Salaries & Remuneration Commission

Rewarding productivity

REPUBLIC OF KENYA

# PUBLIC SECTOR REMUNERATION AND BENEFITS POLICY FRAMEWORK

June 2015

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May 2015

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# ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **CBAs** | Collective Bargaining Agreements |
| **CEOs** | Chief Executive Officers |
| **COK** | Constitution of Kenya |
| **CPI** | Consumer Price Index |
| **CSs** | Cabinet Secretaries |
| **CSOs** | Civil Society Organisations |
| **DPP** | Director of Public Prosecutions |
| **DPSM** | Directorate of Public Service Management |
| **FBOs** | Faith Based Organisations |
| **FY** | Financial Year |
| **GDP** | Gross Domestic Product |
| **GIC** | Government Investment Corporation |
| **GOEs** | Government Owned Entities |
| **GOK** | Government of Kenya |
| **ICT** | Information, Communication and Technology |
| **JSC** | Judicial Service Commission |
| **KENAO** | Kenya National Audit Office |
| **KIPPRA** | Kenya Institute for Public Policy Research and Analysis |
| **KNUT** | Kenya National Union of Teachers |
| **NACAOO** | National and County Agencies Oversight Office |
| **NGOs** | Non-Governmental Organization |
| **NPSC** | National Police Service Commission |
| **NSIS** | National Security Intelligence Service |
| **PaSCOM** | Parliamentary Service Commission |
| **PBP** | Performance Based Pay |
| **PCK** | Productivity Centre of Kenya |
| **PFM** | Public Finance Management |
| **PMS** | Performance Management System |
| **PSs** | Principal Secretaries |
| **PSC** | Public Service Commission |
| **PSOs** | Public Sector Organizations |
| **SAGA** | Semi-autonomous Government Agencies |
| **SCAC** | State Corporations Advisory Committee |
| **SRC** | Salaries and Remuneration Commission |
| **TIVETs** | Technical, Industrial, Vocational and Entrepreneurship Training institutions |
| **TNT** | The National Treasury |
| **TOR** | Terms of Reference |
| **TSC** | Teachers Service Commission |

# DEFINITIONS OF SELECTED TERMS

*Benefits* generally refer to in-kind compensation, such as housing, leave, transportation, medical treatment, etc.

*Pay* constitutes all remuneration, allowances and other benefits paid to an employee. However, in common language, pay and remuneration are used interchangeably.

*Public Sector* refers to institutions and organisations that are predominantly funded from public resources, including the exchequer account(s) of the Government of Kenya. For avoidance of doubt, the Public Sector encompasses all arms of the Government and Government owned or predominantly controlled entities.

*Public Service* refers to the institutions and organisations in the Public Sector that have been established to support the functioning of the Government.

*Remuneration* comprises monetary payments in form of salary and allowances. However, in common language, remuneration and salary are used interchangeably.

*Remuneration compression ratio* generally refers to the arithmetical computation of comparing the median wages of the highest compensated 10 per cent of employees in an organisation and the median wages of the lowest compensated 10 per cent of employees.

*Service Commissions* refers to the Parliamentary Service Commission, the Public Service Commission, the Judicial Service Commission, the National Police Service Commission, the Defence Council, and any similar current or future organisations established to manage specified cadres or occupational groups in the Public Sector.

*State officer* is defined in the Constitution of Kenya 2010 as those occupying the following officers: the President, Deputy President, Cabinet Secretary, Member of Parliament, Judges and Magistrates, member of a commission to which Chapter Fifteen applies, holder of an independent office to which Chapter Fifteen applies, member of a county assembly, governor or deputy governor of a county, or other member of the executive committee of a county government, Attorney-General, Director of Public Prosecutions, Secretary to the Cabinet, Principal Secretary, Chief of the Kenya Defence Forces, commander of a service of the Kenya Defence Forces, Director-General of the National Intelligence Service, Inspector-General, and the Deputy Inspectors-General, of the National Police Service, or an office established and designated as a State office by national legislation (COK, 2010, p.297-298)

*Non-state officer* as used in this document refers to, inter alia, those other employees in the Public Sector who are not in the category of a state officer, as defined above.

*The Public Sector Wage Bill* comprises: (i) the regular payroll expenditures such as: basic salary, house allowance, and all other allowances payable to public servants; and (ii) other personnel-related expenditures which are not paid on a regular basis, such as fees, commissions and honoraria, refund of medical expenses, and other compensation for benefits, which may be paid in-kind.

*'Wanjiku'* is a colloquial term used in Kenya to refer to the ordinary/peasant citizen.

# FOREWORD

This Policy Framework provides a holistic and strategic roadmap and actions that will enable Kenya to develop an efficacious Public Sector Remuneration and Benefits system. In this system, in a medium to long term perspective, every public servant will be satisfactorily, fairly, equitably and transparently compensated for their contribution to Public Service delivery. At the same time, the system will be affordable and sustainable. The country will have brought the current public wage bill crisis to an end. This will significantly contribute to fiscal stability, and to a macro-economic environment that is conducive to public and private investments, and therefore to high and sustained economic growth and poverty reduction.

The contents of the Policy Framework derive largely from facts, views and perspectives shared by, among others: the Kenya public as well as its leaders through participation in a month-long nation-wide debate on the public sector wage bill that was launched by H.E. the President in March 2014; the members of the Commission and staff of its Secretariat; representatives of Kenya's Public Sector employees, including a number of trade union leaders and officers; select private sector human capital management executives; and the commissioners and chief executives of various public sector institutions and agencies. Members of an inter-agency task force representing key employer commissions and the key public sector human resource management collaborated with the consultant, Mr Kithinji Kiragu, in developing the policy framework. The consultant's inputs were funded by the World Bank. On behalf of all members and staff of the Commission, I extend profound gratitude for all these and others who have contributed to the forging of this Policy Framework. I thank and commend the consultant for most ably supporting the analysis and organization of the disparate facts, ideas and views to a coherent policy framework.

In a special way, I wish to thank our national political leaders, especially H.E. the President, Hon. Uhuru Kenyatta, and the Deputy President, H.E. Hon. William Ruto, and indeed other members of the Cabinet and Parliament for championing the national debate on the Public Sector Wage Bill.

**Mrs. Sarah Serem, EBS**
CHAIRPERSON,
SALARIES AND REMUNERATION COMMISSION
May 2015, 2014

CHAPTER ONE

# Introduction

## 1.1 Recent institutional and policy reform initiatives

Since independence, the determination of wages, salaries and other remunerative benefits within the Public Sector in Kenya has been handled by different bodies whose actions have produced varying outcomes. However, these bodies have not been guided by a framework that would ensure equity and fairness in pay. This has hence resulted in  disparities across sectors and even inequalities between the lower cadre and executive pay leading to internal complaints of neglect and agitation of higher pay across sectors such health, the teaching force, state security organs, local/devolved government workers and those working under state corporations. The disparate remuneration structures continue to have an effect on the Public Wage Bill because resources are directly or indirectly drawn from the national exchequer accounts to support the remuneration and benefits of all Public Sector employees.

To address the challenges emanating from the fragmentation of institutions, policies structures and administrative systems in the determination of remuneration and benefits across the Public Sector, the Constitution of Kenya (COK) created the Salaries and Remuneration Commission (SRC). The Commission was vested with powers and functions to set and regularly review remuneration and benefits of all state officers and advise the national and county governments on the remuneration and benefits of all other public officers. Moreover, COK 2010 stipulated minimum principles to guide determination of remuneration and benefits. These principles are:

(i) The need to ensure that the total public compensation bill is fiscally sustainable;
(ii) The need to ensure that the public services are able to attract and retain the skills required to execute their functions;
(iii) The need to recognize productivity and performance; and
(iv) Transparency and fairness.

During the past two years, three major initiatives have been launched. First, there was an exercise to professionally and objectively determine a harmonized remuneration and benefits structure for State Officers as defined and established by the COK 2010. This task was successfully completed just before most of the state officers came to office following the national general elections of March 2013. Secondly, there was a comparative study commissioned by SRC on public-private sector wage differentials with a view to gaining insights into the labour market prices and the market dynamics that may underlie the disparities in the Public Sector remuneration and benefits system. Thirdly, as a sequel to the other two initiatives, and consistent with the four principles stipulated in the COK 2010, SRC determined the need for a comprehensive Public Sector Remuneration and Benefits Policy Framework, as presented in this document.

### 1.2 Purpose and scope of the Policy Framework

The initiative to develop this Public Sector Remuneration and Benefits Policy Framework is prompted by the realisation that there is need for a strategic approach to address fundamental issues and challenges that continue to undermine the Kenya Public Sector remuneration and benefits system. It is evident to the Government that the range, spread and depth of the problems are indicative of the high degree to which the system is dysfunctional, and that there are deficiencies that cannot be effectively and sustainably addressed through reactive, ad hoc and piecemeal actions. The overall purpose of the Policy Framework is to guide the government on how to achieve an efficacious remuneration and benefits system. The vision that renders momentum to the development of this policy framework is:

**Vision:**
**All public sector employees are satisfied that they are fairly, equitably and transparently compensated for their labour**

This Policy Framework will guide future policy and administrative decisions so that such decisions will be consistent with actualizing the principles in Article 230(5) of the Constitution. Specifically, the Policy Framework:

- Elaborates the principles that will govern future determination of remuneration and benefits;
- Presents the long term policy goals that the nation should pursue with regard to Public Sector pay;

- Lays down the medium term policy objectives and implementation measures; and
- Presents the institutional mechanisms for pay determination that are consistent with pursuit of the principles and the policy objectives.

**1.3 The policy development process**

Cognizant of the political economy dynamics inherent in forging a broadly acceptable Public Sector Remuneration and Benefits Policy Framework, the Government launched the policy development processes by spearheading a national debate on the prominent and priority challenge of achieving affordability and sustainability of the wage bill. The launch, by H.E. the President took place in Nairobi on 10th March 2014. Thereafter, the debate was launched in all 47 counties. The need for the debates was informed by policy research and analysis of persistent legacy problems that had prompted the makers of the COK 2010 to intervene with establishment of the SRC. The purpose of the debate was to facilitate nationwide participation and contribution of key stakeholders and the general public on the development of a Policy Framework that would: enable efficient and effective management of the public sector wage bill, and remuneration and benefits, and achieve consistency with national strategies for enhanced labour productivity and economic growth. Concurrently, independent studies on the use of allowances in the public sector remuneration system; the pension benefits system; and policy options and trade-offs were commissioned.

This policy framework integrates the results of facts and knowledge from all these initiatives. Prior to review and endorsement by the members of the SRC, an inter-agency committee comprising senior officers representing all key state organs reviewed and endorsed the draft policy framework.

CHAPTER TWO

# The Problem, Issues and Policy Options

## 2.1 Overview

Generally, the problem with the current Public Sector remuneration and benefits system is that it is not compliant with the principles for the determination of remuneration and benefits stipulated in the COK 2010. Indeed, the four principles for determination of remuneration and benefits as stipulated in the COK 2010 reflect the need for the Public Sector to embrace the generally accepted attributes of any efficacious employee compensation system. It is therefore in the context of the principles COK 2010 that the problem, issues and options the current Public Sector remuneration and benefits system are diagnosed and briefly presented.

## 2.2 The Public Sector wage bill crisis

In the past few years, there has emerged a broad consensus that Kenya faces a serious fiscal crisis caused by very rapid growth of the Public Sector wage bill. The problem been highlighted the Government's annual budget and economic reviews of recent years. It is also noteworthy that way back in 2006, a Government paper on Public Service Pay Policy highlighted the challenge of affordability and sustainability of the Public Sector wage bill.

The size of the Kenya Public Sector wage bill is high when, as a percentage of the GDP, it is compared with other countries. For example, using the wage bill to GDP ratio indicator, the FY 2013/14 Kenya ratio of 12.6% (as reported by The National Treasury) is high when it is compared to the average ratio of about 9.5% for countries in Africa, 7% for low income countries, and 8.5% for middle income countries. The National Treasury had planned to reduce the wage bill to GDP ratio from 12.7% in FY2012/13 to 11.8% in FY 2013/14, but it failed to achieve the target. The rise of the wage bill has in recent years considerably exceeded both the rate of growth of the GDP and the numbers of public servants. The annual growth rate in the Public Sector wage bill has been an average of about 20.9% over the past 3 years. This by far surpasses the rate of growth in the numbers of public servants. The wage bill growth has also well exceeded that of GDP.

A persistently high Public Sector wage bill will ultimately give rise to:

(a) Crowding out resources that could be used in other development priorities, such as social and infrastructure development programmes and projects that are needed for long term growth and development;
(b) Large fiscal deficits, which contribute to macroeconomic instability (inflation: wage-price spiral, exchange rate impact);
(c) Unsustainable public debt associated with a high wage bill. This public debt scenario has attendant refinancing and sovereign risks; and
(d) Loss of competitiveness of the economy which ultimately impacts negatively on growth and employment.

One option considered for addressing the wage bill affordability and sustainability challenge is to freeze to a significant degree, if not totally, all employment in the Public Sector. This is an option that many countries have adopted when confronted with this challenge. However, the option is not considered realistic because additional employees are required to strengthen Public Service delivery in such priority areas as security, justice, education and health sectors.

Another option is to reduce the Public Sector wage bill is to impose a freeze on remuneration and benefits at current levels for a set period. This option is more viable than the previous one because the executive leadership of the country (the Cabinet and Principal Secretaries) have already accepted not just a freeze but also actual reduction in their remuneration, by a factor of 10% to 20%. There is, however, doubt that any significant number of employees will accept to participate in pay cuts.

The more critical policy option is to persuade the trade unions to accept a moratorium in Public Sector pay increases in the short to medium term. This will not be easy to achieve. However, a participatory policy development process, and a shared national development philosophy, as elaborated later in this Policy Framework, would go a long way in mobilising public support and achieving the cooperation of the trade unions.

## 2.3 Inconsistencies and distortions from legacy initiatives in policy and institutional reforms

Past successive governments of the Republic of Kenya have had problems in achieving consistency in both policy making and administration of a Public Sector remuneration and benefits system. For most years there was the challenge of how to achieve and sustain adequacy of compensation and incentives for Public Service employees. This is evident in the reports of the many Committees and Commissions appointed by the past Presidents of the Republic to review terms and conditions of service for public service employees. Among those past commissions and committees are those led by: Millar-Craig (1967), E. Vesey (1969), D. N. Ndegwa (1970-71), S. N. Waruhiu (1979-80), T. C. J. Ramtu (1985), S. H. Ominde (1988), P. M. Mbithi (1990-91), I. E. O. Okero (1992), W. O. Omamo (1995), P. M. Munene (1997), B. K. Kipkulei (1998-99) and H. Mule (2003-04).

Many of the decisions of the past Commissions and Committees appointed to review terms and conditions of Public Service employees in the past variously exacerbate pay disparities across the different sub-sectors of the Public Sector. It is also observed that over the past decade each autonomous arm of Government i.e. Legislature, Judiciary and Executive has attempted to set a separate salary and benefits system. State corporations and autonomous agencies also generally pay much higher remuneration compared to what exists in the mainstream Public Service. Furthermore, there was aggravation of the deficiencies in the remuneration and benefits system arising from the introduction of new governance institutions under the COK 2010. For example, in the new county governments, salary grading has placed many job groups there at levels well above those prevailing in the Public Sector for the same job specifications. It is also understood that there has been pervasive discriminatory decisions in determining job grades and remuneration. Consequently, there has been an unhealthy competition and agitation across the entire Public Service. Persons doing similar work and with similar skills now earn differently across these three arms of government. Such disparities serve to aggravate discontent and lower morale and performance even among well paid workers.

### 2.4 Challenges in matching pay with cost-of-living

Employees in the lower salary grades, and their union representatives, complain that the current level of Public Sector remuneration and benefits is below the cost-of-living. However, there are two challenges in embracing a cost-of-living approach to Public Service pay determination. First, the experience in other developing countries shows that it is not easy to achieve consensus on the measure of cost-of-living. Second, depending on how it is estimated, the cost-of-living threshold for minimum pay could be significantly higher than the existing minimum pay. Therefore, its implementation would worsen the challenge of affordability and sustainability of the wage bill.

The policy option to pursue a cost-of-living approach to remuneration and benefits decision may not be consistent with the national development strategy. According to a 2013 study by the SRC, the minimum gross remuneration in the Public Sector is well above private sector pay. In other words, at this level, Government is a wage setter. Given Kenya's current high level of unemployment, and comparatively low labour productivity and high wages for unskilled and semi-skilled labour, it would be imprudent from a national development strategy standpoint for the Government to adopt the cost-of-living approach. It could result in higher wages, lower private sector investments, and lessen opportunities for jobs creation. Alternatively, the Government has prioritized addressing the challenges of escalating the cost-of-living for all Kenyans through programmes geared at reducing the cost of basic foods and other consumer goods.

It is also noteworthy that the cost-of-living is generally pushed up by the poor state of public service delivery (in schools, health centres, etc.) and which make public servants seek to access more expensive but better quality private services. Therefore, if the quality of public goods and services significantly improved, the cost-of-living would be considerably lowered not just for the general public but also for majority of public servants. Then, escalating cost-of living would not be the basis for aggressive agitation for high wage increases by public servants and indeed other unionised employees in the country.

Further, it is also important to note that the cost-of-living adjustment through wages touches on the employed only leaving the majority of citizens in subsistence farming and other informal employment exposed to the same problem of low incomes. Therefore, the policy option of addressing the cost-of-living exclusively through high pay increases for public servants is a weak and discriminatory one.

## 2.5 Public Sector does not attract and retain adequate numbers of competent technical and professional personnel

According to a 2013 KIPPRA Study, Public Service pay is very competitive at the state officers' level and the bottom job groups of unskilled and semi-skilled workers. In other words, generally the Public Sector has become the employer of choice for the employees at the top and at the bottom of the remuneration and benefits structures. However, in some sectors such as medicine, ICT, engineering, aerospace, professional and public legal, the Public Sector is challenged to attract and retain adequate numbers of competent technical and professional personnel.

## 2.6 Some parts of the country do not attract and retain adequate numbers of competent public servants

There are parts of the country (in particular the northern arid and semi-arid lands) where there are challenges of deployment, attracting and retaining public servants because of risks of personal safety and poor living conditions. At present, personnel posted in some of these areas receive a hardship allowance. However, the current hardship allowance has not been effectively responsive to this challenge.

## 2.7 The current remuneration and benefits administration practices do not promote productivity and performance improvements

Weak human resources management systems and practices in the past led to a virtual collapse of the public sector staff appraisal systems. That, coupled with widespread introduction of schemes of service that automatically rewarded public service employees with pay rises and promotions based on years of service eventually vanquished the productivity and performance criteria. Against that backdrop, performance contracting for top executives was introduced in the last decade. Since then, however, the performance contracting has fallen into disuse, and there is no system that pegs promotions and pay adjustments to improved productivity and performance for any category of public service employees.

For determination of pay for the lower cadres in the Public Sector, CBAs' negotiations are determined by power play and not on exchange of data and information on workers' productivity and performance. In any case, productivity and performance are neither easily measured nor readily implemented. The Productivity Centre of Kenya (PCK) is yet to have requisite capacity to make the difference.

## 2.8 Distortions, disparities, unfairness and inequity

Distortions, disparities, unfairness and inequity in the Public Sector remuneration and benefits system are extensively documented. Distortions take such forms as the case of employees for whom the value of allowances/and hidden in-kind employment benefits equal and sometimes exceed the basic salary. Disparities in salaries, allowances and other benefits enjoyed by employees with comparable competencies and workloads (work of equal value) are widespread; within the same departments and PSOs, across sectors and sub-sectors, and even across the arms of Government. The disparities can, in some instances, be as high as 100% plus. The sources of these disparities are numerous. First, there is the legacy of fragmented salary and benefits structures introduced by past Presidential

Commissions and Committees appointed to advice on terms and conditions of public service of employees. Second, there was minimal harmonisation of salary structures, grades and allowances introduced through the disparate schemes of service for different cadres of employees. Third, in the past, Government and quasi-autonomous organisations introduced salary increases and new benefits as ad hoc responses to workers' agitation, especially those championed by the comparatively powerful trade unions. Further, executives in PSOs have over the years conveniently, and often without transparency and sense of fairness, introduced allowances and benefits. Consequently, transparency, fairness and equity are conspicuously missing in the system.

Since 1990s, successive Governments have recognized that proliferation of allowances has not only undermined transparency, fairness and equity in the remuneration and benefits system but has also posed a serious problem in the management of the wage bill. Thus, for example, one of the key recommendations of the Kipkulei Commission (Republic of Kenya, 1999) was the need for the Government to define criteria for determination, eligibility of allowances, set equitable rates and thereafter review the entire spectrum of allowances. According to the Commission, the allowances whose payments were no longer justifiable would be targeted for abolition while others would be consolidated depending on the nature of the allowances. However, in the intervening one and a half decades, the problems and issues around use of allowances in the remuneration and benefits system have just got worse. A comprehensive and independent study undertaken in 2014 by the professional firm of Deloitte showed that rationalization and restructuring of the allowances regime is the single most important policy measure in downsizing and sustainably controlling the wage bill in the medium term.

Moreover, use of allowances has also inadvertently given discretion to the disparate Public Sector employers to unilaterally determine the actual remuneration and benefits enjoyed by the employees. In certain instances, there is duplication of allowances awarded to some public service officers and due to lack of uniform remuneration policy and a central control organ, precedence has been set where different employers in the public service implement own policies on allowances payable. This discretion is not consistent with the principles for determination of remuneration and benefits as promulgated in COK, 2010.

## 2.9 The current system does not promote professional development and career progression

Historically, professional development and career progression of public servants have been anchored on management of schemes of service. An employee received training primarily to meet the conditions for promotion under the scheme of service, and upon attainment of the paper qualifications and stipulated years of experience in job grade, there was automatic promotion and pay rise. Productivity and performance on the job got minimal consideration. Furthermore, due attention has not been paid to professional development as training has increasingly been a patronage and opaquely administered incentive. Moreover, a lengthy career path anchored on the current job grading and salary structure discourages retention of professionals in the Public Service particularly those with unique skills e.g. pilots, specialised ICT cadre etc. Therefore, to encourage high productivity and performance by staff, promote professional development and career progression, and retention of personnel with highly specialist and scarce skills, there is need to overhaul the current remuneration and benefits adjustments criteria and practices.

## 2.10 Challenge of achieving adequacy, affordability and sustainability of post-employment (pension) benefits

For post-employment (pension) benefits, Government currently operates an unfunded non-contributory and defined benefit plan for all mainstream Public Service employees including teachers, health workers and uniformed personnel. The inadequacy of the system has been documented by several successive Public Service review commissions/committees over the past four decades.

The problem of low pension benefits has been alleviated following the 2005 Pension Increase Act (Chapter 190 of the Laws of Kenya). Still, in 2014, an independent professional review reiterated the general inadequacy of the pension benefits and recommended, among other measures, a one-off increase to existing pensioners. Further, the review recommended a revised pension increase policy with increases over and above those provided for in the Pension Increase Act (Cap 190) and target pension increases of up to 50% of inflation for pensions in payment once every three years. Meanwhile, the overall level of Government pension expenditure has increased significantly in the last two decades and was at just over KShs.31bn in 2013. Based on an actuarial analysis undertaken in 2014, the Government pension expenditure is projected to increase significantly in the coming years as the pension liabilities mature.

In order to meet the affordability and sustainability criteria, the revised pension increase policy requires that such pension increases be on a discretionary basis, but within a framework to guide the exercise of this discretion by the Government. In the same context, a Public Service Superannuation Scheme Act (PSSSA) was enacted in 2012 under which a new contributory pension (defined contribution funded) scheme is to be put in place. However, the introduction of the new system will not address the historical problem of low pay. Neither will it redress the unfair treatment of the pensioners who quit the Public Service in the period 1991 to 2005. Therefore, policy measures are required to address this legacy problem.

### 2.11 Fragmentation and ambiguities in institutional and administrative mandates

The fragmentation and ambiguities in institutional and administrative mandates governing Public Sector remuneration and benefits system in lard measure underpinned the distortions disparities, unfairness and inequity that have characterised the system over the years. The COK 2010 sought to cure this problem by conferring on one institution, the SRC, the explicit mandate to determine remuneration and benefits of State Officers, which the Constitution also defines. With regard to other Public Sector employees, the constitutional confers on SRC an "advisory" role.

The ambiguity in the advisory mandate of the SRC has given rise to arguments about the authority of SRC in influencing, let alone determining the decisions of other state organs (the PSC, PaSCOM, JSC, NPSC, TSC, and SCAC) with statutory mandates to determine terms and conditions of service employees in their respective quasi-jurisdictions in this specific role. The ambiguity was abated by a judicial ruling in 2014 that clarified that SRC's advice to state organs on matters of remuneration and benefits is mandatory. However, there is still a degree of ambiguity that turns to a complexity with regard to SRC's role in the determination of the specific remuneration and benefits awarded under collective bargaining agreements (CBAs). In this regard, the employer organisations across the Public Sector welcomed SRC's intervention in 2012 stipulating that the life cycle of the CBAs be harmonised and changed from two years to four years. Still, the challenge remained of how to harmonise the remuneration and benefits in the disparate CBAs. This challenge was exacerbated by the apparent limited skills and knowledge, and sometimes ulterior and subjective motives, of the executives appointed to represent employer organisations in the negotiations of these CBAs. Therefore, there is need to streamline and harmonise legal and institutional arrangements for determination of remuneration and benefits across the Public

Sector. In tandem, the challenges in harmonising the quanta of remuneration and benefits in the disparate CBAs negotiated for employees in the Public Sector should also be addressed.

### 2.12 System is not aligned to the national development strategy

As elaborated in a 2013 KIPPRA study commissioned by the SRC, Public Sector wages influence private sector investment and employment creation in two important respects. One, comparatively high public spending will crowd-out the private sector from such sources of investment funds from the capital market and retained corporate profits. Two, high Public Sector wages will lead to a push for higher wages in the private sector, and this undermines the global competitiveness of the national economy especially for labour intensive industries.

The nexus of public service pay, employment and national development strategy has not received explicit attention in most of the past years. In brief, Kenya could borrow lessons of experience from the so called Highly Performing Asian Economies (also known as the Tiger Economies of East Asia) to appreciate the relevance and importance of Public Sector wage policies in pursuit of rapid industrialisation, employment creation and poverty reduction. One distinct and common economic policy denominator in these countries was that they achieved a relatively high level of efficiency in the allocation of labour by “allowing wages and employment to be determined largely by the interaction of those supplying and those demanding labour services, rather than by government legislation, Public Sector leadership, or union’s pressure”.

In contrast, the Kenyan wage bill, as a public resource, has become a victim of the “tragedy of the commons”. Hence, key national constituencies compete and clamour for raises in remuneration and benefits in pursuit of maximizing extraction from the public resource envelope. Hence, politically stronger or influential groups have comparatively better remuneration and benefits than technical and professional cadres in the Public Sector.

### 2.13 Absence of a widely shared national development philosophy exacerbates the issues and challenges

In the national dialogue on the sustainability of the wage bill, the public was made aware of the pervasive implications of poor management of the Public Sector wage bill, including undermining productivity and competitiveness of the economy, and thereby economic growth and development. On their part, the public raised a wide range of issues that impinge on the wage bill, including:

the structure and size of the Public Service, the waste and corruption on public procurement, failure to maximize domestic revenue collection, and the escalating costs of living.

On the other hand, there were, inevitably, significant contradictions in some of the public concerns. For example, while there was a common suggestion that pay for the lowest cadres of the Public Service should be raised, there was recognition that productivity of these employees is currently too low to justify a wage increase without undermining the competitiveness of the economy, and thereby the creation of employment opportunities for millions of unemployed youth who would happily take up the jobs in question. Therefore, the public is not always cognizant of the political economy opportunity costs of its recommendations. In the circumstances, achieving a public consensus on the trade-offs entailed in the public policy choices on the wage bill is seriously challenging and entails tough policy choices. Examples of such difficult policy choices include: reducing the overall size of the wage bill by controlling employment; achieving a competitive remuneration package at the risk of aggravating affordability and sustainability of the wage bill; introducing equity and thereby contradicting progress towards performance-based pay; etc.

A further related, and major challenge, arises in the context of the reality that Public Sector Remuneration and Benefits Policy, just like the legacy system and practices, can easily be a victim of power games among stakeholders – perpetuating the "tragedy of the commons" in the management of the wage bill.

In the short to medium term, there are politically influential potential winners and losers, and hence diverse stakeholders with varying vested interests. It is a challenge to reconcile the short term economic as well as social-political interests, such as: disparate groups of public servants and their unions; political leaders with varying interests and philosophies; national agencies such as TNT, SRC, PSC, PaSCOM, NPSC, JSC, SCAC, technocrats (CSs, PSs, CEOs); representatives of Wanjiku (CSOs), etc. Thus, the objectives underpinning the establishment of the SRC and the promulgation of the cardinal principles to be applied in determining Public Sector remuneration and benefits by the COK 2010 were: firstly, to insulate decision-making and implementation from the exigencies of the day-to-day political struggles and the biases that bedevilled this important arena of public policy over the years; and secondly, by invoking the wage bill affordability and sustainability principle, it can be surmised that the Constitution directs that objective and sound macro-economic and fiscal analysis should inform all future policy making and implementation concerning Public Sector remuneration and benefits. The relevance and legitimacy of these objectives were reiterated in the views offered by a wide cross-section of the Kenya public during the consultative debate fora convened by the SRC at both the national level and throughout the 47 counties in the months of March and April 2014.

Successive Governments of our country have since independence adopted pragmatic and not dogmatic political economy philosophies, hence there have been significant inconsistencies and sometimes contradictions in national development policies with major implications for efficacy of the Public Sector remuneration and benefits system. In other words, the national development strategies adopted by the current and successive future leaders at both national and county levels will continue to pervasively determine the appropriateness, or otherwise, of the policy decisions on remuneration and benefits. The national development strategy influences the pay policies and their outcomes in two important respects. Firstly, inherent in every national development strategy is the guiding model of the Government. In the neo-liberal philosophy of a minimalist Government, the Public Sector will be comparatively small and correspondingly, the payroll and the wage bill will be comparatively smaller. On the other hand, in the opposing social welfare or socialist or developmental state models, Government is comparatively big, and the payroll and wage bill are correspondingly heavy.

Secondly, depending on their political leaning philosophies, Governments' policies on Public Sector remuneration and benefits swing between egalitarianism and market orientation. In the former orientation, achieving income redistribution through affordable employment in the Public Sector and pursuit of cost of living and equity are likely to be the primary concerns. Where market orientation prevails, the primary concern is to ensure that the Public Sector can attract, retain and motivate the critical mass of workers it requires to efficiently and effectively deliver its programmes. In the latter scenario, the size of Public Sector employment will be comparatively lower, and the wage bill will be more feasibly affordable and sustainable. Therefore, in the absence of a widely shared national development philosophy, in a competitive political environment, there could be pendulum swings in policies of remuneration and benefits, and the wage bill. Then, compliance with the principle of affordability and sustainability of the wage bill will remain fragile and unreliable.

In the context of the latter perspectives, as elaborated below, the bedrock for the Public Sector remuneration and benefits policy framework will be a widely shared national development philosophy. It is on the basis of such a philosophy and the COK 2010 that the principles and long term goals of the Policy Framework have been forged as presented in the next chapter.

CHAPTER THREE

# Framework Bedrock, Principles and Long Term Goals

## 3.1 Embedding the framework in a national development philosophy

The legacy Sessional Paper No. 10 of 1965 was geared at sharing with the public and national leadership of Kenya a national development philosophy. This philosophy sought to position Kenya away from such foreign political economy ideologies as: neo-liberal capitalism; the traditional welfare cum egalitarian state – entailing a unified bureaucratic system of state-based public service delivery; socialism; communism; etc. The philosophy committed Kenya to a mixed economy model, which would have a strong Public Sector alongside a dynamic and diverse private and other non-state sectors. In this model, neither egalitarian nor capitalist biases guided the sharing of national resources and public expenditure allocation. While this pragmatic model lasted, the economy of Kenya, and indeed in that of other developing countries that embraced the same model (among them Botswana and Mauritius in Africa, and Singapore and Malaysia in South East Asia), there were high rates of inclusive economic growth, poverty reduction and expansion of Public Service delivery.

The COK 2010 introduced elements of a national development philosophy in terms of the egalitarian tilt of Articles: 6 (Devolution), 10 (National Values), 41 (Labour Relations), 43 (Economic and Social Rights) and 230 (SRC). However, there is neither completeness nor clarity nor cohesiveness in all these. Article 43 suggests a philosophical bias towards a traditional welfare state which would entail ensuring predominance of Public Service delivery of social services and income distribution. Among the policies for income redistribution in such economies include: maximizing Public Service employment; highly compressed pay such that it is possible for lower job group workers to receive wages that are above labour market prices; and comparatively high levels of taxation to fund the large government structures. The Northern Europe welfare states (NORDIC Countries, Netherlands, etc.), for example, are characterised by, comparatively: extensive and high quality public services; high and compressed Public Sector pay; and very high taxation levels. In these countries, taxation is in the range of 40% to 60% of the GDP, which is about twice as high as the level that prevails in Kenya, i.e. less than 25% of GDP. Personal income taxes for wage or income earners in these other countries are in the region of 45% to over 50% as compared to the highest tax bracket of 30% for Kenya. Yet, at the latter level, there is anecdotal evidence, as in numerous articles in the mass media, that majority of the

Kenyan elite complain of over-taxation. Therefore, this may reflect the facts that either Kenyans are not ready to adopt a welfare state system or they have not understood the interconnection between the two.

Kenya's economy may not afford to sustain comparatively high levels of welfare spending (egalitarianism) and remain globally competitive. In other words, welfare policy, as stipulated in the COK 2010 (Article 43) may neither be affordable in the short to medium term nor consistent with the global competitiveness of Kenya's economy in that time span. Furthermore, the welfare of Public Service employees need not be solely the responsibility of the Government in the short to medium term given the imperative for the Government to prioritise accelerated employment creation for the rapidly growing population of well-educated youth, and poverty reduction for all. In the absence of a widely shared national development philosophy,[1] there are three high risks in national policy making in such politically sensitive areas as Public Sector remuneration: one, neither the public nor the national leadership are ready to make trade-offs in pursuit of long term national strategic goals; two, the groups of Public Service employees that have large numbers and are organised to exercise political influence will persuade national political leaders to make policy decisions in their favour; and three, political leaders will use Public Service pay decisions as an instrument of patronage and vote-influencing. In such a political environment, it is unlikely that an efficacious Public Sector remuneration and benefits system can be sustained.

In the latter perspective, the prospective seven tenets of a national development philosophy consistent with a political economy environment that enables sustainable implementation and institutionalisation of the principles underpinning this policy framework would be as in the Box 1.

1 The Kenya Vision 2030 could have served also the purpose of a national development philosophy but in both design and implementation, it has remained a technical blue print, even in its coverage of the social and political pillars.

**Box 1: Seven Prospective Tenets of an Enabling and Sustaining National Development Philosophy**

1. *Kenya embraces a mixed economy model:* A strong Public Sector will co-exist with a strong private sector. This is consistent with Sessional paper No. 10 of 1965;
2. *Macroeconomic and fiscal policies and plans will prioritise employment creation and inclusive economic growth*. This tenet incorporates the twin priority goals to create employment for the youth and poverty reduction;
3. *Private sector will be the dominant force for economic growth and employment creation*. To that end, a strong Public Sector will strategically and proactively promote, steer, partner and regulate the private sector;
4. *The Public Sector will be strategically lean, efficient and effective*. This tenet will however not stand on the way of any Public Sector initiative to close gaps in the delivery of priority socio-economic public goods and services;
5. *Development must deliver socio-economic progress to all Kenyans:* Government will strive to ensure that no Kenyan is left behind. While reliance on market signals will guide economic policy making, capitalism will have a human face;
6. *The state will pay particular attention to the socially and physically disadvantaged citizens; and*
7. *Public Services will achieve and maintain a threshold of quality*. In this regard, the benchmark will be use of those Public Services by the providers of those services.

### 3.2 Key Principles

The principles that will guide the determination of Public Sector remuneration and benefits are primarily derived from the COK 2010 (Article 230). Nevertheless, by synthesising the COK 2010 principles, the Republic of Kenya (March 2011) Report on Principles and Practices of Pay Determination Applicable to the Kenya Public Service, and the generally accepted attributes of a sound remuneration and benefits system as elaborated in Chapter 2 above, seven key principles have been identified and elaborated below:

1. Affordability and sustainability of the Public Sector wage bill: This principle ensures that aggregate remuneration and benefits are within the realistically planned Public Sector resource envelope in a long term perspective. To ensure compliance with this principle, remuneration and benefits awards across the entire Public Sector must not exceed the wage bill budget in the MTEF. Then, the wage bill is kept in check and its future fiscal sustainability is planned.
2. Competitiveness of the remuneration and benefits for the job competencies and responsibilities in the Public Sector. Accordingly, the Public Sector can compete with the private sector and other sectors to attract and retain personnel with the requisite competencies.

3. Promoting productivity and performance improvements: The principle underscores the need to ensure that there are incentives for individual workers or teams of workers to actively pursue improvements in their productivity and performance at the place of work. Such incentives will provide rewards for public servants who perform beyond the set productivity and/or performance targets in terms of quantity, quality, efficiency, effectiveness and timeliness in completion of set tasks or workload;
4. Transparency: The principle entails ensuring that information relating to remuneration and benefits is openly communicated to all employees so that there are no cases of hidden compensation to any employees;
5. Fairness: The principle requires that compensation is meted out in an objective, justifiable and impartial manner. Then, employees perceive there is equal pay for work of equal value;
6. Equity: Both horizontal and vertical differentials objectively reflect relative weight of competencies, workloads and responsibilities, and the risks inherent in varying work environments; and
7. Alignment to the national development strategy: The principle underscores the nexus of wage determination, competitiveness for investment, economic growth and employment creation.

The effective simultaneous pursuit of the above principles is necessarily a balancing act on the part of the policy makers. For example, as reiterated and elaborated in the next chapter of this Policy Framework, a redress of the unfairness and inequities in the remuneration and benefits policy will unavoidably entail a rise in the wage bill. Therefore, none of the principles can be legitimately pursued without regard to the other principles.

**3.3 Long term policy goals**

The assessment of policy options, as well as consideration of potential budgetary implications of the policy measures required to ensure full compliance with the above principles, impose the imperative to adopt a long term perspective in the policy making and implementation. In this regard, four long term policy goals have been identified, as follows:

1. A wage bill that is fiscally affordable and sustainable and aligned to the tenets of the national development philosophy (see Box 1.7 above);
2. Public Sector as the employer of choice for highly competent technical and professional personnel;

3. Objectively verifiable full transparency, fairness and equity of the Public Sector remuneration and benefits system; and
4. Productivity and performance-related pay will be the dominant component of the remuneration and benefits package for Public Service employees.

The above goals reflect target outcomes for which performance indicators will be identified and regularly measured. The medium term objectives described in the next chapter build up into the long term goals within a strategic perspective.

CHAPTER FOUR

# Medium Term Policy Objectives and Implementation Measures

## 4.1 Overview

In response to the problems and challenges described in Chapter 2, and the principles and long terms policy goals in Chapter 3, nine (9) medium term policy objectives for the Public Sector Remuneration and Benefits Policy Framework have been identified. In brief, the objectives are the following:

These policy objectives should be achieved in the next three to five years. They are elaborated below together with the policy measures required for their achievement.

| Medium Term Policy Objectives |
|---|
| 1. To reduce the size of the Public Sector wage bill to an affordable and sustainable level;<br>2. To achieve a competitive remuneration and benefits package;<br>3. To eliminate all prominent gaps in fairness in the Public Sector remuneration and benefits system;<br>4. To restructure the remuneration and benefits system so that it supports professional development and career progression;<br>5. To eliminate any unjustifiable gaps in equity in the Public Sector remuneration and benefit system;<br>6. To achieve full transparency of Public Sector remuneration and benefits;<br>7. To achieve fairness, adequacy, affordability and sustainability of pension benefits;<br>8. To successfully pilot productivity and performance related pay across all categories of Public Sector organisations; and<br>9. To streamline, harmonise and institutionalize mechanisms and procedures for determination and administration of remuneration and benefits across the Public Sector. |

## 4.2 Policy Objective 1: To achieve and sustain Public Sector wage bill at an affordable level

The Public Finance Management Act (2012) introduced one statutory measure to control wage bill growth by stipulating that public expenditure budgets will limit expenditures on the wage bill to a maximum of 30% of the total budget.

The affordability and sustainability of the wage bill will be benchmarked against globally accepted norms, which have been determined by The National Treasury.

Accordingly, The National Treasury and the SRC will collaborate to ensure that budgets and remuneration and benefits awards by Public Sector organisations (PSOs) will over the medium term target to achieve wage bill to gross domestic revenue ratio of not more than 35%.

In pursuit of that policy target, there will be no awards of remuneration and benefits, or any collective bargaining agreement (CBA) or offer or variation of terms of employment, that will give rise to an increase in the Public Sector wage bill without the written authority of both The National Treasury and the SRC.

Further, it is now required that:

(a) Every Public Sector organisation must maintain efficient and clean payroll systems;
(b) Every Public Sector organisation to rationalise its functions and maintain optimal staffing levels;
(c) SRC will prioritise review of remuneration and benefits for those cadres or occupation groups most affected by disparities in fairness and equity across the Public Sector; and
(d) Increases in remuneration and benefits will not be allowed in those Public Sector organisations deemed not to comply with the policy measures outlined in (a) and (b) above.

### 4.3 Policy Objective 2: To achieve competitive Public Sector remuneration and benefits packages

This policy objective will be pursued so that every PSO can, on a needs-basis, attract and retain highly skilled and/or scarce technical and professional workers.

To achieve the objective of ensuring that the Public Sector remuneration and benefits packages remain appropriately competitive:

(i) In effecting remuneration increases, priority will be accorded to occupational and job groups where there is evidence that the Public Sector is facing difficulties in attracting and retaining personnel with requisite skills and other competencies;

(ii) There will be regular (at least every five years) a comprehensive review of salary grading structure and the remuneration and benefits packages for Public Sector employees on the basis of professionally conducted job evaluation and salary re-grading exercise(s); and

(iii) SRC may approve remuneration and benefits for special schemes or programmes or other policy measures developed by PSOs to enable the organisations attract and retain personnel with specific competencies or into specific work locations and environments.

## 4.4 Policy Objective 3: To eliminate all prominent gaps in fairness in the Public Sector remuneration and benefits system

In the medium to long term, job evaluation and re-grading, or similar techniques, will be applied to objectively ascertain that the Public Sector jobs' re-grading and remuneration structure(s) accord equal compensation for work of equal value. Also, on the same basis, Government will endeavour that total remuneration offered for a position requiring a particular level of skills and abilities is equally competitive across the various positions for which this skill level is needed in different organizations.

All Public Sector Service Commissions and employer ministries, departments and agencies will play an active role in the Public Sector-wide job evaluation and regrading exercise, especially in guiding and participating in job specifications, evaluations and grading. However, the SRC will have the mandate to oversee these exercises and moderate the results in order to ensure equity and fairness in the ensuing jobs regrading and remuneration structures.

To ameliorate the current unfair disparities in the Public Sector remuneration and benefits system:

(a) A degree of parity and fairness across the employee categories by in various PSOs will be achieved by applying remuneration and benefits bands based on assessment of competencies, workloads, responsibilities and the risks associated with a job. This remuneration bands will be developed by SRC in collaboration with the PSC and the Directorate of Public Service Management (DPSM) in the Ministry of Devolution and Planning.

(b) The remuneration and benefits levels of employees who, either, already earn disproportionate to employees in jobs that entail about the same level of competency, workload and responsibilities will be held frozen.

## 4.5 Policy Objective 4: To restructure the remuneration and benefits system to support professional development and career progression

The PSC has promulgated a policy for decentralised management of human resources across the Public Service. In the new dispensation, personnel will in future realize professional development and career advancement within the ministries, departments and agencies where they work. The rigid career advancement based on schemes of service and seniority will be replaced with a competencies assessment and performance based system. Complementary measures planned by the PSC include: (i) developing new career guidelines to replace Schemes of Service; and (ii) working to shorten the current career paths for public servants as they exist by collapsing job grades, to achieve a salary structure with new job grades

SRC and the various service commissions will collaborate in the implementation of reforms to improve human resources management, revised job grading structures and new career paths in PSOs. Nonetheless, SRC is mandated to monitor, evaluate and regulate the scope and pace of implementation of these changes in order to ensure that:

(i) The changes do not pre-empt the results of jobs evaluation and regrading exercises;

(ii) Implementation of these changes is in sync with measures to eliminate disparities in the remuneration and benefits system; and

(iii) The budgetary impact of the changes do not undermine measures in place to achieve affordability and sustainability of the Public Sector wage bill.

### 4.6 Policy Objective 5: To eliminate any unjustifiable gaps in equity in the Public Sector remuneration and benefits system

To achieve this policy objective, comprehensive job evaluation and regrading exercises will be commissioned across PSOs. Such exercises will address unjustifiable horizontal and vertical pay differentials by carrying out objective jobs' specifications, workload analysis, consideration of unique work place conditions, and the labour market value of the jobholders' competencies. In the job evaluation and regrading exercises, SRC will closely collaborate with all relevant employer organisations.

Further, in pursuit of the objective, the following policy measures will be implemented:

(a) A progressive and sustained reduction of the gross remuneration compression ratio will be pursued in the medium to long term. A more ambitious compression ratio may not be affordable in the short to medium term, because it would use up resources needed to address disparities in the remuneration system;

(b) The remuneration differentials between adjacent salary grades will be regulated by the SRC to a reasonable level of, say, a maximum of 20 per cent, or any other professionally determined level.

## 4.7 Policy Objective 6: To achieve full transparency of Public Sector remuneration and benefits

The extent to which the use of allowances has served to contribute to, and obscure, disparities in the remuneration and benefits system across Public Sector employers and cadres of employees performing work of equal value has been well documented in a 2014 SRC Study on Allowances. There is need for policy measures to achieve full transparency of Public Sector remuneration and benefits, and thereby minimise hidden disparities.

Full transparency and disclosure of the Public Sector remuneration and benefits will dissuade the representatives of employees, including trade union leaders, from pursuit of unfair advantages in compensation over other occupational groups or categories of employees. At the same time, no individual or category of employees will harbour grievance of unfair treatment on the basis of either erroneous or in-complete information on the remuneration and benefits received by other Public Sector employees.

To achieve this policy objective:

(a) Use of hidden remuneration and benefits by any PSO is outlawed, and full disclosure of remuneration and benefits will be enforced;

(b) There will be rationalization and restructuring allowances, and abolishing of some of them. To these ends:

    (i) All occupational jobs-related allowances will be reviewed in the job evaluation and regrading process;

    (ii) Hardship allowances will be set at a flat rate across all job cadres;

    (iii) The house allowances, as long as they last, be harmonized and phased out in the long term. Meanwhile, the rates payable as house allowance will be reviewed to reflect the prevailing cost of housing across the counties; and house allowance rates will be based/pegged to the specific county cost of living index (house rent index) or an agreed market rate;

    (iv) Allowances payable will be stated in absolute figures and not set as a percentage of basic salary;

    (v) Allowances for which, either, an objective rationale cannot be established, or the reason for paying them overlaps with the purpose of paying a salary will be abolished; and

(vi) Allowances that exist to compensate for risks associated with the duties performed by the employees, will be replaced be abolished and compensated through a salary adjustment as indicated by the results of job evaluation and re-grading.

## 4.8 Policy Objective 7: To achieve fairness, adequacy, affordability and sustainability in pension benefits

The introduction of a contributory post-employment benefits (pension) scheme will in the long run enhance the affordability and sustainability of the wage bill because the scheme will ameliorate the fiscal strain inherent in the current pay-as-you-go non-contributory pension system. The system applies to the mainstream public service but not to state corporations. There is already a 2012 legislation, Public Service Superannuation Scheme Act (PSSSA), to institutionalize this policy measure.
SRC will continue to ensure fairness and equity in the pension benefits across the Public Sector, especially by exercising oversight on the amounts contributed by the employer. No PSO should be seen to operate a scheme whereby public resources are disproportionately applied to a pension scheme. In the mainstream public service, additional policy measures are required.

In pursuit of this objective:

(a) SRC will ensure fairness and equity in the pension benefits across the Public Sector, especially by exercising oversight on the amounts contributed by the employer. No PSO should be seen to operate a scheme whereby public resources are disproportionately applied to a pension scheme.

(b) In tandem with implementation of the PSSSA, The National Treasury will take measures to enhance fairness and adequacy of the pension benefits for pensioners under the current pay-as-you-go system in terms of:

(i) A discretionary one-off pension increase for retirees for the period 1991 to 2005 to compensate them for inflation;

(ii) An amendment of the Pension Increase Act (Cap 190) to provide for a triennial review of pensions in payment over and above the existing biennial one. In order to meet the affordability and sustainability criteria, the Amended Pension Increase Act will provide that such pension increases be at the discretion of the Government, but within a framework that guides how this discretion is exercised; and

(iii) A cap on the increase in pension expenditure not to exceed 1.5% of GDP for public service pension liabilities.

## 4.9 Policy Objective 8: To successfully pilot productivity and performance related pay across all categories of Public Sector organisations

The shift to productivity and performance related pay will be necessarily gradual and cautious. There are important and at the same time complex technical and behavioural considerations that should precede introduction of such a remuneration regime. Technically, as already argued, Kenya's PSOs are generally lacking in systems and competencies to measure productivity and performance. On the side of behaviour of employees, responsiveness to monetary rewards, in terms of motivation, is not automatic.

Given the major technical and organizational culture challenges in the implementation of productivity and performance related pay, a cautious approach will be adopted. In this regard, the medium term policy target is limited to successful piloting in all categories of Public Sector organizations, and only in those organisations where the management commits to do so. In pursuit of this objective:

(i) SRC may introduce incentive schemes to encourage PSOs to undertake the piloting of effective implementation of the productivity and/or performance related pay schemes;

(ii) All PSOs will be required to implement robust performance management systems;

(iii) All CBAs will be guided by productivity targets, among other variables and assessments; and

(iv) SRC will, in collaboration with the Service Commissions, and in consultation with the State Department for Public Service Management, demand rewards and sanctions frameworks of Public Sector organizations.

## 4.10 Policy Objective 9: To streamline, harmonise and institutionalize mechanisms and procedures for determination and administration of remuneration and benefits across the Public Sector

To achieve consistency and harmony in the pursuit of the policy objectives and implementation of the measures specified for pursuit of the objective, it is important that the institutional mechanisms and procedures for determination and administration of remuneration and benefits across the Public Sector are streamlined.

Policy measures to streamline and harmonise institutional arrangements for determination of remuneration and benefits across the Public Sector, including the harmonisation of remuneration and benefits in the disparate CBAs negotiated for employees in the Public Sector will include:

(a) Legislation to clarify the scope of SRC's mandate in determination o remuneration and benefits across all PSOs and establishments, including the mandatory status of the "advisory" role of the SRC as provided for in the Constitution;

(b) SRC is mandated to review the "terms and conditions of service" developed by the Service Commissions and other employer organisations to ensure that the remuneration and benefits elements contained therein are in line with policy objectives in this Policy Framework.

(c) SRC will oversee and regulate the determination of remuneration and benefits under CBAs. In this regard:

   (i) The management of a Public Sector Organisation with unionizable employees shall, seek the advice of the Commission before commencement of collective bargaining negotiations;

   (ii) The Commission shall set the parameters within which the Public Sector Organisation shall negotiate collective bargaining agreements; and

   (iii) Upon agreeing on the terms of the proposed collective bargaining agreement, the Public Sector Organisation shall before signing the agreement, seek approval from the Commission to facilitate registration of the Collective Bargaining agreement by the industrial court.

Further, to enable SRC coordinate, facilitate and harmonise results of collective bargaining, the Commission will establish a Public Sector Collective Bargaining Coordination Unit (PSCBCU) whose functions will be:

(i) To develop a complete data and information base on all CBAs in the Public Sector;

(ii) To continuously analyse the CBA with a view to identifying and advising the SRC on disparities and deviations from the guidelines;

(iii) To avail on request data and technical assistance to the management of any PSO;

(iv) To alert PSOs on the scheduling of preparations and conduct of CBAs, as they fall due; and

(v) To receive and critically review CBAs negotiation points submitted by employer PSOs; and

(vi) To ensure that all CBAs are endorsed by the SRC prior to their registration by the Industrial Court.

### 4.11 Policy Objective 9: Monitor and Evaluate Policy Implementation

This is dealt with comprehensively in the next section on implementation strategy and action plan.

CHAPTER FIVE

# Implementation Strategy and Action Plan

## 5.1 A holistic approach for effectiveness and sustainability

The public debates and dialogue on the sustainability of the Public Sector wage bill elicited public concern on national issues and challenges that extended well beyond the core topic. The public, quite correctly, perceived the link between public wage bill and pay on one hand, and these other national issues and challenges on the other, which included, in summary:

(i) Inefficient and ineffective performance, accountability and transparency by public servants as reflected in the poor quality of public services;
(ii) Corruption, pilferage and other leakages from the public resources management systems;
(iii) The bloated size of the Public Sector;
(iv) Duplicated governance and management functions and structures; and
(v) Persistent escalation in the cost of living.

In effect, the public emphatically underscored the imperative for a holistic approach to achieve effectiveness and sustainability in the disparate planks of Public Sector management reform. In this regard, for example, stakeholders have pointed out to the Government that improvements in the quality of basic public services (such as education and health), which are free or low cost, coupled with lower food prices, will contribute to significant reductions or control in cost of living for public servants who will increasingly use them, and thus contribute to blunting the recurring clamour for high raises in pay for unionised public service employees. Therefore, in spearheading the implementation of this Public Sector Remuneration and Benefits Policy Framework, Government will adopt a holistic approach.

Within the holistic approach, the key features of the implementation strategy are highlighted below under the following headings:

(i) Risk management;
(ii) Regular monitoring and evaluation;
(iii) Information, education, communication and participation;
(iv) Deepening technical coordination with other state organs;
(v) Legislative and other institutionalization measures; and
(vi) Prioritizing and sequencing implementation.

## 5.2 Risk management

Experience with legacy initiatives to streamline Public Sector remuneration and benefits system shows that achieving and sustaining consistency in the implementation of policies can be a daunting challenge. In the latter perspective, there will be annual monitoring and assessment of the risks to sustaining momentum and consistency in the implementation of the Policy Framework. For a start, the current risk management matrix is shared in Table 5.1.

**Table 5.1: Current Risk Management Matrix**

| Risk | Consequences | Rating* | Mitigation Measures |
|---|---|---|---|
| Trade unions and other representatives of workers fail to appreciate the principles and objectives in the Policy Framework | Agitation for remuneration and benefits increases that aggravate existing disparities in the system, and further undermine affordability and sustainability of the Public Sector wage bill | M | • Sustained efforts to educate inform and communicate with the workers representatives on the relevance of the Policy Framework, and the guiding principles and the policy objectives.<br>• All the arms of Government will formally endorse and promote the shared national development philosophy, and this Policy Framework. |
| Strong political constituencies actively oppose the rationalisation of the remuneration and benefits system to achieve the policy objectives | Persistence of disparities in the remuneration and benefits system, and thereby killing morale of many public servants | M | • Sustain support of the national political leadership.<br>• All the arms of Government will endorse and promote the shared national development philosophy.<br>• Educate and communicate to the stakeholders the challenges encountered. |
| Poor macroeconomic and fiscal performance | Wage bill is not only unaffordable but it is also too thin to allow implementation of measures to remove disparities | L | • A conservative and cautious approach to adjustments of remuneration and benefits.<br>• All the arms of Government will endorse and promote the shared national development philosophy. |
| Slow or delayed improvements in human resources management so that, for example, the staff appraisal system does not improve | The environment is not conducive to implement many of the Policy Framework implementation measures (such as piloting performance related pay) | L | • Closely coordinate with the state organs responsible for human resources management functions. |

** M – Medium; L – Low*

### 5.3 Regular monitoring and evaluation

The Policy Framework's medium term policy objectives and implementation measures will enable the development of specific and time-bound target outcomes and outputs, as well as performance indicators. On this basis, there will be at least annual monitoring and evaluation of implementation progress in a participatory forum of all key stakeholders.

Furthermore, every six months, SRC will prepare a monitoring and evaluation report on the results of implementation of this Policy Framework and distribute all key stakeholders, including The Presidency, The National Treasury, the Service Commissions, the Directorate of Public Service Management and the Secretaries of each of the 47 county Governments, the Parliamentary Committee on Budget and Accounts, and the Auditor General.

### 5.4 Information, education, communication and participation

In cognizance of public interest as well as that of all public servants in the progress in the implementation of the Policy Framework, all stakeholders well informed of such progress, or lack of it. Furthermore, there will be sequels to the public dialogue on wage bill sustainability in the form of future fora where representatives of the public and other stakeholders will be invited to contribute to any major policy decisions in future.

### 5.5 Deepening technical coordination with other state organs

The spread of membership of the SRC, as forged in COK 2010, underpins the importance of coordination of major policy decisions on Public Sector remuneration and benefits among various national organs, including those outside the Government, hence, for example, the provision for nominees to represent labour unions, federation of employers, professional societies, etc. To the same end, the Service Commissions and a number of key state organs are also specifically represented in the Commission. It is nonetheless important that the coordination is effective at the technical level among a wide range of state organs, including: the SRC, the Service Commissions, the Ministry of Devolution and Planning and the Ministry of Labour.

### 5.6 Legislative and other institutionalization measures

To enable effective implementation, minimize the risks of excessive litigation and enable enforcement of compliance with the major policy measures, there will be legislative and institutionalized measures in support of the Policy Framework.

## 5.7 Prioritizing and sequencing implementation

Prioritisation and sequencing of implementation of the Policy Framework begins with the dichotomy of long term policy goals and medium term policy objectives. The ultimate outcomes and impact of the Policy Framework will only be achieved in the long term. Therefore, in developing the medium term policy objectives and implementation measures, the target actions and outputs that evidently cannot be achieved or sustained in the medium term have not been considered.

Nevertheless, there is need to prioritise and sequence implementation of the medium term policy objectives. In this regard, the priority three medium term objectives, whose implementation measures should therefore receive most attention in the next one to two years comprise:

(a) to achieve a trajectory of progress towards an affordable and sustainable Public Sector wage bill, as consistent with the Medium Term Expenditure Framework;

(b) to eliminate prominent gaps in fairness of the current Public Sector remuneration and benefits system; and

(c) to achieve progress towards addressing the inequities in the remuneration and benefits system by completing the comprehensive job evaluation and re-grading exercise.

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