top salary levels were kept constant due to fiscal concerns, the grading system stopped fulfilling its function – objective differentiation of jobs based on the level of responsibility. In fact, as the figure (Figure 3) shows the highest cumulation of the civil servants (74%) is in the last three grades, whereas the first three grades are practically not utilized. Thus, over time, the problem of a “grade drift” (Armstrong, Murlis 2005) occurred, leading to grading anomaly with

the real grade salary compression ratio being even lower than 1:3. This means that the vision of pay increases in this grade structure during civil servants career is significantly low.

Figure 3: Percentage of Civil Servants in Individual Salary Grades (as of 2014)

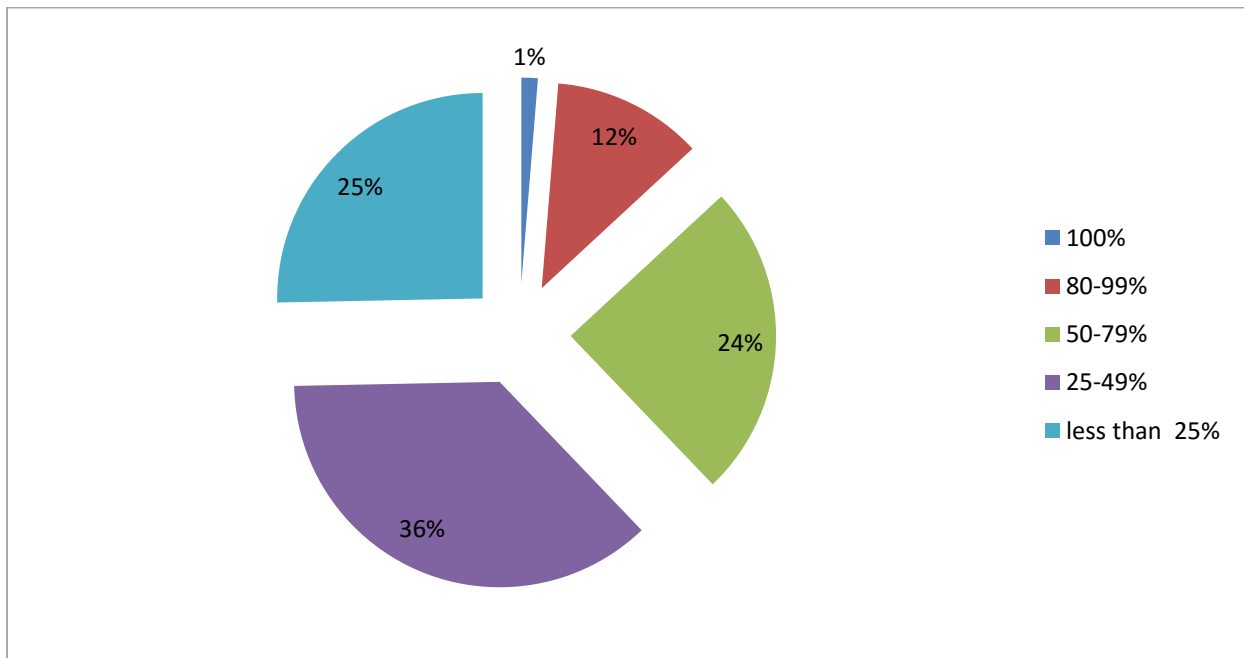


Source: author (internal document of the Government Office)

A legacy rising from the years of salary decompression when communist politicians pursued egalitarian goals at the expense of quality civil service has been a tendency not to raise the compression ratio of salary grades over the time even after the fall of communism. Such a low decompression ratio does not allow to motivate and keep highly professional top civil servants which gave rise to loopholes for generating funds to increase the decompression ratio in practice. This has yet another profound consequence that dramatically decreases the transparency of civil service management in several ways: a) creation of non-grade related types of salaries as discussed in the previous section b) utilization of allowances and bonuses for the increase of the salary c) creation of resources outside of the official budget provided by the Ministry of Finance for such a purpose.

As noted in the Section on the predictability of the system, tariff salary is only a small element of the full salary that can be increased by various components, including allowances and personal bonus. Thus, the principal alternative to increase decompression ratio is to pay in allowances and personal bonuses. In theory, these are linked to satisfactory performance but in practice only in very rare cases are increases withheld. The data in Figure 4 from the Government Office for the year 2014 (Strategy 2015) indicate that 87% of all civil servants at central government offices receive some type of personal allowance and thus it became a common instrument to raise salary levels of general civil servants and in this way compensate for low vertical compression ratio. Once personal allowance is granted, it is administratively extremely difficult to remove it and the law does not allow temporary granting of the allowance for a shorter time period. Therefore, even if this allowance could be potentially utilized as a performance evaluation tool, it is not enough flexible to add or remove payments based on the outcome of the evaluation.

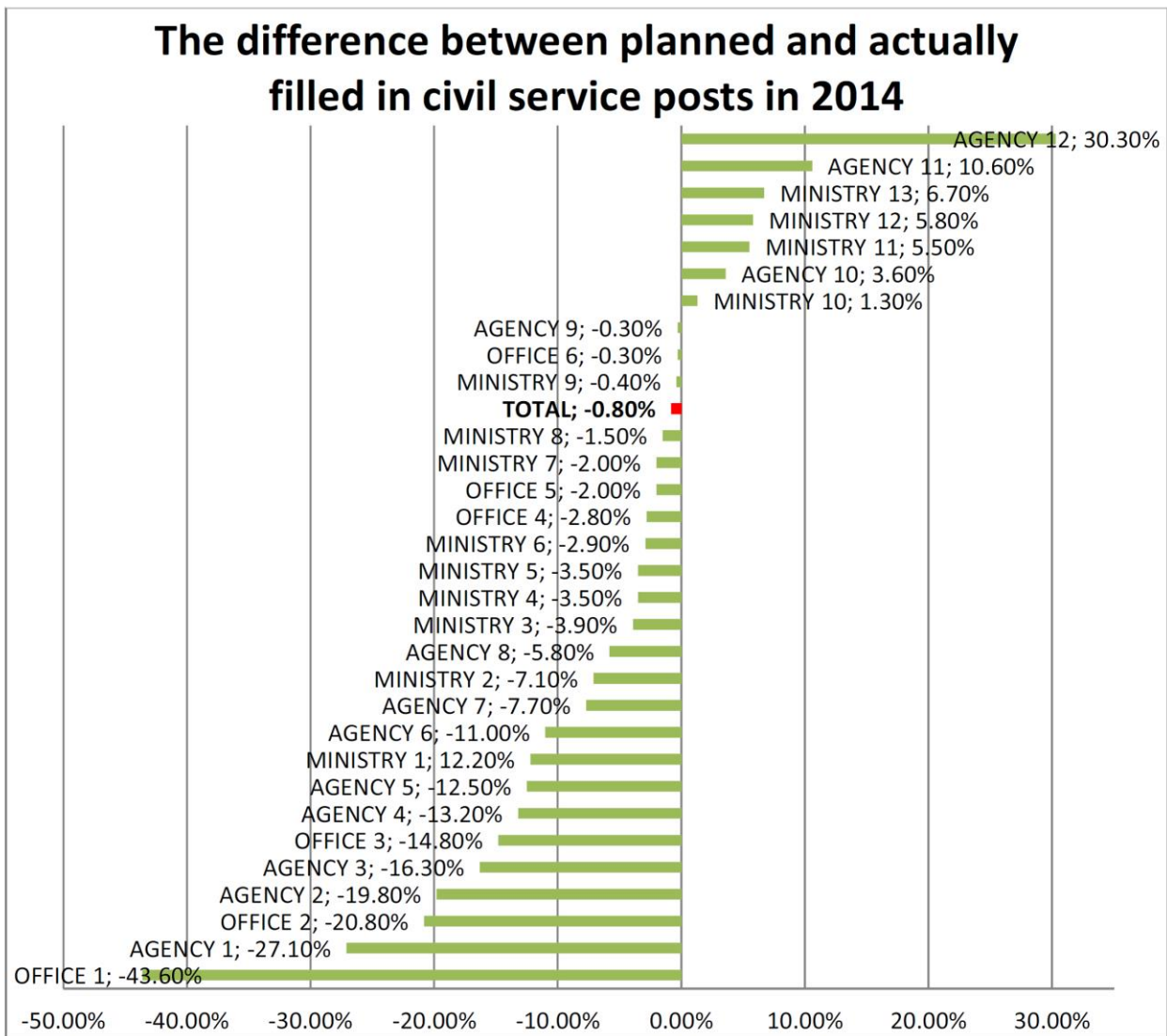
Figure 4: Civil Service division based on the volume of personal allowance



Source: Strategy (2015)

The second effect relates to the artificial planning of human resources at central level, an issue raised already by Staroňová and Brown (2006) in their World Bank report. Ministry of Finance and line ministries have institutionalized an informal arrangement through which funds saved on vacant positions when can be used to increase salary levels through personal bonuses. This informal system means that the ministries deliberately overestimate the number of posts needed in annual budget discussions with the Ministry of Finance in order to keep the unspent finances for remuneration. The Ministry of Finance monitors the average number of civil servants in each line ministry with corresponding finances allocated to planned posts. Figure 5 shows how many out of the planned positions are actually filled in by civil servants and how many positions are vacant. Data from the Ministry of Finance (2014) show that most of the ministry have a negative difference between planned and filled in positions, meaning that many posts remain vacant although finances are available. These “black soul” finances can be used for bonuses of the filled positions.

Figure 5: The Difference between Planned and Actually Filled Posts



Source: Ministry of Finance (2014)

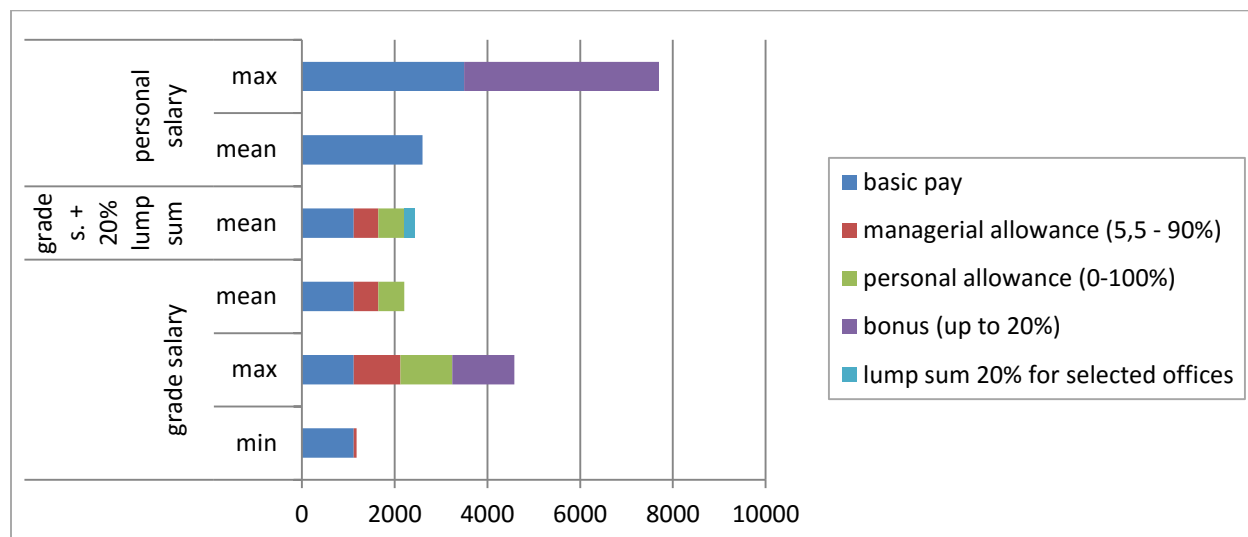
3.2. Horizontal compression

Horizontal compression measures the extent of remuneration difference on the same position within and across organizations in public administration. The difference reflects the fact that the system is based on low basic pay and high number of allowances with high degree of managerial and political discretion. The higher the horizontal compression among comparable positions, the lower the internal fairness can be observed.

Thus, in practice this means that civil servants with the same job description and same seniority or the same rank may earn very different pays across the line ministries or even within a line ministry. For example, there can be a sixfold difference in the earning of a human resource officer (he/she can have a grade salary, grade salary with permanent 20% lump sum, a personal salary

+ differences arising from discretionary and variable allowances + bonuses), leading to a significant variance in total pay (Figure 5).

Figure 6: Horizontal compression ratio in the same ministry (hypothetical)



Source: author's calculations

4. Conclusions and Recommendations

The Slovak remuneration system is complex, unpredictable and non-transparent. While greater flexibility in relation to the recruitment and remuneration of highly skilled or experienced staff into civil service is desirable together with the possibility of rewarding exceptional performance, it should not be made on the expense of transparency.

The remuneration system currently allows a rather wide discretion of superior officers over establishing the total amount of salaries of their subordinate civil servants. Superior officers decided over assigning employees into a relevant grade, based on their education and work responsibilities as in the previous system of the past decades. They could also decide over the granting and the amount of the variable salary component, particularly variable allowances. Allowances generally support activities that are unrelated to content of work and hence have no effect on performance. In fact, there is no performance related allowance in place. The only transparent part is in its basic pay which reflects the career grade system. However, grade system has eroded in real terms, since 75 percent of civil service in central offices are concentrated only in three out of eleven grades which means that the compression ratio (difference between the lowest and highest salary in grade table which is 1:3) is in practice even lower – only 1:2. In addition, this fixed salary proportion is as low as 30 percent of overall pay.

In an attempt to overcome the low compression ratio of the grade pay system and to come closer to private sector rewards (and attract professionals into civil service in this way), Slovakia has institutionalized several measures, particularly by introducing personal salary besides the grade

based salary system, by introducing 20% lumpsum from basic pay on top of salary in selected offices and by creating higher flexibility and discretion in variable part of the salary.

The variable part of the rewards (allowances and bonuses) are determined individually. Thus, individual salaries can vary significantly through the effect of „adds-ons“ which are negotiated for specific posts. The post is relevant for determining the variable parts of the salary. The most important allowances (personal and managerial allowance) in terms of their volume are both variable and discretionary. Thus, this scheme created the possibility to raise the basic pay by up to 100 percent and 90 percent respectively. In addition, there is still bonus as a third discretionary variable component. By OECD standards, this variable pay is very high indeed, moreover subject to discretion of the superior and/or approval by political nominee - head of service office as the authority exercising human resource management in the ministry. Although there exist ad hoc evidence that personal bonus is utilized on the basis of performance evaluation, the decision is entirely discretionary and there exist no central standards on this matter. In fact, formally performance management system is not in place in Slovakia since its termination in 2009. This discretionary element in decision-making contains the potential for abuse, particularly if there are no criteria for its granting. While pay flexibility is important to be able to manage human resources and attract professionals, it may degenerate to messy remuneration regime weakening human resources management co-ordination and coherence. The system brought back the possibility of informal merit dimension, whilst giving more room to arbitrary decision-making.

Recommendations:

There is a need to reform the remuneration system entirely in order to increase vertical compression ratio and decrease horizontal compression ratio. At the same time, it is important to introduce clear criteria for discretionary components, as well as, higher accountability mechanisms. We recommend following concrete measures to be either part of a bigger reform package or as individual incremental steps leading to a change in remuneration:

1. Introduce broad-banded structure of remuneration instead of narrow grade system which will lead to possibilities of using remuneration for performance reward and increase vertical compression ratio
2. Introduce standards, criteria and accountability measures where possible so that un-structured discretion can be transformed to the arena of structured discretion, yielding well justified and predictable decisions
3. Increase pay compression of the basic pay to 1:6, making the basic pay proportionally a more significant part of the overall pay (e.g. 70-80 percent of the overall pay). This could be also done by leaving a variable segment relatively high at senior levels (e.g. 50%) but low or even 0% at the lowest level. This would increase the differential between the lowest and highest levels and improve competitiveness with the private sector.
4. Introduce performance management system and link it clearly to remuneration (e.g. to personal allowance)

5. Introduce performance evaluation standards across line ministries and provide regular training on conducting and reporting performance results (with clear linkage to remuneration)
6. Impose a duty on an employer to give reasons for its discretionary personal allowance and bonus decisions
7. cap the variable component of bonus to 20 percent of the basic pay for all civil servants and political nominees
8. Abolish 20 percent lump sum on top of basic pay for selected offices which is a non-systematic element and creates internal unfairness
9. Abolish „special salary“ (for posts of special importance) which is currently granted only to one person and thus is a non-systematic element
10. introduce „collective element“ in „personal salary“: decisions on the type of posts and amount of pay related to this post should be decided by a collective body (e.g. cabinet) rather than a single political person
11. limit the personal salary to a specific time period (contract) and goals which are to be checked as of its fulfilment and if they are not fulfilled the contract is terminated or renewed.
12. make the list of posts with personal salary publicly available
13. decrease the degree of discretion in the system

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