



REPUBLIC OF KENYA



**OFFICE OF THE PRESIDENT
DIRECTORATE OF PERSONNEL MANAGEMENT**

PAY POLICY FOR THE PUBLIC SERVICE

January 2006

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List of Abbreviations

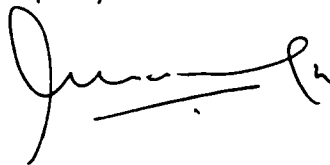
AFPRB	-	Armed Forces Pay Review Board
AG	-	Attorney General Chambers
CPI	-	Consumer Price Index
CSRP	-	Civil Service Reform Programme
DPM	-	Directorate of Personnel Management
GDP	-	Gross Domestic Product
GoK	-	Government of Kenya
IPPD	-	Integrated Payroll and Personnel Database
ISC	-	Inspectorate of State Corporations
JERG	-	Job Evaluation and Re-Grading
KNUT	-	Kenya National Union of Teachers
M & E	-	Monitoring and Evaluation
MLHRD	-	Ministry of Labour and Human Resource Development
MTEF	-	Mid-Term Expenditure Framework
NYS	-	National Youth Service
O & M	-	Operations and Maintenance
P.E.	-	Personal Emoluments
PPSRRB	-	Permanent Public Service Remuneration Review Board
PSR	-	Public Service Reform
SCAC	-	State Corporations Advisory Committee
TOR	-	Terms of Reference
TSC	-	Teachers Service Commission

FOREWORD

The Government is committed to implementing this Pay Policy for the Public Service within an affordable wage bill. The policy provides a harmonized and unified framework for determining pay while eradicating wage discrepancies across the entire service. This reform initiative is aimed at attracting and retaining the services of well-qualified personnel as well as motivating employees by harmonising the disparate remuneration structures.

Harmonization of pay across various sub-sectors of the Public Service will lead to pay enhancement for the Civil Service and other sub-sectors with relative low remuneration structures, especially in technical and professional cadres. The pay enhancement is necessary for creating incentives needed for utilizing existing capacity more effectively and reducing corruption that is associated with low remuneration in the Public Service. This will however be carried out in an affordable and sustainable manner that is consistent with the Medium Term Expenditure Framework (MTEF).

Since many of the problems in the current remuneration system for public servants have persisted for quite a long time, full implementation of the measures articulated in the Pay Policy will take time and require significant effort from all of us. The implementation, therefore, of the Pay Policy initiatives will be phased in a manner that is consistent with the rationalization of the pay system and introduction of a performance-oriented management culture in the service. Towards this end, I wish to restate the Government commitment to implement the measures that have been outlined in this policy document.



**HON. (REV) MOSES AKARANGA, MP.,
MINISTER OF STATE FOR PUBLIC SERVICE,
OFFICE OF THE PRESIDENT**

PREFACE

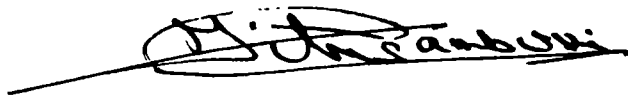
Pay and benefits reform is recognized as a lynchpin for improved incentives and capacity building within the framework for sustained public service improvements. The reform is an imperative in moving towards the development of a well-motivated, efficient, and performance-oriented public service.

The development of modern approaches to monitoring and assessing performance are required as part of the institutionalization process of an effective performance-based pay system. In addition, certain preconditions for implementing performance-related pay have to be fulfilled to ensure that the system is objective, transparent and effective. Posts in the Public Service must have up-to-date job descriptions that are adequately detailed, specifying expected outputs, quality considerations and timeframes for completion of tasks. An objective staff-performance appraisal system is necessary for measuring performance levels and to linking incentives and promotions to improved performance.

At the core of the reforms in the Public Service is the achievement of high performance and quality service delivery that is both sustainable and affordable. Improved worker performance will only be achieved through the adoption of a systematic, innovative and flexible approach to management. This will include human resources, organizational structures, process systems and procedures.

Workers' compensation affects productivity by influencing "choice of level of effort". If employees perceive themselves as being underpaid, then their commitment to full productivity at the workplace will be reduced. Where supervisory skills are limited and there is lack of modern management culture, employees will lower their level of work effort when faced with low and declining real pay.

The compensation packages arising from this policy, once implemented, will be affordable on a sustainable basis, competitive and rewarding to all public servants. The measures outlined underscore government commitment to reinvigorate the morale and integrity of its workers to improve the quality of service delivery.



**TITUS M. NDAMBUKI, HSC
PERMANENT SECRETARY/DIRECTOR,
OF PERSONNEL MANAGEMENT**

CHAPTER ONE: INTRODUCTION

1.1 Background

1. The Government is committed to developing and implementing a Pay Policy for the Public Service within an affordable wage bill while eradicating discrepancies across the service. The Public Service encompasses the Central Government, Local Authorities, the Teaching Service and Parastatals. Under the Central Government are the core Civil Service, the Judiciary, the State Law Office, the Parliamentary Service Commission, the Disciplined Services and the Armed Forces. The Parastatals comprise Public Universities and State Corporations which are agencies and enterprises wholly owned by the state and state controlled enterprises where the Government has majority shares.

2. This Pay Policy covers organizations in the Public Sector that are wholly or partly dependent on the exchequer for their operations. With the exclusion of the Armed Forces, these organizations employ a total of 657,400 personnel. Currently, their compensation package which includes basic pay, monetary and non-monetary benefits and performance related rewards, constitutes a wage bill of about Ksh.107 billion annually.

3. Lack of an explicit, coherent and codified Pay Policy for the Public Service has led to undue reliance for policy guidance on official documents which are acknowledged to be authentic and reliable. These include the Code of Regulations, the Pensions Act (Cap. 189), recommendations of ad hoc Commissions and Committees, Government Circulars, and Personnel General Letters.

4. The absence of a Pay Policy has also directly and indirectly resulted in the following observed weaknesses in the management of the Public Service:

- (i) a recurrent expenditure that is skewed towards Personal Emoluments (P.E.) at the expense of Operations and Maintenance (O&M), hence the need for a proper mix between the two;
- (ii) a bloated Public Service, with a wage bill that is both unaffordable and unsustainable;

- (iii) low pay that is both uncompetitive and at variance with the cost of living;
- (iv) proliferation of allowances and fringe benefits, mainly as a supplement to the low salaries; and
- (v) highly compressed and overlapping salary scales.

1.2 Objectives

5. The objectives of the Pay Policy are to:

- (i) define the principles for determining pay for public servants;
- (ii) attract, retain and motivate personnel with the key skills needed to achieve improved service delivery;
- (iii) reduce the significance of allowances and other fringe benefits in the remuneration packages to achieve rationality and transparency in the remuneration system;
- (iv) relate pay to performance while promoting a genuine concern to achieve results among all public servants and motivating them towards higher levels of achievement;
- (v) provide adequate pay differentials to compensate for skills and ability, experience, performance and responsibility;
- (vi) harmonise remuneration packages to achieve both horizontal and vertical equity; and
- (vii) provide adequate incentives for increased managerial efficiency, improved accountability and controls.

1.3 Structure of the Document

6. This policy document is organized into four chapters. Chapter One provides the background, defines the Public Service, and outlines the objectives of the Pay Policy.

7. Chapter Two analyses the size and distribution of Public Service employment and the remuneration structures in the Service. Current practices in wage determination and the key issues are also discussed.

8. Chapter Three provides the framework for Public Service Pay Policy and outlines the key elements in determining remuneration packages.

9. Chapter Four presents the conclusion. The Appendix shows the Implementation Plan for the various interventions that have been outlined to achieve the policy objectives.

CHAPTER TWO: SITUATION ANALYSIS

10. This chapter presents the distribution of employment and remuneration structures in the Public Service; past practices in wage determination; and highlights of key issues.

2.1 Employment and Remuneration Structures

11. Employment in the Public Service has increased rapidly since independence from 95,000 employees in 1963 to 657,400 employees in 2004. The growth is largely attributed to direct intervention by the Government in employment creation. However, the expansion in employment could not be sustained by the economy as the proportion of the wage bill to recurrent expenditure rose steadily to the current level of about 47.1% in the Financial Year 2004/05. The Government therefore, embarked on staff reduction and froze employment in the 1990's in order to ensure a fair budgetary balance between Personal Emoluments (PE) and Operations and Maintenance (O&M).

12. The distribution of employment in the Public Service is shown in Table 1. The Table excludes the State Corporations whose employment (without TSC and Public Universities employees) stands at 80,278 persons. The Table shows that employment in the Public Service is heavily skewed towards the lower and support staff. It is significantly thinner in the managerial cadres. For example, there is concentration of employees in lower cadres with staff in Job Groups "A" to "J" accounting for 84.0% of the civil servants while Job Groups "K" to "V" account for only 16.0%.

13. Table 2 presents basic salaries for various sub-sectors and categories in the Public Service. The figures show that in terms of remuneration, employees in the Local Authorities and the core Civil Service are more disadvantaged compared to employees in the other sub-sectors of the Public Service. In an attempt to address the disparity with respect to Civil Service in line with the banding levels recommended in the Kipkulei Harmonization Report (1998/99), the Government adjusted basic salaries for all cadres in Job Groups "A" to "S" with effect from 1st July, 2004. In addition, basic salaries for officers in Job Groups "T" to "V" and constitutional office holders had earlier been adjusted upwards to the full banding levels. Even after the salary adjustments, there are still marked disparities in the salary levels across various sub-sectors of the Public Service. In addition, employees of State Corporations enjoy better remuneration compared to the other public servants.

Table 1: Distribution of Public Service Employment by Sub-Sector, 2005

Band	J/G Equip.	Core Civil Services	Disciplined Services	Judiciary		State Law Office	TSC		Public universities			Local Authorities	Parliamentary Service	State Corporations	Total
				Legal	Para legal		Teachers	Secretariat	Academic	Academic Equivalents	Non-Academic				
	A	232										1,289			2,406
	B	2,559		147								11,025			15,615
	C	8,218		97								5,294			15,161
	D	10,355		251								8,393	106		20,308
	E	12,483		706			283					4,509	62		23,204
	F	8,825	54,762	384			19,759	769				3,642	23		88,968
	G	19,268	6,875	560			103,386	478				3,830	78		135,287
	H	12,778	2,782	200			42,877	389				1,711	31		61,776
	J	24,751	3,004	15	170		5,898	214				187	53		34,749
	K	7,454	1,521	39	48	67	5,432	137	127	407		42	27		15,301
	L	6,957	218	68	11	34	41,222	79	560	48		66	19		49,282
	M	2,260	88	88	15	23	11,236	176	2,053	596		71	21		16,627
	N	1,097	51	28	8	18	625	36	861	229		3	7		2,963
	P	739	13	14	2	13	112	23	360	83		1	10		1,370
	Q	260	7	9	1	8	156	12	206	29		-	-		688
	R	110	1	-	1	5	75	5	12	-		-	-		209
	S	44	3	1	-	3	-	1	21	-		-	-		72
	T	17	1	-	-	1	-	-	6	-		-	-		25
	U	25	-	-	-	-	-	-	-	-		-	-		27
	V	1	-	-	-	-	-	-	-	-		-	-		1
	Total	118,433	69,199	263	2,601	172	235,000	2,621	4,206	1,392	9,524	40,063	438	86,878	657,400

Source: Figures are extracted from March 2005 Government payroll and personnel records of other sub-sectors of the Public Service

Corrigendum

Table 2: Average Monthly Basic Salaries by Sub-Sector and Job Groups, 2005

Bands	CORE CIVIL SERVICE		LOCAL AUTHORITIES	ARMED FORCES	TSC		DISCIPLINED SERVICES	JUDICIARY		PARLIAMENTARY SERVICE	STATE LAW OFFICE	PUBLIC UNIVERSITIES
	Ave.	J/G			TEACHERS	SECRETARIAT		Ave.	LEGAL			
	5,000	2,691										3,868
	5,045	3,696										4,868
D	5,300	4,157										5,693
	5,625	4,827								20,580		6,903
	6,135	5,483	13,295		6,123	6,855				23,385		10,662
	6,625	6,218	15,303		7,117	8,103	13,040			25,845		13,406
	9,375	8,697	15,820		9,120	9,875	18,820			41,410		14,957
	10,475	11,472	18,218		10,777	12,025	22,145			49,878		18,407
C							24,508					
	11,865	13,244	20,428		12,704	14,670	26,118	23,600	14,250	60,410		21,960
							28,813					
							28,813					
	17,935	14,324	23,573		15,802	18,710	30,285	28,398	18,258	66,813		24,933
	20,135	15,404	25,038		18,165	22,285	35,225	32,874	20,968	71,630		44,316
B2	23,585	16,806	25,870		21,925	25,315	42,085	39,076	24,408	76,863		50,199
	25,860	18,054	31,190		23,808	31,818	47,090	45,236	26,268	87,328		57,069
	72,593	19,547	34,815		26,299	72,593	51,118	72,593	52,085	97,793		72,512
B1	88,237		49,805		28,975	88,237	57,418	88,237	55,310	114,385		81,752
	107,253		71,645		32,002	107,253	67,285	67,285	60,135			226,630
A3	114,300		116,308		-	114,300	81,297					249,508
	150,560		208,860		-	-	150,560					360,000
A2	227,520		298,670		-	-	-			304,560		227,520
A1	415,880		465,565		-	-	-					415,880

2.2 Current Practices in Wage Determination

14. In the absence of a Public Service pay policy, various processes have been used to determine pay levels and benefits in the Public Service. They fall under three broad categories, namely:

- (i) Administrative reviews;
- (ii) Collective bargaining; and
- (iii) Institutional processes.

Administrative reviews

15. The Government has relied on ad hoc Commissions and Committees to determine the terms and conditions of service for public servants.

Table 3: Major Public Pay Review Commissions and Committees Since 1960

<i>Year</i>	<i>Chair</i>	<i>Scope of Work/Terms of Reference</i>
1960	Sir Gilbert Fleming	Review terms and conditions of service of colonial officers in the Public Services of the East African Territories and the East African High Commission
1963	L. J. Pratt	Review structure of salaries of Civil Services, teaching staff and public sector
1967	H. Millar-Craig	Civil Service salaries review with specific reference to professional and technical personnel
1970/71	D. N. Ndegwa	Comprehensive review of Public Service structure and remuneration
1979/80	S. N. Waruhiu	Civil Service salaries, with specific reference to harmonization with other services and the private sector
1985	T. J. Ramtu	Civil Service. Specific focus on development of schemes of service for all civil servants
1987/88	S. H. Ominde	Police and prisons officers
1990	P. M. Mbithi	Civil Service
1992	E. Kotut	Judiciary
1995	W. O. Omamo	Local Authorities
1996/97	K. Ng'eny	Police and National Youth Service
1996	P. Nyakiamo	National Assembly
1997	P. M. Munene	Civil Service
1997	E. Mwakio	Public Universities Staff
1998/99	B. K. Kipkulei	Public Service. Specific focus on harmonization of pay and benefit structures.

16. Table 3 gives a summary of fifteen major Committees/Commissions that undertook the reviews between 1960 and 1999, the scope of their

work and Terms of Reference. Most of the Commissions were, however, selective as they targeted specific sub-sectors of the Public Service. They were also ad hoc in the sense that they were constituted whenever there was pressure from the workers.

17. Of these reviews, the most comprehensive was done by the Kipkulei Harmonization Commission (1998/99). It designed a harmonised and unified pay structure for the entire Public Service. The structure categorized public servants into four operational groupings placed under seven bands. The Commission also developed a prototype salary structure for each of the seven bands, complete with salary points to cover incremental progression along each salary scale.

Collective bargaining

18. Pay levels and benefits for unionised workers in the Public Service are also determined through an industrial process which sets out agreed terms and conditions of service for the affected workers for a specific period of time, usually two years. These agreements are lodged with the Industrial Court for verification and registration.

19. When the negotiating parties fail to agree, they move to the Court for arbitration. The criteria used to arrive at agreeable wage levels is the rate of inflation as measured by the Nairobi Consumer Price Index (CPI), and/or the ability to pay (affordability) as reflected in the profit margins of the affected institutions.

Institutional processes

20. The Ministry of Finance issues wage guidelines to guide employers and employee representatives in negotiating the terms and conditions of service at the workplace. The guidelines last issued in 1973, are also used by the Industrial Court in arbitrating trade disputes.

21. The Ministry of Labour and Human Resource Development sets statutory minimum wages which are Gazetted and announced by the Minister. The minimum wage levels are determined by using information on the prevailing inflation levels and the performance of the economy.

22. The Pensions Department regulates, processes, and pays pensions and other related benefits in the Public Service as provided by various statutes, e.g. Pensions Act (Cap. 189) and Armed Forces Act (Cap 199).

23. In addition, there are special institutions charged with setting pay levels and benefits for different sub-sectors of the Public Service. For instance, the Parliamentary Service Commission, the Judicial Service Commission, the Teachers Service Remuneration Committee and the Kenya National Audit Commission were established by Acts of Parliament to set and review terms and conditions of service for their respective workers. The State Corporations Advisory Committee (SCAC) was established by an Act of parliament to advise the Government on, among other matters, pay levels and other terms of service for the employees of state corporations. There is also the Armed Forces Pay Review Board (AFPRB) that was constituted on 19th December, 1978 through Gazette Notice No.3496 of 7th December, 1979 to advise on matters pertaining to terms and conditions of service for members of the Armed Forces and Constabulary.

24. In recognition of the need for a central body with the mandate to continuously review and harmonize remuneration in the entire Public Service, the Government established the Permanent Public Service Remuneration Review Board (PPSRRB) through Kenya Gazette Notice No 7941 of November 2003. However, the PPSRRB lacks legal backing to effectively perform its mandate and enforce its supremacy as an apex body among parallel and sectoral pay review institutions.

Key Issues

Weaknesses of current wage setting mechanisms

25. The main weaknesses of the current wage setting mechanisms include:

- (i) Committees and Commissions on pay reviews have introduced wage disparities across different sub-sectors of the Public Service, largely due to their selective and ad hoc nature;
- (ii) The creation of parallel pay review institutions for different sub-sectors of the Public Service has further widened these wage differentials;
- (iii) The independence of the three arms of Government has been used to introduce wage disparities as the Legislature and the Judiciary have been reluctant to anchor their compensation levels to those of the Executive;
- (iv) In the absence of a uniform criteria used for determining wage levels, wage setting mechanisms have ranged from partial compensation for inflationary pressures to political considerations or demands from trade unions;
- (v) The ad hoc and uncoordinated salary adjustments have also created difficulties in the management of the Public Service wage bill.

Skewed distribution of Public service employment

26. The challenges arising from the current size and distribution of Public Service personnel are twofold, namely:

- (i) Optimality of the overall size of the workforce in relation to government's core functions; and
- (ii) Distribution of the workforce, with heavy concentration in the support cadres relative to the technical, professional and managerial grades. This has compromised productivity and both quality and quantity of service delivery.

Unsustainable wage bill

27. The Government has been carrying out Public Service reforms over the past decade focusing on downsizing the core Civil Service; harmonizing pay and benefits; putting in place interventions to enhance efficiency of the Civil Service; and restructuring of State Corporations. In particular, the downsizing of the Civil Service has seen its size decline from 272,000 in 1991 to 191,000 in 2003.

28. Despite these reforms, the Public Service wage bill has remained high relative to GDP and Government revenue. In addition, the gains from staff reduction earlier envisaged, including productivity improvement and better service delivery, have remained elusive. For instance, monetary allowances to civil servants increased significantly over the period that downsizing took place. The upward pressures that the allowances had on the wage bill were therefore much greater than the downward pressures of downsizing.

29. In the Economic Recovery Strategy for Wealth and Employment Creation, the Government projected wage bill reduction targets of 9.2% (2001/02), 8.5% (2005/06) and 7.2% (2007/08) of GDP, while maintaining the wage bill/ordinary revenue ratio at 46%. A number of factors, however, would appear to militate against achievement of these targets. These include:

- (i) The salary awards to the Disciplined Services (Police, NYS, and Prisons) which were effected from 1st July, 2003;
- (ii) The salary adjustment for civil servants, the Judicial staff, legal staff in the State Law Office and the Teachers' Service Commission Secretariat Staff effected from 1st July, 2004;
- (iii) The need to increase the number of personnel in critical areas such as the Teaching Service due to the Free Primary Education Programme; the Police Force given the existing low ratio of police to population and current security considerations; and
- (iv) The need to recruit doctors, nurses and other medical personnel in order to revitalize the health services in the country and particularly address the HIV/AIDS and related opportunistic diseases.

Uncompetitive remuneration

30. There are wide differentials between public sector and private sector pay levels for employees with the same qualifications and experience, making the former less competitive in attracting and retaining requisite technical and managerial talent.

31. It is, however, important to note that while many Private Sector employers are unwilling to take the risk of bearing training costs, they are willing to hire a successfully trained individual from the Public Sector. This aspect must be recognised while making comparisons between Public Sector pay structures and those in the Private Sector.

Compressed salary structures

32. The current salary structures in the Public Sector have a number of weaknesses. Among these are the following:

- (i) The general salary scale is too large when compared with grading structures of most public and private institutions in other countries. The salary scale for Kenya's Public Service, for example, has between 13 and 20 Job Groups, whereas most grading structures have between 10 and 15 Job Groups;
- (ii) Most of the salary scales have too many increments. For example, the core Civil Service Job Group "G" has 17 increments whereas Job groups "D" and "H" have 13 each. In total, from top to bottom of the Civil Service scales, there are 204 increments;
- (iii) There is also significant overlap among Job Group salary scales. The principle of vertical equity and the universally acceptable practice that the greater the responsibility the higher the salary within a given Job structure could be violated. The existing overlaps imply greater rewards to length of service rather than individual performance and responsibility; and
- (iv) The salary differentials are too small across the salary structures. Such differentials are insufficient to motivate staff to improve performance and move up the job ladder. Over time, annual increments have tended to be viewed as workers' rights rather than compensation for improved performance.

Weak incentives regime

33. The adequacy of basic pay, transparency of the pay structure, and promotion of a reward system that is based on performance, contribute positively to strengthening the incentives regime in a service. The incentives regime inherent in the present compensation system sends wrong signals to the Public Service workforce. Pay is too low, the salary structure too compressed, and salary differentials too small to reward and motivate good performance. Annual increments are awarded automatically and often viewed as a right with one of the major criteria for promotion being length of service. There is, therefore, little distinction between mediocrity and meritocracy.

Weak enforcement of statutory minimum wages

34. Some Public Service organizations do not pay the gazetted statutory minimum wages. This has meant that some of the public servants, especially in the lower echelons, are exposed to the risk of pecuniary embarrassment and are barely surviving. This is manifested in several ways, such as:

- (i) walking long distances to and from work;
- (ii) loss of moral standards;
- (iii) corrupt practices; and
- (iv) indulgence in private business at the expense of official responsibilities.

Proliferation of allowances and fringe benefits

35. Fringe benefits and allowances have been used to increase compensation for public servants, particularly those in upper-middle and senior levels. These allowances include: acting, special duty, hardship, responsibility, non-practicing, commuter/transport, risk, security, extraneous duty, field, overtime, honoraria, leave, entertainment, telephone, utility, mileage, subsistence, settlement, and uniform, among others. The allowances:

- (i) have increased significantly in terms of their number and in amount, both relative to salaries and in absolute terms;

- (ii) are enjoyed disproportionately by selective cadres and grades of public servants; and
- (iii) have in some instances acted as a major component of the compensation package.

36. On average, combined allowances in the Public Service account for 28.6% of average monetary compensation, with salaries accounting for 71.4%. In the Civil Service, combined allowances account for between 31.3% for Job group "P" to over 55% for Job Groups "S" and "T", and their equivalents.

37. The proliferation of monetary allowances has partially offset the decline in real salaries. However, having a Public Service compensation structure that is increasingly skewed towards payment of allowances is problematic.

38. The allowances:

- (i) reduce the rationality and transparency of the remuneration system;
- (ii) bear little direct relationship to job performance and productivity, thus compromising the incentive regime;
- (iii) are difficult to budget for since they fluctuate significantly from month-to-month, making wage bill control and planning more problematic;
- (iv) contribute to the erosion and distortion of pension benefits since such benefits are calculated on the basis of basic salary and not total monetary compensation; and
- (v) weaken government's potential to broaden the tax-base and increase revenues since some are provided tax-free.

Imbalances in the recurrent budget

39. The performance of service delivery is dependent upon the allocations and releases of the recurrent budget to finance both personal emoluments (PE) and operations and maintenance (O&M) expenditures. Currently, the payments for PE consume the greater part of the recurrent budget. The ratio of PE:O&M allocations among Ministries, Departments and other Public Service organizations is on average 70:30, with some

having this ratio as high as 90:10. Actual expenditures are in some cases even more skewed, with PE payments always taking first priority when exchequer releases fall short of budgetary requirement of competing activities and programmes.

40. As a consequence of this situation, the operations and maintenance requirements of all services have been grossly under funded and the level of services that is provided declined markedly. Not only does the public suffer, but the Government is obliged to pay wages to staff who cannot carry out their jobs satisfactorily because they lack the necessary tools and equipment.

Wage disparities

41. As shown in Table 2, salary disparities are evident among the various sub-sectors within the Public Service. In addition, there are disparities among persons with equal qualifications across the sub-sectors. The disparities are, by and large, a consequence of the implementation of the recommendations of the selective and ad hoc Committees and Commissions appointed at various times to review the terms and conditions of service in the Public Service.

42. The situation is more complex in the Parastatal sector. The classification of State Corporations in eight broad functional categories based on their mandate and core functions, and with different pay structure for each category, has created major pay disparities among them. This is compounded by requests for upward review of the categorisation status of Parastatals, and hence better terms and conditions of service, as well as requests and approvals for certain State Corporations to be exempted from the provisions of the State Corporations Act. The idea has been that with the exemption, a State Corporation would have the necessary flexibility in determining better terms and conditions of service for its employees.

43. In a number of cases, Ministerial Departments have been allowed to de-link from the parent Ministries and to assume semi-autonomy. The terms and conditions of service being enjoyed by the employees of these semi-autonomous Departments are far more attractive than those of employees in parent Ministries.

44. In Public Sector organizations where employees have trade unions, Collective Bargaining Agreements have given rise to better terms and conditions of service compared to those in organizations where there are

no trade unions. Examples include: The Kenya National Union of Teachers (KNUT) for the Teaching Service; the Kenya Local Government Workers Union (KLGWU) for employees of Local Authorities; the University Academic Staff Union (UASU) for the academic staff of the public universities. This situation has been another cause of disparities.

Disparities in grading structures

45. The grading structures contained in the current schemes of service are supposed to be based on job evaluation in order to determine the value and worth of each job. However no comprehensive job evaluation has been done in the Public Service. Furthermore, due to lack of job evaluation, schemes of service have been used as tools for upgrading of posts. Ad hoc upgrading of top posts has sometimes been done for selected departmental heads. This is so for those departments considered critical with heavy workload. In cases where the posts below are not simultaneously upgraded due to financial constraints, gaps in the grading structure are created. Disparities in grading structures have thus emerged, resulting in headship of departments having similar workloads pegged at different levels, as well as gaps in the grading structures of some cadres.

Inadequate pension benefits

46. The Public Service pension scheme is governed by the Pensions Act, Cap.189 of the laws of Kenya and requires no contribution by the members to meet its cost. It is a non-contributory pension scheme. In the Pensions Act, there is no provision for benefits for voluntary exits under the age of 50, except for transfers to organizations declared as public service for pensions purposes. This effectively limits the mobility of public servants. Under the Pensions Act, pensionable emoluments are composed of only the basic salary and personal allowances. All other cash allowances are excluded.

47. Public service pension benefits are generally perceived to be inadequate, yet the public pension system is considered too expensive and a burden to the taxpayer. Given actuarial considerations, the 2.5% factor used in calculating employee pension benefits is high by international standards. Yet, the pension benefits generated by this factor are considered meagre. Among the variables which lead to the low pension benefit yield are:

- (i) low real salaries have resulted in low pension benefits;

- (ii) as pensions are determined by salary-earnings and not total monetary compensation, the over-reliance on monetary allowances in the remuneration package has a pension-benefits reducing effect in the long-term; and
- (iii) the low indexation of pension benefits to the cost of living has resulted in lower real pension benefits over time.

CHAPTER THREE: FRAMEWORK FOR PAY POLICY

3.1 Basic Principles of Pay Determination in the Public Service

48. Basic principles to be followed in determination of pay in the public service are as follows:

Equal pay for equal work

49. Personnel in similar job positions with similar responsibilities will be remunerated in a similar manner. This principle will be measured against the following criteria:

- (i) the content of the job, as determined by the Job Evaluation and Re-grading Exercise; and
- (ii) skills, competencies and responsibilities associated with the position.

Capacity to attract, retain and adequately motivate personnel with the requisite skills

50. Compensation levels in the Public Service will be adequate to attract, retain and motivate qualified professional, managerial and technical personnel. The Government has had difficulties in attracting and retaining these cadres, who are most critical for raising public service efficiency and the quality of service delivery, and who are also instrumental in the production of strategic government outputs. This calls for a compensation structure that is:

- (i) competitive in comparison to compensation enjoyed by other organs within the Public Service on one hand, (internal competitiveness) and within the appropriate labour market, on the other hand (external competitive); and
- (ii) linked to the activity, to the accomplished tasks, responsibilities of the job, and to the achieved results. For continuity purposes, motivation needs to be permanently sustained and stimulated.

An affordable and sustainable wage bill

51. The pay structure is only prudent when developed within an affordable and sustainable resource envelope. Pay within the Public Service will be systematically improved in an affordable and sustainable manner, while maintaining an appropriate balance between the Public Service wage bill and expenditures on O & M. Such enhancement must be consistent with the Medium Term Expenditure Framework (MTEF).

Improved transparency of the compensation structure to improve links between pay and performance

52. The use of non-salary benefits in Public Service compensation structure will be minimized by consolidating remunerative allowances into basic salary. This rationalization of the compensation structure through consolidation of allowances will contribute to improved transparency of the compensation system; vertical and horizontal equity of the compensation structure; strengthen links between pay and performance; and ease salary administration and facilitate improved wage bill management.

3.2 Prudent Management of the Wage Bill

Staff rightsizing

53. To address the problem of overstaffing in certain cadres, the Government has designed and approved for implementation, a Targeted Voluntary Early Retirement Scheme. Multi-skilling and e-Government will be encouraged to enhance productivity and cut down on costs.

54. The Scheme targets cadres in overmanned and non-core functional areas. In the core Civil Service, it targets civil servants who are less than 53 years old. A total of 21,338 civil servants are expected to retire between July 2004 to June 2007. In addition, a total of 6,000 civil servants are expected to exit from the Service through natural attrition without replacement during the period.

55. Retirees will be prepared for post retirement life. Sensitization will be done through issuing of circulars, ministerial meetings, seminars/workshops and the media. For effective facilitation of the training programme, experts and institutions with experience in training and placing retirees on gainful economic activities will be engaged.

56. The Government's vision of the Public Service of the future is an efficient and effective Public Service with well-remunerated and motivated workforce. Towards this end, the savings realized from salaries and allowances foregone as a result of retirees leaving the Service through the Scheme will be ploughed back into the Public Service to enhance the remuneration packages.

Linking pay and benefits to economic performance

57. In the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC), the Government projected wage bill reduction targets of 9.2% (2001/02), 8.5% (2005/06) and 7.2% (2007/08) of GDP, while ensuring that the wage bill/ordinary revenue ratio declines below the current level of 46%.

58. The implementation of Government policy priorities to fulfil its broad objectives of ERSWEC requires prudence in wage bill management while ensuring fiscal sustainability of its interventions. Sustainability of Government expenditures demand that incremental revenue must grow faster than expenditures. In addition, given Kenya's high wage bill/revenue ratio, an ideal position would be to ensure that growth in the wage bill does not exceed that of revenue.

Improving the management of recurrent budget

59. Development and implementation of clear staffing norms as well as accurate costing of standard O&M items will be undertaken as a matter of priority. The Public Service will be required to adhere to these staffing norms against stated outputs and targets when justifying their budget allocation requests.

3.3 Improving the Competitiveness of Public Service Compensation Packages

60. The Government will work towards narrowing the gap between Public Service and private sector pay in order to effectively compete in attracting and retaining qualified professional, technical and managerial personnel. To achieve competitive salaries, the government will take cognizance of the significant differentials between skill, experience and responsibilities for a given job. Consideration will also be given to the differences in tenure, promotion, job-security and pension systems in the two sectors.

3.4 Regular Review of Public Service Pay

61. The Government will undertake a regular review of public service pay and the corresponding wage bill ceiling as an essential element of the MTEF process. All organizations in the Public Service will be required to pay the gazetted Statutory Minimum Wage to their employees.

3.5 Harmonisation of Remuneration Packages

62. In order to facilitate harmonization of remuneration packages for public servants, the Government will adopt the Banding system that was initially recommended by the Kipkulei Harmonization Commission in order to facilitate harmonization of remuneration for the Public Service as a whole.

63. The Commission proposed the adoption of a new salary structure, divided into three levels and comprising seven distinct bands. Level I consists of Bands A1, A2 and A3 whereas Level II has Bands B1 and B2, with B2 being the entry point for fresh graduates. Level III is divided into Band C for holders of Diplomas and/or 'O' level certificates and Band D for those with 'O' level certificates, recognized skills or lower qualifications.

Table 3.1: Features of the Banding System

Level	Band	Current Job Group Equivalent
Level I: Policy Makers	A1	V
	A2	U
	A3	T and S
Level II: Senior Managers Technical Staff	B1	P – R
	B2	K – N
Level III: Support Staff	C	G – J
	D	A – F

64. Categorization into the three levels is based on tasks and responsibilities, while the bands are based on roles and functions carried out, skills and levels of qualifications and training required.

65. The Government has adopted, in the medium term, the prototype salary structures recommended for the respective bands. The banding system is expected to achieve the following upon implementation:

- (i) create a common referral point so that staff with similar qualifications, training and experience are treated the same way with regard to entry point and thereafter, career progression;
- (ii) lead to a universal classification of Public Sector jobs by harmonizing salary and grading structures and schemes of service;
- (iii) make job comparison easier and lead to meaningful wage relationship in the public sector and between public and private sector organizations;
- (iv) eliminate the salary overlaps;
- (v) eliminate salary disparities between different organizations in the public sector;
- (vi) facilitate transfer/movement of staff within the various institutions in the Public Service;
- (vii) eventually facilitate introduction of a consolidated salary package in the Public Service; and
- (viii) motivate and raise morale of the public servants.

3.6 Consolidation of Salary, Allowances and Fringe Benefits

66. The Government will consolidate allowances and fringe benefits payable to public servants into salary where applicable. In this respect, monetary allowances will be categorized into two groups:

- (i) Remunerative allowances, which serve to enhance the recipients' pay relative to other personnel or cadres; and

- (ii) Duty-facilitating allowances, which serve to facilitate the undertaking of regular or special duties for groups or cadres.

67. Remunerative allowances will, as part of Public Service reforms, be consolidated into basic pay. While a few monetary allowances may be required on grounds of duty-facilitation, it is noted that in the past most have been remunerative in nature, simply serving the purpose of salary enhancement without transparency. It is the Government desire to continuously review compensation of public servants in a transparent, objective and consistent manner. All monetary allowances must therefore be seen to be in tandem with this desire and commitment.

68. The benefits arising from moving away from an allowance dominated pay structure to consolidated pay include:

- (i) allowing the Government to rationalize the salary structure, increase transparency, and later relate pay to performance;
- (ii) simplifying the remuneration system by minimizing the number of allowances and fringe benefits to enable the Government to better plan and control wage bill expenditure;
- (iii) eliminating behaviour that may be counterproductive to promoting an efficient and effective Civil Service, for example per diem allowances that encourage unnecessary travel away from duty stations; and
- (iv) increasing pension benefits, thereby allowing public servants to maintain their compensation levels after retirement. Enhanced Pension benefits would further improve the potential of the Public Service to attract and retain qualified skilled professional, technical and managerial personnel.

69. A Public Service compensation structure will evolve over the course of the medium term where monetary allowances do not exceed 20% of the total compensation package of a public servant. Only those allowances that can clearly be demonstrated to be duty-facilitating in nature will be maintained.

3.7 Relating Pay to Performance

70. In order to relate performance to pay, the following measures will be undertaken:

- (i) mechanisms will be developed to improve accountability, monitor performance, and institute rewards and penalties. Good supervision, monitoring, and proper standards of performance as well as the implementation of appropriate work rules and procedures will be necessary for effective utilization of employees and improved delivery of public services;
- (ii) work measurement and an objective performance appraisal system will be introduced, based on set objectives and targets for staff as a basis for assessing:
 - performance to determine whether or not staff merit the receipt of annual increments;
 - effecting promotion based on merit rather than on longevity of service; and
 - outstanding performance that could form the basis for merit-pay bonuses.

3.8 Engaging Personnel on Performance Contract Scheme

71. The Government will institute a scheme where Permanent Secretaries and other Chief Executives in the Public Service are appointed on a competitive merit basis on Performance Contracts that are subject to renewal, based on performance. The approach to implementing the performance contract scheme will be as follows:

- (i) reflecting the spirit of moving towards a merit-based Public Service, the Performance Contract positions will be filled competitively;
- (ii) as monetary allowances weaken the link between pay and performance, the compensation packages for personnel on Performance Contracts will only offer allowances that are clearly duty-facilitating in nature; and

- (iii) the performance-related component of the compensation package will be paid in the form of a performance bonus, related to the incumbent having matched and exceeded well thought out and objectively identified performance targets.

3.9 Engaging Personnel on Employment Contracts

72. Where personnel with specialised skills or specific expert skills are engaged on a contract basis, the practice will be as follows:

- (i) contract employment will be kept to a minimum, with personnel being only engaged on contract where capacity in the Public Service is lacking or specific skills are required;
- (ii) the positions to be contracted will be consistent with the human resource requirements as specified in its Strategic Plan; and
- (iii) personnel engaged on contract terms will be competitively recruited through an open and transparent process.

3.10 Harmonization of Grading and Pay Structures

73. Job Evaluation and re-grading (JERG) will be required to alter the current civil servants perception of compensation being unfair. A comprehensive job evaluation and re-grading exercise will help to improve the fairness of the compensation system by rationalising the job-grade structure. As the links between pay and performance strengthen, horizontal and vertical equity will be improved.

74. By virtue of the equity principle, the compensation structure in the Public Service shall evolve such that all jobs are graded equally in Public Service, and that all organizations that receive subventions from the Treasury shall be compensated more or less equally. All the jobs of heads of institutions, of unit directors, and of the professionals, whether belonging to the Civil Service, State Corporations or National Commissions, will be considered and remunerated equally, that is, allowing for compensating differentials, e.g. differences in security of tenure, pension benefits, promotion prospects, etc. However, some performance allowances may be granted due to the particularities of the difference in responsibilities and the missions of the organizations.

75. Salary levels will be grade (position) and responsibility level-based and not education level based. If two people hold the same position and are at the same grading level, one person's compensation will not be higher than the other merely because of his/her academic qualifications. Academic qualifications will be only one factor taken into consideration in recruitment and promotion decisions, along with years of relevant experience, performance levels, and other work related characteristics. Salary differentials will be set to reward/motivate personnel to strive towards higher levels of performance and to take on higher levels of responsibility. To motivate personnel towards higher achievement, differentials will be made adequate to reward (compensate) for improvements in the levels of training and skills that are job-related.

76. Further, the job evaluation and re-grading exercise in the Public Service will:

- () examine issues related to the various job-grades and salary structures;
- (ii) undertake an analysis of the structural features of the grading and salary scales and the distribution of staff within grades;
- (iii) examine individual schemes of service and the related grades;
- (iv) analyse issues related to salary progression and promotions; and
- (v) rationalize and consolidate the schemes of service that overlap with the aim of limiting the proliferation of schemes of service, in addition to removing disparities and inconsistencies in grading structures and in the use of designation titles.

77. The practice of ad hoc upgrading of posts will cease. All new posts will be graded and existing posts will be re-graded on the basis of objective job evaluation. Further to this, the practice of promotions "personal to the holder", where personnel are promoted outside the establishment to increase their pay without assuming any additional responsibilities or duties will cease. In the future, promotions will:

- (i) only be made on merit; and

- (ii) be effected where a vacancy exists with skills, experience and qualification requirements commensurate with those of candidate.

3.11 Independence, Equality and Complementarity of the Three Branches of Government

78. The Constitution recognizes the independence, equality, complementarity and the need for mutual cooperation between the three branches of Government. As no branch is more important than the other or has greater responsibility than the other, the principle of equality implies that the heads of the three branches of Government (the Legislature, the Judiciary and the Public Service) should be more or less equally compensated. Furthermore, officials within the three branches that are of equal grade should be equally compensated.

79. Mechanisms shall be developed and implemented to ensure equity in compensation among these three equally important branches of the Government.

3.12 Contributory Pensions Scheme

80. The Government has already approved the introduction of a contributory pension scheme for all public servants. The new scheme will consolidate allowances into the salary structure in order to enhance pension benefits of public servants. The Retirement Benefits Authority will oversee the Scheme.

3.13 Legal Framework for the Permanent Public Service Remuneration Review Board (PPSRRB)

81. Many of the current problems that beset remuneration in the Public Service arise from a proliferation of pay review and pay setting bodies. The establishment of legal framework for the PPSRRB will eliminate these problems and ensure uniformity in remuneration packages across the Public Service. The Remuneration Board will be the major organ responsible for overseeing the implementation of the policy.

82. This is not to say that specialist review bodies will necessarily be wound-up and amalgamated into a "super" review body. There is much value in having sector specific expertise in determining/reviewing salaries and other terms and conditions of service. But the relationship between the apex remuneration review body and any other review bodies will be

clearly stated and agreed, especially with regard to the authority to finalise the approval and announcement of recommendations and awards. An appropriate legal framework will, therefore be developed and implemented.

83. Pay recommendations of the Review Board will be within budget ceilings and approved by Ministry of Finance.

CHAPTER FOUR: CONCLUSION

84. The policy measures that have been outlined in this document provide a comprehensive framework within which government effort to improve and harmonize remuneration in Public Service will be realized. In particular, these measures seek to:

- (i) provide adequate pay differentials to compensate for skills and ability, experience, performance and responsibility;
- (ii) reduce the significance of allowances and other fringe benefits in the remuneration packages to achieve rationality and transparency in the remuneration system;
- (iii) narrow the gap in remuneration packages between the public and private sectors;
- (iv) harmonize remuneration structures across the sub-sectors of the Public Service;
- (v) attract, retain and motivate skilled and professional personnel in the Public Service; and
- (vi) impact positively on performance in service delivery to the citizenry.

85. Implementation of the Pay Policy will assist the Government in articulating its pay-reform objectives. It will also set targets that commit the Government to achieve in the medium-term using appropriate strategies. The policy will as much as possible, aim at explicitly linking pay to performance, signalling a major change in the incentive system and performance expectations.

86. The Implementation Plan for the Pay Policy for the Public Service is provided in the Appendix.

APPENDIX

IMPLEMENTATION PLAN FOR PAY POLICY FOR PUBLIC SERVICE

Activities	Sub-Activity	Timeframe	Performance Indicators/Targets
1. Develop and Finalize Pay Policy for Public Service	1.1 Constitute an Inter Ministerial Task Force	Sept. 2004	Inter Ministerial taskforce established
	1.2 Develop Terms of Reference	Sept. 2004	TOR defined
	1.3 Prepare Draft Policy Document	Oct. 2004 – Jan. 2005	Draft Pay Policy Document prepared
	1.4 Hold Stakeholder forum soliciting additional input and build consensus	Feb. 2005	Report of stakeholder forum prepared
	1.5 Prepare final draft policy document	March – May 2005	Final draft Pay Policy document prepared
	1.6 Prepare Cabinet paper on Pay Policy for public service	June 2005	Cabinet paper prepared
2. Legal Framework for the PPSRRB	2.1 Review relevant legislation establishing other Pay Review Boards in Public Service	June, 2005	Legislation reviewed
	2.2 Prepare a draft legal framework for PPSRRB	August 2005	Legal Framework for PPSRRB prepared
	2.3 Seek approval of Cabinet/ parliament		Cabinet/parliamentary approval given
3. Wage Management Strategies Implemented	3.1 Finalize Ministerial Strategic Plans	Jan. 2005 – Dec. 2005	Ministerial Strategic Plans finalized
	3.2 Identify and rationalize staffing in:		
	• Over manned areas	Jan. 2004 – June 2005	Staffing rationalized
	• Core functions		
	• Over-lapping and duplicating Functions		
	• Non-core functions		
4. Consolidation of salary, allowances and benefits	4.1 Undertake a study on allowances and benefits		Study on Allowances and Benefits undertaken
	4.2 Identify allowances/benefits to be retained and those to be abolished		Allowances/Benefits to be retained/abolished identified
5. Advocacy Strategies	5.1 Officially launch the Public Service Policy	October 2005	Pay Policy launched
	5.2 Circulate Pay Policy to all stakeholders	November 2005	Pay Policy circulated
	5.3 Hold Pay Policy Dissemination Seminars	December 2005	Pay Policy Disseminated
6. Deepen Rationalisation in Parastatals and local Authorities	6.1 Finalize corporate plans for parastatals and Local Authorities	Jan. 2004 – June 2005	Corporate Plans for parastatals and Local Authorities finalized

Corrigendum

APPENDIX

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	3.2 Identify and rationalize staffing in:		
	<ul style="list-style-type: none"> • Over manned areas 	Jan. 2004 – June 2005	Staffing rationalized
	<ul style="list-style-type: none"> • Core functions • Over-lapping and duplicating Functions • Non-core functions 		
4.. Consolidation of salary, allowances and benefits	4.1 Undertake a study on allowances and benefits	March – July 2006	Study on Allowances and Benefits undertaken
	4.2 Identify allowances/benefits to be retained and those to be abolished	July 2006	Allowances/Benefits to be retained/abolished identified
5. Advocacy Strategies	5.1 Officially launch the Public Service Policy	March 2006	Pay Policy launched
	5.2 Circulate Pay Policy to all stakeholders	March – May 2006	Pay Policy circulated
	5.3 Hold Pay Policy Dissemination Seminars	March – May 2006	Pay Policy Disseminated
6. Deepen Rationalisation in Parastatals and local Authorities	6.1 Finalize corporate plans for parastatals and Local Authorities	Jan. 2004 – June 2005	<ul style="list-style-type: none"> • Corporate Plans for parastatals and Local Authorities finalized

Activities	Sub-Activity	Timeframe	Performance Indicators/Targets
7. Implement VERS	7.1 Reduce staff through VERS <ul style="list-style-type: none"> ● Finalise procedures ● Seek approval from PSC ● Pay off staff and remove names from payroll 	July 2005 – June 2007	21,338 civil servants retired under VERS
8. Institutionalize Performance Based Management	8.1 Introduce Performance Contracts for CEO, PS and HoDs	July 2005 – June 2007	Performance Contracts in Place
	8.2 Set performance standards in Public Service	July 2005 – June 2006	Performance Appraisal instruments developed
	8.3 Introduce reward systems and penalties in the Public Service	July 2005 – June 2007	Reward systems and penalties developed.
	8.4 Undertake Job Evaluation and regrading in all organizations	July 2004 – June 2007	Job evaluation and regrading undertaken
	8.5 Complete review of Schemes of Service/Career progression guidelines for all cadres in the Public Service	July 2004 – June 2006	Schemes of Service and career guidelines reviewed
	8.6 Harmonize Schemes of Service and grading Structures in the Public Service	July 2001 – June 2006	Schemes of Service and grading structures harmonized.

Activities	Sub-Activity	Timeframe	Performance Indicators/Targets
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