NATIONAL PRODUCTIVITY AND PERFORMANCE CONFERENCE - 2026

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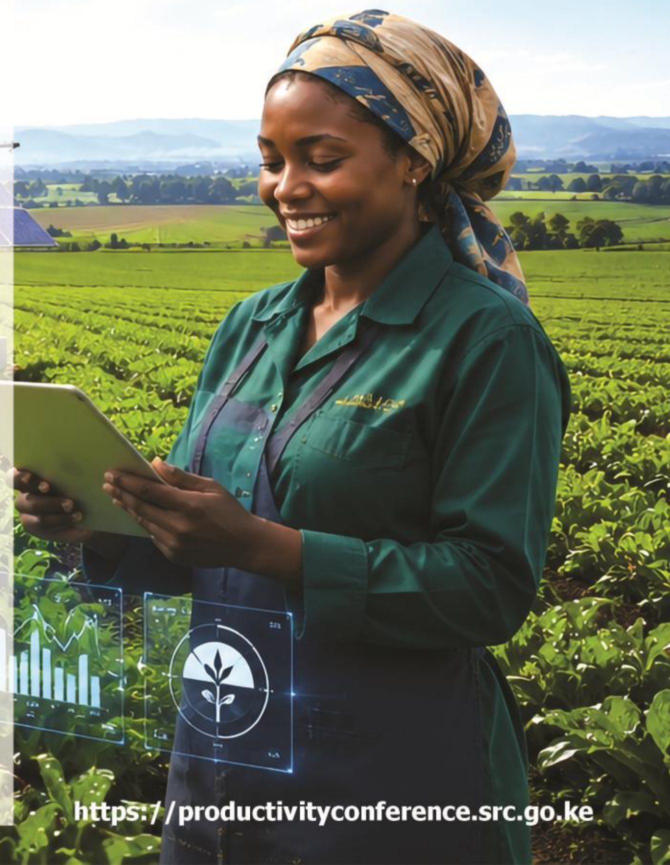
KENYA SCHOOL OF GOVERNMENT - NAIROBI

Theme: Productivity for Fiscal Sustainability and Efficient Service Delivery

Wage Determination and Management for a High-Performing Public Service: Linking Compensation to Productivity as a Strategy for Achieving Fiscal Sustainability and the Public Finance Management Wage Bill Threshold in Kenya



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SIGMA
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Wage Determination and Management for a High-Performing Public Service: Linking Compensation to Productivity as a Strategy for Achieving Fiscal Sustainability and the Public Finance Management Wage Bill Threshold in Kenya

2026 National Productivity & Performance Conference

Lech Marcinkowski, Public Service Team Leader, SIGMA, OECD

Nairobi, 18 June 2026

Linking remuneration to performance and productivity in the public sector: attractive in principle, difficult and risky in practice

Public wage bills are often one of the largest parts of government spending

Citizens expect better value for money (better services for their taxes)

Why this matters and why this is difficult?

Governments, alike businesses, want to **reward performance**

Productivity in public administration is **harder to measure** than in the private sector

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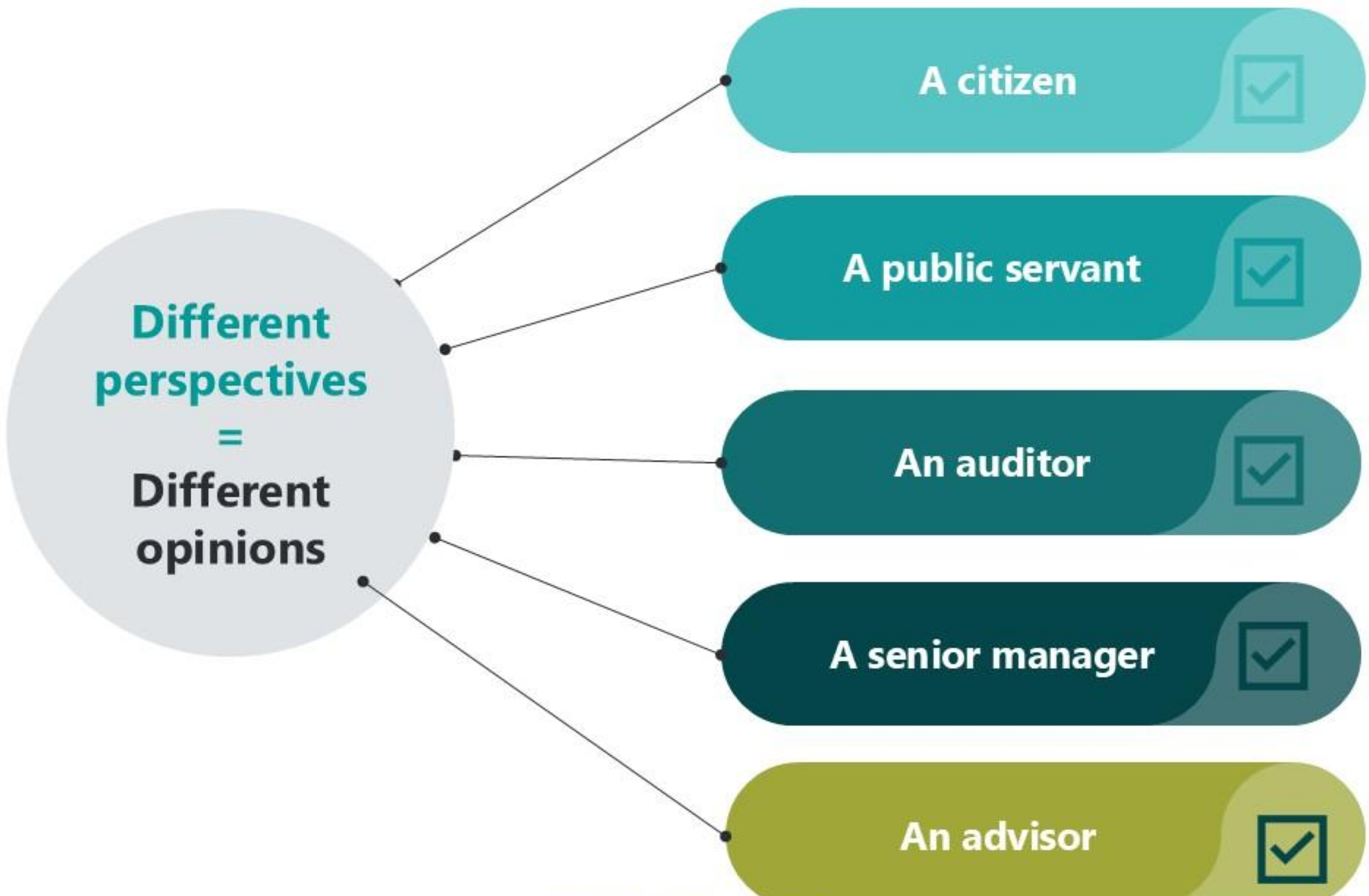
PRP/incentive payments for the public servants – my personal experience



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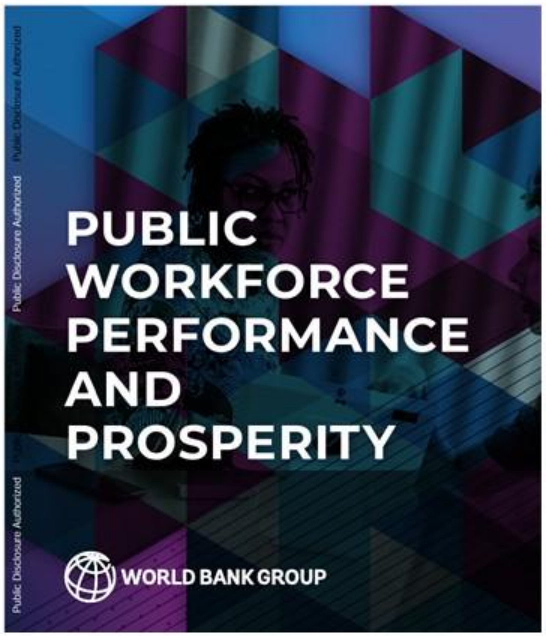
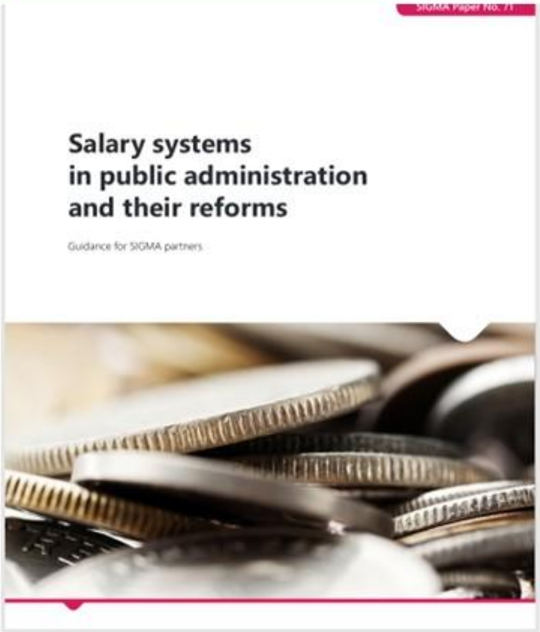
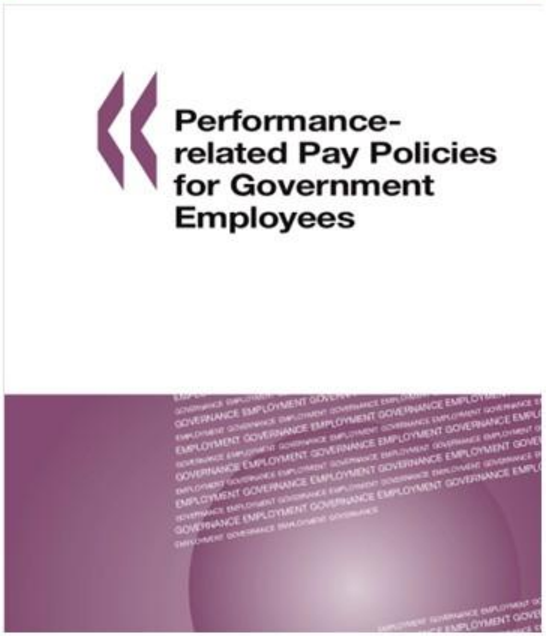
Generalised international experience – on salaries and performance

World Bank 2026	SIGMA 2025	OECD 2005







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What does "productivity" mean in public service?

Public service productivity is not "more output per employee"

- Producing more and better public services with available resources
- Improving service quality and outcomes
- Using staff, skills, technology, and management practices more effectively
- Delivering results fairly, lawfully, and inclusively
- Achieving outcomes that matter to society

Examples of "easy" productivity indicators

- Tax administration: revenue collected per staff member, compliance rates, taxpayer satisfaction,…
- Health care: patients treated, screening coverage, waiting times, quality of care, mortality for conditions,…
- Licensing, permits, registries, benefits: processing time, error rates, backlogs, user satisfaction,…
- Education: student results, progress over time, dropout rates, teachers' attendance,…

But how about core civil service, complex, multi-dimensional?

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Public sector productivity indicators (examples) Part 1

Workforce and staffing productivity	Service delivery productivity	Quality and outcome indicators	HRM Indicators: share of employees
Number of service outputs per employee	Average processing time	Error rate in administrative decisions	recruited through open competition
Staff-to-population ratio in core functions	Backlog reduction rate	Appeal or complaint rate	with job-related competency testing during recruitment
Share of staff deployed to front-line service delivery,	First-time resolution rate	Citizen satisfaction with services	receiving formal performance evaluations
Vacancy rate in critical occupations	Cost per service delivered	Service quality standards met	receiving job-relevant training during the year

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Public sector productivity indicators (examples) Part 2

Pay and incentive indicators	Integrity and accountability indicators	Digital productivity indicators	Collaboration indicators
Public-private wage premium by occupation and grade	Share of staff who feel safe reporting corruption or misconduct	Reduction in processing time after digitalisation	Frequency of collaboration across ministries or levels of government
Ratio of allowances to base pay	Number and resolution rate of misconduct reports	Digital service uptake rate	Share of joint projects delivered on time and within budget
Share of performance bonuses linked to results	Share of staff reporting pressure to act unethically	Share of staff trained in basic digital skills	Number of integrated service delivery processes implemented.
Distribution of performance ratings	Audit findings resolved within deadline	Share of managers trained in data use and analytics	Stakeholder or community engagement frequency

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Challenges with setting targets in public sector organisations

- If targets are poorly designed, performance bonuses can improve reported performance without improving real public value.
- Common challenges:
  - Choosing measurable targets instead of meaningful targets
  - Gaming the system
  - Target inflation or low ambition
  - Neglecting unmeasured tasks
  - Quantity over quality
  - Unfairness and loss of trust
  - Weak data quality
  - Short-termism
  - Pressure on managers to award bonuses
  - Crowding out public service motivation

- Risk of rewarding compliance with indicators, NOT real productivity

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Performance management must come before performance pay

- Performance pay depends on credible performance management.
- Without clear objectives and honest feedback, bonuses are often distributed by seniority, personal preference, or across-the-board rotation.
- If managers cannot distinguish performance fairly, the system may lose credibility.
- Examples:
  - Korea
  - Latvia
  - Chile
- Success factor:
  - Performance-related pay often builds on annual objectives, mid-year feedback, documented evidence, and manager training.
- A solution that backfires
  - Differential system – only compare individuals
  - Efficient but detrimental to collaboration – incentive to work against colleagues

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Key design choice: productivity pay or performance-related pay?

Productivity-linked pay usually connects pay to measurable outputs or efficiency gains.

Performance-related pay connects pay to appraisal results, objectives, competencies, or institutional targets.

Career progression linked to performance affects movement through salary steps.

Bonuses reward performance without permanently increasing base salary.

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OECD experience

- Nearly all OECD countries have implemented some form of PRP
- High diversity with no clear best practice.
- Few have succeeded in designing an effective system of bonuses
- Little evidence for increased motivation or quality of core civil services.
- The PRP can be useful in raising performance norms across public sector.

Source: OECD (2016), Survey on Strategic Human Resource Management

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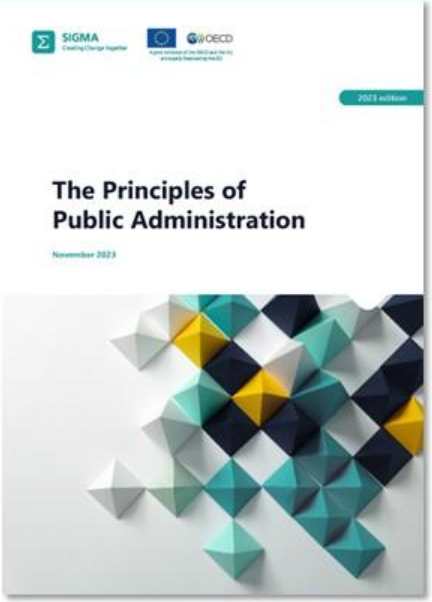
SIGMA guidance: Principles of Public Administration

Principle 11.f. **Performance-related pay, if introduced, constitutes a limited proportion of the salary, is based on clear criteria and provides incentives aligned with the public interest.**

Guidance on PSHRM (Principles 8-12)



Measurement framework:

- Bonuses are legally capped under 20% of total remuneration of a public servant
- Percentage of public servants who received bonuses during the latest full calendar year is below 50 %
- Direct superiors participate in awarding bonuses to their staff
- Perception of the impact of the reward system on the organisation’s performance (%)

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A good system of performance-related pay

- is built on a fair and transparent base pay system
- is linked to credible performance management, not just annual scoring
- uses meaningful and balanced indicators
- is selective and adapted to the type of work
- combines individual, team, and institutional incentives
- protects against gaming and perverse incentives
- is transparent and trusted by staff (perceived legitimacy is a key)
- is fiscally affordable and controlled
- does not become automatic
- is supported by reliable HR, payroll, and performance data
- is accompanied by training and capability development
- reinforces public service values
- adequately deals with low performance

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Centralised /customised/ full autonomy of PRP systems

- Centralised pay decisions can create pressure for general increases (rare)
- Decentralised PRP can make the wage bill more predictable
- Central guidance and oversight is often needed
- A fixed performance-pay envelope for each agency (3%; savings?)
- Agency managers can target rewards more precisely (at which level?)
- Differentiated measurement methods with indicators adjusted to work of the agency
- Strong safeguards are essential
- PRP in “unsuccessful” institutions?

- Examples: UK (centralized for SCS), France, Australia,

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Avoiding "everyone wins" systems / quotas ?

- If almost all public servants receive the bonus, the system becomes a salary supplement rather than a performance incentive. Motivation is lost.
- Hard quotas, forced distribution, soft expected distribution, budget caps.
- Country examples:
  1. UK distribution curve
  2. Korea percentage of staff
  3. Chile, Canada and Ukraine
  4. Kosovo* (justification with evidence)
  5. Latvia
  6. OECD Secretariat calibration meetings

- Lessons
  - High achievement may reflect real improvement, but it may also show that targets are too easy, poorly differentiated, or negotiated to ensure payment.
  - Clearer definitions of success (what is A-level performance) leads to better outcomes
  - Should the PRP be linked to performance appraisal system? (risk of dual systems)

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Performance pay for top public managers (senior civil servants)

- To strengthen accountability for results and signal a performance culture at the top
- To reward contribution when promotion opportunities are limited.
- Senior roles often have clearer organisational responsibility than many line jobs.
- In some countries TPMs are excluded from PRP
- Challenges:
  - Weak selectivity, limited credibility, or very broad award distribution.
  - In Canada, in 2024-25 98% of executives earned performance pay, which raises questions about whether the system makes strong enough distinctions between levels of performance.
  - In New Zeland, in 2018 the Government considered ending PRP for executives: not an effective incentive for complex roles and could be counterproductive to collaborative, team-based leadership

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Singapore integrated PRP system

- Country on top of international ranking of public administrations
- Structure of compensation
  - Fixed pay
    - Base salary (grade-based) + 13th-month bonus (NPAA)
  - Variable pay (20–35% of total for senior grades)
    - Performance Bonus (PB): based on individual appraisal
    - Merit Increment (MI): salary progression linked to performance
    - Annual Variable Component (AVC): economy-linked bonuses
- Strong individual performance linkage
  - PB and MI reflect annual performance ratings
- Macro-level linkage to national productivity
  - AVC adjusted based on GDP growth, labour market conditions
  - In 2025: total of 1.7 months in full-year AVC
- A system success, where PRP is one important tool embedded in a broader framework of strong governance, capability and accountability.

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Canada: restrained model

- PRP applied mainly to senior executives (EX group)
- Structure of performance-related pay
  - At-risk pay (≈10–20% of salary) if you meet the expectations
  - Bonus for exceptional results
- Annual performance agreements:
  - Linked to government priorities
  - Based on results + leadership competencies
- System works "to some extent" but not transformative
- High participation (>90%) in performance management
- Limited differentiation:
  - ~98% receive performance pay
  - Only ~7% receive bonuses
- Limitations
  - Weak incentive effect ("everyone performs")
  - Perceived issues with fairness and consistency
  - No clear link to productivity growth

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Estonia – 2026 new performance bonuses

- Approved by the Government in March 2026
- Performance bonuses of up to €50,000 per civil servant, and €500,000 per project
- If a civil servant's work leads to a larger socioeconomic benefit for society
- Projects to be selected by an independent commission with representatives from various sectors of society, including the media
- If decisions with a major impact are involved an additional bonus could be awarded (especially if eliminating the official's own position)
- Bonus would only be paid if the project achieves its expected impact in full; partial payments are not prescribed. Goal agreed in advance.

- Acceptable in Kenya?

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Advantages and problems linked to different forms of performance payments

	Advantages	Disadvantages
Merit increments	• Long-term incentive	• Tends to become an automatic annual payment • Less visible than bonus • More costly in the long term (impact on long term pay bill and pensions)
Bonuses	• More clearly related to performance, more visible • More flexible and easily manageable • Less costly, do not add to fixed payroll costs (pensions) • Do not tend to become an automatic annual payment	• Short-term incentive • Not included in the base salary: less motivating for the long term
Large size of performance payments	• Positive and immediate impact on motivation	• More limited distribution of rewards: risk of demotivating the majority who do not receive rewards • Risk of focusing on rewards at the expense of base pay • Any problems linked to procedural justice of the appraisal become more serious
Small size of performance payments	• Opportunity to distribute them to a greater number of staff • Opportunity of associating them with wider organisational or management changes	• Limited impact on motivation • Lack of differentiation between staff
Quotas	• Clear system for performance differentiation and facilitates budget control of the scheme	• Artificial way of differentiating performance: risks undermining the credibility and impact of the whole PRP scheme

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HR preconditions for Performance-related Pay

Skills for managers

- Strategic objective-setting and Indicator design
- Performance monitoring and Evidence collection and documentation
- Fair appraisal and Bias awareness
- Differentiating performance levels
- Calibration and moderation
- Feedback and difficult conversations
- Coaching and performance improvement planning
- Managing PRP rules and budgets
- Integrity and procedural fairness
- Handling appeals and grievances
- Communication and sense-making
- Change management

Skills for employees

- Understanding objectives and standards
- Understanding what counts as evidence
- Tracking own performance
- Self-assessment and Evidence presentation
- Participating in performance discussions
- Understanding differentiation
- Responding to feedback professionally
- Using development opportunities
- Understanding how PRP decisions are made
- Knowing review and appeal procedures
- Readiness for a performance culture

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The right question

The question should not be:

“Should we link pay to productivity or not?”

We should ask:

In which functions,

with which indicators,

under which safeguards,

and after which management reforms

can remuneration be linked to performance

without damaging fairness, quality, collaboration, or public trust?

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Key strengths of The Variable Pay and Flexible Wage and Benefits Model in Kenya

1. The proposal provides a strong strategic direction for Kenya
2. The diagnosis is convincing: the challenge is shifting from affordability to productivity (It correctly reframes the wage bill problem)
3. It proposes a hybrid model rather than a simplistic PRP model (rightly avoids replacing fixed pay with pure performance pay)
4. The fiscal control logic is strong (recognises fiscal sustainability)
5. The proposal includes individual, team, and institutional incentives.
6. The proposed phased implementation (piloting) is appropriate.

These strengths are built on solid basis:

- Constitutional Salaries and Remuneration Commission
- Public Service Remuneration and Benefits Policy Guideline 2022

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Main gaps to address

The proposal

- is too optimistic about measurement, should be more selective.
- should make PRP eligibility conditional on institutional readiness: workforce analytics and evidence-based management in place
- should strengthen the role of managers and their skills
- The National Productivity Dividend needs a clearer design

Recommendations

1. Run an external readiness assessment and pilot where output is easily measurable.
2. No institution should join the PRP scheme unless it has credible objective setting, performance reviews and trained managers.
3. Use NPD as a complement, not a core incentive.
4. NPD could be a self-financing mechanism, not a fiscal burden.

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Communication strategy for this politically sensitive reform

- The first message should be: ***"This is a service-improvement and accountability reform, not a hidden pay rise"***.
- Publish the evidence base before announcing full rollout
- Explain the safeguards up front before predictable concerns are voiced
- Choose the right messengers
- Communicate in plain language and use examples people can judge
- Announce limits and exclusions early
- Prepare for hostile narratives and misinformation
- Publish a public monitoring dashboard

People must understand **why** the reform exists, **how** abuse will be prevented, and **what evidence** will be published to judge success.

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Key takeaways

1. Do not start with bonuses. Start with the problem.
2. Reward contribution only where government can credibly observe it.
3. Treat trust as the core infrastructure of performance pay.
4. Use remuneration reform to strengthen the state, not just control the wage bill.
5. Start small, learn fast, and scale only what works.

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Find out more about SIGMA

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Thank You