



Domestic arrears in Public Universities: What are the drivers and effects?

Overview

Domestic arrears refer to the aggregate value of unpaid bills for goods, services and works rendered to an institution, at the closure of a Financial Year (FY).

Domestic arrears in universities usually comprise of court awards and compensations, gratuity and pension, taxes and other deductions, and wage related arrears for both teaching and non-teaching staff. Operational challenges in the universities have resulted in the accumulation of domestic arrears.

Despite measures put in place by the Ministry of Finance, Planning and Economic Development (MFPED), arrears have continued to accumulate. This has affected the smooth running of the institutions and the quality of education as demonstrated by the World University rankings, (2019) which indicated that no Ugandan university was among the top 500 universities in the world.

This policy brief highlights the key drivers in accumulation of domestic arrears, and the interventions undertaken to address the problem. In addition, it reviews the impact of arrears on service delivery and provides policy recommendations.

Introduction

The operations of universities in Uganda are legally guided by the Universities and Other Tertiary Institutions Act (UOTIA), 2006 as amended. Currently, there are 9 (nine) public universities and two degree awarding institutions which include Makerere University, Mbarara University of Science and Technology, Gulu University, Busitema University, Makerere University Business School (MUBS), Soroti University, Kabale University, Kyambogo University, Muni University, Lira University and Uganda Management Institute (UMI).

Public universities get their funding through three (3) major avenues which include; Government subventions, internally generated revenue (Non-Tax Revenue-NTR) mainly charged as tuition fees from students, and donor support for research and innovations.

Key Issues

- Persistent existence of domestic arrears indicates weaknesses in the Public Finance Management systems.
- Inadequate Government subventions, poor budget performance and poor adherence to commitment control systems are key drivers in accumulation of arrears.
- Domestic arrears have become a catalyst of continuous industrial action by the academic staff and student unrest.

On average, about 48.3% of the total funding is through Government subvention with the highest level of 46.7% at Makerere University, and the lowest of 1.2% at UMI.

A review of the budgets for the previous 10 FYs indicate that Government shifted focus to primary, secondary, and vocational education and reduced spending on higher education. This FY 2018/19, public universities were allocated Ug shs 730,895bn which accounts for 5% of the total Education Sector budget.

The strategic role of higher education in national development especially in the formation of skilled human capital is not disputable. However, public universities continue to experience operational challenges that are cited as one of the major underlying cause of accumulation of domestic arrears. Whereas the quality of higher education is a multi-dimensional concept, continuous accumulation of arrears has made universities fail to make rational and planned expenditure choices based on their long-term strategic and development objectives leading to poor service delivery and a possibility of misappropriation of public resources.

Key drivers of domestic arrears in public universities

Inadequate Government subventions: The second National Development Plan (NDPII) indicates that



funding of higher education remains at 0.3% of the gross domestic product (GDP) less than the recommended share of least 1% of GDP. Government subvention to public universities earmarked for Wage, Non-wage and Development. Wage, on average constitutes about 65.6% of the total subvention. This means that core functions like research suffer diversion of funds to other underfunded yet urgent operational activities to keep the institutions running on tight budgets. This leads to failure by most universities to make rational and planned choices.

Budget cuts especially on Capital Development Fund: This cuts across most public universities. For instance, Muni University received Ug shs 2.535bn (55.7%) out of the Ug shs.4.55bn allocated in FY 2016/17. In FY 2017/18, Ug shs.3.48bn was received out of Ug shs. 4.55bn of the budgeted, representing 76%. These budget cuts affect planned activities and when an institution has contracted service providers, it results into arrears.

Narrow revenue base: According to Section 41 (c) of the UOTIA (as amended), 2003, the University Council is mandated to fix scales of fees and boarding charges. Considering that tuition fees are the major source of internally generated revenues, Government's continued regulatory role in university fees structures makes it difficult for the University Council to execute its role in relation to the market rates. This situation is worse in recently created universities because of low student enrolment.

Increased funding of the wage bill and less of other priority activities: Public universities utilize about 47.73% of NTR to meet the total wage bill. For instance, the total wage bill for Makerere University in FY 2017/18 was Ug shs 191.3bn, of which only Ug shs 100.1bn was financed using Government subvention. The balance of Ug shs 91.3bn, was paid from NTR which represents 97.5% of the total NTR, as a top up on the wage bill. This leaves limited NTR resources (Ug shs 2.33bn) to finance other planned operational and development costs. The high wage bill is partly caused by low staffing across most public universities which compels them to hire part time staff to close the gap. This is very costly and forces the universities to procure some priority services/goods on credit resulting into domestic arrears.

Poor revenue budget performance: Over the years, universities have experienced poor revenue budget performance on average of 4% (Annual Budget Performance Reports). This is partly arising from ambitious NTR revenue forecasts during budget formulation against actual collections. The consequence of lower actual revenue is failure to meet contractual obligations that the universities enter into resulting into domestic arrears.

Poor adherence to the commitment control system (CCS): The system prohibits entities from entering into commitments unless funds are available. Whereas the Public Finance and Accountability Act (PFAA) identifies mechanisms for minimizing and avoiding domestic arrears, adherence to the CCS is poor. The Auditor General's Report (2014), indicates that Makerere University mischarged Ug shs 969,917,237 in FY 2013/14. The reoccurrence of regular supplementary budgets presented to Parliament for approval and at times for domestic arrears is as a result of this indiscipline.

Interventions undertaken to address accumulation of arrears in public universities

In line with the Government Debt Strategy of elimination of all forms of domestic arrears, Government has undertaken the following interventions:

- i. **Verification of the stock of arrears by an independent audit firm:** The MFPED contracted an independent consultant (M/S Ernest and Young) to verify the authenticity of the arrears. For instance, out of the Ug shs 3,485,571,086 arrears claim by Busitema University, only Ug shs 312,591,273 was valid, Ug shs 2,160,495,930 was contested and Ug shs 1,012,483,883 rejected after the verification exercise. This exercise ensured that only valid or genuine claims were cleared to avoid fraudulent claims and recurrence.
- ii. **Deliberate effort by Government to clear domestic arrears:** A medium term plan to reduce domestic arrears was developed. It is a comprehensive, transparent and credible arrears clearance strategy with the objective of clearing the existing stock of arrears within four years. This will be by stopping the

diversion resources meant to clear arrears, adequately budgeting for arrears' clearance and strengthening the measures to stop creation of new ones. For instance, in the FY 2018/19 budget, Government allocated Ug shs380,50bn to settle some of the domestic arrears, of which Ug shs 16.146bn was to clear outstanding arrears in public universities. These funds have since been released to the respective universities.

Table 1: Domestic arrears budget for FY2018/19 for selected public universities

Institution	Allocations in Billions
Busitema University	1.839
Muni University	0.077
Makerere University	13.210
MUBS	0.343
Kyambogo University	0.486
Gulu University	0.136
Lira University	0.055
Total	16.146

Source: MoFPED, Approved Estimates FY2018/19

- iii. **Operationalization of Vote Cost centres starting FY 2019/20:** In the first Budget Call Circular on the preparation of Budget Framework Papers for FY 2019/20, Accounting Officers of all public universities were informed that henceforth, their budgets will be prepared based on Vote Cost Centers. This will facilitate proper monitoring of activities and expenditure performance in units where activities are implemented.
- iv. **Strengthening the legal framework:** The MFPED introduced a Treasury Single Account (TSA) system in October, 2013 in accordance with Section 4(1) 3 of the Public Finance and Accountability Act. TSA is one of the financial policies implemented by Government to consolidate all revenue from all Ministries, Departments and Agencies (MDAs) by way of deposit in Bank of Uganda (BoU). As a result, all public universities are required to bank all NTR on the Consolidated Fund account in BoU. Whereas some universities are yet to fully comply, this has enabled frequent and accurate accounts reconciliation and reporting, which has had a positive impact on aggregate expenditure control.

Impact of accumulation of domestic arrears on service delivery in public universities

Persistent industrial action by the academic staff and student unrest: Whereas lecturers have a constitutionally protected right to strike, it's imperative that the focus be given to the effects of constant industrial action on the students and the Education Sector as a whole. Time wasted is at times not compensated for as the university calendar remains unchanged. This ideally means that some courses with a lot of content cannot be well covered. These strikes may demotivate students and shift the trajectory of their life milestones, and therefore affect the quality of graduates.



Makerere University students protesting in January 2019 because of non-attendance of lectures after the lecturers laid down their tools over non-payment of salary arrears

Distorts planned implementation of the budget: Diversion of resources from planned activities to settle previous arrears is likely to occur. A notable case is Kyambogo University that diverted Ug shs 4,834,618,279 to settle arrears that were never budgeted for (*Auditor General's 2017 Report*). This situation may force universities to either reduce the supplies purchased, volumes of services delivered or even halt service if providers cease to supply pending the payment of outstanding amounts.

Abuse and budgetary indiscipline: Kyambogo University, for instance spent Ug shs 4,834,618,279 outside the budget to settle domestic arrears that had not been budgeted for in FY 2016/17 (*Auditor General's 2017 Report*). This budgetary indiscipline may affect the effectiveness of the institutions in terms of service



provision to students to support their academic work. As a consequence, the performance of students and the institutions may diminish due to the inadequacy of facilities such as ICT, online libraries, and research among others.

Litigation against the universities: The Auditor General's Report (2016) indicates that a number of universities were struggling with court cases arising from among others non-payment for goods and services. Notably, as far back as March 2008, Makerere University Staff under the Makerere University Retirements Benefits Scheme (MURBS) took the university to court over unpaid arrears. Failure to pay court awards leads to accumulation of interest that exceeds the original judgment amount.

Conclusion

It is worth noting that the accumulation of domestic arrears is also experienced by other Government MDAs, however, the extent of the problem in some public universities goes beyond the inadequacy in funding levels.

According to Kofi Annan (former UN Secretary General) education is the premise of progress in every society and the quality of a nation is embedded in the quality of its education system. So it is imperative that Government plays a greater role in proper funding of public universities so that they perform their essential role in economic development, innovation and social engagement.

Effective prioritization during the budget preparation process, close follow-up and full compliance with the set procedures and legal framework may improve the situation.

Policy recommendations

- 1) Public universities should be held accountable on the efficiency and effectiveness of resource use by ensuring that priorities and spending decisions taken are the most

effective and in line with the sector work plans and procurement plans. This will promote good governance and accountability of public resources.

- 2) Public universities should adhere to the PFM systems and practices to prevent the recurrence of arrears. This will be by formulating a credible budget with achievable revenue targets and adequate budget provisions for commitments carried forward from previous FYs.
- 3) Public universities should enhance realism of the budget by ensuring that the costs estimated are adequate with particular focus on items that are prone to arrears such as wages, utilities, maintenance costs and infrastructural projects.
- 4) Sufficient funding for research, innovation and knowledge generation cannot be raised through research grants from the various donors. The results of such researched papers should be paid for by users which would broaden the internally generated resource base.
- 5) Public universities should improve accounting and reporting mechanisms especially in the clearance of arrears. Comprehensive, timely and reliable information about their size is very important.

Reference

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