

On public employment and staffing costs

Background

Staffing costs, made up of salaries, contributions to the government mandatory social insurance and mandatory health insurance premiums, represent one of the key economic cost categories within the national public budget. Despite the share of these costs in the overall public budget expenditure throughout 2000-2005 accounted for 25 per cent on average, the level of salaries in the government sector is quite low when compared to those in the private sector – the reason why the employment of qualified staff in the public sector is a burning issue. These technical notes elaborate on the summary overview of recent trends in employment and work compensation within the public sector, particularly reflective of the situation in this area as of 2005, as well as the key targets for 2007-2009.

Recent Trends

Public Employment

According to the National Bureau for Statistics data, the number of public servants generally decreased in the country over 1998-2005 and keep on dropping, while the number of those outside the salary system is going up. Salaried employees accounted for 63 per cent of the total in 2005, while their number somewhat decreasing by 1 per cent versus 2004 and by 4.5 per cent relative to 2003.

The distribution of population by forms of property outlines that 69.6 per cent of the total employees are operating in the private sector, whereas 25.6 per cent – in the public sector, including 83.5 per cent – as government employees. Of the total number of government servants, over 70 per cent are operating in the education sector (see Table 1). The level of government employment dropped by approximately 37 per cent between 1998 and 2005, from 280.9 thousand people down to 176.9 thousand employees. There are as few as 17100,5 people working for the central and local public administration authorities, or 9.7 per cent of the total number of public servants. There are as few as 172800,5 people, or 9,7 per cent of the total number of public servants, working for the central apparatus of the ministries and central administration authorities.

At the current stage of the central public administration reforms (CPAR), efforts bent to streamline the structure of Government and to reduce by 70 per cent the staffing of central public administration authorities already resulted in some outcomes. So, central executives reported a cut from 16 ministries and 14 departments down to 15 ministries and 13 agencies, services and national bureaus. At the same time, CPAR activities have not yet covered the remainder of public facilities accounting for the prevailing share of public servants, specifically the social sector employees, whereas the staff operating within central public administration authorities account merely for one per cent of the total staff hired in the public sector. For instance, within the education sector that accounts for 70 per cent of the number of public servants, the management staff working in public authorities account for merely 0.5 per cent, whereas the faculty working in education facilities account for the remaining 99.5 per cent. *That is why there is need to reform the whole public sector versus the central public administration staff only.*

General trends reported in public servant employment by sectors, as set out in Table 1, reveal that the number of employees has dropped by more than 26 per cent on average in 2005 versus 2000, accounting for 176.9 thousand people in 2005. Generally, trends in all sectors reported a reduction in the number of staff, which was prevailing in health care. This reduction is due to a great extent to the health care system reforms. Once the mandatory health insurance was implemented, most of health facilities are operating now as financially self-sufficient entities. Besides these staff cuts reported in the social sector, there were upward sloping trends in the number of staff during this interval of time, so that the number of staff operating in this sector in 2005 increased by more than 25 per cent relative to that in 2000. This growth was determined by an increase in the number of solicitors asking for service delivery at home and the creation of new facilities for social support to the elderly, disabled, children, and homeless.

Table 1. Distribution of labor force within the budget sector by areas during 2000-2005

	2000		2001		2002		2003		2004		2005	
	Number of staff	% of total	Number of staff	% of total	Number of staff	% of total	Number of staff	% of total	Number of staff	% of total	Number of staff	% of total
Government general services	15,503	6%	16,763.5	7%	16,880.5	7%	15,596.4	7%	14,093	8%	14,141.1	8%
External operations	299	0%	288.5	0%	304	0%	323.3	0%	350.5	0%	335.5	0%
Judicial system	3,064.5	1%	3,194	1%	3,140	1%	3,018.5	1%	3,160.9	2%	3,344.5	2%
Education	126,646	53%	124,738.5	52%	123,383.6	52%	125,277	53%	125,941	71%	12,6213.9	71%
Science/research and innovations	4,214.5	2%	3,460.4	1%	3,494.8	1%	3,166	1%	3,130.4	2%	3,576.5	2%
Culture, arts, sports, and youth-targeting activities	9,896	4%	9,951.5	4%	10,009	4%	10,273.5	4%	10,406.5	6%	9,669.4	5%
Healthcare	67,108	28%	66,143.3	28%	65,073.6	28%	64,584.5	27%	5,040	3%	4,698.3	3%
Social insurance and support	4,309	2%	4,278	2%	4,423	2%	4,523.7	2%	5,060.7	3%	5,409	3%
Agriculture, fishery and forestry	3,985	2%	5,765	2%	4,765	2%	3,730.2	2%	3,726.9	2%	3,677.7	2%
Environment protection, and hydrometeorology	980	0%	1,028	0%	1,008.5	0%	862.1	0%	854.6	0%	841	0%
Industry and constructions	333	0%	319	0%	320	0%	282.5	0%	346.8	0%	388.1	0%
Transports, road services, communications	240	0%	219	0%	195	0%	211.3	0%	198.5	0%	119.5	0%
Utilities and residential housing services	122	0%	122	0%	83	0%	103.5	0%	108.2	0%	146	0%
Other economic activities	2,646.5	1%	3,362.5	1%	3,445.5	1%	4,078	2%	5,237.4	3%	4,410	2%
Total	239346.5	100%	239,633.2	100%	236,525.5	100%	236,030.5	100%	177,655	100%	17,6970.5	100%

In the same vein, another factors had an impact on the change in the number of staff, too, including:

Reduction in the number of personnel:

- § Approval and implementation of new staffing norms for local public administration authorities and for

- decentralized services out into the field following the carrying out of administrative-territorial reforms;
- § Specialists leaving because of small salaries, particularly in the education and health care systems;
- § Reorganization of the “Teleradio-Moldova” government enterprise that started off in 2004; and
- § Health care system structure reforms and restructuring.

Increase in the number of personnel:

- § Opening Republic of Moldova embassies to Sweden, Czech Republic, Serbia and Montenegro, Latvia, Lithuania, and Estonia;
- § Opening of new culture-related facilities (libraries) out into the region;
- § Opening of new pre-school facilities and the increase in the number of children attending pre-school facilities;
- § Increase in the number of auditoriums in staff retraining facilities, and an increase in the number of children attending extracurricular facilities;
- § Development of a network of social facilities for the elderly and disabled, children, and homeless; and
- § Increase in the number of solicitors asking for aid at home resulted in a raise in the number of social service staff providing assistance at home etc.

Despite there was some progress reported, the situation of public servants still is quite complex in nature because *there are several normative acts regulating the legal framework applicable to public administration staff. This is indicative of missing integrated regulation for staff management within the public sector. To date, there is no structure to centralize data on the aggregate number of public servants and to regulate the staffing policy within the whole public sector.*

Staffing Costs in Public Sector

Staffing costs in nominal value accounted for MDL 3,000.6 million in 2005, reporting an increase by 20 per cent when compared against 2004, and 2.4 times higher than those reported in 2000 (see Table 2). These trends reveal the importance given to the issue of raising the wages of government employees, specifically those operating in the social sector, on the one hand, and the increased fragmentation of salaries that occurred throughout 2000-2005, on the other hand. As a ratio of GDP, staffing costs have reported a raise from 7.8 per cent in 2004 up to 8.2 per cent in 2005. The share of staffing costs in the overall public expenditure in 2005 remained basically at the level reported in 2004.

Table 2. Staffing costs – recent trends

	2000	2001	2002	2003	2004	2005
Total staffing costs within the national public budget (MDL million)	1233,4	1544,2	2143,2	2650,3	2507,1	3000,6
per cent of overall public budget expenditure	21,2%	25,7%	27,8%	28,9%	22,3%	22,2%
per cent of discretionary operational costs	30,5%	33,9%	34,6%	36,0%	28,1%	26,8%
per cent of GDP	7,7%	8,1%	9,5%	9,6%	7,8%	8,2%

By analyzing the share of staffing costs individually by each sector in the total amount of staffing expenditure within the national public budget, it is worth emphasizing that approximately 50 per cent is spent on staffing costs in education facilities, over 19 per cent are the staffing costs incurred by government services of general destination. Generally, social sector facilities account for the biggest share of staffing costs in the overall expenditure framework, accounting for as much as 60.4 per cent. The share of staffing costs in other sectors varies between 3 per cent and 4 per cent.

Remuneration in the Public Sector

Although staffing costs in the public sector are impressing, the average salary is continue to be one of the most ardent issues pending solution. When compared against the average salary paid in the national economy countrywide, the size of an average salary of a public servant could be reckoned comparable, but for top management staff only. Despite the wages of certain staff categories significantly improved in 2005, the discrepancy pervaded at the same high rates, with the average salary in the public sector matching only 75.2 per cent of the private one. This is indicative of the low level of salaries paid within the public sector, which still is the case to date. The miserable wages undermined the motivation, professionalism and the morale of public servants, and allow no recruitment and retention within government facilities of specialists and people with higher managerial skills.

Indicators	Measure unit	2000	2001	2002	2003	2004	2005
Nominal average monthly wage within the economy	lei	407,9	543,7	691,9	892	1104	1319,5
Nominal average monthly wage in the government sector	lei	292,9	407,8	555,8	685,2	828,3	992,5
Share of average wage within the government sector in the average wage within the country's economy	%	71,80%	75,00%	80,30%	76,80%	75,00%	75,20%

Source: National Bureau for Statistics.

- In one of the public sector’s most critical area – education – the average monthly salary of a public servant paid in 2005 from the basic expenditure accounted for MDL 723 versus MDL 576 in 2004. The average salary of faculty was equal to MDL 966 in 2005, which is MDL 226 more in comparison with the previous year, whereas the average monthly salary of an auxiliary worker reached MDL 419 versus MDL 354

reported previously, and MDL 778 – for management staff versus MDL 608 in the past. Considering that special funds have also been channeled to defraying these costs, the average monthly salary of a public servant working in education, paid from the basic expenditure and special funds in 2005, tallied up to MDL 1079, including MDL 1427 for faculty, with an increase in the amount of MDL 249, when compared against 2004 figures, and MDL 615 versus MDL 521 in 2004 for an auxiliary worker; and

- According to the National Bureau for Statistics data, the quickest pace of salary raises has been reported within the social sector in 2005, accounting for 20-30 per cent on average, whereas the salaries in other sectors reported a modest growth of 10-15 per cent only. The average monthly salary is much higher for certain staff categories working in these sectors than the average wage reported in the economy countrywide. For instance, the faculty teaching in higher education facilities and some categories of physicians have average monthly salaries over MDL 2,000. Despite the salary raise witnessed, the public service is facing challenges in recruiting and retaining the staff with management skills to ensure the efficient work of the public sector.

In order to implement a new salary payment system based upon individual performance of public servants and the differentiation of their salaries within large limits of salary brackets, the main actions in the salary policy for 2006-2009 are and will continue to be focused on fulfilling the provisions of the Law on the public sector salary system, adopted on December 23rd, 2005. The target of the new salary system is to ensure an equitable level of salary payments for all categories of public servants depending on their qualification, accountability, and the complexity of their work, based upon the individual professional performance of public servants.

Salary Policy for 2007-2009

The key objective for 2007-2009 is *to implement a unified system for salary remuneration for public servants, which will be motivating, simple and transparent, so as to reflect the importance and outcomes of the work done and to allow for the recruitment and further retention of skilled staff.*

The key principles laying the foundation for the salary system reforms are as follows:

- § Salary payment based upon individual performance of public servants;
- § Differentiation of salaries within large limits of the salary brackets;
- § Raise the level of public servant's average salary;
- § Gradual and even implementation of salary system reforms; and
- § Recruitment, employment and retention of highly skilled staff.

According to macroeconomic forecasts for 2006-2009, the nominal average salary in the country's economy in general will increase 2.2 times versus that reported in 2005, to reach MDL 2,860 by 2009, whereas labor compensation fund will double, accounting for MDL 20.5 billion, or 32.3 per cent of the GDP versus 27.7 per cent reported in 2005. A growth of 22 per cent in the average wage is envisaged in 2007 to tally up to MDL 2,015.

- § The Law on the public salary payment system will be the one regulating the salary policy within the public sector during 2007-2009. Hence, the level of employees' salaries working in the public sector will be determined by the following: (i) increase in the salary of category one salary from MDL 200 up to MDL 400 in 2007; and (ii) salary remuneration system reform for public servants based on the provisions of the above law;
- § The growth of the average monthly salary in the overall economy countrywide and of the labor compensation fund will be determined by the following: (i) resuscitation of the real sector, specifically due to private sector development and shifting of a considerable number of staff to small-size and medium-size businesses; (ii) consumer price increase; and (iii) salary system improvement and better motivation for employees; and
- § In order to fully implement the provisions of the given law, additional funds in the amount of about MDL 4303,2 million will be required by 2010. In order to implement the provisions of the above-said law, additional financial resources have been provided for throughout the MTEF for 2007-2009 worth MDL 968,0 million in 2007, MDL 1708 million in 2008, and MDL 907,2 million in 2009 respectively. Following the implementation of this law, the salary funds will evolve within the public sector during 2007-2009 as follows:
 - ◇ Staffing costs will go up by 17-19 per cent a year on average. These will reach MDL 6658,3 million by 2009, more than twice exceeding the staffing costs incurred in 2005 in the amount of MDL 3000,6 million;
 - ◇ As a proportion of GDP, these will display an increase from 9.1 per cent in 2006 up to 10,5 per cent by 2009;
 - ◇ The growth of salary funds will use up the largest share of additional available resources and will limit the financing opportunities of other cost categories, including in capital costs.

Nevertheless, the potentially high costs of the salary system reforms carried out in the public sector emphasize the need for planning and implementing it within the context of a comprehensive public sector reform strategy, and not within that of central public administration only. That is why there is need to reform the entire public sector, and not merely the central public administration, as well as to designate a facility to be in charge of staffing management for the entire public sector and that will regulate the staffing policy within the whole public sector, and not merely the public administration segment of it.