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Good Practices in Social Security

Good practice in operation since: 2005

Application of Performance Contracting in Social Security Administration in Kenya

A case of the National Social Security Fund

Winner of the ISSA Good Practice Award – Africa competition 2008

National Social Security Fund
Kenya

Summary:

Poor performance by National Social Security Fund (NSSF) has been a matter of public concern since 1965. A historical analysis of NSSF service delivery in Kenya revealed a steady decline despite a raft of measures taken to alleviate the situation. The decline was evident in member contributions, registrations, benefit processing, compliance, cost management, suspense containment and resources utilization.

Consequently, NSSF adopted the application of Performance Contracts in the management of its affairs in June 2005. A Performance Contract is a tool for measuring performance against negotiated targets. The broad objective of introducing the system was to enhance service delivery in a transparent and accountable manner. Resultant outcomes expected include enhanced service delivery in the areas of concern.

The innovative strategy includes specification of mutual performance obligations and responsibilities of the parties, signing annual performance contracts and regular monitoring and evaluation of performance. In implementing this good practice, resources and inputs have been used optimally. Results achieved over the last five years are impressive, while useful lessons have been learnt. The good practice is replicable factoring individual organization situations.

CRITERIA 1:

What was the issue/problem/challenge addressed by your good practice?

The political culture and history of Public Sector institutional development in general and National Social Security Fund (NSSF) in particular impacted on efforts to introduce greater performance orientation and good governance. A historical analysis on patterns and trends of Public Service delivery in Kenya reveals a steady decline despite a raft of measures taken to improve service delivery.

NSSF being a public entity was no exception. In NSSF, the decline was manifested in poor cost management and resources utilization, low contributions, registrations, benefit payments and compliance levels. Growth in suspense account and non-compliance with strategic plan and the law were prevalent. Mediocrity had replaced meritocracy while hardly any consideration was made for creativity or innovation. Corruption, fraud and theft were common.

Consequently, NSSF adopted as a policy, the application of performance contracts in the management of its affairs. A performance contract is a measurement tool for measuring performance against negotiated targets. It is a freely negotiated performance agreement between the principal and the agency. The performance contract specifies the mutual performance obligations and responsibilities of the two parties.

Performance Contracting addresses the three key governance questions of What, How and How well. Furthermore, the eight characteristics of good governance namely participation, rule of law, transparency, consensus, equity and inclusiveness, effectiveness and efficiency, responsiveness and accountability are embraced.

CRITERIA 2:

What were the main objectives and the expected outcomes?

(a) The main objectives were:

- To increase membership and contribution collections;
- to settle all legitimate benefit claims when due;
- to increase returns on members' funds;
- to improve customer service and corporate image;
- to enhance effective management systems and standards;
- to improve staff effectiveness and professionalism;
- to eradicate corruption.

(b) Expected outcomes were:

- Increased members and contribution collections;
- benefit claims settlement of 100 per cent;
- higher returns on members' funds;
- reduced suspense account;
- higher customer satisfaction;
- re-branded NSSF and institutionalized corporate social responsibility;
- acquisition of ISO Certification;
- improved staff effectiveness and standards;
- improved efficiency in service delivery to members;
- improvement in performance and efficiency in resource utilization;
- ability to measure and evaluate performance;
- ability to link reward for work to measurable performance;
- entrenched culture of accountability for results at all levels;
- minimized corruption.

CRITERIA 3:

What is the innovative approach/strategy followed to achieve the objectives?

The innovative approach/strategy followed to achieve the objectives involves:

- Developing and implementing strategic plans and ensuring that they are linked to national policy documents;

- identifying growth oriented targets upfront in financial, non-financial, service delivery, operational and qualitative sectors;
- assigning weights to targets;
- signing performance contracts;
- cascading contracts to lower levels;
- ensuring achievement of targets;
- ensuring facilitation to achievement of targets;
- monitoring and evaluation of performance monthly, quarterly and annually;
- rewarding performers and sanctioning failure as the case may be;
- preparing employees in the Fund for the desired changes in working styles, attitudes and work ethics.

CRITERIA 4:

Have the resources and inputs been used in an optimal way to implement the practice?

Resources and inputs have been used optimally to implement the practice. Financial resources are pre-determined via budget process, which further informs the contracting process. Human resources are assigned appropriately in a way that ensures that each one has a role to play. The framework ensures individual performances contribute to corporate performance. Other resources such as office space, equipment and time are allocated in a way that removes wastage. Performance Contracting ensures this happens since cost management is measured.

CRITERIA 5:

What impact/results have been achieved so far?

The impact/results achieved over five-year period are impressive as illustrated in table 1 and charts 1(a) – (c) below:

**TABLE 1: IMPACT/RESULTS OF PERFORMANCE
CONTRACTING 2003/2004 - 2007/2008**

INDICATOR	2003/2004	2004/2005	2005/2006	2006/2007	2007/2008
New Members	110,413	117,508	139,100	174,343	214,729
Contributions (Kshs Billions)	3.415	3.847	4.6	5.296	5.766
Investments Income (Kshs. Billions)	2.15	2.72	2.47	3.813	5.093
Voluntary Members	513	571	1,306	3,567	7,586
Customer Satisfaction Level	-	-	-	55%	66%
ISO Certification (%)	-	-	10	25	80
Suspense Account Reduction (%)	20.30	16.79	15.50	14.47	12.49
Benefit Claims Paid (Kshs. Billions)	2.23	2.3	2.85	2.344	2.399
Benefit Processing Period	60	60	21	20	16
Net Surplus/(Deficit) (Kshs. Billions)	(0,312)	0,329	1,570	4,222	5,117
Cost Reduction Savings (Kshs. Million)		-	-	173.18	204
Corruption Eradication	-	55%	69%	90%	95%

Chart 1(a) – Contributions, Returns and Net surplus/deficit

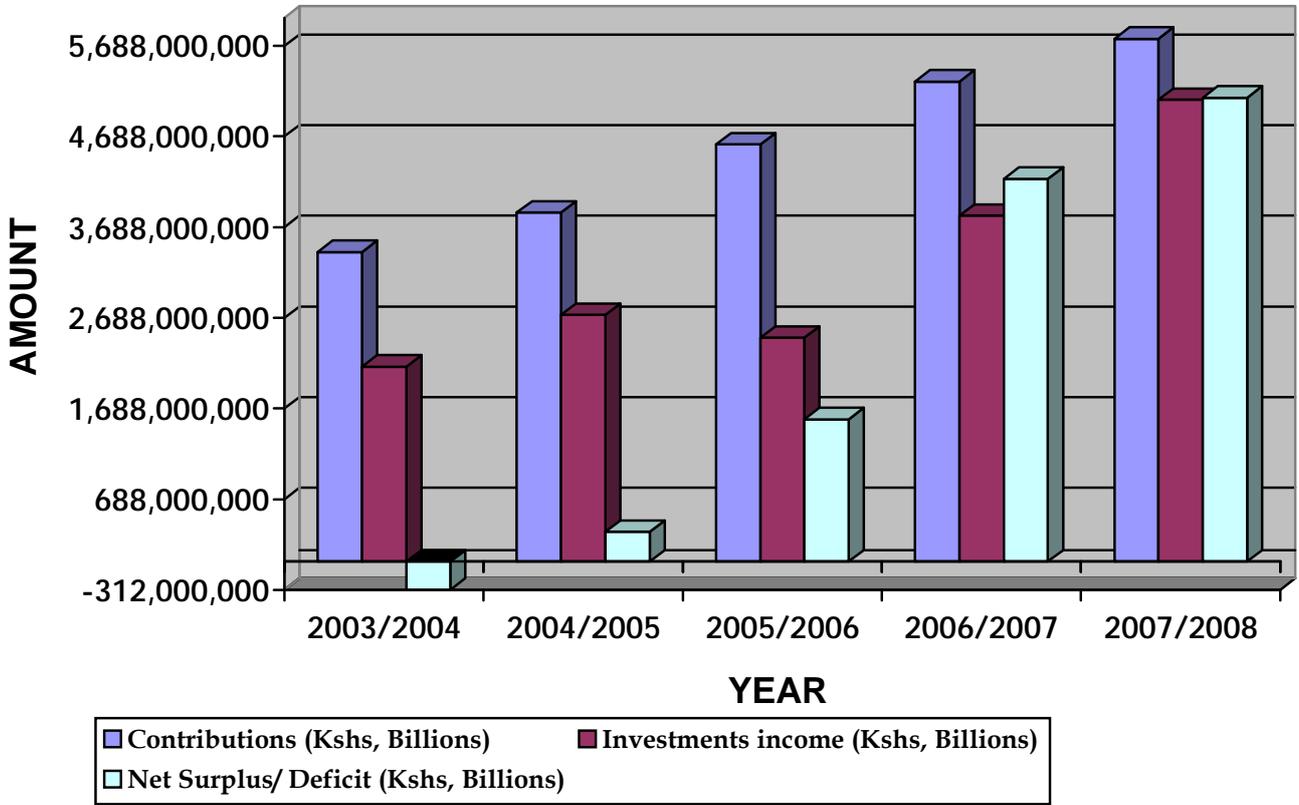


Chart 1(c) - Corruption Eradication

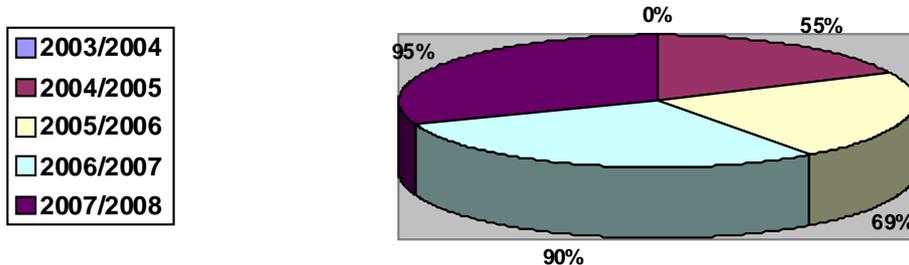


Chart 1(b) - Suspense Account Reduction



CRITERIA 6:

What lessons have been learned?

A number of lessons have been learnt from this practice:

- The persistent challenges of transparency and accountability in public agencies in general and in NSSF in particular have been addressed. Performance Contracting viewed against these challenges is, on the whole a reliable, valid and necessary strategy.
- The success of the implementation of the Performance Contracts Strategy was highly dependent on leadership being provided by the Managing Trustee. The enthusiasm, commitment, competence and focus provided by the Performance Contracting Implementation Monitoring and Evaluation Committee and its secretariat, are significantly contributing to the success of the strategy.
- The Performance Contracting Implementation Evaluation Committee has brought into the process a high degree of independence, credibility, objectivity, expertise, experience and professionalism. The strategy has been implemented in an inclusive and interactive manner.
- The strategy has provided a means of comparing Departments through reliable benchmarks and provided them with opportunities to achieve a high degree of accountability and transparency. The ranking of the Departments is an indicator and reflection of the ability of each department and its management to meet agreed targets and to enhance healthy competition amongst Departments while improving performance and service delivery.
- The operationalization of the strategy led to the realization that it is a very effective and efficient planning tool. Corporate planning and the itemization of annual work plans, adequately supported by budgetary provisions and delineation of lines and levels of responsibility for performance, is a necessary tool for effective and efficient management of public resources.
- During the first year of implementation, not all the managers fully understood the principles behind the strategy, especially in the area of setting targets. Efficient flow and management of information are a necessary pre-requisite to the successful implementation of the strategy.
- The strategy captures the current performance and raises expectations for improved future performance. The strategy also raises motivation, morale and builds confidence of the consumer of Fund services.
- Regular monitoring of the implementation of the Performance Contracts Strategy is a vital aspect for its success. Providing feedback on monthly, quarterly reports and

taking corrective action, where necessary, are key ingredients for successful implementation of the strategy.

- Cascading Performance Contracts Strategy to all employees not only increases participation but also enhances performance.
- Lack of commitment by a few Departmental Managers. There is evidence some managers delegated and abdicated their own performance contracts obligations to very junior and unprepared officers.
- There is latent talent in institutions in waiting to be tapped.

CRITERIA 7:

To what extent would your good practice be appropriate for replication by other social security institutions?

To the extent that a Social Security organization is facing similar challenges of performance, this good practice is appropriate for replication. However, for the good practice to succeed there must be absolute Government and senior management leadership. Otherwise it will fail because of resistance by implementers.

Different organizational situations, challenges and needs call for appropriate solutions. Consequently, a customized Performance Contracting System may suffice from organization to organization.