

# Effects of Outsourcing on Procurement Performance in the Devolved Systems of Governments in Kenya: A Case of Kajiado County Government

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**Abstract:** In business world each decade seems to bring a new way of thinking about the business environment and new ways of acting and corporate strategies (Brown, 2014). Outsourcing, off-shoring and globalization are no longer management consulting “buzzwords” but business realities that present many challenges for the business community. The study sought to assess the effects of outsourcing on Procurement Performance in the devolved systems of Governments in Kenya and it was done at Kajiado County. It focused on the benefits and challenges organizations face in outsourcing their non-core activities. The study used the objective of assessing the impact of outsourcing on procurement performance to get data presented in the findings. This study evaluated how Organizational Policy, Top Management support, Financial Capacity and Organizational culture affected Procurement Performance in the devolved systems of Governments in Kenya. The theoretical review constituted of the theories which includes Strategic Choice, Transaction Cost Economic (TCE), Contingency and Stakeholders theories. This study adopted a descriptive research design. The target population was 550 consisting of a sample frame of the top, middle, Human Resource, Procurement and Finance departments at Kajiado County Government. Using Mugenda and Mugenda Statistical method a sample size for the study was determined. The study used stratified sampling where proportionate sampling was used to determine the specific sample size of each strata. Primary data was obtained through Self-administered questionnaires while secondary data was obtained through journals, books and organizational records. Data analysis was done using SPSS V21 and Excel 2013 and was presented in form of tables, percentages, bar and pie charts.

**Keywords:** Outsourcing, Performance, Devolution.

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## 1. BACKGROUND

In business world each decade seems to bring a new way of thinking about the business environment and new ways of acting and corporate strategies (Brown, 2014). Outsourcing, off-shoring and globalization are no longer management consulting “buzzwords” but business realities that present many challenges for the business community. Every outsourcing decision can have significant security, legal, regulatory and contractual implications (Bowers, D. J (2006). Risk profiles, will change when outsourcing to companies based in countries that have different political, economic and cultural environments. Further challenges are presented by a dramatic increase in the number of business processes earmarked for outsourcing: each of these requires security analysis and many disparate sources of information must be identified and consolidated to create appropriate inputs to facilitate effective analysis (Kumar, 2006).

The key to outsourcing is choosing the resource that can provide the quality product or service in completing an end product. It means finding new suppliers and new ways to secure the delivery of raw materials, goods, components and services (Rothery & Robertson, 2011).

The main purpose of outsourcing is in effect to reduce costs and increase profit Diromualdo & Gurbaxani, (2012). Companies must make money to survive in the world economy as it is today. While it is up to each company and their management to make the decision for outsourcing, there is an impact to the employees and the consumer when outsourcing is used Gakii, M. (2010). Similarly outsourcing increases the speed of business processes and also increases flexibility of organizations. A company is able to focus on the core activities, key employees will be released from performing the non core administrative functions and concentrate on core activities more energy and time. Focusing on this helps a company to increase in its efficiency to create a competitive edge, Kakumanu & Partanova, (2011).

However before outsourcing the resources of a company must be examined to determine if the capability exists within the company to provide the necessary capacity and expertise. If these conditions are not present and cannot be developed, then outsourcing may be necessary. This is an aspect that should be examined before an outsourcing decision is made. Granted there are many complex issues and factors involved in the manufacture of many products consumers want. Outsourcing is not for every company but it is a necessary option for others. Outsourcing should be used sparingly for direct control of operational performance is lost when outsourcing is utilized. Outsourcing also creates the need for validating requirements are accomplished per contractual terms and this in effect causes an increase in cost that may not otherwise exist.

## **2. DEVOLVED SYSTEMS OF GOVERNMENTS IN KENYA**

The constitution of Kenya creates 47 county governments. This number is based on the delineation of administrative districts as created under the Provinces and Districts Act of 1992. The quest for a devolved system of governance in Kenya popularly referred to, as 'ugatuzi' has been a longstanding one. The structure of County Government largely mirrors that of the National Government. The County Governments consists of a County Assembly and a County Executive. The County Executive consists of the Governor, Deputy Governor, and a maximum 10 member of the County Executive Committee that is appointed by the Governor and approved by the County Assembly (The County Governments Act, 2012).

In order to ensure that a system of checks and balances is imbedded in the emerging architecture, the County. Public Service that is established operates under the County Executive with the County Assembly exercising oversight roles. The Constitution requires the County Government to decentralize its functions and provision of its services to the extent that is efficient and practical to do so.

The Kenyan government strategic plan vision 2030 steered by the ministry of devolution and planning has singled out a Business Process Outsourcing (BPO) as one of the six pillars to drive the country to a medium developed economy (Vision 2030 GOK, 2007). In the short run, the government aims at achieving a top three position as a Business Process Outsourcing destination in Africa. The process of outsourcing in public entities of Kenya county governments being one of them is guided by the public procurement act 2005 and also it's anchored in the new constitution 2010 under article 227 with public procurement oversight authority (PPOA) and Public Procurement Complaints, Review and Appeals Board (PPCRAB) as monitoring and oversight bodies. According to Commission for Revenue Allocation Kenya (CRA) fiscal report (CRA, 2014), county governments account for 34% of the total budget for shareable revenue allocation which translates to an amount of Kshs 231 billion.

Given this kind of budget there are many opportunities for county government to provide better services for their citizens in the fields of water and sanitation, health, infrastructure, education, financial services etc. Most county governments are faced with capacity constraints in terms of human resource and finances to enable them provide effective services. This situation however presents them with opportunities to outsource some of these services in order to improve service delivery. Some county governments do have existing outsourcing agreements with private firms. The County government of Narok has outsourced its revenue collection in Mara game reserve to Equity bank (Narok, 2014). Other examples include garbage collection to private companies in both Nairobi and Mombasa counties, ICT services to Nairobi City Water and Sewerage Company (NCWSC) and auditing services by professional auditing firms like ICPAK to different

counties. Towards this end very little research has been done to establish what determinants county managers consider when making decision towards what activities to in-source or out-source.

#### **KAJIADO COUNTY:**

Kajiado County lies at the southern edge of the former Rift Valley province, about 80km from the Kenya capital city of Nairobi. It is divided into five constituencies: Kajiado North, Kajiado Central, Kajiado South, Kajiado West, and Kajiado East. The county has a population of over 680,000 people composed of 50.2% male and 49.8% female according to 2009 National Census. It covers over 21,200 square kilometers, it is a semi-arid area with annual temperature of about 18 degrees Celsius and receives about 500mm of rainfall annually. Livestock rearing is a major economic activity amongst others such as: Poultry farming, tourism, forestry and agriculture (GoK, 2009). The county's vision is; "A prosperous, globally competitive county, offering quality life" and its mission statement is; "To promote equitable and sustainable socio economic development through efficient resource utilization and inclusive participation" (Susarla, A., Barua, A. and Whinston, A.B. (2003)

The county like the rest, faces scarcity of vital resources such as water and social amenities required to enhance the economic and livelihood of its inhabitants, although there are several hospitals and health centres in Kajiado county, the state of healthcare in the rural areas is in a deplorable shape and residents walk for long distances to access the medical facilities. However international organizations such as AMREF are working to bring them closer to the community. Kajiado County major challenge being balancing demand for elite citizens and the needs of the ordinary citizens which is affecting county resource management, service delivery and realization of devolution benefits as well as county stability (Odinda, 2014). The county of Kajiado need to develop a clear and compelling economic and social vision for their areas understand the various dynamics operating within their areas, deliver the appropriate services to build livable places, and develop outsourcing strategies for realizing and financing that vision in partnership with other stakeholders (Odinda, 2014). To do this, they will require an integrated outsourcing process to effectively and proactively harness the procurement performance.

#### **STATEMENT OF THE PROBLEM:**

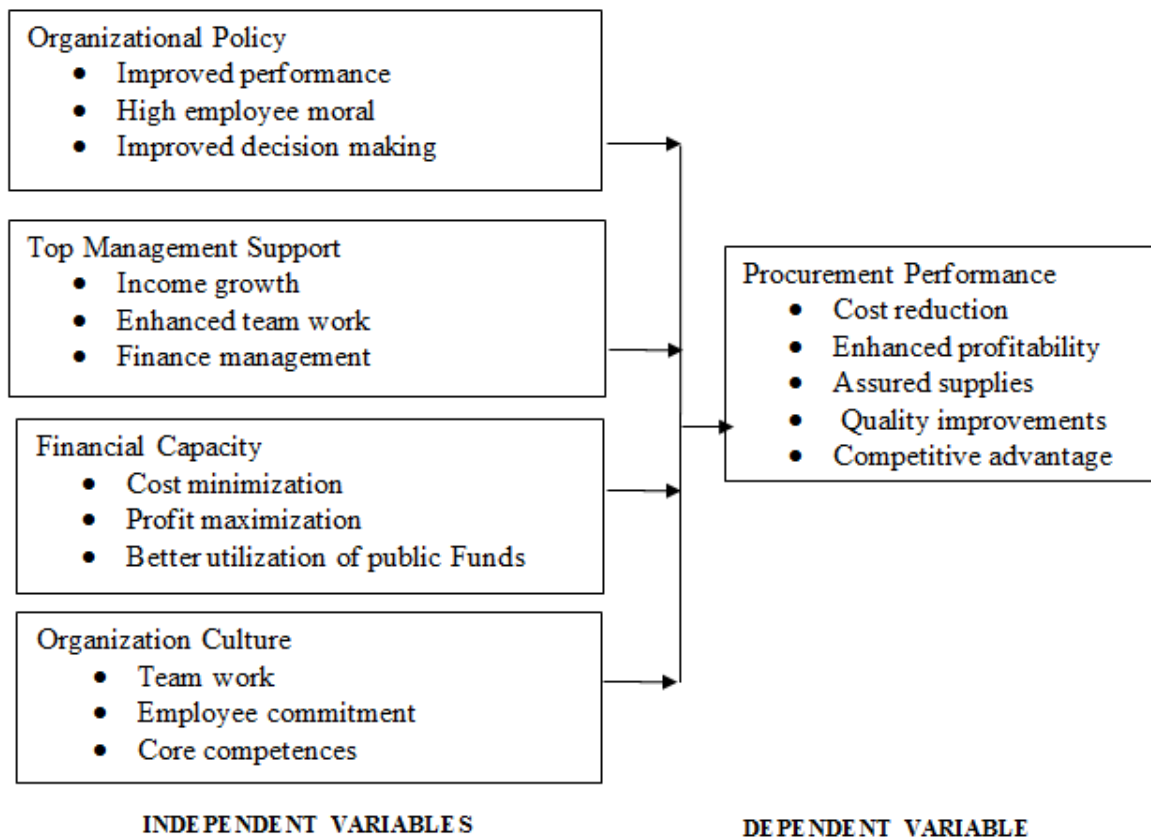
According to Brown and Wilson (2015) the factors that influence the decision on outsourcing fall in the following categories: cost, service improvement, access world class services they might not get within and lack of resources. Outsourcing contracts in public entities are compelled to undergo a competitive process, which ideally expected to be transparent and fair as governed by the procurement act. This process also should aim at achieving one or more of these objectives. Kajiado County has outsourced some activities such as security services, office cleaning service, construction of Kitengela market and bus-park as a way of up scaling their performance.

However, they have not fully realized the full benefit of outsourcing. For example, there are persistent complaints from the public regarding services on garbage collection, cess collection, parking fee collection, market fee collection, poor response in case of fire or accidents, poor roads and street lights. If the dissatisfaction is not addressed, many investors may move their businesses elsewhere leading to loss of public trust and loyalty as well as financial losses in terms of reduced revenues for the county government. There has been no major study on effects of outsourcing on procurement performance at Kajiado County. Therefore, the study will seek to establish the effects of outsourcing on procurement performance in the devolved systems of governments in Kenya.

#### **SPECIFIC OBJECTIVES:**

- To investigate the effects of organizational policy on procurement performance in the devolved systems of governments in Kenya.
- To assess the effects top management support on procurement performance in the devolved systems of governments in Kenya.
- To determine the effects of organizational culture on procurement performance in the devolved systems of governments in Kenya.
- To establish the effects of financial capacity on procurement performance in the devolved systems of governments in Kenya.

### 3. CONCEPTUAL FRAMEWORK



#### RESEARCH:

The Kenya Vision 2030 is the national long-term development blue print that aims to transform the country into a modern, globally competitive, middle income country offering a high quality of life for all citizens by the year 2030. Kenya's Vision 2030 sees Business process outsourcing (BPO) as one of the fulcrums on which Kenya's future economic growth will hinge on. Yet, the foundations of BPO are not deep enough in terms of what is to be outsourced and how. Binder (2007) calls outsourcing the third industrial revolution. Kenya is eager to ride on this third revolution.

Majority of the studies conducted concentrated on variables and impacts of outsourcing adoption and have been conducted from oversee countries mostly from UK and European countries thus failing to cover the concept of outsourcing and it's effects on procurement performance in a developing countries like Kenya. In particular despite longtime and wide scale use of this strategy at Kajiado County no empirical study has been carried out to determine its effectiveness. There exists a huge gap in the effects of outsourcing on procurement performance concentrating in the County Governments thus a lot need to be done on this highlighted area by the coming researchers.

### 4. RESEARCH METHODOLOGY

#### RESEARCH DESIGN:

According to Mugenda and Mugenda (2003) a research design refers to the overall strategy that you choose to integrate the different components of the study in a coherent and logical way, thereby, ensuring you will effectively address the research problem; it constitutes the blueprint for the collection, measurement, and analysis of data. Descriptive survey is a method of collecting information by interviewing or administering a questionnaire to a sample of individuals (Orodho, 2007).

#### TARGET POPULATION:

The research was carried out at Kajiado County. In this research the target population consisted of the Top Management, Middle Management, procurement department, finance department and human resource department under Kajiado County totaling to a population of 550.

## 5. RESEARCH FINDINGS AND DISCUSSIONS

The purpose of this study was to investigate the effects of outsourcing on procurement performance in the devolved systems of governments in Kenya, a case of Kajiado County

### ORGANISATIONAL POLICY:

Whether county policy on outsourcing encourages outsourcing

Response	Frequency	Percentage
Yes	35	87.5
No	5	12.5
<b>Total</b>	<b>40</b>	<b>100</b>

From above, county policies on outsourcing encourage outsourcing. Majority (87.5%) agreed that the policies set by the county on outsourcing encourages outsourcing while a small number, 12.5%, disagreed that the policies set by the county does not encourage outsourcing.

### OTHER ACTIVITIES THAT HAVE BEEN OUTSOURCED:

The researcher sought to find activities that the county has outsourced. From the information received, all of the respondents indicated that the county has outsourced vehicle maintenance and garbage collection while 77.5% indicated that the county has outsourced recruitment services. Other activities that the respondents specified to have been outsourced included office cleaning and mail deliveries with all the respondents including them.

### Whether Organizational policy on outsourcing has encouraged concentration on core competencies:

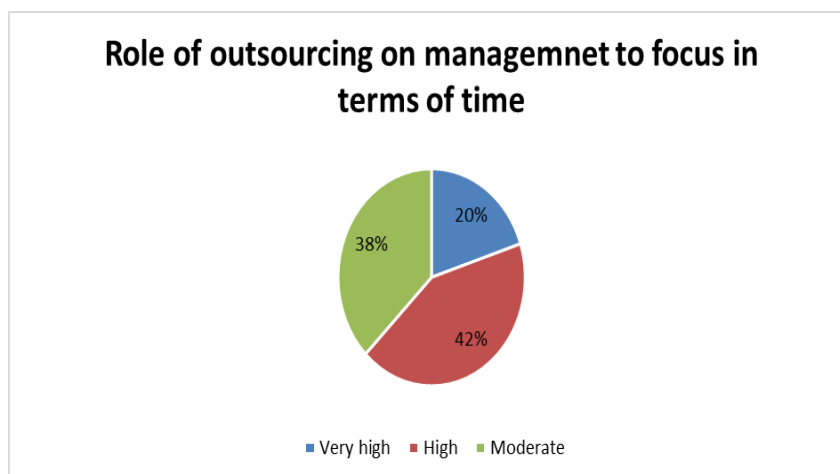
Whether organizational policy has encouraged concentration on core competencies

Response	Frequency	Percentage
Yes	40	100
No	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

As a result of the organizational policy encouraging outsourcing, the organization is able to concentrate on its core competencies. This was supported by all of the respondents in the study.

### Role of outsourcing on management to focus in terms of time:

The research wanted to find out the role outsourcing plays on the management to focus in terms of time.

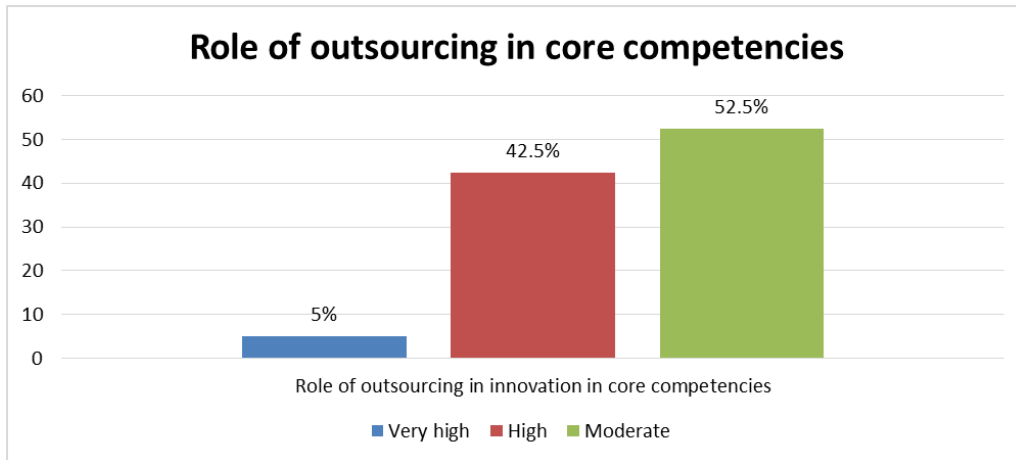


### Role of outsourcing on management to focus in terms of time:

From above, it is clear that outsourcing plays a high role on management to focus in terms of time. This is because 42.5% indicated that outsourcing has a high role in management to focus in terms of time while 37.5% and 20% indicated that it had a moderate and very high role in management to focus in terms of time respectively.

**ROLE OF OUTSOURCING IN INNOVATION IN CORE COMPETENCIES:**

The research wanted to find out the role outsourcing plays on the innovation in core competencies.



**ROLE OF OUTSOURCING IN CORE COMPETENCIES:**

From the findings above, it is clear that outsourcing plays a moderate role on innovation in core competencies. This is because 52.5% indicated that outsourcing has a moderate role on innovation in core competencies while 42.5% and 5% indicated that it had a high and very high role in innovation in core competencies respectively.

**ROLE OF OUTSOURCING IN FREEING RESOURCES TO CORE COMPETENCIES:**

The research wanted to find out the role outsourcing plays on the innovation in core competencies.

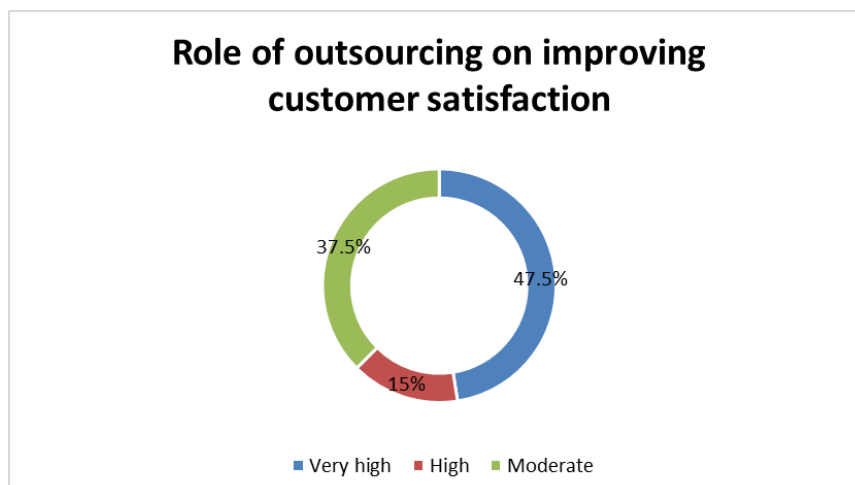
**Role of outsourcing in freeing resources to core competencies:**

Response	Frequency	Percent
Very high	26	65
High	9	22.5
Moderate	5	12.5
<b>Total</b>	<b>40</b>	<b>100</b>

From the findings above, more than half (65%) indicated that outsourcing plays a very high role in freeing resources to core competencies while 22.5% and 12.5% indicated that it plays a high and moderate role in freeing resources to core competencies respectively.

**Role of outsourcing on improved customer satisfaction:**

The research wanted to find out the role outsourcing plays on improving customer satisfaction.



**Role of outsourcing on improving customer satisfaction:**

From the findings above, majority (47.5%) of the respondents indicated that outsourcing has played a very high role in improving customer service. 15% said that it has played a high role on improving customer service while a relatively high number (37.5%) as compared to those who said that outsourcing plays a high role in improving customer service said that it has played a moderate role.

**Role of outsourcing on improved skills:**

The research wanted to find the role outsourcing plays in improving skills.

Response	Frequency	Percent
Very high	29	72.5
High	7	17.5
Moderate	4	10
<b>Total</b>	<b>40</b>	<b>100</b>

Majority (72.5%) of the respondents indicated that outsourcing has played a very high role in improving employee's skills. 17.5% indicated that it has a high role in improving employee's skills while only 10% said that it played a moderate role on improving employee's skills.

**Role of outsourcing on improved complexity of operations:**

The research wanted to find the role outsourcing plays on improved complexity of operations.

Response	Frequency	Percent
Very high	15	37.5
High	13	32.5
Moderate	12	30
<b>Total</b>	<b>40</b>	<b>100</b>

Majority (37.5%) of the respondents indicated that outsourcing has played a very high role in improving complexity of operations. 32.5% indicated that it has a high role in improving complexity of operations while 30% said that it played a moderate role on improving complexity of operations

**Top Management Support:**

Whether the top management has been showing commitment and support towards outsourcing.

The researcher wanted to find if the top management has been showing commitment and support towards outsourcing.

**Whether the top management has been showing commitment and support towards outsourcing:**

Response	Frequency	Percent
Yes	40	100
No	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

From the research findings all of the respondents agreed that the top management has been showing commitment and support towards outsourcing.

**Role of outsourcing on innovation costs:**

In a scale of 1-5 where 1 was very high, 2 high, 3 moderate, 4 low and 5 very low, the researcher wanted to find out the role of outsourcing on innovation costs. The responses were represented as shown below

**Role of outsourcing on innovation costs:**

Response	Frequency	Percent
Very high	1	2.5
High	13	32.5
Moderate	23	57.5
Low	3	7.5
<b>Total</b>	<b>40</b>	<b>100</b>

outsourcing has moderately played a role in innovation costs. This is because more than half (57.5%) of the respondents indicated that outsourcing has a moderate role on innovation costs. 32.5% of the respondents indicated that it has played a high role on innovation costs, while 7.5% and 2.5% indicated that it has played a low and very high role on innovation costs respectively.

**Role of outsourcing to improved service delivery:**

The researcher wanted to find out the role of outsourcing on access to expert skills. The responses were represented as shown

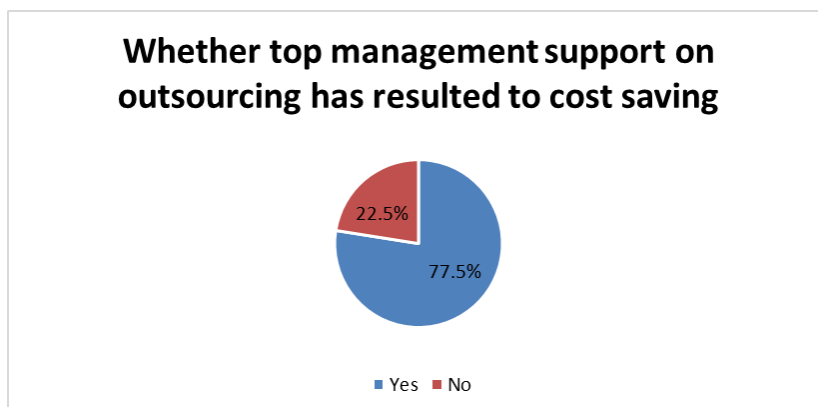
**Role of outsourcing to improved service delivery:**

Response	Frequency	Percent
Very high	15	37.5
High	15	37.5
Moderate	10	25
<b>Total</b>	<b>40</b>	<b>100</b>

Outsourcing has played a very high role in improving service delivery to the county. This is because 37.5% of the respondents each said that it has played a high and very high role in improving service delivery to the county.

**Whether as a result of top management support in outsourcing there is cost saving in the county.**

The researcher wanted to find out whether top management support on outsourcing has resulted to cost saving. The results were as shown



**Whether top management support on outsourcing has resulted to cost saving**

Majority (77.5%) of the respondents said that as a result of top management support on outsourcing cost savings have been encountered in the county.

**Financial Capacity:**

Whether outsourcing has been influenced by the financial capacity

The researcher wanted to find if financial capacity influences outsourcing in the county.

**Whether outsourcing has been influenced by financial capacity:**

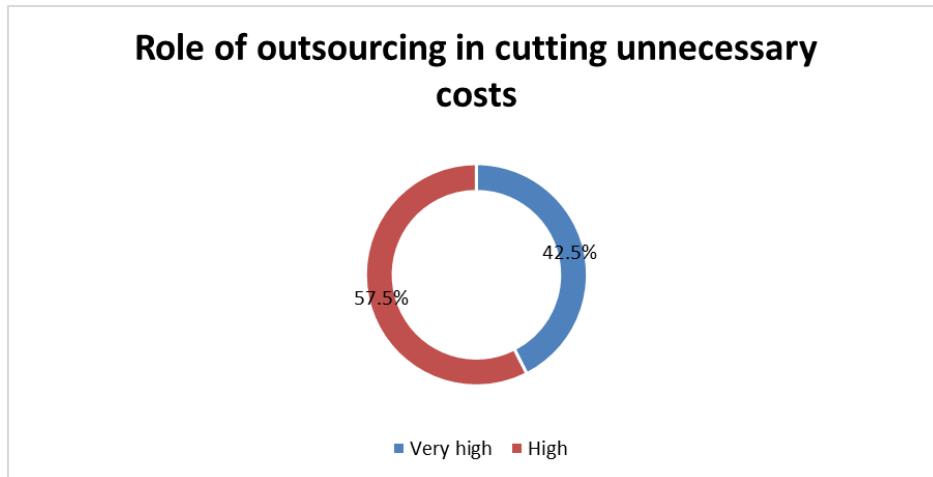
Response	Frequency	Percentage
Yes	40	100
No	0	0
<b>Total</b>	<b>40</b>	<b>100</b>

From above, all of the respondents stated that financial capacity of the county influences outsourcing.

**Role of outsourcing to cut unnecessary costs:**

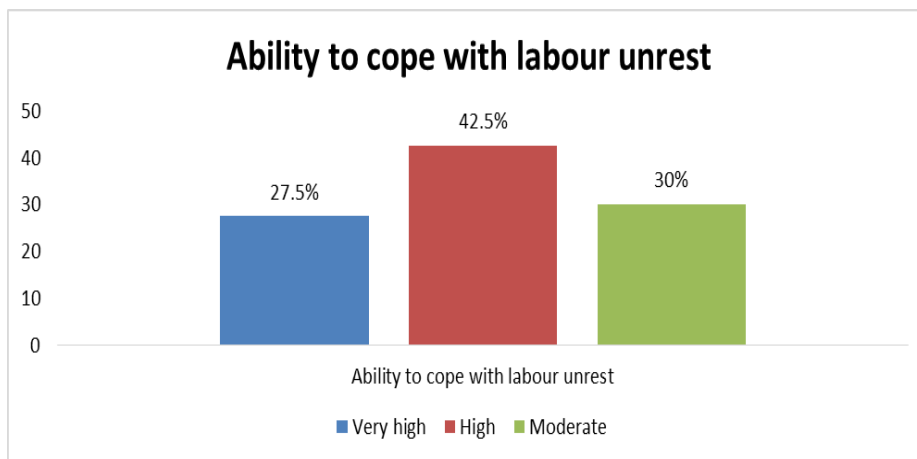
The researcher wanted to find out the role outsourcing has been playing to cut unnecessary costs in the county.





#### Role of outsourcing in the county's ability to cope with labour unrest:

The researcher wanted to find out the role outsourcing has been playing in the county's ability to cope with labour unrest..

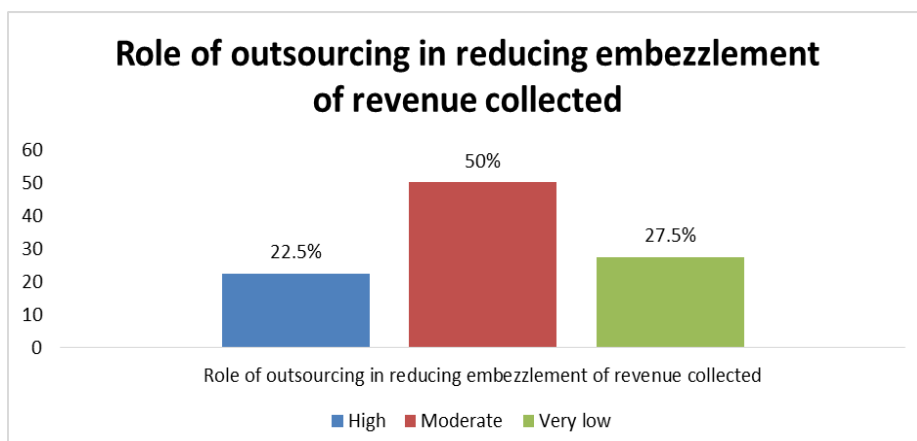


#### Ability to cope with labour unrest:

Outsourcing has played a high role in the county's ability to cope with labour unrest. This is because 42.5% of the respondents indicated that there is a high role played by outsourcing in county's ability to cope with labour unrest, 30% indicated that outsourcing plays a moderate role in ability to cope with labour unrest while 27.5% indicated that outsourcing has a very high role in the county's ability to cope with labour unrest.

#### Role of outsourcing in reducing embezzlement of revenue collection:

The researcher wanted to find out the role outsourcing has been playing in the reduction of embezzlement of revenue collected.



**The rate at which outsourcing have played a role on improved employee moral:**

The researcher wanted to find the rate at which outsourcing have played a role in improving employee morals.

Rate at which outsourcing have played a role on improvd employee moral:

Response	Frequency	Percent
Very high	11	27.5
High	15	37.5
Moderate	14	35
<b>Total</b>	<b>40</b>	<b>100</b>

The role that outsourcing has played on the employees morals is high. This is because majority (37.5%) of the respondents indicated that outsourcing has played a high role on employees’ morals, 35.5% indicated that outsourcing has moderately played a role in employees’ morals while 27.5% indicated that outsourcing has played a role in employees’ morals at a very high rate.

**Procurement Performance:**

Whether procurement performance has improved in the last 2 years.

The researcher wanted to find out whether in the last two years procurement performance in the county has improved.

**Whether procurement performance has improved in the last 2 years:**

Response	Frequency	Percent
Yes	40	100
No	0	0
Total	40	100

In the last two years, procurement performance in the county has improved. This was supported by all the respondents.

**Whether the county has enjoyed the benefits from the already outsourced activities:**

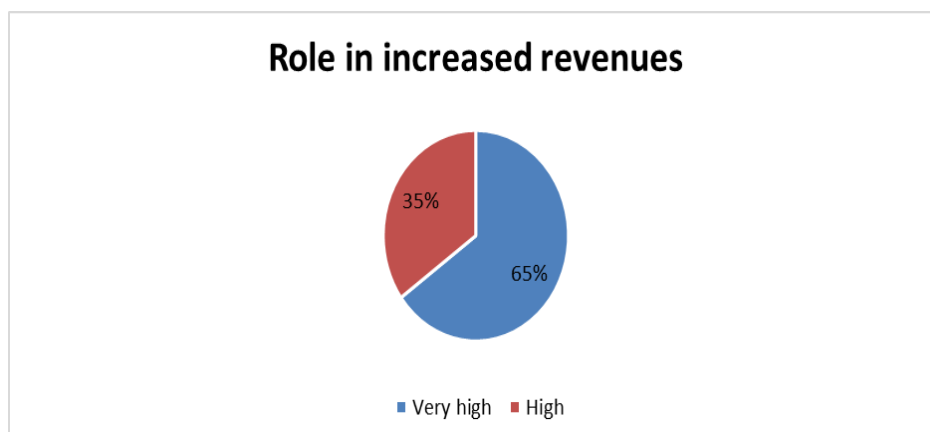
The researcher wanted to find out whether the county has enjoyed the benefits from the already outsourced activities.

Response	Frequency	Percent
Yes	40	100
No	0	0
Total	40	100

All the respondents (100%) agreed that the county is enjoying benefits from the already outsourced activities.

**What is the role of outsourcing on increased revenues?**

The researcher wanted to find out what role has outsourcing played in increased revenues.



**Role in increased revenues:**

65% said that Outsourcing has a very high role on the increased rate of revenues collected while 35% said that it has a high role in the increased rate of revenue collected. So it can be indicated that outsourcing has a major role on the increase of revenues in the county.

## **6. SUMMARY, CONCLUSIONS AND RECOMMENDATIONS**

### **SUMMARY OF KEY FINDINGS:**

**Gender:**

The analysis of the study found out that most of the respondents in the organization were female (55%). This is a clear indication that the organization has complied with the gender rule.

**Level of education:**

The study found out that majority of the respondents had been into a college and others to the university. As a result of this, it was clear that they understood the outsourcing activities in the county.

**Organizational policy:**

Majority (87.5%) of the respondents agreed that the county's policy encourages outsourcing. However, all of the respondents indicated that the county has outsourced vehicle maintenance and garbage collection services while 77.5% stated that the county has outsourced recruitment services. Other activities that all the respondents specified that the county had outsourced include office cleaning and mail delivery.

As a result of organizational policy on outsourcing the county has concentrated on its core competencies. Outsourcing has played a high role on management to focus in terms of time. This is because 42.5% of the respondents indicated that outsourcing has a high role in management to focus in terms of time.

On the other hand, outsourcing has a moderate role to play in innovation in core competencies. It has played a major role in freeing resources to core competencies with 65% indicating that outsourcing plays a very high role in freeing resources to core competencies. As a result of outsourcing, customer satisfaction has improved in the county with 47.5% of the respondents indicating that outsourcing has played a very high role in customer satisfaction improvement. It has also resulted to improved skills to the employees and improved complexity of operations. This is because most of the respondents responded with 72.5% for improved skills and 37.5% for improved complexity of operations.

**Top management support:**

The top management in the county supports outsourcing. As a result of the top management support to outsourcing, it has exposed the county to better technology and expertise with majority (60%) supporting how well the county has been exposed to better technology and expertise.

As a result of outsourcing, it has played a very high role to the country's access to the latest technology such as IT. This supported by 47.5% of the respondents. However, as far as it has played a very high role to the access to the latest technology, it has played a moderate role in innovation costs. Majority (57.5%) of the respondents indicated that outsourcing has played a moderate role on innovation costs.

Outsourcing has enabled the county to access expert skills with 57.5% of the respondents saying that it has played a high role to access expert skills. However as a result of access to expert skills, outsourcing has also resulted to an increase in service delivery. Majority (37.5%) of the respondents said that it had played a very high role while still the same number 37.5% supported that outsourcing had resulted to an increase in service delivery.

Outsourcing has resulted in cost saving. It has further played a role in the minimization of training costs, capital expenditure, welfare costs, employee benefits, statutory deductions and operating costs such as cleaning, security and catering.

**Financial capacity:**

The financial capacity of the county has influenced outsourcing in the county. Due to the financial capacity of the county, outsourcing has played a role in the county's ability to respond to demand changes. It has also helped the county to cut unnecessary costs as well as enabling the county to cope with labour unrests.

However, outsourcing has played a moderate role in reducing embezzlement of revenues collected as well as freeing the county from constraints of established cultures. 50% of the respondents supported this by stating that outsourcing has played a moderate role in reducing embezzlement of revenues collected.

#### **Procurement performance:**

In the last two years, all of the respondents said that procurement performance has improved in the county. 65% of the respondents indicated that the link between outsourcing and improved procurement performance is strong. All of the respondents indicated that the county needs to outsource more services and activities where all the respondents stated that market fee collection and parking fee collection should not be outsourced but 70% felt that market cleaning and garbage collection should be outsourced.

The county is enjoying the benefits from the already outsourced activities. 65% felt that outsourcing has played a very high role on the increase of revenue collected while 80% said that it has a major role in county's and employees' concentration on core competencies. 65% of the respondents think that transport services should be outsourced while 50% think that employee recruitment should be outsourced

#### **CONCLUSION:**

The study concludes that;

- i. Outsourcing has resulted to employee concentration on their core duties and competencies
- ii. As a result of outsourcing by the county, procurement performance has improved.
- iii. The county should outsource market cleaning, garbage collection and employee recruitment.

#### **RECOMMENDATIONS:**

Based on the findings, this study recommends that the county should outsource more minor activities such as mail delivery, security at the entry points to enable the staff fully concentrate on their duties. It also recommends that employee recruitment should be outsourced to enhance fairness during recruitment of the county staff.

#### **SUGGESTIONS FOR FURTHER STUDY:**

The concept of outsourcing is regarded as an expensive one whereas in the long run it is cheap the vendor. However, further studies should be done on the benefits accrued from outsourcing with a concentration on county governments because not all of them have outsourced their services. Majority of county governments still employ cleaners, cooks and purchase staff vans and buses. They use more county revenues while purchasing these services which some need repair and maintenance. However, outsourcing such activities would save the county some revenues. There more studies should be done on the benefits of outsourcing to the county governments.

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