Absorption of Fund Brief

Low absorption of funds in public programmes during July –Dec 2012: What are the key reasons?

Overview

Government programme implementation is usually affected by inadequate funding. However, the concern is the inability of many spending agencies to absorb the funds released to them.

During the first half of FY 2012/13, many institutions had not fully used the released funds. For example in the Karamoja region, less than 10% of funds received during the two quarters had been expended.

A number of reasons explain the problem based on monitoring work by the Budget Monitoring and Accountability Unit (BMAU) of December 2012.

The brief describes the key constraints to effective use of public funds in selected sectors of agriculture, education, energy, health, ICT, roads, and water.

Key Issues

- Late procurements persist despite the Out Based Tool(OBT) requirement of procurement plans during budgeting.
- Poor communication and coordination between central and local governments breeds misunderstandings during implementation that results in delays.
- Late release of funds through intermediary institutions delays implementation in recipient institutions.
- Poor planning for capital investments has preparatory activities initiated after contracts have been awarded.
- Inadequate capacity of contractors and poor facilitation of staff are hampering implementation within local governments.

Introduction:

Six reasons for the low funds absorption

1. **Delayed initiation and lengthy procurement processes**

- **Agriculture:** Under the National Agricultural Advisory Services (NAADS) programme, most sub-counties had received the funds for quarter one (Q1) and quarter two (Q2) by end of December 2012. However, many had not commenced the input/technology procurement processes and hence had only utilized about 20% - 30% of the available funds.

- **Education:** The African Development Bank IV Support to Universal Secondary Education project had received Ug. Shs 4,924,617,640/=. By December 2012 28% of this amount had been spent.. This was because no contract awards had been made hitherto.

- **Energy:** The procurement delay of awarding the contract for the construction of the 600MW Karuma Hydro power plant largely explains the low utilisation of funds under the Ministry of Energy and Mineral development. The plant was allocated Ug Shs1.049 trillion (82.7%) of the energy sector development budget.

By December 2012, there was no release from central government as the project was still in the procurement process. Several procurement reviews and re-evaluations had taken place slowing the contract award process.

- **Health:** At Masaka regional referral hospital, Masaka and Kayunga district health units no capital development funds had been used as of December 2012. Masaka hospital lacked both a procurement officer and hospital engineer who are critical for procurement processes.

- **Water:** The slow procurement process in the local governments was limiting the implementation of planned hardware activities. Districts start the process late and for some new districts contracts committees are not yet in place. The districts of Kole, Bukomansimbi, Nwoya, Rubirizi, and Butaleja had spent less than 25% of released funds.

- **Local Governments:** In Karamoja region, under the Peace, Recovery and Development Plan **no** activity for FY 2012/13 had been initiated by December 2012. The local governments were still procuring with caution in fear of budget cuts.

2) Limited involvement of district technical officials

This was an issue in the agriculture and education sectors.

- **Agriculture**

The Rice Development Project had limited involvement of district officials in project planning and implementation. Sub-counties were directly engaged by Ministry of Agriculture, Animal Industry and Fisheries which resulted in poor mobilization of farmers. Just over 1,000 farmers were supported with inputs against a target of at least 5,000 farmers in half year and therefore only 40% of funds were expended.

- **Education**

The budget allocations for construction of schools in Local Governments are based on unit costs generated by the Construction Management Unit in Ministry of Education and Sports. Many districts however are not able to work within these unit costs because of local constraints like unavailability of building materials. This has continued to contribute to the delays in utilizing the funds.

3) Late release of funds by intermediary institutions

- **Education**

The schools constructed by Local Governments did not receive funds channeled through the districts on time as funds spent a lot of time on the district accounts.

- **Energy**

Generally releases for the energy sector were late due to delays in the approval process of the warrant. Most (90%) of the money received by the Ministry of Energy for sector projects is transferred to other implementing agencies like the Rural Electrification Agency and the Uganda Electricity Transmission Company Limited. Late receipts by the Ministry meant delayed releases to spending agencies.

The same was noted for some key projects within the ministry. The Rural Electrification and Energy for Rural Transformation projects had expended less than 40% of their funds by 7th December 2012. The low expenditure performance under the ERT project, for example, was attributed to late receipt of funds. The funds for Q2 for FY 2012/13 were only received in January 2013.

- **ICT**

The National Data Transmission Backbone Infrastructure and e-Government Infrastructure failed to secure loan funds and therefore could not use the disbursed counterpart funds. The project had delayed to take off as the Ministry of Finance had not issued a certificate of financial implication to facilitate loan approval of phase three by Parliament of Uganda. The failure to secure a timely loan hampered project implementation.

- **Roads**

Funds were released late (December) by the Uganda Road Fund to Uganda National Roads Authority for the implementation of road maintenance activities. Given the holiday period, Q2 activities were implemented in January 2013.

4) Poor planning for capital investments

- **Roads**

Delayed land compensations are an issue. Ideally land compensations should be effected before sites are passed on to contractors. In regard to compensation, identification and verification is done though cases of residents claiming to be left out keep coming up.

There are also cases of residents who have been cleared but refuse to move off the compensated properties claiming that they are undervalued. Such cases force the contractor to skip work in some sections interrupting their work schedule. This has led to reduced achievement for contractors as well as low absorption of funds.

- **Water**

Land compensation issues affect water for production projects consequently leading to low absorption of funds. For example, Nyamiringa Valley Tank in Kiboga district works were halted due to land compensation issues after the contract had been signed.

The contract between GoU and Abreco Holdings Limited was signed on 22nd August 2012 at a sum of Ug Shs.559, 801,000 but no works were on-going by the time of Q2 monitoring due to land issues.

5) Inadequate capacity of contractors

- **Agriculture**

The inadequate capacity of contractors to undertake civil works within the contract period leads to low funds absorption. For example, the construction of the 3 irrigation schemes under the Farm Income Enhancement and Forest Conservation Project was scheduled to be completed by Project closure in December 2012. However, by mid December 2012, rehabilitation works at Agoro irrigation scheme were 75% complete; and 80% complete for Doho irrigation scheme. The works were lagging behind schedule in these schemes and in some areas poor quality work was reported.

- **Education**

The Development of Secondary education project had absorbed 51% of its release as at December 2012. The contractors delayed in submitting certificates for payments and when they did it was for very small amounts.

- **Health**

The low absorption of funds (50%) in Mukono District, for example, was due to limited capacity for the firm contracted to construct an Out Patient's Department at Katoogo HCIII.

6) Poor facilitation of district staff

This was a problem noted in the **water sector.** Inadequate transport facilities for district local government staff, to supervise and monitor works was noted. This affected mostly new districts that have to borrow from other departments to supervise and monitor works.

Nwoya and Rubirizi districts expended less than 20% of released funds due to lack of transport.

Conclusions

Despite reports from many institutions of inadequate funding by Government, it is of concern that they failed to absorb the funds received between July- December 2012.

The delays in use of funds are a result of pervasive problems in procurement that have been exacerbated by the limited budget credibility. Many accounting officers were cautiously initiating procurement processes for fear of rampant budget cuts.

Other concerns are institutional and procedural constraints that have maintained poor communication between government institutions; poor planning and delays in releasing funds. These have been worsened by the capacity constraints within both government and private sector institutions.

Policy Recommendations

1. Institutions should be tasked to prepare procurement work-plans early in the budgeting process. Sanctions should be instituted for Accounting Officers with implementation delays resulting from delayed initiation of procurement processes.

2. Government should improve on its communication and coordination between the various levels by enhancing transparency of its operations. This could be fostered by operationalizing the e-government practices.

3. Government should enforce adherence to the release timetable for the different internal stages of the release process. Sanctions should then be instituted for Accounting Officers of intermediary institutions where delays in release of funds are reported.

4. Institutions charged with capital investments should enhance their planning practices. For example it should be Government policy to conclude land compensations before contractors start.

5. Efforts should be made to facilitate local government operations. In that light the creation of new districts and lower local governments should be discouraged until the existing ones are adequately funded.

Reference:
Budget Monitoring Report for Q2 FY 2012/13

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