Budget Absorption Challenges in the Health Sector in Lesotho

WHAT CAN BE DONE ABOUT THEM?
Key messages

• **Budget execution challenges persist in the health sector, mainly because of bottlenecks in procurement.** The bottlenecks partly arise from overlapping and repetitive procurement functions by multiple departments. An internal coordination mechanism should be designed to encourage regular dialogue that will forge consensus on key elements such as streamlining procurement procedures and targeting technical support at the bottleneck points of origin.

• **Human resource shortages in the health procurement process are central to the low budget absorption rate in Lesotho’s health sector.** The Government of the Kingdom of Lesotho (GoL) should endeavour to hire critical personnel such as coordinators, accountants and procurement officers, or a principal investigator, to guide decision-making and reduce delays in executing released budgets.

• **Given the complexity of the current health procurement system, moving towards an automated procurement system is envisaged as a solution to enhance budget absorption.** E-procurement will help reduce human errors, improve collaboration between procurement departments and lead to more visibility and control over transactions.
This policy brief, based on a comprehensive study undertaken in 2018 and 2019, examines budget absorptive capacity challenges in Lesotho’s health sector. The Global Fund defines absorptive capacity as the percentage of actual expenditure compared to the total grant budget.\(^1\) Using an analytical framework developed by Development Finance International, the brief investigates underlying reasons for low budget absorption rates of both domestically and externally financed development projects. The brief aims to offer insights into the importance of procurement bottlenecks in Lesotho’s public health sector spending.

In this brief, bottlenecks are defined as constraints or obstacles that limit the utilization of procurement capacity. In the procurement cycle, bottlenecks often appear as delays that prevent the purchase of planned goods and services on time. Delays vary, depending on the complexity of the procurement process followed. Procurement bottlenecks identified in literature are associated with several themes, namely, technical capacity, access to funds, cumbersome processes, corruption and quality concerns.
Overview of the health sector in Lesotho

Although Lesotho has made progress in improving health outcomes, persistent challenges result in the country performing worse than its neighbours. At 76.2 per cent, Lesotho’s child mortality is the highest in the Southern African Customs Union, followed by Swaziland with a rate of 54.4 per cent. Stunting affected 34.5 per cent of children under the age of 5 years in Lesotho in 2018, up from 33.2 per cent in 2014; also the highest rate in the Southern African Customs Union. Lesotho also encounters challenges in terms of immunization: the country covered only 69 per cent of Lesotho’s children aged 12–23 months in 2018; while between 74 per cent (South Africa) and 95 per cent (Botswana) were immunized in other member countries. At the same time, Lesotho spends less on health in per-capita terms, allocating US$80 per person on health, which is far below other members of the Union.

The decrease in the total budget for health partly explains this smaller per-capita allocation. The GoL decreased the health budget in nominal terms by 1.9 per cent from 2,480 million maloti (M) in 2018/19 to M2,433 million in 2019/20. This decline contrasts with the period of consecutive increases in nominal budgets that occurred in the past. The decrease may potentially affect the supply of health goods and services and, consequently, health outcomes, unless the improvements that are sought by the GoL in efficiency of spending the capital budget are achieved. The budget has been affected by immense credibility and execution issues that reflect mostly capacity challenges in terms of expenditure planning as well as complex procurement arrangements.

Three main departments are involved in the procurement process of Lesotho’s health sector. First, the Procurement Unit is mandated to undertake procurement of goods and services on behalf of the Ministry of Health (MoH) in accordance with donors’ procurement rules and government regulations. The Procurement Unit liaises with programme managers to establish requirements in relation to procurement. Second, the Project Accounting Unit is

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responsible for managing the financial system and payroll administration. This unit also assists the Planning Unit and programme managers in the preparation and review of all annual budgets and projections. Third, the Supply Chain Coordinating Unit ensures that commodities are selected and purchased in a manner that leads to availability of supplies that adequately address the needs of patients. The Supply Chain Coordinating Unit ensures uninterrupted delivery of vital and essential supplies at health facilities and hospitals. It enters purchase requisitions for pharmaceutical supplies into the integrated financial management information system, approves them and sends them to the MoH’s Procurement Unit.

These departments determine the exact nature and timing of purchase of goods and services, which can translate into bottlenecks that affect absorption of the health budget. Vertical programmes (family health, disease control, pharmacy, laboratory and dental) were accounted for in the analysis of these bottlenecks, as they add complexity to the MoH procurement process.
Lesotho has persistently experienced low health budget execution rates. Driven by the modest performance in capital expenditures, the execution rates have averaged 92 per cent since 2011/12 (Figure 1). According to the health sector public expenditure review conducted by the World Bank and UNICEF Lesotho in 2017, the average budget execution rate for the overall MoH budget – recurrent budget and development budget combined – was 93 per cent for the period covering 2011/12–2015/16. Execution rates for development (or capital) budgets averaged 76 per cent in the same period. In 2015/16, this rate reached a low of 34 per cent (World Bank, 2017). The low budget execution rates point to the existence of bottlenecks, hence the above-mentioned study was undertaken.

There are important time lags in Lesotho’s health procurement process. It takes an average of 90 working days for relevant MoH departments to procure goods in the capital budget funded by domestic resources. This is the period required between the day a request to order is sent from MoH departments to the Department of Health Planning and Statistics (DHPS) for approval and the day the payment is made to a supplier.4

Figure 1: Total health absorption capacity rates, 2011/12–2015/16

Source: Absorption Capacity of the Ministry of Health Budget in Lesotho: Understanding the challenges and opportunities of the procurement system (UNICEF and World Bank, 2019).
According to interviews with Project Accounting Unit staff, the procurement of donor-funded commodities takes an average of 54 working days from the time the tender is advertised to the time payment is made. Throughout the health procurement process, critical technical steps, which involve different departments and authorization requirements, have contributed to long time lags and therefore low budget absorption.

Due to low absorption capacity, a lot of money remains unspent and is sometimes reallocated and disbursed for other purposes, such as international travel. Many cost centres within the MoH budget, including district hospitals and district health management teams, have modest absorption rates, reportedly due to ‘lack of funds’. The Mokhotlong district health management team’s budget absorption rate averaged 72 per cent during 2011/12–2015/16, the lowest of all the districts. The highest annual average budget absorption rate was achieved by the Mafeteng district health management team, at 87 per cent. Low budget execution rates are caused by process bottlenecks, time lags and lengthy approval mechanisms and interdepartmental communication.

The lowest budget execution rates are in procurement of health equipment, drugs and infrastructure. Approved budgets for specific and much-needed goods and services have often not been spent entirely, the problem being especially prevalent for medical and drug supplies. The line item that accounts for most capital expenditure – that is, non-office equipment – had the lowest average absorption rate of 67 per cent for the entire MoH in 2013/14–2015/16. In contrast, recurrent expenditure related to human resources has been executed satisfactorily, with close to 100 per cent of approved budgets regularly being spent. Persistent failure to achieve full budget absorption for non-recurrent expenditure is a good indication of (non-monetary) bottlenecks in the procurement process for the purchase of relevant health goods and services.

The involvement of multiple procurement departments, together with the manual nature of the MoH’s procurement system, makes the system prone to severe human error that could lead to major bottlenecks. Being manual, health procurement transactions are exposed to human error that can damage data integrity, weaken transparency in government procurement and complicate standardization of processes. The health procurement system’s current manual tendering process requires a long chain of internal authorizations and scrutiny – at times involving several departments – and the generation of reams of paper-based statements and evaluations.

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What are the underlying reasons for low health budget execution rates in Lesotho?

Myriad factors, most of which are related to procurement, have been identified as drivers of low budget execution rates in the health sector. Although these factors are influenced by external forces to some degree, they mainly reflect the robustness of the procurement system in Lesotho. Therefore, this brief discusses underlying reasons for low budget absorption through a procurement lens that will allow bottleneck analysis in terms of both the processing time lags (working days) generated by MoH procurement stakeholders and the inefficiencies of the procurement system.

There are several reasons why procurement is protracted in Lesotho. First, the review process of procurement documents takes much longer than expected. Procurement documents are reviewed by the MoH Procurement Unit, at which level three main budget absorption bottlenecks are identified: (1) delays in sending out bidding documents or quotations, (2) delays in delivering ordered commodities and (3) delays in approval of delivered commodities by end-users. Interviews with key stakeholders have revealed that additional time is often taken just to confirm the correct specifications of orders, because programme departments are often unsure of terms of reference or specifications for planned purchases. The Procurement Unit also reviews bidding documents for compliance with donor requirements for donor-funded projects; this can also create a bottleneck.

Second, the estimation of real budgets allocated to programmes consumes a lot of time. For instance, because of limited consumption data that have led to persistent inaccuracy in budget forecasts, the Procurement Unit takes a long time to calculate the real budgets of donor-funded health commodities properly. This time lag is also explained by the misalignment of donor fiscal years with the government fiscal year. Donor grants and loans, which appear in budget books as real financial resources, are only resource allocation estimates during the government budgeting period; not final
resources. Delays in the release of budgets promised by donors complicate timely procurement of planned health commodities and thus budget absorption.

Third, delays in submitting purchase requests increase the time lags incurred by the health procurement process. The problem is particularly prevalent in the purchase of essential medicines and medical supplies which is done by the National Drug Service Organization (NDSO) – a legally established trading account under the Ministry of Finance – and financed with the government’s domestic resources. According to stakeholder interviews, the delayed transmission of purchase requests, which lowers budget absorption for this category of health purchase, has become a recurring concern in all Lesotho’s health programmes.

Fourth, the lengthy payment system in the MoH delays further implementation of procurement plans. The NDSO has faced a challenge in paying vendors on time because of the reportedly lengthy payment system in the MoH. Following the Supply Chain Coordinating Unit’s approval of purchase requisitions of, for instance, essential medicines, the requisitions are
sent to the accounts department in the MoH to confirm fund availability. About 30 days later, available funds are transferred to the NDSO, which then pays vendors. This delay negatively affects fund disbursement performance for activities in the current fiscal year’s procurement plan. Overall, the procurement process for donor-funded projects will require 30 and 57 working days for antiretrovirals and other health commodities, respectively. The payment process will typically add 2 and 10 more working days, respectively. For government-funded health commodities, procurement and payment processes require an average of 81 and 31 working days, respectively.

Fifth, limited capacity in procurement planning contributes to poor budget absorption, a cross-cutting problem. Interviews have revealed that good operational plans are not developed for all individual programmes, mainly because of limited skilled procurement staff. Such plans are important tools for monitoring the smooth implementation of activities as the financial year progresses and the Ministry of Finance releases public money. Lack of good operational plans is evidenced by the increasing number of virements’ of recurrent funds, and situations whereby the same actions are budgeted for under
both capital and recurrent budgets. In addition, constrained planning capacity as a result of limitations in government staff numbers and skills has been said to explain unrealistic health budget plans *vis-a-vis* health operational plans.

**Sixth, the MoH’s manually executed procurement system generates inefficiencies.** Stakeholders have emphasized that the weak information, communication and technology system for procurement has slowed down purchases and increased effective costs in the Lesotho health sector. Weaknesses in data collection and analysis have undermined the tender process, for instance, in terms of effective price referencing, timely summary of supplier bids, timely feedback to suppliers on tender results, compliance with legal provisions for authorizations, managing purchase orders, requisitions and invoices, and updating vendor lists, etc.

**Seventh, parallel procurement systems add a complexity that impairs budget absorption.** The MoH has several vertical programmes involved in supply-chain activities at central level that operate in parallel with regular programmes. These include the Family Health Division, the Disease Control Directorate, the Pharmacy Department, the Laboratory Directorate, and the Dental Department. In addition, Lesotho is often required to use a parallel donor system for reporting to comply with donor financial reporting requirements. Delays can arise on the part of the donor institutions in the event of actions needed on subsequent requests such as reallocation or reprogramming of funds. This increases government administrative costs related to procurement of health goods and services.

**Finally, different and centralized procurement processes lower budget absorption at district level.** There are two interlinked processes connected with drug requisitions issued by district health management teams: the MoH orders and pays for the drugs, while the NDSO undertakes the procurement process. Health facilities and hospitals receive these pharmaceuticals after an average of 130 working days, leading to frequent stock-outs. Some equipment, such as cleaning supplies, can be procured at the district level. There are delays in both receiving services and paying vendors for equipment and logistics procured centrally at the MoH (for example, transport services and vehicle maintenance). This results in under-utilization of allocated budgets.

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How can budget absorption capacity challenges be addressed?

Addressing absorption capacity challenges in the Lesotho health sector requires a multi-pronged approach. This is important because there are bottlenecks at each stage of the procurement process, which are often compounded by issues in the payment process. The study recommended the following as solutions to the problem of low budget absorption capacity:

- Leverage existing technology, including the 2019 upgraded integrated financial management information system: Digital technologies can bring end-to-end transparency to the procurement process – from initial request to delivery of a final product. One recommendation that emerged strongly from discussions with stakeholders is the implementation of an e-procurement system to reduce time lags. This should include features like dashboards, allowing the MoH to visualize the overall procurement process, and to track key metrics along the way. A comprehensive dashboard that shows all facets of procurement sheds light on exactly how long each acquisition takes and, most importantly, where the bottlenecks are. In the meantime, an immediate solution could be the decentralization of the 2019 upgraded integrated financial management information system to district-level programmes so that spending can be monitored at all levels of implementation.

- Skilled manpower to respond to health procurement needs: Lack of skilled human resources for preparation of procurement activities – organizing tenders, appraising bids and managing contracts – in many MoH programmes often undermines planning, execution and reporting at the purchasing activity stage, including compliance with multiple

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donor requirements. Due to the failure of the MoH to always hire separate technical staff, as required by donors in the programmes they fund, specifically skilled personnel such as accountants end up playing multiple roles with multiple partners and projects. This leads to slow or under-absorption of budgets, as do the lack of skills noted by stakeholders in developing requests for proposals and terms of reference.

- **Improved planning:** Low absorption of funds is also caused by the country’s said tendency to include complex activities in programme budgets that need lengthy processes to implement. They often require specific experts not always available in the MoH to determine, for instance, specifications and quotations. Consequently, the Procurement Unit and end-user programmes must have several exchanges before commodities or services can be first ordered and then procured, resulting in unnecessary time lags.

- **Effective coordination and communication between health stakeholders:** This is a crucial factor outside core procurement staff in achieving high absorption rates. Evidence from the absorption capacity study has demonstrated that bottlenecks result from officials in subnational governments receiving too little or delayed information about the availability of donor funds. This in turn leaves insufficient time to complete procurement processes satisfactorily. In addition, partners do
not always communicate with the MoH, which leads to multiple orders for similar commodities being processed, defeating the whole purpose of coordination in the health sector. The findings suggest that effective internal coordination mechanisms would help institutionalize scheduled meetings between the Procurement Unit, the Project Accounting Unit and programmes. To improve budget utilization, these meetings should begin during the budget planning process, long before projects kick off.

- **Harmonization of donor policies:** Lack of harmonized donor policies – for example, disparities in financing of training fees – results in inequitable participation in key capacity-building interventions, as trainees tend to select donors that pay fees over those that do not pay.

- **Streamline compliance requirements:** Complex compliance requirements from donors have been identified as a key reason for low absorption of donor funds in official reports, although this was not corroborated by stakeholder interview responses. Between 2012 and 2015, Lesotho’s average spending of Global Fund grants was 71 per cent, leaving about US$30 million unspent. The Global Fund attributed this under-absorption partly to complex procedures introduced to mitigate fiduciary risks and ensure transparent use of grants. However, this was not given as a reason in interviews; rather, reluctance by MoH officers to spend funds driven by lack of time or capacity was put forth. Similarly, there are situations whereby donors specify what the money should be spent on but programmes do not spend the money on the specified commodities.
Annex: Procurement and payment process

Source: Absorption Capacity of the Ministry of Health Budget in Lesotho: Understanding the challenges and opportunities of the procurement system (UNICEF and World Bank, 2019).

Endnotes


2 See Multiple Indicator Cluster Survey (2018) and Demographic and Health Survey (2014).


4 One of the major bottlenecks that results from this considerable time lag is a 10-stage procurement process that involves various parties and authorizations. Additionally, the payment process is manual, further compounding the time lag.

5 This is taken from a statement delivered on behalf of health development partners at the MoH’s Annual Joint Review Meeting of the Health Sector on 5 December 2018.

6 For the acquisition of antiretrovirals and tuberculosis medicines, as well as other specific donor-funded commodities, the NDSO uses United Nations procurement systems. Health commodities (medicines and medical supplies, nutritional supplements and related nutrition products, and laboratory and dental commodities) for health facilities are procured through the NDSO.

7 The process of transferring items from one financial account to another.