Remuneration competitiveness of employees involved into implementation of EU Structural Funds in the labour market"

SIA "FACTUM"

14.05.2007. - 30.11.2007.

Conclusions of the study

Since 2003 the number of employees involved into implementation of EU Structural Funds has increased and it has become stable in the period from 2006 to 2007, and in the 1st quarter of 2007 reaching 513 employees except the Rural Support Service with approximately 300 employees who are fulfilling these duties along with other responsibilities. It is forecasted in the study that until 2013 the number of employees involved into implementation of EU Structural Funds in administration institutions will increase by 5-6% a year. The data show that there is an employee specialization in work with EU Structural Funds at the state administration institutions – an ever increasing part of employees is working only with implementation of EU Structural Funds rather than fulfilling duties along with other responsibilities.

Most often the employees involved in administration of EU Structural Funds belong to the group of positions No 35 (Policy implementation). The second most often widespread group of positions among these employees is the group No 36 (Policy planning). The data show that several groups of positions are represented only by such employees involved in EU Structural Funds administration who perform these tasks while fulfilling duties along with other responsibilities. The mentioned groups of positions are the following: No 1 'Administrative Management', No 11 'Financial Administration', and No 27 'Quality Management'. However, among the employees working with EU Structural Funds comparatively seldom there are positions from the group of positions No 12 'Financial Analysis', No 15 'Internal Audit', and No 18 or 19 that in this study are combined in one group 'Office Management and IT Support'.

The majority of the employees involved into administration of EU Structural Funds correspond to the first (managers of different levels) or second (senior experts including senior desk officers) basic group of occupations. These are two groups of occupations against which the competitiveness of remuneration, work conditions, content and other work-related factors of the employees involved in EU Structural Funds with regard to national economy in general and with regard to economic sectors where most often employees from institutions administrating EU Structural Funds go to work should be compared. Both groups include positions and occupations that require the higher education as a prerequisite.

Summarizing the results of the study it is seen that the employees involved into implementation of EU Structural Funds undertake their work in the state administration for different reasons. A part of employees involved in Structural Funds

chose the work in the state administration because they saw it as their best possibility to fulfil their desire to work with implementation of EU Structural Funds. If the work in the state administration institutions would sufficiently meet the other needs of these employees, the possibilities of retaining them in the respective work place would be high enough.

The desire to change work place, in particular, if the work content is attractive to an individual, usually is caused by a set of several substantial dissatisfaction factors. In the context of the subject of the study an important factor is the limited possibility of vertical mobility that at the same time substantially influences the possibility of an employee working in the state administration to get higher earnings. The data of the study show that the work with EU Structural Funds implementation is often attractive to active and ambitious individuals willing to make a career (a part – rather within the state administration, another part – rather in the private sector because of a greater variety of opportunities), but due to the limited possibilities of the vertical mobility they are motivated to choose another work place. The data show that people working only with implementation of EU Structural Funds are more motivated to continue studies and very often they acquire the second speciality. Such action is stimulated by the work content as it is necessary to have knowledge or understanding of various subjects, for example, law, finances, and knowledge of foreign languages, as well as good communication skills, etc. These requirements set to the qualification and skills of employees involved into implementation of EU Structural Funds form a favourable basis for employees' expectations about an adequate remuneration, which is limited in certain situations within the state administration institutions.

The analysis of the worked time of employees involved into implementation of EU Structural Funds by occupations shows that higher staff rotation is characteristic to lower groups of positions – at the level of senior desk officers and equal specialists. It is quite logical that the higher position an employee involved into implementation of EU Structural Funds is holding, the longer the time of working with implementation of the funds is. As the possibilities of the vertical mobility are greater within the private sector, the individuals who are striving for a career development choose to work in the private sector. In order to retain such individuals in the state sector longer it is necessary to plan their career development possibilities in cooperation with an employee outlining his or her possible career development within the state administration by compensating the initial lack of career development possibilities with other factors influencing motivation for work – interesting work, great trust in an employee and more individual freedom, and by offering attractive remuneration and social warranties. Although the state sector is still subjectively associated by employees with greater social warranties, it should be noted that private sector enterprises, in particular the biggest companies in terms of the number of employees and sector leaders, are already now offering social warranties that are competitive with the ones offered by the public sector. In order to maintain competitiveness the state institutions should offer non-monetary rewards that at present are less

widespread, and much more attention should be paid to a psychological microclimate in the team – relations with the management and within the team.

In rather limited circumstances concerning determination of remuneration to employees working in the public sector, the state administration institutions as employers of employees involved into EU Structural Funds implementation are trying to use maximum possibilities provided by legal regulations with regard to increasing wages. However, it is observed that the possibilities of diversifying the remuneration are much lower in comparison with intensively growing and active enterprises within the private sector. Taking into account the available great range of attractive possibilities and offers, it is seen that a part of the state sector employers are trying to use different kinds of emotional attraction – seeking the ways to satisfy the deepest basic needs of their current and potential employees. For example, work motivation aspects like an exciting, interesting, creative work or a nice team at work are getting ever more important. Employees involved into implementation of EU Structural Funds value their work content and team, and if they have decided to change the work place then the major factors for this choice are work load and conformity of remuneration to the duties to be performed, lack of attraction to the work content or inability to see work results and the limited career development possibilities.

The subjective satisfaction with remuneration of employees involved into implementation of EU Structural Funds is somewhat lower than the satisfaction of employees of a similar level that was measured in the study "Wages and Impacting Factors" in the framework of the project "Studies of the Ministry of Welfare" of EU Structural Funds National Programme "Labour Market Studies" in 2005 - 2006. Although the employee satisfaction with remuneration during the last and a half year might have decreased due to the high inflation, taking into account this circumstance some satisfaction indicators, however, should be considered as threatening to implementation of Structural Funds. Employees working in administrating institutions for implementation of EU Structural Funds in general are less satisfied with conformity of remuneration to the work performed than Structural Funds beneficiaries, managers and senior experts within the market at large; yet, the employees working only with implementation of EU Structural Funds are even less satisfied with conformity of remuneration to the work performed. The data show that the requirements for qualification, work load and responsibility set for employees fully involved into implementation of EU Structural Funds are higher and duties are more complicated than for other employees that in its turn influences both the expectations of the amount of remuneration and satisfaction with the present remuneration. This increases the possibility of mobility for these employees.

Remuneration of EU Structural Funds administrators, like for other state administration employees, is determined by Cabinet Regulations No 995 adopted on 20 December 2005. The regulations provide that monthly salary is determined by two factors: a group of position's monthly salary and the level of employee qualification. Whereas, the following two individual criteria (with equal weight) are being applied

for determination of the qualification level: performance of duties or work (according to commission's assessment) and period served in the state administration. It should be noted that even within one group of monthly salary and one qualification level the system provides for rather wide scope of remuneration. Moreover, various additional payments, premium wages and compensations are envisaged.

In the context of this study the most important of them are the following: (1) additional payments for an increased work intensity (officer, up to 20% of the monthly salary) or for additional work (employee, up to 20%); (2) additional payment for replacement (up to 40%); (3) payment for management contract; (4) annual premium wage according to the regular assessment of performance and results (up to 120% of the monthly salary); (5) premium wage for high work results according to work contribution, using financial resources up to 15% of the planned remuneration fund, as well as saved resources from remuneration fund; (6) compensation for travel expenses (for officers); (7) compensation of studying fee (for officers). The declared aim of the new system is an equalization of remuneration between institutions reaching the amount of 75 - 80% of remuneration within the private sector.

However, it is possible to conclude that within the new system the importance of various factors in determination of remuneration level may vary a lot. Taking into account that 2006 is considered as a transition period to the new system, it may be assumed that the actual situation is still differing from the theoretical model and the situation has not changed much in comparison with 2005.

The data acquired in the state administration institutions and within the quantitative survey of EU Structural Funds employees differ in content. Although all employees of the state administration institutions - both those working only with Structural Funds and those performing these tasks along with other duties - have a fixed monthly salary for work in the relevant state administration institution, their perception of the payment for work with EU Structural Funds differs. Although the majority (80-90%) of the interviewed employees from the state administration institutions consider that they certainly get a fixed monthly salary for work with Structural Funds, others consider that they receive only additional payments including management contracts. Management contracts for work with EU Structural Funds are widespread at the level of ministries – in the Managing Authority and the first level Intermediate Bodies, and are rarely observed in the second level Intermediate Bodies, managers of Structural Funds and Grant Schemes. Although state administration employees involved with EU Structural Funds are used to receive premium wages, not always they relate them with implementation of EU Structural Funds.

Considering what part of the total monetary remuneration in the state administration institutions is comprised by the monthly salary, it can be seen that in the last years its importance in the remuneration is increasing. Taking into account the limitations mentioned in previous sections that some institutions submitted data for a shorter period than it was planned to cover within the study, as well the fact that the data from the Rural Support Service are not included in estimations, the data show that in 2003 the average monthly salary was 54-58% of the total work remuneration of EU Structural Funds employees, 56-63% in 2004, 62-63% in 2005, 71-76% in 2006 and 78-87% in the Q1 of 2007. There should be three observations noted that substantially influence the estimated result:

- ☑ Premium wages are more widespread within the ministries - in the Managing Authority and the first level Intermediate Bodies, and are rarely observed in the second level Intermediate Bodies and managers of Structural Funds, as a result the fact that the data from the State Employment Agency with the monthly salary comprising 100% of remuneration were available only since 2006, substantially increased the average index regarding percentage of the monthly salary in the total remuneration.
- ☑ Q1 of 2007 is not a representative index of work remuneration fund for 2007 – both the employees have noted during in-depth interviews and the researchers have observed in summarizing the data that premium wages, often comprising the majority of additional remuneration, in a way have a seasonal or periodical nature, namely, considerably more often they are paid in the second part of the year, not in the first.
- ☑ The proportion of the monthly wage within the total remuneration differs a little depending on an employee's specialization in the work with EU Structural Funds. Except 2006, over the other period considered the proportion

of the monthly wage within the total remuneration is somewhat lower for employees who work with implementation of EU Structural Funds along with other duties than for employees who work only with implementation of EU Structural Funds.

Comparing employees of two most common groups of positions No 35 and 36 by their specialization in the work with Structural Funds it can be seen that in 2006-2007 the average monthly salary for employees of the group of position No 35 comprised approximately from 75% (along with other duties) to 84% (work only with EU Structural Funds) of remuneration. In 2006-2007 the monthly salary for the group No 36 comprised approximately from 73% (along with other duties) to 78% (work only with EU Structural Funds) of remuneration.

Considering the proportion of the monthly wage within the total remuneration by groups of occupations, during the last year the remuneration system for different occupations has changed substantially. Comparing Q1 of 2006 and Q1 of 2007 the proportion of the monthly wage within the total remuneration for department directors and their deputies has increased by more than 10% regardless of the fact whether the director is fully or partly involved into implementation of Structural Funds. In Q1 of 2007 the proportion of the monthly wage of department directors and their deputies comprised from 71% (along with other duties) to 90% (work only with EU Structural Funds) of remuneration. Proportion of the monthly wage has more or less increased also for senior experts of other ministries, but it has remained constant or has even decreased for the second level Intermediate Bodies and Grant Scheme managers, namely, for senior experts, project managers and other senior experts. Yet, in Q1 of 2007 the proportion of the monthly wage for employees of the second level Intermediate Bodies and Grant Scheme managers comprised 85-95% of the total remuneration.

In addition to the regular wage for work with Structural Funds beneficiaries of Structural Funds and Grant Schemes receive additional payments or remuneration for Structural Funds comprise a part of the total remuneration determined by a company. Trying to find out the criteria for determination of additional payments it can be seen that approximately a half of respondents have no clear idea what the criteria for determination of additional payments or a share of remuneration for work with EU Structural Funds that comprise the total salary are. If a criterion for an additional payment or share of remuneration is defined then more often the number of hours worked are mentioned rather than the amount of Structural Funds acquired.

Comparing the remuneration system of EU Structural Funds employees with other sectors of national economy two important criteria are considered further using the data of the study “Wages and Impacting Factors” (WIF). The first criterion is the use of various kinds of remuneration for stimulation of employees with high qualification in the state administration and national economy. The second criterion is the number of employees whose wage reaches a certain amount within the remuneration fund.

Comparing the use of various types of wages for remuneration and stimulation of employees with high qualification the data collected from employers' survey within the WIF study in 2005-2006 show that in comparison with the commercial services sector including also management consultation companies, in general all kind of premium wages (quarterly, semiannual or occasional) and additional payments for fulfilling extra duties are applied more often in the state administration, but more seldom the variable (dependent on work results) wage and additional payments for individual work results are applied. If in the commercial services sector variable basic salary for employees with high qualification is paid by 21% of employers, then within the state administration sector – 3 %. Additional payments for individual work results to employees with high qualification are paid by 18% of employers within the commercial services sector and 6% - by employers of the state administration sector. Whereas, monthly, quarterly or semi-annual premium wages are paid approximately 10% more often by the employers of the state administration sector than by the commercial services. The fact that remuneration in consultation companies depends on work results is considered by employees involved in administration of EU Structural Funds both as a cause which makes it difficult to compare their remuneration with this sector and as a more insecure situation in general.

Considering the second criterion, namely, the amount of the basic salary in remuneration fund that is closely linked to rather frequent payment of premium wages, the data of the employers' survey within the WIF study show that in the state administration the basic salary more rarely comprises the greatest part of remuneration. In the WIF study 19% of the employers from the state administration sector had admitted that the basic salary comprised 91-100% of the remuneration fund, considerably more often (33%) the basic salary had comprised 81-90% from the remuneration fund in this sector, whereas, the other state administration employers had admitted that the basic salary comprised less than 80% of the work remuneration fund. For 20% of the companies in the commercial services sector the basic salary comprises 91-100% of the work remuneration fund and another 41% of companies – 81-90% of the work remuneration fund. In other sectors approximately 30% of companies have the basic salary that comprises 91-100% of the work remuneration fund. So, the given data show that the state administration employers, including administrators of EU Structural Funds, considerably more often pay premium wages and additional payments comprising a greater part of remuneration than on average in the national economy.

Considering all employees employed in the state administration institutions who have worked with implementation of EU Structural Funds, Table below gives a comparison of the average gross monthly wage of employees and average earnings depending whether an employee is working only with implementation of EU Structural Funds or is performing these tasks along with other duties. The calculations are made on the basis of the data provided by the state administration institutions. It should be taken into account that the Rural Support Service is not included in the calculations and that

not all institutions have submitted data for the whole period considered. In order to give a precise comparison of the increase of remuneration in Q1 of 2007, the monthly salary of Q1 of 2006 is calculated separately in the Table. Analyzing the data it should be taken into account that in the first level Intermediate Bodies administrative management (deputies of the State Secretaries) has been also involved in the work with EU Structural Funds along with their basic duties.

Average gross monthly salary and remuneration for full time job of employees involved into implementation of EU Structural Funds in 2003-2007 (in lats)

Specialization	Index	2003	2004	2005	2006	Q1, 2006	Q1, 2007
Only with EU Structural Funds	Average monthly wage	273	362	409	467	461	563
	Average earnings	471	576	648	656	544	651
Along with other duties	Average monthly wage	269	329	429	464	453	721
	Average earnings	511	608	710	624	526	952

Considering average salaries divided by administrating institutions, regardless of the factors influencing the amount of the remuneration, in 2006 the average remuneration for employees working with implementation of EU Structural Funds, was above average at: the Ministry of Economics, the Ministry of Regional Development and Local Government, the Ministry of Welfare, the Ministry of Finance, the Ministry of Health, the State Education Development Agency and the Secretariat of Special Assignments Minister for Electronic Government Affairs. Considering the average remuneration for employees working with EU Structural Funds along with other duties, in 2006 the average remuneration was above average at: the Ministry of Economics, the Ministry of Regional Development and Local Government, the Ministry of Transport, the Ministry of Welfare, the Secretariat of Special Assignments Minister for Electronic Government Affairs, The Treasury, the Ministry of Finance, the Ministry of Agriculture, the State Education Development Agency and the Ministry of Environment.

The regular remuneration of EU Structural Funds employees working at the positions of department directors, heads of divisions, their deputies, as well as senior experts (senior desk officers, consultants, inspectors etc.) on average substantially exceed the regular remuneration both in the state administration budgetary institutions, and the ministries. Remuneration of EU Structural Funds employees – senior experts in the area of accounting, audit or economics (without occasional payments) on average is similar or exceeds the amount earned by representatives of these occupations both in the state administration budgetary institutions in general and in the ministries. Whereas, the regular remuneration of employees working with administration of EU Structural Funds in the positions of project managers, coordinators and administrators

is similar to average remuneration at the ministries, but is less than the average level in the state budgetary institutions of the state administration sector in general.

Comparing remuneration with the private sector it can be seen that the employees of institutions administrating EU Structural Funds can be divided into three groups:

1. remuneration of senior experts in accounting and audit (without occasional payments) substantially exceeds the regular remuneration declared for similar positions in the private sector in general, in the sector of commercial activity, and in (a narrower) commercial services sector (the latter including also consultation companies);
2. the regular proportion of remuneration of department directors, heads of divisions and their deputies (without premium wages and benefits) exceeds the regular remuneration earned by top and middle managers of the private sector in general and in the sector of commercial activity; in comparison with managers of the (narrower) commercial services sector, the majority of directors involved in administration of EU Structural Funds (occupation code 1.1.2.2., i.e. 83% of all) have similar earnings but others (occupation code 1.2.2.) earn less (assessing this statement it should be taken into account that premium wages and other occasional additional payments comprise a very substantial proportion of remuneration especially for managers both in the state administration and in the private sector);
3. the regular remuneration of EU Structural Funds employees involved in policy planning and implementation, as well as in project management (senior desk officers, consultants and senior experts) is less than the regular remuneration of project management experts in the private sector in general and in the sector of commercial activity, and in particular less than the regular remuneration of senior economists in the commercial sector, narrower sector of commercial services comprising also consultation companies. Assessing this statement two conditions should be taken into account. First, not every senior desk officer may actually qualify for a position of a project manager or an economist in the private sector: project management very often requires specific knowledge or skills (for example, in recruitment or marketing), whereas responsibilities of an economist may require good analytical skills. Second, as already mentioned the number of vacancies for economists in the commercial services sector is comparatively small.

In general, assessing the remuneration competitiveness of employees of institutions administrating EU Structural Funds, it is recommended to increase the average remuneration level of senior desk officers and other senior experts working in institutions administrating EU Structural Funds. The comparison of remuneration statistics with competing sectors shows that remuneration of senior desk officers whose mobility within institutions administrating EU Structural Funds is high, is similar or even lower than remuneration of similar experts in other sectors of the

national economy. Remuneration of directors in administrating institutions of various levels (1st basic group of occupations) may not be changed, especially if an increase of remuneration at all levels would cause an excessive pressure on the remuneration fund. The rate of wage increase might be lower if the bureaucratic requirements for project applicants would be reduced, consequently reducing the work load of EU Structural Funds employees.

Assessing the possibilities and necessity to increase the remuneration of employees involved into implementation of EU Structural Funds, the principles of justice regarding remuneration should be observed and communicated to all employees of the state administration institutions. The data show that past differences of remuneration of EU Structural Funds employees and employees from other state administration institutions have caused a lack of understanding regarding evaluation criteria and remuneration increase (for example, work intensity, qualification requirements, knowledge of languages, etc.). The lack of information regarding criteria may reduce motivation for work of other employees working in the state administration institution that may have a negative impact on each institution's operations in general.

In general the study discovered two problems and in order to solve them a unitary HR management system should be established under the guidance of the State Chancellery. The first problem to be solved in this way is the limited possibilities of horizontal and vertical mobility of employees involved in administration of EU Structural Funds within one institution that could be easier to organize within the state direct administration institutions. The second problem that could be solved by implementation of the unitary HR management system is limitation of competition among the state institutions and attempts of employee "head-hunting".

Describing in more detail the above mentioned problem the data acquired in the study show that one of the motivating factors to change work place is the limited possibilities of mobility within one institution, difficulties in working under the leadership of one or another manager, as well as other difficulties related to work place, not work content. In a situation of labour shortage it is recommended to facilitate in a planned way horizontal and, within the limits, the vertical mobility of employees involved into implementation of EU Structural Funds by close cooperation among the state administration institutions. During regular discussions with employees it should be necessary to find out whether the employee feels any motivation deterring factors and factors described in this report and in case of such situation there might be a possibility to offer work place in another state institution that might be attractive to the employee. At the moment such strategy is realized by a part of EU Structural Funds employees working in one institution on their own initiative but more planned action would allow institutions to ensure a certain mutual "exchange" acquiring a qualified enough and equal employee working with EU Structural Funds in another state administration institution instead of the previous employee. Such approach will certainly help to solve the problem of exhaustion and work homogeneity especially in cases if the work load is different in various

institutions.

Considering the second problem mentioned the data show that the state administration is one of the most actively competing sectors from the point of view of one certain institution, i.e. rather often institutions administrating EU Structural Funds "head-hunt" each other's employees. Thus, it can be said that the state administration is artificially increasing a demand for EU Structural Funds employees in the market. It is to be noted, however, that also in the next planning period of EU Structural Funds the most significant "buyer" of employees experienced in administrating EU Structural Funds will be the state administration and the majority of EU Structural Funds employees will be working there. Implementation of the unitary HR management system could facilitate the state administration institutions to operate as "one company" where the transfer from one institution to another would allow planning an employee's career, development and would reduce the need of institutions to "head-hunt" employees, thus ensuring a unitary remuneration for certain positions, etc.

It should be noted that the competition within the state administration sector is caused by certain obstacles limiting possibilities of attracting employees from the private sector. Although in the study an attraction of former employees from the private sector for the work with EU Structural Funds in administrative institutions was observed, the employee flow from the public sector to the private sector is more powerful than the other way round though. It is also limited by the requirements of the public sector. To apply for a managing position work experience in the state administration is necessary which may not be a must in the private sector, thus the possibilities are being limited to acquire private sector employees for managing positions. Whereas, there is a comparatively low probability that an experienced private sector employee would choose a position of a senior expert (a position of a senior desk officer) as attractiveness of remuneration for the relevant public sector position and work position is lower.

In order to reduce the work load of employees involved into implementation of EU Structural Funds and demand of Structural Funds beneficiaries and other interested sectors a preventive measure would be simplification of procedures for acquisition of Structural Funds. The more complicated the procedures are, the more time the employees shall spend for approving and checking the implementation. This issue was often mentioned by EU Structural Funds employees when telling about the scope of the work and its encumbering factors. Simplification of procedures must be carried out not only in accordance with the study results of the relevant subjects but an important role should be assigned to ideas and proposals expressed by the employees themselves involved in implementation of Structural Funds – thus it is possible to receive not only recommendations that are practical and based on observations from everyday working life but also to satisfy the employee's vital need of self-realization and facilitate their participation in promotion of the institution's work efficiency (and in general – in strengthening of their loyalty).

Taking into account that a part of employees involved into implementation of EU

Structural Funds choose to work in the private sector both in companies actively involved in acquisition of Structural Funds and in companies that are not directly linked to acquisition of Structural Funds, in order to reduce the demand of these employers it is recommended, first, to develop simpler and more understandable bureaucratic procedures enabling the companies to prepare and implement EU Structural Funds projects on their own, second, to offer training in project preparation and implementation (especially regarding financial reports), and, third, to solve specific problems of Structural Funds beneficiaries and provide training, involving also the level of senior desk officers from the state administration institutions. Communication with people whose possibilities to acquire Structural Funds and implement projects depend on their work could be motivating for senior desk officers as often they have limited possibilities of vertical mobility within the state administration.