IFAD
Investing in rural people

Financing Facility for Remittances

www.ifad.org/remittances
www.RemittancesGateway.org

Remittances and Postal Networks

KEY FACTS

… What you might know

- Over 220 million migrants sending over US$450 billion in remittances
- Remittances to developing countries total three times official development assistance (ODA)
- In most developing countries, remittances exceed foreign direct investment (FDI) inflows

… What you might not know

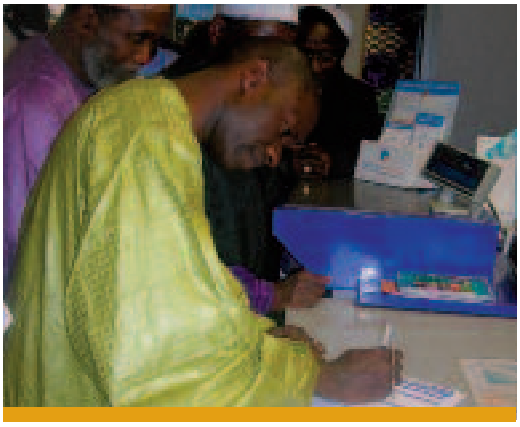
- From 30 to 40 per cent of remittances go to rural areas
- Over the next five years, cumulative remittances to developing countries will surpass US$2.5 trillion
- The 660,000 post offices in developing countries represent a level of density more than twice that of the banking network (250,000 banks)
- In China and India alone, postal networks have provided to date 320 million accounts to the unbanked, while MFIs have provided 100 million accounts worldwide
- In Africa, Asia and LAC, the share of the international remittance market through postal networks is less than 1 per cent
- The postal networks have a greater reach into rural/remote areas than do banks and are by far the most potentially significant players for expanding remittance services
- Remittances equal around 49 per cent of gross domestic product (GDP) of countries such as Tajikistan and around 25 per cent of GDP of countries such as Cape Verde, Eritrea, Kyrgyzstan, Liberia and Somalia

Remittances and postal networks: Expanding services using existing infrastructure

The Financing Facility for Remittances (FFR) aims to expand the reach of financial services to the world's underserved rural areas. The maintenance of a network of dedicated brick-and-mortar branches throughout vast, sparsely populated areas is prohibitively expensive for most forms of financial institutions, with one important exception: post offices.

Present in urban and rural communities alike in virtually every country in the world, the global network of post offices has both the physical and logistical infrastructure required to expand remittance services to rural areas. In many countries, postal services go beyond delivering mail alone, as postal savings banks offer every citizen the opportunity to make use of affordable basic financial services. This combination offers an ideal situation for maximizing the development impact of remittances, as the funds saved can be reinvested in rural areas. In sub-Saharan Africa, as well as in many other regions, more than 80 per cent of post offices are located outside the most populated cities, where 82.5 per cent of the population is concentrated, providing unique outreach to unbanked citizens and migrants, as well as small and medium-sized rural enterprises. In contrast, it is important to say that most of banking outlets are in urban areas.

The regulatory framework governing the activities of financial services through post offices varies greatly from country to country. In some countries, the post office offers only payment services, either only domestic or only international, or both. In some cases, remittances can be sent and received only through a single and often more expensive service provider. These aspects often need to be addressed on a case-by-case basis in order to unleash the great potential that postal networks represent in providing access to finance through remittance service incentives.



FFR projects in the field

The African Postal Financial Services Initiative is a joint regional programme launched by the International Fund for Agricultural Development (IFAD) and the European Union (EU) in collaboration with the World Bank, the Universal Postal Union (UPU) – a specialized UN agency for the postal sector, the World Savings Banks Institute/European Savings Banks Group (WSBI/ESBG), and the United Nation Capital Development Fund (UNCDF), aiming at enhancing competition in the African remittance marketplace. The initiative will enable post offices in 10 pilot countries in Africa to offer financial services and to transfer remittances in a way that is cheaper, more convenient, safer, and more rapid.

Currently, post offices in six countries of Francophone West Africa are already delivering remittance services to migrants' families in rural areas thanks to an FFR-funded project in collaboration with the Universal Postal Union (UPU) and its network of post offices in Benin, Burkina Faso, Mali, Mauritania, Niger and Senegal.

This successful initiative began in 2008 with the approval of the Postal Payment Services Agreement (PPSA), an international treaty allowing accessibility to electronic postal payment services for all citizens and migrant workers of the world. UPU has connected some 300 rural post offices throughout the six countries. The remittance transfer service is reducing transfer time from two weeks to a maximum of two days. Remittance services are also being associated with postal account-based services (postal checking and savings accounts). By supporting and facilitating the possibility of creating savings accounts more easily and cheaply and encouraging remittance recipients to store their money instead of immediately cashing it, the project is contributing to the creation of an enabling environment for a more productive use of remittances and to the creation of small enterprises.

The experience already acquired by UPU in Africa and other regions has shown that access to its electronic postal payment services represents an incentive for an overall decrease in tariffs by private money transfer operators. Building on the lessons learned in West Africa and supporting the scaling out of this successful model, the FFR and UPU are now implementing similar initiatives in underserved areas of Asia, Central Asia and the Pacific region. India, Indonesia and Malaysia are characterized by considerable demand for remittance services and an ever-increasing interest in having access to and using a worldwide remittance system. In Central Asia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan also have considerable demand for sending remittances to rural areas. In these countries, the designated postal operators are the only providers of remittance and social payment services. Extending services to rural populations through post offices in these countries will, therefore, help promote financial inclusion and ultimately encourage the productive use of remittances in initiatives such as the development of small and medium-sized businesses.

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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