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Mariano Lafuente

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Mariano Lafuente, mlafuente@iadb.org

Abstract^{*}

Due in part to Belize's characteristic as a small state, its public administration is among the most expensive in Central America relative to the size of its economy. This represents a potential risk in a challenging fiscal context. The wage bill's fiscal risk has been flagged as a concern over the years, and it has remained an important issue, which is aggravated by the fact that the relatively high level of spending still does not effectively promote, attract, and retain adequate human capital for the delivery of public services. This Technical Note reviews the current public employment and pay policy in Belize, and proposes short- and medium-term measures to achieve important human resource management objectives in the public sector, including to develop a fiscally sustainable wage bill, attract and retain required human capital, and enhance performance orientation in the public sector.

JEL Code: J45

Keywords: Belize, public employment, pay policy, wage bill, human resource management

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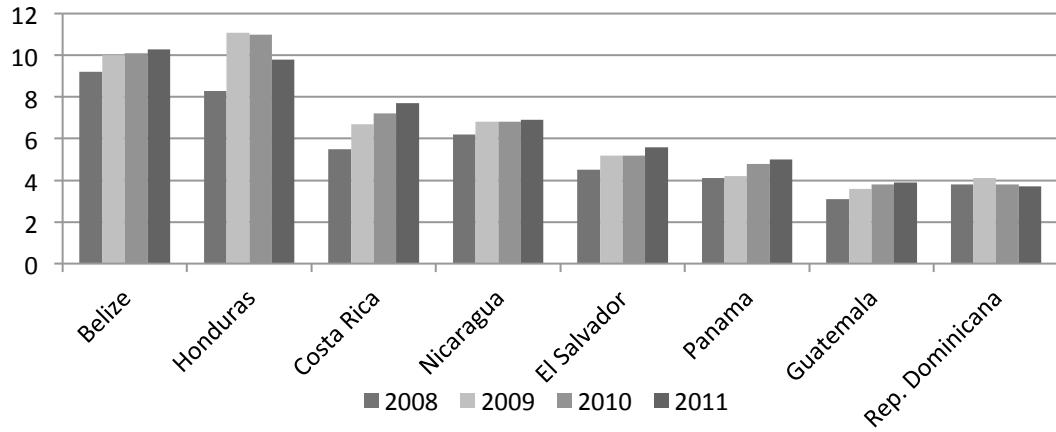
1. Introduction

Latin American and Caribbean (LAC) governments, and the Inter-American Development Bank (IDB), have repeatedly highlighted the importance of having a competent and professional public workforce for effective development. Public service plays a central role in the formulation and implementation of public policies and in the relationship between the state and its citizens. For this reason, the effectiveness and efficiency of public policies are crucial for the success or failure of public sector institutions, and they are critical for increasing the impact of government action in all areas where it intervenes.

Four commonly accepted objectives of human resource management (HRM) in the public sector include: (i) having a fiscally sustainable wage bill; (ii) attracting and retaining human capital; (iii) having a depolitized and meritocratic public workforce; and (iv) ensuring that staff focus their efforts on achieving the policy and program objectives of their institutions (Reid, 2008). Considering Belize's development challenges within HRM, this policy note focuses mainly on the first of these objectives in Belize's central administration and briefly touches on the remaining three.

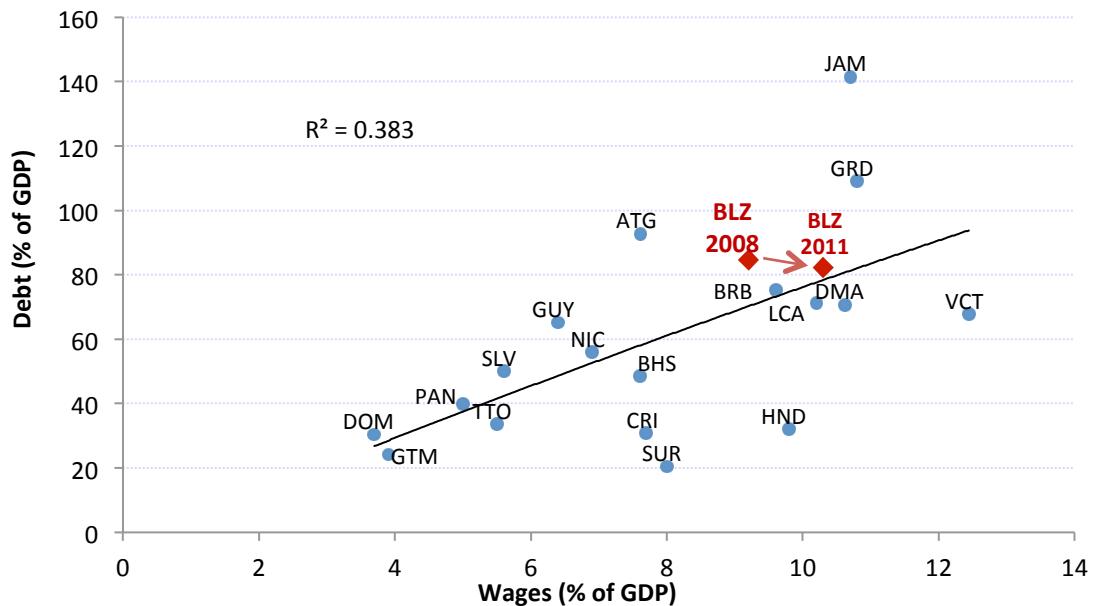
Partially because Belize is a small state, its public administration is one of the most expensive in Central America compared to the size of its economy: this represents a potential risk in a challenging fiscal context (Figure 1). Personnel expenditures as a percentage of GDP have been growing steadily over the past five years, increasing from 9 percent in 2007 to 10.3 percent in 2011, despite an average economic growth rate that was close to 2 percent per year during that period. The higher wage bill was driven by an increase in the number of employees, and, to a lesser extent, pay increases above the rate of inflation, which were common until 2005. These phenomena are analyzed within the context of a vulnerable economy that has a relatively high debt and an overall fiscal deficit (Table 1 and Figure 2).

Figure 1. Central Government's Wage Bill as Percentage of GDP, Central America and the Dominican Republic (2008–2011)



Source: IMF Article IV Consultations for selected Central American and Caribbean Countries (various years).

Figure 2. Wage Bill and Public Debt as a Percentage of GDP (2011), for Selected Countries in Central America and the Caribbean



Source: IMF Article IV Consultations for selected Central American and Caribbean Countries (various years).

The fiscal risk of the wage bill has been identified as a concern by the government, the media, the private sector, and international organizations. It has remained an important issue, aggravated by the pension system for public servants.¹ Despite fiscal adjustment efforts carried out by the government in Belize during the 1990s under an IMF program (see next section), the wage bill continued to pose a threat to long-term fiscal sustainability, and it crowded out public investment (Metzgen, 2011). This problem was also flagged by international organizations. In 2006, the Inter-American Development Bank (IDB) conducted a public expenditure review and warned about the risk of mounting current expenditures that were driven by considerable pay increases (IDB, 2006). Five years later, the International Monetary Fund (IMF) still recommended reversing the upward trend in the wage bill relative to GDP (IMF, 2011). Recently, in April 2013, the IMF repeated this statement.² The existence of a noncontributing pension scheme for public officers, established in the Pensions Act (Service Commissions Regulations, Article 52), added to the rigidity of personnel expenditures going forward.³

With respect to the other HRM objectives, Belize enjoys a mainly depoliticized public service, especially when compared to other LAC countries. Attraction and retention, however, are problems, and the public service's focus on performance is weak. Belize's relatively well-routed, transparent meritocracy is an important asset. Its system of chief executive officers (CEOs), who are appointed by ministers—as opposed to the traditional career “permanent secretaries” in the British public administration—appear to provide a degree of flexibility that politicians can use to promote a more responsive administration, despite increasing political involvement in the public service.

¹ Recently, the wage bill has been brought up in the context of the 2013/2014 budget debate. See Ambergriscaye.com (2013) and 7NewsBelize.com (2013).

² See 7NewsBelize.com (2013b).

³ Public officials have a noncontributory defined benefit scheme (PPPO), and their mandatory retirement age is 55. Transfers from general public revenues finance the benefits (IDB, 2011).

Table 1. Main Indicators in Belize, 2011

Population	0.3 m.	Public expenditures**	30.2%
Public employees	15,600*	Revenues**	26.9%
Public employment as % pop.	3.6%	Tax revenues**	23.9%
Central adm. wage bill**	10.3%	Overall fiscal balance**	-2.6%
Wage bill as % of exp.	33.8%	Public debt**	77.2%
Wage bill as % of tax revenues	42.8%		

Source: IMF (2011); IDB (2013); Statistical Institute of Belize (2012).

Notes: *data is from 2012; ** as percentage of GDP.

Nonetheless, attraction and retention of adequate staff remains a problem, especially at the project management level. This low attraction and retention is perceived, for example, in the public sector's ability to implement programs and projects.⁴ Performance management and performance monitoring for the public service, both at the individual and institutional levels, also continue to be a challenge (Ministry of the Public Service, 2010). In this way, Belize's challenges are similar to those of most, if not all, LAC countries.

2. Assessment

There are no simple metrics for reviewing the sustainability of the wage bill in terms of its size and cost. The goal is to have a level of pay that is consistent with the operation of a motivated and professional public service at a scale the country can afford on a sustained financing basis. Comparisons with population, GDP, and expenditures can be useful guides.

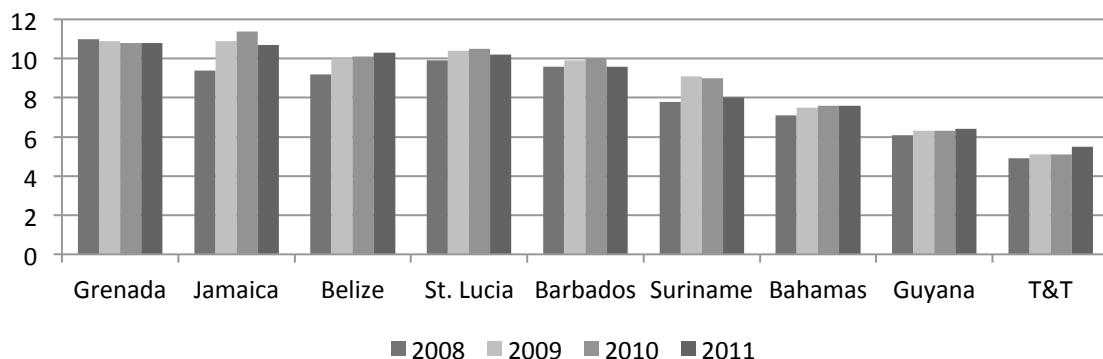
Belize's public service is comparable to the average workforce size in other small Caribbean states. Taking public employment as a percentage of the population, Belize, with approximately 4.7 percent in 2012, ranks relatively well against other small Caribbean states such as St. Lucia, at 5.2 percent, Dominica at 5 percent, Grenada at 4.9 percent, and Antigua and Barbuda, at 9 percent, based on data from 2009. In addition, Belize is not far from a country with a higher population and, therefore, more economies of scale, such as Jamaica, which had close to 4 percent, also in 2009 (Statistical Institute of Belize, 2012; Manning, 2009).

⁴ Based on an IDB evaluation, “the most often mentioned cause for these delays is an insufficient base of skilled human resources [...] It seems to be particularly difficult to find persons with strong project management skills [...] As a result, project execution proceeds slowly and with difficulty until a highly committed and skilled manager is found[...]. Since such individuals are scarce in the country, it may take a long time until one is found, and then there is still the risk that this person will move on to a similar position in a better-paying project” (2012: 16).

There is no publicly available information on the evolution of Belize's public sector workforce, which makes it difficult to analyze public employment trends. The available information (IDB, 2006; Statistical Institute of Belize, 2012) points to a significant increase in personnel in the last eight years. In 2004, the government employed 11,800 people. By 2012, that number had increased by 32 percent, to 15,600. In addition, calculations from the Ministry of Finance related to Belize's central administration employment—excluding state-owned enterprises—show a 75 percent increase in the number of staff between fiscal years 2003/2004 and 2010/2011. While the sources and the methodologies used were different—Ministry of the Public Service records versus a labor force survey by the Statistical Institute of Belize and the Ministry of Finance—all sources indicated an increase in the number of public sector personnel.

The cost of Belize's public service does not appear to be in line with its fiscal capacity. The wage bill has been increasing as a percentage of GDP and consumes a little over one-third of public expenditures. It is higher compared to other countries in Central America, such as Honduras, where wage bill management has been a critical development issue for many years. Honduras has acted decisively to reduce the wage bill as a percentage of GDP, with promising initial results (see Figure 1 above). Personnel expenditures in Belize are akin to those in some small Caribbean states, such as Grenada, Jamaica, and St. Lucia, although Belize is the only country at the higher end of the sample where the wage bill consistently increased every year between 2008 and 2011 (Figure 3).

Figure 3. Central Government's Wage Bill as Percentage of GDP for Selected Caribbean Countries (2008–2011)



Source: IMF Article IV Consultations for selected Central American and Caribbean Countries (various years).

While the latest collective bargaining agreement establishing pay increases has been suspended since 2006, expenditures on public wages and salaries increased by an average of over 6 percent per year between fiscal years 2007/2008 and 2010/2011. This shows that the wage bill imposed a sense of inertia but that personnel expenditures increased every year considerably above the annual rate of inflation, which averaged 3.2 percent. A possible explanation may be the increase in the number of employees during this period and pay increases from previously agreed upon collective bargaining agreements.⁵ In addition, public pension transfers increased over 9 percent per year on average during the same period (IMF, 2011).

The level of wages and salaries plus allowances appears to be above international comparators of the share of wages and salaries per worker relative to GDP per capita. The ratio of average wages and salaries per employee compared to GDP per capita in Belize is over 2.3, while international comparator values for these variables tend to range between 1.2 and 1.4.⁶ These facts, combined with a high wage bill as a percentage of GDP, indicate that public sector pay levels may be relatively high for this economy and the local labor market. This could be because public service jobs require more skills than those required for the average private sector job. A more in-depth and rigorous wage differentials study would be needed to assess the extent to which specific skill sets are being remunerated differently in the public and private sectors. Such a study would provide the government with more reliable data and could be used to inform the dialogue with unions on public sector remuneration for different job categories, such as management, professional, technical, and administrative.

There are several allowances for public servants, in some cases with different levels for personnel in each sector; such a structure makes the payroll complex and more costly to administer and control. This type of pay structure may also raise concerns about the lack of

⁵ The government that came into office in February 2008 did not undertake new collective bargaining agreements, but it did start to pay on an agreement from a few years prior that had not been paid under the fiscal adjustment program.

⁶ This rough estimate derives from an estimated wage bill of Bz\$ 311 million for 2011/2012 (IMF, 2011) divided by 15,600 staff (Statistical Institute of Belize Labour Force Survey, 2012) = Bz\$ 19,935. According to the IMF (2011) GDP per capita for Belize at current prices was Bz\$ 8,606. Thus, the ratio of wages and salaries per public employee (Bz\$ 19,935) divided by GDP per capita (Bz\$ 8,606) is equivalent to 2.3.

transparency, and has the potential for more errors in processing due to the higher number of transactions that must take place each month.⁷

In terms of attraction and retention of required staff, there appear to be adequate economic incentives within the pay scale to attract personnel at the management level. The wage compression ratio, defined as the ratio of the highest salary to the lowest salary on the government's main salary scale, is a useful indicator of the internal adequacy of pay. While the actual compression ratio is unknown, anecdotal evidence gives the impression that it is relatively high, which means salaries at the high and low ends of the pay scale show appropriate distance from each other. There is a perception that highly skilled workers may have been generously rewarded over time (Metzgen, 2011). This apparently important distance between the highest and lowest ends of the pay scale may be related to the small pool of skilled resources available because of the economies of scale within the country. More detailed information would be needed to make a more informed assessment, including an analysis of horizontal distortions at the management level.

Despite the high wage bill as a percentage of GDP, average public sector pay appears to have decreased in real terms in 2010 compared to the 2000–04 average (Metzgen, 2011). This perception, which seems to be supported by the data, generates pressure for further pay increases in an already costly wage bill. Public sector unions demanded a 30 percent pay increase in early 2013 as a result of the higher cost of living, and disregarded the 17 percent inflation level between 2005 and 2011, according to the official statistics, as too low compared to the price of basic commodities.⁸ The government, however, recently linked the possibility of granting future pay increases to improved revenue performance.⁹

Finally, Belize's public service has ample room to enhance its performance orientation. The government does not have a performance management system with public objectives at the institutional level (IDB, 2010). The implementation of an enhanced performance appraisal system at the individual level that is congruent with the government's program and strategic plans by institution has not been successful (Office of the Services Commission, 2006). If salaries for managers were significantly higher than those for lower

⁷ Even if the system is automated, payroll management personnel still have to enter information such as overtime or days worked per person on a monthly basis.

⁸ See Ambergriscaye.com (2013).

⁹ See The Belize Times (2013).

grades, having internally competitive remuneration for public sector CEOs and managers would need to be in accord with policies oriented to ensure accountability. The combination of relatively expensive managers not delivering or not accountable for their performance goes against any country's development goals.

In summary, the main concern affecting Belize's public service is its high cost when compared to the economy and the budget. This, combined with pressures for pay increases, is likely to lead to more serious fiscal sustainability problems. The rigidity of personnel expenditures and the costly pension system can also exacerbate the crowding-out effect on public investments within the budget, with a potential negative impact on economic growth and service delivery going forward. Attraction and retention of middle managers also appears to be a problem affecting implementation of public policies. Moreover, the weak performance culture of the public service is not instrumental to the achievement of the government's goals.

3. Government Policies

The Ministry of the Public Service is in charge of personnel management and industrial relations practices in Belize's national government. The Ministry's vision is "a Public Service free from partisan political control, yet sensitive and responsive to the needs of government for positive changes in service delivery in the interest of greater efficiency, effectiveness and productivity, for sustained human development, social justice and the economic well being of all." Its mission is "to ensure delivery of prompt, efficient service to the public in a courteous, professional, and non-partisan manner."¹⁰

The Government of Belize pursued a retrenchment initiative aimed at reducing the wage bill in the 1990s. A sizeable retrenchment program was initiated with the IMF in 1995 to address overstaffing and spiraling wage costs. Public service wages were frozen, and the government reduced the number of civil servants by nearly 9 percent. The savings from the retrenchment program, including nonrecurrent severance payments, was estimated at 0.9 percent of GDP for 1996–97.¹¹ Due to immediate wage increases, however, the central government's

¹⁰ See the Ministry of the Public Service website:
<http://www.mps.gov.bz/modules/smrtfaq/category.php?categoryid=2>.

¹¹ See World Bank (1996) and IMF (1996).

wage bill remained high (World Bank, 1996; IMF, 2011; Metzgen, 2011). The government increased rather than limited pay in the following decade (see Box 1).

Belize does not appear to have taken strong measures to contain the wage bill since the 1990s. Recurrent increases in personnel expenditures show that Belize has seldom sustained efforts to contain pay. In fact, Belize's wage bill as a percentage of GDP increased between 2008 and 2011, despite experiencing GDP growth during this period. Everything else being equal, economic growth should have kept the wage bill ratio as a percentage of GDP from increasing, even with pay adjustments or staff increases in line with economic growth. Instead, the wage bill rose by 1 percent of GDP.

Box 1. Belize's Wage Bill as a Longstanding Challenge to the Country's Fiscal Sustainability

Belize's struggles with personnel expenditures go back 20 years. In the 1990s, the government's wage bill grew more rapidly than could be justified by increased or improved public services, exceeding 56 percent of recurrent expenditure from 1990–94 and representing over 13 percent of GDP (Metzgen, 2011).

The main drivers of the increase in personnel expenditures until 2005 appear to have been pay increases above inflation, with very limited relation to the state's fiscal capacity to absorb them. The government signed collective bargaining agreements with public sector unions in 1992 and 2003, promising significant pay increases that were to be implemented in the subsequent three years. In both cases, however, the government had to cancel or delay the increase for the final year for lack of resources and finance it by issuing bonds to public servants. While a one-year pay freeze was introduced in 2005, personnel expenditures slowly increased again in subsequent years.

In September 2008, the Joint Staff Relations Council was established to negotiate a new collective bargaining agreement, and it reached a partial agreement in October 2012. The deal included an increase in several allowances, with a review of their allocation in each ministry. During the first four months of 2013, however, unions kept the pressure on through strikes in which they requested pay increases to cover the higher cost of living. Consistent with a fiscally responsible position, the Prime Minister stated in April 2013 that any future pay increases for public employees would be contingent on improved revenue performance by the government. As of April 30, 2013, an agreement had not been reached.

Sources: Metzgen (2011); The Guardian (2012); The Belize Times (2013).

It appears that the public sector opted for high pay scales and allowances for more senior personnel to improve attraction and retention rates. This may have been the most suitable strategy in a small state with a small labor market, where a large number of skilled professionals choose to migrate to other markets.

The government developed a national development framework, called Horizon 2030, to enhance its performance orientation. It includes principles related to public service modernization. This strategic vision document represents an important effort to advance toward a performance-oriented culture in the public sector. The final report states that Belize requires appropriately skilled human resources and management systems that promote quality, in response to the notion that “the public service of Belize operates with outdated policies and procedures, an absence of effective performance management systems, promotion systems based on seniority rather than merit” (Government of Belize, 2011: 15).

The first pillar of Horizon 2030 calls for an effective public administration, which would be achieved through several measures. These include: (i) implementing multiyear planning of activities and budgets and regular reporting on clear and measurable objectives; (ii) enforcing regulations for the transparent and fair hiring of public officers; and (iii) implementing proper performance monitoring.

Finally, Belize’s government is starting to enhance the performance orientation of the public service by developing standards related to services to citizens. In January 2013, the Ministry of the Public Service announced a request for proposals to develop a strategic policy on quality assurance and customer service (see Ministry of the Public Service, 2013a).

4. Policy Options

Higher personnel expenditures have increased Belize’s fiscal vulnerability. In case of a future external shock, the government may need to take more drastic fiscal measures to balance the budget than it would have taken had consistent and more conservative policies been in place to contain the wage bill, as is the case in countries of comparable size.

Successfully addressing the fiscal sustainability of the wage bill involves adopting consistent policies and management initiatives over time, and clear political will. Countries that have contained their personnel expenditures effectively have done so gradually, with

politically viable measures, such as consultation and negotiation processes, raising awareness, and creating constituencies, all designed to limit staff numbers and contain pay.

Policy options to contain personnel expenditures can mainly be seen as focusing on staff numbers or on pay (Manning, 2009). In most cases, countries proceed with an approach that combines both sides, with gradual measures that are expected to alleviate the situation over time (Dorotinsky, Manning, and Rinne, 2009).

Focusing on staff numbers to contain the wage bill involves having good knowledge of the existing workforce and exercising a selective hiring freeze. An accurate employee database is not publicly available, so it cannot be determined whether the government has such a tool to manage its workforce. If the government lacks such knowledge, an employee census would be a natural first step. The public sector frequently must increase the number of teachers, health care workers, and police officers every year due to demographic changes or public policies targeting specific sectors. In a challenging fiscal situation such as the one faced by Belize, however, employee recruitment should be part of an overall plan to offset new positions with the retirement of employees in these or other sectors.

In the education sector, the number of new teachers hired can be lower than the rate of population growth, and pupil-teacher ratios can rise moderately. Much of the growth in the wage bill can be traced to an effort to reduce pupil-teacher ratios in the 2000s (Metzgen, 2011). Since international evidence and Belizean experience point to this being an expensive policy with dubious educational benefits, there is room to phase it in over time and focus on teacher quality rather than quantity (Belize Education Policy Note, 2013).

Improving pay policy management involves much more than increasing pay scales or rationalizing allowances. As with any public sector modernization effort, raising awareness and creating constituencies for reform are crucial. Having objective technical studies with reliable data is as important as a well-thought-out communications plan. Both will strongly influence any pay negotiation process or pension policy reform. Management initiatives, such as selective payroll audits by sector (for example, in education) and functional reviews to identify how well a public sector institution's human resources are oriented to its institutional goals, are important tools that enhance efficiency and convey a message.

Attracting and retaining the required human capital can be targeted at different levels. While senior management tends to be the most important category in new public

management thinking, middle managers and public officers on the front lines of service delivery are also crucial. Policy options include adjusting pay scales and allowances based on detailed knowledge of the broader labor market for specific categories in specific sectors. Also, attraction policies encompass specific categories early in their careers.

Enhancing the performance orientation of the public service can be attempted through a horizontal or vertical approach. After having a long-term vision in place with specific objectives, as Belize does, initiatives for performance management can be developed horizontally, across the entire administration, or vertically, sector by sector. Both options should be gradually implemented, including initial performance targets developed for all institutions or pilot sectors, or programs within sectors, respectively. At the individual level, having a consolidated institutional and team-level performance monitoring system are crucial prerequisites for moving toward a proper individual performance appraisal.

5. Policy Recommendations for Belize

The following policy recommendations are intended to address the following three commonly accepted objectives of HRM in the Belizean public sector: (i) having a fiscally sustainable wage bill; (ii) attracting and retaining required human capital; and (iii) ensuring that staff focus their efforts on the achievement of the policy and program objectives of their institutions, or the performance orientation of the public service. The recommendations are structured by objective and presented according to time frame in which they are to be implemented. For reasons stated above, most recommendations are focused on the objective of having a fiscally sustainable wage bill.

5.1 Working Toward Achieving a Fiscally Sustainable Wage Bill

Belize needs to begin gradually containing personnel expenditures with the medium- to long-term objective of having a fiscally sustainable wage bill. This will require a combination of measures, addressing staff numbers and pay policy management, since both factors have been contributing to the increase in personnel expenditures over the years.

i. *Short-Term (6 months-1 year)*

Recommendation 1. Staff Numbers: Determine the number of public employees in the central and decentralized administration by institution, grade, and remuneration, and update these data regularly. It is unclear how many public employees there are in Belize. As a first step, an employee census should be undertaken, including the decentralized administration. A single employee database would allow for better management of human resources and better control over who is getting paid by the public sector, whether directly or indirectly through a state-owned enterprise requiring resources from the treasury.

Recommendation 2. Staff Numbers: Institute a selective hiring freeze, in practice and formally, through a policy document that outlines strict controls over temporary appointments. Hiring of new staff should require review and approval by the Ministry of Finance and the Ministry of the Public Service. This freeze ought to include non-self-financing entities in the decentralized administration. Moreover, rules should be put in place to ensure that contract workers do not become established public service officers. This should be explicitly stated in contracts. Temporary service contracts that may create a contingent liability should be stopped (Metzgen, 2011). Some ways to implement this include establishing a financial cap on temporary appointments by institution, and controlling absenteeism in important sectors such as education—where an absent teacher may need a replacement—to avoid an increase in this type of contract.

Recommendation 3. Staff Numbers: Prepare an HRM Plan that establishes appropriate staff replacement ratios and reallocates staff in a way that ensures effective delivery of crucial services. This will require detailed information on who is eligible to retire and when, from what institution, and what savings the retirement will produce in the administration. Based on this analysis, which will require carrying out the employee census in Recommendation 1 in terms of the data available, a replacement ratio per type of position and/or sector should be established (e.g., one new administrative recruitment for every three new administrative retirees). The reallocation of staff within public sector institutions should take this information into account and be informed by functional reviews with a fiscal focus. This exercise should be undertaken in central institutions, including non-self-financing entities in the decentralized

administration (which tend to hide excesses in public employment), to compare their core mandates with their current organizational structure and staffing. All recommendations coming from this exercise should either be fiscally neutral or generate fiscal savings. This exercise should help eliminate duplication of functions and free up staff for reallocation.

Recommendation 4. *Pay Policy Management:* Enhance control over existing personnel expenditures through management measures such as payroll audits. Payroll audits should be conducted to improve control over expenditures. These should include both process-based audits, which would be expected to ensure that proper internal controls are in place at each stage of the payroll cycle managed by line ministries and agencies within the central administration, and transaction-based audits, which would be expected to ensure the accuracy of individual transactions in selected institutions. These exercises have produced interesting results in other countries (Annex 1). These audits should focus on sectors with relatively higher risks (such as education) and a high number of staff and allowances, and should be conducted by an external consulting firm. In addition, efforts should be made to improve monitoring of attendance and reduction of overtime costs and employment of retirees, measured by good fiscal impact and less negative reactions compared to retrenchment.

Recommendation 5. *Pay Policy Management:* Undertake a technical study on remuneration, with a focus on allowances. A technical study on components of the pay structure should be developed to rationalize allowances and establish a transparent budget tracking system for wage bill payments for salaries, wages, allowances, and other payments.

Recommendation 6. *Pay Policy Management:* Develop a technical study to improve the management of the pay negotiation process. A study on the pay negotiation process should be conducted with the aim of helping the government improve its management. Such a study is likely to recommend moving to annual negotiations linked to inflation and fiscal constraints, in particular tax revenue growth, for all public servants. This would make the wage bill more predictable, protect the purchasing power of public servants, and ensure that personnel expenditures are more aligned with the government's fiscal capacity.

Recommendation 7. Initiate a public awareness campaign on reforming the Pension Plan for Public Officials (PPPO) to make it fiscally sustainable by requesting contributions in line with those in other countries and increasing the retirement age. Based on a recent technical study (IDB, 2011), making the PPPO fiscally sustainable would require introducing contributions of at least 4 percent, comparable to Jamaica, which has the lowest contribution rate of any Caribbean country. In this case, employees and the government, acting as the employer, could each contribute 2.5 percent over a similar time frame. The study recommended that the legal retirement age be increased from 55 to 60 in 20 years, or by three months per year.¹² This gradual approach, combined with measures such as adjusting the value of pensions for inflation funded by a contribution made by the government as the employer, would have a better chance to be politically viable. Alternatively, the contribution system would be applicable only to new staff entering the public sector. This technical process should be accompanied by an effective communications strategy (see Recommendation 15).

ii. Medium Term (1–3 years)

Recommendation 8. Analyze the implementation of recommendations from different analytical products developed in the short term for addressing staff numbers and pay policy management. These recommendations would be derived from efforts to improve control over staff numbers and studies related to pay policy management. They may include: consolidate a single HRM database for the public sector, including central and decentralized administration; evaluate the initial implementation of the HRM plan and revise it as needed; strengthen payroll management and internal controls capacity, and implement corrective management and legal measures to address possible irregularities discovered by the payroll audit; evaluate and implement a proposal to simplify the pay structure and rationalize allowances; enhance capacity for salary negotiation using all available information, and institute a mechanism that addresses the fiscal capacity of the state to provide pay increases.

¹² The propensity to rehire retired staff at a higher cost (these staff collect pensions and new incomes on the basis of pre-retirement salaries) suggests that the retirement age might be too low and there may be savings from increasing it. With life expectancy at birth reaching 73.2 years for women and 67.2 years for men, the government pays on average pensions for more than 13 years for each retired public official. This creates an excessive burden. When the Social Security Act became law in 1980, life expectancy was 64.7 years for both genders, but the retirement age has not been changed (IDB, 2011).

5.2 Attraction and Retention of Required Human Capital

Existing information suggests problems of attraction and retention at the project management level. More information, however, is needed before policies can be recommended to address this important HRM objective.

i. Short-Term (6 months–1 year)

Recommendation 9. Conduct a study of wage differentials for specific categories of staff in different sectors. A review of a preliminary analysis conducted by Metzgen (2011) would be a good initial step to take to understand this problem. A more rigorous wage differential study would provide the government with more reliable data and could be used to inform policy and enhance dialogue with labor unions on public sector remuneration. The study should assess the issue for different categories of employees, such as management, professionals, technical, and administrative staff.

Recommendation 10. Study possible programs to attract young talent to the public sector and personnel in categories perceived to be missing from the public sector, such as mid-level managers. While Belize appears to have introduced interesting features for high-level managers, through an apparently competitive pay policy and through the creation of CEOs in the public sector with lateral entry at management level, proposals should be developed to address the attraction and retention of young talent—Belizeans studying in local universities or graduate programs abroad—and mid-level managers.

ii. Medium-Term (1–3 years)

Recommendation 11. Analyze the feasibility of implementing some of the recommendations derived from the analytical products to be developed in the short term under the objective of attraction and retention (Recommendations 9 and 10).

5.3 Performance Orientation of the Public Service

Unlike measures to increase the efficiency of public expenditures, developing a performance culture in the public sector takes time. It involves important efforts at the institutional level, which then trickle down to the individual level, starting with management.

i. *Short-Term (6 months–1 year)*

Recommendation 12. Enhance productivity by designing and implementing a pilot program to start defining and targeting policy and program goals and objectives in three institutions and their subordinate units on an annual basis. A vertical approach, focusing on key sectors, would be a more realistic option than a performance management system applied across the administration. The introduction of this type of mechanism would enhance the performance orientation of the public service over time. If successful, it could be replicated in other sectors.

Recommendation 13. Continue and enhance efforts related to nonmonetary award programs to recognize performance improvements in government programs, initiatives, and agencies. The expected benefits to an organization of implementing a nonmonetary award program include a potential increase in productivity and innovation in exchange for a minor outlay of resources, the creation of loyalty to the institution, and the identification of talent within an organization, thereby creating role models for others (Watkins and Beschel, 2010).¹³ Belize Public Sector Awards, a monetary award for very few staff per year, is a step in the right direction, which could be enhanced through other nonmonetary efforts (Ministry of the Public Service, 2013b).

ii. *Medium-Term (1–3 years)*

Recommendation 14. Introduce a stronger performance focus for public sector managers, in particular for CEOs and mid-level managers. The investment of resources on these employees should be accompanied by the possibility of dismissal in case of low performance. Legal and practical details on how to implement this should be evaluated in a technical study.

¹³ The type of reward offered to recipients often centers around a high-level award ceremony attended by senior government officials and the media. In some cases, trophies and certificates are offered and winning programs are showcased in magazines, books, and on websites with the intention of promoting good practices across the government (Watkins and Beschel, 2010).

5.4. Applicable to All Objectives

i. Short and Medium Term

Recommendation 15. Political economy and communications strategy for public employment and pay policy. Given the political sensitivity of personnel expenditures and public employment, and considering that Belize is a small state where most people know each other, the development of a political economy and communications strategy is recommended to ensure that government actions—such as functional reviews, payroll audits, and the selective hiring freeze—are adequately carried out, and that important information, such as the findings from the wage differentials study, the possible census, and the study on allowances, inform the dialogue with the public sector unions.

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Annex: International Experience regarding Payroll Audits - Summary Note¹⁴

Recent payroll audits: Brazil at the state level (Sao Paulo 2006, Alagoas 2010), Mexico – Teachers (2010), Sierra Leone (2008), Guinea (2008), Uganda (2006), Zimbabwe (2009–2010).

Complexity and time frame: Depends on many factors, such as the size of the public service and the main objective of the audit: headcount, transactions, payroll systems, skills of the workforce, size of territory, availability and quality of initial information, quality of personnel management systems, capacity of HRM staff, ownership from stakeholders, political will to make the information available, and others.

Examples of Results Obtained and Timing

- **Sierra Leone - Payroll verification project:** Twenty-percent reduction of overall staff due to removal of: (i) ghost workers (9 percent); (ii) staff over the retirement age (7 percent); and (iii) staff with serious medical issues (3 percent). Planning of 28 months; exercise took 3.5 months.
- **Guinea - Payroll Verification at Ministry of Education:** Cross-check of payroll and census information led to investigation of files of about 7,000 employees, of which 2,149 were removed from the payroll, including ghost workers, double dippers, deceased workers, and those who did not comply with minimum educational requirements. Planning and implementation took 19 months, including appeals by an external independent auditor from the World Bank.
- **Zimbabwe – Comprehensive Payroll Audit of Public Service:** Ongoing. Level of detail and complexity and size of the public service drove up costs to US\$3.3 million. Audit covered physical identification of 200,000 employees, enumeration and verification of their records, skills audit of each staff member and functional review of all Human Resource-related systems, including pensions. Audit established its own project management unit, had a Payroll Audit Secretariat, and involved international firms. Following finalization of terms of reference, the audit is expected to take 14 months. Initial findings suggest that a considerable number of employees did not attend the enumeration exercise, and therefore

¹⁴ Prepared by Mariano Lafuente (at the time Public Sector Specialist, Latin America and the Caribbean Region, World Bank), and a team from the World Bank in 2011.

their pay was frozen. An appeals process is expected to follow before reincorporation or definitive removal from payroll.

- **Uganda – Payroll Cleaning Exercise:** Covered the entire public sector (266,000 employees). Objectives were to establish that all staff on the payroll were duly appointed, that they were receiving the correct salaries, and that the payroll records were correct; to update the personnel information on the payroll; to identify invalid records on the payroll for removal; and to obtain accurate payroll numbers that would facilitate accurate government budgeting for salaries and minimize salary shortfalls. The cost was US\$80,000, with most of the work being done by the Ministry of the Public Service and an inter-ministerial task force. The exercise took eight months, with three months for the exercise and five months for data entry and preparation of the report. The main challenge was data entry: the exercise was completed first, followed by data entry. Cost savings were estimated at US\$200,000 after some 30,000 records of the 229,000 were found to be invalid and were removed.
- **Brazil: State of Alagoas – Transactions Audit:** Covered the entire public sector, including central and decentralized administration and public sector retirees. The state completed an employee census, following which Deloitte undertook an audit in six months, including planning, for US\$680,000 (2010). The audit found over 18,000 irregularities, mostly including small mistakes in payments. The threshold was established at US\$125 per individual anomaly. Potential savings are estimated at US\$5 million per month, roughly 4.5 percent of the payroll. The government is still verifying the audit results and initiating legal procedures to cut irregular payments. Cuts will be made gradually, 10 percent a month for active public servants and 30 to 50 percent per month for retirees. Only 14 civil servants were found to be receiving payments for two or more positions. Confirmed monthly savings as of July 2010 were US\$200,000. The rest are still in the appeals process.
- **Brazil: State of Sao Paulo – Transactions and Systems Audit:** Covered the entire public sector, including the central and decentralized administration and public sector retirees, taking a 1 percent sample per regime, or 936,000 active employees. The audit took approximately eight months. Savings were reported to be equivalent to approximately 5 percent of the payroll.

- **Mexico: Ministry of Education - Teacher headcount and transactions audit:** Covered all teachers at the state level who were being paid with federal funds. Led by the Ministry of Education and implemented by a private firm on a quarterly basis since 2008 and reported to Congress. Anomalies found for the first quarter of 2010 were low.

Summary of Lessons Learned: Headcount-oriented Exercises (Africa)

Preparation can take years. Cleanup of payroll is relatively easy compared to actions to be implemented after cleanup. The challenge is ensuring transparency and thoroughness in the appeals, as cleanup can be easily translated into payback. Technology alone cannot solve the problem of ghost workers and double dippers. Many countries fail to set appropriate controls after the audit and are therefore exposed to the possibility that the problems will continue unresolved.

Summary of Lessons Learned: Transaction-oriented Exercises (Brazil and Mexico)

Undertaken by private sector firms. Benefits of outsourcing the exercise include timing (doing the exercise in-house takes longer), effectiveness (the task team fears retaliation because, as in most bureaucracies, everybody knows everybody else), and quality (there is expertise in this particular market). Audits undertaken by private firms take less than one year. The appeals process can be lengthy and difficult to implement, with relatively high transaction costs. The potential savings can be considerable and this can be a more politically viable way of reducing the wage bill, given that reductions are not sold as “cuts” but rather as “corrections” to the payroll.