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## **Incentive Structure and Efficiency in the Kenyan Civil Service**

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### **Abstract**

Kenya's civil service expanded rapidly after independence, becoming by far the largest in East Africa. Following economic decline since the 1980s, however, it became difficult for the government to sustain a large and inefficient public sector. To raise efficiency, extensive civil service reforms and changes in its incentive structure were necessary to reflect the government's new priorities. The main factors affecting performance in the civil service include low salaries and allowances for the civil servants, lack of equipment and office space, poor compensation, absence of a career-development structure, and poor delegation. This paper examines factors affecting efficiency in the Kenyan civil service with emphasis on incentive structures, ranging from wage emoluments, training and promotion procedures and sanctions against poor performance. Several incentive realignments for improving efficiency in the civil service emerge.

First, salaries and other emoluments of the civil service should be improved to a level deemed conducive to increasing morale and productivity and maintained to preserve it in real terms via periodic reviews and in line with macroeconomic developments. The existing huge gaps between government and private sector wages for highly skilled workers should be narrowed to enable the government to retain its productive staff. Currently, retrenchments are used to reduce the size of the civil service and to improve productivity, but the government has been too slow in improving its working conditions so as to realise positive impacts of a smaller and flexible civil service.

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Second, the civil service in Kenya needs to adopt modern management techniques such as performance evaluation, career planning, utilization and effective delegation to enable it achieve efficiency gains in service delivery.

In addition, job descriptions and evaluations of job performance should be integrated to the professionalization of the civil service to engender meritocracy in appraisal of individual staff performance. Finally, improved performance by the civil servants with adequate and well-maintained office infrastructure requires an increase in the proportion of government expenditure on equipment and general maintenance.

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## 1. Introduction

At independence in 1963, the Kenyan civil service was, as in other African countries, dominated by non-African expatriates. Although the policy of Kenyanization saw the lower ranks of the service gradually occupied by African Kenyans, the top levels were retained by Europeans. However, the need to attract high calibre employees in the service necessitated a high degree of wage differentiation, which became the distinguishing feature of the Kenyan civil service for many years. The Kenyans that eventually took over from the expatriates in the first decade of independence came to enjoy high emoluments, since public wage structures remained largely unchanged (Rempel, 1981). In subsequent years, and in response to the slow job creation in the rest of the modern sector, there was a dramatic expansion in the size of the civil service. An acute lack of space and facilities in government offices followed, while duties were often duplicated.

By the late 1980s it had become clear that the government could no longer sustain such high levels of civil service employment. This was also the view voiced by the donor community as well as the multilateral institutions. Civil service reform, they argued, would help reduce the number of public employees to manageable levels, increase wages and other conditions of service for those remaining in the system, and generally raise morale. Further, the government needed to put in place management and incentive systems that would alter the attitudes and behaviour of civil servants, the goal being to create a more results-oriented public sector (see Langseth *et al.*, 1995). Still, as in many other African countries that have been attempting civil service reform in the past decade, economic efficiency arguments have sometimes been superseded by political considerations, notably the need to preserve jobs and the capacity to provide services to the countryside.

The Kenyan civil service is amongst the largest in sub-Saharan Africa, having experienced dramatic growth after independence. In the days of rapid economic growth in the 1960s and 1970s, it was also reckoned to be among the most efficient in the region. This paper looks at the factors affecting the efficiency of the Kenyan civil service, with regard to service delivery and in meeting the objective of poverty reduction, with emphasis on incentive structures, ranging from wage emoluments, promotion procedures and sanctions against poor performance. On the basis of this analysis, a policy discussion is undertaken that focuses on ways in which policymakers can enhance the performance of the civil service.

The paper is structured as follows. First we undertake a quick look at the development of the Kenyan civil service since independence. This is followed by a review of civil service reforms, undertaken since the early 1980s, and their impact on employment, earnings, as well as on the provision of social services. After a brief review of the theories of motivation, we look at the incentive structure in the Kenyan civil service, especially following the recent reforms. The final section consists of a summary and conclusion.

## **2. Overview of the public sector in Kenya**

### **2.1 Structure and development**

The main features of the public service in Kenya were laid out quite early in the colonial period, with provincial administrations consisting of sub-commissioners, district police and a hierarchy of chiefs, sub-chiefs and headmen. In the 1950s, twelve fully-fledged ministries for public service provision were formed. There was also a parallel expansion in the apparatus of provincial administration aimed at bringing administrative services closer to the people. District officers were posted to every administrative division in the country, accompanied by professional and technical staff. Other important developments included the setting up of a public service commission as well as a police service commission. The two were meant to facilitate the recruitment of personnel and the preservation of regulations and standards in two of the most important sectors of the public service.

The public service commission was first established in 1954. It now consists of a chairman and five members all appointed by the president. It is not independent from the appointing authority and political pressure has been brought to bear from time to time. The public service commission has not only the power to appoint, promote and transfer but also the power to retire any public service employee who has reached retirement age, or on grounds of ill health or poor discipline. In the latter case it can interdict or suspend the individual concerned from work or withdraw their salaries. Lastly, the commission can also punish errant officers through various measures, such as outright dismissal, reduced rank or recovery of any loss caused by default or negligence.

The legal framework relating to the labour market in Kenya has not changed much during the course of structural adjustment. It continues to be guided by the government's desire to keep the labour movement under its control with a view to ensuring that wages remain at levels that encourage the utilization of labour-intensive technologies. Government legislation has, in this regard, covered such issues as social security, health care provision, minimum wage laws, and fringe benefits, including paid vacations, severance pay, housing allowances and statutory holidays. However, these laws and regulations are often only enforceable in the formal sector of the economy.

During the past few years, the government's wage guidelines to the private sector have undergone important changes. Upward revisions of minimum wages have, for example, been made at frequent intervals to compensate the lowest cadres for increases in the cost of living (Republic of Kenya, 1995a). It has also been necessary, in an increasingly sophisticated labour market, to accord more weight to labour productivity in collective wage bargaining. Also significant was the change in the legal system to allow employers to appeal against too high wage awards by the Kenyan Industrial Court.

In the 1960s and 1970s, civil service employees were relatively well paid, in some cases better than in the private sector. The government was able then to both attract qualified staff and to motivate them (Republic of Kenya, 1966). In addition, following recommendations from a commission of inquiry during 1970/71, civil servants were permitted to own and run private businesses so long as they were publicly declared. This controversial measure has been the subject of debate and criticism ever since. Conflicts of interest have been cited, even after the government adopted a code of ethics for civil

servants in 1979 in a bid to address them. Still, sources of income outside the civil service have helped civil servants to supplement their rapidly declining real wages. O'Brien and Ryan (2000) have shown that real wages in the public sector fell by 65 percent between 1970 and 1994.

Given the budgetary constraints mentioned above, the falling real wages were a direct market response to the rapid growth of public sector employment. Throughout the 1970s and 1980s public employment grew much faster than the economy and the budget itself. For instance, civil service employment grew by 7.4 per cent per year, rising from 160,000 in 1979 to 277,600 in 1989 (O'Brien and Ryan, 2000), although the economy itself grew by 4.4 per cent per year during the period. The government's blank guarantee of employment to graduates from its tertiary institutions, including universities, was a major contributing factor to the rapid growth of public employment. However, the guarantee was discontinued in the late 1980s due to its unsustainability following the government's decision to implement a five-fold expansion in enrolment in public universities.

The civil service then simultaneously experienced excess demand for employment at the entry level while more responsible positions, at higher levels, remained vacant for failure to make the remuneration attractive. While the latter problem was less serious than in neighbouring countries, it certainly hampered the implementation of key aspects of the government's programme. In the second half of the 1980s, the government received large amounts of budgetary and balance-of-payments support from the IMF and World Bank. This loosened the budgetary constraints, enabling the government to defer personnel retrenchment and the taking of other difficult expenditure reducing decisions (O'Brien and Ryan, 2000). However, by 1993, action on fiscal reform was not only imperative, but had also become a key demand of the donor community. A civil service reform programme was thus launched in 1993, supported by the World Bank, UNDP and several bilateral donors. On the whole, as will be shown below, the reform has had limited success.

## **2.1. Employment in the civil service**

At least up to the late 1980s, the government had behaved like a residual employer in the modern sector of the economy. The share of the public sector in total wage employment rose from approximately 30 percent at the time of independence in 1964 to 47 percent by 1981 (see Table 1). It increased further to 50 percent by 1989, but then declined sharply in the following decade reaching 41 percent in 1999. The share of the civil service in total public sector employment ranged between 40 to 44 percent in 1981-9, declining thereafter to 31 percent in 1999. Table 1 indicates that civil service employment was declining from the late 1980s to the end of the 1990s. The decline was due partly to the declining economy, and partly to the freezing of recruitment and the introduction, very much under the influence of the donor community, of civil service retrenchment programmes.

In addition to its role of employer, the government also undertook measures that had direct effects on the rest of the labour market. During the periods 1964-5 and 1970-1, tripartite agreements were reached between the government, employers and trade union representatives with a view to wage moderation in exchange for employment expansion in both the private and public sectors. It was hoped that up to a 10 percent increase in employment would be realised thereby.

TABLE 1: WAGE EMPLOYMENT IN THE FORMAL AND CIVIL SERVICE 1981-99

Year	Total formal employment in thousands	Public sector employment in total formal (%)	Share of civil service workers in public sector employment (%)	Growth in civil service employment (%)
1981	1,024.3	47.2	44.3	0.2
1982	1,046.0	48.3	42.9	1.0
1983	1,093.3	48.3	42.9	4.5
1984	1,119.7	48.4	42.7	2.1
1985	1,174.4	48.9	43.9	9.0
1986	1,220.5	49.1	43.3	3.1
1987	1,264.5	49.4	43.9	5.7
1988	1,311.0	50.4	40.9	-1.4
1989	1,335.6	50.3	41.1	3.5
1990	1,409.3	49.7	39.1	-2.3
1991	1,441.8	49.6	38.3	0
1992	1,462.0	47.4	38.8	-1.7
1993	1,474.9	46.5	39.0	-0.4
1994	1,504.4	45.7	37.3	-4.1
1995	1,557.0	44.3	35.0	-6.0
1996	1,618.8	43.3	32.5	-5.6
1997	1,647.4	42.5	31.3	-3.9
1998	1,664.9	41.9	30.7	-2.3
1999	1,673.6	40.8	30.5	-2.6

Source: Republic of Kenya, *Economic Surveys* (various issues).

Ironically, although there was an excess demand for employment in Kenya, there was also a serious shortage of skills. However, as in other African countries, the skill requirements vary considerably from sector to sector. The main source of skill formation has been the formal school system.<sup>1</sup> The formal education system has seen a rapid expansion since independence, with the growth of school enrolment, at all levels, exceeding the rate of growth of the labour force. Since high wages were initially used as a means of inducing an adequate supply response, the returns to education proved to be quite significant leading in turn to a further demand for education. The government's subsidization of education in general served to magnify its returns. In the early 1970s, the Kenyan education system was acknowledged as the only means to well paying and prestigious jobs. This was to further enhance the process of certification in Kenya (Republic of Kenya, 1973). However, the rapid expansion of the education system, as well as the high demand for formal schooling, in the face of a stagnating economy, have led to excess labour supply as the markets began to assert themselves.

The impact of this educational expansion is clearly evident. The level of schooling of those currently in the labour force in both private and public sectors has risen considerably while the share of those with no education has fallen steadily in the past few years. New entrants to wage employment are more likely to have secondary education than the ones already there. Still, while the expansion in education has been associated with a general reduction

<sup>1</sup> The other major source of skill formation is on-the-job training.

in returns to education over time (see Manda, 1997; Appleton, Bigsten and Manda, 1999), compared to lower levels of education returns to university graduates remain high, probably reflecting scarcity of skilled manpower.

In terms of skill composition, only a small proportion of the civil service employees occupies professional and higher technical cadre jobs accounting for only 10.8 percent of the total civil service, while managers account for about 1 percent of the total. The remaining are low cadre workers. The disproportionately small share of professionals and managers in civil service employment explains to some extent the poor performance of the public sector. The government has introduced inspectorates in an attempt to raise productivity. With respect to gender, women constitute about 20 percent of the total civil service employees, and only about 9 percent of senior management.

In comparison with its neighbours in East Africa, Kenya's public service employment is about 2 percent of total population, which is double that of Uganda and Tanzania (see Table 2). In addition, the government spends about 9.2 percent of the GDP on public services, compared with 5.2 percent for Tanzania and 3 percent for Uganda. In terms of the proportion of public expenditure that finances government wages, the Kenyan level is higher regionally, at about 37.3 percent, with Tanzania and Uganda at 32.9 and 29.7 percent, respectively. While aid inflows have helped assuage the burden on the budget in the former countries, in Kenya the government resorted to increased domestic borrowing to finance its wage bill (Wamuyu and Shaw, 1998).

TABLE 2: EMPLOYMENT IN THE PUBLIC SECTORS OF THE EAST AFRICAN COUNTRIES

Country	Govt. wage bill as % of GDP	Govt. wage bill as % of current expenditure	% public service workers to population
Kenya	9.4	37.3	2
Tanzania	5.2	32.9	0.9
Uganda	3.0	29.7	1

Source: IMF (1997).

The rapid growth of the public sector has had a number of negative implications. First, the expansion of the civil service has led to rapid growth in government expenditure. Over 70 percent of the government's recurrent expenditure is spent on wages leaving only about 30 percent for operational expenses, including vehicles, equipment and other supplies. Relatively low expenditure on the latter has meant that existing facilities, including personnel, are under utilised or poorly maintained. Second, it is difficult to increase wages for civil servants without decreasing their numbers substantially, since even marginal increases in personnel emoluments have in the past led to disproportionately large increases in the total budget. Third, for the lower cadres, the rapid expansion of the civil service has led to poor supervision, since the professional categories have grown relatively slowly. Understaffing in the middle to upper level positions in the civil service is, as already noted, partly a result of unattractive pay in the civil service compared to the private sector.

### 3. Civil service reform

#### 3.1 Initiating reform

With the onset of economic crisis in the 1980s, it became clear that the size of the Kenyan civil service was not sustainable. However, although the government first stated its intention to reduce public sector employment in 1986, it was not until the 1990s, when the Ministry of Public Works laid off a large number of its casual workers, that the process began in earnest.<sup>2</sup> The government also rescinded its employment guarantees to graduates from higher institutions of learning, notably the universities. From the 1990/91 financial year, the government sought to constrain the growth of central government employment to only 2 percent per annum, and that of employees under the Teachers Service Commission to 5 percent (Ikiara, 1992; Ikiara and Ndung'u, 1987). Other measures included staff redeployment, with emphasis on essential services, and the abolition of the hiring of temporary staff. Earlier, in the mid 1980s, the mandatory retirement was reduced from 60 to 55 years and voluntary retirement with full retirement benefits to 50 years.

The civil service reform instituted in April 1992 had the objectives of improving the quality of public services, reducing government expenditure, raising the productivity of the civil service and rationalizing the staffing levels. It was to be implemented in three phases. The first focused on the reduction of the number of civil servants, in a bid to cut costs. The second phase was meant to bring about a marked improvement in policy analysis and performance. While the third stage would focus on the improvement of finance and general management (Republic of Kenya, 1995a).

Marking a departure from earlier attempts, the reform programme sought to reduce the size of the civil service, at 272,000 in the early 1990s, at a rate of 6 percent per year for 5 years. This amounted to 16,000 individuals per year, with up to 6,000 layoffs achieved via normal attrition, with the rest laid off through a voluntary retirement scheme (Republic of Kenya, 1994). Those retrenched were expected to seek employment in the private sector and self-employment opportunities either in agriculture, small-scale manufacturing or commercial and trading enterprises. 'Golden handshakes' and other severance pay packages and some retraining were offered to the retrenched to facilitate their entry into self-employment in the informal sector or small-scale agriculture.

While retrenchment has caused much apprehension among civil servants, they have not been able to articulate their grievances collectively. Indeed collective action on the part of public sector workers has been almost impossible in past decades, following the banning of the Kenya Union of Civil Servants in the 1970s. While attempts have been made to revive the union in recent years, the government has continued to oppose it, while the threat of losing employment has made civil servants quite docile. The retrenchment programme has added pressure to the country's volatile socio-economic situation, while the political fallout has been considerable as well. For example, attempts to retrench up to 6,000 administrators (including chiefs and their assistants) from around the country, was dropped for fear of the political implications.

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<sup>2</sup> In 1992, Nyayo Tea Zones, a government company, laid off a large number of workers.



Still, reform efforts have continued, especially following the introduction of the Civil Service Reform: Medium Term Strategy, 1998-2001. The programme aims to retrench 48,000 public service workers, and already 25,000 had been laid off by the end of 2000. The improved state finances will enable the government to improve the public sector terms and conditions of service. But, reflecting the high level of political opposition that is facing the civil service reforms, a bill declaring retrenchment to be unconstitutional was recently passed by the Kenyan Parliament.

While it is generally agreed that poor civil service remuneration lies at the centre of the incentive problems facing the government, it is still only one of the many causes of poor performance. In the budget speech for 1998/99, the finance minister noted that the recruitment and promotion procedures within the service must also improve. That to restore professionalism in the civil service, better remuneration must go hand-in-hand with career advancement based on merit.

Training has been identified as a key feature in efforts at raising the efficiency and productivity of the civil service. In 1995, the government embarked on a training programme to uplift the skills of the civil servants. To ensure that training becomes part and parcel of the civil service reforms, the government has restructured the Kenya Institute of Administration. It now undertakes training, research, and consultancy services on a commercial basis.

However, in spite of the above reforms, the remuneration of public employees relative to their counterparts in the private sector is still low. Relative to the number of employees still retained in the civil service, the wage bill is small and further retrenchment might be needed if the government's ambition of offering a competitive wage is to be realised.

### **3.2 The impact of retrenchment**

The retrenchment programme has affected the lower job categories in the civil service more negatively than the more skilled levels. First, the lower cadres constitute about 88 per cent of the entire civil service, with some 50,000 of them retired between 1993 and 1998. Second, the opportunities for retraining have been geared towards more skilled workers. Third, prospective job openings, for example the parallel increase in teacher recruitment to improve education services, benefited more skilled categories.

The voluntary early retirement scheme (VERS), targeted mainly at skilled categories, reduced the size of the civil service by 24,080 employees between May 1994 and October 1995. Even with high one-off VERS implementation cost totalling Kshs. 4.4 billion, the government was still able to save about Kshs. 1.2 billion in salaries and allowances per year. Some of the resultant savings from the scheme have been ploughed back into the public sector, especially to increase operations and maintenance expenditure, improve delivery of services and increase the level of job satisfaction among those remaining in the civil service (Republic of Kenya, 1995b).

However, voluntary retirements have not been applied evenly across ministries and districts. There are indications that some job cadres have been affected more than others, with adverse implications for efficiency in some line ministries and for the deployment of

personnel and other resources in the more marginalized regions of the country (Republic of Kenya, 1995b).

#### **4. The incentive structure in the Kenyan civil service**

##### **4.1 Theories of motivation: an overview**

Before looking at incentive structures in the Kenyan civil service, let us briefly present some theories of motivation. They can be divided into two broad categories: content theories, which analyse individual employees with the aim of identifying their needs and how they vary; and process theories which try to explain how the reward structure affects employee behaviour.

Among the best known content theories is Maslow's hierarchy of needs (Maslow, 1954) which posits that human needs can be arranged hierarchically. Individuals seek first to satisfy their primary needs, such as food and shelter, but quickly look beyond these motivations as their situation improves. A related theory is that of acquired needs ascribed to McClelland (1962). It posits that individuals develop the need for achievement, power and affiliation over a period of time and are in turn motivated by these needs. Herzberg's motivation-maintenance theory argues that factors that cause job satisfaction have a stimulating effect on performance and morale, while those, which cause job dissatisfaction have a negative impact. Positive factors are intrinsic to the job, while negative factors are extrinsic. That is people are happy with their work when they are doing a good job, which enhances their experience and expertise. On the other hand, job dissatisfaction is a result of shortcomings in the work place, for example, when workers are being paid low wages, working conditions are unsafe or workers fear for loss of their jobs (Megginson *et al.*, 1983).

Turning to process theories, expectancy theory predicts that a worker's motivation will be low if s/he feels that the performance level required for promotion is unattainable, is not confident that high performance will result in career enhancement, or attaches little value or significance to promotion. It is important, therefore, to understand the needs of individual employees and adjust their reward profile accordingly. The second process theory is the equity hypothesis (see Adams, 1963). Here feelings of equity and group solidarity in the work place play an important role in the behaviour of individual employees. Workers feel inequitably treated when their rewards are lower than for similar employment in their organization or elsewhere. However, while individuals who feel that they have been overpaid or who perceive positive inequity, increase the quantity or quality of their work, those who feel underpaid reduce their work effort. Rewards perceived to be equitably distributed increase job satisfaction and thus lead to a higher level of effort and performance. The goal-setting motivation theory, due to Locke and Latham (1984), postulates that well-set organizational goals are important sources of motivation. Employees are made aware of the direction that needs to be taken and can gauge the effort required to achieve the goals of the organization. Lastly, the reinforcement theory, instead of attempting to explain what people do to meet their basic needs or to achieve personal goals, focuses on the external environment and the consequences it holds for individuals within and outside the organizational setting. Positive reinforcement increases or strengthens the frequency of desired behaviour by making a pleasant consequence

contingent on the occurrence of certain behaviour. Negative reinforcement, on the other hand, strengthens desirable behaviour via punishment. The above theories throw considerable light on the experience of the Kenyan civil service, particularly the apparent lack of motivation.

## **4.2 The existing incentive structure**

In a study of six African countries, Negandhi (1985) finds that workers in the African civil services, much like in other parts of the world, desire quality employment. They demand job security, opportunities for advancement, good working conditions as well as an impartial mechanism for promotion and reward (see also Jaeger and Kanungo, 1991). Good governance and a more democratic approach to management in the public sector are also key ingredients in current efforts at reforming the civil service. In a study of the Cameroon, Ndongko (1999) notes that in spite of the hierarchical impediments, managers in the civil service perceived to be democratic in their treatment of staff, were also able to explain the rationale behind the reform being attempted and to elicit higher levels of performance from those under them.

In Kenya, the terms and conditions of service are key ingredients in the incentive structure. However, as indicated above, salaries and other benefits in the civil service are reviewed only about every six years while, in accordance with the government's wage guidelines, those in the private sector are reviewed every two years. When the period between salary reviews is this long, a cumulative erosion of the purchasing power of the civil servants is bound to take place. This affects their morale as well as productivity.

Two important entitlements for civil servants are housing allowances and medical care. The housing allowance has been a key feature in the benefits package since the colonial days. In the 1960s, and partly as a deliberate attempt to create an elitist civil service, houses were provided to government workers at very low nominal rents. However, the government's own stock of houses was quickly superseded by the number of employees in the public sector, necessitating complex non-price rationing procedures, based on seniority and longevity of service. Subsequently, a housing allowance in lieu of a house allocation has become the standard procedure in most urban areas. However, in spite of frequent upward adjustment of housing allowances, they still cover only a fraction of the actual cost of housing. For instance, in 1997 house allowance was about 15 per cent of the monthly wages for a majority of the workers in the service. This is lower than the 30 percent recommended by the government. Those lucky enough to be allocated a government house thus enjoy a substantial subsidy. Lower cadres of civil servants now live in seriously crowded neighbourhoods, with poor access to social services, such as water and sewerage outlets.

With respect to medical care, most civil servants are members of the National Hospital Insurance Fund (NHIF). However, with generally rising costs for medical care, the fund can now only cover a small portion of the total costs for treatment. Sickly households, often the poorest, soon find themselves closed out of the system as the amounts for which they are insured are exceeded. There are also a number of other allowances and benefits, including annual leave allowance, subsidised loans and, for senior officers, loans for the purchase of vehicles.

Thus bureaucratic practises in the Kenyan civil service are rules driven. However, the capacity to monitor and implement the rules and regulations remains inadequate. Those in management and supervisory positions share a partiality for exercising power for its own sake. Ultimately, civil service employees tend to see their jobs as a means of meeting their personal needs, as opposed to the broader goal of the efficient provision of social services. The style is quite rigid and given to coercion (Jaeger and Kanungo, 1991) and few government goals are achieved. The alienation of workers increases when they cannot relate to the goals of the government (Kippis, 1976). This leads, in turn, to a cold and impersonal climate that does not enhance productivity. Government stores, plants and equipment, including vehicles, are often mismanaged. Since maintenance budgets are low or misused repairs are rare or put off until the equipment in question breaks down.

How then is performance in the civil service evaluated? In Kenya, the systems for doing this are still very rudimentary, with the majority of civil servants lacking targets against which their performance can be measured. A confidential annual report, done for every employee by the supervisor, is meant to provide the basis for career advancement and other rewards. In practice, however, the document has become highly subjective, since there are no laid down criteria for performance evaluation. There are also many cases of 'stagnation' for certain groups, indicating that while dealing with promotions the terms and conditions of services are not always adhered to. Since staff morale depends to a large extent on prospects for promotion, a serious lack of fair play and transparency in staff evaluation, as when the process is influenced by politics, affects overall morale negatively. Thus, while performance evaluation is an important tool for making decisions on issues of promotion, rewards, training and staff development, lack of objectivity has reduced its usefulness for policy and planning.

The effective delegation of duties is crucial for bureaucratic efficiency. It ensures the proper utilization of employees, the sharing of responsibility, and the satisfaction that comes with the achievement of shared goals. Above all, the delegation of duty is crucial for the training of junior officers. However, in a politicized civil service, the delegation of duty ceases to be a tool of management and becomes a means for the exercise of patronage. The resulting environment is again not conducive for innovation and personal growth.

In conclusion, a poor incentive structure is the main cause of the failure of the Kenya civil service to deliver high quality services. Poorly paid and poorly motivated workers tend to pursue their own utility including opportunities for rent seeking, completely neglecting the goals of the government. For example, to make ends meet, civil servants are forced to engage in other income generating activities, often using government offices as their base. Corruption in the procurement and delivery of goods and services has become a serious problem. All these factors imply that the effort dedicated to government work diminishes markedly.

In Kenya, improving the functions of the civil service has been a central concern of policy makers. The recent hiring of people by the government from the private sector and the international civil service to rejuvenate the public sector, and inject purposefulness in the running of the economy, has raised hopes that a turnaround might be achieved. Still, reaching political consensus on the central reforms remains difficult. Moreover, the fact that the government is now ready to rely on a temporary team of private sector technocrats

to revamp the civil service reveals the low state to which the public sector had declined, as well as the amount of work that will be required before it is restructured. However, the hiring of these technocrats, who draw market-based wages, introduces a dilemma with respect to future wage policy and manning issues. In the short term, however, the government might find it difficult to motivate civil servants to pursue the goal of poverty reduction, when, apart from the well-remunerated technocrats, government employees see little improvement in their lot. Many civil servants consider themselves among the poorest groups in the country and demand that their poverty be alleviated first.

### **4.3 Earnings in the Kenyan civil service**

The government affects wage setting in the rest of the economy via its direct influence on wage setting in the public sector and through its minimum wage legislation. In earlier decades, this made the public sector a wage leader. Real earnings in the public sector rose by 48 percent between 1963 and 1965, but only by 6 percent for the private sector, job seekers were thus attracted to the civil service.

However, by 1966, private sector salaries had started to catch up with those of the public sector (Collier and Lal, 1980). Indeed, as a study by Rempel and House (1978) suggests, the government had ceased to be a wage leader for unskilled labour by the early 1970s. Instead, a sub-set of firms, operating under imperfectly competitive conditions in the product market, had assumed wage leadership at the lower end of the wage distribution. Although the public sector remained a wage leader among skilled categories for much of the 1970s and 1980s, the private sector's influence on skilled wages increased in the 1990s. In recent years, the government's influence on wage setting in the country is less direct as it no longer is a strong competitor for skilled labour.

The setting of emoluments and terms of service in the civil service has evolved via the formation, from time to time, of civil service review commissions. In 1963, for example, the Pratt Commission submitted recommendations, which led to rapid increases in salaries. The Millar-Craig Commission of 1967, for its part, considered a range of criteria for setting public sector salaries, including standard of living levels, comparisons with market based wages and income equality. Noting that the earnings of civil servants had improved considerably in comparison to the incomes of smallholders, the latter commission recommended increases for low-wage earners only (Republic of Kenya, 1967). A similar concern for the low paid was expressed by the Ndegwa Commission, 1971, which also suggested increases in wages for the lowest paid in the public sector. The Ndegwa Commission also established the principle that as long as a 'code of ethics is observed' public sector employees could be engaged in private economic activities. The implied conflict of interest, though seemingly mild at the time, became critical with the deterioration of public sector wages.

The 1980 Waruhiu Commission, considered the extent to which the recommendations of the public service structure and remuneration suggested by the 1971 Ndegwa Commission, had been implemented in order to suggest further action. The Waruhiu Commission noted that the state of the civil service, morale, productivity and efficiency had deteriorated in the 1970s and that an environment that was conducive to efficiency was lacking. It recommended that all public service officers declare their business interests and that implementation of changes in any aspect of their terms of service be conditional on this

declaration. Although the recommendations of the Warihui Commission on salaries and other terms of service were promptly implemented, the radical restructuring of the civil service, which it recommended was never attempted. Similarly, the Ramtu Commission of 1985, reviewed the structure of salaries and emoluments in the civil service and also considered the incentives required to attract and retain competent and qualified personnel. The commission recommended salary increase for all workers with proportionately more for those in the lower job cadres. Noting that management was crucial for improved performance and productivity of the civil service.

The Munene Commission of 1997 is the most recent effort at examining the structure of salaries and other terms and conditions of service in the public sector. Compared to earlier commissions, it had the broader agenda of harmonizing the salaries and other terms and conditions of the service of all the branches of the public service, including the education service. Like those before it, the commission noted that the salaries and allowances paid to civil servants were low and inadequate. Lags between salary reviews and phased implementation of compensation were to blame for the poor motivation and low productivity. Moreover, by not making efforts to close the gap between private and public pay, the government was risking loss of manpower to the private sector. The most significant recommendations of the Munene Commission were the need to establish a permanent public service pay review board which would review pay and benefits matters on a recurrent basis, and also ensure their harmonization across the public sector. The commission also recommended the development of schemes of service for every job cadre and the monetization of all payments, thus doing away with the current system of allowances and honoraria.

The above review of efforts to improve civil service performance based on the recommendations of government appointed commissions shows that solutions have not been lacking—what has is the government's willingness to implement the policies suggested. Commissions became political pressure valves, which provided policymakers with excuses for not taking serious action. Indeed new commissions were appointed before the recommendations of the earlier ones were considered. Thus, in spite of the focus on wage improvements by the commissions, wages in Kenya fell sharply until the mid 1990s when civil service reforms were embarked on (see Table 3). In the period 1991-4, when implementation of structural adjustment programmes was disrupted by political problems as well as the aid embargo, leading to inflation, the decline in real earnings was large, over 20 per cent in 1993 alone. However, since 1995 there have been increases in real wages in both the private and public sector. This recovery was partly a result of the reduction of inflationary pressure, as weather patterns improved and the government returned to the negotiating table with its donors and the multilateral institutions, ensuring resource inflows. Both the government and the private sector were able to increase wages in real terms.

The decline and increase in real wages depicted in Table 3 indicate, as already noted above, that wages have been responsive to labour market conditions. Other African countries also experienced similar changes in real wages. In Côte d'Ivoire (Hoddinott, 1996), and Africa more generally (Jamal and Weeks, 1993), labour markets reacted to excess labour supply with sharp declines in real wages. The same evidence indicates that African public sectors, unlike during the 1960s when Harris and Todaro (1970) studied African labour markets, are no longer wage leaders. As such, the centrally determined

minimum wage or related legislation cannot prevent wage erosion in the rest of the economy.

TABLE 3: CHANGES IN REAL EARNINGS IN THE FORMAL SECTOR (%)

Period	Private	Public
1981– 5	-1.6	-2.3
1986–90	-0.9	-1.4
1991	-7.9	-9.9
1992	-9.2	-12.3
1993	-20.2	-24.2
1994	-8.5	-8.1
1995	22.5	16.1
1996	12.3	10.0
1997	8.8	7.6
1998	12.2	15.4
1999	13.0	9.0

Source: Republic of Kenya, *Economic Surveys* (various issues).

TABLE 4: ESTIMATED EARNINGS EQUATIONS (DEPENDENT VARIABLE IS THE LOGARITHM OF MONTHLY EARNINGS)

Variable	Private sector		Public sector	
Constant	6.3683*	(0.151)	7.2998*	(0.219)
Experience	0.0590*	(0.010)	0.0158*	(0.013)
Experience squared	-0.0010*	(0.002)	-0.00001	(0.001)
Skilled workers dummy	0.8381*	(0.075)	0.5787*	(0.073)
Primary dummy	0.0354*	(0.132)	0.1017	(0.184)
Secondary dummy	0.4141*	(0.132)	0.2887	(0.181)
University dummy	1.7464*	(0.273)	0.9534*	(0.212)
Male dummy	0.5667*	(0.074)	0.1976*	(0.066)
Coast Province urban areas dummy	-0.6905*	(0.102)	-0.1879	(0.117)
Rift Valley Province urban areas dummy	-0.6729*	(0.104)	-0.3299*	(0.106)
Western Province urban areas dummy	-0.7016*	(0.197)	-0.7749*	(0.134)
Eastern province urban areas dummy	-0.4482*	(0.119)	-0.2558*	(0.111)
North-eastern province urban areas dummy	-1.7608*	(0.274)	-0.5067*	(0.194)
Nyanza province urban areas dummy	-0.3475*	(0.130)	-0.1410	(0.114)
Central province urban areas dummy	-0.2345*	(0.123)	-0.0556	(0.126)
R-squared	0.406		0.222	
Number of observations	1107		693	

Source: regression estimates based on Welfare Monitoring Survey (WMS) data of 1994 collected by CBS, Kenya.

Note: \*variables are significant at the 0.01 level. Standard errors are in parenthesis.

To conclude the wage comparison and to analyse the determinants of earnings, we estimate, following Mincer (1974), separate semi-logarithmic earnings equations for public and private sectors using data from a welfare monitoring survey conducted in Kenya in 1994. We restrict our analysis to OLS regressions, with data drawn from the urban portion

of the sample, since it had more complete data. The results of the regressions are presented in Table 4.

As indicated by the  $R^2$ , the earnings regression in the equation for private sector workers in the sample is better explained by the independent variables in comparison to the equation for public sector employees. This reflects the fact that in the public sector the wage-setting process is driven by government appointed commissions while that in the private sector is more market determined. In both sectors, experience is important as a determinant of wage levels, although more so in the private sector. The latter reflects the situation described above, where individuals have been maintained in the civil service for reasons of political patronage rather than for their competence. Moreover, the premium attached to university education is much greater in the private than the public sector. Thus although the public sector is the single largest employer of university graduates, many see it as a place to acquire some experience to enable them future access to better paying jobs in the private sector. Highly skilled individuals are thus attracted to the private sector, partly explaining the failure of the government to fill management level positions in the public sector.

Thanks to a more rigorous implementation of minimum wage legislation in the public sector, employees with primary education are better rewarded in government than in the private sector, while those with secondary and university education have better wages in the private sector. This probably explains why those holding low-level jobs in the public sector tend to remain there up to retirement. Another reason for remaining in public sector employment for these groups is the higher level of security attached to public employment. Moreover, since low-level jobs in government are loosely supervised, they provide greater opportunities for shirking and even outright corruption than private employment.

With Nairobi as the area of comparison, the results show that regional effects on earnings are important for employees in both private and public sectors, but are more marked in the private sector. In the private sector remoteness is a key factor in wage determination. Thus compared to Nairobi, location in the North-Eastern province has a large negative impact on private wages, while that of being located in Central province is much smaller. Table 4 shows that location effects on wages are generally milder in government than in private employment, in part a reflection of the relative homogeneity of the civil service labour market.

To summarise the discussion in this section, we have noted that, with the deterioration of the economy, real earnings in Kenya have contracted over time. However, the erosion of earnings has been more marked in the public than in the private sector. Although the government has relied on wage commissions to ensure timely adjustments, in fact commissions have had little positive impact on wages, with commission recommendations implemented in a patchy fashion, if at all. Skilled workers continue to be better rewarded in the private than public sector, explaining why it is difficult for the government to find sufficient numbers of qualified people for its management jobs. Clearly, the incentive structure of the civil service must be improved if the manning levels are to stabilize. While it might be difficult to bring public sector earnings in line with those of the private sector in the medium run, public sector earnings must rise relative to those of the private sector if morale in the civil service is to be improved.



## **5. Motivating employees in the Kenyan civil service: summary and conclusions**

This paper has looked at factors affecting efficiency in the Kenyan civil service. The country's civil service expanded rapidly after independence, becoming by far the largest in East Africa. However, by the late 1980s, and in the face of economic decline, it became clear that the government was no longer able to sustain a large public sector. Further, that to raise efficiency, extensive civil service reforms were needed. The incentive structure of the civil service also needed changing in order to reflect the government's new priorities. Salaries and allowances for the civil service, especially for skilled workers, are lower than in the private sector, while lack of equipment and space, poor compensation, absence of a career-development structure, and poor delegation lower incentives for civil servants.

In summary, five aspects of incentive realignment in the civil service are worth reiteration. First, salaries and other emoluments of the civil service, once they reach a level deemed conducive to increasing morale and productivity, should be preserved in real terms via periodic reviews and in line with macroeconomic developments. The current huge gaps between government and private sector wages for highly skilled workers should be narrowed if the government is to retain its staff. In recent years, retrenchments have been used to reduce the size of the civil service and to improve productivity. However, the government has been slow in improving its working conditions, notably wages, and the positive impacts of a smaller and flexible civil service are thus yet to be realised.

Second, the civil service needs to adopt more modern management techniques. This will enable it to respond rapidly to the challenges of development in Kenya, such as poverty reduction, decentralization and fiscal accountability. Better management will also ensure that a higher degree of efficiency required in service delivery, especially in the countryside, is achieved. Some of the management practises that could be given more emphasis are management by objectives, performance evaluation, career planning, utilization and effective delegation. Management by objectives, though frequently mentioned in policy statements, has not been practised to any large extent in the Kenyan civil service. To reach predetermined management objectives demands effective delegation. A general lack of an effective system of delegation in the Kenyan civil service has led to idleness and low morale. It is thus important to make the delegation of responsibilities part and parcel of the management culture in the civil service, as a means of introducing responsibility and mutual trust, and as a basis for leadership training.

Third, job descriptions and evaluations of job performance should become part and parcel of the professional culture of the civil service. This entails the introduction and development of clear job descriptions, schedules of work and the setting of targets on the basis of which civil servants are assessed. This makes it possible for the government to appraise individual performance, on which future promotions and other rewards are based, without bias. In relation to this, simple and transparent criteria for promotion should be put in place to eliminate political interference and corruption.

Fourth, civil servants will not perform their duties effectively, without adequate space, supplies and equipment. The bulk of government expenditure currently goes to wage compensation, while very little money is spent on equipment and general maintenance. Lack of space is quite serious in the countryside and offices at district or provincial headquarters are often overcrowded. Very little improvement will be seen in the private

sector's capacity to deliver services until the government increases the share of its budget going towards operations expenses.

Finally, this study has demonstrated that while a well-run civil service is a prerequisite for social economic progress in Kenya, a lot remains to be done before the sector acquires the resources needed to raise efficiency in government operations. The decline of working conditions in the civil service is, however, not isolated and is closely linked to the poor performance of the rest of the economy. For example, in a stagnant economy, the government was forced to turn the public sector into an employer of last resort for the increasingly large number of people graduating from state institutions. Thus much as the improvement of the civil service is important for Kenya's economic performance its reform also crucially depends on the revival of the economy, a mutual interdependence that must be recognised by policymakers.

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