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## CIVIL SERVICE SALARY SYSTEM IN BIH INSTITUTIONS - IN COMPLIANCE WITH INTERNATIONAL STANDARDS?

*The objective of this paper is to analyse the legal framework of the civil service salary system in the BiH institutions and to assess its compliance with international standards, in particular the SIGMA Principles of Public Administration. After a detailed assessment, the author concludes that the salary system of civil servants in the BiH institutions is to a moderate degree aligned with international standards. The principle of equal pay for equal work has still not been consistently introduced throughout the civil service, which undermines the fairness of the system. The existence of certain salary allowances (i.e. allowance for performing the work of another job), also poses a risk to ensuring the legality, fairness and transparency of the salary system. The performance related pay scheme envisaged by the Law on Salaries and Benefits of BiH institutions is in line with the SIGMA principles, but its effectiveness in practice has still not been properly assessed. In order to enhance the overall quality of the system, the author proposes that additional efforts be invested in carrying out job evaluation and increasing the transparency of the system, through publishing regular salary reports. Furthermore, the author proposes introduction of regular motivation surveys in the BiH institutions, which would assess the effectiveness of the analysed legal framework on the motivation of employees and ensure that the salary system has the capacity to attract and retain qualified staff.*

*Keywords:* salary system, international standards, BiH institutions

### 1. INTRODUCTION

Civil service remuneration systems have always attracted the attention of both practitioners and legal theorists. Hegel argued that civil servants should be adequately paid for their work, in order to be sufficiently motivated to carry out their work impartially and neutrally in the public interest (Hegel & Knox 1957: 294). Bentham, on the other hand, in accordance with the utilitarian philosophy of the state and law, cared more

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about the costs of public administration, emphasized the importance of honorary work and considered ways to minimize the costs set aside for salaries in public administration (Bentham, 1962). Discussions about the salary systems continue to this day, reflecting the views of the two great philosophers. Despite the importance of the topic, there is a scarcity of the academic legal research regarding the civil service salaries in general, especially from the legal point of view.

The aim of this paper is to shed a light on the salary system of the civil servants at the state level of BiH, which would be assessed against the European principles set out in the SIGMA/OECD Principles of Public Administration (2014) and best practices outlined in the short literature review on civil service salaries. For this reason, the paper shall first briefly analyse the literature on the civil service salaries. This will be followed by a review of the principle 5 on public servants' salaries of the chapter on Human Resources Management and Public Service of the SIGMA/OECD principles. The central part of the paper shall examine the level of alignment of the BiH salary system with the SIGMA principles. Finally, the concluding part of the paper shall summarise the discussion and provide general recommendations for further development of the civil service remuneration system in BiH institutions.

## 2. LITERATURE REVIEW ON CIVIL SERVANTS' SALARIES

One of the most valuable research on the topic salaries in the public sector in Europe and North America was conducted in 2012 (Brans and Peters, 2012). This research is a "continuation" of an earlier study on the salaries of officials, which was conducted in 1994 (Hood & Peters, 1994). Both studies focus on the salaries of high public officials, but do not analyse mid-level management and lower civil service positions.

Over the past decade, two comparative studies on human resources management in the Central and Eastern Europe (and the Western Balkan countries), including the salary management, were carried out under the auspices of SIGMA (Mayer - Sahling, 2009; Mayer - Sahling, 2012). The studies assessed the degree of alignment of civil service systems with the European principles of public administration, including the area of civil service salaries. One of the findings of this comprehensive research was that during the reform of the salary systems in Western Balkan countries, transparency and predictability have been achieved at the expense of providing performance incentives in the salary systems. For this reason, civil servants appear to show growing support for performance-related salary management, opening the door for de-regulatory reforms in the future (Meyer-Sahling, 2012, p.76).

Most recent available comparative legal research on civil service salaries was conducted by Vukasinovic Radojicic (2013) and Rabrenovic (2019), who analysed civil service salaries of selected European countries from a legal point of view. One of the key findings of these research efforts is that legal regulation of the salary systems in European countries largely depends on the nature of the legal system itself (Rabrenovic, 2019, p.131). It is also emphasised that, in order to be effective, the pay system has to be properly linked to civil servants' career advancement and the overall process of human resource management,

which has a substantial impact on the quality of the staff to be attracted and retained (Rabrenovic, 2019, p.133).

Key issues of civil service pay have also been analysed in depth by international organisations, especially by the World Bank and OECD. A seminal paper of the World Bank team of Schiavo-Campo et al stresses that the classic problem in wage policy is how to value the labour that produces the output of civil servants, given that such output is generally not marketable (Schiavo-Campo et al, 1997, p. xi). The authors see the solution to the problem in making compensation comparable (but not equal) to private sector pay. They also point out additional key objectives of public compensation policy which are rarely met in practice: equal pay for equal work under the same conditions; and the need for the levels of government compensation to be periodically reviewed and systematically revised to assure the continued validity of the compensation plan (Schiavo-Campo et al, 1997, p. xii). The authors further caution about “performance related pay”. They argue that it is intuitively appealing to link bonuses to yearly performance in terms of specific output measures. However, the facts show that bonus schemes have been only marginally effective in improving performance, even in the private sector and especially in the public sector, where outputs are difficult to quantify. Performance pay schemes may also introduce an element of political control over a career civil service and especially in multi-ethnic societies (Schiavo-Campo et al, 1997, p. xi). Many studies and staff surveys indicate that it is not performance related pay that motivates: instead satisfying job content and career development prospects have been found to be the best incentives for public employees (OECD, 2005).

In his paper prepared for the World Development Report of 1988, Lindauer stresses the link between the government pay and government performance (Lindauer, 1998). He argues that inadequate pay levels (and especially their reduction) lead to reduction of staff morale and their work effort, and increase chances of moonlighting, petty corruption and the pursuit of non-government work during official government hours (Lindauer, 1998, p. 11).

SIGMA (OECD) has recently also paid particular attention to setting up principles and standards related to human resources management in the civil service, including the issues of civil service remuneration. SIGMA Public Administration Principles (SIGMA, 2014) will be analysed in more detail in the following section.

### 3. SIGMA/OECD PRINCIPLES OF PUBLIC ADMINISTRATION - PUBLIC SERVANTS' SALARIES AND REPORTS

Due to national specificities, the area of human resource management, which includes public servants' salaries, is normally excluded from the scope of international conventions or the EU *acquis communautaire*. It may, however, be argued that this area is governed by soft *acquis*, comprising shared standards of the EU member states and affecting indirectly the development of the national law (Keune, 2009). Though not legally binding, these standards also have significant practical effects on the aspiring countries, given that the European Commission assesses their progress against such standards.

In order to elaborate in more detail the requirements of the European Commission in the field of human resources management for countries wishing to become members of the EU, SIGMA / OECD program developed the document Principles of Public Administration, which was published in 2014. A significant place in this document is dedicated to the area of Civil Service and Human Resources Management, which contains standards related to the successful management of human resources in the civil service.

The area of salaries of civil servants is elaborated in detail through principle No. 5 of this area and its “sub-principles”. Principle 5 emphasises the need for the salary system to be based on job classification, for all elements of the salary to be determined by law, as well as for the system to be fair and transparent. Fairness and transparency should be ensured by limiting the discretion of the manager in determining the variable part of the salary. The salary system should also provide a good basis for attracting and retaining civil servants with appropriate competencies. A detailed overview of principle number 5 and its sub-principles is presented in table No. 1 below.

Table No. 1. SIGMA Principle 5 of the area of the Public Service and Human Resources Management: The salary system is based on job classification; it is fair and transparent

1. The principles of remuneration, including the salary classification based on the job classification system, the complete list of variable elements of salary and the relation between the fixed and variable salary, are established in law to ensure the coherence, fairness and transparency of the whole public service. The detailed remuneration regulations are established in secondary legislation. The remuneration provisions are applied in practice.
2. Allowances and benefits in addition to the salary (e.g. family, rent, education, language allowance, benefits in case of sickness, maternity or work accident) are established in law to ensure the coherence of the whole public service and applied in practice.
3. Managerial discretion in assigning different elements of salary, allowances and benefits to individual public servants is limited to ensure fairness, transparency and consistency of the total pay.
4. The remuneration system of public servants provides reasonable conditions for recruiting, motivating and retaining public servants with the required competencies.

SIGMA has also developed a number of indicators to measure whether the countries being evaluated have achieved fairness and competitiveness in the civil service pay system. Detailed indicators have been developed in the Methodological Framework for Principles of Public Administration, which was published in 2017 and subsequently revised in 2019.<sup>136</sup>

The basic indicator for evaluating the salary system is fairness and competitiveness. This indicator shows the extent to which the legislative framework and its application support the

<sup>136</sup> SIGMA/OECD, *Methodological Framework for the Principles of Public Administration*, OECD publishing, Paris 2019.

principles of fairness and transparency.<sup>137</sup> Within this indicator, SIGMA developed several sub-indicators, which are grouped into two parts: 1) the legal framework and structure of the salary system and 2) the efficiency and fairness of the salary system in practice. The description of indicators for the salary system is provided in Table No. 2.

Table No. 2. Indicator 3.5.1: Fairness and competitiveness of the civil service salary system - Methodological framework of the Sigma Principles of Public Administration

Sub-indicators		Maximum points
Legal framework and organisation of the salary structure		
1.	Legal obligation to base salaries on job classification	2
2.	Comprehensiveness, clarity and transparency in legal definitions of salary, criteria and procedures for allocation	2
3.	Availability of salary information	3
Fairness and efficiency of the salary system in practice		
4.	Fairness in allocation of basic salaries in the job classification system	4
5.	Base salary compression ratio	2
6.	Managerial discretion in allocation of bonuses	2
7.	Motivational character of the bonuses (%)	2
8.	Competitiveness of civil servants' salaries (%)	3

Source: SIGMA / OECD, Methodological Framework for Public Administration Principles, 2019.

The table clearly shows that three areas are of special concern to SIGMA: fairness of the allocation of basic salaries in the job classification system – i.e. a respect of the principle equal pay for equal work (maximum of 4 points); availability of salary information (maximum of 3 points) and competitiveness of civil servants salaries (maximum of 3 points). All other criteria have been assigned with a maximum of 2 points.

Since the adoption of the Principles of Public Administration in 2014, SIGMA has assessed the BiH salary system on two occasions: in its baseline report of 2015 (SIGMA, 2015) and in its monitoring report of 2017 (SIGMA, 2017), which address only some basic issues related to civil service remuneration, without a comprehensive analysis. The 2015 Monitoring report notes that although the salary is based on the job classification system of the civil service, there is a lack of a fair and objective job evaluation. It further stresses the fact that in 2012 the level of civil service salaries at the state level of BiH were reduced and some salary allowances were cut (e.g. for accommodation, transport, food, holidays) in order to ensure that fiscal situation is in line with the IMF requirements (SIGMA, 2015: 58). The 2017 report also stresses the absence of a job evaluation methodology and notes the overall trend to abolish some of the supplements (e.g. membership of managing and supervisory boards where civil servants are appointed, the supplement for the so-called extended labour

<sup>137</sup> *Ibid*, 93.

relationship, in the case of the expiry of a mandate to a public office) (SIGMA, 2017: 91).<sup>138</sup> It is further emphasized that the attractiveness of the civil service could not be determined by means of comparable data on salaries, since no relevant statistical data was available or provided by any level of administration (SIGMA, 2017: 92).

#### 4. DETAILED ASSESSMENT OF THE BIH CIVIL SERVICE SALARY SYSTEM AGAINST THE SIGMA STANDARDS

##### 4.1. Legal and institutional framework

The legal position of civil servants at the state level of BiH is regulated by the Law on Civil Service in the Institutions of BiH from 2002,<sup>139</sup> and the 2008 Law on Salaries and Supplements in BiH Institutions.<sup>140</sup> The status and rights of support staff - employees are regulated by the Law on Work in BiH Institutions.<sup>141</sup>

The salary system of BiH civil servants is regulated by law and based on job classification, which is in line with SIGMA principles. The classification of positions in the civil service of BiH is determined by the Law on Civil Service. This classification is used also in the Law on Salaries and Compensations in the Institutions of BiH, which is in accordance with the Sigma principles.

All salary elements, such as basic salary, salary supplements and bonuses (awards), are also determined by law, which is in line with the SIGMA standards. The basic salary is determined by multiplying the base for calculating the salary and the determined coefficient for each job. Salary grid for different categories of civil servants is determined by the Law, while the salary base is determined by the Council of Ministers of Bosnia and Herzegovina by secondary legislation.<sup>142</sup> Salary grid with coefficients of civil servants in the Presidency and the Council of Ministers of BiH, together with the calculation of the level of their basic salaries, is presented in table 3 below. The table also shows the salary base determined by the Decision of the Council of Ministers for 2020<sup>143</sup>, with compensation for meals during work and holiday pay, and zero step levels of the basic salary, with the mentioned allowances, but without the allowance for years of service.

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<sup>138</sup> SIGMA/OECD, Monitoring Report: The Principles of Public Administration, Bosnia and Herzegovina 2017, SIGMA/OECD, 91-92.

<sup>139</sup> Law on Civil Service in BiH Institutions, Official Gazette of BiH, Nos. 19/02, 35/03, 4/04, 17/04, 26/04, 37/04, 48/05, 2/06, 32/07, 43/09, 8/10, 40/12 and 93 / 17, hereinafter: the Law on Civil Service in the Institutions of BiH.

<sup>140</sup> Law on Salaries and Supplements in the Institutions of Bosnia and Herzegovina, Official Gazette of BiH, Nos. 50/2008, 35/2009, 75/2009, 32/2012, 42/2012, 50/2012, 32/2013, 87/2013, 75/2015, 88/2015, 16/2016, 94/2016 and 25 / 2018, hereinafter the Law on Salaries and Supplements in BiH Institutions.

<sup>141</sup> Law on Labour in BiH Institutions, Official Gazette of BiH, no. 26/2004, 7/2005, 48/2005 and 60/2010.

<sup>142</sup> Art. 7 of the Law on Salaries and Supplements stipulates that the salary base may not be less than 50 percent of the average monthly net salary in Bosnia and Herzegovina expressed annually for the calendar year preceding two fiscal years in the year in which the base will be applied.

<sup>143</sup> Council of Ministers of BiH, Decision on the amount of the base for calculating the salary of employees in the institutions of BiH for 2020, CoM, no. 184/20 of 2 September 2020.

Table 3. Salary grid and calculation of the civil servants' salaries for 2020.

Pay grade	Work position	Coefficients and pay steps							Salary base for 2020	The zero step amount of the salary	Basic net salary (zero step) with food and holiday allowance in KM **
		Zero	1	2	3	4	5	6			
B1	Associate	2,10	2,17	2,20	2,25	2,28	2,33	2,37	475,69	999	1 200
B2	Senior associate	2,35	2,40	2,45	2,50	2,53	2,60	2,70	475,69	1118	1 319
B3	Expert advisor	2,73	2,80	2,90	3,00	3,10	3,20	3,28	475,69	1299	1 500
B4	Head of department, head of group in the Indirect Taxation Authority	3,25	3,35	3,50	3,70	3,90	4,10	4,25	475,69	1546	1 747
B5	Assistant head of the administrative organization, Secretary of the administrative organization, Head of dept. of Indirect Tax. Auth.	3,55	3,67	3,79	3,91	4,04	4,18	4,31	475,69	1689	1 890
B6	Assistant minister	4,20	4,35	4,50	4,65	4,80	4,95	5,05	475,69	1998	2 199
B7	Secretary of the ministry, Deputy head of the administrative organization, Secretary on a special assignment, Secretary in the Presidency	4,50	4,65	4,80	4,96	5,11	5,30	5,46	475,69	2141	2 342
B8	Director of administrative organisation, assistant director of the Indirect Taxation Authority	5,51	5,69	5,88	6,07	6,28	6,48	6,70	475,69	2621	2 822
B9	General Secretary of the Presidency of BiH	6,50							475,69	3092	3 293

Source: The Law on Salaries and Supplements in the Institutions of Bosnia and Herzegovina; Council of Ministers of BiH, Decision on the amount of the base for calculating the salary of employees in the

institutions of BiH for 2020. The amount of basic salary: calculation of the author.

\* The food allowance in 2020 is 8 KM per working day. On a monthly basis, on average, it amounts to 176 (8\*22=176)

\*\* The holiday pay for 2020 is 300 KM, which expressed on a monthly basis is 25 KM.

The salary grid shows that the salaries of senior civil servants and heads of internal organizational units in the Indirect Taxation Authority are higher than the salaries of their colleagues in other administrative bodies, which is not a unique case in comparative practice. Similar situation can also be found in Serbia and other countries in the region. The salary coefficients of lower jobs in the Indirect Taxation Authority (such as, for example, an expert associate, a senior expert associate and an expert advisor), on the other hand, they are the same as in other administrative bodies.

The amount of basic pay is also a subject of additional allowances, some of which are given to all civil servants, and others, which are reserved for special categories of staff. All civil servants are entitled to the allowance for years of service, which amounts to 0.5 percent of the basic salary for each started year of work, and can amount to a maximum of 20 percent of the basic salary of civil servants.<sup>144</sup> The law also provides for an allowance for special working conditions, which is paid to certain groups of employees, such as persons assigned to positions with special authorizations in the Indirect Taxation Authority of BiH, individually up to 30 percent of the basic salary;<sup>145</sup> veterinary, phytosanitary and other inspectors performing work at border crossings, up to 15 percent of the basic salary;<sup>146</sup> and employees with higher education who perform complex IT and application tasks for maintenance and development of management applications in BiH institutions, up to 50 percent of the basic salary.<sup>147</sup>

In addition to these “usual allowances”, there is also an allowance for performing the work of another’s job, which is a peculiarity of the BiH remuneration system. The right to this compensation is exercised by a civil servant when he temporarily performs the work of another civil servant, in the amount of up to 35 percent of his basic net salary. However, this right is also subject to certain restrictions so as not to be abused in practice. Namely, the Law stipulates that the compensation for the temporary performance of the duties of another civil servant can be approved only when a competition has been announced for filling a specific job, and can be paid for a maximum of three months. In exceptional cases, the allowance may be paid for more than three months if it is a matter of performing another job due to illness or maternity leave of a civil servant. The right to this compensation is obtained by issuing an appropriate decision, with the prior consent of the BiH Civil Service Agency.<sup>148</sup>

In practice, however, allowance for performing the work of another’s job is given in some BiH institutions to civil servants for a longer period of time, and for performing jobs of positions that have not been filled for several years (BiH Audit Office, 2020), which is

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<sup>144</sup> Art. 26, para. 1, point 1 of the Law on Salaries and Supplements in BiH Institutions.

<sup>145</sup> Art. 26, para. 1, point b2 of the Law on Salaries and Supplements in BiH Institutions.

<sup>146</sup> Art. 26, para. 1, point b3 of the Law on Salaries and Compensations in BiH Institutions.

<sup>147</sup> Art. 26, para. 1, point b8 of the Law on Salaries and Compensations in BiH Institutions.

<sup>148</sup> Art. 38 of the Law on Salaries and Supplements in BiH Institutions.

not in accordance with the existing regulations and best international practices. In this way, civil servants who continuously receive this compensation are placed in a privileged position compared to other civil servants. On the other hand, the work capacities of the ministries that use this practice are significantly reduced, because no officials are hired to perform the vacant jobs.

Civil servants of the state level of BiH are also entitled to the compensation for transport to and from work, which, however, does not appear to be applied in an efficient and effective manner. The Council of Ministers of BiH and the Ministry of Finance and Treasury of BiH adopted bylaws for the reimbursement of transportation costs in 2009 and 2017, aimed at establishing efficient, economical and rational spending of budget funds for these purposes, as well as at harmonizing the application of these bylaws at the level of BiH institutions. The findings of the Audit Office Report from 2019, however, indicate that despite the efforts made, at the level of BiH institutions there is still no uniform, transparent procedure for exercising the right to reimbursement of transportation costs, which would eliminate errors in a timely manner, prevent the possibility of abuse and ensure economical and rational spending of public funds (BiH Audit Office, 2020).

Although the Law on Salaries was adopted more than a decade ago (in 2008), the salary grid, which envisages horizontal progression through salary steps, started to be implemented only at the end of 2020. The criteria for the horizontal progression of employees within the pay grade were first determined by the Methodology for the assignment of employees within the pay grade, which was adopted by the Council of Ministers in 2011<sup>149</sup>, but which, due to chosen public policies, has not been applied over the past decade. The Council of Ministers adopted amendments to this methodology only in October 2020. Based on the amendments to the Methodology, the year from which the fulfilment of the employee's conditions for horizontal progression to a higher salary step will start is 2016. The criteria for promotion are the following: performance appraisal;<sup>150</sup> duration of positively assessed length of service in the same job; and acquisition of professional and scientific titles in the field that falls under the core business of the BiH institution.<sup>151</sup>

Introduction of horizontal progression at the end of 2020, based on the performance appraisal results from 2016-2019, is not, however, in line with the principle of legal certainty, and has encountered implementation problems due to the fact that many managers have not assessed the performance of their employees in the previous years. Namely, since the horizontal progression system was not expected to be activated in 2020 (although the pressure from the unions was constantly increasing), many managers did not carry out performance

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<sup>149</sup> Council of Ministers of BiH, Methodology for assignment of employees within the pay grade, CoM No. 235/11, 26.9.2011.

<sup>150</sup> In accordance with Article 4 of the Methodology, the employee is promoted to a higher internal salary grade in the following cases: when in the last two evaluated calendar years, he / she continuously receives the grade "particularly successful"; when in the last four evaluated calendar years, he / she has continuously received at least a grade of "successful"; when he/she is returned or when he/she returns to work after a period of at least four years spent in a public, advisory or similar position at the level of the institutions of Bosnia and Herzegovina, provided that his/her work for the specified period is positively evaluated. Promotion is made in relation to the salary grade in which the employee was before the appointment to any of the above positions.

<sup>151</sup> Art. 54, para. 5 of the Law on Salaries and Supplements in BiH Institutions.

appraisal of their employees, although they are required to do it by the law. This is confirmed by the report of the Audit Office of BiH for 2019, which states that a significant number of BiH institutions do not conduct the performance appraisal of civil servants and employees, or do so only partially (BiH Audit Office, 2020). Therefore, it is not clear on which grounds the horizontal progression of individual employees whose performance was not assessed over the past few years have taken place in practice.

Another problem which the BiH institutions' employees are facing are different salary levels, depending on the place of their residence, due to different tax policies of the entities (FBiH and RS) and Brcko District. Given that the tax policy is the responsibility of the entities and Brcko District, existing differences in this area lead to civil servants performing the same tasks in BiH institutions having different levels of net salaries, only depending on their place of residence (BiH Audit Office, 2019).

#### 4.2. Assessment of fairness and efficiency of the salary system

In 2013, a system of job evaluation based on the job classification method was introduced at the state level in BiH, providing a basis for the fairness of the salary system. Job evaluation was introduced by the Decision on Classification of Jobs and Criteria for Job Description in the Institutions of Bosnia and Herzegovina.<sup>152</sup> The Decision introduced general job descriptions and established the criteria for classifying the jobs of other civil servants. Criteria for job classification include: complexity of work, independence in work, time to do work, comprehensiveness, business communication and teamwork.<sup>153</sup> Job evaluation exercise is required to be undertaken, however, only for the lowest official posts, such as the posts of expert associate, senior associate and expert advisor.

The practice of job evaluation, however, does not ensure the respect of the principle of equal pay for equal work. Instead of analysing each job to determine its actual complexity, comprehensiveness, level of business communication, etc, job descriptions are usually prepared in order to reflect the title and rank of the job which already exists, regardless of what actual job tasks are being performed at a given date and workplace.<sup>154</sup> In this way, the spirit of the job evaluation exercise is not respect and fairness of the system is undermined.

The fairness of the salary system should also be ensured by an appropriate difference between the highest and lowest wages (decompression factor). The decompression factor at the state level of BiH is 1: 3.1, which is not a high level, although it is in line with the principles of SIGMA. Such a decompression level should be able to provide a sufficient degree of motivation for civil servants to want to advance in the service and take on a higher degree of responsibility, for which they will have a correspondingly higher remuneration.

Finally, although ensuring the fairness of the wage system should be achieved through

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<sup>152</sup> Decision on Classification of Jobs and Criteria for Job Description in Institutions of Bosnia and Herzegovina, *Official Gazette of Bosnia and Herzegovina*, no. 30/2013.

<sup>153</sup> Art. 17 Decisions on job classification and criteria for job descriptions in the institutions of Bosnia and Herzegovina.

<sup>154</sup> Interviews with representatives of human resources management units conducted in 2015 within the project "Modernization of human resources management in the civil service", funded by the EU.

regular monitoring of wage levels through statistical reports, such a practice does not exist, primarily due to the lack of a functional human resources management information system. This is not in line with SIGMA standards, which require the keeping of statistics on the salaries of civil servants and the regular preparation of reports on average salary levels and differences in salaries by level, which should be publicly available and not older than two years.

The BiH institutions salary system recognises the possibility of rewarding employees with a bonus payment, which is defined as an incentive that can be paid for outstanding performance.<sup>155</sup> The individual annual incentive to an employee can reach a maximum of 20 percent of his/her annual basic salary, which is in line with SIGMA standards. It is interesting to note that the reward fund is reported as a separate budget item.<sup>156</sup> The Council of Ministers, in consultation with an independent inter-ministerial working body, determines the framework criteria for remuneration by a special bylaw, while the head of the BiH institution adopts an internal act which regulates in more detail the criteria, performance measures and procedure for obtaining bonus rewards.<sup>157</sup> So far, however, no research has been done to assess the implementation of the bonus rewards in practice and their impact on the work morale of the civil servants.

The principle of competitiveness of salaries in the state administration in relation to the private sector is not recognized as a special value in the BiH institutions. The Council of Minister's Wage and Compensation Policy for the 2019-2022 period<sup>158</sup> emphasizes the need to determine the internal fairness of the salary system by ensuring balanced relative pay ratios of employees in the judiciary, legislature and executive, as well as the need to analyse existing relative payroll ratios of elected and appointed persons based on objective evaluation criteria and comparative analysis of similar jobs, in order to suggest possible coefficient corrections. However, ensuring competitiveness with the private sector is not mentioned at all.

Lack of the respect of the principle of competitiveness of salaries may negatively affect the civil service morale and the possibilities to retain high quality staff. In the Law on Salaries, it is determined that the salary base cannot be less than 50 percent of the average monthly net salary in BiH expressed on an annual basis for the calendar year that precedes the year in which the base will be applied.<sup>159</sup> In practice, the base, which was set in 2008 at 498 KM, was increased in 2009 to 520 KM, but was very quickly reduced again to 498 KM in the same year. In 2012, there was an additional reduction of the base to 475.69 KM, and that amount of the base has not changed until today. Although an increase was planned for 2021, i.e. a return to the base amount of 498 KM, this increase was abandoned due to the epidemic of COVID 19. Therefore, salary levels in the previous decade were not harmonized with the average salary, or even with the growth of the costs of living. This

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<sup>155</sup> Art. 27, para. 1 of the Law on Salaries and Supplements in BiH Institutions.

<sup>156</sup> Art. 27, para. 4 of the Law on Salaries and Supplements in BiH Institutions.

<sup>157</sup> Art. 27, para. 5 of the Law on Salaries and Supplements in BiH Institutions.

<sup>158</sup> Official Gazette BiH, No. 60/2018.

<sup>159</sup> Art. 7, para. 1 of the Law on Salaries and Supplements in BiH Institutions.

adversely affects the ability of BiH institutions to attract and retain quality staff, especially in the field of information technology, but also with regards to other occupations that are in short supply in the labour market.

## 5. CONCLUDING REMARKS

The outlined analysis of the salary system of civil servants in the BiH institutions shows a moderate degree of compliance with the SIGMA standards when it comes to the legal regulation of the salary system. Job classification is the basis for the salary system, and all basic salary elements are regulated by the law. This ensures the stability and predictability of the salary system, which is an important basis for other elements of the human resource management system.

However, the existence of certain salary allowances, such as, for example, an allowance for performing the work of another job, poses a risk to ensuring the legality, fairness and transparency of the salary system. For this reason, it is necessary to either ensure strict implementation of this allowance or to revise the need for this its existence, in order to prevent possible abuses. This would also be in line with the overall trend of reducing the number of allowances to the basic pay, which occurred over the past decade at the BiH state level on several occasions due to IMF fiscal requirements (SIGMA, 2015; SIGMA 2017). It is also advisable to consider the possibility of including food allowance and holiday pay in the basic salary (which has already been done on other administrative levels in BiH – Republic of Srpska and Brčko District) and introduce transparent procedure for reimbursement of transportation costs.

The observance of the principle of equal pay for equal work and civil service competitiveness with the private sector has still not been ensured across the BiH institutions, which is not in line with the SIGMA principles and undermines the fairness of the salary system. These findings, however, do confirm the arguments of Schiavo-Campo et al, that key objectives of public compensation policy which are rarely met in practice are exactly those that are the hardest to be implemented: equal pay for equal work under the same conditions; and the need for the levels of government compensation to be periodically reviewed and systematically revised to assure the continued validity of the compensation plan (Schiavo-Campo et al, 1997: xi).

The transparency of the pay system is also hampered by the lack of statistical reports on salary levels for different job categories. This is largely due to the lack of a functional human resources management information system, which would contain the given data. This is not in line with SIGMA standards, which require the keeping of statistics on the salaries of civil servants and the regular preparation of reports on average salary levels and differences in salaries by level, which should be publicly available and not older than two years (SIGMA, 2019).

The existence of a system of performance related pay in the BiH institutions, both by a horizontal progression on a salary grid (which was revived at the end of 2020) and in a form of a performance bonus, is in line with the SIGMA standards. The existence of these performance related schemes has also shown the validity of the findings of Meyer Sahling's

led research (Meyer Sahling, 2012), which demonstrated an obvious civil servants' support for performance-related salary management in the countries of the Western Balkans, including the BiH.

What, however, is still not known is the real effect of this performance related pay on the working morale of civil servants in BiH, which has not been the subject of research so far. For this reason, it would be very useful to introduce regular motivation surveys in the BiH institutions, which would assess the effect of the performance pay on motivation of employees and ensure that this scheme is not used as an element of political control over a career civil service, especially in multi-ethnic societies, as this has been the case in other countries (Schiavo-Campo et al, 1997: xi). The survey would also be a useful tool to assess to which extent performance related pay motivates staff, and to which extent motivation is linked to satisfying job content and career development prospects, which have been found to be the best incentives for public employees in OECD countries (OECD, 2005).

Finally, as pointed out at the beginning of this paper, in order to be successful, the pay system needs to be properly linked to civil servants' career advancement and overall process of human resource management, which has a substantial impact on the quality of the staff to be attracted and retained. To the extent that the human resources management is perceived as too slow, too inflexible, or based on factors other than merit, the most talented and ambitious civil servants or candidates will most likely find alternative employment. Therefore, it seems that BiH institutions and civil service systems in the region need to create not only proper monetary incentives for enhancing civil service performance but at the same time work on a creation of an environment of trust, participation, shared values and objectives, in which performance and talent will be able to be fully recognized and appreciated.

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