

CHAPTER

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**Universal Postal Union**



**UPU** UNIVERSAL  
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UNION



## Universal Postal Union

An intergovernmental organization and a UN specialized agency, the Universal Postal Union (UPU)<sup>1</sup> is the principal forum for cooperation between governments, Posts and other postal sector stakeholders on all issues related to postal services. The Union establishes rules governing the operation of international postal services and provides advice and technical assistance to its Member States. With more than 660,000 post offices in 192 countries, the postal sector is the world's largest physical distribution network and a key contributor to socioeconomic development.

Regarding migration and its contribution to development, the main priority of the UPU is to provide migrants throughout the world with access to efficient, reliable, secure and affordable remittance services. The UPU has been developing a regulatory framework for international postal money orders since 1878. This Postal Payment Services Agreement (PPSA), an international treaty which is updated every four years by the UPU Member States, provides standards and guidelines for postal operators exchanging international money orders. Through its Postal Technology Centre, the UPU also makes available to postal operators state-of-the-art technology to process money orders. This software application, called the International Financial Service, enables Posts to offer efficient money transfers – both domestic and international – at a low cost.

### 1. Migration and development activities since the 2006 High-level Dialogue

#### The offer of remittance services in rural areas: A market failure

Since 2006 the UPU has stepped up its efforts to make available to migrants affordable and safe means to send money to their families in their countries of origin (or areas of origin, in the case of domestic migrants). In many regions, and particularly in sub-Saharan Africa, the cost of formally transferring funds, especially small sums, is high – sometimes reaching 20 per cent of the amount transferred. The UPU is helping developing countries to free the poor from inaccessible, expensive and informal remittance channels.

<sup>1</sup> The Swiss Government convened an international conference in Bern on 15 September 1874, which was attended by representatives from 22 nations. On 9 October of the same year – a day now celebrated throughout the world as World Post Day – the Treaty of Bern, establishing the General Postal Union, was signed. Membership in the Union grew so quickly during the following three years that its name was changed to the Universal Postal Union in 1878. The 1874 Treaty of Bern succeeded in unifying a confusing international maze of postal services and regulations into a single postal territory for the reciprocal exchange of letters. The barriers and frontiers that had impeded the free flow and growth of international mail had finally been pulled down. The UPU became a specialized agency of the United Nations on 1 July 1948.

The UPU has raised its awareness of the fact that remittance networks operating in many developing countries usually suffer from two problems: they tend to be concentrated in the largest cities, and/or they may fail to reach a critical mass of beneficiaries. Concentrated or small-scale networks trigger a “remittances divide” between widely served urban areas and poorly covered rural or low-density urban areas. Populations in the latter thus face huge transaction costs in order to find informal channels for receiving funds. This also leaves room for the development of inequalities between rural and urban populations, and encourages insecure, informal and illegal channels for sending and receiving remittances.

Private initiatives have not filled this gap in access to remittances between urban and rural regions. The interconnection between various private remittance networks has not been accomplished, in spite of huge market development. Therefore, money order transfer fees currently remain high. There is, however, a latent demand for sending both domestic and international remittances to rural areas.

### **Partnerships with other UN organizations**

To address these issues, the UPU partnered in 2008 with the International Fund for Agricultural Development (IFAD) and the French Post to launch a pilot programme in six West African countries (Benin, Burkina Faso, Mali, Mauritania, Niger and Senegal).<sup>2</sup> The programme’s objective was to develop a postal money transfer service in the rural areas and smaller towns of these countries. The six countries have a total of 510 post offices, 404 (79 per cent) of which are located in rural areas. In 2009 the project connected 355 rural post offices, either directly by Internet (when available), or through the establishment of call centres and the use of telephones or faxes. Under the programme, money orders were paid within two days at most, and much quicker (in a few minutes) if both the sending and paying post offices were online.

Within the framework of the West African programme, procedures were set up to facilitate cash management, staff of rural post offices were trained on operational aspects and a number of joint marketing activities were conducted both in sending and receiving countries. As a result, costs for clients decreased by 30 to 50 per cent, and volumes increased by 104 per cent between 2009 and 2010 in both North–South and South–South corridors.

It should be noted that approximately half of total remittances were paid out in rural areas with a cost for the sender comprising between 2 and 8 per cent of the amount sent, far below the average for sub-Saharan Africa.<sup>3</sup>

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<sup>2</sup> Visit [www.ifad.org/remittances/projects/africa/francophone.htm](http://www.ifad.org/remittances/projects/africa/francophone.htm) for more information.

<sup>3</sup> More information on this project can be found in: World Bank, “Role of Post Offices in Remittances and Financial Inclusion,” *Migration and Development Brief No. 15* (Washington, D.C., World Bank, 2011), available at <http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1110315015165/MigrationandDevelopmentBrief15.pdf>.

Given the success of this first programme, a number of similar initiatives were launched in 2011 in Central Asia (Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan)<sup>4</sup> and in 2012 in the Asia–Pacific (specifically, in Cambodia, India, Indonesia, Lao People’s Democratic Republic, Malaysia and Viet Nam), with the financial support of the Financing Facility for Remittances of IFAD. The objectives of these projects are to leverage the rural postal networks of the participating countries to offer affordable and reliable remittance services to migrants, as well as to link remittance services with other financial services, such as insurance or savings, to ultimately improve the living conditions of migrants and their families.<sup>5</sup>

Two other projects with similar objectives are currently being developed in Africa with financial backing from the European Union and in partnership with various international organizations, including IFAD, the World Bank and the United Nations Capital Development Fund (see also the chapter on IFAD).

## 2. Support provided to the Global Forum on Migration and Development

There has so far been no direct relationship between the work of the UPU and the GFMD.

## 3. Identified good practices

In the activities led by the UPU or by its members on the subject of financial services for migrants, a number of good practices have been identified:

- (a) The implementation of fair remittance services, where costs are affordable to the clients and the commission is equitably shared between two postal operators, is an incentive for an overall tariff decrease by incumbent money transfer operators (MTOs).
- (b) The experience of Brazil’s Banco Postal project<sup>6</sup> shows that focusing on rural areas and small and medium-sized towns, where formal banking is unavailable, can be a winning strategy, both for the postal operator and for clients (migrants, recipients of migrants’ remittances or, more generally, the rural populations). At the start of the project, between 2002 and 2006, agencies were established primarily in these locations. This approach proved successful in terms of profits and also benefitted the more traditional postal business with a 100 per cent increase in foot traffic across rural post offices where Banco Postal services were available. Banco

<sup>4</sup> Visit [www.ifad.org/remittances/projects/asia/upu.htm](http://www.ifad.org/remittances/projects/asia/upu.htm) for more information.

<sup>5</sup> Visit [www.ifad.org/remittances/pub/postal.pdf](http://www.ifad.org/remittances/pub/postal.pdf) for more information.

<sup>6</sup> The Banco Postal project is a partnership between Brazil’s postal operator and a private bank to offer banking services in post offices.

Postal had a tremendous impact in terms of financial inclusion:<sup>7</sup> Half the total savings of Banco Postal were held in 50 per cent of the poorest municipalities, which accounted for less than 30 per cent of the population. Also, 25 per cent of Banco Postal's loans and micro-loans were granted in 20 per cent of the poorest municipalities, where only 10 per cent of the population lived.

This means that savings collections in these communities have been redirected through small loans in favour of local economic development, which in turn can contribute to reduced domestic migration. The market failure previously mentioned for remittances in rural areas could therefore be solved simply by leveraging an existing infrastructure such as the post office.

- (c) A last good practice identified in UPU projects consists of linking remittance services to other financial services to ensure that remittances have more developmental impact. For example, instead of paying out remittances in cash to recipients, these can be sent to a savings account. The beneficiary can then withdraw a part of the amount in cash and keep the rest on his/her account as a reserve for future needs, for example, investment for a small project, school fees, among others. The UPU is currently launching a new project in West and Central Africa with EU funding, in partnership with PlaNet Finance, an NGO specialized in microfinance, to work further on this.

#### 4. Challenges identified in carrying out UPU work

One of the challenges identified in carrying out UPU work is linked to exclusivity agreements. According to a 2009 study commissioned by IFAD for Africa,<sup>8</sup> two major money transfer companies require agents to sign exclusivity arrangements. These agreements effectively "lock" more than half of all available payout locations. Because they apply to all agents – banks, foreign exchange bureaus and post offices, among others – the result is effective control of 65 per cent of the authorized payout market. A number of post offices have established partnerships with international MTOs, but where such exclusivity agreements exist, they have negative consequences on competition and result in artificially inflated prices, at the expense of clients.

A number of countries, including Nigeria and Senegal, have already prohibited such exclusivity arrangements, but much remains to be done to ensure adequate competition in markets where only a limited number of actors are present.

Another challenge that has been identified is linked to the very nature of UPU work. Placing emphasis on rural areas means that postal operators have to develop activities in locations where basic infrastructure does not exist. Connectivity, either through

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<sup>7</sup> J. Ansón and L. Bosch Gual, "Financial access and inclusion through postal networks: Evaluating the experience of Brazil's Banco Postal," in *Postal Economics in Developing Countries* (Bern, UPU, 2008).

<sup>8</sup> IFAD, *Sending Money Home to Africa – Remittance markets, enabling environment and prospects* (Rome, IFAD, 2009).

internet or the Global System for Mobile Communications is not always available. Access to electricity also remains a challenge in many outlying areas. Thus, offering remittance services and, more generally, inclusive financial services to rural populations must be the result of a coordinated effort between governments, regulators and development partners. All stakeholders need to develop financial inclusion strategies which take into account the specific financial needs of migrants and their families, and which leverage the existing infrastructure such as postal networks.

## 5. Gaps evident within the migration and development sphere

The most important gap identified in the postal field is linked to the fact that international mobile remittances face serious challenges to develop at scale.

Since 2007 and the emergence of the M-Pesa success story in Kenya, the new buzz word for money transfers has been “mobile.” M-Pesa is a mobile payment system which has been developed by Safaricom, a mobile operator, which enables Kenyans to send money using simple mobile phones at a relatively low cost. The success of the product has been phenomenal, and the service now has 15 million users out of the total population of 42 million.<sup>9</sup>

A few countries such as Pakistan, the Philippines, Tanzania and Uganda, have seen similar success. However, mobile payments today remain mostly limited to national payments. International mobile payments have not taken off due to the absence of a regulatory framework, which would, inter alia, compel international mobile payment services to go through the systems of two national telecom operators, located in different countries, with different national regulations. Furthermore, at the national level, traditional financial supervisors (central banks or similar) are not always involved in the supervision of mobile payments. As a result, the issues of adequate supervision, consumer protection and security are acute for international mobile payments.

The UPU recognizes the potential that mobile payments can have in offering remittance services to migrants and their families. However, a solid regulatory framework needs to be implemented to ensure the security and reliability of the service for migrants and their families. At the UPU level, discussions have started between Member States to assess how the postal regulatory framework (PPSA, mentioned earlier) could be used to facilitate international mobile remittances.

<sup>9</sup> For more information about M-PESA, visit [www.safaricom.co.ke/personal/m-pesa/m-pesa-resource-centre/presentations](http://www.safaricom.co.ke/personal/m-pesa/m-pesa-resource-centre/presentations).

## 6. Recommendations for the 2013 High-level Dialogue

- (a) The 2013 HLD should strengthen coordinated approaches on cross-cutting issues such as migrants' remittances. On this concrete subject, the following recommendations could be put forward:
- (i) Encourage fair competition in the field of international remittances by supporting the prohibition of exclusivity arrangements;
  - (ii) Support the creation and implementation of national financial inclusion strategies which take into account the needs of migrants and their families;
  - (iii) Use the existing infrastructure in rural areas to implement national financial inclusion strategies, namely post offices and other rural financial institutions.
- (b) The HLD should also tackle some of the issues that are causing forced migration (both domestic and international):
- (i) In rural areas, ensure availability of basic infrastructure, such as electricity, communications (phone and Internet), financial services and logistics solutions. The availability of such infrastructure is a factor of local economic development, which will entice local populations to remain in their region of origin. It should be noted that postal networks can greatly contribute to establishing such infrastructure.
  - (ii) Access to education and training is also essential for retaining local populations. There are many examples worldwide of postal operators providing major contributions in that regard. Botswana Post has opened "kitsong centres" (knowledge centres) in its rural post offices, where clients can access education resources or government information through the Internet.<sup>10</sup> Also, the Tunisian Post works with the Government to distribute grants to students in financial difficulty,<sup>11</sup> while the Venezuelan postal service participates in a programme called "Defensores de los Niños" (Defenders of Children), whose main aim is to protect children from potential abuse and ensure that those of school age have access to education.

Postal networks form an essential infrastructure for socioeconomic development. They are simultaneously communications networks, trade facilitators, financial access infrastructure and tools for governments to implement their development policies. All of this infrastructure can and should be better leveraged to address migration issues, both to reduce the causes of migration and to offer tools for migrants to remain in contact with their families.

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<sup>10</sup> For more information about kitsong centres in Botswana, visit [www.botspost.co.bw/business\\_communication\\_centres\\_kitsong.php](http://www.botspost.co.bw/business_communication_centres_kitsong.php). See also: Graeme Lee, "ICT facilities in rural Botswana through the national postal service" in *ICTs, new services and transformation of the Post* (Bern, UPU, 2010), available from [www.itu.int/ITU-D/tech/rural\\_telecom/Rural\\_Publications/dcc\\_livreUitEn.pdf](http://www.itu.int/ITU-D/tech/rural_telecom/Rural_Publications/dcc_livreUitEn.pdf).

<sup>11</sup> For more information about the programme, visit [www.poste.tn/index\\_service.php?code\\_menu=82&code\\_sous\\_menu=101](http://www.poste.tn/index_service.php?code_menu=82&code_sous_menu=101).