JOA Financial Inclusion Call Guidance 2023

These guidance notes set out Jersey's broad priorities and goals for its financial inclusion programming and should be read alongside the guidelines for applicants for grants beginning in 2023.

Overview

There are currently 1.4 billion unbanked adults worldwide and over 90% of these people live in developing countries. Evidence shows that when people have access to useful and affordable financial products and services - including money transfers, payments, savings, credit and insurance - everyone benefits. Greater financial inclusion means that people save more; spend more on healthcare and education; start and invest in enterprises which leads to job creation; and weather unexpected shocks.

Through access to financial services, people are better able to send and receive money for everyday needs, save for emergencies and receive salary or social payments securely. People without an account are more reliant on cash transactions which are less secure, less reliable, and often more expensive than 'formal' financial services. Without financial inclusion, access to employment is hindered and communities that are most susceptible to the effects of climate change are left especially vulnerable.

At a government level, financial inclusion introduces the poorest segments of the population into the financial system by digitising social transfers which can cut government costs and reduce leakage, with benefits that ripple across society.

In alleviating poverty, it is necessary to create an enabling environment where poor people, especially women, can seize economic opportunities and therefore improve their livelihoods. Financial inclusion is a critical tool for creating that enabling environment.

The current context

Access to financial services is on the increase, largely due to the technological revolution and an accelerated adoption of digital solutions and mobile money as a result of the COVID-19 pandemic.

Although mobile money was originally intended to enable people to send and receive remittances, it is increasingly used (particularly in Sub-Saharan Africa) as a tool for saving and borrowing money.

COVID-19 also catalysed growth in the use of digital payments: around 6% of adults in developing economies paid utility bills from an account for the first time during the pandemic. According to the latest Global Findex data, 39% of adults in developing economies opened their first account (excluding mobile money) at a financial institution specifically to receive a wage payment or emergency assistance payment from the government.

However, high inflation, slow economic growth and food scarcity is affecting the poor the most. Now more than ever, financial resilience is needed to mitigate the impact on the poor.

Barriers to financial inclusion

Despite recent increases in account ownership and technological advances, there are still persistent challenges when it comes to inclusive financial services for the poor. These include:

Gender norms

Gender norms continue to be a root cause of why women are underserved or excluded from financial services. Women tend to hold the household responsibilities but have limited financial decision-making authority. Gender norms limit women's ability to acquire the income, technology and capabilities that are needed to access and benefit from financial services.

Mobile phone ownership

Digitisation in developing countries has resulted in an increase in DFS such as mobile money and e-wallets which are accessed via mobile phone. Lack of mobile phone ownership in low-income households is therefore a key barrier to financial inclusion.

Identification and KYC ("Know Your Customer")

Identification is almost always a requirement for opening an account or purchase and activate a SIM card. In Sub-Saharan Africa, 105 million adults are unbanked and have no ID. People often need to show local documentation as well – such as a utility bill with a home address – which is difficult to produce.

Lack of ICT infrastructure

Network downtime and lack of network coverage due to poor infrastructure is a key challenge to the expansion of digital financial services.

Inadequate agent networks

Lack of agents and distance to the nearest financial institution are a key barrier to account ownership. Rural areas generally have fewer digital financial services (DFS) options and agents, and agent liquidity challenges are more prevalent.

Lack of digital and financial literacy

Financially inexperienced users may not be able to benefit from account ownership if they don't understand how to use financial services in a way that optimises benefits and avoids consumer protection risks. Women are more likely than men to need help using their mobile money account. People who are new to formal financial services are more vulnerable to financial abuse such as unexpected fees, fraud and data misuse.

Lack of client-centric financial products and services available

FSPs have traditionally prioritised products and services that are catered to the needs of high-income individuals and large businesses, as opposed to low-income households, savings groups and MSEs who typically lack collateral or previous credit history.

Lack of trust and consumer protection

DFS introduce risks to consumers some of which have worsened over time. CGAP has grouped these risks into four broad types: fraud, data misuse, lack of transparency and inadequate redress mechanisms. These risks can erode trust in formal financial services, limiting the potential for socio-economic advancements.

Lack of an enabling policy and regulatory environment

Restrictive policy and regulation can result in unfair practices such as unfavourable terms and conditions for opening accounts. Policy makers need to address the identified barriers to financial inclusion and customise policies and business strategies to promote healthy and competitive market development and safe and fair practices that protect the poor.

What is our goal?

Through our Financial Inclusion programming, JOA aims to achieve the following goal:

Poverty reduction and resilience through availability and use of demand-driven, trusted financial services

We are defining the terms within this impact statement as:

Poverty reduction: Poor people increase their income, wellbeing and opportunities.

Resilience: People are better able to weather shocks that impact their income or assets, such as loss of income, disability, illness and climate-related disasters.

Availability of financial services: Financial products and services (including DFS) are available to poor people, particularly women or people living in rural areas, through an enabling infrastructure (such as mobile phone/network access and sustainable agent networks).

Use of financial services: People, particularly women or people living in rural areas, with access to financial products and services actively adopt and successfully use them on an ongoing basis to achieve an improvement to their lives and livelihoods.

Demand-driven financial services: Solutions are human-centred, meaning that they are tailored to existing user needs, behaviours, literacy-levels, social norms and gender norms.

Trusted financial services: Solutions are designed to foster consumer trust through better transparency and protection from risks such as fraud, scams, data misuse and inadequate redress mechanisms, leading to a thriving financial services sector.

Who do we want to reach?

JOA's Financial Inclusion Programme targets poor and marginalised groups in its focal countries, with a particular focus on women's economic empowerment and on improving the efficiency and profitability of agricultural value chains. It aims to reduce poverty through providing access to different types of financial services, both increasing the availability and diversity of appropriate products and improving low-income consumers' ability to benefit from them.

JOA's Financial Inclusion priorities centre on two main lenses, either of which may be focused through. Interventions should:

- Target agriculture and agricultural value chains

In JOA's priority countries' reliance on agriculture as the primary source of income is high. Access to appropriate finance is a significant challenge for smallholder farmers and MSEs in rural areas, there is a lack of capacity to manage exposure to specific agricultural risks, market information flows inefficiently, and transaction costs for a heavily cash-reliant sector are still high.

Examples of the types of interventions that JOA might support include:

- Digitising agricultural value chains and improving digital and financial literacy of small scale farmers;
- Creating a virtual market place to connect farmers to markets via their mobile phones;
- Ensuring appropriate credit, savings and insurance products and services are available to producers, traders and consumers in rural locations;
- Improving resilience of small scale farmers by using technology to enable access to information about prices for agricultural yields;
- Creating an enabling infrastructure in rural areas to combat challenges such as agent liquidity, access points, systems interoperability and network coverage;
- Creating an inclusive policy and regulatory environment that fosters the development of affordable and accessible financial services for small scale farmers, their suppliers and customers.

AND/OR

- Specifically target women

Access to financial services enhances women's contribution to the economy and increases their autonomy and social status. Furthermore, with women typically spending 90% of their income on education, healthcare, and housing (compared to 60% by men), increasing their financial clout can result in a much wider developmental impact. However, a gender gap still persists in access to financial services. Across all its funding streams JOA's projects must ensure that women are included and empowered, but in this theme projects are particularly invited to focus on improved outcomes for women. Interventions might include:

- Increasing the diversity of financial products and services available to women that are human-centred and outcome-driven;
- Linking the informal sector to the formal sector through innovative approaches to the digitalisation of savings groups;

- Delivering affordable, trusted, transparent and safe financial products and services (particularly DFS) that increase women's economic agency and promote sustainable livelihoods;
- Developing an infrastructure dealing with challenges such as agent liquidity, access points, systems interoperability and network coverage;
- Creating an inclusive and gender-sensitive policy and regulatory environment that fosters the development of affordable and accessible financial services for women.

JOA is supportive of projects that include a component related to either increased digital and financial literacy or increased entrepreneurship opportunities for women, but these activities should not be the main focus of the intervention..

Guiding principles

- **Customer outcomes:** Access to and usage of appropriate financial products and services is ultimately a means to an end, and projects should ensure they focus ultimately on these higher goals of economic empowerment, resilience and wellbeing.

- **Systemic change:** JOA welcomes proposals that build the capacity of governments, regulators and institutions to ensure that financial services are provided more equitably and efficiently to the target groups.

- **Digital First:** The adoption of digital and mobile technology in developing countries is incredibly rapid. In low-income economies, there are twice as many mobile money accounts than bank accounts per adult. We want to engage with this trend and promote approaches that leverage digital technologies to reach low-income customers.

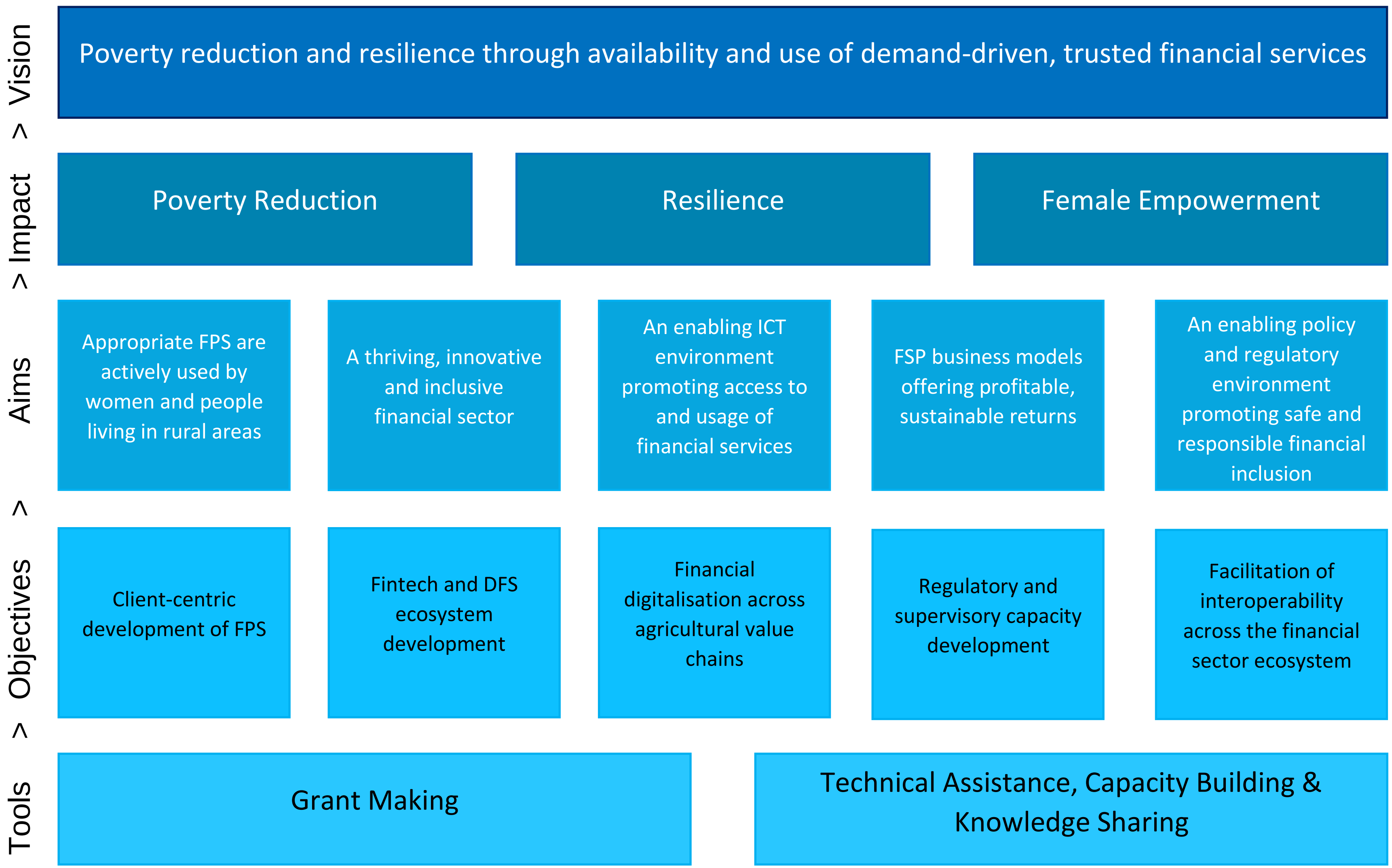
- **Research:** JOA aims to enhance the capabilities of all relevant actors, and welcomes proposals that contain an element of action-oriented research, although proposals should not be solely research-focused without our prior agreement.

- **Market Systems:** We believe that the most sustainable ways to incentivise changes to behaviour and improvements to the financial infrastructure will be economic ones. We encourage grantees to work closely with private sector actors and help make markets work for the poor.

- **Sustainability:** JOA is open to using various models to deliver project activities, including the provision of infrastructure and innovative technology. JOA recognises the importance of supporting FinTech's to build capacity, engage with regulators and develop financially sustainable business models.

- **Climate-smart**: JOA welcomes proposals that improve environmental outcomes and/or promote climate change adaptation/mitigation as an intended consequence of financial inclusion programming.

Theory of Change



About Jersey

Jersey has been a leading international finance centre for more than 50 years, with expertise in banking, accountancy, philanthropy, trusts, fund management, company administration, regulation, and investment advisory services. Jersey acts as a conduit for tens of billions of pounds of investment into developing countries and has a fast-growing socially responsible investing sector. Supporting the provision of financial services for the poor resonates as an idea in the Island and will provide an opportunity to leverage our significant access to knowledge and capital in addition to our ODA resources. JOA is committed to engaging with Jersey's financial and digital expertise to complement and add value to our financial inclusion development programming. We hope that we can increasingly leverage the resources on the island to further our financial inclusion objectives overseas.