**ADDRESS BY MR. STEPHEN KIROGO, CBS, CHAIRMAN, PUBLIC SERVICE COMMISSION, DURING THE LAUNCH OF THE PUBLIC WAGE BILL MANAGEMENT REPORT, HELD ON TUESDAY, 18TH JUNE 2019, AT SAROVA PANAFRIC HOTEL, NAIROBI.**

**PUBLIC SERVICE COMMISSION**

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**Chairperson, SRC, Lyn Mengich**
**Cabinet secretaries present**
**Principal Secretaries present**
**Commissioners of Independent Commissions**
**Distinguished Guests**
**Ladies and Gentlemen,**

**Introduction**

I am delighted in today's occasion as it touches on a matter so central to our work at the Public Service Commission and to the overall public service capability and performance.

I am equally glad that, we have the opportunity to afford stakeholders a forum for a honest conversation on the National Wage Bill that is at the core of fiscal sustainability for the entire national economic strategy.

**Ladies and Gentlemen,**

Today's event is particularly important for at least three reasons. First, it provides actors with the opportunity for commencing open discourse on public wage bill management. Second, the report presents credible data that can establish the basis for new polices and objective grounds for reviewing existing national fiscal policy and related human resource management practices. Third, recommendations of the study carry the potential for role identification and assignment to different actors.

To the data and evidence enthusiasts amongst us, this launch is an enthralling event because it places new focus and elevates debate on national fiscal policy and the extent to which it can mitigate risks with adverse impacts on our economy.

In a country with middle income developmental ambitions, as envisioned in the Big Four Agenda and Kenya Vision 2030, a high-level public discourse on wage bill management, like this one, is a most critical commencement point.

**Ladies and Gentlemen,**

From my experience in public service, it is difficult to see any plausible path to national economic prosperity, both in the near-and-long term, outside sound fiscal policy and collective discipline in conforming to the supporting framework and strategy.

Our nation's developmental history is decorated with economic growth and development successes registered in the 60s and 70s. However, the public sector priorities of the time were significantly different from the realities we face today.

As the country entered the 80s and early 90s, both the national and external fiscal climate had changed significantly.

The public service tragically became bloated, lethargic and generally unproductive. The arising cost-inefficiency necessitated at least two cycles of retrenchment and downsizing of the service in the late 90s and early 2000.

Whereas the fiscal sustainability goals of the downsizing were noble, the reduction in the size of the public service inadvertently led to an impairment of the capacity and capability of the service to perform and deliver effectively.

Today, in nearly all segments of the wider public service, with the exception of county governments, there are major concerns on understaffing and lack of a systematic succession management strategy.

In the civil service, for example, it is estimated that at least 30,000 more personnel are required in addition to the existing 66,000 civil servants.

It is however conflicting that whereas the civil service wage bill seems to increase in absolute terms, there is counter evidence showing that segments of the service are actually staffed below the optimal establishment.

It is these realties that are at the heart of the challenges we are meeting here to discuss. The situation therefore calls for a complex analytical approach and policy framework, as opposed to a linear assessment based on partial consideration of the whole.

**Public Wage Bill and Development: Trends, Data and Evidence**

Granted that the data and trends point at increases in the public wage bill relative to core economic indicators, we are yet to see compelling evidence that this level of spending actively promotes, attracts and retains adequate human capital for the effective delivery of public service.

This should be done in a way that matches the wage bill to optimal establishment, deployment of personal, measuring and improving performance and elevating public sector productivity – on these, the urgency is immediate.

Data from the Kenya National Bureau of statistics suggest, for example, that the highest wage bill-to-ordinary revenue ratio of 57.3% was recorded during the 2013/2014 financial year.

The growth in wage bill, in absolute terms, is however not an entirely accurate measure of its fiscal risk implications since most of the other comparative measures have been growing as well, over time.

Overall, at 8.29% relative to GDP, the national wage bill is some 0.79 percentage points above the known best practice average of 7.5% for countries with developmental contexts similar to Kenya.

This marginally higher level of wage bill-to-GDP ratio suggest that, in theory, it is in fact possible to keep Kenya's national wage bill within limits by working towards productivity driven GDP growth – and this is where PSC's drive for public service performance improvement stems.

## The Wage Bill Problem

**Ladies and gentlemen,**

Research evidence shows that whereas appropriate compensation is key to the attraction, motivation and retention of high quality human capital in the public sector, an uncontrolled wage bill also poses a number of fiscal risks.

In the case of Kenya, as a developing country, a disproportionate wage bill beyond the 7.5% of GDP threshold poses major threats to our country' fiscal sustainability because it crowds out public investment.

As the national wage bill approaches the 55% mark, relative to ordinary revenue, our recurrent budget obligations as a country will certainly be in competition with the government's quest for resources for growth promoting sectors of the economy.

Ultimately, in the face of an ever rising public sector wage bill, all actors, led by government, must prioritize strategies for its management relative to other key economic indicators.

## The Public Sector Performance and Productivity proposition

**Ladies and Gentlemen,**

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 depoliticized and meritocratic public workforce; and (iv) ensuring that public servants focus their efforts on achieving the policy and program objectives of their institutions.

Arising from the foregoing trends we, at the Public Service Commission strongly, believe that the real underlying problem that the service faces is a performance and productivity one.

As a result, PSC is currently rolling out its new medium term strategy that anchors on reforming the public service for performance and transformation.

At the core of this philosophy and strategy is the quest to reboot public service performance management systems to a level that will sustainably support service delivery effectiveness and productivity.

In pitching for this approach, we are encouraged by the belief that maintaining a capable and productive public service is consistent with the public value proposition.

**Conclusion**

**Ladies and Gentlemen,**
In conclusion, and from a reform perspective, aligning the wage bill discourse with the public service performance and productivity proposition will be core to Kenya's public service transformation ambitions.

On our part, and in conformity to the public service performance improvement proposition, PSC is already breaking new ground in reforming employment terms traditions by introducing a renewable 3-year contracting, as opposed to the permanent and pensionable terms of employment.

This approach is consistent with international best practices in human resource management for high performance and productivity – the primary contention here is, once people believe they are permanent and pensionable, there will be little motivation to perform.

However, the adoption of this contracting model calls for competitive compensation in the public service, at a level that will attract, motivate, and retain top talent in the service.

The other major reform thrust is the introduction of performance related pay structure and career progression framework to replace schemes of service.

This is a major policy shift in HRM as it introduces a rewards and sanctions regime for public service in which hard work and commitment to service will be rewarded while poor performance will be sanctioned.

Recent work by SRC in the review and harmonization of public service allowances has been equally critical to the wage bill containment efforts.

On the other hand, harmonization of salaries and compensation will be at the core of wage bill management – this calls for a firm policy decision to completely depoliticize pay and compensation.

In line with the public service productivity proposition, we need to ask ourselves if we are baking enough of the public cake –ideally, we must bake the cake first – then we agree on what goes to wages.

Our current national circumstances depict a situation where the size of the cake is diminishing while demand is increasing – we must therefore ask ourselves, what is the path to baking a bigger cake ?

As proponent and advocates of a new citizen-centric public service culture, we should be deeply worried about creating a perception that some of us, from inside the service, are actually eating the entire cake leaving very little or nothing for service to the people.

**Ladies and Gentlemen,**

In addition to all the good strategies proposed for contracting the wage bill, the government has prioritised the implementation of a contributory pension scheme, as a strategy for managing its aging population's pension-based wage bill.

As a sister commission discharging a complementary mandate to that of SRC, the Public Service Commission reiterates its commitment to future partnership and collaborations on initiatives by SRC and all other public and non-state actors aimed at making the public service a high performance organization, that is efficient, effective and productive.

The report we launch today raises a number of pertinent issues worthy of policy consideration. A case in point is the need for undertaking credible training impact evaluations to estimate impacts of government training programmes and their effectiveness in producing the expected performance capability results.

Our clarion call at this point is that, for the envisaged transformation to be attained, new reform focus at all levels of the service must aim at performance improvement for productivity that, ultimately, more than compensates for the apparent wage bill problem associated with strengthening the service through establishment optimization.

With these remarks, **ladies and gentlemen**, it is now my pleasure to declare the wage bill management report officially launched.

**I Thank You All.**