Performance Contract Management For Enhancing County Own Source Revenue Management

1. Background

The Constitution of Kenya, 2010 created a two-tier system of government – a National Government and forty-seven (47) County Governments. The devolved system of governance placed specific functional responsibilities on the national and county governments. The County Governments have wider responsibilities and hence their contribution in the realisation of the Kenya Vision 2030 is of paramount importance.

All the forty-seven county governments developed County Integrated Development Plans (CIDPs) to guide their respective development agendas, which are aligned to the second Medium Term Plan (MTP II) of the Kenya Vision 2030. CIDPs provide a framework for the development of specific performance contracts, annual work plans and budgets. County Governments face a myriad of development challenges against the limited resources which are provided by the national government and those generated by county governments.

Performance contracting is part of broader public sector reforms aimed at improving efficiency and effectiveness in the management of the public service both of national and sub-national governments. Performance contracts (PCs) are necessary in ensuring the set government structures and systems facilitate effective delivery of public services.

The fundamental principle of performance contracting is the devolved management style that lays emphasis on management by outcomes (results) as opposed to management by processes. The implementation of PCs in national and county governments helps clarify the obligations and roles of Ministries, State corporations, county departments, sub-counties, divisions/sections/units and officers (through staff performance appraisal system).

At the sub-national levels, PCs enable County to clearly articulate their priorities objectives and support the monitoring and control methods while leaving the day-to-day management to the leadership of county departments. PCs have been used to define responsibilities and expectations between the contracting parties to achieve mutually agreed deliverables.

Performance Contracting were rolled out to county governments since 2014/15 financial year by undertaking capacity building and offering technical support to county governments on performance management and its key tools. During 2015/16 Financial Year, 18 County Governments were assisted to implement performance contracts. They include Nairobi, Kisumu, Kisii, Homabay, Kakamega, Uasin Gichu, Murang'a, Kirinyaga, Embu, Kitui, Kilifi, Taita-Taveta, Kwale, Laikipia, Tharaka-Nithi, Meru, Kericho and Trans-Nzoia.

Other counties engaged relevant departments of national government and individual consultants to implement PCs in subsequent financial years. They included Migori, Samburu, Wajir, Busia, Nyamira, Nyandarua, Kiambu and Machakos, among others. As of 2016/17 over 25 counties had implemented performance contracts to enhance efficiency and effectiveness in service delivery.

2. Gaps and Challenges

While most counties have initiated the process of performance contracting such as capacity building, identification of indicators and targets, negotiation, vetting and signing of performance contracts, they have not consistently undertaken the rest of the process i.e mid-year performance review, performance evaluation and released evaluation results. Counties have not implemented performance contracting fully.

A good number of counties signed the first PC more than three (3) years ago but have not evaluated nor implemented subsequent performance contracts on annual basis. Partial implementation or failure to implement performance management implies that gains from performance contracting remain a mirage.

On the other hand, while fiscal transfers to County Governments have grown significantly over the last four years, OSR has not grown at the same rate. Consistent failure by County governments to raise own source revenue beyond 11% for the last 5 years calls for thorough review and consideration of the strategies adopted to reverse the trend. Some of the problems identified include: failure to appropriately implement performance contracting to enhance own source revenue collection in counties; unidentified revenue potential that lead to unrealistic targets; underperforming in revenue collection that lead to budget deficits; ineffective and uncoordinated implementation of revenue collection automation solutions; failure to use performance information to inform decision making, absence of knowledge exchange platform for peer-to-peer learning, ineffective policy and legislative frameworks.

Table 1: County Governments Revenue (Ksh. Millions)

Year	Equitable Share	Conditional Grants	OSR	Total	OSR to Total Revenue
2012/13	9,784	6,658	6,756	23,198	29%
2013/14	190,000	20,000	26,296	236,296	11%
2014/15	226,661	15,759	33,849	276,269	12%
2015/16	259,775	16,598	35,022	311,395	11%
2016/17	280,300	18,028	32,523	323,038	10%
Total	**966,520**	**77,043**	**126,633**	**1,170,196**	11%

Source: CARA; County Budget Implementation Review Reports, Various issues

On average, counties have only managed to raise approximately 11 percent of their expenditures as own source revenue between 2013/14 and 2016/17 financial year. The county leadership identified the need to implement and sustain a performance management aimed at improving own sources revenue collection amongst other outcomes. Consistent failure by county governments to raise own source revenue beyond 11% for the last 5 years calls for thorough review and consideration of the strategy adopted. Some of the problems identified include: failure to appropriately implement performance contracting to enhance own source revenue collection in counties; unidentified revenue potential that lead to unrealistic targets; underperforming in revenue collection that lead to budget deficits; ineffective implementation of revenue collection automation solutions; ineffective policy and legislative frameworks.

While more than half of the counties have negotiated and signed PCs, less than a quarter have sustained the momentum of implementing the same and have undertaken performance evaluation and publicly released the performance results.

Box1: What are the Benefits of Implementing Performance Contracts?

The performance contracting is beneficial to county governments because it:

i. Promotes adoption of competitive strategy in the delivery of county public service, driven by deliberate public disclosure and ranking of performance results;

ii. Defines roles and responsibilities of actors and targets to be achieved;

iii. Improves the attitude to work and work ethics of county employees;

iv. Enhances legitimacy of the leadership as evaluation of performance is carried out by and on-behalf of the citizens themselves;

v. Enable counties to, among others things, target their resources to the identified priorities;

vi. Improves service delivery and implementation rate of the activities, projects and programs;

vii. Enhances efficiency of the processes and systems;

viii. Enables implementation of specific affirmative actions for marginalized groups;

ix. Foster savings, stimulate local industries and promote collaborations and partnerships with the citizens and other stakeholders; and

x. Nurture a self-driving culture of performance in the counties.

3. Recommendations

The implementation of performance contracting is key to improving efficiency and effectiveness in the management of the public service and specifically in county governments. Performance contracts will also have great impact in the efforts by counties to enhance mobilization and administration of their OSR. Therefore,

a) Considering that there exists legal framework to implement performance management (Section 47 of County Government Act, 2012), Counties should establish a performance management unit (PMU) under the office the Governor.

b) The capacity building should be undertaken for key staff that include top and middle level county government leadership. County departments should be supported to develop PCs that capture their mandate and key deliverables during the financial year.

c) Upon successful negotiation and vetting of PCs, signing should take place between the Governor and County Executive Committee Members (CECMs) for county departments.

Box 2: Annual Performance Contracting Cycle

The Performance Contracting process is guided by the Annual Performance Contracting Cycle. The cycle comprises of the following milestones and time frames:

i. Identification of performance targets	- By 30th May
ii. Pre-negotiation consultations	- By 15th June
iii. Negotiation of performance targets	- By 22nd June
iv. Vetting of performance contracts	- By 30th June
v. Signing of performance contracts	- By 5th July
vi. Implementation of performance contracts	- 1st July – 30th June
vii. Monitoring of Performance	- Every Quarter
viii. Mid-Year Performance Review	- February
ix. Performance Evaluation	- By 30th September
x. Peer Review of Performance Evaluation Results	- October
xi. Release of Performance Evaluation Report	- Date provided by Governor

d) Specifically, County department for finance should capture indicators that facilitate counties to generate the much needed own revenue as part of their core mandate. In order to reverse the persistent non-performance on own source revenue targets, it is recommended that counties should:

i) Undertake capacity building for senior staff in the county department for finance and planning – capacity building will initially target top management and later be cascaded to middle level management;

ii) County departments in-charge of finance implement performance contracting to clearly identify and raise own source revenue. The leadership in the departments will be guided on how to identify the revenue potential and set appropriate targets for divisions/sections/units.

iii) Ensure implementation of the complete PC cycle – from negotiation to vetting, implementation of the PC, monitoring and reporting, evaluation, release of performance evaluation report and incorporating the report and lessons learnt in decision making and next steps; and

iv) Provide a platform for knowledge exchange – the platform to share and exchange best practices and dialogue for enhanced performance through peer-to-peer learning.

Box 3: Institutional Framework for Implementing Performance Contracting

Performance contracts implementation require that:

i. Performance contracting be spearheaded by H.E. the Governor through the relevant Performance Management Unit.

ii. County government establish and operationalize a Performance Management Unit under the office of the Governor or the Deputy Governor.

iii. A County Department designate a Performance Management liaison officer to coordinate activities in the department.

iv. The Performance Management Unit takes responsibility for the development of agenda and priorities for the implementation of performance contracts.

4. Conclusion

Performance contracting aligns execution to priorities identified and fast-tracks achievement of the set goals. It unlocks to the latent potential for organizations, teams and individuals to play their role towards provision of competitive services. Implementation of performance contracting to enhance own source revenue will establish performance standards to be achieved, strengthen performance contracts implementation, help in rationalizing, clarifying and facilitating continuous follow-up, monitoring and reporting, link planning, budgeting and execution of county priority projects and programs, and link county priorities to national development priorities. Performance contracting for County will enhance OSR and inculcate the performance oriented culture for self-sustainability and financial independence.

The sample performance contract for the County Executive Committee Member (CECM) for Finance and the Director for Revenue templates can be found at www.ceg.or.ke for further reference. This template model can be customized to fit individual county needs.

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