GOVERNANCE COVID-19 RESPONSE

Managing the Public Sector Wage Bill during COVID-19

Summary

The COVID-19 crisis is unique and requires tough policy choices for managing the public sector wage bill to best achieve the difficult balance between fiscal consolidation, protection of lives and livelihoods, service delivery, and job restoration. In the emergency phase, the priority should be on protecting lives and livelihoods. Vital services will need to be scaled up by increasing staffing for essential functions and providing adequate compensation for frontline workers who are taking considerable risks.

Given that the public sector is a large, generally well-paying formal sector employer, the wage bill can be an effective safety net for households to complement the various business and citizen support schemes that many governments have implemented. Attempts to generate sufficient savings to finance private transfers through cuts to the public sector wage bill would need to include staffing or wage reductions for teachers, police, and other essential workers who make up the bulk of the public sector. These reductions can be socially disruptive and politically unpopular.

Short-term measures will likely increase the wage bill. As a result, in the recovery and resilience phase, priority must be given to fiscal consolidation, the reduction of labor market distortions that may hurt private sector job creation, and an increase in the productivity of the public sector so that more outputs are produced per worker. But these reforms should be data driven and targeted so that governments are better prepared for the next crisis and are generally better able to implement policies for their citizens.

To these ends, the note provides suggestions that countries can adapt based on their circumstances and given that they entered this crisis from different starting points:

EMERGENCY PHASE

- Protect public sector employment and wages
- Increase staffing for essential functions
- Provide adequate compensation for essential workers.

RECOVERY AND RESILIENCE PHASE

- Monitor the public sector wage premium
- Curtail high pay and remove distortionary allowances
- Build staffing flexibility and agility
- Emphasize compensation and management reforms to improve productivity
- Leverage technology and data for decision-making.

1. The Problem

The unprecedented health and economic crisis caused by the COVID-19 pandemic will require a different approach to managing the public sector wage bill to achieve, under considerable uncertainty, the difficult balance between fiscal consolidation, protection of lives and livelihoods, service delivery, and job restoration. The economic half of this crisis is unique because it is not caused solely by fiscal profligacy, but by the deliberate decision of all governments to shut down the global economy to combat the pandemic, equivalent to a medically induced coma to heal a patient, to use an analogy from the economist Paul Krugman (Krugman 2020). Even though many countries are starting to re-open, the number of cases globally keeps rising sharply. The recovery is very uncertain until a vaccine is discovered as there may be multiple waves of the virus that force repeated lockdowns.

Managing this crisis requires a degree of policy flexibility and targeting for which there is little precedent. While the International Monetary Fund (IMF) and many academics have convincingly argued that governments should borrow to finance the urgently needed health and economic emergency measures, it is unlikely that the ability of developing countries to borrow, or to get debt relief, will be sufficient to meet all needs. Some fiscal consolidation will be necessary after the emergency and lockdown phases end to help with the economic recovery and to restore fiscal sustainability.

This time truly is different, and this note reinforces the perspective that the response should be guided by two objectives: scaling-up essential services and protecting livelihoods of all workers in the emergency phase; and implementing targeted, data-informed reforms to reduce distortions and improve productivity in the recovery phase.¹ These goals will necessarily imply trade-offs and risks, which countries will need to assess based on their own, unique circumstances. For example, the wage bill will likely grow in nominal terms and as a share of government revenue and gross domestic product (GDP) in the short term. Countries will differ in their ability to finance this increase through debt accumulation. The increase in the wage bill will also need to be gradually unwound in the medium term, but ideally through targeted reforms that differentiate between essential and nonessential functions, monitor labor market impacts, and emphasize improvements in productivity and resilience. These structural reforms will also pose technical and political challenges that will differ across countries.

¹ This distinction between emergency and recovery phases is stylized as it is likely that the two will be concurrent given the multiple phases of the virus.

Given the heterogeneity across countries, this note offers general guidance that countries can adapt and modify based on local context. To help countries make these tough choices, the following questions are addressed:

- How can governments increase staffing and compensation for critical functions necessary for the emergency response in a fiscally responsible way? How can they improve the flexibility and resilience of staffing and compensation for future pandemics and other disasters?
- Should governments consider staffing and wage cuts for any subset of public sector workers such as those performing nonessential public sector functions, those at the highest salary levels, or reductions in benefits?
- What public sector pay and employment measures can help with the economic recovery?
- What wage bill reforms will improve public sector productivity in the long run?

2. The Context: Some Stylized Facts about the Wage Bill

The reform options will depend on each country's pre-crisis starting point. Each country has its own circumstances that determine the appropriate policy response. Cross-national data and findings from the World Bank's numerous country engagements suggest the following stylized facts on public sector employment and compensation that should inform country choices.

Fact 1: Significant Fiscal Impact

Cross-nationally, the general government wage bill averages approximately 9 percent of GDP and represents roughly a quarter of general government expenditures.²

While the wage bill as a share of GDP rises with country incomes, reflecting the increasing role of the state in providing social services as incomes rise, it tends to fall as a share of expenditures (figure 1).

Figure 1. Wage Bill as a Share of General Government Expenditures

Source: IMF Government Compensation and Employment Dataset.

Note: "World" is based on the average for 120 countries for which data are available.

In many countries of Sub-Saharan Africa, for example, the wage bill consumes upward of a third of all government expenditures, underlining the importance of efficient wage bill management in the crisis response. While there is no cross-national relationship between the level of the wage bill and fiscal deficits, increases in wage expenditures over time within a country are correlated with increasing fiscal deficits (IMF 2016). These wage bill

² IMF Wage Bill Dataset. The wage bill is calculated for the general government only, excluding state-owned enterprises and other self-financing agencies.

numbers are also likely to underestimate the true fiscal impact of government personnel as they may exclude payments to contractual staff and elements of compensation, such as discretionary allowances, salary supplements, or per diems, that are recorded under goods and services and disbursed outside of the payroll.

Fact 2: Large Labor Market Footprint

Decomposing the wage bill into public sector employment and wages reveals the significant footprint that the public sector has as an employer and underlines that wage bill management policies also need to consider their labor market effects.

Globally, the public sector is responsible for 17 percent of total employment, 30 percent of paid (or wage) employment, and 38 percent of formal sector paid employment.³ The

³ These data are derived from the Worldwide Bureaucracy Indicators, a new global dataset on public sector employment and wages compiled by the World Bank (see <https://datacatalog.worldbank.org/dataset/worldwide-bureaucracy-indicators>.) Total employed individuals are defined as those workers, age 15 and older, who in the household surveys responded that they had a job in the prior week. Wage employees are those whose basic remuneration does not directly depend on the revenue of the unit they work for and are instead paid in wages and salaries, piecework, or in-kind compensation; self-employed workers are excluded. Formal sector wage employees are those who also have an employment contract and health insurance, belong to a union, or are enrolled in a pension program.

public sector is a particularly large employer of skilled labor accounting for 39 percent of all employees with a tertiary education. These averages hide considerable variation. In many low and middle-income countries, the public sector represents 50 percent of all paid jobs (figure 2).

Figure 2. Public Sector Employment as a Share of Paid Employment

Source: Worldwide Bureaucracy Indicators.

Note: “World” is based on the average for 132 countries for which data is available. Paid jobs includes all formal and informal sector jobs in which a worker receives a wage.

This variation in employment and wage premium across the different occupations and demographics needs to be factored into wage bill management as it will have differential impacts on the overall labor market and the welfare of workers, public or private. Cuts in wages of nonessential workers in the short run may not translate one-to-one in transfers to unemployed or underemployed private sector workers. On the other hand, while in the short run the public sector wage bill is a natural countercyclical measure, a sustained or increasing wage premium can hurt the private sector recovery and cause longer term scarcity in labor supply to the private sector.

Public sector workers also on average earn higher wages than private sector workers of similar education and age. The public sector wage premium is about 17 percent across the 111 countries for which the World Bank has data, with 80 countries having

a positive premium. There is no clear pattern in the size of the premium with country incomes (figure 3). These premia are higher when benefits are accounted for as a much higher proportion of public sector workers receive health insurance or pensions. They are higher still when nonpecuniary benefits, such as job security, are also added. In the absence of public sector wage and employment cuts, the COVID-19 crisis may increase the overall wage premium and will certainly increase the public sector share of wage employment given the surge in unemployment, furloughs, and wage cuts taking place across the world. This may exacerbate the phenomenon of queuing for public sector jobs that is found in many developing countries (Gindling et al. 2020).

Figure 3. Public Sector Wage Premium Compared to All Private Paid Employees, excluding Benefits

Source: World Bank Worldwide Bureaucracy Indicators.

Note: “World” is based on the average for 111 countries for which data are available.

Theses averages mask the heterogeneity of public sector employment and compensation that also needs to inform wage bill management during the crisis.

A bulk of public sector employees are in education, health, and security and can be considered essential staff and therefore need to be protected, or even scaled-up, during the crisis. While disaggregating employees by industry classification is difficult because of limited data, in the 10 Latin American countries for which the World Bank has information, roughly 30 percent of public sector workers are teachers and another 12

percent are medical staff. The public sector is also a disproportionately large employer of women. In most countries, the share of women working in the public sector is higher than the share of women working in the private sector, and women have a higher public sector wage premium than men. Therefore, any cuts to the wage bill have significant gender implications, and by extension impacts on household welfare. The size of the wage premium is also sensitive to the choice of the private sector comparator and differs across occupations. The average premium decreases to 6 percent if public sector workers are compared only to formal sector workers, and public sector pays relatively lower wages than the private sector to senior officials and professionals.

Fact 3: Weak Links between Compensation and Productivity

Economic theory justifies a wage premium if it is due to higher labor productivity; however, it is more likely that the public sector wage premium represents economic rents rather than a productivity differential. Surveys of public sector employees conducted by the World Bank and academics reveal a weak link between compensation and employee motivation and employee motivation is a reasonable proxy for productivity given the measurement challenges in the public sector.⁴ There are two aspects to this weak association. First, these surveys reveal that only 40 percent of

⁴ Based on surveys of 25,000 civil servants in nine countries.

respondents were satisfied with their pay levels despite a significant wage premium in each of the surveyed countries. Second, even civil servants who were more satisfied with their pay were not more likely to be motivated. For example, a recent survey of civil servants in Romania revealed no association between perceived wage premiums or salary satisfaction and self-reported levels of motivation.

There are many possible reasons for this weak linkage between wages and employee motivation. First, there is considerable inequity in pay in the public sector where workers get substantially different wages for the same jobs and with the same observable characteristics, and studies have shown that perceived pay inequity can reduce job satisfaction and worker productivity (Breza, Kaur, and Shamdasani 2018). For example, micro-level administrative data from Brazil reveal that that wages vary five- to tenfold for staff with similar years of service in similar occupational groups, a pattern also found in Bosnia and Herzegovina, Indonesia, and Romania, and is likely reflective of the complex regulatory regimes that govern individual compensation, resulting in nontransparent and highly varied wages (World Bank 2019a).

Second, wage increases due to career progression are weakly tied to performance. Many civil services pay scales have automatic pay increases within jobs based on years of service, which also limits governments' flexibility to respond to fiscal constraints. While promotions between jobs are formally linked to good performance evaluations, weaknesses in performance management imply that most employees get the highest ratings and as a result promotion-based wage increases are also largely based on seniority.

Third, many allowances and discretionary salary supplements create perverse incentives. For example, honoraria for attending board meetings, workshops, or events and per diems for travel are often used as salary supplements. They may encourage staff to maximize the number of project teams they belong to and the number of meetings and workshops they participate in, likely reducing productivity.

Fourth, performance bonuses are quite rare in low- and middle-income countries and face a variety of design and implementation problems when applied. By contrast, two-thirds of Organisation for Economic Co-operation and Development (OECD) countries have some form of performance pay for their public sector. Performance-related pay in the public sector is a controversial topic given the difficulties in measuring outputs, the multi-dimensional nature of work where measuring some activities can incentivize workers to ignore the unmeasured tasks, and risks of favoritism and pay inequity that can result in the absence of objective performance measures (Hasnain, Manning, and Pierskalla 2014). It is also an area of considerable

academic research. The available evidence shows that performance incentives can improve productivity for tasks with standardized delivery processes and relatively easily measurable outputs, such as processing of welfare payments, licensing and registration, and tax and customs administration. Performance pay for senior civil servants can also complement measures to improve organizational performance management and results-based budgeting (World Bank 2014).

Fact 4: Misallocation of Personnel

Many public sectors have a suboptimal allocation of staff due to structural rigidities, inappropriate skills mixes, or functional and geographical misallocation. For instance, in Brazil, public sector wage and personnel management shows a high level of fragmentation across occupational groups — called “careers” — even within agencies, with the result that staff are unable to cross these career boundaries to perform functions, or to have sufficient vertical mobility. A functional review of Serbia’s executive branch found that only 70 percent of positions are core functions, while as much as one-third are internal administrative support, such as Information Technology (IT), Human Resources (HR), legal, estates, communications, procurement, knowledge management, and finance (World Bank 2016). This poses a much higher burden on the public sector wage bill than in OECD countries, where the trend is to centralize common functions and consolidate corporate services into shared services centers. In Romania, the lack of consistency in using civil servant versus contract-based positions for what is often essentially the same function could lead to challenges in HR data collection across the public service, as civil servants and contractual registries and payroll is centralized in different institutions.

3. The Policies: The Past Is Not a Good Guide

The World Bank and the IMF have a standard menu of reforms on wage bill management in times of fiscal crises, but these measures are less desirable or feasible under COVID-19. The standard short-term measures involve retaining savings from vacant positions, across-the-board wage freezes or cuts, and downsizing through voluntary or involuntary schemes (table 1). In the Global Financial Crisis, for example, many European Union member countries used public sector wage cuts or wage freezes as instruments to implement fiscal consolidation (table 2). The implicit assumption in downsizing measures like attrition or voluntary retirement schemes — that the public sector employees who are let go will find alternative private sector employment — is unlikely to hold over the possible multiple waves of COVID-19 until a vaccine is found, and given the considerable risks to the global economy over the next year or longer. Such

measures have always been economically and politically risky—some research has shown the immediate adverse short-term macroeconomic effects of pay cuts (Kickert, Randma-Liiv, and Savi 2015) and the overall increase in unemployment after the enactment of flexible employment policies (Yassin and Langot 2017). The political appetite for policy makers for such a measure is likely to be even lower than usual in the current crisis.

Table 1. The Standard Menu of Policy Options

Short-Term Measures	Medium-Term Measures
<ul style="list-style-type: none"> • Retaining savings from vacant positions • Freezing or cutting wages across the board or for some sectors or grades • Freezing recruitment across the board, or with exceptions for teachers, medical personnel, and police • Attrition targets such as filling only 1 out of 2 positions that become vacant due to retirement • Introducing a voluntary retirement scheme • Eliminating ghost workers or large-scale vacancies 	<ul style="list-style-type: none"> • Implementing a single salary spine for the public sector • Folding allowances into basic pay • Targeted staff rationalization based on horizontal and vertical functional reviews • Strengthening establishment control and payroll management

Source: Van Acker and Hasnain (2019).

COVID-19 has underlined the importance of staffing and wage flexibility to build resilience over the medium term, but the standard menu has prioritized rule-based rigidity rather than agility. Governments need to have agility in deploying their human resources. Unlike in other past crises, staffing and possibly wages will need to be increased in essential health and livelihoods-protection functions, such as the administration of safety net programs, and governments need to have flexibility in their human resource management processes to do so quickly. To reduce costs, these increases can be done through reallocating staff from nonessential functions or hiring temporary workers on contract. By contrast, many of the medium-term reforms in the standard menu prioritize centralization and rigidity to reduce discretion and associated risks. For example, policy advice has focused on implementing civil service pay scales based on a set of rules (the so-called single salary spine) and limiting variable pay by folding allowances into basis pay. Apart from reducing flexibility, such measures can have unintended consequences that harm productivity in the long run. In Cameroon,

for example, strict rule-based wage limits imposed under austerity measures resulted in a proliferation of discretionary nonpay allowances to recover wage losses, leading to a far less transparent system rather than a smaller wage bill (World Bank 2018a).

Table 2. Wage Bill Measures Taken by European Union Countries during the Global Financial Crisis, 2008–12

Consolidation Measure	BE	DE	EE	ES	FR	HU	IE	IS	IT	LT	NL	SI	UK
Hiring freeze	+	+	+	+	+	+	+	+	+	–	+	+	n/a
Wage reduction	–	–	+	+	–	+	+	n/a	n/a	+	–	+	n/a
Pay freeze	–	–	+	+	+	+	+	+	+	+	+	+	+
Staff reductions	+	+	+	+	+	+	+	n/a	+	+	+	+	+
Reorganization	–	+	+	+	+	+	+	+	n/a	+	+	+	+
Efficiency cuts	+	+	n/a	n/a	+	n/a	+	n/a	n/a	+	+	+	+

Source: World Bank.

Note: + indicates the specific cutback items have been reported; – indicates the absence of specific cutback items has been reported; n.a. = not applicable; BE = Belgium; DE = Germany; EE = Estonia; ES = Spain; FR = France; HU = Hungary; IE = Ireland; IS = Iceland; IT = Italy; LT = Lithuania; NL = Netherlands; SI = Slovenia; UK = United Kingdom.

The menu of short-term and medium-term measures will need to differ depending on local context. Some countries will face more severe fiscal problems if they enter the crisis with high debt burdens, and therefore some medium-term pay and staffing rationalization may indeed be a tough but necessary measure once the lockdowns are lifted. Here some of the lessons from the past should be incorporated. Voluntary retirement schemes, for example, have never had a good track record in reducing public sector employment and often come with a significant increase in pension costs (World Bank 1999). Similarly, implementing centralized pay scales also increase the wage bill in the short run, apart from the problems of creating rigidity. Other countries may have a vibrant nongovernmental sector that delivers vital services and that could be mobilized at lower cost to deliver services. And in fragile and conflict affected (FCV) states, wage bill policies have larger implications on the state continuity and social order that need to be factored.

4. Measures during the Emergency Phase

Protect Public Sector Employment and Wages

The public sector's large labor market footprint means that the wage bill can help preserve livelihoods and complement the various income and business support measures that governments have undertaken. The wage bill is both a cost and a source of livelihoods. There will always be a trade-off between the fiscal savings from wage bill reductions that could finance transfers to private sector households on the one hand and the impact these measures have on the families of public sector employees on the other. This is a difficult choice, but governments should err on the side of maintaining public sector employment and wages at pre-crisis levels, for the following reasons. First, given that a large proportion of public sector workers are teachers, police officers, doctors, and nurses, any meaningful savings from the wage bill to finance private transfers would need to include cuts in employment or wages for these essential and politically powerful workers. Second, if the wage bill is reduced to fund expenditures for income support efforts, in the absence of effective safety net programs, there is uncertainty about whether

these savings will flow to the poor and needy. Public sector employees are among the few with relative job security, and curbing their household consumption ability could further suppress economic demand. Third, the public sector wage premium is skewed toward lower skilled workers and women, and so cuts will have distributional implications. Fourth, there is little risk of any short-term labor market distortions caused by the public sector wage premiums given that most workers cannot, and should not, be working. Finally, public sector workers may have already experienced a reduction in income if per diems or overtime pay, which can be a significant proportion of pay, have been automatically cut due to the lockdown.

While there is plenty of scope for structural reforms like reducing wage inequity and distortionary allowances in the public sector, doing this in a hurried ad-hoc basis during the crisis would do more harm than good. These structural reforms across the whole of the public sector require granular data and thorough analysis, which can provide the evidence base for targeted staffing or wage reductions for specific occupations to reduce inequities, motivate staff, and generate fiscal savings. While temporary wage cuts of certain functions, such as members of the legislature, cabinet members, or senior political appointees (e.g., implemented in Chile, Hong Kong SAR, Malawi, Rwanda, and Singapore) may be a welcome gesture of solidarity with the wider public, they will not provide the necessary savings.

Increase Staffing for Essential Functions

Addressing surge capacity needs to consider wage bill implications prioritizing reassignment of public sector employees and mobilizing volunteers ahead of hiring new staff. Many countries are facing staffing shortages for essential functions, and there is a need for urgent surge capacity to respond to the multiple waves of the COVID-19 virus that are expected. This is true for the health care sector as well as for certain elements within the public sector at large. This increase in staffing can be accomplished through several means: redeployment of existing staff, the use of volunteers, contracting out, or new hiring. Options should be considered in this order:

- **Redeployment.** While some parts of the government are virtually shut down, other sectors will require more personnel, such as health care, public security, customs, food security, and unemployment benefits administration. While staff re-mapping requires more coordination upfront, it ultimately reduces time that would be spent for onboarding and training. For instance, postal service workers may have the necessary skills in logistics, and teachers may be re-mapped to helpdesks. As mentioned previously under Fact 4, public sector employment can be quite rigid, making it

potentially challenging for staff to (temporarily) switch to a different department, unit, or job. As such, ad hoc mechanisms, procedures, and protocols will need to be implemented to enable and streamline this process. In this vein, all agencies could be required to report their staff shortages and surpluses to a central workforce management taskforce, mapped to the center of government crisis management team, which would coordinate the central pool of personnel and skills. Ireland⁵ and the United States⁶ have implemented programs that rely on voluntary sign-up by civil servants who are interested in and available for redeployment. The schemes are based on a custom-made database that allows matching demand with the supply of skills and competencies of civil and public servants. In Belgium, the Special Federal Forces, an existing rotation scheme for temporary redeployment as part of civil servant's career development program, has been repurposed to increase the capacity of units that are under pressure.⁷ Estonia's Emergency Response Center offers another good example by staffing its emergency hotline through volunteer reassignments from other public institutions (OECD 2020).

- **Volunteers.** For functions with a surplus demand that cannot be covered with reassignment only, the government can make use of volunteers. This can offer easy solutions primarily for low-skill functions, such as call centers to improve crisis communication and delivery of prescriptions and meals to the elderly. For instance, the high application rate for the United Kingdom's call for health care volunteers outstripped all expectations, which demonstrates the value of coordinated efforts to recruit and allocate volunteers to essential functions (Ott 2020). The government of Luxembourg also launched a call for volunteers on its official job portal to support the staff in the health and care structures in administrative, HR, and technical support functions (OECD 2020). While high-skilled positions are harder and riskier to staff with volunteers, given the gravity of the situation, this could also be considered for instance in IT. The U.S. experience with volunteers from tech firms helping out the failed rollout of Healthcare.gov is a good case in point (Wohlsen 2013). For the mobilization of any type of volunteer, a so-called Open Innovation platform, like Challenge.gov, could be used to post public sector problem statements, collect and evaluate ideas submitted by citizens, and identify individuals, organizations, and businesses able and willing to help (Mergel 2018).

⁵ For more information, see the publicjobs.ie website at <https://www.publicjobs.ie/en/temporary-assignment>.

⁶ For more information, see the OPM.gov website at <https://www.opm.gov/policy-data-oversight/covid-19/coronavirus-disease-2019-covid-19-surge-response-program/>.

⁷ For more information, see the Selor website at <https://www.selor.be/nl/procedures/tijdelijk-overstappen/>.

- Using the private or nongovernmental sector. The private sector and nongovernmental organizations (NGOs) can play an important role in service delivery, particularly in FCV and low-income countries where they already share these responsibilities with governments. Technology companies are also helping develop different “Corona apps,” whether focusing on communication or contact tracing. These firms and NGOs could be contracted quickly using streamlined disaster procurement rules and may be a cheaper and more effective alternative to hiring, though that will depend on the particularities of contracting and performance monitoring (World Bank 2019d).
- Hiring temporary staff. Hiring new personnel should be the last resort for critical jobs that cannot be filled only through reassignment, volunteers, or outsourcing. Given the potential wage bill impact, hiring temporary contracts should be prioritized over open-ended appointments. Recruitment of temporary staff should be done with streamlined procedures, including delegating hiring authority to the recruiting institutions, while central civil service agencies can switch from ex ante to ex post oversight and auditing to uncover potential abuse or misuse of the just-in-time recruitment. Private sector workers who are out of a job might be able to join the public sector briefly. This would provide the government with a solution to its capacity issue and would also serve as a public employment program.

Provide Adequate Compensation for Essential Workers

Governments can consider temporary wage increases to frontline health workers and other essential staff who are working long hours during this crisis, often at great risk to their own health. Singapore, for example, has given a bonus equivalent to one month’s salary to all workers involved in the COVID-19 emergency response, and Hong Kong provided a bonus of 20 percent of basic pay to all medical workers. In Belgium, health care workers can apply for a bonus of €1,450. The Republic of Korea has extended the maximum amount of overtime hours from 52 up to 70 per week for emergency response workers. In Ghana, the government has provided an insurance package, with an assured sum of ₵350,000 for each health personnel and allied professional at the forefront of the fight.

The design of the supplemental pay needs to be carefully considered because wage increases for one category of workers, however well justified, invariably trigger demands from other workers, particularly in countries with strong trade unions. Temporary salary increases or supplementary payments also have a tendency to become permanent, thereby creating long-term distortions and problems of fiscal sustainability. To minimize these risks, the supplemental pay should be:

- **Legitimate.** Governments need to clearly communicate the purpose of the salary increase and the categories of workers who are eligible. Given that all workers in a health facility are likely to be working extra hours and taking additional risks, the simplest criteria would be to include all health workers (medical and nonmedical staff) in all facilities in COVID-19 hotspots. For fiscal reasons, governments may want to exclude nonmedical staff, but this can breed resentment and disharmony within facilities.
- **Temporary.** The supplemental pay should be a temporary “special allowance” that is authorized by a government decree on a monthly or quarterly basis to provide the necessary flexibility to adjust the amounts as the crisis evolves. And it should be removed when the crisis ends. Governments should avoid changes to basic pay specified in the public sector salary legislation of the country, as these are likely to become permanent.
- **Easy to verify.** Given that government capacity is stretched to the limits, any salary increases that require costly verification should be avoided. This criterion rules out performance incentives, as these require independent verification of the increased or improved inputs, outputs, or outcomes that condition the incentive.
- **Equitable.** The pre-crisis wage structures are often inequitable and not transparent in many World Bank client countries. Often medical workers with similar skills and experience earn significantly different wages based on idiosyncratic factors that are difficult to justify. Doctors also often earn significantly more than nurses. The supplemental pay should try to reduce these pre-crisis inequities in wages to the extent possible.

5. Measures for Recovery and Resilience

Monitor the Public Sector Wage Premium

The two principles guiding public sector wages setting in the recovery phases should be that there is a small public sector wage penalty and that public sector wages should track private sector wages to keep this penalty stable (Gomes 2016). Given the pecuniary and nonpecuniary benefits of the public sector, the most important of which is job security, monetary compensation should be lower than in the private sector (for equivalent workers in equivalent jobs) so the total compensation is roughly equal in the two sectors. Under this optimal compensation policy, the public sector will be competitive without being distortionary, and there will not be any shortage of skills in either sector. The same principle implies that the wage premium should be annually

monitored to ensure that no gap emerges between the public and private sectors that can cause a departure from this theoretical optimum.

Figure 4. Trends in the Public Sector Wage Premium in European Union Countries

Source: World Bank Worldwide Bureaucracy Indicators.

Note: Regional plots are based on World Bank regional classifications. “All” is based on the average for 29 European countries. These are the EU-27 countries (excluding Germany, the Netherlands, and Sweden) in addition to Iceland, Norway, Serbia, Switzerland, and the United Kingdom.

Balancing total compensation will be difficult given the overall public sector wage premium, but these principles can guide targeted wage reductions for reducing distortions that can handicap the labor market recovery. The average public sector wage premium will likely rise over the next 2 years, as it did in the aftermath of the Global Financial Crisis for the 29 European countries for which the World Bank has data (figure 4). The wage premium increased from 5 percent in 2008 to 8 percent in 2010 for these countries (compared to private sector paid workers), despite public sector wage cuts, and then steadily declined thereafter, but with varying regional and country-level trends. The increase in the public sector wage premium may be larger during the next 2 years given the scale of the COVID-19 crisis. Unchecked, an increasing premium can have significant distortionary effects on the broader labor market, such as skewing individual employment preferences toward the public sector and away from the formal private sector; and raising reservation wages for private sector jobs and contributing to voluntary unemployment. Governments will therefore need to implement targeted, occupation-disaggregated wage corrections — given that the size of the premium is heterogeneous and varies by skill levels and occupation — to reduce this premium

and encourage private sector job creation once the lockdowns are lifted. Finally, it is important to note evidence that wage premiums are associated with attracting "higher quality" candidates, and therefore decreasing premiums can impact government productivity in the long run and must be made carefully (Borjas 2002; Dal Bó, Finan, and Rossi 2013; Ashraf et al. 2020).

Curtail High Pay and Remove Distortionary Allowances

Removing distortionary allowances and reducing pay inequity is one way to achieve wage reductions that can also provide fiscal savings and improve staff motivation and productivity. Brazil is a good example of how a salary structure with numerous allowances can result in high pay dispersion for workers in the same occupational group. As discussed, the federal and subnational public employees are legally divided into different careers, each with their own legislation, employee union, and pay structure. There are hundreds of careers for federal employees alone, and each career has tens and sometimes hundreds of various allowances and supplementary payments on top of the basic wage. As a result, there is huge wage dispersion for similar workers, driven largely

by these ad hoc and nontransparent additional payments. For example, in federal social security, health, and labor careers, gross pay can vary ten-fold for workers with similar levels of experience, which is largely a result of nonperformance-related payments and not basic pay (figure 5). Many low- and middle-income countries also have similar problems of public sector pay inequity, though perhaps not to the same degree as Brazil (figure 5). Reforms to eliminate these discretionary allowances should be a priority and can be politically feasible given that this pay dispersion is often a major grievance of the public sector employees themselves.

Figure 5. Pay Inequity in the Brazilian Public Sector

Source: World Bank staff calculations based on payroll data

Note: Each dot represents an employee; the horizontal axis is years of service; the vertical axis is wages. The data pertain to intermediate positions in social security, health, and labor careers.

Building Flexibility and Agility of Staffing

Governments will need agility and flexibility for addressing surge capacity in the time of crises. This emergency staffing plan should be based on an in-depth HR analysis that formally classifies the essential functions, maps out staffing needs and potential redeployment scenarios, and assesses existing competencies and training needs for critical functions. Based on this needs assessment, the sequencing of measures should be again guided as follows: (i) redeploy existing staff, (ii) call for volunteers, and (iii) hire new

or reserve staff. The emergency plan should also lay out streamlined redeployment and contracting procedures, and necessary rules and protocols. To maximize the potential of existing staff and redeployment ahead of increasing the wage bill with new staff, the emergency plan should also foresee the necessary digital development allowing for staff to work from home or be virtually redeployed (e.g., doctors providing online consultation countrywide, and teachers conducting online tuition in remote areas).

A low-cost approach to expedite mobilizing volunteers is to establish a database with qualified and interested candidates. Those enrolling to this roster would provide proof of their skills and qualifications and interest in volunteering, but with no obligation to mobilize. Such solutions are already in place with regard to disasters and health care, such as the U.S. Medical Reserve Corps and Habitat for Humanity's Disaster Corps. The U.S. Medical Reserve Corps consist of over 175,000 volunteers who "prepare for and respond to natural disasters, such as wildfires, hurricanes, tornados, blizzards, and floods, as well as other emergencies affecting public health, such as disease outbreaks." Besides short-term emergency responses, they also engage in building community disaster resilience in times between crises. Although the Habitat for Humanity's Disaster Corps focuses more on long-term efforts, they are able to show up at a moment's notice in an afflicted area. Much like the U.S. Medical Reserve Corps, they focus both on the disaster response and disaster preparedness.

Recruiting candidates from existing reserve lists can be an option for streamlined hiring without compromising meritocracy. While, for the sake of cost-efficiency, redeploying staff and mobilizing volunteers should be among the first options to exploit, staffing needs are more efficiently met by tapping into existing reserves of potential candidates rather than conducting new recruitment from scratch. Such reserves can consist of applicants who passed certain stages of recruitment to the civil service and were not hired but express interest in remaining on the reserve list. For instance, Belgium and the European Commission maintain lists of those who passed the centralized civil service entry exam.

A more ambitious approach is to establish a civil service emergency reserve corps similar to those in armed forces, which can provide long-term preparedness for a range of crises. Contrary to the database of potential volunteers, members of these corps would receive adequate training, participate in regular drills, and be ready to deploy when called upon. While organizing and maintaining such a reserve corps is more resource intensive, it can guarantee effective and reliable surge capacity in response to various types of emergencies, from pandemics to natural or human-made disasters. The corps can consist of former and retired civil servants, university students, and private

sector employees, among other citizens. It is important that prior arrangements are established for members' insurance, hazard pay, and release and reentry guarantee from their employers — be that public or private. An experimental approach is the United Kingdom's Surge and Rapid Response Team. Although it was not designed to meet the surge needs of a crisis of the current scale, it is a flexible team available for quick deployment across agencies in the event of a sudden spike in demand, primarily in frontline functions, such as helpdesks.

Finally, governments need to re-evaluate which of their functions and services can potentially be outsourced to enhance their crisis response preparedness and to reduce costs. Generally, privatization and outsourcing public services are controversial, and both research and empirical evidence have showcased their risks (Nellis 2012). Nonetheless, outsourcing some elements of public services can have a positive impact both on the coverage and quality of services and on public sector expenditure if the private actor can deliver the service at a lower cost. The condition for these benefits is having appropriate frameworks in place to engage the private sector, including quality, value for money, and integrity safeguards. Given the intensity of this crisis, and the severity of the fiscal position of many countries coming out of this crisis, all options should be on the table, including outsourcing back-office government functions (e.g., IT, HR, and logistics) and that of certain public services (e.g., trash collection). In countries where there are government functions that could be privatized or outsourced, and where international experiences show how this can be properly done, this step should at least be considered.⁸

More generally, governments will need to implement wage bill and personnel management reforms that prioritize productivity improvements. Given the pressure on budgetary revenues and the higher health expenditures, increasing public sector productivity — producing more outputs for a given set of inputs — will be critical. This will require an explicit focus on regularly measuring productivity, drawing on the work that has been done in OECD countries that shows that productivity measures are feasible for citizen- and business-facing services (Dunleavy and Carrera 2013). Investments will be needed in digital technologies and its “analog complements,” particularly on performance-oriented management practices that have been shown to increase productivity (World Bank 2015). For example, an emerging empirical literature has shown that the quality of management — goal setting and how these are communicated to staff, the extent of monitoring of the achievement of these goals, and the regularity and robustness of performance evaluations and conversations — is a major

⁸ One place to start is Estrin and Pelletier (2018).

determinant of productivity of firms, schools, hospitals, and public administrations (Bloom et al. 2015; Rasul and Rogger 2017).

Governments should consider targeted introduction of performance bonuses to more directly link compensation to productivity. While acknowledging the complexities in designing such schemes, and the risks of perverse incentives from badly designed schemes, performance pay can help improve productivity for at least two sets of activities. First, are the variety of essential functions, such as licensing, registration, and benefits administration that will be critical for the economic recovery and have robust outputs measures on which to condition performance. The second aspect, and more controversial, is senior management, where performance pay can help incentivize managers to emphasize organizational goal setting, regular monitoring of the achievement of those goals, and regular staff dialogue, which can complement other organizational, budgetary, and personnel management reforms. Performance bonuses also provide more wage bill flexibility as they can be cut more easily than basic pay in times of fiscal distress.

Leverage Technology and Data for Decision-Making

Underpinning all these reforms is data-informed policy making. Governments have invested heavily in payroll and human resource management information systems but use these largely for conducting transactions rather than as a basis for informing policies. These administrative systems provide a rich source of data and can help governments devise the flexible and targeted reforms that are needed and to monitor the impact of these reforms. For example, data can be used to quantify staffing distributions by occupation and skill level to uncover staffing misallocation and inefficiencies and help with staff reallocation to meet surge capacity; identify recent retirees who may be rehired on a temporary basis to meet urgent needs; isolate pockets of staffing and wage inefficiencies, such as outliers, for targeted wage and staffing reductions; and model the fiscal impact of various pay and employment reforms. For effective crisis response, these systems should also start collecting more granular data on employees' skills and competencies, category functions by essential or nonessential, and potential readiness to redeploy in the case of an emergency.

Registering all public sector employees through a census is another effective tool for managing the wage bill. One immediate benefit is that a census enables governments to find so-called “ghost workers,” double dippers, and redundant positions. Malawi, for example, got rid of 17,669 ghost workers (World Bank 2018b). A census has the added benefits of establishing a baseline profile of the public service to facilitate

planning and budgeting, and enhancing productivity by showing possible restructurings of departments and functions. A profile of the public service, including skills and competencies, can further facilitate potential redeployment efforts in times of crisis. One problem, especially during COVID-19, is that a census requires face-to-face interactions. Each individual on the payroll will have to verify identity by providing documentation and sometimes a fingerprint (i.e., biometric data). Large-scale face-to-face interactions will have to be properly designed to avoid breaking physical distancing regulations.

Labor force and establishment surveys can complement administrative data by providing information on the labor market impact of public sector employment and wages. These surveys, however, will need to be conducted frequently (at a minimum, quarterly), and possibly using phones rather than face-to-face enumeration over the lockdown phases of the crisis to capture real-time information that inform policies. Recent innovations in high-frequency, phone-based surveys to measure livelihoods and analysis of “big data” collected by private sector firms suggest that this data gathering is quite feasible (Chetty et al. 2020; Kopper and Sautmann 2020).

Short and regular surveys of public sector employees can also be an effective motivational tool to keep staff engaged and help improve productivity. A smartphone-based short survey, regularly conducted, can be an effective mechanism for engaging staff, eliciting their feedback, and having the type of regular dialogue that research reveals as having positive impacts on staff motivation. A separate manager-level survey would be helpful to obtain direct information on the availability of skilled staff and their appropriate deployment. The public sector in general has not adequately leveraged technology for performance management, but many global private sector companies are increasingly using mobile applications to elicit feedback on staff and manager performance (Ewenstein, Hancock, and Komm 2016). These applications are used to gather structured and unstructured real-time feedback from meetings, problem-solving sessions, completed projects, and so forth. The important point is that this technology-enabled communication should not be about monitoring staff performance, as that can create perverse incentives, but instead be about eliciting staff views on issues and involving them in solving organizational problems during the COVID-19 crisis.

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