



OFFICE OF THE DEPUTY  
PRIME MINISTER  
& MINISTRY OF FINANCE



# Reforms in Public Finance Management



Joseph Kinyua, PS Treasury

## CONTEXT

Government of Kenya launched a comprehensive programme - the Public Financial Management Reform Programme (PFMR) - to strengthen public financial management systems in 2006. The programme supported reforms and capacity building in ministries and agencies central to implementation of the broader economic reforms in Kenya. The objective of the programme was to make public financial management more transparent, accountable, and responsive to policy priorities. Essentially, it was a response to the realization that governance challenges in the public sector had for many years impacted negatively on Kenya's economic growth and development contributing to increased cost of doing business in the country, discouraging private investment, and was an obstacle to addressing widespread poverty and improving the quality of life of citizens. Previous reform initiatives to deal with these problems yielded only modest results, but starting after election in 2002, reform programmes became more effective. Several components undertook reforms to improve fiscal discipline, bring resource allocations in line with development priorities, improve budgeting preparation and execution as well as financial reporting and evaluation processes. Development Partners, including the World Bank, European Commission, JICA, DFID, DANIDA, Sweden, CIDA, GIZ, USAid and Norway worked closely with the Kenya Government in implementing the reforms. The first phase of the programme ended in June 2011.

This Dissemination Note reviews the programme's reform interventions and achievements in the Civil Service Pensions Management.

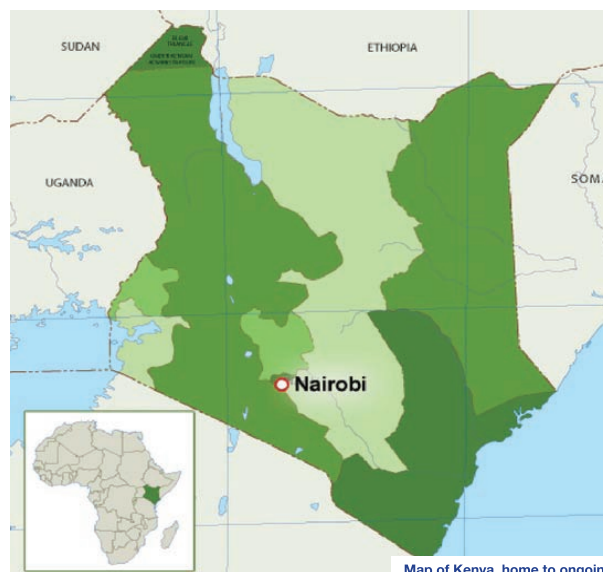
## CIVIL SERVICE PENSION SCHEME IN KENYA

The civil service pension scheme in Kenya is administered by the Pensions Department domiciled at the Ministry of Finance. The Department's role includes processing and payment of pensions, death gratuities and other benefits to retired, deceased or terminated officers in the public service as well as their dependants and legal representatives. This includes former East African Community personnel and those with mixed service including an aspect of Local Government or other public service.

Other functions entail implementation and periodic review of the Pensions Acts, rendering advice to the Government on the public service pensions policy and providing pensioner/customer care services to retired officers and their families on Government pension policy and the administration of their pension.

The Pensions Department with an estimated yearly budget of Kshs 29 billion, receives and processes an average of 24,000 claims annually. The department currently has staff

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Map of Kenya, home to ongoing PFM Reforms.

## DISSEMINATION NOTES [5]

*This is the fifth note as part of a series of notes on Public Finance Management Reforms in Kenya*



Anne Mugo, Pensions Secretary

**PMIS is operational and new pensioners have their data directly fed into the system. We also wire funds directly into payees' accounts.**

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of 150 action officers and about 30 support staff.

Kenya's Public Service Pension Scheme ('PSPS') covers approximately 406,000 civil servants, teachers, police and prison staff and just over 200,000 pensioners. Separate arrangements apply for the armed forces and other military personnel. The Scheme is modelled on a 'Pay-As-You-Go' basis and is non-funded.

### Benefits Administration and Processing

Although the calculation of benefits and processing of the monthly

pension payroll is handled by the Department of Pensions, the department does not currently hold data in respect of in-service public service employees. Processing of benefits is initiated by the retirees' respective former ministries/departments. Pension payments are made through individual bank accounts held by pensioners/dependants and the Public Trustee in the case of death gratuity.

## Reforms within the Pensions Department

### Background to the reforms

The Pensions Department embarked on reforming its operations in the mid 1990s. The reforms were necessitated by challenges resulting from tedious manual processes that made payments problematic and time consuming. Reforms within the Pensions department aimed at reengineering its governance and management systems for effective and efficient service delivery.

### Major Reforms

To bring its operations in tandem with the world's best practice, the PFMR Programme supported the Pensions Department to revamp its service delivery, improve the work environment, re-engineer records management and archiving, carry out payroll cleansing and conduct capacity building for its staff.

In terms of improving service delivery to pensioners, the Department finalized the implementation of the Pensions Management Information

System (PMIS) and as a result, automated and integrated all pension payroll systems. Management reports from PMIS were made available as and when required thus enhancing the speed of decision making. At the same time, payments to pensioners got wired directly to payees accounts in various commercial banks through the Electronic Funds Transfer (EFT) system.



Francis Ngariuku, Secretary General – Kenya Civil Servants Welfare Association

**These days, we don't receive many complaints from retirees when we hold District members' meetings. Increased automation would hasten pension processing and curtail retirees travel to the district offices.**

**Pension payslips could also be introduced to clarify pensioners' entitlements**

The department has improved its customer care module by incorporating a workflow tracking system for pension cases under process thus improving customer care services significantly.

With regards to work environment, the department implemented a new Pensions Officers Scheme of Service which opened up opportunities for staff progression through the ranks by creating additional posts thus addressing the issue of staff stagnation. Similarly, the department installed modern workstations thereby improving the work environment and staff morale.

In the area of records management and archiving, the department re-organized its Registry by installing mobile lockable racks to replace the old wooden shelves. This helped enhance security of files and protection of records from dust and elements of nature.

Concerning payroll cleansing, the PMIS proved invaluable in partially cleansing the payroll by determining pensioners paid through joint accounts contrary to earlier procedures which required that payments be made through individual accounts. However

a comprehensive payroll cleansing exercise is envisaged in the second phase of the PFM reforms to help weed out any 'ghost pensioners' from the payroll. Importantly, automatic upload of pensioners to the payroll helped reduce errors that used to occur when payroll management was done through manual process.

As part of the strategy to manage change, the department trained its core staff on basic computer skills besides holding a team building training programme for its entire workforce. Lessons learnt from the team building programme helped build mutual understanding among staff thus improving the working relationships, productivity and staff morale.

On the technical front, the department took all Pensions Officers and their Assistants through the Pensions Assistants Induction Course to meet the requirement of the new Pensions Officers Scheme of Service hence fast tracking their promotion to higher ranks.

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Tom Odege, Secretary General - Union of Kenya Civil Servants

**To my mind, the transfer of funds directly to retiree bank accounts (via the Electronic Funds Transfer system) has worked well as it has closed corruption loopholes due to reduced visits to the Pensions Department by retirees.**

**The Department could deliver better service if it hastened connectivity with ministries, departments and counties to ease transfer of retiree information from former work stations to the Pensions Department.**

## KEY RESULTS AT A GLANCE

<b>Before reforms</b>	<b>After reforms</b>
<i>Tedious manual information management processes that led to poor service delivery</i>	<i>Automation through the Pensions Management Information System (PMIS) has eased retrieval of pensioners' records and hastened payments</i>
<i>Poor customer care</i>	<i>Introduction of a customer care module which tracks pension cases has improved customer care</i>
<i>Poor work environment</i>	<i>New Pension Officers Scheme of Service and modern workstations have helped improve staff morale</i>
<i>Poor payroll management</i>	<i>Use of the PMIS has helped cleanse the payroll by reducing errors and eliminating payments to ghost pensioners</i>
<i>Poor record keeping and archiving</i>	<i>Installation of mobile lockable racks to replace old wooden shelves has helped improve security of records</i>

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## NEXT PHASE OF REFORMS

### Contributory Pension

#### Scheme: *The Public Service Superannuation Scheme*

The road to reforming the public service pension scheme for civil servants, teachers and the disciplined forces has culminated in the passing of the Public Service Superannuation Scheme bill.

Next phase of the reforms will focus on deepening the contributory scheme. Among other things, there will be need to set up the governance structures under the Public Service Superannuation Scheme Act, 2012. The process will involve consultation with key stakeholders including the Kenya National Union of Teachers (KNUT), Kenya Union of Post Primary Education Teachers (KUPPET) and the Union of Kenya Civil Servants (UKCS) and the Government, among others.

The new scheme aims to introduce a contributory pension scheme funded by both the public servants and the Government with a view to easing the pension burden on the exchequer thus freeing public funds for other critical national priorities while at the same time ensuring that the pension budget remains sustainable. In addition, the scheme will allow portability of pension benefits thus allowing free movement of staff into and out of Government. This will go far in facilitating the ongoing recruitment of fresh talent to implement the new constitution.



Grace Nyarango, Senior Deputy Director – Pensions



**We are looking to roll out the contributory scheme and accomplish full digitization of the registry. An integrated and interactive web based Customer Relationship Module (CRM) to allow for use of biometric technology to remit payments is also on the table.**

### Digitization of the Registry through Electronic Document Imaging (EDI)

On another front, the department will continue to lay emphasis on the Electronic Document Imaging Module in the Pensions Management Information System. The module aims at Digitizing all the file records in the departments' registry estimated to be about 500,000 in number and still growing. Once completed, staff will be able to access the pension files electronically in the same form as they appear in manual/physical form. This is geared to improve records management in the department thus easing retrieval of files and improving the speed at

which payments can be processed and decisions made.

### Interactive Customer Relationship Module

The department will also move to implement an integrated and interactive web based Customer Relationship Module (CRM) that offers point of sale services. The module will assist in deploying the use of biometric technology to remit payments through various agencies operating in various towns especially in the rural areas.

The web based interactive system will also enable the department to implement a mobile SMS service to pensioners to enable them remotely establish the status of their claims and thus improve efficiency and effectiveness in service delivery ■

#### For further information on reforms, please visit;

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