

# Remittances at the post office in Africa

Serving the financial needs of migrants and their families in rural areas



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## **The African Postal Financial Services Initiative (APFSI)**

APFSI is a joint regional programme implemented by IFAD's FFR in partnership with the World Bank, the Universal Postal Union, the World Savings and Retails Banking Institute, and the United Nations Capital Development Fund, and cofinanced by the European Union. This unique partnership aims to enhance competition in the African remittance market by promoting, supporting and enabling post offices in Africa to offer remittance and financial services, and to foster dialogue between stakeholders, regulators and policymakers. APFSI is currently rolling out a large technical assistance programme in several African countries, supporting the provision of remittance transactions in rural areas and increasing access to finance by rural populations through post offices.



There is currently very limited literature available on postal reform issues. The present report is intended to enhance awareness about the potential role of postal networks in rural development, providing lessons learned, an account of past and ongoing experiences, insights, information and data, as useful inputs for identification, assessment, and design of programmes involving postal networks in the remittance market in Africa. It is therefore addressed to policymakers, financial regulators, donors, international and regional institutions, as well as to African postal stakeholders (ministries, regulators and operators), private-sector companies, and all actors and practitioners involved in the development of the postal sector and financial inclusion in general.

# Acronyms

AAAA	Addis Ababa Action Agenda of the Financing for Development
AIR	African Institute for Remittances
ALM/CTF	Anti-Money Laundering/Combating the Financing of Terrorism
APFSI	African Postal Financial Services Initiative
ATM	automated teller machine
EUR or €	Euro, currency unit of legal tender within the European Union
FAS	Financial Access Survey Data of the IMF
FDI	Foreign Direct Investment
FFR	Financing Facility for Remittances
FSD	Financial Sector Development
G20	Group of 20
GDP	gross domestic product
GPFI	Global Partnership for Financial Inclusion
GSM	Global System for Mobile communication
GSMA	GSM Association
ICT	information and communication technology
ID	Identification Document
IFAD	International Fund for Agricultural Development
IFRS	International Financial Reporting Standards
IFS	International Financial System, name of UPU's money transfer software
IMF	International Monetary Fund
IT	Information Technology
MFI	microfinance institution
MNO	Mobile Network Operator
MTO	Money Transfer Operator
NPO	National Postal Operator
ODA	official development assistance
p.a.	per annum or per year
P.O. Box	Post Office Box
POS	point of sale
POSB	Post Office Savings Bank
PPP	Public-Private-sector Partnership
PPSA	UPU's Postal Payments Services Agreement
P2P	person-to-person
SACCO	Savings and Credit Cooperative Society
SADC	Southern African Development Community
SDGs	Sustainable Development Goals 2030 of the United Nations Global Compact
SECO	State Secretariat for Economic Affairs
SIM	Subscriber Identity Module of a card for mobile phones or payments
SMS	Short Message Service
UK	United Kingdom of Great Britain and Northern Ireland
UNCDF	United Nations Capital Development Fund
UPU	Universal Postal Union
USO	Universal Service Obligation
US\$	United States dollar
WSBI	World Savings and Retail Banks Institute

# Postal terminology

National Postal Operator (NPO)	The incumbent organization or entity managing the distribution of services with a network of post offices and providing postal services pursuant to applicable postal law
Post or mail	Letters, postcards, printed matters, small packages and parcels
Postal service(s) or mail service	The organization or system for physical transport and logistics of post or mail items
Post office	Retail outlet accessible to the public for services provided by the NPO
Postal network	The chain of retail outlets used by the NPO
P.O. Box	A uniquely addressable, lockable box located on the premises of a post office and rented to the user for receipt of mail items
Postal money order	A service and messaging system provided, operated and owned by the NPO whereby the sender pays the amount remitted plus a commission at the post office and upon notification the recipient picks up the money at a post office
Postal financial services Postal banking	A range of basic financial services accessible at post offices of which the distribution is organized by the NPO
Postbank	(a) A brand or trademark of a licensed financial institution for financial services distributed by the NPO via post offices (alternative brands are: postfinance, postpay, cashpost, etc.) (b) Name of a financial institution whose origin stems from links with the NPO
Post Office Savings Bank (POSB)	Historic agency agreement between the Minister of Finance and the Postmaster General to (i) collect small deposits via post offices and (ii) invest those monies in the state's treasury. In several cases this evolved into a separate institution
Universal Service Obligation (USO) Universal Postal Service (USP)	The NPO's regulated duty to ensure a certain level of availability, accessibility and affordability to a basic range of postal services

# 1 Introduction

Nearly 100 million adult Africans (or greater than 15 per cent of the adult population) use the over 26,000 existing post offices and post agents across Africa to access basic financial services, including picking up remittances.<sup>1</sup> The majority of those users live in rural communities or peri-urban areas, at many miles' distance from bank branches. Those users, among many others, consider post offices as part of the nation's social fabric and an immediate access point to financial services.

Today, post offices in Africa deliver more money than mail (i.e. more financial transactions than letters). That fact is perhaps the most convincing proof of sweeping reforms in Africa's postal networks. It also confirms the relevant role of post offices in delivering migrant remittances. In several African states, market share in remittances has grown to 20 per cent or more;<sup>2</sup> and in those markets where post offices play an active role, the cost of remittances is far below the average for Africa. Post offices active in remittances make the market more competitive, increase transparency and contribute to lowering costs and decreasing pick-up time.

Post offices are seeking a new place in the market where cashless and digital (financial) services rapidly grow in increasingly diverse ecosystems. Mobile money agents can literally be around the corner and in the smallest hamlets, while banks are quickly expanding with agency banking, self-service terminals and other channels. Furthermore, microfinance outlets and savings and loan associations have widespread networks. Nonetheless, although not dominant, the post offices in Africa take a very special place in this ecosystem. Post offices appear to appeal to several segments of the population underserved by other channels, from aged people to women, from young to rural households. As recognized also by the Addis Ababa Action Agenda (AAAA), postal networks are instrumental for achieving full and equal access to formal financial services for all.<sup>3</sup> A post office is often considered a trusted place, convenient and with a human face able to explain usage of financial services to those not familiar, but also a place where cash is always available.

The low threshold and familiar or informal atmosphere in post offices are more attractive for a poor, rural population that can be hesitant to cross the threshold of bank branches. Post offices seek to provide one-stop shopping for a range of basic financial services, and in a package with other social and digital services such as e-commerce and e-government. Post offices also differ from mobile money agents who only have small amounts of cash on hand and provide cash-in and cash-out of mobile money only. Development agencies and financial regulators are more interested in post offices that offer greater value with broader and deeper access to financial services, especially when coupled with financial education.

1 UPU Statistics 2014 and data collected through African postal operators regarding accounts held or via post offices and cash transactions.

2 This is the case for Algeria, Morocco, Senegal and Tunisia, followed by Burkina Faso, Togo and Gabon.

3 The AAAA of the Third International Conference on Financing for Development, United Nations 2015.

**Postal reforms are in many cases incomplete.** More is needed to truly reform post offices in the post-bank era. While improvements in technical conditions such as power supply, broadband connectivity and information and communication technology (ICT) equipment have been critical and much needed, they are not enough. Recent lessons confirm yet again that reforms need to encompass institutional change. While some National Postal Operators (NPOs) pursue mainly organic growth with in-house technology, many others are transforming into group or network companies, and building multiple partnerships with the private and financial sectors. The post offices or retail networks of these NPOs are on the way to becoming a 'supermarket' for remittances, financial inclusion and other e-services. To accomplish true financial inclusion, postal operators also require extensive training and capacity-building, especially in marketing and financial management.

**Regulators must find a way to bridge the gap in which many NPOs struggle,** namely the gap between agencies that consider financial services via the post office an essential part of the postal services and the financial regulators themselves. The potential of post offices as a financial access infrastructure component lies in closing gaps in access and in increasing competitiveness for the underserved population.

In the past 15 years, around 20 African countries benefited from approximately US\$25 million<sup>4</sup> in assistance from the international community supporting NPOs. That assistance was used to advance reforms and financial inclusion. Even with this modest amount, the impact on reduced cost for remittances, increased financial inclusion and its wider socio-economic impact is evident. **The experience gained from the impact of this development assistance points at creating compelling business cases that require relatively small investments in the networks of NPOs to produce attractive returns on investment and increase financial inclusion and trade. Furthermore, such experience has the added benefit of having a significant, wider impact in rural development and poverty reduction.**

This report focuses on African NPOs as one of the several distribution channels for remittances and financial services. It intends to provide the reader crisp information on where the post offices are today in the African remittance market and financial inclusion and what can be done to leverage the existing, publicly-owned assets and resources to enhance competitiveness and to advance inclusion.

4 Estimates based on procurement notices of contracts published by international development agencies.

## 2 Key findings

**With a network of over 17,500 post offices and 8,500 post agencies spread throughout the entire African continent, proximity and rural outreach of NPOs can be a vital asset for the 100 million migrant family members supported by remittances in Africa.** In North Africa (Maghreb), post offices are already an essential part of the rural financial access infrastructure. In Algeria, Egypt, Morocco and Tunisia, there are more post offices than bank branches and agents; and in several cases, networks of NPOs expand by rolling out agency networks. In most cases, sub-Saharan African postal networks complement gaps in peri-urban and rural districts between bank branch networks and the rural networks of Savings and Credit Cooperative Societies (SACCOs) and microfinance institutions (MFIs).

While traditionally transferring remittances through postal money orders, nowadays an increasing number of NPOs in Africa are making more options available for migrants and their families back home. As a result, there is an opportunity for NPOs to increase their current share of the remittance market. By the end of 2016, it is estimated that over 45 million African migrants will have sent home US\$65 billion. Looking at the entire African market, currently a little more than 3 per cent (or over US\$2 billion) is directly received through post offices. However, in the countries where NPOs are active in remittances, postal networks feature a market share of around 10 per cent, and in some cases going up to even 20 per cent.

**The cost of sending remittances to African post offices is currently 6.36 per cent, lower than the current global average of 7.4 per cent, and far below the average for Africa, which still stands at 9.58 per cent.** The cost is even lower, and close to 5 per cent,<sup>5</sup> in most of the corridors to and in Africa, where NPOs are active with remittances via their own money transfer solutions. This is also very close to the Sustainable Development Goals' (SDGs) target for 2030 to reduce the transaction costs of migrant remittances to less than 3 per cent and eliminate remittance corridors with costs higher than 5 per cent.<sup>6</sup> Across corridors where NPOs are relatively inactive or have little competition, costs tend to be higher but still below the global average. The low sender fee to African post offices results in competitive pressure on Money Transfer Operators (MTOs), especially those which also use post offices as their sending agents.

**Due to the increasingly higher competition in the rural remittance market, especially driven by new technology developments, African postal networks are facing new challenges in positioning themselves as one of the preferred**

5 The cost for the sender is usually a fixed amount of EUR 7.50, which is 5 per cent of EUR 150.

6 UNGA resolution A/RES/70/1 of 25 September 2015. Transforming our world: the 2030 Agenda for Sustainable Development. Article 10.c: By 2030, reduce to less than 3 per cent the transaction costs of migrant remittances and eliminate remittance corridors with costs higher than 5 per cent.

**remittance service providers.** Alternative channels equipped with new technologies and self-service terminals have recently emerged at a tenfold pace of African postal networks, bringing remittance services closer to the homes of migrants' families and at low costs. These alternative channels include new bank branches, bank agents, mobile money agents and others such as MFIs and SACCOs.

In the remittance market, price differentiation is based on corridor, instrument and channel used. NPOs present in the last mile<sup>7</sup> are therefore called to provide higher quality services – from instant cash availability to access to a broader range of financial and other digital services (e.g. e-commerce, e-government). Furthermore, positioning themselves as access points to a digital platform connected with multiple first-mile<sup>8</sup> MTOs and payment service providers will also contribute to an increase in both competition and transparency. As a promising first step, a rapidly increasing number of post offices – already more than 10,000 in over 25 African countries – have become active as cash-out points for the growing flow of low-cost, mobile money remittances. Improving their positioning as a reliable and convenient channel of remittance delivery in hard-to-reach areas where informal patterns to receive money are still prevalent, NPOs improve the certainty for rural population and smallholders to receive support from relatives when and for the amount needed, reducing their vulnerability to external shocks and income volatility.

**By linking remittances to a broad range of targeted financial services in rural post offices, African postal networks play a key role in increasing rural financial inclusion.** Most African NPOs that are active in remittances delivery are also involved in providing access to other basic financial services – small savings mobilization, in particular. In addition to cash collection from different channels for recurrent utility bills, NPO services include deposits and loans and are moving towards full-fledged retail financial services. These include their own or postal-branded products and other payment services typically targeting smallholder producers, such as government agricultural subsidies or payment collection from wholesalers. In contrast to money agents who only provide cash-in and cash-out, post offices can add value by deepening and broadening the access to financial services and becoming **remittance 'supermarkets'**. In this way, the remittance recipient has the opportunity to choose the financial product that meets his/her needs.

**African NPOs have made impressive progress in the diversification of their business, although the economic sustainability of the traditional postal services remains a challenge.** Nowadays, African NPOs obtain up to 65 per cent of their revenue from financial services and other demand-driven retail services, while only 35 per cent of revenues mainly results from traditional postal services. In 10 countries, diversification exceeds 80 per cent, and in a few cases even more than 90 per cent.<sup>9</sup>

7 Typically used on the receiver's side, 'last mile' is a metaphorical expression used to describe the final step of the money transfer, to be collected by a recipient.

8 Typically used on the sender's side, 'first-mile' is a metaphorical expression related to the distance of the sender to the point of access to transfer remittances.

9 The 10 countries are: Angola, Burkina Faso, the Comoros, Egypt, Equatorial Guinea, Eritrea, Gabon, Lesotho, Zambia and Zimbabwe.

However, one of the challenges NPOs face in their transformation is the economic viability of the traditional postal services, which remain a social responsibility and a statutory obligation, but for which demand has been declining. Moreover, achieving control and cost reduction in mail operations where first-mile postal operators demand higher quality of services remains a challenge. In general, the hybrid nature of postal operators with one foot in a competitive and technologically advanced financial services market, and the other foot based on a former monopoly with an obsolete business model, implies challenges to transformation. The adage, 'Diversify, digitize or die', has been stated in various ways by African leaders, as well as by the Universal Postal Union's (UPU) Secretary General.

**Substitutability and commoditization of the remittance market can be an opportunity for African NPOs to move away from a limited portfolio towards a premium player position.** Many of the remittance products look similar but feature different brands, pricing and locations. In some African markets, commoditization of remittances progresses and several of the active postal networks are turning this to their benefit by providing access to 'any' remittance product available in the national market, coupled with cross-selling opportunities for basic financial services. Furthermore, this contributes to increased transparency, especially in terms of pricing and product features, and fits in with the concept of 'remittance supermarket', where post offices link remittances to a suite of financial services such as a card, wallet or account.

### 3 Overview of the remittance market in Africa

Remittances to and within Africa will come close to US\$80 billion in 2020. The migrants' remittance flow to and within Africa amounts to more than US\$65 billion in 2016, a slight but slow growth compared to 2015. These flows are expected to continue to grow to more than US\$70 billion in 2018 and up to US\$80 billion in 2020.<sup>10</sup> The growth can be correlated to the continued migration within Africa and from Africa to Europe and other nations, as well as the gradual substitution of unregistered or informal flows into the recorded channels.

It is estimated that more than 45 million African migrants live outside their native country – to some extent in other African nations, and for the largest part in Europe, North America and the Middle East. Moreover, there are nearly 15 million refugees who left their home countries in Africa, fleeing to other places both in and outside Africa.<sup>11</sup> Remittances reach more than 200 million African migrant family members, of which more than 40 per cent live in rural communities.<sup>12</sup>

Migrant remittances are a lifeline for many of the migrants' families and have significant economic relevance in Africa. A group of at least 13 African countries is highly dependent on remittances. These include:

Country		% of GDP (2014)	Country		US\$ billion
1	Liberia	24.4	1	Nigeria	20.7
2	The Gambia	22.4	2	Egypt	19.7
3	Comoros	19.4	3	Morocco	6.4
4	Lesotho	18.2	4	Tunisia	2.3
5	Senegal	10.5	5	Algeria	2.0
6	Cabo Verde	10.4	6	Ghana	2.0
7	Togo	8.8	7	Senegal	1.6
8	Sao Tome and Principe	8.0	8	Kenya	1.6
9	Mali	7.4	9	Uganda	1.1
10	Egypt	6.8	10	Mali	0.9
11	Morocco	6.5	11	South Africa	0.9
12	Guinea-Bissau	6.2	12	Liberia	0.9
13	Tunisia	5.0	13	Ethiopia	0.6

Source: IMF, World Bank World Development Indicators and staff estimates: 2015 data.

<sup>10</sup> *Migrant and Development Brief #26*, 2016, World Bank.

<sup>11</sup> *Migrant and Remittances Factbook 2016*, 3<sup>rd</sup> edition, World Bank.

<sup>12</sup> *The Use of Remittances and Financial Inclusion, 2015*, IFAD/World Bank for the GPFI. Report presented at the G20 summit in Antalya, Turkey.

As a region, Africa also features wide differences in the size of the flows. The right column of the table above indicates the countries with the largest flows in absolute terms. The 13 mentioned countries account for more than 90 per cent, or US\$60 billion, of the total flow. Remittances also finance a substantial share of imports in some of the larger countries; for example, in 2014 remittances financed around one fourth of imports in Nigeria and about one fifth in Senegal. In the majority of African countries, the flow of migrant remittances is larger than the flows of foreign direct investment (FDI) and official development assistance (ODA).

Both indicators imply that remittances are a significant element for economic development in Africa, and that wide differences exist between African countries in terms of economic relevance and size of the flows. It means that there is no basis for a standard approach for all. Regional cooperation can be beneficial to achieve overall objectives in socio-economic development.

**The average cost of sending remittances to and within Africa is 9.5 per cent, with substantial differences across the regions. Reduction to at least 3 per cent by 2030 is expected to lead to an increase of at least US\$5 billion per annum (p.a.) more in the hands of migrants' families.**

The average cost of sending money to and within Africa was 9.5 per cent in 2015, the highest average cost for a region worldwide, despite a drop from 11.4 per cent in 2014.<sup>13</sup> Costs vary substantially across the region, ranging from 4-5 per cent in the lowest cost corridors to 18-20 per cent in the highest. These numbers imply that migrants spent more than US\$6 billion to send money to their families. These costs do not include those made by their families, in particular in rural areas, who need to spend a considerable amount of time and travel to pick-up their remittances.

Nearly all of the world's highest-cost corridors are currently to or within Africa:

Corridor	Average costs (%)		
		South Africa – Angola	16.4
		South Africa – Swaziland	15.9
South Africa – China	21.6	South Africa – Lesotho	15.9
Nigeria – Mali	20.0	South Africa – India	13.6
Nigeria – Benin	20.0	South Africa – Zimbabwe	13.2
South Africa – Nigeria	19.6	United Kingdom – Rwanda	13.1
Angola – Namibia	19.4	Tanzania – Kenya	12.9
South Africa – Botswana	19.2	South Africa – Zimbabwe	12.6
South Africa – Zambia	18.4	South Africa – Kenya	12.6
South Africa – Mozambique	18.4	Canada – Zimbabwe	10.5
South Africa – United Republic of Tanzania	18.3	Canada – Kenya	10.3
South Africa – Malawi	17.3	United States of America – Cape Verde	10.3
Tanzania – Uganda	17.1	Israel – Morocco	10.1

Source: World Bank Remittances Data: <https://www.worldbank.org/en/topic/migrationremittancesdiasporaissues/brief/migration-remittances-data>

It is worth noting that in nearly all of these corridors, the role of post offices is very limited and constrained. In several cases, both in the first and last mile, NPOs face limitations in actively competing in remittances. This is in sharp contrast to the corridors with the lowest cost where NPOs are in the group of price leaders.

**Cash is still, by far, the most used transfer method for migrant remittances. Cashless forms of remittances are quickly increasing, but they require more progress in financial inclusion and the widening of access to the payments infrastructure.** Although a rapidly growing portion of remittances is received cashless – e.g. on a mobile wallet or a card linked to an account – in 2016 more than 94 per cent of the remittances in Africa are still received in cash,<sup>14</sup> and most senders still use cash to pay an agent. This also applies frequently to senders in Europe, North America or other countries where senders are financially included, either through a bank account or card.

The prevailing reasons for the preference of cash are the perceived speed, reliability and consumer service provided by MTOs as well as proximity in pick-up. Transfers from bank accounts are often still considered too complex, taking more time and adding additional costs. Despite the promising fast growth of cashless solutions both on sending and receiving sides, cash is expected to continue to play a significant role in the years to come.

A reduction in cash requires a much higher degree of financial inclusion in the last mile, which depends both on the payment infrastructure and on the level of financial literacy of the recipients. Currently, less than 30 per cent<sup>15</sup> of African adults have an account at a formal financial institution, while others rely on cash only for financial transactions. In contrast, over 80 per cent of African adults have mobile phones, which are increasingly used for mobile money. In fact, in 2016 there are more mobile money wallets than payment accounts in Africa.<sup>16</sup> Through the use of digital financial services, progress in advancing financial inclusion can be further accelerated in the medium term.

**Cross-border mobile remittances are gathering momentum and quickly increasing.** In a recent survey, the GSM Association (GSMA) tracked at least 29 cross-border, mobile money, remittance corridors connecting 19 countries in Africa.<sup>17</sup> The survey demonstrates how the ease of making mobile money transactions across borders in Africa improved as a result of collaborative arrangements among telecom operators and money transfer operators. These partnerships are likely to lower remittance costs and make services more efficient and viable. Financial inclusion and lowering the cost of sending money home appear to go hand-in-hand; and interoperability across operators and channels for payments is essential.

14 *Disrupting International Remittance*, white paper, Juniper Research, July 2016.

15 *Migrant and Remittances Factbook 2016*, 3rd edition, World Bank.

16 World Bank Findex data base 2015 and IMF Financial Access Survey 2016.

17 GSMA 2015 State of the Industry Report: Mobile Money.

**Access to payment infrastructures is rapidly expanding in many African countries.**

Until relatively recently, cashless payment services were essentially – and in some countries, exclusively – provided by commercial banks. The role of banks as retail payment service providers was historically linked to another of their key functions: deposit-taking. For this purpose, banks (including the Central Bank) developed payment systems, and were traditionally the sole direct participants in most of these transactions. The limited and costly access for migrants and their relatives to these traditional payment infrastructures provided, in the past decades, the opportunity and business rationale for MTOs to enable the quick transfer of cash from person-to-person.

**Payment services are generally the most frequent type of financial service used,** and are, therefore, a typical entry product to other financial services such as savings, credit and insurance. Hence, improving access to payment services is important in achieving universal access to financial services and to improve financial inclusion.

The first step in accessing formal payment services is to have a payment/transactional account with an institution licensed to offer such services. This step is where banks in many African countries with their physical branch network have failed and continue to fail to reach low-income populations and those living in distant rural areas. The main barriers to access and use this service are (i) high fees and low income; (ii) indirect costs (e.g. cost and time to travel to the nearest branch); (iii) poor product design that does not meet the user's needs; and (iv) low level of financial literacy of potential customers. Experience in recent years has shown that a combination of alternative channels and electronic and mobile payment solutions can help to address these constraints. Expanded access to the payments infrastructure helps to enhance the remittances with improved cost efficiency.

**In recent years, the African payments landscape has begun to change significantly** in line with evolving payment needs, product, process and technical innovations, as well as other structural developments. In many African countries, financial inclusion has been a major driver of change in the retail payments arena.

Development of digital financial services (and in general the shift from cash and paper-based to electronic instruments) and the expansion of the networks of service delivery/customer service points, contributed to bring financial services closer to where people live and transact, and increase financial inclusion as well as improve overall payment efficiency. Interoperability of the various payment services offered is another key tool to enhance the proximity of financial services and to increase overall convenience to end-users. In this context, non-banks – including NPOs, as well as SACCOs and MFIs – have an increasing role in payments in general, and in retail or small-value payments in particular, which include the continued development of digital financial services.

Despite this increasing role, many of the non-banks, including NPOs, that provide payment services are not yet accepted as direct participants in many of the retail payment infrastructures, and they depend on arrangements via a licensed commercial bank. This situation often results in fragmentation of payment services or of their providers, which leads to limited interoperability and less efficiency.

In addition, being able to make effective use of key payment infrastructures is an important element underlying a competitive payments and remittance market.

Payment systems generally benefit largely from economies of scale and network effects. That is where postal networks can complement and add value. In the past, several African nations have seen a rapid increase in access points to the payments infrastructure. This includes the fast growth of (i) agency banking, where retailers equipped with point of sale (POS) terminals can provide access to payment services; and (ii) mobile money agents, where sole traders and retailers provide cash-in and cash-out services to users of mobile wallets.

More than automated teller machines (ATMs) or self-service kiosks, agents tend to represent the frontline of branchless banking service. From wherever they operate, they enable customers to transact, often by turning cash into digital money and back again. Agents play a critical role not only in handling transactions but in identifying, acquiring and educating new customers, as well as delivering a customer experience that keeps customers coming back. In several countries, such as Kenya, the number of mobile money agents has grown to more than 65,000.<sup>18</sup> Other African countries are on a fast track to expanding their agency banking and mobile money agents. The explosive growth of agency networks providing access to payment services and cash is critical for improvements in the cross-border remittance markets. It helps to reduce cost, enhance proximity and bring the recipients a step closer to financial inclusion.

<sup>18</sup> Source: FSD Kenya, financial services points maps 2015 (active agents).

## 4 Postal networks and remittances in Africa

### The overall situation of African postal networks

**African postal networks provide 26,000 touchpoints primarily active in delivering access to financial services.** In more than 80 per cent of the African states, a total of 26,000 post offices or post agents are involved in delivery of nearly US\$2 billion<sup>19</sup> of migrant remittances, i.e. more than 3 per cent<sup>20</sup> market share of the total inbound flows to and within African states.

In 60 per cent of these post offices and in at least 23<sup>21</sup> countries, post offices can pay out the cash for migrant remittances sent via mobile money, Internet or payments cards. Postal networks that feature relatively higher market shares (up to 20 per cent) in their serviceable national markets do this because they provide a range of remittance services, often a combination of their own or white labeled solutions, mobile and one or more MTOs plus a link to other retail financial services such as payments, savings and loans.

However, postal networks with low or marginal market shares are those that are the most constrained in their offering. In some cases, they only provide postal money orders in a few corridors. In other cases, only a small number of post offices are exclusively involved as an MTO agent. Still, in other cases, compliance with regulatory requirements present hurdles for the post offices to deliver money. More than half of the African post offices lack adequate technology, power supply or connectivity, which hinders their ability to capture their full potential in delivery of remittances.

**The cost of remittances comes close to 5 per cent where post offices actively compete in delivery.** While many remittances via post offices offer a relatively low cost to senders for the first-mile in corridors from Europe to Africa, not all do. The cost of sending money from a European post office to an African post office via money transfer systems<sup>22</sup> owned by the NPOs can be slightly lower than the cost of sending the same money at the post office in cash via an MTO. Experience shows that the low price of postal money orders (even when volumes are relatively low) helps create a competitive pressure on the prices offered by MTOs. This seems surpassed now by the competitive pressure in the choice of instrument or channel to send money (Internet, mobile, call center, agent or post office). Here, price differentiation emerges, driving senders to the most efficient channel. New initiatives led by Fintech

19 UPU Statistics 2014, annual reports of postal operators and IFAD estimates.

20 If Nigeria and Egypt were excluded from the market share analysis along with several other cases where postal networks are not active in remittances, then the share in delivery via the post office in the serviced markets in Africa would be above 10 per cent. Note that the > US\$40 billion remittances flows to Nigeria and Egypt make up more than 60 per cent of the total market, and in those two cases the post offices have yet a very limited role in remittance delivery.

21 Data of MTOs involved in mobile and digital remittances and reports of national postal operators, 2016.

22 Own money transfer systems include UPU's IFS, trading as Postransfer, and Eurogiro Network.

MTOs contribute to promoting usage of mobile or online services and connected to mobile operators at the last mile with their agency networks.

Within Africa, the cost of sending money via post offices to other post offices differs from region to region. In several cases, mainly in West Africa and Maghreb, pricing is similar to sending from Europe, at around 5 per cent.<sup>23</sup> In other cases, such as from Zimbabwe to several Southern African Development Community (SADC) member countries, it is lower than 3 per cent. In contrast, the costs in East Africa are still very high, often above 11 per cent, but still lower than the average cost in these corridors.

Remittance prices via postal networks in Africa feature an average of 6.36 per cent versus the market average of 9.58 per cent as of mid-2016.<sup>24</sup> Remittances sent to African postal networks also feature less time for pick-up for a significant part of the rural recipients because of the relative proximity of post offices as cash-out locations.

**Postal networks are fairly evenly spread across the continent.** There are 17,500 post offices in Africa – 9,500 in North Africa and 8,000 in sub-Saharan Africa. In addition, there are 8,500 postal agencies resulting in a network of 26,000 access points – 2,500 of these agencies are in North Africa and 6,000 in sub-Saharan Africa. More than 14,000 post offices delivering access to financial services are located in rural Africa. In most cases, more than 80 per cent of the post offices are located outside the three main urban centers of the African nations.<sup>25</sup> The table below indicates the relevance of postal networks compared with bank branches, often the main network for cash-out of the inbound remittance flow. In rural areas of sub-Saharan Africa, there are three times more post offices than bank branches.

### Bank branches and post offices

#### Cash-out points for cash-to-cash remittances in sub-Saharan Africa

	Outlets	Urban	Rural
Post offices	2.8	0.56	2.24
Bank branches	3.9	3.12	0.78
Total	6.7	3.68	3.02

Figures are per 100,000 inhabitants.

Source: IMF FAS 2016, UPU Statistics 2014.

The presence and density of post offices varies greatly across the African continent. It is therefore essential to assess in each African state the actual density of the postal network, also in comparison with the density and rural presence of banks, SACCOs, MFIs, agents and ATMs. In fact, in a few cases national postal networks can be comparatively very small and with low density.<sup>26</sup>

23 World Bank remittances prices worldwide, August 2016, Data of national postal operators and IFAD estimates.

24 *Migrant and Development Brief #26*, 2016, World Bank.

25 UPU *Global Panorama on Postal Financial Inclusion*, September 2016.

26 This is the case for countries such as South Sudan (1 post office per 77,468km<sup>2</sup>), Chad (1 post office per 36,686 km<sup>2</sup>) and Mauritania (1 post office per 32,048 km<sup>2</sup>), while the world's lowest density of postal networks is found in South Sudan (1 post office per 1.4 million inhabitants) followed by Guinea-Bissau (1 post office per 0.9 million inhabitants) and Rwanda (1 post office per 0.7 million inhabitants).

Cash-out of remittances is not a privilege of bank branches and post offices. The emergence of agent networks, and especially mobile money agent networks, make the relative dependence on bank branches and post offices dwindle. These figures do not include the agent networks involved in an increasing number of African states. In several cases, such as Burkina Faso, Congo, Democratic Republic of the Congo, Ghana, Mali, Kenya, the Niger, Nigeria, Rwanda, the United Republic of Tanzania, Uganda and Zambia, the number of active mobile money agents is tenfold or more of the total number of bank branches and post offices. There are now more than 1 million alternative points, whether bank agents, mobile money agents, ATMs or other points. Management, and especially cash or liquidity management, remains a challenge in optimizing usage of these alternative channels.

Even in 2015, cross-border mobile money remittances were less than 6 per cent of the total flow and the role of their agents as cash-out points for remittances still faces constraints. Also, a large portion of mobile money agents are located in urban areas. Building up a presence in rural zones remains a challenge. However, these conditions are likely to change fast in the medium term, and they provide a call for NPOs to implement strategies that differentiate, add value and enhance competitiveness.

The total number of post offices in Africa suggests a fairly stable situation. A more in-depth look per country would point to some cases where postal networks grow and other cases where the networks shrink. In the case of Senegal, the NPO progressed in diversification into financial services and gained 20 per cent<sup>27</sup> market share in the remittance market. The postal network is now expanding at a factor of five, mainly through new postal agents involved in payments and remittances. In Morocco, a similar trend in expanding the postal network can be observed. This is in contrast to Ghana, Nigeria and South Africa, where the NPOs are at an earlier stage of diversification into financial services and currently face the need to reduce the number of postal agents who are mainly involved in mail processing (e.g. stamps, pick-up of mail items, P.O. Boxes).

The African post offices, including agencies, represent about 4 per cent of the worldwide postal network. In general, the footprint of the African postal network is considerably less dense than in other continents, and in particular in sub-Saharan Africa, where there is on average 1 post office per 1,800 km<sup>2</sup> as compared with 1 per 200 km<sup>2</sup> as the global average, or 1 post office per 70,000 inhabitants as compared with the global average of 1 post office per 11,000 inhabitants.<sup>28</sup> However, these ratios vary widely per country in Africa, and need to be seen in the context of the rapidly evolving financial access landscape in Africa.

Diversification of the business of post offices progresses rapidly, and mainly towards delivery of financial services. More than 65 per cent<sup>29</sup> of revenues of the African postal operators stem from financial services and other demand-driven retail services, while only 35 per cent come from traditional postal services. For North Africa this ratio is in many cases already 80 per cent, and the same applies for nine countries in sub-Saharan Africa. In another 20 cases, diversification exceeds 50 per cent.

27 Internal operations reports of La Poste du Senegal, 2015.

28 UPU *Global Panorama on Postal Financial Inclusion*, September 2016.

29 UPU Statistics, 2014.

In several other cases in sub-Saharan Africa, postal operations have been streamlined and turned into a profitable operation. However, in nearly 20 cases, diversification is still in the early stages of planning, preparation and piloting.

Top 10 revenue diversification		%
1	Equatorial Guinea	95
2	Lesotho	92
3	Burkina Faso	92
4	Comoros	90
5	Zimbabwe	84
6	Zambia	84
7	Eritrea	84
8	Gabon	83
9	Egypt	82
10	Angola	81

Source: UPU Postal statistics 2014.

In general, consumer protection is taken for granted both by staff and clients due to the fact that the state is the ultimate owner. This condition could be considered a strong point for financial services provided by the NPO via the post offices. It does not apply to the financial services provided under an agency agreement or partnership agreement. On the other hand, the perception of consumers that their money is safe because the NPO is state-owned can also be perceived as distorting competition. In general, post offices should pursue a stronger and more pro-active role in providing information, consumer protection, transparency and financial education for their clients (e.g. basics of the financial services, the rules, risks and their rights).

In the same context and spirit, NPOs and their banking partners are expected to take responsibility in the provision of banking services to the broad public. Given the client's perception that financial services provided at the post offices are secure, safe and reliable, it is of utmost importance that NPOs ensure that this is indeed the case. For example, even if partner banks or MTOs set the conditions for certain products, the NPO maintains a degree of responsibility vis-à-vis the client. Moreover, it also means that NPOs cannot ignore responsibility when predatory conditions for financial products are offered by the post office.

The diversification trend also contributes extensively in decreasing dependencies on the decline in disrupted, traditional mail markets and supports the new role of postal networks in facilitating universal financial access. Traditional postal services remain a social responsibility and a statutory obligation, but are a major challenge when demand has been marginalized and their economic viability is declining.

Within this context, regulators could help in objectively calculating the net cost of the universal postal service obligation and the methodology of funding those cost. Nowadays, there remain cases where these costs tend to be financed by net earnings from the remittances or other financial services. A transparent financing method of those costs could further accelerate the drive towards universal financial

access. Transparency is also an enabling factor for access to finance or funding for a business case that includes upgrading of the postal network for better and more access to financial services.

### The evolution of postal banking in Africa

Financial services have been offered through the African post offices for more than 100 years as a service within NPOs. It was initially paper-based as part of the postal mail business process. Since the end of the nineteenth century, governments have actively intervened with legislation to build postal savings banks in Africa as a model to provide safe, small savings and account-based money transfer products to the [then] un(der)-banked working classes, children and the financially illiterate. It was also used to effectively pool the small savings and efficiently process the bulk flows of small-value payments, and it was a step contributing to economic development, infrastructure and trade. School savings and other campaigns to promote the habit of savings were popular in many African countries. Beginning in the 1970s, major changes occurred that have resulted in a broadening diversity of postal banking business models, as well as very different measures for performance, sustainability and outreach to the poor. In the landscape of these models, two main models can be seen:

#### a) Historic models for postal savings and postal payments evolving into Postbank

*These models relate to cases where the operations of a limited range of financial services were or are organized within the NPO, based on historic or specific postal legislation, with the post office counters as the main or only (physical) distribution channel.*

Initially, the Post Office Savings Banks (POSBs) – as well as Postal checking accounts with payment processing centers within NPOs – were a specific state-owned agency of the Ministry of Finance and operated by the post office. In a few African states, these models collapsed due to a major economic crisis or a liquidity crunch in the institution. In some other cases, monetary authorities intervened to separate the operation from the NPO management in light of the risks observed. In several cases, this subsequently led to discontinuation of using the post offices as distribution networks.

In many other cases, however, a process of transformation continues and, in the case of Morocco, the transformation appears successfully completed. All financial services operations have been bundled into one business unit that was subsequently corporatized and licensed as a bank (Al-Barid Bank), which oversees the operations in the post offices. This approach enables the Postbank to offer a competitive and complete range of services, as well as manage the expansion of the distribution network corresponding to the needs of the rural population. For remittances, this helps to offer recipients an account (card, or mobile wallet) to receive the money.

South Africa appears to be at an earlier stage of a similar process to transform its Postbank into a corporatized legal entity with a banking license. In Burkina Faso, Egypt, Namibia, Senegal and Tunisia, expansion towards a broader range of financial services is accelerated through partnerships between NPOs and external solution providers, e.g. mobile money or card payment processing. In cases where the historic postal financial services were transformed into a legal

entity separate from the NPO, post offices became non-exclusive agents of the postal bank (e.g. in the United Republic of Tanzania and Zimbabwe). Several of these postal banks deploy their own distribution channels (branches and ATMs) and engage alternative agency networks to expand their presence.

The process of transforming the historic entity for postal financial services into a corporatized and licensed bank as a subsidiary of the NPO appears extremely challenging. It requires legislative changes and political consensus. It also requires a tremendous amount of ambition for the NPO to build capacity in bank management, train staff, implement new technologies and meet capital adequacy requirements. Experience demonstrates that such processes may take 10 years or more.

This situation calls for more effective and accelerated approaches in view of supporting public policy objectives in lowering the cost of remittances and advancing rural financial inclusion. In Congo, the state intervened to accelerate the process of using the postal network to support financial access by establishing a new Postbank, licensed, and now the fourth-largest bank in terms of capital and the largest in terms of rural network.

In Zambia, a pathway is being explored through the establishment of a Postbank as a licensed, deposit-taking MFI as well as through the creation of agency agreements with multiple financial institutions. In other cases, the option of a postbanking partnership is being pursued.

#### **b) Agency banking or partnerships models**

A second, main group of models refer to cases where licensed financial institutions (e.g. banks, insurance companies, MFIs) have entered into an agency agreement or partnership with the NPO, primarily for the delivery of financial services through the physical distribution network or infrastructure of the postal operator to optimize the usage of the existing network, systems and staff.

Partnerships are generally compliant with financial-sector regulation. They may have evolved from historic models or have been set-up from scratch. The actual arrangements and scope of the cooperation can vary from basic cash merchant services to multiple financial institutions cooperating to offer a much broader range of services and products (e.g. opening accounts, issuing cards, taking deposits, collecting insurance premiums). These partnerships also share in the costs of joint marketing and display a higher degree of mutual commitment. Depending on the marketing management capacity in the NPO and the strategy of the involved institution, some arrangements evolve into partnerships with bank products branded as postal, such as postbank, postpay, cashpost, postcard, or postemobile. In addition, arrangements with banks can evolve for setting up desks for banking staff or allowing part of the postal building to set up a (micro) bank branch for the provision of more complex products such as lending.

Following the rapid ongoing diversification and digitization of services, other cases emerge where the NPO's main business has become financial services and is branded as 'postbank', such as in the Comoros and Togo. This presents new challenges to adjusting the institutional framework to the actual business profile of the NPO.

### Remittance products offered through postal networks and their coverage

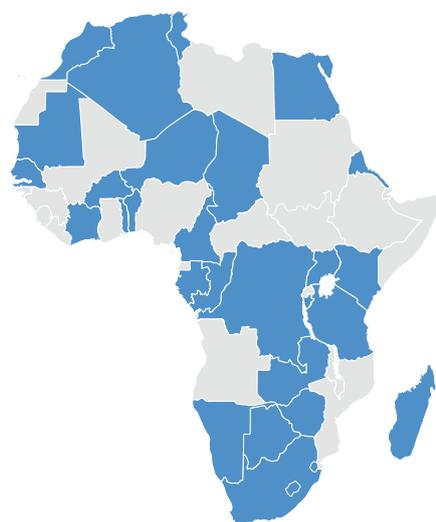
Post offices in nearly 40 African states provide international postal money orders as a remittance service to send or receive money from abroad. Postal money orders are a service that traces back to the beginning of the nineteenth century, when money orders were launched as a more rapid and secure service than sending money in an envelope via the postal service. In the 1970s, postal money orders were the most frequently used form of remittance. Its market share was estimated at more than 35 per cent. The role and market share of the traditional postal money orders started to dwindle with the advent of more advanced payment technologies actively marketing their services.

The paper-based, manually-operated process services offered originally have been replaced in many countries with electronic data communications between post offices. Software developed by the UPU supports NPOs in upgrading their services. The technology concept is, in most cases, the UPU's International Financial System (figure 1).

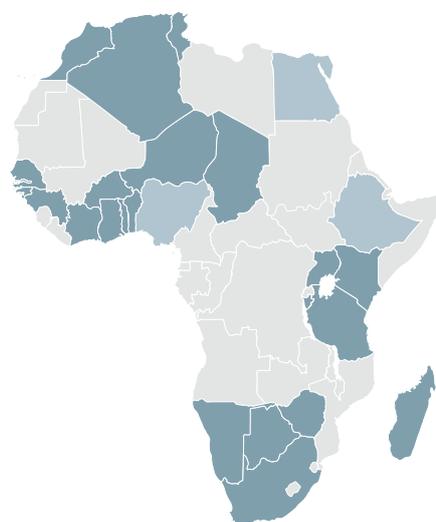
In 2016, UPU launched Postransfer as the trademark of the new generation of postal money orders. The overall business conditions, including pricing, are set by each postal operator in agreement with the postal operator at the other side of the same corridor and in compliance with tariffs and regulations set by the competent (postal) authorities. Postal operators that have adapted the technology find more success than those that continue to offer traditional services. Zimbabwe has, for example, rebranded its service into Zipcash and actively markets it as a low-cost system in specific intra-African corridors and in cooperation with other postal networks. Remittance flows via Zipcash have grown in under three years from US\$0.5 million to more than US\$50 million p.a. and provide competitive pressure on other remittance operations. The total flow of international postal money orders to and within Africa is estimated at almost US\$300 million<sup>30</sup> in 2014, equal to over 10 per cent of the total of remittances delivered through postal networks in Africa.

As of June 2016, 25 African states have a rapidly growing number of postal networks that are active as cash-out points for remittances sent digitally or via mobile money (figure 2). Several others (e.g. Egypt, Ethiopia and Nigeria) are planning to launch such operations. The expansion is very fast, and involves postal networks that were, until recently, inactive in remittance delivery. Several business models have emerged, but mainly the Mobile Network Operator (MNO)-led approach

**Figure 1: Postal money orders**



**Figure 2: NPOs active on digital or mobile money**



30 UPU Statistics 2014.

appears to move most swiftly. It is often based on existing business relations between the postal network with MNOs in sales of airtime and SIM cards.

A new business concept has emerged in Burkina Faso, Côte d'Ivoire, Kenya, Morocco, Senegal and Tunisia and others, where a postal-branded mobile money solution has been launched that is interoperable with existing payments systems, channels and devices in the country. The model provides access to mobile money linked with a prepaid debit card, facilitating a broad range of payment solutions (in retail space and for transfers to and from bank accounts), plus access to a potential

range of financial services (savings, loans, insurance) and other electronic services such as e-commerce, e-government and e-learning. This more advanced approach has the added potential to create more value for clients of the postal network.

**Figure 3: NPOs operating with Western Union**



Western Union is the largest MTO, operating in more than 21 postal networks across Africa<sup>31</sup> (figure 3). The flow of remittances sent via Western Union and delivered via post offices is estimated at US\$1.5 billion<sup>32</sup> or more. This is by far the largest remittances flow channelled via African postal networks.

The arrangements for delivery of remittances can differ per country. In several cases, Western Union is the only MTO operating exclusively through selected post offices, next to postal money orders and mobile money payments. This limits competition and the full usage of the postal network. Recently, however, in an increasing number of African cases, post offices deliver Western Union remittances as well as remittances of other MTOs. The map in figure 3 above shows in yellow the countries where postal networks deliver Western Union's remittances.

**Figure 4: NPOs operating with MoneyGram International**



In figure 4, the 13 countries in red are where postal networks have an agreement with MoneyGram International to deliver remittances.<sup>33</sup> This number has sharply grown in the past three years and, in several cases (especially in East Africa), the implementation is still at an early stage. The postal networks are a vital component in the more than 25,000 total MoneyGram agents in Africa.<sup>34</sup>

In more than half of the countries reviewed, postal networks provide services for both MoneyGram and Western Union, which supports increased competition. The actual flow of remittances of MoneyGram via postal networks is still relatively small but likely to grow in the next couple of years.

31 Public domain websites of Western Union and national postal operators, August 2016.

32 Data reports from national postal operators 2015 and IFAD estimates.

33 Data reports and websites of national postal operators and MoneyGram International, August 2016.

34 MoneyGram International, August 2016.

RIA, the world's third largest MTO (shown in orange in figure 5) recently entered into business with eight African postal operators,<sup>35</sup> adding further competitiveness and customer choice to the migrant families who depend on receiving money from abroad. All eight postal operators also provide other money transfer services. This is expected to add to competitiveness and improved services at lower cost to the rural migrant families.

The agreements with MTOs, Western Union, MoneyGram International and RIA provide the involved African postal networks with capacity to deliver money sent from practically anywhere in the world, and in many cases from post offices elsewhere that are also providing agency services for these MTOs.

In addition to the MTOs operating globally, several postal networks have expanded their remittance services through agreements with smaller MTOs, often dedicated to the region and further enhancing competitiveness. These operators include:<sup>36</sup>

- Ecocash
- Xpress Money
- Flouss
- InstantCash
- Money Express
- Sigue (Coinstar)
- Small World Financial Services
- Wari

Throughout North Africa and in Togo and Senegal, remittances are also received on accounts held at financial institutions linked to the postal network. Depending on the senders' country, the cost of sending can vary between low (less than 2 per cent<sup>37</sup>) to relatively high (greater than 20 per cent). The option is less popular for migrant families in need of cash for daily subsistence mainly because payments are not instant – taking as long as 3-5 working days, on average.

**Figure 5: NPOs operating with RIA Financial Services**



35 RIA financial services, and websites and data reports of national postal operators, August 2016.

36 This list only includes few of the main remittance service providers and does not pretend to be exhaustive. In particular, the various brand names of mobile money remittances are not mentioned here.

37 World Bank remittance prices worldwide, August 2016, and data of national postal operators and IFAD staff estimates.

## From remittances to financial inclusion

**Figure 6: NPOs active in remittance delivery**



Many African postal networks active in remittance delivery also provide access to a broader range of financial services. The range of financial services differs widely from a limited range of basic financial transactions (e.g. bill payments) to full-fledged retail financial services (figure 6).

At least 60 million adult Africans hold accounts for savings or payments via postal networks; and an estimated 100 million adults use post offices to access one or more financial services.<sup>38</sup> Postal networks play a vital role in financial inclusion, especially in rural areas and for lower-income segments throughout North Africa, and in Algeria, Egypt, Morocco and Tunisia.

In sub-Saharan Africa, there is a long tradition of providing financial services via postal networks and under different institutional models and regulatory frameworks. NPOs in the region face challenges in improving or expanding their offer, and they face new challenges with the advent of digital financial services. Overall, the region features low rates of financial inclusion and extensive opportunities for postal networks to leverage the connections among their post offices.

### African NPOs transform in postal financial access networks

Diversification of revenues for African NPOs continues to progress at a relatively high pace. In North Africa, an average of 77 per cent of revenues of postal operators come mainly from financial services and some additional retail services.<sup>39</sup> In sub-Saharan Africa, the average is considerably lower – just 39 per cent of revenue. Still, there are significant differences within the region:

- 17 countries report diversification of 70 per cent or more and, of those, several report figures as high as 80 per cent or more.
- Another group of 19 countries report between 40 and 70 per cent, and are, in general, progressing to increase diversification.
- In the group of 14 countries that feature a relatively low level of diversification (including Kenya, Nigeria and South Africa), they show good potential and plans to increase postal financial inclusion. Given the fact that Nigeria and South Africa are the two largest economies in the region, the average of 39 per cent actually understates the progress in diversification made by the group of 36 featuring higher-than-average diversification ratios.

A survey, involving nearly 5,000 Africans and undertaken in the framework of the African Postal Financial Services Initiative (APFSI),<sup>40</sup> indicates that **the main reason for using post offices in Africa is remittances and payments**. Domestic remittances,

38 UPU Statistics 2014, reports of national postal operators 2015.

39 UPU Statistics 2014.

40 APFSI is an initiative implemented by IFAD's Financing Facility for Remittances in partnership with the World Bank, the Universal Postal Union, the World Savings and Retails Banking Institute and the United Nations Capital Development Fund, and cofinanced by the European Union. The APFSI initiative aims at supporting and enabling post offices in Africa to offer remittance and financial services.

as in those from urban to rural zones, are the most-used service, followed by receipt of remittances from abroad.<sup>41</sup>

**Satisfaction of remittance services at post offices among current customers is good.** At least half of the post office users said they are very satisfied with the services. In a few cases, visitors were less satisfied and expressed the need for improvements.

**Interest in and the intention to use a wider range of financial services at rural post offices is encouraging for the financial inclusion programmes in Africa.** The actual interest in the various services differs; and the payments, remittances and mobile money appeal to more clients than other services such as loans. The actual patterns of interest or demand, current usage and satisfaction vary widely across the region. This confirms again that there is no 'one-size-fits-all' approach feasible; instead, tightly tailored approaches per market are required.

Overall market assessment and research point to rural communities in Africa being quite enthusiastic about receiving remittances through their local post offices. There appears to be a realistic potential to enable these communities to access a broader range of financial services through the postal network. The features below summarize the positive outlook for the potential in a large number of the African countries:

Existing behaviour indicates appetite	The cultural habit is there. Most people already either send or receive remittances domestically or internationally.
Preference for formal finance arrangements	Customers feel more confident and secure undertaking financial business within reputable formal institutions.
Post office footprint supports access	In many of the African countries, post offices have relatively wide coverage. This will promote business in areas where banks are not readily available.
Convenience of local finance is appealing	Clients are keen to conduct their financial transactions locally, eliminating the need for long, costly travel to urban areas for banks or post offices.
Established history underpins trust	Post offices have a long heritage and are considered credible and trustworthy. New post office services will have a head start on trust.
Existing post office services are appreciated	Overall, people are satisfied with the current post office service quality. Extending its range of offers seems appropriate and valid.
Many pledge to use wider post offices services	Claimed intention to use more financial services, if and when made available by post offices, is strong in most countries.
Infrastructure is already in place	Post offices are already providing financial transactions. What has been done so far could be leveraged and optimized.
New services may be vital for the survival of post offices	Digital advances and new competitors have left post offices less active in rural areas. Expansion of the range of services can boost the post office's viability and relevance.
Barriers are fairly minor in most cases	Perceived bottlenecks are mostly operational or technical. With tactical investment, these issues could be addressed and ameliorated.

41 *Baseline survey on the use of rural post offices for remittances in Africa*, IFAD 2015.

## 5 Leveraging the potential of African postal networks in delivery of low-cost remittances and financial inclusion

### Which models/solutions to deliver remittances and reach financial inclusion via the post offices

There is no one-size-fits-all for delivering remittances via the post offices in Africa. A review of the various business models and regulatory frameworks for delivering remittances via the post offices can be summarized in the following overview:

Type/Model	Postal money orders	Exclusive cash point for one MTO	Multiple MTOs and banks	Mobile money remittances	Omnichannel with multiple MTOs, mobile, banks and postal money orders
Description of services or model	NPO provides its own Person to Person (P2P) money transfer services exclusively via its own post offices. Sender fills out paper form, and one copy is sent to the recipient, or electronic message is received to pick-up the cash, in general in legal tender.	Selected post offices meet the requirements of the MTO that exclusively provides their remittance services. Other post offices have no role in remittances.	Selected or all post offices provide cash-in/out for remittances of multiple MTOs as their representative or agent; or alternatively, provide these services as agent of a (post) bank which has agreements with multiple MTOs and is connected to international payments systems.	Selected or all post offices provide cash-in/out for mobile money wallets which can receive transfers from international MTOs and national mobile money accounts. In several cases, the post offices have a (super)agency agreement with a MNO, which in turn has agreements with MTOs.	Post offices provide cash-in/out for different instruments for payments and remittances such as paper instructions, cards, mobile, SMS, organized as an open and interoperable platform linked and synchronized with payment systems.

Type/Model	Postal money orders	Exclusive cash point for one MTO	Multiple MTOs and banks	Mobile money remittances	Omnichannel with multiple MTOs, mobile, banks and postal money orders
Market positioning	<p>If operated as postal money order, market share is marginal, rarely more than 1 per cent and often less than 0.1 per cent. Exceptions are if NPO rebrands and actively markets.</p> <p>Until the end of the 1970s, market share was approximately 35 per cent.</p>	<p>Dependent on the MTO, and relative number of post offices involved; market share can be significant, above 3 per cent.</p>	<p>Depending on the MTOs, banks and their applied marketing strategy, market share can be optimized to the relative distribution power of the postal network.</p>	<p>Depending on the arrangements and the total number of mobile money agents, market share in mobile money remittances can vary between marginal (less than 0.1 per cent) and significant, especially if actively marketed with own branded solution.</p>	<p>Usually with both postal branded and other trademarks, operated on an own or outsourced platform or switch, and dependent on marketing, potential to optimize market share to a significant level, up to the relative distribution power of the postal network, agents and other channels.</p>
Linkage with financial services	<p>Stand-alone product; in general, limited linkages with other financial services except if those are offered by the Post and the Post has its own financial service marketing.</p>	<p>In general, stand-alone product. Can be provided in combination with currency exchange services. Linkages with other financial services can exist but is rarely seen.</p>	<p>Especially if remittances are provided under (agency) agreements with a (post) bank, linkages with other financial services (e.g. cards or current accounts, savings, insurance premium or loan instalments) might exist and be marketed.</p>	<p>Varies. Mainly focused on cash-in/out transactions, but can be linked with other (mobile or digital) financial services.</p>	<p>In most cases linked to other financial services, varying from (debit) card, current account, savings accounts to other mainly digital financial services. Highly dependent on the marketing concept of the Post or partner institution.</p>

Type/Model	Postal money orders	Exclusive cash point for one MTO	Multiple MTOs and banks	Mobile money remittances	Omnichannel with multiple MTOs, mobile, banks and postal money orders
Marketing / advertising	As public service, announced in tables, board or screens and public signage. In case of rebranded service, it depends on the NPO's initiative.	Advertising is led by the MTO, and involving post offices with in-store advertising, and outdoor signage, and, in some cases, with joint campaigns.	Advertising is led by MTOs and banks, often with in-store advertising, outdoor signage, joint campaigns in public and social media.	Advertising is mainly determined by the MNO, and can be a nationwide campaign for any mobile money agent, i.e. no differentiation for post offices.	If the concept includes postal-branded services or platform, most likely in combination with intensive advertising campaigns, in-store post offices, on postal vehicles, brochures and media and social networks. If no postal brand, joint promotions could occur.
Legal / regulatory framework	Based on historic and specific postal legislation; in several cases, compliance with financial-sector regulations is required.	Services are provided under the license of the MTO or the MTO's national representative, which can be a bank.	Services are provided under the license of the MTO and/or the bank(s) involved.	Services are provided under the mobile money license of the MNO or bank.	Services are provided under the licenses of the involved institutions partnered with the Post.
Operational model	Messages flow via the central office in the NPO connected with individual post offices and with head offices of foreign NPOs.	Messages flow to/from post offices via NPO's headquarters and from MPO systems and connected with any other agent worldwide.	Messages flow from/to post offices via NPO's headquarters and from/to systems of the involved MTOs and bank(s). In some cases, the Post has its own switch or hub as connector for interoperable exchange with payments systems and back offices.	Messages flow from/to mobile devices at post offices and connected with the involved operator (MNO or bank).	Messages, in most cases, flow via a central hub or switch connected with payment systems and back offices of banks or other partners.

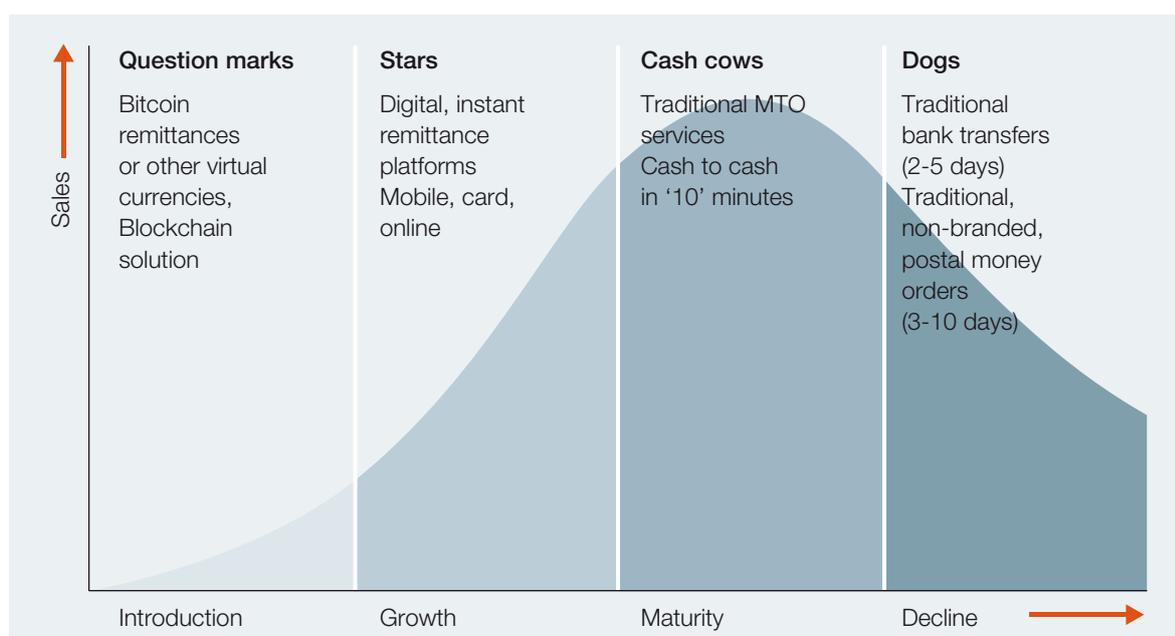
Type/Model	Postal money orders	Exclusive cash point for one MTO	Multiple MTOs and banks	Mobile money remittances	Omnichannel with multiple MTOs, mobile, banks and postal money orders
Arrangements/Agreements	Within the framework of the UPU PPSA signed by the NPO, the NPOs conclude bilateral agreements for the exchange of postal money orders. In general, coverage of 3-10 corridors.	One agreement with the MTO for connection with the MTOs agents elsewhere in the world.	One agreement per MTO or bank for connection to agents or bank accounts elsewhere in the world; or one single agreement with a (post)bank which holds agreements with MTOs, (correspondent) banks and payment systems to connect to any other agent or bank account.	One agreement with the mobile money provider (MNO or bank) which may have agreements with other mobile money operators or banks for mobile money transfers.	
Front office Technology	Light; based on IFS as UPU proprietary software.	Light; specific software app, running on industry standard, basic ICT and connected to back office of MTO.	Light; specific software apps, running on industry standard, basic ICT; connected to back office(s) of MTOs and banks.	Very light; mobile and with specific software apps, running on industry standard, basic ICT; connected to platform of MNO.	Very light; mobile and with specific software apps, running on industry standard, basic ICT; connected to platform which is linked to back offices of MTOs, payment systems and others.
Channels	Post offices.	Cash-out points of the MTO include post offices, and often also bank branches and other agents.	Cash-out points include post offices, and also bank branches and other agents, ATMs, and other technological devices for payments.	Cash-out points include post offices, and also bank branches and other agents, ATMs, and other technological devices for payments.	Cash-out points include post offices, bank branches and other agents, ATMs, and other technological devices for payments.

Type/Model	Postal money orders	Exclusive cash point for one MTO	Multiple MTOs and banks	Mobile money remittances	Omnichannel with multiple MTOs, mobile, banks and postal money orders
Instruments	Sending client presents paper form and cash; recipient code, ID, and receives cash in local currency, subject to availability.	Sending client may opt for presenting a form at the agent, or in several cases via the Internet, call centre or self-service terminal. Recipient needs to present the transaction code, an ID and receives the amount in the agreed currency.	Sending client may opt for presenting a form at the agent, or in several cases via the Internet, call centre or self-service terminal. Recipient needs to present the transaction code, an ID and receives the amount in the agreed currency.	Sending client sends from mobile device or online. Recipient receives message on mobile device and can pick-up cash through a mobile transfer at the cash-out agent.	Various. Paper and digital.
Economic viability	Highly dependent on branding and marketing efforts. If actively marketed, it might contribute to net earnings after the initial campaign; if no or limited marketing, there might be a small contribution to gross revenues but in most cases not to net earnings, and is often loss-making.	Highly dependent on actual corridors and flows and relative position of the post offices. If it concerns a relatively large postal network and with the MTO active on several larger corridors, net earnings might be substantial. In other cases, net earnings could be marginal.	In general, positive but highly dependent on arrangements with partners and cross-selling with other financial services.	Mobile money agent services as only or stand-alone services are often not economically viable for the postal network. Marginal, low income and considerable cost for management and operations.	Potentially highly viable with significant positive net earnings.



electronic data transfer and with mobile applications. The recently introduced trademark 'Posttransfer' and the various initiatives of NPOs to add a brand and increase advertising and promotions for the speedy service could help to reposition the products back into the 'cash cow' group for some NPOs in Africa. Relatively new cashless payments instruments quickly gain in volume and use, such as mobile, cards, online Internet and other digital products, both in first-mile and developed markets and in a considerable number of African countries. Mobile money wallets in particular and [debit] cards appear to have gained some maturity. The usage of these remittance products is likely to quickly grow in the medium term, and they will likely evolve into the next generation of 'cash cows', with considerable lower cost for the users. As mentioned in the report, more than 20 postal networks already provide cash-in/cash-out service for digital financial services, including remittances, and a growing number of NPOs are active in launching products branded as mPost, Postemobile and Postapesa, representing their own label for competition in digital financial services. Innovation does not stop here. Recent or early innovations emerge out of the stage of experiments and testing. These include a new set of innovative financial products (e.g. bitcoin remittances, other virtual currencies, and blockchain). These can be considered as questionable and at the beginning of the life cycle, and their future development is still uncertain. African NPOs have very limited resources for research and development to engineer and develop new concepts for remittances. To ensure viability of the remittance services via postal networks, these developments need to be watched. Innovation through partnerships appears to be the most effective way to compete.

### Product life cycle



### Case Study: The African Postal Financial Services Initiative

The African Postal Financial Services Initiative is a unique broad-based partnership led by IFAD, together with UPU, the World Bank, UNCDF and WSBI, and cofinanced by the European Union, that is aimed at enhancing competition in the African remittance market by promoting and enabling post offices in Africa to offer remittances and financial services and to transfer remittances in a way that is cheaper, more convenient, safer, closer and quicker.

The initiative actively intervened in four countries: Benin, Ghana, Madagascar and Senegal, supporting the national operators in enhancing their impact in the remittance market.

Through a vigorous coordination between all the international organizations partnering in the project and the national postal operators in the countries, the initiative provided high professional assistance on a broad range of components, from assessing the legislative and the regulatory framework, assisting in financial-sector compliance, to the development of effective business and financial management plans, marketing, as well as concrete equipment support.

On the basis of the results obtained in the four selected countries, and following a deep analysis of the situation in seven additional countries, the initiative is now developing in coordination with the postal operators' mid-term road maps of action on remittances and financial inclusion, aiming at the modernization of existing postal networks and the broadening of the range of offered financial services.



### Substitutability and commoditization of the remittance market.

#### An opportunity for postal operators

Many of the remittance products look similar but feature different brands, pricing and locations. In some of Africa's markets commoditization of remittances is progressing. Several of the active NPOs are turning this to their benefit, and they are able to emerge as premium players.

Two key factors drive substitutability and commoditization of the migrant remittance market.

- 1) The first one is the emergence of a fairly standard design and technology in the marketplace. A decade or more ago, multiple technologies competed to become the market standard. As the migrant remittance market continues to mature, remittance players tend to converge on similar products and services, as one standard, differentiation of the product is not clearly perceived by senders. It is often more a matter of proximity, convenience and trust.
- 2) The second is an increase in transparency, especially of pricing and product features. When remittance senders and receivers can more easily compare products, they are more willing to switch from one to another. Similarly, when MTOs can see competitors' offerings in real time, they are quicker to adapt to innovations by others, thereby shortening the lifespan of any move toward differentiation or cost advantage. This is clearly the case with the cash-to-cash remittances, and now followed with remittances that can be sent online, via mobile or card. Differentiation remains in pricing, location, customer service and instant cash access.

### Commoditization Navigator Framework

Differentiation advantage	<b>Premium player</b> Remittance supermarket plus financial inclusion Any remittance, any time, anybody and linkable to any other financial product		↑
Cost advantage	<b>Producer</b> PosTransfer only (UPU IFS)	<b>Producer – backed arbitrager</b> Own money orders plus one or more MTOs	
No advantage	<b>Exit</b> Traditional postal money orders only	<b>Arbitrager</b> Exclusive MTO arrangement	
	Low market imperfection		High market imperfection

As perceptions of substitutability in the remittance markets grow owing to these drivers, commoditization is accompanied by a set of trends:

- **Increasing Price Sensitivity.** As switching costs drop, senders better understand product qualities and place a greater focus on price, acquiring higher negotiating power. NPOs that offer a broad portfolio of remittance services actually promote increased price sensitivity.
- **Increasing Price Competition.** Transparency and substitutability of remittance products begin to cut prices to attract customers. This creates a downward spiral on prices throughout the market, squeezing margins across the board. Several NPOs play an active role here with their own, branded postal money order services offered at low prices.

NPOs that pursue and navigate a commoditization strategy in remittances have the opportunity to move away from a limited portfolio towards a position of a premium player in which the added value consists of access to any remittance product available in the national market and coupled to cross-selling opportunities for basic financial services. Such a strategy would be opposite to the exit option that NPOs face when providing a very limited product portfolio in remittances.

The commoditization strategy in handling cash payments is critical for the transition to cashless and to increase financial inclusion. If universal bank account access is provided at post offices, then NPOs further leverage their value as providers of an account as a pivot to a complete range of digital financial services. This would also be instrumental to make mobilization of small savings cheaper and more attractive. Databases of clients for cash transactions, and a digital platform above the physical network of post offices are key steps in digitization.

While options for strategies and business models differ per country, the following figure depicts the basics of the business model for leveraging postal networks in delivering remittances and access to financial services.

**Business Model Canvas – African Postal Networks Delivering Remittances (target)**

<b>Key partners</b>	<b>Key activities</b>	<b>Value propositions</b>	<b>Customer relationships</b>	<b>Customer segments</b>
<p>Selected MTOs with joint marketing in first mile</p> <p>Fintechs and payments processors</p> <p>Mobile network operators</p> <ul style="list-style-type: none"> <li>• Mobile money solution</li> <li>• Connectivity</li> </ul> <p>Local and Pan African Banks or Postbank</p> <ul style="list-style-type: none"> <li>• Currency exchange</li> <li>• Settlements</li> <li>• Cash supply</li> <li>• Prepaid debit card issuer</li> </ul>	<p>Cash disbursement of money sent from abroad</p> <p>Cash receipt for money transfers to be sent abroad plus client identification</p> <p>Cross-selling financial and other services</p> <hr/> <p><b>Key resources</b></p> <p>Digital platform linked with payment systems, e-commerce portals and e-gov portal plus own website</p> <p>Real estate portfolio; properties leased or owned; ICT equipped, connected and powered</p> <p>Staff trained and customer-centric</p> <p>Vehicle fleet</p> <p>Access to finance to develop business</p>	<p>Access in post offices to cash and online payments, anytime, anyone, any MTO or payment system, any payments device</p> <p>One-stop-shop from cash to access to basic financial services and online shopping</p> <p>No frills, crystal clear, reliable, trusted, secure: transparent and consumer protection</p> <p>Close to home Easy access, proximity</p> <p>Speaking your language</p> <p>Operational excellence and quality</p> <p style="text-align: center;"><b>INCLUSION</b></p>	<p>Quick transactions desk + queue management in post offices</p> <p>Dedicated personal assistance for complex or special questions</p> <p>Financial education</p> <p>Call centre</p> <p>Self-service</p> <hr/> <p><b>Channels</b></p> <p>Post offices</p> <p>Postal agencies</p> <p>Partners (MTOs) in joint campaigns</p> <p>Representatives in diaspora communities</p> <p>Call centre</p> <p>In-store advertising</p> <p>Website, Mobile app</p> <p>Online platform</p> <p>Social media</p> <p>Word of mouth</p> <p>Local TV, radio, newspapers, door-to-door postmen at the doorstep</p>	<p><i>Migrant families:</i> recipient of remittances and goods/parcels sent home</p> <p><i>Migrants:</i> Sending money secure, fast, transparent cost</p> <p><i>Financial inclusion:</i> Low-income mass market and MSMEs:</p> <ul style="list-style-type: none"> <li>• The un(der) banked and excluded</li> <li>• Workers' families</li> <li>• Rural citizens and smallholder farmers</li> <li>• Sole traders and artisans</li> <li>• Social grant recipients</li> <li>• Public service staff and military</li> <li>• Financially illiterate</li> <li>• Children and youth</li> </ul>
<p><b>Cost structure</b></p> <p>Marketing including advertising and joint promotions</p> <p>Staff salaries, incentive, management and training</p> <p>Online payment platform, mobile platform, connectivity</p> <p>Retail space equipment and furniture, cash logistics/ vehicle fleet</p>			<p><b>Revenue streams</b></p> <p>Commission/transaction fee income</p> <p>Excess cash and payment float interest income</p> <p>Cross-selling revenues</p> <p>Acquisition fee for opening new accounts/cards</p>	

Source: www.businessmodelgeneration.com

## **Main challenges and constraints**

In spite of favorable conditions for a successful expansion of their financial products and services, there are still many challenges, constraints and bottlenecks faced by NPOs. These challenges encompass the entire postal environment, and need prompt interventions at all levels.

### **Institutional and regulatory setting**

In several cases, the institutional and regulatory environment of the NPO significantly limits the provision of remittances or access to a broader range of financial services. This can be the case where postal legislation and regulation have not been changed for decades and where corporate transformation of the NPO has yet to be initiated. It can also be the case where a dialogue between postal stakeholders and financial regulators has not yet commenced or progressed, or where postal and financial regulatory frameworks do not match or have not been dovetailed.

### **Access to the payments infrastructure**

Closely related to the above constraints, NPOs, as non-bank entities can experience substantial limitations in obtaining appropriate licensing for the provision of remittances, as well as for money exchange and in particular for (direct) participation in the clearing and settlements systems. Also, tax regulations and reporting requirements can result in bottlenecks for NPOs to fully exploit the potential of the postal network in delivering money.

### **Business structure and management**

Limitation and constraints occur when remittance operations and other financial services do not have their own place within the NPO's organization. Furthermore, remittances and financial services should be led by management with a solid background and specific professional qualifications.

### **Marketing and business**

The competitive environment of remittances and access to financial services is very different from the traditional postal services which used to be provided on the basis of a monopoly. If the latter dominates the corporate culture of the NPO and its way of doing business, expanding the provision of remittances is likely to face considerable constraints.

### **Operations and technology**

In view of the needs of customers and requirements of MTOs and regulators, post offices need to be equipped for efficient, reliable and fast support of the business processes. Post offices which have no ICT in place face severe limitations. ICT can be scalable and light, varying from a mobile (smart)phone, tablet or notebook, POS terminal and more.

### **Staff capacity**

Although remittance services are not very complicated, they require additional skills and knowledge from NPO's management and tellers. This concerns matters such as transaction processing, customer service, AML/CTF and usage of technology. Lack of

professional capacity and availability of training is likely to hamper the development of remittance services.

#### **Cash management**

For rural recipients of remittances, the instant access to cash is a critical factor. It requires the post offices and its management to avail of sufficient liquidity, transport and storage of cash, and overall liquidity management. Lack of adequate cash, liquidity or management capacity in this field will limit the ability of the post offices to deliver remittances.

#### **Access to finance**

Most of the above limitations can be addressed by a development programme of the postal operator investing in modernizing post offices, staff training, branding, implementing new systems and building partnerships. However, most NPOs have very limited or no working capital. Even in cases where the NPOs can be considered 'asset rich' or 'cash rich' or with no outstanding debt, access to finance is very limited or prohibited. This implies severe constraints to the ability of the NPO to leverage their existing assets, network to expand and improve delivery of remittances or access to financial services.

### **The reform of the African postal operators in leveraging the networks for financial access**

With the aim to address the main challenges and constraints mentioned in the previous paragraph, during the past 10 years a number of programmes have accompanied the reform of several African NPOs, including the African Postal Financial Services Initiative. These programmes varied from provision to technical support and training to implementing electronic remittance solutions to expanding the range of financial services to corporate and institutional reforms, setting up an MFI, a Postal (Savings) Bank, licensing of the postal bank, to transaction advisory for a Public-Private-sector Partnership (PPP).

Despite an overall moderate amount, these programmes resulted in several cases in significant impact on lower cost of remittances delivered in rural communities, increase of rural financial inclusion, competitiveness, and transformation of postal monopolists into viable and sustainable companies which know how to operate within the formal financial sector and focus on demand-driven services.

In most cases the reform is still at an early stage. Given the complexity of the reform, continuation in transformation is frequently not a self-propelling process in a rapidly changing environment, which leads to new challenges to ensure sustainability.

The cases that show successful reform also indicate that support in several steps and phases and by different donors has been rendered over a period of more than eight years.

### Good practices of external development assistance to African postal operators

In **Burkina Faso** the Société Nationale des Postes du Burkina Faso, trading as 'Sonapost', was supported with an estimated US\$3.5 million from 2007 under programmes financed by the World Bank Group, IFAD, European Commission, WSBI, Bill & Melinda Gates Foundation, SECO, UPU, and currently the African Development Bank. Each of the projects focused on reforms that supported the development of remittances and financial services, marketing, training, technology and stronger financial management. Sonapost's transformation has progressed into a relevant rural access network for remittances, basic financial services and postal communications. Its revenues from financial services stood at 92 per cent in 2014, and it has turned around from a loss-taking operation 10 years ago to recording adequate net profits to ensure sustainability and enable expansion. Its postal network has grown by more than 50 per cent. It is a key player in the local market for remittances and rural financial services.

In **Morocco**, Barid al Maghreb transformed into a group company with a licensed bank, Bank Al-Barid, which the group now manages. It leads and rapidly expands the unequalled postal network for the provision of remittances and financial inclusion in rural areas and to underserved segments, including the youth. The bank is highly competitive, providing a complete package of digital financial services. Support of an estimated US\$5 million was provided from the late 1990s financed by programmes of the World Bank, European Commission, WSBI, Bill & Melinda Gates Foundation, UPU and several bilateral aid agencies.

In **Senegal**, with an estimated US\$4 million support from early 2000's in subsequent programmes financed by IFAD, World Bank, WSBI, UPU and bilateral aid agencies, La Poste du Sénégal could expand its competitive role in remittance delivery to over 20 per cent market share, plus advance in financial inclusion with access to digital financial services. La Poste is currently working on a fivefold expansion of the network through agencies.

An evaluation of the effectiveness and impact of the large number of different projects supporting the NPOs in improving delivery of remittances and financial inclusion has not yet been undertaken, but it might be valuable for future projects.

Within the African Postal Financial Services Initiative, the coordination between the different international agencies (IFAD, World Bank, UPU, UNCDF and WSBI) involved in assisting the NPOs can be considered as a first-time experience. A platform to structurally continue coordination might turn out to be beneficial to enhance effectiveness and accelerate implementation of reform programmes. Unlike for MFIs or banks, a set of donor guidelines and best practices in funding projects to advance postal financial inclusion does not yet exist.

Even though there is no 'one-size-fits-all' formula feasible for the reform of the African NPOs, there are some common denominators that should be highlighted.

**Reforms require a consistent guidance of several (3-7) years with (semi-) resident presence of management support.** None of the aid projects implemented in Africa to date have encompassed such medium- to long-term approaches.

**Political consensus between postal stakeholders and the financial regulators, and political commitment to the reform** including engaging professional and accountable management **are critical prerequisites** for aid and effective implementation. International financial institutions could facilitate the consensus-building.

**Reforms require an integrated reform of the NPOs.** Short-term pilot programmes can focus on improving the delivery of remittances. Scaling up, however, cannot be limited to one product or business line of the postal operator. It requires a balanced process of transformation, converting and redeploying assets and resources and reengineering processes towards demand-driven and economically viable operations. This effort needs to take into account the 'hybrid' nature of NPOs, with one foot in ICT-based financial services through a dense retail network and another, very different, in Transport & Logistics and Communications. Measuring the cost and funding of the postal Universal Service Obligation (USO) **requires special attention.**

**Reforms also need** to include assistance to governments, postal stakeholders and financial regulators **to enable termination of politically sensitive, but economically obsolete postal business models and operations,** as well as to ignite viable opportunities in, for example, financial education, e-commerce fulfilment or e-government services.

**Reforms** are not about privatization of the NPOs, but they do **require NPOs to open up for doing business with the private-sector and to enter into partnerships** to complement their own capabilities and competences and to accelerate the transition.

## 6 Policy implications and recommendations

Postal networks in most African countries are still on time to play a prominent role in delivering remittances to rural migrant families and to advance financial inclusion. The next three to five years will determine whether they will succeed. This is already happening in most of the NPOs in the Maghreb, but only in a limited number in sub-Saharan Africa. In order to fully exploit their potential, several conditions must be in place.

### Bring postal networks on the radar screens of financial regulators

While some refer to postal networks as the elephant in the room of financial inclusion, the overall observation is that data and facts on postal networks and their role in remittances, payments and financial services do not fully show up on the radar screens of financial regulators and financial inclusion policymakers. Consequently, many financial regulators miss basic information on postal networks. As a result, financial regulators, financial policymakers and international financial institutions tend not to include postal networks in financial inclusion programmes to the extent they would need to or deserve to be included. Postal stakeholders (operators, policymakers, regulators) could therefore be more active in reporting and publishing updated standard data to financial regulators, ensuring that these data are included in the financial-sector statistics. Fully including the data on the role of postal networks in delivery of remittances and/or financial inclusion would be essential to promote the case.

In general, and in most African countries, **post offices should be considered as an existing specific component of the financial access infrastructure and as a distribution channel with substantial unutilized potential.** Post offices are neither bank branches nor a group of random retail agents. Post offices carry a social and public responsibility to provide reliable, fair and transparent financial services; and in some instances they play a specific role in promoting financial literacy. The value of post offices in financial inclusion could be assessed on the combination of (i) a relevant large, nationwide and predominantly rural network, (ii) its reputation and brand (known, trusted), and (iii) its management capacity to bind and operate the network.

To function as a distribution channel of remittances and basic financial services, postal stakeholders and financial regulators may need to address at least three key issues:

- interoperable ICT supporting the operations in post offices and connected with financial institutions;
- control by licensed financial institutions on the operations, quality and cost of the offices, staff and systems at the post offices; specific attention is often required for risk management, financial management and especially cash and liquidity management and compliance with AML/CTF regulations;

- competitiveness for delivery of sustainable financial access. This typically requires capacity-building in marketing management and communications, including financial education of consumer and staff, transparency, consumer protection, complaints handling, branding, advertising, joint promotions, and in-store merchandising.

Based on the current situation and policy views on these issues and on the institutional framework of the post offices, licensed financial institutions may need to be engaged in using the post offices for the management of the delivery of financial services. This may vary from simple, one-product agency agreements for a short term, to long-term ventures in which the financial institution is involved in managing and investing in the network and its staff. It can include the arrangements with licensed MTOs and take into account historic relations with postal savings institutions.

### **Remittances and financial services via post offices should be managed and controlled by responsible institutions licensed by the financial regulator**

Financial services via post offices are, in principle, not in the domain of a postal regulator. If any financial service through the post offices is currently supervised by the postal regulator, a dialogue between the postal and financial regulators on the transfer of such supervision from one to the other would need to be considered.

The types of licensed institutions involved in partnering with the NPOs can be: banks, MFIs, SACCOs, MTOs, payment service processors and insurers meeting a set of minimum requirements in responsible finance, transparency, literacy and consumer protection operating under an agreement with the postal operator to use one or more post offices as their agent, or alternatively under an agreement to rent space in one or more post offices for their representation with own staff and ICT. International financial institutions could help in this respect by:

- recommending a set of minimum requirements that these licensed financial institutions need to meet for partnering with a state-owned, large postal network, and
- guiding the process to select and contract such institutions. The above should also take into account that the licensed financial institution can be a part of the postal group.

The requirements and guidelines should also address the issue of exclusivity clauses in the arrangements with large postal networks. Exclusivity has a price requiring more substantial commitments of the partner; and they require a solution whereby the partnering financial institution facilitates and links the postal network to payments systems, enabling post offices to process any remittances or payment.

In this context, it would also be desirable to further refine the licensing framework for the state-owned postal operator, the NPO, as a non-bank or special financial institution to operate (e.g. remittances, money transfer services and bank agency services). To increase financial inclusion, the postal operator would then subsequently need to prepare for, select and enter into partnerships or agency agreements with

licensed financial institutions to distribute their products, but it would not need to seek licensing per post office.

### **Diversity of the financial services offered via the post offices is needed**

Diversity can be achieved through a broad range of affordable services, including remittances, payments and transfers, savings and deposits, loan installments, bonds and insurance premiums. This is particularly true in rural areas where the diversity of needs of rural population and small producers are rarely covered by one sole (if any) provider, and would allow for a broader array of income streams, ensuring both the social mission and financial sustainability to serve low-income and low-density populations. It should not remain limited to cash-in/cash-out for remittances only or to one or two products; and it should also not be based on long-term exclusivity to one MTO or (historic) providers who face limitations in their commitment or capacity to expand to a broader range of services on a competitive basis or to a larger number of clients.

### **Innovation in the delivery of digital financial services via the post offices is needed**

Innovation in digital financial services can be achieved through building partnerships between the post offices as a delivery channel, and competent financial institutions and mobile telecom operators for the application of new technologies to expand both financial system access and usage. This needs to be seen beyond the usage of modern ICT for teller operations and delivery of financial services, as it relates to linking the physical postal network to a digital platform. In the postal network, this can include self-service terminals, mobile post offices and postal couriers equipped with mobile technology to deliver financial services that fit into the broader scenario of expanding e-commerce, e-government and e-learning. Standardized interconnectivity and interoperability with mobile, digital and electronic channels for financial services is therefore a requirement.

### **Empowerment for financial inclusion via the post offices needs to include the development of financial and digital literacy for the underbanked**

Post offices can be seen as a mass communication tool, instrumental to enhance information and transparency about receiving remittances and using financial services, including those enabled by new digital instruments and channels.

Empowerment of the post offices as a channel for financial inclusion will also frequently require transformation and change programmes based on building financial management capabilities within the postal operator and post offices, and the involved financial institutions.

Empowerment needs to be based on a 'learning curve' for the postal organization and its environment. This also requires proportionality in strategies to increase financial inclusion via the postal networks, with balance between risks, capability and benefits, and taking into account gaps and barriers in the existing postal-sector regulation and compliance with financial-sector regulation.

To unleash the potential of postal networks in Africa it is recommended to follow the above principles with a minimum set of actions including:

- a) **Full data reporting to the financial regulator on all financial services delivered via post offices, and inclusion of these data in the financial-sector statistics.** Statistical reporting does not require an immediate change of existing legislation or regulation of the postal operator. In cases where the reporting does not exist, it can be seen as one of the first steps to support new strategies to increase financial inclusion via the postal networks. It could be facilitated by postal regulators collecting and transferring data to financial regulators.
- b) **Preparing a compelling business case towards NPOs reform.** Postal stakeholders need to prepare a very convincing case to support and finance the modernization of the NPO to deliver more remittances and access to financial services. This might be a challenge in view of available market data and financial accounts of the NPO. However, neither financial regulators nor financiers are likely to 'buy' a case purely based on the size of the postal network and increased production capacity with new IT. Political will, commitment to reform and figures supporting a sensible investment are needed to mobilize funding or finance from government and donor agencies. The business case can be considered as a minimum prerequisite for becoming eligible for donor financing or funding the modernization of the postal network, upgrading the technology, training staff, etc. The business case would also be a basis for including the postal network in national financial inclusion programmes.
- c) **Corporate transformation of the existing postal financial services in corporatized entities that are part of the regulated financial sector.** Road maps for the transformation should be based on a consensus between the financial regulator and the involved government agencies. Road maps depend on specific local circumstances, but they can be built around a selected number of options and phases. Moreover, intensified cross-border cooperation or international alliances will need to be considered to ensure adequate economies of scale and sustainability.
- d) **As a part of the transformation, audited IFRS financial statements of the designated postal operator are needed.** These financial statements need to include segmented accounting of the services provided within the reserved area for mail services and of the financial services entities.
- e) **Transparent methodology to calculate and finance the net cost of the reserved area of the postal USO.** It is essential that the calculation and financing methodology of the net cost of the postal USO is made transparent, avoiding the suggestion that internal cross subsidies exist between the postal services and the provision of financial services to the low-income groups. Since this is an issue in nearly all African states, postal stakeholders could benefit from a model or template to objectively calculate the cost of the postal USO. Furthermore, guidelines for a financing methodology that neither hinge on internal or cross subsidies from remittances or financial services nor depend on or distorts competition in the postal sector would be recommended. This might be a field for cooperation with the international financial institutions.
- f) **Building human capital is a prerequisite; a critical success factor to implement effective strategies that improve remittance delivery, increase financial inclusion and improve competitive viability of the postal services requires**

**trustworthiness and competence to reach out to the underbanked.** This hinges on investing in and incentivising talented post office staff and management and ensuring an ethic and customer centric corporate culture. Training and talent management are therefore key components.

In summary, within the rapidly evolving ecosystem towards digital financial services, the specifics of successful postal networks should include:

- Filling gaps to deliver remittances, especially in peri-urban and rural areas, appealing to several underserved segments;
- Competitive pressure, lower pricing and commoditization (the concept of postal supermarket, including own or postal branded products);
- Instant access to cash;
- Deepening and broadening access to financial services, and promoting financial inclusion;
- Promotion of financial education;
- Physical network and logistics linked to a platform for digital financial services and a broader range of e-services.

Furthermore, in order to be competitive in the market, NPOs should focus on:

- Compliance with financial-sector regulations;
- Openness for partnerships;
- Management capacity, and stakeholders' approach;
- Marketing – multichannel and post office restyling;
- Financial management, including cash and liquidity management and risk management;
- Technology, linked to a platform, and with connectivity, and operational excellence.

## 7 Overall conclusions

- 1) **Remittances can be collected at the post office in the majority of the African countries.** Within the rapidly changing landscape for remittances, mainly due to technology transformation, a few postal networks are emerging as champions, with more than 20 per cent market share and an array of remittance services delivered in rural areas at low cost.
- 2) **Although a rapidly growing portion of remittances is received cashless, more than 94 per cent of the remittances in Africa are still received in cash.** Thanks to NPOs, over 26,000 post offices and post agencies (14,000 in rural areas, and 8,500 post agencies involved in delivery migrant remittances) are one of the most present payout locations in rural Africa.
- 3) **Nearly 100 million adults across Africa, of which a large part live in rural communities, use post offices to pick-up remittances and for other rural financial services.** Best practices in several African countries indicate that post offices can play a relevant role in terms of access to (digital) financial services in rural communities, and that there remains a substantial potential to leverage postal networks in other African countries to not only improve rural delivery of remittances but also to provide access to a broad array of financial and payment services to poorly and partially served rural population and smallholders.
- 4) **Proximity, branding based on trust and instant cash availability are among the key success factors.** In some markets, postal networks have managed to evolve as niche players enhancing competitiveness through low cost, digitization and good quality.
- 5) **Sending via cashless instruments (online, card, mobile) is expected to substantially increase in the medium term, and it can be offered at lower cost than cash.** In parallel, the number of rural recipients able to receive cashless remittances grows, mainly using mobile money wallets, while the challenge for post offices is to provide access to (opening of) universal bank accounts. Such transferable deposit accounts are critical for linkages with savings accounts and other financial products. Most postal networks in Africa have recorded substantial progress in digitized diversification, but they need to further develop in order to become more competitive in rural markets. Progress in digitization is mainly achieved through partnerships, e.g. with payment service processors, technology solution providers and mobile money operators.
- 6) **All African postal networks active in remittance delivery also provide access to a broader range of financial services.** The post offices or retail networks of these NPOs are on their way to becoming a supermarket for remittances, financial

inclusion and other e-services through diversification of the offered financial products. To complete this evolution, postal operators require extensive training and capacity-building, especially in marketing management and financial management, and they need to forge a culture of partnership. Given an obsolete business model derived from a former monopoly, many postal operators still find it challenging to transform. Only by overcoming their traditional mindset and making a paradigm shift will they be able to become fully competitive in the financial services market. Expanding the product range of financial services is in most cases achieved through arrangements with licensed financial institutions, including (postal) banks, insurance companies and MFIs. The nature and scope of the arrangements can vary from agency agreements to brand partnerships or joint ventures. NPOs can also leverage their rural presence and their social mission to not only extend the financial services of providers with limited outreach, but also to allow smallholders to avail of government payments and other payment facilities along the agricultural value chains.

- 7) Postal networks with a broad range of remittance products and that add digital and innovative solutions are more likely to ensure business continuity in the medium term.** NPOs that stick to the provision of a limited range of remittances and with few links to other financial services may eventually find their approach less sustainable and less relevant for rural development.
- 8) In some African markets commoditization of remittances is progressing at high speed.** Several postal networks active in remittances are turning this to their benefit and have been able to emerge as a premium player in cross-selling remittances to other financial services. This 'one stop shopping' approach is thought to respond better to the needs of the underbanked and low-income populations, is economically more viable for the NPO, and can substantially contribute to widening and deepening financial inclusion.
- 9) In many cases, the potential of postal networks is still underutilized.** Recent lessons confirm again that reforms cannot be limited to the needed improved technical conditions, such as power supply, broadband connectivity and ICT equipment. Reforms need to encompass institutional reform, promote closer relations with the national regulators, and align the operations within the formal financial sector. Reforms should enable NPOs to enter into partnerships with selected, responsible financial institutions, include mutual commitments towards cooperation, and with a focus on expanding rural outreach.
- 10) Given the rural presence and the confidence they have among their rural customers, NPOs could further develop the linkages between remittances and savings accounts. They could focus their financial services that target certain specific groups such as youth, women and rural households, in order to promote financial inclusion and support productive investments.**

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### **International Fund for Agricultural Development (IFAD)**

IFAD invests in rural people, empowering them to reduce poverty, increase food security, improve nutrition and strengthen resilience. Since 1978, IFAD has provided nearly US\$16.6 billion in grants and low-interest loans to programmes and projects that have reached about 445 million people. IFAD is an international financial institution and a specialized United Nations agency based in Rome – the United Nations’ food and agriculture hub.

### **Financing Facility for Remittances (FFR)**

The IFAD-administered US\$36 million, multi-donor Financing Facility for Remittances (FFR) is funded by the European Commission, the Government of Luxembourg, the Ministry of Foreign Affairs and Cooperation of Spain, IFAD, the United Nations Capital Development Fund, and with the Consultative Group to Assist the Poor and the World Bank as institutional partners. The FFR works to increase economic opportunities for poor rural people by supporting and developing innovative, scalable cost-effective and easily accessible remittance services that promote financial inclusion and productive investment in rural areas. Currently, the Facility’s portfolio includes almost 50 projects in more than 40 countries across the developing world. For more information, please visit [www.ifad.org/remittances](http://www.ifad.org/remittances) and [www.remittancesgateway.org](http://www.remittancesgateway.org)



International Fund for Agricultural Development

Financing Facility for Remittances

Via Paolo di Dono, 44 – 00142 Rome, Italy

Tel: +39 06 5459 2012

E-mail: [remittances@ifad.org](mailto:remittances@ifad.org)

[www.ifad.org](http://www.ifad.org)

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