



Salaries & Remuneration  
Commission

Rewarding productivity

Ref. No: SRC/TS/17/Vol. III (1)

22<sup>nd</sup> March 2024

**Mohamad Muzaffar Abdul Hamid**  
Director, Talent Development Section  
Director General's Office  
Malaysia Productivity Corporation (MPC)  
**MALAYSIA**

Dear Mr. Hamid

**INVITATION TO PARTICIPATE AS A SPEAKER AND AS A PANELIST DURING THE 3<sup>RD</sup> NATIONAL WAGE BILL CONFERENCE SCHEDULED FOR 15<sup>TH</sup> TO 17<sup>TH</sup> APRIL 2024 AT THE BOMAS OF KENYA, NAIROBI**

The 10<sup>th</sup> Ordinary Session of the National and County Governments Coordinating Summit meeting held at State House, Nairobi on 18<sup>th</sup> December 2023, under the Chairmanship of His Excellency the President, resolved (Resolution 15) that the Third Wage Bill Conference be convened. The resolution states that; ***the National Government commits to reduce its wage bill to 35% of revenue in line with the provisions of the Public Finance Management Act, 2012 by 2028 and urged the County Governments to align.*** The Conference will be graced by H.E. the President of the Republic of Kenya and Commander-in-Chief of the Defence Forces.

The Salaries and Remuneration Commission, on behalf of the Wage Bill Conference Steering Committee invites you as a Speaker and Panelist as follows:

1. **Speaker:** To make a 30 minutes presentation on the Topic **"Public Service Productivity as a Driver of Economic Growth"**. Attached is the Abstract and the Aide Memoire to guide in preparation of the presentation.
2. **Panelist:** A caucus panel discussant on **15<sup>th</sup> April 2024 at 2.30 p.m.** on the Topic **"Overcoming the huddles towards 35% wage bill to revenue ratio: Strategies and Action Plans for a Fiscally Sustainable Wage Bill"**. Attached is a concept paper to guide in the preparation as a caucus panel discussant. The conference program will be shared in due course.

The Commission thanks you for accepting to be a Speaker and Panelist and looks forward to your contribution in addressing the productivity agenda in the Public Service.

Yours

**MRS. LYN MENGICH, FIHRM, EBS**  
**CHAIRPERSON**  
Encl.

## **PUBLIC SERVICE PRODUCTIVITY AS A DRIVER OF ECONOMIC GROWTH**

**Introduction:** Productivity plays a crucial role in driving economic growth, and countries that have embraced public service productivity measurement have leveraged on this tool to enhance their economic performance. Productivity measurement in public services is instrumental in driving economic growth by promoting efficiency, innovation, accountability, and competitiveness. Countries that embrace this approach are better positioned to maximize their economic potential and improve the well-being of their citizens over the long term. A case study on selected countries whose public service productivity measurement drives their economy will be examined to draw lessons for Kenya.

**Problem:** Public service productivity continues to be at the centre of economic development in many countries. For instance, countries that have established National Productivity Organizations (NPOs) to spearhead the productivity improvement agenda have attained enhanced economic growth and competitiveness. Kenya has not adequately embedded productivity as a driver to economic growth nor adequately mainstreamed in performance management. According to statistics from the International Labour Organization (ILO), 2021, on productivity, Kenya is ranked 151<sup>st</sup> out of 185 countries ranked in the world, and 22<sup>nd</sup> out of 46 countries in Africa. The Kenyan public service can therefore learn from the productivity experiences of countries whose economy is driven by measuring public service productivity.

**Objective:** The overall objective of this paper is to assess selected countries' experiences on the role of productivity in economic performance and draw lessons for Kenya. Specific objectives are to: embedding and sustaining productivity as a core driver to economic growth in public sector productivity measurement and recognition, identify strategies for linking remuneration to measurable performance and productivity; and share experiences in fiscal sustainability and value for money in delivery of public services.

**Expected Outcome:** The study on how productivity is driving economic growth of selected countries will be an opportunity for Kenya to learn and reflect on the public service productivity management models employed, challenges and lessons. The study will provide concrete experience, reflection, and conceptualization of productivity and its impact on the economic growth. It will further help Kenya address the twin challenge of lack of clear sector and organisational productivity indices and inadequate capacity to measure and link employee productivity to remuneration.

**Methodology:** The study will employ a desktop review of secondary data and adopt the descriptive research design. Quantitative data will be triangulated with qualitative information obtained from productivity lead actors in selected developed countries.

**Key Words:** Public service productivity, productivity mainstreaming, economic growth, value for money and fiscal sustainability.



## **CAUCUS DISCUSSION 1: OVERCOMING THE HUDDLES TOWARDS 35% WAGE BILL TO REVENUE RATIO: STRATEGIES AND ACTION PLANS FOR A FISCALLY SUSTAINABLE WAGE BILL**

### **Introduction**

The 10th Ordinary Session of the National and County Governments Coordinating Summit meeting held at State House, Nairobi on 18th December 2023, under the Chairmanship of H.E the President, resolved (Resolution 15) that the Salaries and Remuneration Commission (SRC) jointly with the Intergovernmental Relations Technical Committee (IGRTC) and Council of Governors(COG) should convene the Third Wage Bill Conference whose theme will be *Fiscal sustainability of the public wage bill through productivity*.

The resolution states that the National Government committed to reduce its wage bill to 35% of revenue in line with the provisions of the Public Finance Management Regulation, 2015 by 2028 and urged the County Governments to align. All public institutions are expected to align to the policy direction by the Head of State by developing strategies and action plans for wage bill sustainability with an aim of progressively achieving 35 per cent wage bill to revenue ratio by the year 2028.

### **Background**

A fiscally sustainable public wage bill is an enabler to achieving the desired expansion in public services and economic development agenda as it frees resources to spur investments that promote economic growth. On the contrary, high level of public wage bill is a threat to sustainable public expenditure as it leads to crowding out resources that could have been used for development priorities and enhanced social services; loss of competitiveness of the economy; large fiscal deficits which result in macroeconomic instability; unsustainable public debt and lack of competitiveness of the economy, negative impact on economic growth and employment.

### **Problem**

Kenya's public wage bill has been growing within an environment of revenue and financial constraints, consuming a significant portion of the national budget. The wage bill to ordinary revenue ratio was at 43.54 per cent in FY 2022/2023 and is projected to slightly reduce to 40.45 per cent in FY 2023/2024 against a threshold of 35% stipulated by the Public Finance Management (PFM) Act (2012) and Regulations (2015). The high public wage bill puts pressure on development and investment share of the fiscal budget meaning that there is less money to devote to priority government projects.

### **Objective:**

The objective of the Caucus sessions is to explore measures, strategies and action plan that facilitate the National and County Governments in achieving the ideal wage bill to revenue ratio of 35% by 2028 as required by the PFM Regulation 2015.

### **Expected Outcome:**

Identification of challenges towards the 35% wage bill to revenue ratio will inform the approach in addressing them. Sector based discussions would provide insight on the nature of challenges and

variations per sector. The discussions will also identify strategies and action plans for fiscal stability, enhanced service delivery, investment in critical sectors, improved productivity, and economic development.

### **Methodology**

The caucus will comprise a panel of eminent subject matter experts engaging an audience drawn from both the private and public sector. A moderator will facilitate the session in a breakaway room.

### **Date, time, and venue**

The caucus discussion will be conducted on day one of the National Wage Bill Conference (15<sup>th</sup> April 2024) at the Bomas of Kenya for two hours starting from 2.30 – 4.30 p.m.

# **AIDE MEMOIRE FOR THE THIRD NATIONAL WAGE BILL CONFERENCE**

## **1 Preamble**

The 10<sup>th</sup> Ordinary Session of the National and County Governments Coordinating Summit meeting held at State House, Nairobi on 18<sup>th</sup> December 2023, under the Chairmanship of H.E the President, resolved (Resolution 15) that the Salaries and Remuneration Commission (SRC) jointly with the Intergovernmental Relations Technical Committee (IGRTC) and Council of Governors (COG) should convene the Third Wage Bill Conference. Further, the resolution states that the National Government commits to reduce its wage bill to 35% of revenue in line with the provisions of the Public Finance Management Act, 2012 by 2028 and urged the County Governments to align.

In this regard, the Commission jointly convenes the third national wage bill conference to provide a platform for key stakeholders from the National and County governments, private sector, civil society, and other non-state actors to discuss strategies and action plan towards achieving 35 per cent public service wage bill to revenue through productivity improvement.

### **1.1 Background**

Public wage bill in Kenya has been growing within an environment of revenue and financial constraints, consuming a significant portion of the national budget and thus, putting pressure on development and investment share of the fiscal budget. The current ratio of public wage bill to total ordinary revenue in Kenya is estimated at 43.54 per cent in FY 2022/2023 which is way above the target of 35 per cent target of the Public Finance Management Act (PFMA) Regulations.

A fiscally sustainable public wage bill works as an enabler to achieving the desired expansion in public services and economic development agenda as it frees resources to spur investments that promote economic growth.

### **1.2 Drivers of the public wage bill**

A high level of public wage bill leads to crowding out of resources that could have been used for development priorities and enhanced social services; loss of competitiveness of the economy; fiscal deficits; and negative impact on economic growth and employment.

The drivers of the public service wage bill are:

- (i) Unchecked and disproportionate increase in the number of public service employees
- (ii) Low productivity in the public service
- (iii) Weak control in payroll management
- (iv) Proliferation of allowances payable in the public service
- (v) Weak controls in payroll management.
- (vi) Demand for higher wages not aligned to economic performance.
- (vii) Weak enforcement mechanism for non-adherence to the advisories and policy.

## 2 Conference objectives

The broad objective of the conference is to engage stakeholders in discussions and recommendations towards achieving the Public Performance Management Act Regulations threshold of 35 per cent wage bill to revenue ratio at both national and county levels.

Specific objectives are to:

- (i) Identify strategies that facilitate the National and County Governments in achieving the ideal wage bill to revenue ratio of 35% by 2028.
- (ii) Explore the role of productivity mainstreaming in improving the wage bill to revenue ratio.
- (iii) Evaluate the role of technology and innovation in payroll management and service delivery.
- (iv) Assess the divergence between approved staff establishment versus optimal levels for efficiency in public service and wage bill sustainability.
- (v) Share experiences from the private sector and other jurisdictions and draw lessons in public service productivity improvement.

## 3 Conference outcome

It is expected that the Conference will lead to resolutions and strategies for a public wage bill to revenue ratio at no more the 35% by 2028.

## 4 Conference thematic areas

The main theme of the Conference is *Fiscal sustainability of the public wage bill through productivity*. The theme is premised on the government's commitment to achieving the ideal wage bill to revenue ratio of 35% by 2028. Table 1 captures the proposed thematic areas.

**Table 1: Proposed thematic areas**

S/No.	Thematic Area	Description
1.	Fiscal sustainability of the public service wage bill	Strategies for fiscal sustainability of the wage bill at National and County Governments
2.	Institutionalizing productivity in the public service	Implementation of productivity in the public service and its contribution to the wage bill sustainability.
3.	Role of public service productivity in economic performance	Lessons from the private sector, region, and international jurisdictions.
4.	Appreciating the impact of approved staff establishments on the wage bill	Optimal staffing levels for a fiscally sustainable public service wage bill at both National and County Governments.
5.	Role of technology in public service wage bill sustainability	Leveraging technology and innovation in payroll management and service delivery
6.	Leadership as an anchor to successful management of the public service wage bill	Accountable leadership as the panacea to productivity improvement for wage bill sustainability.

## **5 The Conference**

### **5.1 Participants**

The conference will bring together national and county governments, subject matter experts (international and local), academics and researchers, members of the civil and business society, Non-Governmental Organizations, the Private Sector, Development Partners, Youth Groups and Special Interest Groups, the General Public, and the Media.

### **5.2 Date and venue**

The conference will be held between 15<sup>th</sup> and 17<sup>th</sup> April 2024 and the proposed venue is Bomas of Kenya, Nairobi.

## **6 Conference conveners and co-opted members**

- (i) Salaries and Remuneration Commission (SRC)
- (ii) Council of Governors (COG)
- (iii) Intergovernmental Relations Technical Committee (IGRTC)
- (iv) Public Service Commission (PSC)
- (v) State Department for Public Service,
- (vi) State Department for Performance and Delivery Management
- (vii) State Department for Labour and Skills Development
- (viii) State Corporations Advisory Committee (SCAC)

