State of readiness for implementation of the financial inclusion pillar of the parish development model

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Uganda is implementing an agri-business strategy dubbed Parish Development Model with the aim of transitioning 39 per cent of the population still stuck in the subsistence into the money economy. One of the Pillars of the PDM is financial inclusion whose overall goal is to enable the participation of subsistence households in the financial sector and hence the money economy. This article analyses the state of readiness, both at national and sub-national levels, for financial inclusion under the PDM. The article examines key issues relating to readiness such as the availability of a robust Policy framework, requisite data, a positive mind-set and access to financial services to enhance financial inclusion.

Background

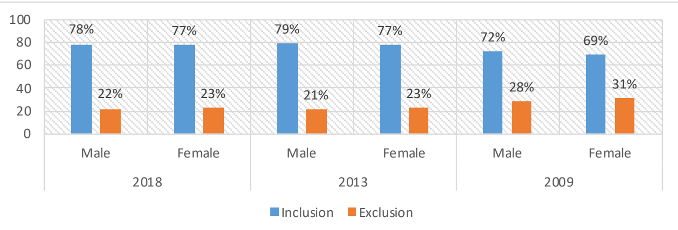
Financial inclusion and its benefits are multidimensional. In broad terms, financial inclusion refers to a situation in which most financial services reach a sufficiently large proportion of individuals and families, granting them timely and adequate access to credit and other financial products at affordable prices.[i] The third pillar of the PDM (financial inclusion) is aimed at improving access to financial services for households that are currently operating in the subsistence economy (subsistence households) and equipping them with skills for enterprise growth, value addition and marketing of their products and services. Under this Pillar, PDM will support a wide range of financial solutions (savings, credit, insurance, transfers etc.) to subsistence households in order to enhance incomes, smoothen consumption, build assets and reduce vulnerability to shocks.[ii] This resonates with the objectives of the National Financial Inclusion Strategy (NFIS) and the 4th objective of the National Development Plan III.

According to the 2018 Fin Scope survey, 23% of women (2.3 million) and 22% of men (1.9 million) in Uganda are currently financially excluded (FSD Uganda, 2018). The study further shows that financial inclusion by gender between 2009 and 2018, had reduced as shown in Figure 1.

In Uganda, the issue of financial exclusion has been caused by majorly access with mainly rural population excluded. The Gates Foundation in 2014 indicated that 71 % of the population lives within 5 kilometres of a financial services access point.[iii] The other factor is the lack of digital infrastructure; over 60 % of Ugandans live in rural areas which are sparsely populated and Financial Service Providers (FSPs) do not have adequate capital and incentives to construct physical branches in these rural areas making financial services expensive for rural folk. Thirdly is the limited formal savings, credit and insurance use. Insurance penetration in Uganda at 0.77% is one of the lowest in the region with rural-based populations mostly the women, youth, neo literates and semi-literates having no access to insurance.[iv] Inadequate agricultural credit (only 10 % goes to agricultural credit) the Fourth challenge was the lack of protection for those with enhanced financial capability thus issues like low digital literacy and data protection were prevalent. These among other challenges are what the PDM is envisaged to remedy.

In response to the problems prevalent in the financial sector specifically pertaining to financial exclusion, the Bank of Uganda and the Ministry of Finance, Planning, Economic and Development (MoFPED) moved to develop the National Financial Inclusion Strategy (NFIS) 2017-2022. The strategy builds on the previous Government's 2011 Financial Inclusion Programme a six-year programme with support from GIZ. The strategy is in fulfilment of the Maya Declaration of 2011; the World Bank target of ending extreme poverty in 2030 and raising the prosperity of the bottom 40 % by reducing income inequality. Pillar 3 of the PDM seeks to address issues of financial exclusion in the country, especially increasing access to financial services.

Figure 1: Financial Inclusion by Gender



Source: FinScope 2018 Gender and Youth analysis in Uganda

Readiness for financial inclusion

Effective FY 2022/2023, the Government of Uganda embarked on the full-scale implementation of the PDM. Prior to that, the government had rolled out the implementation of the financial inclusion pillar of the PDM in the second half of FY 2021/2022. Questions have been asked about the readiness of the national and sub-national actors for the implementation of the financial inclusion pillar. Key issues such as; the lack of a robust policy framework for financial inclusion, institutional framework, information on target beneficiaries, availability of resources for the Parish Revolving fund, status of community organisation, and whether there is the required mind-set; have all raised doubts as to the readiness for financial inclusion.

Policy frameworks and guidelines for financial inclusion. The success of PDM generally, and the financial inclusion pillar particularly, require a sound policy framework and guidelines. While there is a National Financial Inclusion Strategy, and more recently, an Implementation Guideline for the PDM, these documents have not been disseminated widely to key stakeholders especially those at the sub-national level. The result of this has been a disjointed understanding of the whole PDM Concept and more specifically, how the financial inclusion pillar[v] will work which is a recipe for the collapse of the poverty-alleviation programme. Furthermore, there are no specific policy guidelines for the different components of the financial inclusion pillar . The accountability mechanisms of the Parish Revolving Fund, for instance, have not been explicitly spelt out.[vi]

Institutional framework. A sufficiently resourced secretariat is essential in the implementation of national strategies.[vii] In the case of PDM, a national secretariat has been established to guide the implementation of the model and it is headed by a National Coordinator with membership from all directors and representatives of the implementing agencies and is under the MoLG. This is mainly charged with the coordinating function and development of policies and procedures that will govern the PDM. So far this has been done. The PDM Secretariat is meant to be cascaded to the sub-national levels, by establishing and incorporating the PDM Secretariat functions within the Technical Planning Committees of local government levels. However, this is yet to be done in most local governments. The situation is further exacerbated by the non-functionality of Parish Development Committees (PDCs) in most local governments.

Availability of Resources for the PDM. According to the MoFPED, the PDM would be fully rolled out in the 10,594 parishes of Uganda. That meant that each of the parishes would receive 100 million shillings for the implementation of the entire model. The shortfall in budget allocation for PDM raises a serious question about the readiness of the central government. In May 2022 the Budget Committee of Parliament noted a budgetary shortfall of Shs72.8 billion required for effective coordination and supervision of PDM in FY 2022/23. In the first quarter budget press release for FY 2022/2023, the budget release to local governments was a total of 182.52 billion (125.39 billion for Parish Revolving Fund (PRF), 10.50 billion for administrative costs, 28.79 billion for staffing and 17.83 for equipment) These have however not yet been released to the respective local governments. There are gaps in resources for some PDM Activities and other MDAs have not received additional resources in their budgets for the PDM activities under their dockets for FY 2022/2023.

The functionality of the Digital for monitoring the PDM Financial Inclusion. PDM Financial Inclusion Management Information Module (PDM-FIS) under the PDM Management Information System was expected to be developed under Pillar 6, to monitor the performance of the Fund, even for remote supervision. The Ministry of Information, Communication, Technology and National Guidance was expected to prescribe and or approve the proposed system. In addition, the PDM –FIS will provide for the registration and profiling of subsistence households, parish enterprise groups, PDM SACCOs and the different service providers will also be profiled. This system is not yet up and running to ensure that those receiving resources are legitimate beneficiaries.

Inadequate data on beneficiaries. The success of PDM will require organized, integrated, well-coordinated and results-based efforts and this involves creating data systems that constantly feed the whole Government with real-time information concerning various interventions at the Parish level. The data generated and interpreted will improve the understanding of the different and unique characteristics of households across the country and hence provide the basis for the delivery of targeted interventions. Uganda Bureau of Statistics (UBOS), the agency responsible for coordinating, monitoring and supervising the National Statistical System has raised a red flag as to the readiness for implementation of the PDM. UBOS, has asked the government to halt the planned release of funds citing a lack of reliable information on target beneficiaries. UBOS contends that the data that has been collected by the local leaders is invalid and reiterated that the country is not prepared for PDM roll-out

The financial literacy of the community is not well done. The local governments through the parishes are expected to build financial literacy in the communities and popularise the PDM. So far, there has been popularising of the PDM and basically, pillar 3 has been fronted. The emphasis is on how PDM will work and how the money will be obtained and not necessarily on financial literacy which would entail business skills, entrepreneurship skills and the like. Bongomin et al [viii]raised questions about financial literacy's impact on financial inclusion, emphasising social capital. The findings showed that financial literacy indirectly affects financial inclusion through complete mediation of social capital and might lead to financial literacy failure in boosting the level of financial inclusion among Ugandan poor rural households.

All PDM SACCOs are not yet formed. Under the PDM, PRF will be channelled directly from the Treasury to beneficiary accounts that will be opened in regulated Financial Institutions to ensure that households in the Parish are able to save, borrow and invest. However, the process of formation of group SACCOs is not complete. Under the PDM, the local councils are meant to form enterprise groups; enterprises in the community will be organised by the Parish Development Committee (PDC), farmers' organisations and extension workers mainly through the wealth ranking approach methodology. These groups would later form the PDM SACCO. However, a few districts seem to have formed enterprise groups. Citizens have not been guided through the process of enterprise selection and SACCO formation. This casts doubts as to the readiness for financial inclusion.

Mind-set of implementers and users. The right mind-set is a prerequisite for stakeholders to take practical steps that transform the way of working. For financial inclusion to be achieved, there is a need for an appropriate mind-set among public officials at all levels, private sector players and communities. While the implementation of pillar three of the PDM has taken off, there is still a challenge with the mind-set both at the national and sub-national levels. At the national level, the mind-set of "what-is-in-it for me" witnessed in previous poverty alleviation programmes is still prevalent. The flawed mind-set in the communities can be evidenced by the dependency syndrome, a weak sense of responsibility or ownership and the commission culture (kitu-ki-dogo). There is a general perception within the community that this is a token of appreciation for voting NRM. With this mind-set, the communities are likely to invest the money in the non-productive sector and not achieve the intended benefit. This is caused by the limited community understanding of the PDM

Conclusion and recommendations

On the whole, the guidelines on financial inclusion do provide some level of guidance on how this pillar will be implemented. The preparedness of stakeholders to implement the pillar remains critical to the success of the PDM. However, this article makes observations that there are several infrastructural contradictions that need to be addressed like the absence of ICT infrastructure and connection to the national grid; and accurate and reliable data necessary for the implementation of the financial inclusion pillar is not yet ready. Also, sensitisation of the community on financial literacy and financial inclusion under the PDM still leaves a lot to be desired. While it is plausible that the Ministry of ICT and National guidance has collected data, the PDM FIS system is not yet in place to show data on parishes, service providers and a lot of other information seems an overly ambitious move. These and a lot many questions remain unanswered about the availability of baseline data for beneficiaries, and SACCOs which has serious implications for the implementation of the financial pillars. Availability of resources to undertake other supportive activities for the central government and local government entities also creates some concerns on issues of readiness to fully implement the pillar. This article, therefore, makes proposals on how these concerns can be addressed in order for the stakeholders at the local and national levels to be adequately prepared to implement the financial inclusion pillar.

Policy Recommendations

This article provides recommendations for both central and local government entities as follows:

Central Government

- Disseminate the PDM Implementation Manual: Ministries of Local Government and Finance Planning and Economic Development should finalise, popularise and widely disseminate the PDM policy and the Financial Inclusion Guidelines and Accountability Mechanisms for the PRF.
- Ensure timely communication of Indicative Planning Figures (IPFs) for PDM to Local Governments: Ministry of Finance Planning and Economic Development should ensure that Indicative Planning Figures (IPFs) for PDM-related activities in local governments are communicated in time.
- Fast track data collection for Parish Revolving Fund (PRF) Beneficiaries: Uganda Bureau of Statistics needs to ensure accurate reliable data on PDM SACCOs and beneficiaries is provided for effective implementation of the PDM.
- Accountability barazas: The Office of the Prime Minister needs to encourage community accountability meetings for PDM as a measure to ensure that the money set aside for PDM is well utilised.
- Aggressive campaign for Mind-set Change: Ministry of Gender, Labour and Social Development ought to focus on messaging for mind-set change for the community as well as technical persons responsible for its implementation with emphasis on adopting a business mind-set rather than tokenism.

Local Governments

- Enterprise selection and PDM SACCOs formation - Local Governments should ensure that enterprise groups have been formed according to the set guidelines as provided by MAAIF.
- Community sensitisation on financial literacy- Local Governments need to ensure community sensitisation on issues of financial literacy to ensure PDM resources are not diverted to other unintended purposes.
- Establish PDM Secretariat-Local Governments should expeditiously establish PDM Secretariats by incorporating the secretariat function into the Technical Planning Committee
- Incorporate PRF into Local Government Budgets- Local Governments should ensure that they incorporate PRF in their budgets.

Endnotes

i Olaniyi, E., & Adeoye, B. (2016). Determinants of financial inclusion in Africa: a dynamic panel data approach. University of Mauritius Research Journal, 22, 310–336.

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iii FSP Geospatial mapping of outlets. Bill and Melinda Gate Foundation. 2014

iv FSD Uganda. (2018). Analysis of status of financialinclusion for women and youth in Uganda. Kampala: UKaid.

v Parliament Watch. Parliament wants Parish Model Guidelines. https://parliamentwatch.ug/news-amp-updates/parliament-wants-parish-development-model-guidelines/

vi See Parish Model opens cracks among leaders.24th February 2022. https://www.monitor.co.ug/uganda/news/national/parish-model-opens-cracks-among-leaders-3728174

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viii Bongomin GOC, Ntayi JM, Munene JC , Nkote Nabeta I (2016b) Social Capital: mediator of financial literacy and financial inclusion in rural Uganda. Rev Int Bus Strat 26(2):291-312. https://doi.org/10.1108/RIBS-06-2014-0072