



Persistent inadequate counterpart funding to projects in the Ministry of Education and Sports: What is the way forward?

Overview

Counterpart funds refer to domestic resources allocated by the Government as the 10% contribution to project budgets to meet costs agreed upon in the agreements. These include operational expenditures such as taxes (Withholding, Import and Value Added Tax), compensation of project affected persons, training (e.g doctorate training and bursary schemes) and coordination activities, among others.

Inadequate counterpart funding remains a persistent challenge for a number of projects under the Ministry of Education and Sports (MoES) during budget execution.

The policy brief highlights the problem of counterpart funding and the emerging concerns.

Introduction

Section 23 of the Public Finance and Management Act, 2015 stipulates that Votes shall NOT enter into a contract, transaction or agreement that binds Government to financial commitment for more than one financial year or which results in a contingent liability without prior authorization by Parliament. Further to that, the Budget Call Circular Section 34 (vi) notes that for FY2016/17, Votes should capture tax requirements for projects activities that will attract taxes in FY 2016/17.

The Ministry of Education and Sports (MoES) has not been budgeting fully for counterpart funds including taxes in its various projects.

Key Issues

- For Financial Year (FY) 2016/17 there is a shortfall of Ug shs 90.1billion, as counterpart funds for all donor projects under the MoES.
- The shortfalls in Counterpart funding has been increasing for the last three years
- The Africa Development Bank (ADB) IV project closed in September 2015, but there are still outstanding unpaid counterpart funds of Ug shs 2.9 billion.

Status of counterpart funding in FY 2016/17

Inadequate counterpart funding for projects is one of the major bottlenecks to project implementation particularly those projects under Vote 013 (MoES). Timely release of counterpart fund triggers release of the donor contributions. However, the Government of Uganda (GoU) has often failed to release adequate counterpart funds, thereby causing a delay in release of financing by donors. This has inevitably led to delays in execution of activities that are directly paid for with the counterpart funds. On the other hand, arrears of counterpart funds for a number of projects have been rising. Table 1 summarizes GoU's performance regarding counterpart obligation for FY 2016/17.

**Table 1: Counterpart and tax obligations (Ug shs) for projects under Vote 013 FY 2016/17**

Project	Total Requirement for FY 2016/17	Budgetary provisioning FY 2016/17	Total outstanding for FY 2016/17
0942: IDB-UNES Phase I, 0942 IDB-UNES Phase II, 0942: SAUDI-VET project 0942 KUWAIT REFTI project, 0942: BADEA-CETIN project	31,688,027,585	13,692,849,000	17,999,178,585
0942: NAKAWA Technical Vocational Education and Training Lead Project	3,490,000,000	700,000,000	2,790,000,000
1233: Improving the Training of BTVET Technical Instructors, Health Tutors (BTC)	2,462,791,000	202,792,000	2,259,999,000
1378: Support to Implementation of Skilling Uganda	604,000,000	1,864,154,000	1,260,154,000
1273: Support to Higher Education, Science & Technology (ADB V)	48,446,271,741	4,898,582,000	43,547,689,741
1338: Skills Development Project	3,000,000,000	300,000,000	2,700,000,000
1310: Albertine Region Sustainable Development Project	5,233,571,014	2,272,000,000	2,961,571,014
1296: Uganda Teacher and School Effectiveness GPE	19,153,085,256	1,791,000,000	17,362,085,256
1370: Support to Physical Education and Sports	1,800,000,000	-	1,800,000,000
897: Development of Secondary	10,000,000,000	8,337,418,000	1,662,582,000
GRAND TOTAL	115,877,746,595	34,058,795,000	-90,156,369,595

Source: MoES

Overall, the Government released only Ug shs 34billion out of the total counterpart requirement of the Ug shs 115.8billion for FY2016/17. This translated into a shortfall of Ug shs 90.1billion for all donor funded projects under the MoES.

The hardest hit projects were Support to Higher Education, Science and Technology (HEST), the Arab funded projects, and Support to Higher Education, Science and Technology respectively which had shortfalls of Ug shs 43billion, Ug shs 17.7billion and Ug shs 17.3billion respectively.

The inadequate provisions to the projects hindered payment of taxes on time and fully funding the trainings. For instance, under the HEST project, 102 staff members from universities were identified for doctorate training but did not receive the expected financial support. Table 2 highlights the number of staff in universities benefitting under the project who were affected by the delays in disbursements of the counterpart funds.

**Table 2: HEST Project PhD Scholarship Beneficiaries as at 25th November, 2015**

	Institution	Female	Male	Total
1	Makerere University	4	6	10
2	Makerere University Business School	13	21	34
3	Mbarara University of Science and Technology	7	15	22
4	Busitema University	6	15	21
5	Kyambogo University	2	6	8
6	Gulu University	3	14	17
7	Muni University	0	4	4
8	Uganda Management Institute	3	6	9
9	National Council for Higher Education	0	1	1
	Total	29	73	102
		28%	72%	100%

Source: HEST Project AIDE-MEMOIRE November 2015

A number of staff on PhD training did not receive upkeep and tuition. Busitema University and Makerere University Business School (MUBS) had not received earmarked funds by half year (i.e. Ug shs 292million and Ug shs 198million respectively). Staff in universities abroad were contemplating returning home without completing their studies because of delays in remission of their upkeep and tuition.

Trends in Counterpart funds shortfalls

Over the last three FYs, shortfalls/arrears in GoU counterpart funding to projects under Vote 013 have been increasing (table 3).

Table 3: Trends in Availability of Counterpart Funding

FY	Total counterpart requirement for all projects	Budgetary provision in FY	Cumulative Outstanding
2014/15	12 billion	8.6 billion	-3.4 billion
2015/16	35,747,461,581	19,257,837,784	-16,489,623,797
2016/17	115,877,746,595	34,058,795,000	-90,156,369,595

Source: MFPEd

It is worth noting that a number of contractors are threatening to take government to court for nonpayment of the above funds. This will further complicate the issue as the outcomes of the litigation will create further obligations.



In FY2015/16, GoU provided a supplementary of Ug shs 6,609,432,473 to cover taxes for the HEST project; however, MoES re-allocated Ug shs 3billion to development, making the ministry partly responsible for accumulation of arrears for the counterpart component.

Delayed release of counterpart funds has caused late start of projects. A case in point is Project 1310 Albertine Region Sustainable Development, and Project 1338 Skills Development that delayed to start partly because GoU had not released counterpart funds to cover taxes and staff training in oil and gas.

Box 1. Outstanding Counterpart Funding under ADB IV Project

The ADB IV project ended on 30th September 2015; however it has outstanding counterpart requirements for civil works, services and goods which are yet to be settled. A total of Ug shs 2,973,667,113.99 is required to pay different contractors who undertook civil works and provided services.

The outstanding payments for civil works are to pay for retention and some interim certificates that were not paid to 18 contractors under the different lots. The outstanding payments for services is owed to 10 contractors who provided consulting services particularly design and supervision of works under the different lots.

Source: MoES

Conclusion

The GoU has not made adequate provisions for counterpart funding to projects under Vote 013. On the other hand, MoES has not also consistently prioritized payment of domestic arrears for all these projects. Arrears from nonpayment of counterpart funds are resulting into litigations which will increase liabilities to the Government.

Recommendations

- The MoES should implement the tax-inclusive budgeting, where all taxes are consolidated and budgeted for under the relevant items.
- To avoid the costs of litigation from contractors, the MoES should prioritize payment of contractors with arrears as soon as possible.
- New projects should become effective only when MoES is sure of availability of counterpart funding.

References

1. MFPED, Budget Monitoring Reports for FY2015/16
2. Budget Execution Circular, July FY2016/17

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