

PROSPECTS FOR REFORMING THE REMUNERATION SYSTEM OF CIVIL SERVANTS UNDER MARTIAL LAW

Nataliia Aliushyna¹

¹ Assoc. Prof., National Agency of Ukraine on Civil Service, Prorizna Str.15, Kyiv, Ukraine, Email address: natalyushina@gmail.com

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Abstract

Russia's full-scale invasion of Ukraine has added new challenges, including the need to review the functionality of government authorities, budget sequestration, postponement of classification for the recovery period, and retention of highly qualified personnel. To ensure the sustainability and coherence of government institutions and their development, there is an urgent need to implement a reform of the remuneration system of civil servants, taking into account possible risks. The purpose of the study is to highlight and analyse the model of the remuneration system of civil servants based on the classification of positions, challenges and prospects for its implementation under martial law. Within the article, the following methods were used: formalization method, synthesis and abstraction method, abstract and logical method, dialectical method, comparative method, system method, cartographic method, questionnaires method, induction and deduction method, graphic method. It has been proven that there is an urgent need to approve the legislative framework as soon as possible, which will allow the introduction of a transparent, competitive and balanced wage system, taking into account the advantages, disadvantages and risks of the new system.

Keywords: reform of the remuneration system, civil service, civil servants, classification of positions, grading, remuneration, salary structure, martial law.

JEL Codes: J31.

Introduction

In 2020-2023, many steps were taken to implement the reform of the remuneration system of civil servants. As part of the pilot project to introduce a remuneration system of civil servants based on the classification of positions (Cabinet of Ministers of Ukraine, 2020), a model for classifying civil service positions was piloted, the level of remuneration in the civil service was compared with the market level, and a system of grades was developed. In January-February 2022, the classification of civil service positions was launched, including the establishment of classification committees in government authorities, and more than 10,000 civil servants were trained. At the same time, on 24 February 2022, the classification process was temporarily suspended due to military operations in Ukraine.

During the period of martial law, the procedure and forms of work of government authorities have changed, but civil servants continue to perform their official duties. Taking

into account the new conditions and challenges of martial law, the NAUCS, pursuant to the Government's instruction, developed an Algorithm for classifying civil service positions under martial law, which provides for a simplified classification procedure. The aforementioned Algorithm, as well as the Catalogue of Typical Civil Service Positions and the criteria for classifying such positions, were approved by the Resolution of the Cabinet of Ministers of Ukraine as of October 23, 2023 No. 1109 "On Preparation for the Introduction of Remuneration Conditions for Civil Servants Based on the Classification of Positions in 2024".

The Law of Ukraine "On the State Budget of Ukraine for 2024" provides for an intermediate stage of changing the remuneration conditions for civil servants based on the classification of positions with certain features. At the same time, a number of issues remain unresolved for the full implementation of the

reform of the remuneration system of civil servants:

1) the need to approve a unified model of remuneration of civil servants based on the classification of positions;

2) the need to conduct a full procedure for classifying civil service positions in accordance with the Methodology for Classification of Civil Service Positions, taking into account government authorities that are unable to classify positions due to force majeure circumstances;

3) the need to move away from unreasonable typification of government authorities by name in terms of jurisdiction, which extends over the entire territory of Ukraine;

4) the need to develop a unified and justified system of position evaluation in order to compare the level of remuneration for civil service positions with the market level;

5) search for sources to cover the costs of the remuneration of civil servants in order to ensure its competitiveness.

The purpose of the study is to highlight the model of the remuneration system of civil servants based on the classification of positions, challenges and prospects for its implementation under martial law.

Literature review

The issue of reforming the system of remuneration of civil servants is extremely urgent. The introduction of a salary grading model based on job classification is discussed by a number of Ukrainian and international researchers as one of the most progressive systems for determining job salaries. Within the framework of the study (André Precinotto et al., 2022), the authors argue that it is extremely difficult to control the process of calculation of civil servant's salaries. According to the scientists, a measure of public interest to improve control is the publication of information about the salaries of civil servants. The authors (Sari Wahyuni Eka et al., 2019) propose a salary calculation method that selects and ranks employees according to their qualifications for salary increases based on a number of criteria that refer to government regulations. In article (Dose Nicolai, 2016), a correlation and regression analysis is carried out, which proves that the size of a civil

servant's salary depends on and is explained by debt pressure, differences in the party composition of governments, the number of veto players in the cabinet and membership in the Employers' Association.

Publications (Qing Huang et al., 2023; Iin Agustinaet et al., 2022) are devoted to issues of remuneration and motivation of civil servants. Within the scope of research, the importance of the motivational component in the system of remuneration of civil servants has been proven. According to research (Iswanti Ujiantoet et al., 2023), ethical leadership has no significant effect on the productivity of civil servants, while work culture and motivation have a positive effect, especially on productivity. Scientists (Karepesina M.T., 2023) analyzed the influence of organizational culture and motivation on the productivity of civil servants. Of practical importance is the study (Lam K. et al., 2023), in which the authors note that civil servants must retain and transfer valuable and irreplaceable knowledge by providing their services through exchange-based learning. The authors consider the motives of civil servants, which motivate them to share and exchange knowledge, including at the expense of an adequate salary. The authors (Chen C. et al., 2023; Gaziz Sagituly et al., 2021) investigated the impact of overqualification of civil servants on the motivation of civil service from the point of view of cognitive assessment, as well as the role of the motivation system in increasing the efficiency of civil servants.

Without detracting from the results of existing studies, the issue of analyzing the prospects for reforming the civil servants' remuneration system under martial law requires further research.

Methodical approach

The study is based on the use of general scientific and special methods of scientific knowledge. The article analyses, synthesises and generalises scientific literature on remuneration of civil servants, public administration and civil service reform. To achieve the goal of the scientific work, the following methods were used: method of formalization, synthesis and abstraction – substantiation of the impact of the war on the

state budget and the financial capacity to carry out the necessary reforms to maintain the stability and recovery of Ukraine; abstract-logical method – the formation of conclusions based on the conducted survey; dialectical method – the study of interrelationships in the process of supporting the continuation of the system's reform of civil servants' remuneration at the levels of state authorities; comparative method – study of the process of fulfilling Ukraine's international obligations within the framework of civil service reform; system method - analysis of the model of the salary system of civil servants based on the classification of positions; cartographic method – assessment of the percentage growth of support for the reform by region in 2023 compared to 2022; questionnaires method – assessing the organization of work and remuneration of civil servants in the conditions of martial law; induction and deduction methods – identification of key changes to draft law No. 8222 and, accordingly, to the reform of the civil servants' remuneration system; graphic method – a visual representation of the obtained results.

Results

Remuneration of civil servants in Ukraine is regulated by the Law of Ukraine “On Civil Service”. The peculiarities of organising the work and remuneration of civil servants under martial law were studied by conducting an anonymous survey in August 2023. The survey involved 55,820 civil servants of all categories of positions “A” (0.01%), “B” (28%) and “C” (72%) from different regions of Ukraine. The survey results were compared with similar data from 2022. Both surveys have a similar representation of the sample by position category, level of government agency, and gender. Both samples are representative to reflect the general characteristics of the general population.

According to the survey, over the past year, 50% of respondents saw their salaries decrease, 34% remained unchanged and 16%

increased. The decrease in salaries since the martial law can be observed in all categories of positions. In particular, 53% of employees of category “B” reported a decrease in salary, and 49% of employees of category “C” reported a decrease in salary. The decrease in salaries applies to every region. However, civil servants in Kyiv reported the largest decrease in salaries (62%).

There are positive correlations ($p \leq 0.001$) between changes in the level of salary and workload, efficiency and quality. In other words, an increase in workload, efficiency and quality has an upward effect on salaries.

Despite the martial law conditions, salaries are paid on time, as stated by 95% of respondents.

The increase in salaries in certain regions is due to the adoption in 2023 of the Resolution of the Cabinet of Ministers of Ukraine as of April 25, 2023 No. 391 “Some Issues of Remuneration of Employees of Government Authorities and Local Self-Government Bodies during Martial Law”, which provides for the period of martial law for employees of government authorities (except for employees of government authorities whose remuneration is regulated by special laws; military personnel; rank-and-file and senior officers and police officers) who directly exercise their powers in the territories of active or possible hostilities, the determination of official salaries taking into account the coefficient of 2 or 1.5 in accordance.

However, not all those who are entitled to such a coefficient have been set. 22% of respondents have the right to set their salary with a coefficient of 2 or 1.5. At the same time, 37% of those who are eligible said that they were not assigned such a coefficient.

In addition, in 47% of cases, the coefficient contributed to an increase in salary, and in 53% of cases, the determination of the salary with the coefficient did not lead to an increase in salary (the coefficient was set at the expense of bonuses, etc.) (Figure 1).

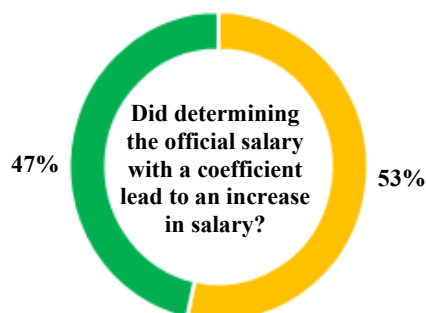


Figure 1. Increase the salaries of civil servants by establishing coefficients

**Source: systematized by the author.*

When analysing the reasons for the lack of salary growth, 7% of respondents say that there is a lack of funding, 5% of respondents say that the manager does not make decisions for unknown reasons, and 3% of respondents say that no changes are made to the staffing table or the list of employees working in the respective territories is not approved.

In addition, despite the fact that the level of salaries continues to decrease for the majority of civil servants, there has been an increase in the workload among civil servants over the past year. This was stated by 73% of respondents. At the same time, overtime work is mostly not paid (85%) (Figure 2).

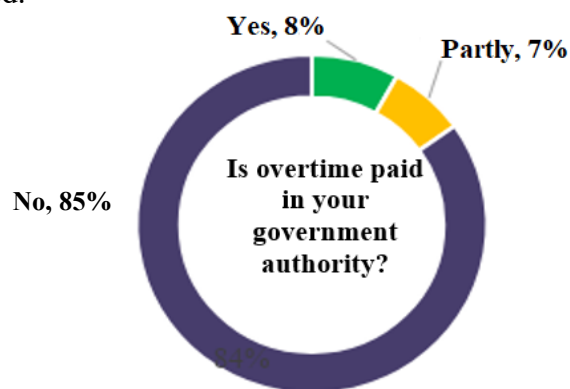


Figure 2. Overtime pay for civil servants during martial law

**Source: systematized by the author.*

At the same time, 36% of respondents indicated that they were required to work on weekends and 9% were required to work at night during the last year. Gender, level of government authority and region do not affect overtime pay.

Among the types of compensation for working on weekends, the predominant one is an additional day of rest (24%), while additional payment is made in only 2% of cases. 55% of respondents do not have information about the types of compensation applied in the government authority for working on weekends, and 19% say that there is no compensation.

Most civil servants mentioned in an open-ended response the need to increase salaries,

which are critically low, especially for civil servants of category "B". Many respondents also mentioned the need to implement the remuneration system reform even under martial law.

There is a tendency to increase support for the reform of the remuneration system among civil servants at all levels of government authorities.

According to the survey, 95% of civil servants support the need to continue the reform. This is up from 89% in 2022. Thus, support for the reform increased by another 6%. Accordingly, there have been some positive changes in trends compared to last year in terms of civil servants' support for the reform.

224

Taking into account Ukraine's focus on development and reconstruction, as well as preparations for accession to the European Union, there is an urgent need to implement reforms, including reform of the remuneration system of civil servants.

In November 2023, the European Commission published a Report on the possibility of starting negotiations on Ukraine's accession to the European Union. Among other things, the report mentions classification of positions and reform of the remuneration system of civil servants as an important and integral part of the civil service and public administration reform in general.

As of today, significant steps are being taken to fulfil Ukraine's international commitments as part of the civil service reform. In particular, on July 28, 2023, the Parliament adopted in the first reading the draft Law on Amendments to the Law of Ukraine “On Civil Service” on the introduction of unified approaches to remuneration of civil servants based on the classification of positions (hereinafter – Draft Law No. 8222).

The relevant paragraph has already been included in the draft Recovery Plan of Ukraine, which provides for the adoption of Draft Law No. 8222 and the necessary bylaws.

Draft Law No. 8222 is the basis of the reform and defines the framework for a new remuneration system of civil servants based on classification of positions. The adoption of the Draft Law No. 8222 will bring Ukraine closer to European standards of public administration and is a step forward towards joining the Organisation for Economic Co-operation and Development.

Draft Law No. 8222 is based on modern European practice and provides for the renewal of the salary structure through:

- classification of civil service positions, which takes into account the complexity of the work, required competence, knowledge and level of responsibility
- transparent and predictable salary components;
- a mechanism for gradually increasing the competitiveness of salaries compared to the private sector.

At the same time, it is important to take into consideration that our country is in a state of unprovoked war, and of course, it directly affects the state budget and financial capacity to carry out the necessary reforms to maintain stability and recovery of Ukraine.

Civil servants, in turn, are an integral part of this process, so their remuneration should be transparent, understandable and sufficient for the practical implementation of the tasks and functions of the state.

That is why the decision taken by the Government to fix the remuneration conditions for civil servants next year in the Law of Ukraine “On the State Budget of Ukraine for 2024” is driven by the requirements of the time, has certain peculiarities and takes into account, first of all, the capacity of the state budget. This will be a one-time legislative framework for 2024, the first step towards introducing new approaches and changing the remuneration system of civil servants based on the classification of positions.

Instead, the adoption of Draft Law No. 8222 remains extremely important. This is the only relevant law that will introduce a new remuneration model on a permanent basis, will help ensure unified approaches to reasonable planning of civil servants' remuneration expenditures and will allow integrating the specifics of classification of positions into other civil service processes.

Consider the model of the remuneration system of civil servants based on the classification of positions proposed to be introduced by the Draft Law No. 8222.

It is envisaged that the salary of a civil servant consists of two main parts:

- 1) fixed salary – official salary, seniority allowance, allowance for the rank of civil servant, financial assistance paid with annual basic paid leave;
- 2) variable salary – bonuses based on the results of the annual performance appraisal, monthly and quarterly bonuses, compensation for additional workload and for a vacant position.

Thus, the key changes to the Draft Law No. 8222 and, accordingly, to the reform of the remuneration system of civil servants are as follows:

1. Definition of a clear and transparent salary structure.

It is assumed that 70% will be fixed payments and only 30% will be bonuses (if established). The variable component should be motivational and not perceived as mandatory. This approach is in line with the best European practices and the principles of good governance set out in the SIGMA Principles of Public Administration. This will have a significant anti-corruption impact on the planning of payrolls of government authorities. In addition, it will eliminate the practice of artificially keeping vacancies for many years to save funds. After all, the new structure makes it impossible for a government authority to use the balance of such funds for monthly or quarterly bonuses.

This will also help to attract more candidates for vacant positions. As a rule, vacancies only reflect the size of the official salary, which is currently usually 30-50%, and experts often do not even consider the civil service as a place of work.

2. Setting the maximum size of seniority allowance at 30% of the official salary (2% per year).

Currently, the maximum percentage of the above allowance is 50%. At the same time, the seniority allowance will be calculated on the basis of the increased official salary. Thus, 30 % of the seniority allowance may be higher than the current 50%. There is a global trend to abandon such bonuses. In Ukraine, this practice currently raises many objections. At the same time, at this stage, seniority allowance can be seen as an alternative to steps in grades (2% per year of service). For instance, in the US civil service, there is a practice of moving to the next step in the grade after two years of service with a 2% increase in official salary and subject to an excellent rating in the annual evaluation. In the future, we can consider the possibility of introducing a similar approach in Ukraine.

3. Introduction of a functional classification of civil service positions.

The civil service is widely represented by various professions that have peculiarities compared to the private sector, with legal requirements and restrictions on their occupation. The functional classification will help to set more narrowly the requirements for the competence of potential candidates, design further professional development of working civil servants within the relevant job classification, differentiate the level of remuneration and bring it closer to the market level.

To test the classification, the Methodology for Classification of Civil Service Positions and the Catalogue of Typical Civil Service Positions and Criteria for Classification have already been approved. The classification of positions now also takes into account the jurisdiction and type of government authority (Figure 4).

4. Conduction of an annual comparison of the level of remuneration of typical civil service positions with the private sector.

The validity and expediency of this approach is based on an analysis of international practice, which is quite common. It is envisaged to bring the size of salary closer to the competitive level in the private labour market. This is the only way for the state to become a competitive employer in the labour market and offer a decent, predictable size of the fixed component.

Comparison with the market will allow the remuneration to take into account the functionality performed. The median salary in the private sector will serve as a benchmark. Certainly, we need to understand the budget's capacity to spend on labour costs. The experience of other EU countries shows that it is quite normal for salaries to be set 20-30% below the market median. According to our preliminary calculations, in Ukraine it is currently minus 50% on average.

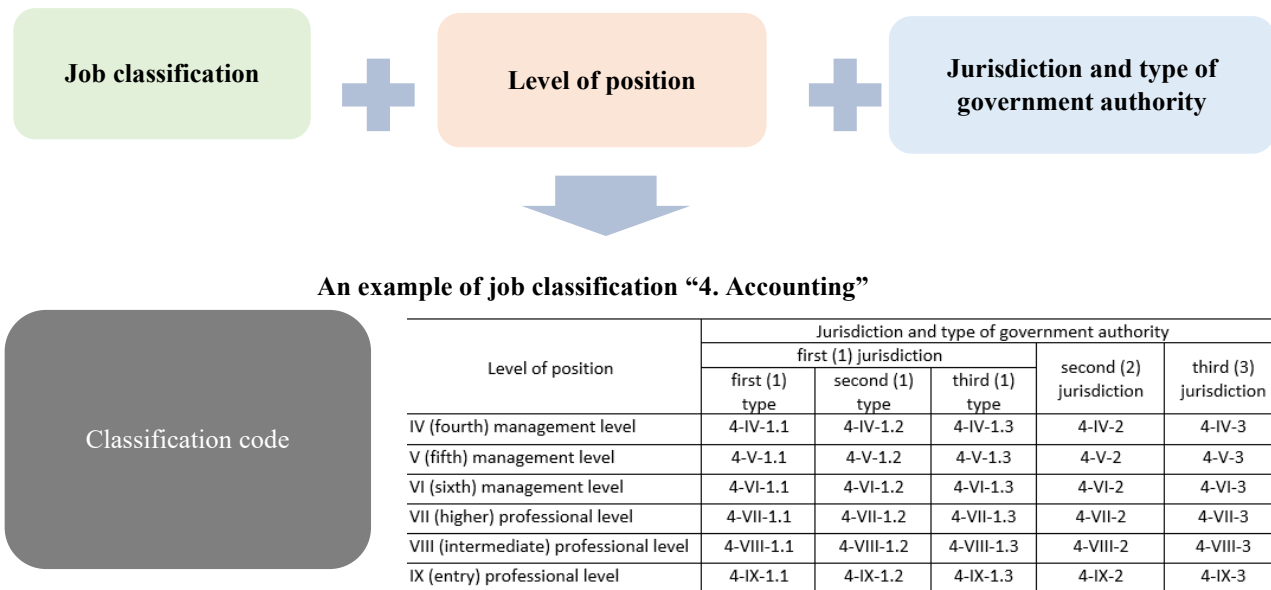


Figure 4. Model of position classification on the example of job classification “4. Accounting”

**Source: developed by the author.*

5. Setting of the size of official salaries based on classification.

Taking into account the results of classification and comparison, using a non-analytical method, each position code will be assigned a certain grade with an official salary. Thus, the results of the classification will make it possible to differentiate positions, taking into account their functional direction, complexity and responsibility, as well as the situation on the labour market.

Conclusions

Thus, the reform of the remuneration system of civil servants remains one of the priorities of public administration reform and an indicator for EU membership, and the transparency of salaries in the public administration is an indicator of Ukraine's readiness for the negotiation procedure. In this way, there is an urgent need to promptly approve the legislative framework that is the basis for the reform. Approval of the Draft Law No. 8222 will ensure transparency and competitiveness of civil servants' salaries, and stop manipulations with incentive payments and payroll.

The need to change approaches to the remuneration of civil servants is growing as a

result of a significant shortage of employees, on whom the stability of the entire state apparatus directly depends. Every government authority involved in the processes of European integration and the recovery of the country, and every manager has experienced the importance of having an experienced team. Considering the experience gained by government authorities during the war (staff, financial and professional hunger), the state as an employer must act as a guarantor and provide citizens who devote themselves to civil service with adequate remuneration. In doing so, it is necessary to take into account all the advantages, disadvantages and risks of the new remuneration system. This will ensure effective planning and adoption of important strategic decisions.

The grading model of remuneration based on the classification of positions is a modern, well-grounded approach to building a remuneration system of civil servants. It is this model that will allow for transparent and equal pay for similar work, taking into account the functional area of activity and the complexity of the work. In addition, it will raise the status of the civil service as an employer in the labour market, which will allow it to attract more highly qualified employees.

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