

Absorption and Implementation Constraint to Uganda's National Development Plan (NDP)

Executive Summary

Budget execution remains a challenge in Uganda. Weak budget disbursements, back-loaded spending procurement delay, inflexibility in budget execution and fiscal incapacity at local government level highlight ongoing challenges and raise a particular concern over the absorptive capacity and quality of budget implementation. To accelerate budget execution in Uganda, this policy brief suggest policy options that will lead to minimization of budget volatility, improvement in budget institutions, delegation and control, transparency and improving the capacity of local government

Introduction

In 2010, Uganda embarked on a journey to transform its economy and become a middle-income country, as stipulated in the long term aspirations known as Vision 2040 and the National Development Plan (NDP). However, a significant proportion of policy measures – including key objectives and priorities – did not realize the expected outcome due to implementation challenges and absorption constraints. This has largely been a consequence of absence of institutional support to ensure sound and sustainable budgetary outcomes. This brief is based on a research paper titled: “*Linking budgets to plans in a constrained resource and institutional environment: The Case of Uganda*” which examines the strength and weaknesses of Uganda's formal and informal institutional arrangements with regard to demanding good budget performance to ensure sustainable results.

Sources of Absorption and Implementation Constraints

Disbursement at sectoral level remains volatile: The NDP 1 faced constraints in containing the volatility in budget disbursement especially at the sectoral level. The budget institution also faced constraint in limiting some sectors to their budgets. Table 1 shows volatility in the energy and mineral sector likely related with delayed Isimba, Karuma and Bujagali energy projects. Table 1, also shows that the agriculture, education and tourism, trade and industry sectors incurred budget cuts throughout the NDP.

The cuts be associated with the growth of infrastructure projects, increased public sector employment through the creation of new districts, which necessitated reallocation of resources from social sector. It is common for ministries to face within-year cuts to their approved budgets to make up for shortfalls in the resource envelope or for one ministry to cut its budget to make up for shortfalls in the resource envelope.¹ The reallocation of resources between sectors undermines the government's operational efficiency, its ability to deliver on its contracts with citizens and donors, and its ability to deliver social services².

There is also a tendency for late disbursement of funds in the quarter. In addition, disbursement patterns are predominantly skewed toward the last quarter of the fiscal year, which affect the implementation of the NDP.

Implementation of construction works is not smooth: There are gaps between planned and actual physical progress, but the progress levels vary between projects. The gaps depend on the nature of the project, resource availability, and problems encountered in the field, such as bad weather, social issues, land acquisition and contractors from other institutions. Acquiring of equipment and material and remoteness of location are also an issue.

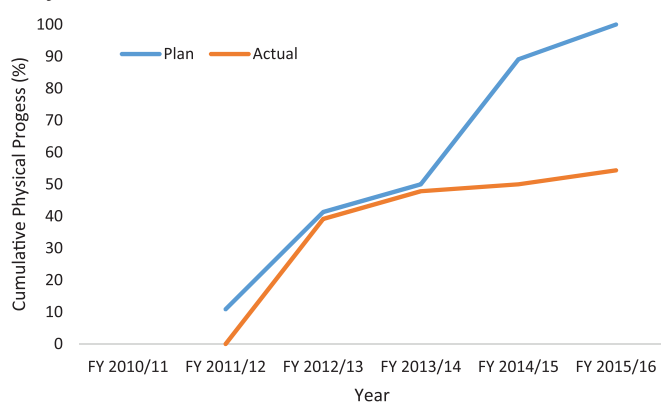
Table 1: Budget Outturn Variation (% of budget)

	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Roads and Works	-5.8	-2.1	6.4	-5.5	-8.3
Agriculture	-2.7	-8.8	-11	-4.5	-3.6
Education	-0.9	-3	-5	-2.2	-19.8
Health	-1	-3.3	-2.2	-5.7	-10.4
Energy & Minerals	52.2	-80.4	90.7	-85.4	-85.6
Tourism, Trade & Industry	-26.4	-35.1	-1.4	4.3	-11

Note: Data exclude external finance, external development expenditures, arrears and promissory notes.

Source: Data from the Ministry of Finance, Planning and Economic Development (MFPEd), April 2016.

Figure 1 compares the planned and actual progress for key energy projects during 2011/12 and 2015/16. It is indicated that the gaps between planned and actual physical progress was more than 30 percentage point. Examples of this challenge include delays in key projects such as Karuma, Isimba and Bujagali dam, which showed gaps between the plans and the realization of physical output progress. This was largely caused by lengthy feasibility studies, financing gaps and lack of local capacity to implement a project of such magnitude.

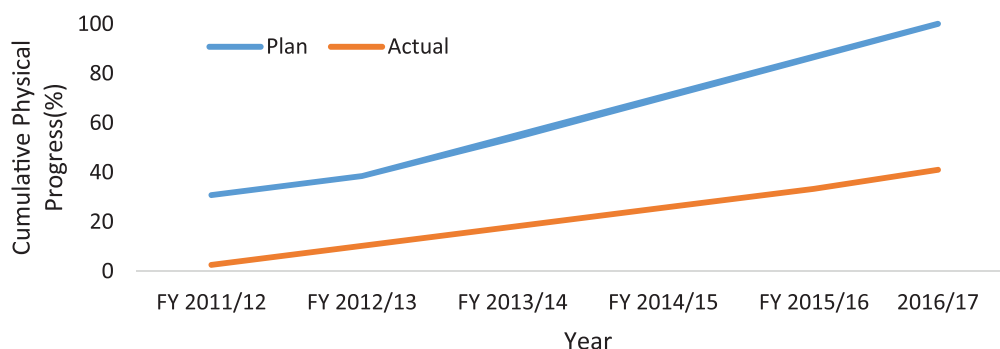
Figure 1: Planned vs realization of physical progress (%): Energy Projects³

Source: Authors Calculation using data from MoFPED (2011 – 2016)⁴

Meanwhile, the Kampala – Entebbe Expressway with a spur to Munyonyo (51km) is behind the scheduled date of 2016/17. The contractor underperformed because of delays in land and property acquisition. The gaps between planned and actual output on the expressway is more than 40 percentage point (Figure 2). Other construction projects such as the Standard Gauge Railway link from Kenya are also behind schedule.

Procurement is not fully effective: The capacity to conduct a timely procurement was highlighted during the NDP. Particularly, the process was marred by many objections and appeals that impeded the procurement process. The mechanism for the contractor to object or appeal the results of the procurement process delayed NDP projects. In addition, the dissemination of the new Public Procurement and Disposal Authority (PPDA) regulation has been inadequate. This contributes to the increase in the number of objections and appeals, delaying the procurement process and hampering NDP projects' implementation.

In some cases, there were not enough qualified contractors competing in the procurement process. Some potential bidders also tended to cancel the submission of their proposal or change project designs. As mentioned earlier, it requires much longer time to find qualified candidates for certain infrastructure projects such as the Standard Gauge Railway (SGR) and the Entebbe Expressway because these

Figure 2: Planned vs realization of physical progress (%): Entebbe Expressway

Source: Authors Calculation using data from MoFPED (2011 – 2016)

require higher levels expertise. In some cases, the potential bidders need to establish a consortium for the sources of finance.

Flexibility and Restraint in Budgeting: At the operational level, the low disbursement of funds in agriculture, education, tourism and health could have emanated from limited flexibility and much restraint due to weak institutions, change of project design and inadequate procurement plans among other problems - which has often led to increasingly poor implementation outcomes. Flexibility at the sectoral level can be supported by transparency and accountability.

However, too much flexibility, without appropriate checks and balances, is also problematic and could lead to abuse of powers/ corruption. The ramification is that corruption thrives, where public officials exercise substantial discretion in decision making and, are not constrained by mechanisms that check arbitrary action.

Improved Absorption Capacity in Key sectors: There is improved absorption capacity in the Key sector of Roads, Agriculture, Education, Health, Energy and Tourism with over 90 percent absorption capacity during the NDP (Figure 3). However, there is a scope for improvement in approval of funds, which contribute to absorption constraints through late commencement of implementation of activities. Other delays are attributed to late programming of funds after conclusion of procurement process.

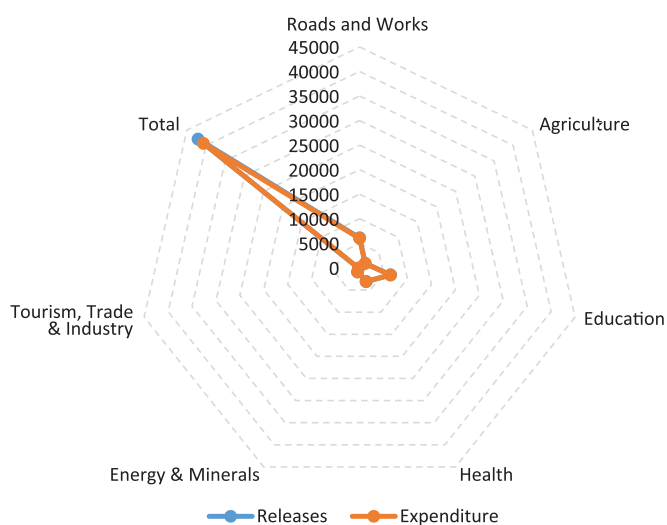
However, the apparent improvement in absorption capacity in the sectors may mask the decreased effectiveness in delivering on sector outcomes. For example, the Uganda National Roads Authority (UNRA) received a total of US\$9 trillion to construct 5,147km of roads during the first NDP, only 1,500km of roads was delivered. Of the US\$9 trillion, at least US\$4 trillion was lost due to flaws in the procurement system; procurement and payment of contracts in foreign currencies, causing pressure on the local currency; premature failure of roads; high construction costs, and delayed implementation of reforms suggested by the Auditor General .

Revenue mobilization at local government level: In view of the consolidation of the number of transfers to local government from 58 to 20, it should be observed that there are large-scale horizontal inequities in the amounts of transfers received and amount of revenues raised by local governments. Consolidation tends to benefit some of the recipient governments at the expense of others. However, grant consolidation can increase recipients' flexibility in the use of transfers, and thereby will facilitate adjustment for the disadvantaged districts.

Policy Options

Minimize the Variance between budgets and outturns: In this regard, the realization of the goals and objectives of the NDP will largely

Figure 3: Budget Absorption Capacity (Billions of Ug. Shs.), 2010 - 2015



Source: Authors calculation using data from MoFPED (2011 - 2017)⁵

depend on the extent to which the variance between budgets and outturn is minimised. While this is a difficult task to accomplish, it is not an entirely unique task. In this case there is need to impose a hard budget constraint on overspending sectors and minimize the tendency of creating new districts and institution during budget implementation.

However, the constraints must be realistic and sensitive to sector policy demands, and it must involve a significant degree of predictability. The important task, therefore, is to get the right mix between restraint and flexibility needed to improve outcomes on the ground. It should also be noted that variances between budgets and out-turns are not necessarily a bad thing especially where such changes are documented and reported in the BFP. More often, reallocation of funding could reflect an efficient response to accommodate unforeseen emergencies.

Budget Institutions: Activities during budget preparation are critical to the overall stages of NDP implementation. Budget preparation includes activities from the planning and budgeting of projects to parliamentary approval. In regard to planning, the key strategic decisions of the NDP should be more centralized and operational/implementation decisions more devolved. On one hand, planning and budgeting and policy reform should be the role of MoFPED and NPA. This will enhance the ability of the two institutions to support and demand for performance. On the other hand, sectors, agency level bodies and local government should focus on developing outcome and output information, supported by cost information.

In other words, strategy should be restrained/centralized and implementation flexible/devolved. This reform will require development of coordination mechanism at two levels: first, between MoFPED and NPA to manage the tight/restrained strategic; and second, within and

Recent Policy Briefs

“Challenges of Mobilising Resources to Finance Uganda’s National Development Plan (NDP)”
 No. 81 April 2017
 Corti Paul Lakuma and Musa Mayanja Lwanga

“Has Foreign Aid Improved Health Outcomes in Uganda? Evidence from Panel Microdata”
 No. 80 March 2017
 Tonny Odokonyero and Robert Marty

“Understanding Farmers’ Agriculture Extension Seeking Behaviour in Uganda”
 No. 79 March 2017
 Madina Guloba, Mildred Barungi and Annet Adong

About the Author

Corti Paul Lakuma is a Research Analyst at the Economic Policy Research Centre, Kampala, Uganda.

Musa Mayanja Lwanga is a Research Analyst II at the Economic Policy Research Centre, Kampala, Uganda.

between sectors, agencies and local government to manage the flexible implementation framework.

Control and Delegation: mechanism that balances flexibility and restraint in decision making include competitive pressure from markets, and think tank and civil society participation in the budget process. In the government sphere, the mechanisms include the checks and balances provided by the three arms of government: executive, legislature and judiciary. Within the ministries where budgets are formulated, the mechanism include: budget ceiling, prioritisation of activities, and availability of information on budget and outcomes, and accountability.

The Need for Transparency: MoFPED and NPA need to take the lead in putting in place the basics to support all three functions of the budget - Aggregate fiscal discipline, allocative efficiency and technical efficiency. This can be done by building institutional mechanisms that support and demand a performance orientation for all dimensions. This calls for a balance between control (restraint) and delegation (flexibility) by introducing mechanisms to promote transparency and accountability. Key elements of the control framework, will check abuse of delegation and generate demand for information. In the longer term, the mandate of accounting officers at the sectoral level needs to be expanded to preside over more autonomy on implementation of NDP projects. Abuse of such a mandate can be checked by performance contract that reward performance and punish non-performance.

Transparency requires publicly available, clearly communicated, timely and reliable ex- post external

audits and ex-ante performance targets. As such, accounting officers must be accountable for executing flexibility accorded to them. In summary, information on decisions, the rationale for those decisions, outcomes of those decisions and their costs must be made publicly available. Therefore, reforms should seek to develop institutional mechanisms that support an effective public expenditure management system. Transparency and accountability mechanisms do not only provide incentives for a public expenditure system that observes constitutional requirements, but also impose costs on politicians and bureaucrats for violations.

Evidence from South Africa suggest that performance contracts, as way of managing flexibility accorded to accounting officers in MDAs, have improved budget effectiveness (outcome) and efficiency (output). Accounting officers in South Africa are provided with incentives such as flexibility in budget management, individual salary incentives and linking of future funding to past performance⁶.

Conditionality of local government transfers: it will probably be necessary to remove conditionality, in the context of the Fiscal Decentralization Strategy (FDS), on the 20 proposed grant for some of the more ‘advanced and mature’ districts during the NDP II. Alternatively, given that some of the ‘advanced and mature’ districts, have become weak following splits that created others. As such, the solution is not in changing the conditionality but rather seeking for increased revenues. Therefore, conditional protection is legitimate in lieu of adequate resources.

Endnotes

- 1 Reinikka, R. and Collier, P. (2001), “Uganda’s Recovery: The Role of Farms, Firms and Government,” The World Bank, Washington D.C.
- 2 Simson, R. and Welham, B. (2014), “Incredible Budgets: Budget credibility in theory and practice”, ODI Working Paper No. 400.
- 3 Karuma, Isimba and Bujagali

- 4 MoFPED (2011 -16), “The National Budget Framework Paper 2016/17”, Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.
- 5 MoFPED (2011 – 2017), “Annual Budget Performance Report”, Ministry of Finance, Planning and Economic Development (MoFPED), Kampala.
- 6 RSA (2007), “Employee Performance Management and Development System”, Republic of South Africa (RSA), Department of Public Service and Administration.

The views expressed in this publication are those of the authors and do not necessarily represent the views of the Economic Policy Research Centre (EPRC) or its management.

Copyright © 2017

Economic Policy Research Centre

The Economic Policy Research Centre (EPRC) is an autonomous not-for-profit organization established in 1993 with a mission to foster sustainable growth and development in Uganda through advancement of research –based knowledge and policy analysis.

Learn more at:

-  www.eprcug.org  TWITTER: @EPRC_official  www.facebook.com/EPRCUGanda  eprcug.org/blog

Address:
 Economic Policy Research Centre
 51, Pool Road, Makerere University Campus,
 P. O. Box 7841 Kampala, Uganda
 Tel: +256414541023/4 Fax: +256414541022
 Email: eprc@eprcug.org, Website: www.eprc.or.ug