NATIONAL PRODUCTIVITY AND PERFORMANCE CONFERENCE - 2026

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KENYA SCHOOL OF GOVERNMENT - NAIROBI

Theme: Productivity for Fiscal Sustainability and Efficient Service Delivery

Fiscal Consolidation and Wage Bill Management:

Towards Results-Oriented Budgeting for Expenditure Efficiency and Productive Service Delivery

National Treasury, Kenya

https://productivityconference.src.go.ke

Introduction

- Ladies and Gentlemen, it is my honour to present Kenya's perspective on wage bill management and fiscal consolidation. Today, we focus on how Results-Oriented Budgeting can help us achieve efficiency and productive service delivery.
- Public wage bills are among the largest components of government expenditure. In Kenya, they account for a significant share of both total spending and GDP. While wages are essential for motivating public servants and ensuring service delivery, unchecked growth of the wage bill can crowd out investment in infrastructure, health, education, and other critical sectors
- Our wage bill is not just a budget line. It represents the backbone of our public service. But unchecked growth threatens fiscal stability.
- This presentation therefore explores how Results-Oriented Budgeting can help us balance sustainability with service delivery

Abstract

- Effective wage bill management and fiscal consolidation are fundamental to preserving macro-fiscal stability and enabling productive public service delivery in developing economies where compensation costs often displace capital and programmatic spending.
- The paper focuses on **fiscal consolidation and wage bill management** in Kenya, using **Results-Oriented Budgeting (ROB)** as a tool to improve efficiency and preserve resources for capital investment and service delivery.

Conceptual Framework

- **Fiscal Consolidation**: Reducing deficits and stabilizing debt by rationalizing expenditure and mobilizing revenue
- **Wage Bill Management**: Aligning public compensation with productivity, affordability, and sustainability
- **Results-Oriented Budgeting (ROB)**: Linking resources to measurable outputs/outcomes, embedding cost-benefit analysis, and using digital systems for transparency

Efficiency Dimensions under ROB

- **Allocative Efficiency**: Directing funds to high-return interventions (e.g., preventive health, education)
- **Technical Efficiency**: Maximizing outputs from inputs via performance contracts, HR/payroll digitization, and reducing leakages
- **Expenditure Efficiency**: Ensuring spending achieves intended outcomes at minimum cost, supported by audits and MTEFs

Why Wage Bill Management Matters

- **Fiscal Sustainability**: A rising wage bill reduces fiscal space, limiting government's ability to invest in development priorities
- **Service Delivery**: Resources diverted to salaries mean fewer funds for medicines, classrooms, and roads - crowds out investment in infrastructure, health, education
- **Competitiveness**: High public wages can distort private sector wage-setting, reducing competitiveness and job creation
- **Accountability**: Without performance-linked budgeting, wage growth risks becoming detached from productivity
- When the wage bill grows faster than revenues, it squeezes out funds for roads, schools, and hospitals. It also distorts private sector wages and undermines accountability. Managing it wisely is essential.

Lessons from International Experience

- **Evidence from OECD, IMF, and African peer countries shows:**
  - **Short-term restraint** (wage freezes, hiring limits) can stabilize finances but often demoralizes staff
  - **Medium-term reforms** (pay linked to performance, restructuring government size, modern HR systems) deliver sustainable efficiency gains
  - **Dialogue matters**: Successful reforms involve consultation with unions, workers, and citizens to build consensus
  - **Digitalisation and transparency**: Countries that modernized payroll systems reduced ghost workers and improved accountability
- Countries that succeeded in wage bill reforms combined restraint with structural change. They engaged unions, modernized payroll systems, and linked pay to performance. Kenya can learn from these experiences

Kenya’s Current Context

- Wage bill growth has outpaced revenue growth, creating fiscal pressures
- Recruitment and pay structures remain fragmented across Ministries, Departments and Agencies (MDAs)
- Service delivery outcomes are uneven, with wage spending not always translating into improved citizen satisfaction
- Fiscal consolidation is urgent to safeguard macroeconomic stability and restore investor confidence
- In Kenya, wage bill growth has outpaced revenue. Pay structures remain fragmented, and service delivery outcomes are uneven. Fiscal consolidation is urgent to safeguard stability

Towards Results-Oriented Budgeting (ROB) {*Programme-Based Budgeting (PBB) =Performance-Based Budgeting (PBB*)*}

- **ROB = PBB = PBB***
  - Budgeting for results in terms of outputs and outcomes
  - Shift focus from inputs → outcomes
  - Performance contracts tied to service delivery
  - Efficiency audits of staffing and productivity
  - Integrated payroll systems for transparency
  - Outcome-based allocations linked to citizen results
- ROB means asking: what results do we achieve with the money we spend? It requires performance contracts, efficiency audits, integrated payroll systems, and outcome-based allocations

Towards Results-Oriented Budgeting (ROB) *{Programme-Based Budgeting (PBB) =Performance-Based Budgeting (PBB*)}*

- ROB shifts focus from inputs (how much we spend) to outcomes (what we achieve). For wage bill management, this means:
  - **Performance contracts**: Linking pay progression to measurable service delivery targets.
  - **Efficiency audits**: Regular reviews of staffing levels, skills, and productivity.
  - **Integrated payroll systems**: Eliminating duplication and ensuring transparency.
  - **Outcome-based allocations**: MDAs must justify wage expenditures against service delivery benchmarks.

Policy Priorities for Kenya

- **Moderation with fairness** – Align wage growth with productivity, while protecting essential services.
- **Structural reforms** – Move beyond temporary freezes to lasting changes in pay structures, recruitment, and performance management.
- **Efficiency and accountability** – Ensure wage bill savings are reinvested in growth-enhancing sectors.
- **Dialogue and consensus** – Engage workers, unions, and citizens in shaping reforms that are fair, transparent, and sustainable.
- **Digital modernization** – Expand ERP and HRMIS systems to strengthen payroll integrity and expenditure tracking
- Our policy priorities are clear: moderate wages fairly, pursue structural reforms, reinvest savings in growth, engage stakeholders, and modernize payroll systems

Recommended Policy Measures

- **Short-term**: Mandatory cost-benefit analysis, payroll clean-up, freeze non-essential recruitment
- **Medium-term**: Integrate HRMIS with IFMIS, pilot performance-linked pay, adopt MTEF ceilings with personnel projections on the basis of Zero-Based Budgeting (ZBB)
- **Long-term**: Rationalize pay scales, institutionalize independent expenditure reviews, strengthen oversight via open data

PFM Act Compliance:
Managing the 35% Wage-to-Revenue Threshold

- Where statutory or policy thresholds exist—for example, a 35% cap on wage-to-revenue ratios—they should be treated as instruments of value-for-money rather than purely technical constraints.
- Compliance requires transparent demonstration of programmatic outcomes that justify personnel costs.
- MDAs that cannot link headcount to demonstrable program outcomes should see personnel ceilings adjusted to restore alignment between spending and impact

Managing Social and Political Risks

- Wage reforms and consolidation carry social and political risks. To reduce disruption and opposition, suggested reform strategies should include:
  - Engage stakeholders (unions, counties, civil society).
  - Phase reforms through pilots before scaling.
  - Provide protection measures (retraining, redeployment, voluntary separation).
  - Transparent communication to build trust.

Conclusion

- Managing the wage bill is not about cutting costs for their own sake. It is about creating fiscal space for investment and building a lean, effective, citizen-focused government
- Managing the wage bill is about building a government that delivers more with less, ensuring every shilling spent translates into better services for our people
- This is our commitment: every shilling spent must deliver results for citizens. That is the essence of Results-Oriented Budgeting

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Thank You

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IGRTC INTERGOVERNMENTAL RELATIONS TECHNICAL COMMITTEE
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