

African Postal Financial Services Initiative



Today, over 30 million African people live outside the country they call home. In 2012, migrants from the African continent sent home over US\$50 billion in international remittances. These flows are of vital importance to the continent, as Africa is home to almost a quarter of the 40 countries worldwide that receive 10 per cent or more of GDP from migrants living abroad. In the same year, the cost of sending money to and within Africa remained the highest in the world. In some cases, it reached almost 20 per cent in rural areas. To reduce the cost of these transfers and ensure that they remain within the formal financial system can contribute significantly to the economic and social conditions of families, as well as to community and national development.

What is the initiative?

The African Postal Financial Services initiative is a joint regional programme launched by the International Fund for Agricultural Development (IFAD) and the European Commission in collaboration with the World Bank, the Universal Postal Union (UPU) – a specialized United Nations agency for the postal sector, the World Savings Banks Institute/European Savings Banks Group (WSBI/ESBG) and the United Nations Capital Development Fund (UNCDF).

With whom

- The Initiative is led by IFAD's Financing Facility for Remittances (FFR) together with the World Bank, UNCDF, the Universal Postal Union (UPU), and the World Savings Banks Institute/European Savings Banks Group (WSBI/ESBG).
- The initiative is co-financed by the European Union



Where

- The initiative will cover 11 countries in Africa

Objectives

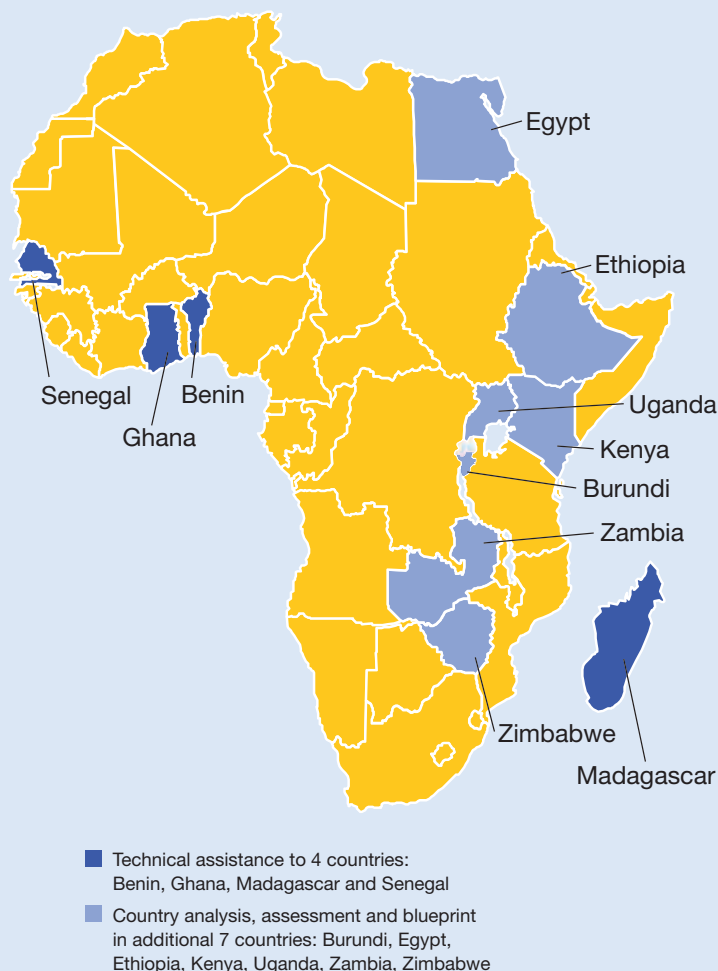
- Reduce the cost of remittances to and within Africa
- Reduce transaction times
- Broaden the network of rural locations
- Deepen the range of financial services

Total programme cost

- US\$7 million

Where

The initiative focuses on expanding the role of postal networks in rural Africa in up to 11 pilot countries. Under the initiative, a needs assessment was the basis for the implementation plans of pilot projects. Technical assistance together with new solutions for technology and connectivity will be provided to implement these plans to expand remittance services and financial inclusion. This includes market research, business development, training, information communications technology support, management and compliance. Four (4) countries – namely Benin, Ghana, Madagascar and Senegal – receive the mentioned technical assistance. For seven (7) other countries – namely Burundi, Egypt, Ethiopia, Kenya, Uganda, Zambia, Zimbabwe – the initiative will prepare a country analysis and blueprints for implementation. The initiative includes also policy advocacy and dissemination of best practices as inputs for scaling up and replication of the projects across continental Africa.



This uniquely broad-based partnership seeks to enhance competition in the African remittance market by promoting and enabling post offices in Africa to offer remittances and financial services. Post offices are ideally placed to deliver remittances in rural areas, but they often lack the business model, technology and expertise to process real-time payments such as remittances in an efficient and safe manner. The goal of this initiative is to promote, support and scale up key postal networks in Africa in the integration of remittance services.

The objectives of the initiative are to:

- **Reduce the cost** of remittances to and within the African continent. This is the single highest impact method to keep funds in the hands of remittance senders and their families. For every 1 per cent reduction in the cost of remittances, migrants from Africa and their families will save up to US\$500 million.
- **Reduce transaction times** of remittances to and within Africa. While price is an important determinant in the choice of a particular

service, speed and convenience are even more significant. Post offices must be reliable, rapid and convenient, and paper-based processes do not meet this standard of service. Modernization is key to encouraging the use of post offices for money transfers.

- **Broaden the network of rural locations** through which remittances can be picked up. This reduces travel times and costs and increases recipients' safety. The cost of remittances to rural areas is significantly higher than to urban areas because of the 'hidden costs' of travel time, travel costs and the security risks associated with the journey to and from a financial service provider. By enabling post offices to provide financial services, financial access is brought closer to rural customers so they have less distance to travel.
- **Deepen the range of financial services** provided in rural areas. True access to finance is far broader than access to remittances alone. Savings, loans and insurance products

help migrant workers and their families protect themselves from adverse shocks and enhance their long-term financial independence. This can only be achieved through a combination of regulatory permission, staff training and proper information technology infrastructure.



Why the initiative?

Recent researches conducted by IFAD and the World Bank have illustrated that remittances to and within Africa are the most expensive in the world. In general, a high percentage of these remittances go to rural areas, which constitute a significant part of recipients' family incomes. Unlike urban recipients, rural recipients face a specific set of challenges that include considerably higher 'hidden costs' of travel time, travel costs and the security risks associated with the journey to and from a financial service provider.

Rural remittance recipients are often reliant on a single, more expensive service provider and a limited set of services. Therefore, rural finance remains highly informal, despite the flow of large amounts of money to rural areas. According to research undertaken by UPU, more than 80 per cent of post offices in sub-Saharan Africa are located outside of the three major cities in each country – in areas where bank branches are usually not present.

Postal networks throughout the African continent represent an opportunity to extend access to cashless payments and secure an affordable financial services. On the one hand, postal

operators often rely on far-reaching physical networks that extend to the most remote areas. These networks benefit from the trust of the local population, target all categories of it – and have significant experience in financial services (remittances, government payments and savings). On the other hand, postal operators face decreasing revenues from their core mail business and are often confronted with lowering government subsidies after they become postal enterprises. Postal operators, therefore, already lead diversification strategies that translate into the reinforcement of their financial services activities. Various postal operators in Africa are willing and able to develop their financial services but they need significant support.

Because of the relative size of the network of post offices, new products and price points adopted for postal financial services can have an immediate effect on prices in the market as a whole. For this reason, utilizing postal networks is a highly effective tool to influence the broader market. At the same time, there is a large potential for revenue growth for postal financial services, which will help ensure the long-term ability of postal networks to perform their essential tasks and scope to further deepen their ability to reach rural areas. While the cost of transfers offers the largest direct savings impact, it is the provision of cashless payments that links to a range of financial services that will ultimately improve the financial independence of families and communities. Traditional 'brick and mortar' financial institutions have limited spread beyond urban centres and new business models should be created to foster the inclusion of rural people.



How it works

The current initiative represents a unique partnership that combines key players currently working on postal financial services under a single 'umbrella' and builds on the experience of the initial postal financial services projects implemented by UPU through the IFAD Financing Facility for Remittances. Together with IFAD, the World Bank and UNCDF, international financial institutions will provide respective experiences and competencies in rural access to finance and regulatory compliance as well as access to country-specific cofinancing possibilities. The UPU and WSBI, which represent the programme's core constituencies (national postal operators and postal savings banks) will build on their expertise in postal financial inclusion to provide technical assistance and function as conduits to share lessons with their respective memberships.

Through the initiative, partners will work directly with national postal operators, their regulators and local service providers to create new partnership models, identify and expand opportunities through research and regulatory and policy advocacy. They will provide technical assistance, launch pilot activities and mobilize external resources to modernize postal network infrastructure to offer financial services such as cashless payments, mobile money, savings, loans and insurance.

The African Postal Financial Services initiative does not favour any specific operator and aims to enable postal networks to become a valuable resource for all market players involved. Through the initiative, postal networks will represent an additional source of business for all remittance service providers, in the spirit of fair competition and open access to the financial infrastructure, and in line with international standards and best practices. All partners involved in the initiative will provide their support in guaranteeing maximum transparency and will avoid any possible conflict of interest by taking shared and coordinated decisions.



Financing Facility for Remittances

The Financing Facility for Remittances (FFR) is a US\$28 million, multi-donor facility, administered by the International Fund for Agricultural Development (IFAD), a specialized agency of the United Nations dedicated to the eradication of rural poverty. The FFR has been working since 2006 with the goal of increasing the development impact of remittances and enabling poor rural households to advance on the road to financial independence. The FFR cofinances development projects in close collaboration with public, private and civil society partners. Furthermore, it acts as an information broker to facilitate the dissemination, replication and scaling up of remittance-related best practices.



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