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The Role of Postal Networks in Expanding Access to Financial Services

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The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Africa Region

**The World Bank Group
Global Information and Communication Technology**

**Postbank Advisory, ING Bank
Postal Policy**



Author's Note

This section discusses the landscape of postal networks in the African region¹ and their current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role to expand access to financial services.

For some aspects and some countries data did not seem to be available or was available only to a limited extent. In particular, this was the case for data on the role of the postal networks in cashless payment systems, the significance of the postal financial services compared to monetary aggregates, and the details of the financial services rendered through the post offices.

For several countries—Sudan, Central African Republic, Mali, and Sierra Leone—data on the services and their organizations was not yet available. On the other hand, in the course of the desk research in 2004, other countries that were not included in the list of 24 countries were found to have postal networks with an active role in financial services, e.g., Angola, Burundi, Mozambique, Ethiopia, and Madagascar.

While this African regional landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

CNE	Caisse Nationale d'Epargne (National Savings Bank)
CCP	Centre des Cheques Postaux (Postal Check Accounting Center)
ICT	information and communication technology
POSB	post office savings bank
UPU	Universal Postal Union
USD	United States dollar

¹ The African region as defined by the World Bank includes the African continent except North Africa, namely Benin, Burkina Faso, Cameroon, Cape Verde, Central African Republic, Comores, Republic of Congo, Cote d'Ivoire, Gabon, Kenya, Madagascar, Malawi, Mali, Mauritania, Namibia, Niger, Nigeria, Senegal, Sierra Leone, South Africa, Sudan, Tanzania, Togo, Uganda, Zimbabwe.

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Summary

Postal networks in the African region consist of 11,365 post offices. In many of the African countries, the post offices have provided a payment source and savings services for more than 100 years. Research indicates that currently 9.5 million Africans have postal savings accounts, with a total balance of USD 1.7 billion—about 5 percent of the adult population. In several countries, postal savings are the leading deposit-taking outlet; in some other countries, it is a marginal phenomenon. The number of active savers is estimated at less than 2 million, and a reported 70 percent of these savers are served by fewer than 1,000 post offices or separate postal bank branches.

In addition, postal networks offer payment services.² Nearly 0.5 million postal giro accounts are open, and produce about 7 million transfer operations annually. Most of the holders of postal giro accounts are government-employed staff (teachers, public servants, or the military). However, postal networks are not included in large-scale programs to upgrade the cashless payments systems in Africa. Most Central Banks consider the postal networks in a too poor condition to be involved.

The financial services are managed through a separate state-owned entity in about half of the countries—a post office savings bank—which utilizes the postal network through an agreement with the post office. All of these entities are state-owned, but only about half of them are regulated by the respective Central Bank. In the other 50 percent of the countries, the financial services are operated as an integrated part of postal services, with separate subdivisions responsible for the operations. Most of these, however, lack separate accounts and controls.

There appears to be widespread consensus that postal networks could play a much more active role in providing access to financial services, especially to unbanked poor and rural communities. There is also consensus that offering postal financial services needs to be revamped from fragmented single products to integrated packages including payment cards, savings, deposits, insurance, and even credit.

It appears to have been difficult to convert ideas and consensus into practice. In several countries, including South Africa, repositioning the postal bank has been under discussion for more than 10 years without conclusion. In some other countries, steps have been taken to separate the postal bank into an independent company, operating through the postal service. In most cases, use of the postal network has sharply decreased or has simply been terminated. A key inhibitor for the state-owned postal services is their reluctance to give up control of the postal financial services (and access to these revenues and even depositor funds); a key inhibitor keeping postal banks from using the postal network is the lack of the quality control, expense, and poor performance of the postal network.

Revenues from mail operations cannot sustain rural postal networks in Africa. Mail volumes are extremely low—frequently there is no mail and yet the operational cost to run a network is high and fixed. In various cases across Africa, there are more financial transactions over the post-office counter than sales of stamps.

This situation calls for vigorous reform, leading to intrinsically strong and competent institutions. The issue is not limited to moving postal financial services to the financial sector (instead of the public postal sector): the issue also includes repositioning the postal network as the front-end of the financial sector and modern information services (instead of continuing as the back office for mail processing, collection, and distribution).

A vigorous approach would therefore have to include the assessment of options such as participation and/or alliances with privately managed financial institutions, cross-border cooperation, private postal agents, and a process and approach not necessarily dependent on the pace and course of postal reform.

² Postal networks also process international remittances. The market share in this market is estimated at less than 1 percent.

1— Introduction

The postal networks in the African region comprise **11,365 post offices**, or less than 2 percent of the worldwide postal network. The postal networks in Africa are uniquely large compared to other networks, including the estimated 7,000 bank sub-branches.

Key Data on Postal Networks and Access to Financial Services	
Population	425 million
GNI	USD 262 billion
Territory	14.61 million square kilometers
Post offices	11,365
Staff	67,000
Mail items	672 million
Postal financial transactions volume	6.9 million
Postal financial transactions (value)	USD 1.6 billion
Postal giro and savings accounts	3.5–9.5 million
Postal financial assets	USD 219–1,700 million

Sources: Research by UPU, WSBI, World Bank, ING

Although the density of the postal networks falls significantly short of recommended UPU norms, the postal networks—in general—cannot be economically sustained by revenues from the postal mail services whose volumes are low and are unlikely to grow significantly in the medium term. UPU data show a compound annual growth rate of -2.8 percent over the period 1995–2000 and predict moderate growth of 2 percent in the period 2000–05.

Per capita mail volumes are on average less than one item per year—consumer-to-consumer mail is estimated at less than 25 million items in 2002 (i.e., 1 of 17 Africans writes one letter or postcard per year). Moreover, revenues from mail services of the state-owned postal operator are likely to fall in view of increased global competition in international mail, express, parcels, and logistics, as well as substitution by e-mail, fax, and other new technologies. Governments in the African region are therefore increasingly rethinking the rationale of maintaining and operating postal networks.

The challenge for many African governments is either to gradually reduce or phase-out state postal services and their networks within the next 10–15 years. This marginalization would come as the result of market sector liberalization, substitution of new technologies, and increased customer demand, with the postal operator left to provide universal service obligation mail activities only. The once widespread cross-subsidization of loss-making mail services will be less and less possible with new regulation and improved accounting standards and practices. They would not allow use of revenues from telecommunications, liberalized mail services, or postal savings, or simply lending postal savings deposits to shore-up mail deficits. The challenge, therefore, is to set out a proactive course in postal sector reform.

As it becomes increasingly acknowledged that mail operations in Africa alone cannot sustain the postal network, and that modern logistics and supply chain concepts decrease the need for dense postal networks for mail processing, the question emerges what role remains for the rural or remote post offices.

Already, under existing accounting practices, financial services generated more than 20 percent of total postal revenues in 2002. In some countries, it is more than 50 percent. Many postal operators feel that opportunities are underutilized and have taken some initiative—even if small scale—to broaden the range of financial services.

Data indicate that nearly 10 million Africans keep accounts in postal financial entities (more than 5 percent of the adult population), and USD 1.7 billion has been mobilized in savings. In some countries, postal savings represent a significant share (more than 10 percent) in total deposits.

Current initiatives feature experimental and fragmented approaches (e.g., launching of a new product or new technology) and focus on adding international remittances, microcredit, or bank cards. They are often not part of an overall comprehensive strategy to reposition the postal financial service entity.

Postal financial entities are all state-owned. Half of these are not supervised by competent financial sector regulators, but are an integrated part of postal operations. The weak regulatory context has produced frail corporate governance, unhealthy balance sheets with no equity and/or technical insolvency, high liquidity risk, and unclear financial performance and profitability. In various cases (e.g.: Cameroon, Ghana, Nigeria, Niger, Gabon, Togo, Cote d’Ivoire), this has led to the collapse of the postal financial entity. Apart from the frequently occurring practice of cross-subsidizing, some postal financial entities are forced to lend (e.g., South Africa) to the postal service to cover operational deficits. In several cases of liquidity crisis, governments have intervened and agreed with the International Monetary Fund to separate the postal financial entity from the postal service. In this separation process, the mail service retains the postal network, and in several cases, the separation has led to the post offices not being used, or a termination of unclear, mutually dissatisfactory, and non-sustainable arrangements.

In other, more recent cases, the idea emerged to create postal financial entities as subsidiaries of the postal services (e.g., Senegal, Niger) with separate accounts and under supervision of the Central Bank. In yet other cases (e.g., Cote d’Ivoire, Togo, Cape Verde), only postal savings was separated, leaving the postal payments with the mail operator. In other cases, preparatory steps are being made to privatize the postal financial entity (e.g., Tanzania, Malawi, Senegal).

It seems though that in separation and pre-privatization processes, the relationship with the postal network is not always appreciated as an asset, but often seen as a burden (Malawi, Tanzania).

The Role of African Postal Networks in Providing Access to Financial Services	
Payments	<ul style="list-style-type: none"> Account-based services for less than 0.5 million Africans—mostly teachers, military and public servants—for salary payments Cash-based—valuable role for money transfers, collection of bills with various degrees of success, in particular if new technology is applied; in general low volumes Not participating as an institution or infrastructure in any of the programs to develop payments systems Risk of the postal network being marginalized in the payment system, and the cashless payment system not being widely accessible <p><i>Access to a modern, cashless payment system is not provided, with few exceptions, and would require large-scale investments to upgrade the post office technology and security infrastructure.</i></p>
International remittances	<ul style="list-style-type: none"> Product range being expanded and upgraded in particular with the UPU’s International Financial Services* and Eurogiro, but actual role still very insignificant, estimated market share below 1%, except where the postal networks have an agreement with Western Union In view of global migration, large opportunities missed <p><i>Access to international remittance services at post offices is limited. Post offices are not positioned for a “remittances for development” concept.</i></p>
Savings	<ul style="list-style-type: none"> Strong penetration, in some countries 10– 30% of adults have accounts with the post offices Actual usage of deposit transactions very low, suggesting high number of dormant accounts; moreover, transactions concentrated in separate post bank branches or urban postal offices Depositor confidence still dependent on state guarantee; tax exemptions create

	<p>unfair competition</p> <ul style="list-style-type: none"> • Market share value in some countries significant; in some other countries marginal • Most often a single-product offering, no range of deposit products and not linked to other services, such as remittances, payments, credit • Current savings operations and database possibly the basis for expanding toward a full offering <p>Access to deposits and savings is widespread with nearly 10 million clients; actual usage, however, concentrated with less than 2 million savers. Needs an overhaul in which savings are part of product package offer.</p>
Insurance and pensions	<ul style="list-style-type: none"> • Only existing on an experimental basis in some countries; initial promising results • Opportunities not captured <p>Access to insurance and pension products at post offices is non-existent, but there are some promising experiments.</p>
Credit	<p>Virtually non-existent through post offices; some postal banks with small scale experience in their branches</p> <p>Access to credit at post offices is virtually non-existent, but there are some promising experiments.</p>
Overall	<p>The role of the African postal network in providing financial services varies from marginal in some cases to significant or leading providers in deposit taking and transfers</p> <p>Institutional weaknesses (related to a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems and technology) will need to be addressed to provide a sound and sustainable role for postal networks in expanding access to financial services.</p>

* The Universal Postal Union's International Financial Services is an electronic network for money transfers plus applications to access it.

The poor technical state and management of many African post offices has been a major reason for their not being included in Central Bank programs to build cashless payment systems. It is unclear if cost-benefit analyses have been done to assess:

- the cost of upgrading the postal network with payments technology, and the benefits of providing access for large parts of the population through the existing network;
- the cost of setting up and organizing new networks and locations that are widely accessible; or
- the cost of excluding a large part of the population in the long-term, leaving them behind with only cash as a payments instrument.

Payments are a financial service that every household and person uses. If postal networks did not offer access to modern cashless payments instruments, the hurdle to provide other financial services (savings, credit) on a sound, sustainable, and competitive basis becomes more difficult. Since postal markets in Africa differ so much from those in industrialized countries, it seems essential that innovative postal reform strategies should be developed for Africa rather than using strategies derived from industrialized countries. Not only are mail volumes small but their composition is different: more than 30 percent is international mail, largely business-to-business.

Postal reform strategies need to address the institutional home of the postal networks, their economic viability, and ownership and management. A key challenge will be to change postal networks from traditional mail processing outlets to a front-end for financial services and information services that also handles the mail.

From the data and experiences in the African region presented in this "landscape," some preliminary lessons can be drawn for the African region:

- Separation—of accounting, management, and organization functions—of mail and postal financial services is needed to enhance the intrinsic soundness of the financial services and to terminate non-transparent cross-subsidization the mail services;
- Separation between mail and postal financial services is also needed because mail services are part of a different sector of industry than financial services, and they require different competencies and skills. Mail services must deal with different regulations, competitors, and customers. Mail is more than 70 percent generated by government agencies, large corporations, and foreign clients, whereas the financial services in Africa primarily serve individuals, and few to no corporate clients.
- The dominant position of the mail (including its focus on the post office and its inability to create attractive and transparent conditions for sharing the postal network) paradoxically emerges as one of the main obstacles to developing the postal networks to provide access to financial services.

Some additional observations can be made:

- All of the individual post offices are state-owned, featuring high fixed asset costs, and high fixed operation cost ratios, especially in rural post offices where back offices and letter carriers are retained for sorting and collecting small volumes of mail (almost incidental). The practice of contracting small private entrepreneurs to run individual post offices could lead to better cost-efficiency and service if introduced, but would also require stronger management by the post management.
- All mail and postal financial service entities consider comprehensive national solutions, although in many cases the economy of scale cannot be achieved to justify large-scale investment in either postal or financial service operations. Alliances within African countries with banks, for example, and cross-border cooperation have not been extensively considered, especially for the outsourcing payment and financial transaction processing and database management.

African post offices have proven in the past that they can provide a significant role in savings mobilization and money transfers. Their role has declined in past decades as other financial institutions and informal initiatives with better services and modern technology respond better to the needs of the rural and the poor communities. However, large parts of the African population remain unbanked and underserved. If postal networks were to provide access to financial services in significant scale, it would require dramatic and sweeping reform to build intrinsically strong institutions, transparent performance, and effective control mechanisms for the financial services provided at the post offices.

2—The Landscape of African Postal Networks

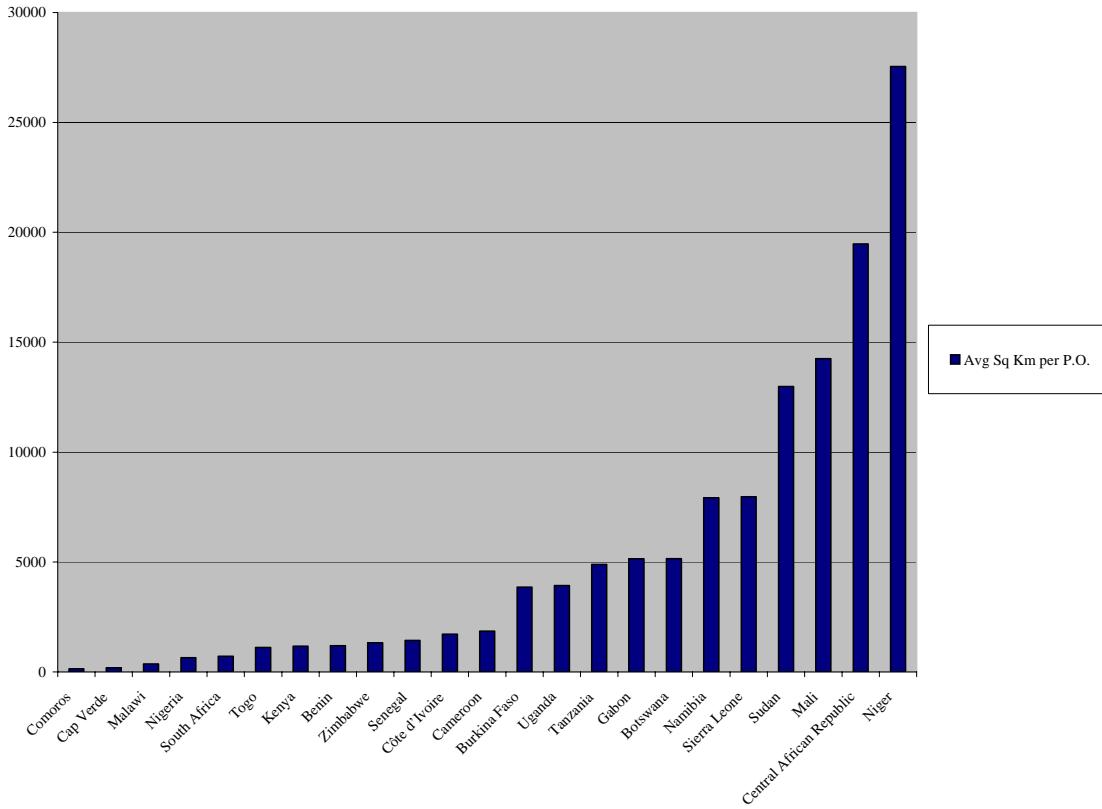
Post offices in the African region have existed for more than three centuries. They were established by the former British, French, Portuguese, Belgian, German, Italian, and Dutch colonial powers.

In 2002 there were more than 11,000 post offices in the African region. Nigeria and South Africa alone hold more than 7,000 of these offices, and the other 22 countries less than 4,000 offices. This implies, on average, one post office per 37,000 inhabitants, which is considerably below the ratio of one post office per 6,000 people recommended by the Universal Postal Union, the specialized agency of the United Nations for postal services. Although Pakistan, Italy, and Belarus have larger post office networks, the postal network in the African region, nevertheless, is uniquely large compared to other chains or banking networks. In fact, it is estimated that there nearly twice as many post offices as bank branches of all sizes.

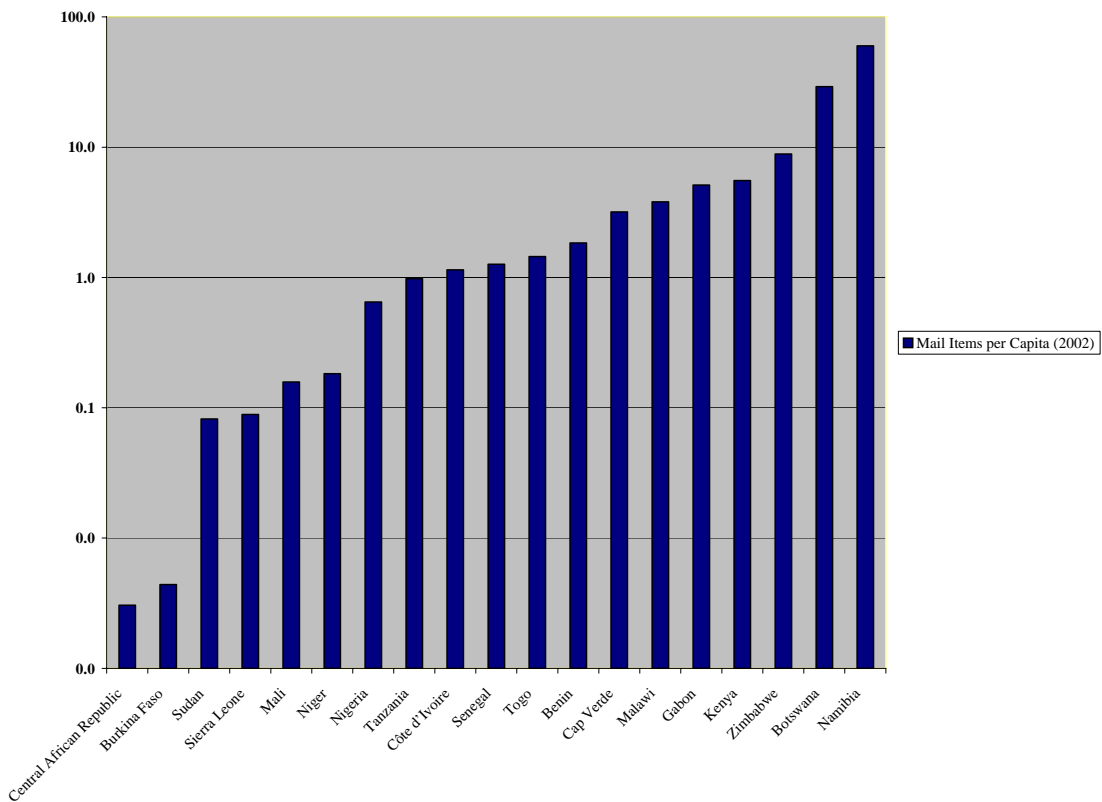
The density of the postal networks, expressed in post offices related to population and related to territorial coverage in Africa, is considerably less than on other continents. There are also significant differences per country: the chart on post office density shows that Mali, Sierra Leone, Central African Republic, Sudan, Burkina Faso and Niger have less than 1 post office per 100,000 inhabitants.

Africa Region

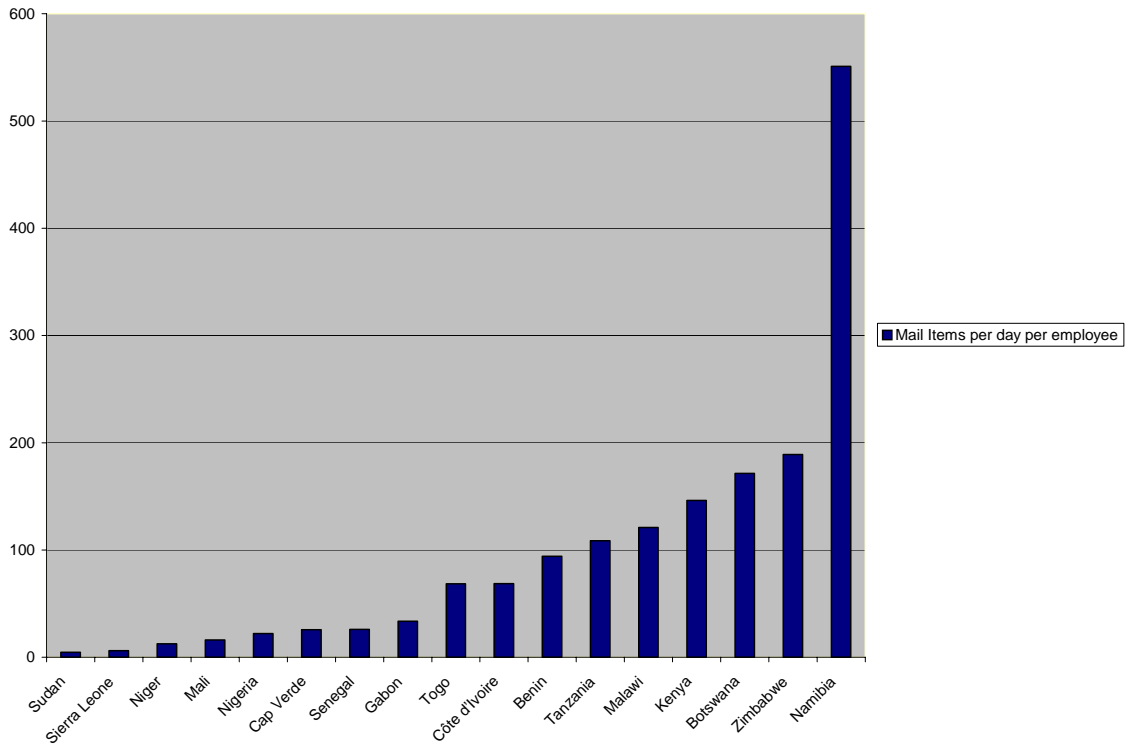
Post Office Density



Mail Items per Capita



Productivity



In area coverage per post office, Sudan, Mali, Niger and the Central African Republic have less than one post office per 10,000 square kilometers, suggesting that inhabitants would have to travel a day or more to find a post office.

Originally, post offices were established to provide mail services, and were anchors in the mail-processing infrastructure, and they still are. Mail volumes per post office differ and tend to correlate with the level of gross national income.

Did the Mail Carrier Ever Ring a Bell?

A cross-country comparison shows that the average African rarely receives mail, if at all in their life. Statistics indicate that more than 97 percent of the population receives less than three mail items per year. The volume of mail items that post offices process on an average day ranges between 50 and 1500 items.

The productivity per postal staff member varies also, from mail carriers in Sudan and Sierra Leone processing a handful of mail items, to Namibia with 551 mail items per day per postal employee. This suggests that some of the postal organizations are grossly over-staffed.

The chart on mail items per capita provides an indication of the productivity of postal staff in mail handling, showing the mail items processed per day per staff member (average).

Although the postal mail services are supposed to be the core business for post offices, oftentimes in Africa they cannot generate sufficient revenues and business volumes to achieve financial self-sustainability. This is not a recent feature and governments have taken measures to increase the utilization of the postal infrastructure by adding:

- other communication services (telephone, telegraph, telex, fax, internet);
- government and public services (government announcements, public information, registrar functions, e-government); and
- financial services (payments, savings).

The postal services and the related telecommunication services and government information services are *presumed* to contribute to the post office's function as a public communication center, and to have improved economic viability. (Data supporting this, however, is not available.) The diversification has also been the basis for cross-subsidization. Using post offices as communication and information centers has revived with the advent of the Internet, and a number of African governments³ is reportedly looking into information and communication technology (ICT) policies that include changing the postal network to provide e-government services and/or making them tele-centers or internet cafés. Apart from e-government, e-learning is also an application considered by governments. In view of the fact that only 6.5 million African have access to the Internet, the post office infrastructure could help to bridge the gaps in the digital divide.

The basic figures shown above give a clear indication that for several countries the postal service is not and cannot be operated on an economically viable basis by mail services alone. Although UPU research indicates that postal mail volume could rise in the medium term in Africa, it is somewhat unlikely that it will reach European or American levels.

Regarding information communication technology development, how to build and maintain such infrastructure that can increase access to mail services becomes more pressing. It increasingly points to utilizing the post offices as front office for the financial sector and for the modern ICT that providing greater access requires.

On the other hand, Namibia shows that in a large territory with a small, widely dispersed population, effective marketing, and vigorous improvement of efficiency and quality of service can result in higher volume and improved revenue flow.

Postal Networks and African Postal Reform

The mail flow depends mainly on corporate and public agencies to generate mail. In many cases, 80 percent of the mail volumes are generated by less than 500 corporate clients. The needs of these entities have become increasingly sophisticated, and many of them seek one-stop service. African postal operators that cannot muster a timely respond to more sophisticated client needs are likely to be left servicing the mail of public agencies only.

African postal operators witnessed dramatic changes in their business which they once operated as a monopoly. Competition in the courier, express, and parcels arenas appeared from international operators and local private operators. In most cases, national postal operators have been left with insignificant market shares in these liberalized high-margin business segments, since the framework to regulate competition is weak or absent.

New technologies, such as fax, e-mail, mobile communications, etc., more and more are being substituted for existing mail flows. In the African postal mail flows, where the international business-to-business segment is quite active, the impact of technology substitution may be more significant than with postal operators with primary business-to-consumer (and vice versa) flows.

The impact of liberalizing the postal market also implies that governments are less likely to financially support (or be able to) the national postal operator in favor of private-sector competitors. It also implies the need to improve cost accounting to distinguish between the cost and revenue from reserved areas and the liberalized area.

As a response to changes in the core postal market, African postal operators should seriously look at diversifying into other services that can generate revenues while utilizing the same postal staff and post office infrastructure. The drive for diversification seems to fan revived interest by the African posts in financial

³ For example, Tanzania, Mozambique (in the framework of a World Bank program) and South Africa.

services that can be provided over the postal counters. These revenues could help offset declining revenues or margins in the core businesses of the postal operators. However, it poses a risk. If the core mail business of a postal operator is not economically sound and healthy, the temptation to seek cross-subsidization remains alive.


The primary issues in African postal reform is to respond to the challenge of building a healthy and viable postal service whose core business is self-sustaining in a liberalized and increasingly globalized market.


3—Africa Country Profiles and Overviews


Country-by-Country Profiles

Benin	
	<p>The national postal operator is “La Poste” which operates 149 post offices with 519 staff. La Poste operates a Centre des Cheques Postaux (CCP, 1925), and Caisse Nationale d'Épargne du Benin (CNE, 1920). The government and postal management consider the transformation of the postal financial services into a postal savings bank as a priority. A first business plan exercise has been undertaken with assistance of the UPU and the Netherlands.</p> <p>Benin’s largest bank, Ecobank, has 8 branches and total assets in excess of USD 20 million, and the second largest bank, Financial Bank, has 6 branches, serving nearly 12,000 clients, with total assets of just over USD 5 million. Against this background, the more than 30,000 postal checking accounts, 362,580 postal savings accounts, and total assets exceeding USD 52 million position the postal financial services as the largest financial service provider in the country. In addition to the classic range of services, several credit products have been developed, such as advances (to cover overdrafts) on salary deposit, study loans, and travelers’ insurance. The outreach and nationwide coverage is unequalled by any of the formal financial institutions. CNE has agreements with Ecobank for money transmission to West African countries and with several other CNEs and postal administrations.</p> <p>The strategic vision of Benin Post is to restructure the CCP and CNE and to merge them in 2005 into one postal banking entity, licensed by the Central Bank and managed autonomously, but continuing to operate through the post offices.</p>
Botswana	No data available
Burkina Faso	
	<p>SONAPOST is the postal operator of Burkina Faso with 71 post offices and 738 staff. It also provides financial services with 56 dedicated staff. Total deposit funds collected stood at USD 42 million at the end of 2002.</p> <p>The Caisse Nationale d'Épargne (CNE) was established in 1960 under the aegis of the Post and Telecommunications. From 1976 until 1987, CNE was transformed into a special independent financial institution utilizing the post offices. In 1987 CNE was merged with the post office to become SONAPOST.</p> <p>SONAPOST—reportedly—manages 230,000 traditional postal savings accounts, and 7,000 postal checking accounts. On a small scale, a life insurance/pension product has been launched, meeting considerable interest and more than 4,500 new accounts. Also microfinance is an area of interest, but a real course of restructuring financial operations to align and be compliant with financial sector regulation has not been set.</p> <p>With an average of 3 mail items per day per post office and 15 financial transactions per post office, there is clearly a need for innovative solutions to restructure the postal</p>


Africa Region


	and financial services.
Cameroon	
	<p>The Caisse d'Épargne Postal had a market share of 5% in total savings in Cameroon with 800,000 saving accounts and USD 60 million in deposits. I had 221 staff and 5 of its own branches. (There are 256 post offices.) In addition CCP (Centre des Cheques Postaux) reportedly operates more than 50,000 postal giro accounts.</p> <p>The Postal Savings Bank was separated from the postal service in 2001 as a separate entity without equity, and ran into severe liquidity difficulties in late 2003. A large part of the assets has likely been misappropriated by the postal management. In March 2004, the liquidity situation worsened, with a run on deposits. Since 2002 a rehabilitation program with support from the World Bank is strengthening the institutional capacity of the Postal Savings Bank and its partnership with the Postal Service, clean up its balance sheet.</p>
Cape Verde	
 <p>Correios de Cabo Verde</p>	<p>The postal service of Cape Verde has 54 post offices and 221 staff.</p> <p>In 1928 Caixa Economica Postal was established as part of the postal service to operate through the post offices. The Postal Savings Bank was transformed into Caixa Economica de Cabo Verde (CECV) in 1985, directly responsible to the Minister of Finance. It continued to render services through the post offices, but lost some of its focus. The CECV has 10 branches only.</p> <p>The postal service launched new financial services initiatives, which accounted for more than 25% of the deposits generated. The Correios also provides a wide range of payment services, including international remittances that are important for the large Caboverdian community outside the country. The postal service clearly sees the financial services as an area of development.</p>
Central African Republic	No data available
Comores	
	<p>The Islamic Republic of Comores has 130 staff in 29 post offices, of which 16 offices provide financial services. The post offices provide postal savings and money transfer products through the Caisse Nationale de Comores which was created in 1980. It currently has 1050 savings accounts on its books. In 1996 the post was separated from telecommunications. Subsequently, the World Bank commissioned a study to look at the reform and private-sector participation options. The main findings pointed out that there was no investor appetite in view of the micro-scale of operation and small size of the market.</p>
Republic of Congo	
	<p>SOPECO is the postal operator of Congo. It was separated from the telecommunications in 2003. Following this separation, a new institutional and legal framework was developed. SOPECO has been established as state-owned company that carries out both postal and savings activities. A diagnostic assessment of the strategic options to develop the postal and savings activities will take place in 2004.</p>
Cote d'Ivoire	
	<p>The postal service of Côte d'Ivoire has a network of 188 post offices. Under an agreement with the International Monetary Fund, the government decided to separate the postal financial service entities (suffering from severe cash-flow problems) in June 1998 from the mail services and to merge them into one entity, the Caisse d'Épargne</p>

 <p>CAISSE D'ÉPARGNE ET DES CHEQUES POSTAUX</p>	<p>et des Cheques Postaux (CECP). This institution is managed separately from the postal service, but continues to use nearly all post offices as front offices under a long-term contract. The CECP contributes to the expenses of running the postal network.</p> <p>The CECP has more than 800,000 deposit accounts and 50,000 giro accounts, and has recently launched a Smart Card program. CECP is estimated to have a market share of nearly 10% of rural household savings with a value of USD 96 million.</p> <p>The CECP received assistance in determining its strategy and business plan in order to transform itself into a fully-fledged financial institution. To this end, the CECP will have to be capitalized.</p>
<p>Gabon</p>	
	<p>The Gabon Post operates through 58 post offices. After independence, the postal savings bank function continued on the basis of a specific law in 1964, under which the Caisse d'Épargne Postal was created as a unique financial institution and legal entity. Although a separate entity, the law stipulated that the savings fund was to be managed by the postal service, and that the director general of the postal service would be the CEO of the savings fund. The CCP operates more than 11,000 postal giro accounts, and the postal savings bank more than 180,000 savings accounts, with 270,000 transactions at post offices in 2002. Deposit balances exceed USD 40 million. Until 2002 the deficits of the postal services—processing very low mail volumes—had been cross-subsidized by Gabon Telecommunications. When this practice ceased, the Gabon Post found itself in a difficult financial situation, and used a large part of the postal saving deposits to cover deficits. A program to assist the Gabon government in rehabilitating the postal service and the associated financial services is under consideration.</p>
<p>Kenya</p>	
	<p>Kenya Post was established in 1998 as the national postal operator, separate from Telecommunications. It operates with nearly 900 post offices. About 50% of the post offices provide financial services. The Kenya Post Office Savings Bank (KPOSB, or Postbank) was separated in 1978 from the KPT Corporation. The bank still operates under a KPOSB Act. There is a long-term agreement with Kenya Post to utilize the postal windows, but the Postbank focuses on its own network of 31 branches and 35 sub-branches, located in larger (urban) post offices.</p> <p>The product range of the Postbank has widened over time and includes various types of savings/deposits, including microsavings, credit cards, international money transfers, and payments. There are an estimated 1.6 million savers and 0.8 million dormant accounts, with a total of USD 123 million deposits. According to Postbank, more than 70% of its business is handled through its own branches. This leaves the potential value of outreach through the nearly 900 post offices versus the 620 bank branches largely unutilized.</p> <p>The actual business flow has lead to dissatisfaction with the Kenya Post, and to an initiative to establish an alternative savings and payments operation.</p>
<p>Madagascar</p>	
	<p>Under an agreement with the International Monetary Fund, the government of Madagascar will commission a financial and operational audit of the Centre des Cheques Postaux, which operates under the Post. It has considered the option of separating it managerially and developing it viably.</p> <p>This intended separation came after the separation of the Caisse d'Épargne de Madagascar that became independent from the Post in 1995, although some operational links were maintained between the savings bank and the Post.</p>
<p>Malawi</p>	

	<p>Malawi Post was created as operator company in 1998, when it was separated from telecommunications. Malawi Post operates through 324 post offices. On the basis of the new Communications Law of 1998 and subsequently drafted postal sector strategy, Malawi Post set out to modernize and become financially self-sustainable.</p> <p>The payments system is still cash-oriented and paper-based. With its 324 post offices (with 131 agencies), the Malawi Post plays an important role in the payments system, compared to the 32 bank branches and 20 sub-bank branches.</p> <p>In 1989 the Malawi Post Office Savings Bank (1911) was transformed into the Malawi Savings Bank (MSB), under the supervision of the Reserve Bank of Malawi. It operates 15 of its own branches and has USD 15 million, nearly 4% market share in the deposit market. The MSB operates independently from the Post, but has an agency contract with the post office to use 174 post offices. This made the MSB the only savings bank present in rural areas.</p> <p>Currently the government of Malawi and the World Bank plan to appoint advisers to undertake a strategic and operational review of the Malawi Savings Bank and the Malawi Rural Finance Corporation as a preparatory step toward privatization. In order to enhance the attractiveness of the bank for potential investors, the decision has been made to reduce agency services through the postal network.</p> <p>In its commercialization process, Malawi Post considered the expansion of the range of financial services, including the re-introduction of postal savings. It remains unclear remains if and how this can be done.</p>
Mali	No data available
Mauritania	
	<p>Mauripost is the postal operator of Mauritania. It has 62 post offices and provides postal savings and post giro accounts (Caisse Nationale d'Epargne, CNE; and Centre des Cheques Postaux, CCP) as part of its operations. The CNE postal savings are provided at 25 of the 62 post offices, and represent a total deposited balance of USD 4 million.</p> <p>Mauripost has been assisted by a World Bank program (1999-2002) to upgrade, and has been equipped with advanced technology and communications. Under this program, the separation of the Postal Savings Bank and its merger with another local bank was prepared and occurred in 2004.</p>
Namibia	
	<p>The national operator of Namibia is NamPost. It operates with 90 post offices and 793 staff. NamPost is one of the most successful postal operators in the African region. For a long time, the NamPost Savings Bank was run as a government department. In 1994, it was transformed into a separate strategic business unit but remained a department of the Namibian Post Office (NamPost) and under full government control.</p> <p>NamPost Savings Bank is mainly a savings institution offering demand and fixed deposit products and does not currently give out loans. Its funds (USD 30 million) are in the inter-bank market and in government securities. Its key advantage over the commercial banks is that interest earned on POSB savings and investment products is exempted from tax. With a minimum balance of NAD 10 (Namibian dollar), the products are aimed at low-to-middle income clients and costs are kept low. This is despite the fact that all transactions are over-the-counter (NAD 2 per withdrawal and NAD 1 per deposit). NamPost Savings Bank counters are present in all 90 post offices, which compares well to the 90 bank branches and 57 bank agents and 190 ATMs.</p> <p>Currently NamPost Savings Bank has more than 200,000 accounts, nearly 20% of the adult population, and represents 45% of all savings accounts held in the country.</p>

	<p>These savings accounts do not allow debit orders and, therefore, do not facilitate the expansion of other financial services, such as insurance.</p> <p>NamPost Savings Bank is not regulated by the Bank of Namibia. It is currently investigating the possibility of providing loans as well. The wide distribution network places NamPost Savings Bank in an ideal position to provide credit to rural areas. A feasibility study is being done, and afterward new products will be finalized and rolled out.</p>
Niger	
	<p>ONPE, the National Office for Posts and Savings in Niger has 51 post offices with 672 staff. The mail volume processed does not exceed 2.5 million items, less than 0.2 per capita per year. On average, the workload per postal staff consists of 13 mail items and 3 monetary transactions per day. There are 167 mail items per day versus 39 financial transactions, per post office.</p> <p>A Caisse National d'Épargne was established in 1970 under the aegis of the post office, but operations ceased in 1992 due to mismanagement of the assets.</p> <p>Currently 118,000 postal savings accounts are reported to be active and the Centre des Cheques Postaux has more than 38,000 postal checking accounts (mainly for teachers, military, and government personnel). With a reported total of 500,000 transactions, the post office is an important link in the payment system.</p> <p>The government has agreed with the IMF to restructure the postal and financial services. Studies and preparatory activities are under way—with support of the World Bank—which is expected to create a postal bank, independent from the mail service (and independently managed), but it continues to use the postal network. The postal bank is likely to be involved in microfinance activities.</p>
Nigeria	
	<p>When the postal services in Nigeria were separated from telecommunications in 1987, it established NIPOST, Ltd., a state-owned company operating at arm's length from the Ministry of Transport. NIPOST has recently upgraded the quality of its mail services (such as two-day delivery within the country) and has advanced the computerization of its postal counters.</p> <p>NIPOST provide postal money transfer services via its large postal network of 4,559 post offices. This is nearly half of all the post offices in Africa and it employs more than 14,000 staff, which makes it the second largest postal operator in Africa.</p> <p>Nigeria was the home of one the first post office savings banks in Africa (1884), but its services were terminated in 1980s. Under the current modernization program, reintroducing POSB services is under consideration.</p>
Senegal	
	<p>La Poste is the postal operator of Senegal, with a network of 137 post offices and nearly 2,000 staff. Under new management since 2001, La Poste has begun modernizing and commercializing itself, and has changed from a loss-making operation to break-even. Several partnerships with the private sector have been established.</p> <p>La Poste has operated for a long time as a Centre des Cheques Postaux and Caisse Nationale d'Épargne services division. The 120,000 savings accounts and 16,000 giro accounts represent with more than USD 50 million, a 15% market share of the household savings market. Recent studies have pointed out that La Poste could serve a larger part of the population.</p> <p>In the context of liberalizing the postal sector and restructuring La Poste, a Banque d'Épargne Postale (BEP) has been established which continues savings and giro services and expands into other financial services, such as micro-finance. To this end, the bank will be capitalized and its balance sheet, management, and operations</p>

	will be aligned with the requirements of the Central Bank. It is envisaged that the BEP will have private sector share-holders and La Post as a minority shareholder. The bank is supposed to continue its operations through the post offices.
Sierra Leone	No data available
South Africa	
 <p>Welcome to</p> <p>Postbank POST OFFICE SAVINGS BANK <i>"People like you"</i></p>	<p>The South Africa Post Office (SAPO) operates through a huge number of post offices and retail points, the densest retail network in the country. SAPO has been separated from telecommunications in October 1991. The government set out a new course for SAPO where the post office was restructured as a financially self-sustainable operator, eventually to be privatized. (This process has been quite slow.)</p> <p>The South African Post Office Savings Bank was established under Treasury/Ministry of Finance in 1884, and was transferred to the post office in 1958. In 1991 the POSB became fully controlled by SAPO and remained outside the financial sector. In 1993 POSB operated under a new commercial name, Postbank, with a publicly advertised aim of servicing underprivileged and unbanked communities. In 1995 the Strauss Commission looked further into the role of Postbank and the measures required to reposition it: separation from SAPO and transformation into an independent financial institution licensed by the Reserve Bank of South Africa. The potential role of Postbank in providing services to the 17 million South Africans currently unbanked has been highlighted in studies and discussions within the financial sector.</p> <p>Postbank maintains nearly 3 million postal savings accounts for an estimated 2.3 million clients. These numbers do not differ much from 10 years ago. For withdrawals, Postbank has added the functionality of an ATM card, but has not made major efforts to introduce payment accounts. The post office helps disburse pension, social benefits, and utility bills mostly with paper-based instruments and cash.</p> <p>In the past year, the biggest South African banks, e.g. ABSA, have undertaken large-scale initiatives to improve access to the financial sector with modern instruments. The Postbank has not done much to fill in the gaps for the poor and has not lived up to its original mission. The main explanation is that SAPO does not want to give up control of Postbank and transfer it to the supervision of the Reserve Bank, particularly since SAPO uses the funds from small and poor depositors to provide low-cost loans to itself.</p>
Sudan	No data available
Tanzania	
	<p>The Tanzania Post Corporation was established in 1994 when it separated from telecommunications. With support of several World Bank programs and under visionary management, Tanzania Post has managed to evolve as one of the leading postal operators on the African continent, providing a broad range of postal and courier services, as well as payment services. Following examples from Western Europe (Sweden, the Netherlands), it has established a fairly efficient money transfer services.</p> <p>The Tanzania Post Office Savings Bank was split away from Tanzania Post before 1994. After liquidity problems and disruption, it was established as Tanzania Postal Bank under a special act of 1991 and brought under the supervision of the Bank of Tanzania. The bank continued to work with the post offices for savings mobilization, but also developed a branch network of its own (17 branches plus 24 sub-branches in post offices). This accounts now for more than 70% of current business operation and absorbs the attention of management.</p> <p>In 2003, and in agreement with the World Bank, the Tanzania Postal Bank was earmarked for privatization. A study to assess the feasibility of the privatization options</p>

	has been undertaken, but within the framework of the privatization process, the role of the post offices may need further review.
Togo	
	<p>The Société des Postes du Togo operates postal mail services with 52 post offices and 400 staff. Previously the Post operated the financial services (Centre des Cheques Postaux—CCP, and Caisse Nationale d'Epargne—CNE), but due to severe financial problems, the government agreed with the IMF to separate the savings operation (CNE) from the post. This resulted in the creation of the Caisse d'Epargne du Togo.</p> <p>The savings bank decided to expand its own network and currently has 44 branches. Subsequently the management of the savings bank lost interest in working through the postal network, although there is still some cooperation place. The CCP, which was established in 1958, has continued to operate under the wings of the post and developed its product range with more money-transfer instruments. Recently the Post has re-introduced postal savings through the CCP, named SECURITIS, as a deposit product linked to postal giro accounts. More than 2,000 new accounts have been opened.</p>
Uganda	
	<p>Uganda Post was separated from telecommunications in 1996-97 and incorporated as Uganda Posts, Ltd. The World Bank rendered assistance to the Ministry of Finance (privatization unit) to develop a business structure and plan for the Post and to reposition the Uganda Post Office Savings Bank (UPOSB).</p> <p>UPOSB was established in 1937, and although the Ministry of Finance is the owner, the actual management and operation are fully controlled by the postal services. (It should be noted that in 1997 postal savings were still manually operated and had a 15-year backlog in accounting.) Approximately 15,000 accounts showed activity, and more than 150,000 were presumed dormant. Remarkably the UPOSB had accumulated more than USD 5 million in reserves, which were reinvested in European banks through Crown Agents.</p> <p>After 1998 UPOSB was changed into the Postbank of Uganda, and offered services in only 11 of the 360 post offices, and therefore takes no particular advantage for outreach that the dense postal network offers to provide services up country.</p>
Zimbabwe	
	<p>The postal and telecommunications enterprises in Zimbabwe went through a sweeping reform process in the late 1990s, creating ZimPost as the national postal operator with 198 post offices, 90 agents, and nearly 3,000 staff. The Post Office Savings Bank (POSB) was established in 1904 and operates through the post offices. It involves 739 staff (also specialized staff at post offices) and has collected USD 276 million in deposits and issues USD 130 million in loans.</p> <p>POSB has been one the last companies from the former postal/telecommunications enterprises to undergo restructuring. It was incorporated in 2001, and its statute has been changed (2004) to comply with the requirements of the Reserve Bank of Zimbabwe. New management from the private sector has been recruited, and as part of its commercialization process its name was changed to People's Own Savings Bank. The bank is restructuring its assets from traditional long-term government securities into commercial loans, including to small entrepreneurs.</p> <p>The financial sector in Zimbabwe is relatively well developed, with approximately 500 branches and agencies for banks and building societies, and 400 ATMs connected to Zimswitch. The nearly 200 post offices complement the financial infrastructure, and provide access to approximately 11% of the adult population.</p>

Cross-Country Overviews

Product Diversification

Country	Cash Payments	Postal Giro Accounts	ATM Cards	Int'l Remittances	Postal Savings	Life Insurance /Pensions	General Insurance	Credit
Benin	4	4		4	4		4	4
Botswana	4			4	4			
Burkina Faso	4	4		4	4	4		
Cameroon	4	4		4	4			
Cape Verde	4			4	4			
Comoros	4	4			4			
Republic of Congo	4	4			4			
Côte d'Ivoire	4	4	4	4				
Gabon	4	4			4			
Kenya	4			4	4			
Malawi	4				4			
Mauritania	4	4		4	4			
Namibia	4				4			
Niger	4	4			4			
Nigeria	4							
Senegal	4	4		4	4			
South Africa	4		4		4			
Tanzania	4			4	4			4
Togo	4	4			4			
Uganda	4			4	4			4
Zimbabwe	4		4		4			4

The table above shows that the product range has remained basic and narrow, where savings and cash payments still predominate. In the Francophone countries, the postal giro accounts have been a historic service. The majority of the countries also provide international remittances.

The slender scope of products is clearly a legacy of the past, when financial services were part of a public (monopoly) service offered by the state. The services are liability based, with the intention of excluding individual credit-risk assessment at the post offices. The growing interest from the posts and postal banking entities to widen the range of services, however, is closely related to the limitations of the current legal frameworks.

Institutional Aspects of Postal Financial Services

Country	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Post
Benin	100%		Gov't	Internal	M + Ops
Botswana	100%	Botswana Savings Bank	CB		
Burkina Faso	100%		Gov't	Internal	M + Ops
Cameroon	100%	Caisse d'Épargne Postal	Gov't	Internal	M + Ops
Cape Verde	100%	Caixa Economica de Cabo Verde	CB	SLA	
Comoros	100%		Gov't	Internal	M + Ops
Republic of Congo	100%		Gov't	Internal	M + Ops

Côte d'Ivoire	100%	Caisse d'Épargne et des Cheques Postaux	CB	SLA	
Gabon	100%		Gov't	Internal	M + Ops
Kenya	100%	Kenya Post Office Savings Bank	CB	SLA	
Malawi	100%	Malawi Savings Bank	CB		
Mauritania	100%	Caisse Nationale d'Epargne	CB	SLA	Ops
Namibia	100%	NamPost Office Savings Bank	Gov't	Internal	Ops
Niger	100%		Gov't	Internal	M + Ops
Nigeria	100%		CB		
Senegal	100%		Gov't	Internal	M + Ops
South Africa	100%	Postbank	Gov't	Internal	
Tanzania	100%	Tanzania Post Bank	CB	SLA	HR
Togo	100%	CECP	CB		
Uganda	100%	Postbank	CB	SLA	
Zimbabwe	100%	Post Office Savings Bank	CB	SLA	

Legend: CB= Central Bank; Gov't= government; SLA= service level agreement; Ops= operations; M= management

From the overview above, it appears that all postal financial service entities are still fully state-owned. In most cases, there is one owner only (the state), but in the case of the Tanzania Postal Bank there are three state shareholders, including the Post.

About 50 percent of the postal financial service entities have a status of legal person, independent from the posts. Of those entities, about 50 percent owns its legal status to specific legislation, and only few have been incorporated (Uganda, Tanzania). Initially, all postal financial services operated outside of the financial sector, and were not regulated by the Central Bank (or Reserve Bank). During the past 10–15 years, this has significantly changed. Currently 50 percent of postal financial service entities is under some supervision by the Central Bank.

Relations for utilizing the postal network differ widely. In some countries, the savings bank operates on the basis of historic habits (i.e., Botswana), some on the basis of internal working instructions (mainly Francophone countries), and some under contracts or service level agreements between the postal financial service entity and the post, regarding use of the postal network. In none of the cases does the postal financial service entity have control over the postal network.

Use of postal networks tends to decline if or when the postal financial service is separated from the post and is commercialized. As shown by Tanzania, Uganda, Togo and others, the focus shifts to managing postal bank-developed networks while the cooperation with the post features growing dissatisfaction. The case of Malawi, where the Malawi Savings Bank terminated its contract for usage of 147 post offices in order to beautify its condition prior to privatization, is another example.

4—The Landscape in Perspective

Historic Models of Financial Services in Africa

The postal financial services in Africa were introduced by former colonial powers at the end of the nineteenth century and beginning of the twentieth century. In South Africa (Cape Colony), a post office savings bank was created in 1884. In Nigeria a Post Office Savings Bank was established in 1886, Rhodesia followed in 1904, East Africa in 1910, Senegal in 1920, Benin in 1920, Cape Verde in 1928, Cameroon in 1939.

In most cases, the legislative and institutional legacy is still in place. Given the changes in the environment, the call for reform has grown. And since the early 1990s, the majority of African countries have reformed their postal financial institutions. These attempts to reform have achieved various degrees of success and impact. The historical models that are most widely applied in Africa are French, British, and Portuguese.

French

The model in Francophone Africa typically features a Centre des Chèques Postaux (Postal Check Accounting Center) operating under the aegis of the postal operator and providing account-based payroll services (mainly for citizens employed by public institutions) where direct credit transfers are made directly into recipient accounts. The receivers are able to withdraw funds from their account at the post offices as their balances permits, or send payment instructions to settle utility bills, rent, taxes, school fees, etc.

In most cases, there is also a relationship with the Caisse Nationale d'Épargne (National Savings Bank), which functions as a postal savings fund and is actually managed by the post. In several cases, the Caisse Nationale d'Épargne channels funds to another national fund which does the actual asset management, or directly deposits funds in Treasury paper, or titles approved by the Treasury. The financial sector authorities (Central Bank) do not regulate the two postal financial entities, but specific legislation applies.

Under the French model, most of the financial functions are directly within the scope of the postal services. In the historic development, the functions of the Ministry of Finance were transferred de jure (e.g., South Africa, Post Office Act of 1958) or de facto to the postal service.

British

The British model featured paymaster-general functions, such as cash disbursement of wages and salaries to teachers, military, and public servants; and collection of taxes and utility bills. In most cases, a post office savings bank (POSB) is operated under a statutory agency agreement between the Ministry of Finance and the Postmaster-General. The POSB is a unique legal entity established by specific legislation. In the British model, the Ministry of Finance is presumed to have an active role as owner of the post office savings bank. The ministry is supposed to appoint the director of POSB, overview the asset management, and set product conditions (i.e., interest rates).

Because a check is a credit instrument, the traditional banks in former British territories excluded virtually all indigenous Africans from checking accounts and even deposit accounts. For the lower and medium rural income groups employed by public institutions, salary payments were and are settled by checks drawn on public banks that can be cashed at the post office or deposited into a postal savings bank. There was, however, no incentive or legislative basis to set up an account-based payment system through the postal service, and in most cases, post office savings banks did not develop this on their own until they noticed that banks and building societies had made these services more widely available to their clientele. This led (for example, in Zimbabwe and South Africa) to the introduction of ATM cards linked to savings accounts, but did not allow money transfer functions with savings account.

Portuguese

There is a legacy model of the Caixa Economica Postal, in Angola, Mozambique, and Cape Verde. The Caixa is another version of the postal savings fund and managed by the post. The Caixas Postais were set up as entities with their own legal status under the management of the post, focused on deposit collection and re-investing these funds in the Treasury or a general state fund (Caixa Geral). In addition to the savings function, the post operates various money transfer functions.

In some other countries (Tanzania, Kenya), a different course was taken by reforming the POSB into a postal bank (or a savings bank in Botswana) and licensed financial institution. Similar steps have been taken in Zimbabwe and Uganda. Discussions in Senegal, Benin, and Niger have been held to integrate the CNE and CCP into one postal banking entity licensed by the Central Bank authority.

The history and economic development of the African countries and the road to independence has been quite diverse and this has had its impact on the evolution of the postal networks, the institutional frameworks, and product ranges provided at post offices. The winds of change from the early 1990s that induced separation of post and telecommunication resulted in a shake up of postal financial service operations. Postal financial operations, that once used to thrive as pseudo-monopolists in the absence of alternative providers, have increasingly faced competition from micro- and retail banks to provide cost-efficient modern services to a larger part of the population. The advent of new technologies (such as the Internet) led to stronger demand for international remittances services and resulted in changed demand patterns for postal financial services,

especially for comprehensive microfinance solutions. This poses new challenges for the postal services and postal savings banks. The breadth and depth of on-going efforts to reform the postal financial services with the aim to reduce the poverty can truly be classified as a renaissance of the postal savings banks in Africa.

Postal Networks as Points of Access into the Financial System

Although postal networks are not very dense in the African region, compared to other regions in the world, they are in general considerably larger than the existing formal infrastructure for financial services (bank branches, sub-branches, ATMs, EFT-POS terminals, etc.).

Data for several countries show that there are two or three times more post offices than bank branches:

- Botswana—79 bank and sub- branches compared to 183 post offices
- Namibia—78 bank branches compared to 195 post offices
- Tanzania—203 bank branches compared to 422 post offices

Post offices in these countries could provide more than 60 percent of the physical points of access for the financial system, if postal networks were indeed involved. This presents the post offices with the opportunity to provide a larger part of the population with access to the formal financial sector. However, because electronic (or cashless) payments systems in African countries have not been developed widely, the need for dense physical points of access is critical for the development of an efficient and stable payment system that is attractive to small savers. The actual role of the post offices and their associated postal savings banks or postal check services seems relatively marginal in Africa if one considers the data of the UPU.

PRO	CON
Most bank branches are already concentrated in urban areas, and existing private- or foreign-owned commercial banks tend to cut back rural branches, to protect branch profitability	<p>Instead of traditional branches, banks introduce alternative distribution concepts, such as agents, mobile outlets, and self-service options.</p> <p>In addition, the financial sector features more and more microfinance institutions that are locally organized and very close to the rural poor, but often small in scale.</p> <p>These institutions have direct control over their networks and can rapidly develop.</p>
<p>New technologies led to stagnation of the already small mail volumes between companies, public agencies, and urban/wealthier individuals. For a large part of the population that lives in poverty and in rural areas, access at home or work to Internet appears not to be feasible in the next few years.</p> <p>Post offices could though be used to as centers to provide e-learning and access to Internet for e-mail.</p>	<p>A large number of post offices currently are not equipped with modern technology, and their infrastructure does not provide the basic facilities and security to install such technology. Also staff needs extensive training before being able to serve targeted users.</p> <p>The cost of revamping the postal networks might be higher than setting up new and more efficient outlets.</p>
Post offices provide an existing nationwide network, with the majority of the post offices in rural areas and fairly evenly spread throughout the country. They have a long-tradition in providing very basic and small-value financial services, such as money transfers and savings. Examples of several post offices demonstrate that they can reach a significant portion of the population.	<p>In many cases, the role of post offices to provide financial services has been achieved through a quasi- monopoly and through government intervention (including deposit insurance and tax exemption). These economic benefits offered by the post office actually attracted the white-collar population.</p> <p>Virtually all post offices in Africa have developed financial services outside of the financial sector, and until recently many of them lack the licenses, management, skills, and systems to provide financial services on an effective and competitive</p>

	basis. As a result of their inadequate institutional setting and supervision, a large part of the African postal (financial) systems have failed and faced immediate liquidity crises.
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In information provided to the UPU by the African postal administration, only 7 million transactions were recorded for 3.5 million postal giro/check or savings accounts. It should be noted that this likely is only a part of the total postal financial services. In several cases, the postal administrations do not provide data on the services and accounts that are managed by an associated institution, e.g., a POSB, Postbank, Caisse Nationale d'Épargne, or another external financial institution. Data are often also not included in Central Bank overviews of the payment systems or consolidated financial sectors. If one includes data reported through other sources (such as the individual postal banks, postal savings funds, postal check centers, and some central banks), the total adds up to 9.5 million accounts. Given the fact that a large number of the transactions are not account based, it suggests an average of one transaction per account per year. This figure only highlights the large number of dormant accounts maintained by POSBs and postal administrations.

In fact, in the majority of African attempts to restructure or rehabilitate the postal financial services are or have been made, but the impact is not significant. The question to be answered is whether postal financial service reform can significantly contribute to providing access to financial services; and if so, what options and approaches will implement reform effectively.

Postal banking institutions in Africa tend to be small local non-bank financial institutions with a strong focus on savings, payments, international remittances, and in some cases microcredit and insurance. Cross-border or regional postal financial institutions do not exist in Africa.

Even though current postal financial services in Africa appear to leave much of their potential untouched, they clearly are the economic engine of the post office networks.

The Role of African Post Offices in Payments

In most African countries, the national payments system is cash-based and has paper-based payment instruments, such as postal money orders. The volumes of payment transactions settled through post offices are relatively low; UPU statistics suggest less than 1 payment per capita per year, which means that post offices are only used incidentally. Centres des Cheques Postaux (CCPs) tend to have small numbers of accounts, and none have developed products jointly with the Caisses Nationale d'Épargne (CNE), such as a savings account linked to a postal checking account. Instead, both entities tend to have separate product lines.

In most of the African countries, large-scale projects to upgrade payment systems are underway. In none of these is the post office involved or envisaged as being able to implement and promote cashless payment instruments on a large scale. Moreover, in nearly all cases, neither the post office nor the postal bank are members of, or linked to, a check clearing house; instead they must settle directly with the involved financial institutions.

If individuals could actually open payment accounts (debit cards, giro accounts, etc.), banks can keep track of their payment behavior and over time use the payments system infrastructure to offer other financial products, such as savings and credit. With the involvement of large numbers of participants in the payments system, the cost per transaction can be lower, it can be more efficient, and more funds in transit can be accumulated.

Why postal networks are not included in the design of new cashless payment systems is unclear. It may stem from a lack of interest by the postal organizations and postal banks, but not including it would slow down the development of efficient and easily accessible payment systems. Without many access points, associated payments infrastructure (ATMs, EFT POS terminals, etc.) and cashless payment instruments will remain more expensive and small volumes (and low revenue) can thwart efficient standardization. Ultimately the payment system remains accessible and available only to the medium and higher income groups. A policy to improve access to financial services would have to start by offering a very broad section of the population access to

cashless payment systems. This should make postal networks attractive as points of access to the cashless payment system and ultimately help present a better business case for the development of cashless payments systems.

The Role of Post Offices in International Remittances

In view of the growing numbers of Africans migrating to work abroad (to the United States and Europe), there is also a growing business flow of sending money home. According World Bank data (global econ prospects), these flows amounted to USD 167 billion in 2005. Post offices used to play a very significant role in international remittances through their universal service of international postal money orders. However, this product lost much of its attraction, as it is slow, cumbersome, and relatively costly, and in some cases the money never arrives. Complaint ratios are above 10 percent and an increasingly large number of industrialized countries terminated the paper-based service after September 11, 2001, because the process easily allows money laundering and sending crime- and terror-related funds.

Remittance services offered by other parties, such as MoneyGram and Western Union, have captured a large part of the market for international remittances, and some postal services are agents via agreements with these providers. Some postal services have upgraded their own money transfer products. West African postal operators have developed regional solutions, involving regional banks, such as Ecobank. Another solution available for money transfer traffic between France and Francophone-African postal services is one of the applications offered by the Universal Postal Union's IFS, which brings more efficiency and speed in data communications. Traffic volumes are still very small.

A more advanced solution is "Eurogiro" which comprises a network of more than 40 postal services and postal banks. Togo and Senegal became members in 2003, and have recently started to exchange payments.

The role of postal networks in international remittances is marginal; data suggest that less than 1 percent of formal remittance flows are routed via the postal networks. In some countries (Tanzania, Senegal), the role is more significant and positioned to grow through alliances with the international networks of Eurogiro and Western Union.

The Role of Post Offices in Savings

The role of postal networks in Africa has been traditionally lauded as one the most effective ways to provide the poor and rural communities access to formal financial services. The benefit proposed for the poor and the rural communities has been mainly the safekeeping of the money and the earning of interest. For many of those who are unable to assess the strength and sustainability of the financial institution to pay back their deposits or who would not be accepted by banks, the post office could play a significant role to capture deposits.

Data from various sources, including the UPU, World Savings Banks Institute, World Bank, IMF, and national postal operators, indicate that there were as many as 9.5 million postal savings accounts in the African region, 5 percent of the overall adult population. The data indicate that transaction volumes are low (less than 1 transaction per account), that most savings accounts are dormant or frozen, and the average deposit is around USD 850, and that rural outreach is insignificant.

In most cases, the postal saving passbook is still a "stand-alone" product. In order to play a stronger role in savings and reach out to more of the populations, the postal financial service entities need to overhaul their product offerings and develop more attractive products, as packages with payments access or access to credit.

The Role of Post Offices in Credit

Traditionally, African post offices have not been able to provide credit to companies and individuals. Credit has been introduced on a limited scale, e.g., in Benin as student loans and as overdraft for holders of postal giro accounts. Also postal banks that have been incorporated (Uganda, Malawi, Botswana, Zimbabwe) are licensed to provide credit, but this function is only recently developing. In some cases, there appears a movement to provide microcredit through banks' own branches). A role for post offices in credit is difficult to

see without major reform efforts that partner strong and intrinsically sound institutions to offer credit services through the post offices.

The Need to Reform the Postal Networks and Postal Financial Service Entities

In many African countries, the operations of the state post and telecommunications entities were, until the 1990s, a public duty rather than a business, which was an impediment to good service and efficient, profitable operation. In the 1990s (and in some cases only recently), the governments separated post and telecommunications, and privatized the telecommunications. In this process, the posts were left in poor financial condition, without strategies or visions for self-sustainable survival. In some cases, posts were transformed into parastatal entities without access to government budget, or into companies without sufficient capitalization to operate profitably.

The regulatory role of the government towards the postal sector is in many cases not yet fully developed and does not appear high on the government agendas. The central banks and/or ministries of finance typically do not regard postal financial services as a bank and sometimes not even a non-bank financial institution, but see them as fiscal operations, and therefore exclude it from financial sector development programs agreed between the ministries of finance, the IMF, and World Bank.

In the recent past in Africa, no distinction was made of the roles of the post as the mail provider, as owner of the post office network, or as operator of the postal financial services. There were no separate accounting practices for mail services, post office network usage, and for financial services. The management for all services is often combined in postal management. Governance frameworks and audit practices often do not address these issues. The suggestion that a POSB could be a profit center for the postal services seems not to find substance.

The postal business as a whole in most of the Africa countries is unprofitable and there is no access to other finance sources (budget intervention, subsidy, loans), so cross-subsidizing mail and financial services occurs, as well as usurping postal depositor funds to cover operational deficit. As a result of inadequate governance and audit, these practices are discovered too late for remedial management and as a result costly rehabilitation programs are required (see Cameroon, Togo, Niger). The management of the posts tends to focus primarily on the core mail operation, despite the low volumes and the inflexibility of tariffs, which alone is not sufficient for long-term financial sustainability.

The negative downward spiral of mail services also hampers development of the financial services and the postal networks. With the same management in place, that allowed cross-subsidizing and using postal financial services to bolster the loss-making postal mail services, it implies that no or few investments have been made in postal financial services and the post offices to upgrade them to meet customer needs.

The notion of separating the accounts, management, and governance of the mail and financial services is slowly gaining ground with more and more governments and postal operators, and with this is the understanding that postal networks critically depend on the effective development of financial services. The idea of transforming the post office network into a multi-purpose service network for information and communications technology and financial services, where the mail provider is “just” a part, is not yet warmly embraced: this remains an obstacle to making post offices a viable network that can provide access to financial and ICT services.

The Relation between the Post and Postal Financial Service Entities

The relation between the post and postal financial service entities is often seen as an internal relationship, not as a joint partnership with a mutually-beneficial business strategy, even when there is a service level agreement with the postal bank as a separate entity. The nature and content of present relations seem determined more by historical and political factors rather than commercial and economical reality. It often is not adequately managed, and notions such as internal transfer pricing, profit centers, etc., are still unfamiliar. Efforts to exploit commercial opportunities and/or increase service and corporate profile in the market are fragmented and often lack an overall vision or an open-minded vision, e.g. to seek alliances with external entities.

In several cases (see Kenya, Uganda, Tanzania, Togo), postal banking entities seek ways to get away from the postal squeeze, either by introducing its own staff in post offices or opening its own branches. On the other hand, in response, the posts set up their own financial services (money transfers).

The position of postal financial services in the financial sector is difficult to assess because in many African countries they are not considered part of the financial sector. Data to make adequate comparisons are absent or only tell the half truth. In several countries, the postal financial services are not perceived as true competitors, while in other countries (Kenya, Tanzania), the Postbank is taken more seriously because of its natural strengths (large network, low threshold, account data base). Corporate clients and even government institutions do not recognize the postal financial services entities; these entities are, given the often-mandatory investments in long-term government titles, still vulnerable and exposed to the volatility of interest rates.

5—Conclusion

A disadvantage of a cash-based society is that a national mass market cannot be fully developed, as transactions are costly and difficult if they involve handling cash. A further disadvantage of the cash-based society is that they do not attract deposits or balances in-transit (floats), which is an important source of finance in most countries. It is imperative that the payments and savings net be cast wide and far to bring the majority of Africans into the financial sector. This is a substantial opportunity for postal financial services, but it can only be done through the vigorous transformation of the historical postal financial services, and reposition it inside the formal financial sector. Repositioned postal financial service entities in Africa should feature:

- upgrades to the entire post office network, adding modern technology to improve information, communication, and control systems;
- provision, first of all, of affordable payment services, such as current accounts; debit cards that are held centrally; and deposits, withdrawals, and transfers made at local post offices but recorded centrally;
- cheap and simple facilities for deposits, withdrawals and transfers to other accounts, other customers, and other places; and
- development of a customer database to understand and analyze client.

The primary motive for establishing a postal bank should be that existing commercial banks do not easily provide cheap money transfer arrangements for the majority of the population. Based in post offices, transfer services would be more easily accessible throughout the country than through existing commercial banks. Since the post office operates on nation-wide scale, the banks could have a unifying role and exercise pressure to make the payment system more efficient and simplified. In line with this, postal banks should be exclusively responsible for the financial services.

Repositioning postal banks requires capacity building and institutional strength. Given the required economies of scale that need to be achieved, postal banks should seriously consider partnering with other financial institutions within the country and beyond existing borders.

The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Asia Region

**The World Bank Group
Global Information and Communication Technology
Postal Policy**

Postbank Advisory, ING Bank



Author's Note

This section discusses the landscape of postal networks in the Asian Region¹ and their current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role to expand access to financial services.

For some aspects and some countries, data was limited or not available to the desk research finished in 2004. This is particularly true for data on the role of the postal networks in cashless payment systems, the significance of the postal financial services compared to monetary aggregates, and details of the financial services rendered through the post offices.

Although there were several limitations in access to data for the countries, some other countries that were not included in the list of nine countries here have postal networks with an active role in financial services (e.g., Malaysia, Cambodia, Lao PDR, Bangladesh, New Caledonia)

While this Asia regional landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

ATM	automated teller machine
CAGR	compound annual growth rate
EFT POS	electronic fund transfer at point of service
RMB	Chinese renminbi (yuan)
USD	United States dollar
UPU IFS	Universal Postal Union's International Financial System
VND	Vietnamese dong
WSBI	World Savings Banks Institute

¹ The Asia region defined here covers two World Bank regions, the South Asian region and the Asian Pacific region. It does not include Central Asia (the former Soviet Union countries) or the Middle East countries.

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Summary

Postal networks in the nine countries in the Asian region² profiled here have 289,067 post offices. In many of these Asian countries, post offices have provided payments and savings services for more than 130 years. At the end of 2002, 335 million Asians had postal savings accounts, for a total balance of USD 83 billion (about 20 percent of the adult population). In China and Vietnam, postal savings have only been recently established, but are growing quickly.

In addition to payment services, it provides domestic money transfers, including collecting bill payments. In some countries, e.g. Thailand, the role of postal networks in the payments system is significant. In general, however, transaction volumes for savings and payments together appear low, suggesting that many of these accounts may be dormant and may play only a marginal role in the payment system.

Postal networks appear not to have been included in on-going large-scale programs for cashless payments systems in Asia. Modern payments technology (ATMs, electronic fund transfer at point of sale, phone banking, e-banking) has been available for nearly two decades in Asia, but still has only slightly penetrated the market.

Because the postal networks are about twice as large as the bank branch networks, and geographically more evenly spread over the countries, there appears to be considerable potential for the postal network to provide access to financial services.

Postal financial services in nearly all of the countries reviewed in the Asian region are managed and operated by state-owned postal services, often under a post office savings bank agency contract with a ministry of finance. However, none of the situations is identical. In some countries, postal savings are managed by separate state banks, as in Indonesia and Sri Lanka, whereas the Philippines manage through a separate subsidiary.

Widespread consensus notes that postal networks could play a much stronger role in providing access to financial services, especially to unbanked poor and rural communities. The offerings of postal financial services need to be revamped from single, fragmented products to integrated product packages including payment cards, savings, deposits, insurance, and eventually credit.

It appears difficult to put what seems so obvious into practice. In several countries, repositioning the postal bank has been discussed for more than 10 years without conclusion. In other countries, steps have been taken to separate the postal bank and transform it into a company independent of the postal service. In most of these cases, the usage of the postal network has sharply decreased or has simply been terminated. The reluctance of the state to give up control of postal financial service (and access to their revenues and depositor funds) seems to be almost insuperable. Lack of control, poor quality, costs, and unreliable performance of the postal network inhibits the postal bank from using the postal network.

Revenues from postal mail operations alone cannot sustain rural postal networks in Asia. Mail volumes are extremely low; frequently there is no mail to be processed, and operational costs are high and fixed. In various cases across Asia, there are more financial transactions over the counter than sales of stamps.

Vigorous reform is required to develop intrinsically strong and competent institutions. The issue is not limited to repositioning postal financial services in the financial sector (instead of the public postal sector), the issue is also repositioning the postal network as the front-end of the financial sector and the modern information services (instead of the back office for mail processing, collection, and distribution). A vigorous approach would therefore have to include assessment of options, such as participation of and/or alliances with privately managed financial institutions, cross-border co-operation, private postal agents, and a process and approach not necessarily dependent on the pace and course of postal reform.

² The Asia region defined here covers two World Bank regions, the South Asian region and the Asian Pacific region, namely China, India, Indonesia, Nepal, Pakistan, the Philippines, Thailand, Sri Lanka, Vietnam. It does not include Central Asia (the former Soviet Union countries) or the Middle East countries.

1—Introduction

The postal networks in the Asian region comprise **289,067 post offices**, about 44 percent of the worldwide postal network. They are much larger compared to other networks in the region, including the estimated 150,000 bank branches and sub-branches.

Key Data on Postal Networks and Access to Financial Services

Population	2, 968 million
GDP	USD 2,096 billion
Territory (in square kilometer 000s)	16,877
Post offices	289,067
Staff	1,259,359
Mail items	25,506 million
Postal financial transactions volume	354 million
Postal financial transactions (value)	USD 24,237 billion
Postal giro and savings accounts	335 million
Postal financial assets	USD 83 billion

Sources: Research from UPU, WSBI, World Bank, ING

Per capita mail volumes on average are between 1 and 10 items per year, which implies that households regularly receive mail. The postal networks are dense, but in general cannot be economically sustained by revenues from the postal mail services, despite large volume (more than 25 billion items) and promising growth forecasts. However, revenues from postal mail services for the state-owned postal operator are likely to face pressure from increased global competition in international mail, express, parcels, and logistics, as well as substitution of e-mail, fax, and other new technologies. Postal operators in the Asian region, therefore, attach more and more importance to the development of financial services and aim to keep them with mail services to sustain the postal network.

In India and Thailand, governments have intervened with subsidies to sustain the postal services for decades, including cross-subsidies from telecommunications. While some Asian postal operators have broken even in recent years, Chinese and Indian authorities have declared their intent to terminate all subsidies, which could be a force to commercialize the postal service.

To what extent cross-subsidies occur between mail services and financial services is not clear from the accounts that are produced by the postal operators. Also because, of the lack of detailed accounts, it is not clear how much cross-lending practices occur. Postal savings in Asia tend to have a robust and secure image, and there are no known cases of liquidity or solvency problems. During the Asian financial crises in the 1990s, postal savings were safe havens for small savers.

Postal reform is at different stages in Asia. With Singapore and Malaysia and several other countries preparing to privatize their postal operators, one would expect at least half of the Asian countries to have privatized or fully commercialized postal operators.

The process of postal privatization will also challenge the future of the postal financial services and their institutional settings. Some postal operators have entered into partnerships with private financial institutions for one product or even in a specific geographic area. These initiatives still feature experimental and fragmented approaches (e.g., launching a new product or new technology) and focus on adding international remittances, insurance, or mutual funds, rather than being part of an overall comprehensive strategy to

reposition the postal financial services. It seems that the lack of clear strategy and structure for the postal financial services makes the process of postal reform more complex.

The Role of Asian Postal Networks in Providing Access to Financial Services

Financial Services	Discussion
<p>Payments</p>	<ul style="list-style-type: none"> Account-based services for cashless payments are not widely offered. Only Indonesia has a tradition in postal giro services, and recently Vietnam has started to introduce automated payroll services. In some cases, like China, payment functionality is added to savings accounts. Overall, postal networks in Asia generally have not so far provided cashless payments instruments. Post offices do play an important role in providing cash-based money transfers or remittances domestically, although available data may not reveal the full extent of their role. Postal networks provide for money transfers for person-to-person needs, and in some cases for collection of bills with various degrees of success. Particularly, if new technology is applied, (in China or Vietnam for example), the postal network could have a leading role. There does not appear to be any structural participation by postal financial institutions or consideration of their existing infrastructure in any of the programs to develop cashless, or more automated, payments systems. There is a risk of the postal networks being marginalized in the payment system, and that the cashless payment system not being widely accessible. <p><i>Access to modern cashless payment systems is not available, with few exceptions, and in most cases it would require large-scale investments to upgrade post office technology and security.</i></p>
<p>International remittances</p>	<ul style="list-style-type: none"> Product range of remittances is being expanded and upgraded, in particular with UPU's International Financial System (IFS) and Eurogiro, but the actual role is still insignificant. The estimated market share is below 1 percent except where the postal networks have an agreement with Western Union (Indonesia, India, Thailand, China) or MoneyGram (Vietnam, the Philippines). In view of global migration, large opportunities are not being taken advantage of. <p><i>Access to international remittance services at post offices is limited; and it is not positioned in a "remittances for development" concept.</i></p>
<p>Savings</p>	<ul style="list-style-type: none"> With 335 million accounts, penetration is good. In some countries, 10–30% of adults have accounts with the post offices. Actual usage, based on deposit transactions, is low, averaging 1 transaction per account per year, which suggests high numbers of dormant accounts. Depositor confidence is highly dependent on state guarantees. Tax exemptions create unfair competition. Market share value in some countries is significant (China, India), marginal in some countries (Sri Lanka), and small but growing in others (Vietnam). Most often, a small range of products are increasingly linked to other services (an ATM card for example), but not yet to remittances, payments, or credit. In some cases, links to the private financial sector have been established. Current savings operations and savings database could be the foundation for expanding toward offering fuller financial service packages. <p><i>Access to deposits/savings is widespread with nearly 335 million clients; actual usage is presumed to be concentrated with less than 100 million</i></p>

	savers. Product development is needed to offer fuller financial service packages.
Insurance and pensions	<ul style="list-style-type: none"> • In some cases, a traditional state life insurance program exists (India, Pakistan), and is just being introduced in others (China, India) in partnership with the private sector. • In view of large-scale pension reform, opportunities here are not being taken. <p>Access to insurance and pension products at post offices is non-existent, but there are some promising developments.</p>
Credit	Credit is non-existent through post offices , although China is considering it.
Economic significance for the postal network	<ul style="list-style-type: none"> • Revenues from postal financial services are key to sustaining postal networks and contribute 30–50% of the total revenues of the postal services. • A detailed revenue/cost break down on the relevance for the post office counter network is not available. <p>Revenues from postal financial services are key to sustaining postal networks.</p>
Overall	<p>The role of the Asian postal networks in providing financial services centers around postal savings, and in several cases they are significant or leading providers in deposit taking, and in domestic person-to-person cash transfers. Application of modern technology is key to making the services more attractive.</p> <p>Institutional reform (related to a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems, and technology) will need to be addressed to provide a sustainable role for postal networks in expanding access to a broader range of financial services on a competitive and sound basis.</p>

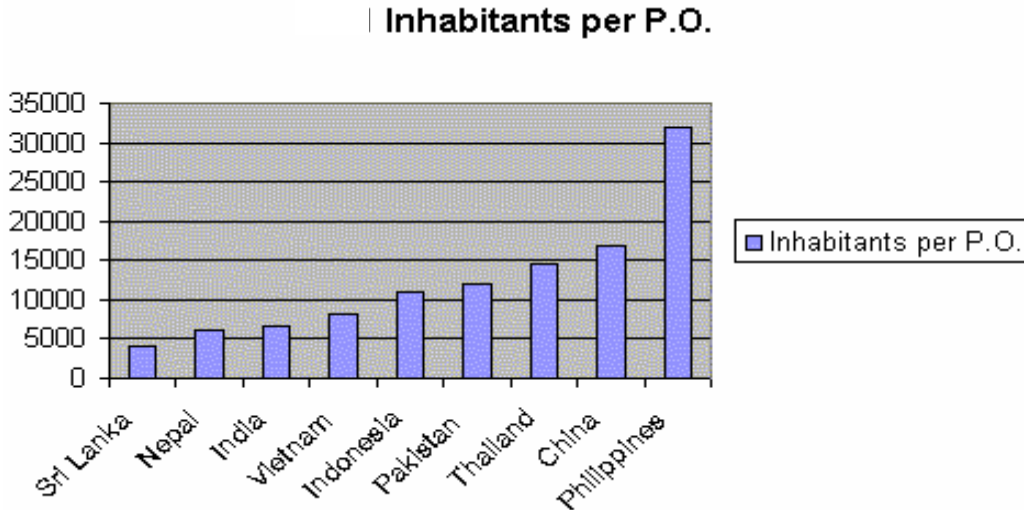
Since the postal markets in Asia are so diverse, it is essential that postal reform strategies focus on specific local conditions. Postal reforms strategies will need to address the position of the postal networks, their economic viability, and their ownership and management. A key question in those discussions concerns the future of the postal networks. As some countries in Asia have already shown, there is a tendency to reposition the post offices as service centers and retail shops, rather than traditional mail processing outlets. The small-scale privatization of post offices through agency and franchise contracts with individual private entrepreneurs is a common practice, especially in Thailand, the Philippines, and Indonesia.

2—Landscape of Asian Postal Networks

The Chinese and Mongol emperors were amongst the first in the world to establish postal messenger systems with horse relays and post offices to serve the messengers. The foundation for the current public post office system was laid in the eighteenth and nineteenth centuries. In most cases, they are a legacy of the colonial powers (British, French, Portuguese, and Dutch), colonial powers, but have developed in different ways after independence. In some cases, e.g., Thailand, the postal system developed indigenously, taking international practice into consideration.

Main Features and Data

The density of the postal networks in the Asian region, expressed in post offices related to population and related to geographic coverage, is considerably dense and represents a network that is omnipresent in rural and less developed parts of the countries. On average, there is 1 post office per 10,200 inhabitants. Of these postal networks, India has the single largest network of more than 155,000 post offices and China operates a network of nearly 80,000 post offices.



In Asia, postal networks have both post offices and postal agents. The postal agents are typically small outlets, operating under contract with a private entrepreneur or the municipality. In Thailand, 75 percent of the postal network is in the hands of agents, and in Indonesia, about 50 percent. Originally, the post offices were established to provide mail services, and post offices anchored the mail-processing infrastructure as the main points for collecting, processing, sorting, and distributing mail items. Increasingly, Asian postal operators are re-engineering their postal business processes. By creating large, computerized mail sorting centers, more mail can be more efficiently processed, which reduces sorting and distribution requirements at individual post offices. Post offices could thus become front offices.

Cross-country comparison shows that average per-capita volumes are relatively low, between 1 and 10 mail items per capita per year. With nearly 25 billion mail items in 2002, the total volume presents an impressive size. The number of mail items that post offices process, on an average day, exceeds 500 items per day. In Thailand, the figure is greater than 5,000 per day (if postal agents are not included). Productivity per postal staff member varies considerably. Thailand leads with 309 items per day per staff member, and in India, China, Sri Lanka, and the Philippines the range is 75–110 items per day per staff member.

Although mail services are supposed to be the core business of post offices, nowhere in Asia do they generate sufficient revenue and business volume to make the existing postal network financially self-sustaining. In most Asian countries by the early twentieth century, governments broadened the scope of the postal networks with savings, money transfers, insurance, and telegraph and telephone services, as well as public information services. The post office function shifted from a mail-processing entity to a publicly accessible center for communication and public information that also provided financial services. In several countries (China, Thailand, the Philippines), the need to further re-engineer the mail business has created greater cost-efficiency while developing new value-added services.

Initially, under traditional government accounting standards, this may have appeared to be a sensible economic measure. This diversification, however, also led to cross-subsidizing practices and lack of transparency in the

financial performance of the different product lines offered through the postal network. Embarking on postal network reform without in-depth analysis of actual costs and benefits could be a hazardous approach.

Using the post offices as communication and information centers is reviving with the advent of the Internet, and a number of Asian governments are actively looking into information and communication policies that tap postal networks to provide e-government services and could change post offices into Internet cafés. This phenomenon is encountered in most Asia countries, including India, Thailand, China, Pakistan, and the Philippines, but approaches differ widely. In some cases (China, Pakistan, Thailand), the Internet (as an intranet application) is also used to process or provide financial services.

Mail is clearly a substantial business in Asia with moderate growth prospects. However in most cases the postal mail alone is not and cannot be operated economically through the existing postal networks. As the Asian postal markets become part of liberalized and global markets, the question whether to sustain such public infrastructure to provide access to mail services becomes pressing. Also, the impact of new technologies is Asia highly relevant.

In many Asian countries, postal networks have long had a role in postal financial and public information services. The issue of postal networks and their viability needs to be placed in the context of utilizing the post offices as front offices for the financial sector and as the basis for modern information and communication technology.

Postal Networks and Asian Postal Reform

Asian Postal operators saw dramatic changes in their businesses which they once used to operate as monopolies. In the courier, express, parcels, and logistics segments, strong competition has arisen from international operators and local private operators. In most cases, national postal operators have been left with an insignificant market share in the liberalized high-margin business segments because the framework to regulate competition is weak or absent.

The presence of DHL, TNT, UPS, and FedEx is overwhelming: they have established hubs with modern mail processing centers and nationwide networks for collection and distribution of courier, express, and parcel items. Through alliances with retail chains, such as “7-Eleven” stores, these integrators have some networks with coverage that equals the postal network in urban areas.

In addition all Asian countries have a large number of private local operators that provide express, courier, and parcel services. Prominent examples are Sinotrans and Yangtze Air Express in China; Bluedart Express, AFL Private, First Flight Couriers, Prakash Air Freight in India; Postal Express, CTI, and Fastrak in Thailand; and hundreds of smaller companies working within a metropolitan area only. In addition, other postal operators from the Asian/Pacific region and Europe have announced intentions of stepping up their presence in the Asian markets. AusPost (Australia Post) also reportedly wants to expand its regional presence and Japan Post wants to develop its international business. In a few cases, Asian postal operators have responded to the competition by building selected alliances or through mergers and acquisition of smaller operators in order to re-acquire lost market share. In most cases, the public postal operators have opted to face the competition alone in the liberalized postal segments

New technologies, such as fax, e-mail, and mobile communications, are taking the place of existing mail flows. Because the Asian consumer market is very technology minded, the appetite for e-mail and other electronic, Internet-driven communication is likely to be significant. However, since reports indicate that only a 150 million Asians (including Japan, Australia, and Korea) have Internet access, the impact on customer-to-customer mail flows is expected to be limited in the short term. The impact of fax and e-mail might be much stronger on the business-to-business segment, or on the business-to-customer segment with bulk mail flows, such as bank account statements, are increasingly being provided through self-service terminals in bank branches.

Postal mail flows in Asia depend mainly on corporate and public agencies to generate mail. In many cases, 80 percent of the mail volumes are generated by a few top corporations. The needs of these entities have become increasingly sophisticated, and many of them seek one-stop service, plus value-added services (such as


warehousing, direct mail fulfillment, printing, and hybrid mail solutions. This increased client sophistication also calls for different methods and structures to serve large customers. Concepts such as relationship management have not been widely implemented by Asian postal operators.


The impact of liberalizing the postal market also implies that governments are less likely to financially support national postal operators over private-sector competitors. It also implies the need to improve cost accounting to distinguish between the cost and revenues from the reserved area and the liberalized area. On the other hand, governments in nearly all-Asian countries still set tariffs for postal mail services.

The strongly developing competition in some of the postal segments (parcels, courier, express) and the governments' tariff policies are inducing some Asian postal operators to diversify into other services to generate revenues while utilizing the same postal staff and post-office infrastructure. The drive for diversification is reinforcing interest by some of the Asian posts to develop postal financial services further. From the postal management point of view, these revenues could help offset declining revenues or margins in their core business areas. It could, however, also be an escape strategy that disguises their disinclination to address the fundamental issues in developing an economical and sound postal business.


3—The Asian Landscape in Perspective

Country-by-Country Profiles

China	
	<p>China Post operates one the world's largest postal networks with 480,000 staff and 80,000 postal outlets. It is the public postal operator of China, handling approximately 7 billion pieces of mail per year. China Post faces competition in various business lines, e.g. express mail (more than 55% of the market is the hands of foreign operators), and retail banking.</p> <p>As part of its drive to improve efficiency in state enterprises, in 1998 the Chinese government separated the China Post from the Ministry for Information Industry, which formerly operated both post and telecommunications. The separated accounts of the state-owned China Post recorded a dramatic deficit of Chinese renminbi (RMB) 14.2 billion (USD 1.71 billion), while total operating revenues were at RMB 26.95 billion (USD 2.25 billion). The Chinese government required that China Post break even within 3 years (by 2001). This objective was achieved in 2002 as a result of the fast-growing postal financial services.</p> <p>China Post operates a postal savings bureau (PSB), which is a key area to bring in revenue for the postal service. Postal savings are provided at nearly 40,000 post offices. The postal savings network is approximately the same size as the entire bank branch network in China (37,000 branches). Postal savings has grown rapidly since its operational launch and in 2002 had 189 million accounts and more than USD 65 billion in deposits (a market share of 8%), and was the fifth largest deposit taker in China. Deposits are re-invested in the People's Bank of China which remunerates China Post with interest (recently brought in line with prevailing market rates)</p> <p>PSB operates an ATM network with debit-card linked accounts ("green cards"). It also provides 90% of the individual cash remittances in China (postal money orders). The transfer volumes amounted to 210 million transactions in 2002, comparable to about 15% of the total volume of cashless payments transactions in China. The postal network also plays a role in international remittances. It provides traditional international postal money orders, Eurogiro, and Western Union services.</p> <p>China Post has also developed new services, such as a life insurance agency, payroll services, mutual funds, and credit. Since China Post does not have the required licenses to develop and manages such products, it set up partnerships with various financial institutions.</p>

	<p>Competitive edges of the postal savings are the large numbers of postal outlets, low charges, convenience, reliability, and long service hours.</p> <p>Nearly 20,000 post offices have adopted auto-banking for current accounts using a universal real-time computer system. This real-time computer system is the largest in the country and contributes to efficiency and quality of services of the postal savings and remittances services. It also allows web-enabled applications.</p> <p>In its 5-year plan and on-going discussions to reform China Post, the issue of establishing a postal savings bank has come up several times. China Post reportedly is said to have planned an initial public offering and wants to list on stock exchanges overseas.</p> <p>Some of the main issues around establishing a postal savings bank are:</p> <ul style="list-style-type: none"> • expanding the range of financial services, creating a fully-fledged financial institution, and setting up a regulatory and governance framework in compliance with the financial sector; • making the accounting between postal mail and postal financial services and the cost/revenues related to the postal network more transparent; and • ensuring economic sustainability of the postal network after setting up the financial institution.
<p>India</p>	
 <p>The logo for India Post, featuring the Hindi text 'राष्ट्रीय डाक' (Rashtriya Dak) above a stylized red and white graphic of a postmark, with 'INDIA POST' written below it.</p>	<p>India Post is owned 100% by the Department of Telecommunications, under the Ministry of Communications. the government entity that operates postal services in India. India Post aims to provide reliable, efficient, and low-cost postal services that customers consider to be value for money.</p> <p>India Post, founded in 1837, operates one of the largest postal systems in the world, with 155,000 post offices and 525,000 mailboxes, serving more than 1 billion people. More than 90% of these post offices are in rural areas.</p> <p>In September 2002, the Government allowed advertisements in the postal network in an attempt to earn extra revenue for the cash-strapped organization. India Post has been running at large deficits, with revenues only covering 60% of expenses.</p> <p>India Post embarked on a program of modernization and computerization, and modernized 60 post offices and installed 1,000 multi-purpose counter machines. Since then, several thousand more post offices have been modernized and computerized, but most of the rural post offices remain without technology and connections to communication networks. India Post computerized other segments of its postal operations, including mail processing, savings bank, and materials management.</p> <p>Post offices also serve as service centers for local citizens. They collect bill payments across the counter for telecom service providers like BSNL, Mobilink, and Bharti. India Post is also an agent for Western Union for international remittances in several regions. Projects to provide domestic money transfer services via Western Union are being implemented.</p> <p>India Post provides a number of banking services, such as the public Provident Fund Account; savings bank accounts, and post office time deposits. Essentially these are deposit products and provide convenience and access at low cost, enabling the majority to save. The other attraction is the tax-free interest earned on some of these deposits. These products are offered by the post office savings bank, which is operated under an agency agreement with the Ministry of Finance. It has more than 129 million savings accounts and this USD 16 billion in deposits is a significant force in household savings. The 129 million postal savings accounts compare to 412 million accounts held by all commercial banks in India, or 21% share in accounts and 7.5% in market share in deposits from individuals.</p> <p>India Post also offers insurance. Postal Life Insurance (PLI) started in 1884 as a welfare measure for the employees of the post and telegraph department. Facilities are now available for employees of central and state governments, nationalized banks, and financial institutions, etc. In 1995, the benefits of PLI were extended to rural populations</p>

	<p>under the banner of Rural Postal Life Insurance.</p> <p>PLI has extended more than 3 million policies, with an aggregate assured sum of USD 20 million, of which 700,000 are under the rural scheme.</p> <p>India Post aims to broaden its range of financial services and to increase the use of its existing dedicated countrywide V-SAT network for EFT services</p> <p>India Post has initiated regional pilot programs with UTI Bank for local check clearance; high- value fund transfers and warrant payments with ICICI Bank and other banks; asset manager projects for mutual funds; and with an insurance company for a broader package of insurance services. In addition, some post offices in these pilot programs have been transformed into postal finance “marts” providing a broad range of financial services and access to the Internet. Links with microfinance institutions are also being considered.</p> <p>Although a major nationwide institutional reform initiative is not on the agenda, India Post is increasingly linking with the private financial sector to provide a broader range of services to generate more revenues and reduce the drain on the government budget. Mail service revenues cover less than 30% of the expenditure of India Post. Revenues from the post office savings bank interest rate (paid by the Ministry of Finance), the fees for money orders, commissions for other financial services, provides another 40% of revenue, and the state budget has to intervene to subsidize the remaining 40%. The government intends to reduce the subsidies.</p>
Indonesia	
	<p>PT Pos Indonesia is the largest counter-service postal chain in Indonesia, with 3,914 outlets and another 3,602 mobile units. Pos has a domestic monopoly on postal services. The Indonesian government through the Ministry of State-Owned Enterprises owns it.</p> <p>The company divides its operation into four divisions: Communication, Logistics, Financial Services, and Agencies. The Communication division provides ordinary mail, express mail, and airmail services throughout the Indonesian archipelago and has expanded into electronic mail service (Wasantara net). The Logistics division provides railway, sea, and air cargo services. The Agencies division is responsible for the postal network, also sells stamps, and acts as payment agencies for civil servant pensions. The Financial Services division is mainly responsible for the money orders throughout Indonesian archipelago and the relationship with banks that take deposits through the post offices.</p> <p>The money order market is primarily targeted at the middle-lower class, but volume is declining. Indonesia Pos used to be the agent for the postal savings bank (Bank Tabungan Negara) and later for Bank Rakyat. Relationships with these banks have continued, but are not actively developing. On a small scale, other relationships exist (e.g., for life insurance with Lippo). At the end of 2003, Pos concluded an agreement with Western Union for international remittances. Revenues from financial services for Pos are approximately 2% from payments services and 17% from commissions from banks for postal savings.</p> <p>Pos Indonesia is currently implementing an efficiency measure, “Zero Defect Postal Services.” The program enhances the ability to analyse Pos Indonesia’s system, human resource, facilities, and infrastructure. It aims to improve services (including late delivery, damaged or lost mail and parcels).</p> <p>In 2000 the government announced planned to privatize Pos Indonesia through an initial public offering and a strategic sale, after completing the restructuring program. The plan was put on hold following a change in government and poor operational profitability in 2001. It is not expected that the privatization of Pos Indonesia will be re-initiated in the short term.</p>
Nepal	No data available

Pakistan	
	<p>Pakistan Post (Pak Post) provides postal and financial services through 12,267 post offices with nearly 50,000 staff, particularly in rural areas. Given the 7,276 bank branches, it often is the only access point into the formal financial system.</p> <p>Since 1999 PakPost has posted profits, and currently it is changing from public service accounting to commercial accounting. PakPost has been able to upgrade the technology for its operations with help from the Islamic Development Bank. Internet services were launched in the late 1990s and are widely available at post offices, attracting the interest of small entrepreneurs and providing limited financial services.</p> <p>PakPost is the agent of the Ministry of Finance for a range of financial services including savings mobilization, life insurance, postal giro accounts, and money transfers. PakPost is also an agent for Western Union for international remittances.</p> <p>PakPost's economic viability depends on developing financial services to generate about half of total revenues. PakPost sees a need to develop credit for small entrepreneurs and to attain a stronger position in international remittances, e.g., through Eurogiro. The legal framework does not allow this expansion, and partnership with Pakistani banks has not been considered.</p>
The Philippines	
	<p>The Philippine Post Corporation (PhilPost) is a government-owned company that operates the postal services through a network of nearly 2,500 post offices.</p> <p>PhilPost is under the supervision of the Department of Transportation and Communications for purposes of policy coordination. The Philippine postal business is monopolized by PhilPost. Although the Postal Services Act of 1992 envisioned the participation of the private sector in PhilPost, it has yet to issue stock to private individuals. PhilPost claims that has an outlet in every town and city in the Philippines. PhilPost offers domestic mail, international mail, postal money order, lock box, and philately services.</p> <p>PhilPost is the parent company of PhilPostbank, the successor to the post office savings bank. PhilPostbank is licensed by the Reserve Bank of the Philippines, and as a result is not allowed to use PhilPost's mail counters and windows. The bank is small, with a balance sheet total less than USD 5 million, and has fewer than 10 outlets. The bank provides deposits, payments, and credit services and applies modern technology, including ATMs in some post offices.</p> <p>PhilPost provides a limited range of money transfer services. It is also said to have signed an agency agreement with Money Gram for international remittances, but it is unclear whether this has been implemented. Although the Philippines received more than USD 5 billion in home remittances from overseas workers, the role of the postal network (with nearly 2,500 post offices versus 7,500 bank branches) is virtually non-existent and could be valuable in channeling money through formal networks to the beneficiaries.</p> <p>The government's twice intended to privatize the postal service in 2001 and 2003; advisers were appointed, but the mode of privatization was not decided. According to previous announcements, a stake of 55% of the capital could be sold. With the privatization of PhilPost, PhilPostbank would also be privatized. Recent discussions however pointed to different solutions, varying from retaining the postal bank as state property, to becoming responsible for the postal network, to selling the postal bank to overseas Philippine workers who would be interested in more cost-efficient mechanisms for remittances.</p>
Thailand	
	<p>Thailand Post was separated from the telecommunications division and incorporated in 2003 as a company with the State as sole shareholder. Thailand Post has 1,100 post offices with 4,400 postal agents. Thailand Post has operated at a deficit, primarily due to</p>

	<p>low mail tariffs that have not changed for 19 years. In 2004, a 50% rate hike was implemented, which could bring the postal service closer to break even. The incorporation of Thailand Post allows for a greater extent of commercialization and the government has plans to terminate subsidies to Thailand Post in 2007.</p> <p>With the support of modern technology, Thailand Post provides an efficient “Pay-at-Post” option for bill payments to about 45 different companies. The total volume of payment transactions processed at the 1,100 post offices was nearly 20 million in 2002, representing 10% of total cashless payments in the country.</p> <p>Thailand Post also provides money transfer services, including international remittances, both postal and Western Union.</p> <p>After its incorporation, Thailand Post concluded agreements with 3 banks to expand its range of financial services. The possibilities remain limited because the Bank of Thailand issued regulations in 2003 stating that banks could not have exclusive rights, and that applications to open accounts must occur at bank branches. This limits the role of the post office as a payment collection agent for the banks.</p> <p>Thailand Post could play a large role in the financial sector, through partnerships, in reaching out to the underserved since its network is present in every township unlike the banks’.</p>
<p>Sri Lanka</p>	
	<p>Sri Lanka Post has a network of more than 4,600 post offices, making it the densest network in the country, compared to 1,200 branches for all banks in the country. Sri Lanka Post has made several efforts to expand its postal services and increase its service quality. The dense postal network is a key asset and post offices help link the society. They also are centers of public information, education, and community meetings.</p> <p>Sri Lanka Post provides money transfer services, international remittances, bill payment collection, and savings mobilization. It used to operate the Ceylon Post Office Savings Bank under an agency agreement with the Ministry of Finance. The postal bank had (untill the early 1970s) a significant market share (>25%) in deposits, but this has declined to less than 3% after its consolidation into the National Savings Bank (NSB), which mainly focuses its operations through its own small network.</p> <p>There appears a broad consensus with the post, the NSB, the Central Bank and the relevant ministries that the postal network could play a more active role in providing financial services, particularly in rural areas. Several private banks are interested in partnering with the post. However, decisions for implementation have not been made.</p>
<p>Vietnam</p>	
	<p>Vietnam Post is still under one roof with telecommunications, forming the VPT. Vietnam Post has a reported 9,700 postal outlets, of which nearly a 3,000 are post offices.</p> <p>The Vietnam Postal Savings Service Company (VPSC) was established in 1999 with assistance of Japan Post and is one of the youngest postal savings schemes in the world. It operates under the authority of VPT. Its main functions are to provide a savings product for the underserved (rural, women, and poor) populations of Vietnam, and to mobilize savings for government development investments.</p> <p>The VPSC gradually is expanding its coverage in the postal network, and reportedly operates in nearly 800 post offices. Of those operational only a small number are computerized, so VPSC operations are essentially manually processed and paper based.</p> <p>VPSC offers time savings, demand deposits, and a limited money transfer system for clients. In the computerized post offices, it has started to offer payroll services. Time savings make up the vast majority (95%) of the deposits officially, although approximately 30% these accounts are withdrawn early, earning a lower interest rate and effectively making collection deposits 35% of the total deposits.</p>

<p>There are more than 500,000 deposit accounts with the VPSC, which cumulatively holds Vietnamese dong (VND) 7 trillion (USD 450 million) in deposits. A part of the money is transferred to the Vietnamese Development Assistance Fund which uses it to fund developmental projects. Part of the money is also held with the Ministry of Finance and other government development banks. The terms and interest rates applicable for the funds provided by VPSC are part of an on-going discussion, and seem to limit VPSC's competitive position in the market. Its current framework also limits the role of VPSC to provide the rural and poor population with a broader package of financial services.</p> <p>The VPSC has made an impressive start demonstrating that it can fill in certain gaps in the provision of basic financial sector. It faces considerable challenges in the near future, including:</p> <ul style="list-style-type: none"> • its regulatory and governance framework, related to the financial sector and its role in development finance; • its relation to the postal network and the postal services, in particular after the postal services are split from telecommunications; and • Its operations—if growth continues and competition develops—which need to be computerized to provide efficiency and reliability, and funded or financed for further modernization.
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Cross-Country Overviews

Product Diversification

Country	Cash Payments	Postal Giro Accounts	ATM Cards	Int'l Remittances	Postal Savings	Life Insurance/Pensions	General Insurance	Credit	Mutual Funds
China	4		4	4	4	4			4
India	4			4	4	4			4
Indonesia	4	4		4	4				
Nepal	4			4	4				
Pakistan	4	4		4	4	4			
The Philippines	4			4	4				
Thailand	4			4					
Sri Lanka	4			4	4				
Vietnam	4	4	4	4	4				

The product range of postal financial services is centered on postal savings; cash-based payment services are also available at the postal counters in most postal networks. In some countries (China, India, Pakistan, Vietnam), product expansion is underway, particularly for payments (account- or card-based payments), insurance, and mutual funds. Discussions about extending of credit emerge, but no decisions or plans to implement have been forthcoming.

Postal savings are the most significant because they provide both rural inhabitants and poor communities with access to such basic services as safekeeping their money. Postal savings services in most countries encompass a range of 10 or more deposit products, varying from traditional pass books to accounts, and from demand deposits to long-term deposits. Deposit rates tend to be slightly competitive in India, Pakistan, and China, compared to deposits with banks, and initial deposit requirements are very low. The deposits are presumed safe, as they are implicitly or explicitly guaranteed by the state.

Most Asian postal operators also provide international remittances. The traditional international postal money orders have a very small role, with an estimated USD 250 million in a market which has been estimated to exceed USD 30 billion. Although there are initiatives to implement the UPU’s International Finance System, an increasing number of postal operators have signed agency agreements with either Western Union or Money Gram. Apart from China, none of the postal operators is a member of the Eurogiro network.

The fairly narrow product scope is clearly a legacy of the past and a result of the current institutional framework. The services offered by the state or the post are liability-based. Credit products are unavailable at through the post because no individual credit risk assessment is performed at post offices. Interest by the post offices and involved postal banking entities to widen the range of services, however, demands that current legal and institutional frameworks be reviewed. Although discussions on reforming the postal savings banks occur, short-term priorities are on establishing partnerships with financial institutions that focus on introducing only one or more products.

Institutional Settings for the Post

All postal financial service entities in the Asia region are fully state-owned, and even more, they are in nearly all cases a division or department within the postal services. In these cases, the financial services are not fully regulated by the financial sector. Only in the Philippines is there a licensed postal bank which, paradoxically, is not allowed to operate through the postal windows.

Institutional Aspects of Postal Financial Services

Countries	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
China	100%		Gov’t/CB	Internal	M + Ops
India	100%	Post office savings bank	Gov’t	Internal	M+ Ops
Indonesia	100%		Gov’t	Internal	M + Ops
Nepal	100%				M + Ops
Pakistan	100%	Post office savings bank	Gov’t	Internal	M + Ops
The Philippines	100%	PhilPostbank	CB	Internal	
Thailand	100%		CB	Internal	M + Ops
Sri Lanka	100%	National Savings Bank	CB	SLA	
Vietnam	100%	Vietnam Postal Savings Service Company	Gov’t	Internal	Ops

Legend: CB = Central Bank; SLA = service level agreement; Ops = operations; M = management

In Sri Lanka and Indonesia (and also Malaysia), postal savings have been transformed in the past into general savings banks that maintained relations with the post office, but actual operations have decreased in significance. In these cases, there is a long-term agreement which sets out the operational conditions and remuneration for the postal network.

Thailand is different. Thailand Post’s own operations play a significant role in bill payment processing in the country, and recently the Bank of Thailand has ruled that Thailand Post can establish limited agency agreements with banks on a non-exclusive basis.

Postal Revenues from Postal Financial Services

Postal financial service revenues make up a significant portion of total postal revenues. In Pakistan and India, they amount to nearly 50 percent of total revenues. For postal savings, the revenues stem from the interest margin between the customer interest rate and the rate paid by the Ministry of Finance or other government banks. This rate does not in all cases reflect actual market conditions. An in-depth diagnosis of the actual cost-benefits for the government in mobilizing deposits through the postal networks is not available, but would be required to adequately assess the reform of post office savings banks and postal services.

4—The Landscape in Perspective

Although the origins can still be traced, the postal financial services in the subcontinent have developed in different directions. From an institutional point of view, there appear two main directions in development. One is the continuation of the postal office savings bank operating under the agency agreement of a ministry of finance, money transfer services offered by post offices, and in some cases additional products offered through partnerships with private financial institutions. This happened in India, and essentially in Pakistan, Bangladesh, and Nepal.

The other model emerged in the 1970s featuring the consolidation of the postal office savings bank into a national savings bank, which continued to provide services through the postal network. This is the case in Sri Lanka and Malaysia. Malaysia differs from Sri Lanka in that at least five other banks work through the post offices to offer one or more products. The postal office savings bank in Singapore merged with DBS Bank in the 1990s and eventually separated its operations entirely from the post office. Remarkably, after SingPost was privatized, it became interested in providing financial services and prepared a business plan in 2004 to develop retail financial services that might generate 30 percent of overall revenues.

Japanese postal savings is a phenomenon deeply rooted in that nation's culture. Established in 1874, it remained the main source of indigenous mobilization of financial resources. At the beginning of the twentieth century, influenced by the Japanese example, postal savings were introduced in Korea and China. Korea and the Republic of China continued to mirror the Japanese model, but like the Soviet Union, China took a different course and created a mono-bank system with no place for a separate postal savings entity. However, postal savings were re-established in 1984 with assistance of the Japanese government. Japanese postal savings has also inspired recent initiatives in Vietnam, Laos, and Cambodia where at an earlier stage other models (French, British) have been operational but were discontinued after independence.

Reform and eventual privatization of the Japanese postal savings are a key issue in the domestic policy of the Koizumi administration, which currently envisions full privatization before 2017. One may expect that these policy reforms will be followed in the region. Taiwan reportedly has made preparations to privatize its postal service, including postal savings bank with 22 million accounts and USD 80 billion in deposits through an initial public offering. The state postal services were incorporated into a commercial company structure as Chung Hwa Post.

The postal system in the Philippines after the end of World War II was based on the US model, implying a limited role for postal financial services. A postbank was established only in the 1990s. The Dutch exported their model of postal savings bank and postal giro services to Indonesia. After both the Philippines and Indonesia became independent, both postal service models continued. The postal savings bank in Indonesia (Bank Tabungan Negara) operates independently from the post offices as a full-fledged commercial bank. Giro services were continued within the post, but declined in importance.

In Thailand, the idea of creating a post office savings bank has been circulating since Victorian days. However most of the mission and function has been given to the government savings bank, and discussions about postal banking has revived only recently.

Australian Post (AusPost) is a network provider for nearly all Australian banks, both for bill collection and deposit mobilization. This service is efficient and helps the banks reach out to areas where bank branches are

not commercially viable. For AusPost the service has been tremendously important in its economic and commercial changes since the late 1980s, providing up to 25 percent of total revenues. In view of the growing “electronification” of recurrent payments and increased possibilities of saving on-line, AusPost faces the challenge of maintaining the viability of this service.

New Zealand Post operated a post bank as a subsidiary until 1988. It was privatized and sold to ANZ Bank, and post offices continued to provide a limited range of financial services, mainly bill payments. During this time, New Zealand Post was modernized, and its commercial transformation has been widely lauded and held up as an example for other postal operators. At the end of the 1990s, the issue of re-establishing a post bank re-emerged and actually implemented in 2001 as “Kiwi Bank.” It was capitalized by the government and operated under a license and under control of the post. It is assumed that the banking operation provides a better outreach throughout the country and significantly contributes to the viability of the postal network.

In conclusion, the landscape of Asian postal financial operators presents a diverse picture. It does not showcase one single model to be followed for postal reform or for development of postal financial services. It is a landscape where policymakers can choose lessons and examples from other countries to learn from, but eventually must design reform strategies for the actual and specific conditions of their countries and their positions in the international economy.

Postal Networks as Points of Access into the Financial System

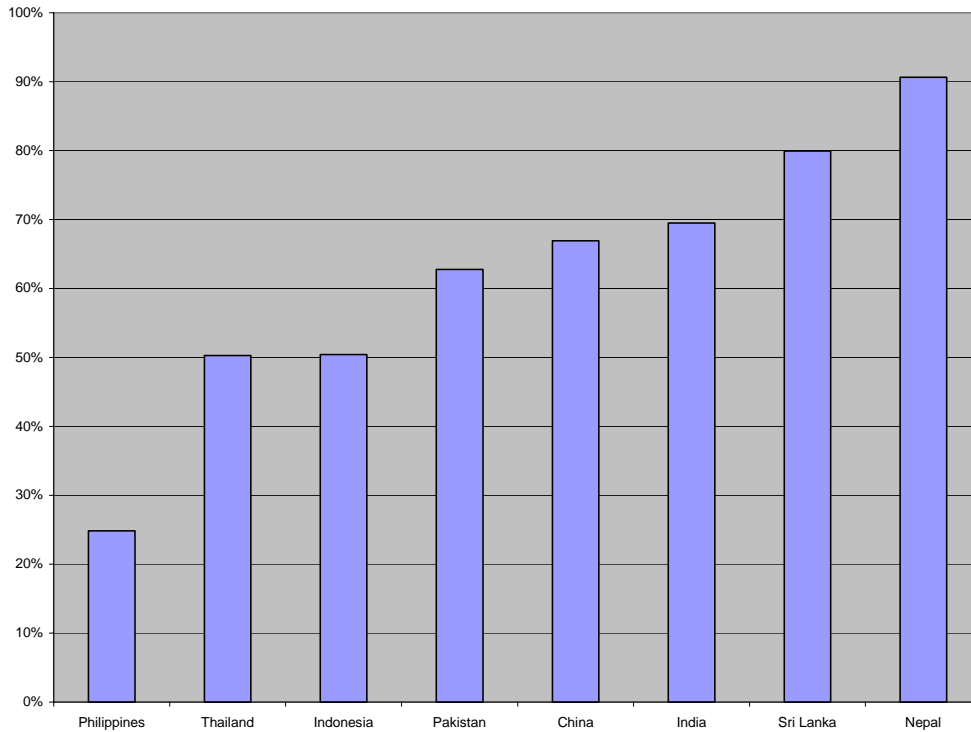
The Asian postal networks are dense and large not only in absolute terms, but in comparison to retail or banking networks. In the nine countries reviewed here, there are approximately 150,000 bank branches compared to 289,000 post offices. The bank branches are run by more than 10,000 different institutions, some operational in all nine countries, others just in one town. Some bank branches are simply not open to individuals; others only cater to the well-to-do. In general, bank branches are driven by commercial motives and are concentrated in urban and developed areas.

Postal networks are more equally dispersed throughout the countries, as they were originally set up as part of a logistical and transport process to be present in every administrative unit (municipality, community, township). From this point of view, drawing the existing post office infrastructure as access points into the financial system (and information and communication systems) deserves thorough consideration. If actively involved in the financial sector, postal networks could provide more than 60 percent of the access points into the formal financial sector. At this moment, fewer than 200,000 post offices are actually providing financial services.

This is particularly relevant in the Asian economies which are known for their appetite for high-technology but in practice are largely cash-based economies. In cash-based economies, the number of physical outlets is a critical factor for serving a large number of clients. With more than 335 clients in the region, postal networks clearly demonstrate that they can fill in gaps in access to financial sectors. However, even with 60 percent share of the outlets, post offices reach out to less than 2 percent of the adult population, which suggests certain shortcomings in the offer made by post offices. These shortcomings can be explained to a certain extent by the weakly developed marketing approaches. Product ranges are incomplete, and customers have to go to actual banks if and when they need more advanced payment products, credit, or insurance. Products are weakly promoted and advertised, if at all, and if no modern technology is added, reliability and quality of service may be inadequate.

Postal networks are to a large extent dependent on the revenues from financial services. In some networks, only the revenues from their own postal financial services are reported under this component, while revenues from contracts with external institutions (Western Union, bank partners, mutual funds) are accounted for under third-party services, along the sales of phone cards and lottery tickets, for example.

Post Offices: Percent of Access Points in Financial System



The Role of Asian Post Offices for Payments Services

Of all financial services, one can consider payment services the most basic. Although Asian post offices are active in the national payments systems, in most cases this is related to cash-based and paper-based payment instruments only, such as postal money orders. These instruments allow individuals to transfer money to domestically or to a bank account, while paying the cash and commission at the post office. In addition, certain other payment functions are fulfilled, primarily distribution of cash from public agencies to individuals (pensions, social benefits, salaries) and collection of tax payments, and utility and telephone company bills. In some cases, ATM cards and on-line payments services have been added

However, the volumes of payment transactions settled through the post offices are relatively low. With the exception of Thailand and China, the role of the postal network is fairly marginal, although there are several initiatives to expand the role of the postal network. There are no widespread traditions of offering account-based or card-based payment services through the post offices.

As elsewhere in the world, most of the countries reviewed in the Asian region are in the process of upgrading their national payments systems. These programs, lead by the respective Central Banks, aim at reducing risk in the payment system, reducing cost, improving efficiency through standardization and new technologies, and creating better conditions for the use of cashless payments instruments to make them available to more participants. Although the reports of the Central Bank authorities mention the valuable role of post offices in the payment systems, the post offices are not participating in the modernization projects, and there is no explicit role envisaged for post offices in providing cost-efficient access to cashless payment instruments. Moreover, in nearly all cases, neither the post offices nor the postal banks are members of, or linked to, the clearing houses. Instead they must settle directly with the involved financial institutions.

Privately owned bank branches often tend to have prohibitive thresholds for low-income and rural inhabitants who want to settle cash payments. In this situation, the post offices could play a critical role by transforming the cash-based payment system into a cashless payment system that is broadly accessible. The post offices could facilitate nationwide and standardized access to the cashless payment system. Payments are a service that can provide individuals (including those who are poor and/or live in rural areas) with basic access to the formal financial sector. The payments system is the fundamental bloodline of the financial system, and an infrastructure which significantly can contribute to the efficiency and soundness of the entire financial system.

If individuals could actually open payment accounts (debit cards, giro accounts, or bank accounts, etc.) banks could keep track of their payment behaviors. The payments system infrastructure could then be used over time to offer other financial products, such as savings and credit. Through the involvement of large numbers of participants in the payments system, the cost per transaction could be lowered, operations could achieve more efficiency, and more funds in transit could be accumulated.

Why postal networks are not included in the design of new cashless payment systems is unclear. It may stem from a lack of interest by the postal organizations and postal banks themselves, but it presents a potentially large void in the development of efficient and easily-accessible payment systems. This also presents the risk that the associated infrastructure (ATMs, EFT POS terminals, etc.) and cashless payment instruments will remain costly and will lack efficient standardization (because of small volumes). And, ultimately, the payment system will remain only accessible and available to medium- and high- income groups.

A policy to improve access to financial services would have to start by providing a broad section of the population with access to cashless payment systems. Therefore, the option of involving postal networks as points of access to the cashless payment system should be more closely considered, as it might ultimately present a better business case for the development of cashless payments systems.

The Role of Post Offices in International Remittances

Migration from, to, and within the Asian region is growing. In view of the large communities of Asians migrating to work abroad (to the Middle East, United States, Europe, and other Asian countries), there is also a growing flow of money sent home. According to data from the International Monetary Fund and World Bank, these flows amounted to more than USD 30 billion in 2002, with India showing USD 10 billion, and the Philippines more than USD 5 billion.

Post offices used to play a significant role in remittances through their universal service of international postal money orders. However, this product has lost much of its attraction in Asia, as it is slow, cumbersome, and relatively costly, and in some cases the money never arrives. Postal networks share in this market is estimated at less than 0.8 percent. Complaint ratios are above 10 percent, and an increasingly large number of industrialized countries have terminated paper-based service after September 11, 2001, because the process allowed easy money laundering and transmission of funds for crime and terrorism.

The services offered by other parties, such as Money Gram and Western Union, have captured a large part of the market for international remittances. It is remarkable, but in Asia their positions are far less dominant than in Latin America, for example. A number of posts have signed agreements with providers of these services, but a large part of the Asian market is still left to other smaller networks, drafts and checks, and other paper-based solutions.

The postal services have undertaken initiatives to upgrade their own products for international remittances. One solution mainly applied for traffic between Japan and the reviewed Asian postal services is the application offered by the UPU's IFS. This brings more efficiency and speed in data communications, but traffic volumes are still very small and likely to remain so because it does not interface with the main corridors of remittances.

A more advanced solution is Eurogiro, which comprises a network of more than 40 postal services and postal banks, mainly based in Europe, plus Japan and China as members.

A large number of migrants have family in poor rural areas, which they support by sending money. Renovating the postal financial services by connecting the postal networks to international remittance systems and using

these flows to expand and upgrade access to financial services for the recipients could be an economically sensible approach. It could also generate considerably more revenues for the posts in the short term, upgrade the posts' reputations, and subsequently build customer bases for more postal financial service products. A challenge for postal networks in Asia will be to build effective cross-border cooperation for international payments or opt for agency contracts with international firms, as Western Union and Money Gram.

The Role of Post Offices in Savings

The role of postal networks in Asia has often been praised as one of the most effective ways to bring access to formal financial services to poor and rural communities. The benefit proposed for poor and rural communities has mainly been the safekeeping of their money and the interest earned on it. For the many who are unable to assess the reliability of the financial institution to pay back their deposits or who fear they would not be acceptable to banks, the post office plays and could play a significant role in capturing deposits.

Data confirm that national postal operators in the Asian region keep more than 335 million accounts, an estimated 20–25 percent of the adult populations. This is significant, but the accounts are not frequently used: reports suggest 1.1 transactions per year per account. Some of the savings products are indeed long-term programs that would require only 1 transaction in 2 or 3 years. The majority of the accounts are demand deposits, however, so one would expect higher transaction volumes or else presume large numbers of accounts to be dormant.

The average balance held in postal accounts is USD 245, suggesting that postal savings indeed cater to small savers. However further analysis looking into the actual distribution of the balances would be required for more detailed comment. If the data include large numbers of dormant accounts with balances close to zero, one would arrive at a very different assessment.

In nearly all cases, the postal savings are transferred to the Ministry of Finance, which remunerates the post office for the funds mobilized. Given the low transaction figures, the volatility of the deposit base would appear minimal. The postal savings seem therefore to provide a very stable basis of low-cost funding. For this reason, it may be tempting for Governments to continue the postal savings. A more in-depth diagnosis, including the fuller context (cost of sustaining the postal network through subsidies, the impact on tax revenues if the postal savings were operated on commercial terms, the implicit cost of the government guarantee etc) might however bring a different view.

The Role of Post Offices in Credit

Traditionally, Asian post offices have been restricted from providing credit to companies and individuals. This has been the case in the countries reviewed here, although recent discussions in China may allow postal savings to link to rural credit cooperative schemes. In most other countries, the idea of extending credit gets considered but not implemented. The role of post offices in credit is difficult to envisage without major reform that ensure that strong and intrinsically sound institutions are involved in rendering the credit.

5—Conclusion

It appears that Asian postal networks have a particularly strong role in providing access to basic financial services, mainly centered on savings. Although the models applied in Asia are different, they tend to have shortcomings for optimally reaching out to the market and capturing the potential. Discussions on developing the postal financial services have gotten increased attention. This is partly because postal networks could help reach out to the estimated 1 billion underserved Asians, but also could reinvigorate the economic viability of the postal networks that come under increasing pressure as postal markets are liberalized and become more competitive.

In the countries reviewed, there are no separately-managed postal banks of substance. The posts themselves manage and operate the financial services, and largely depend on revenues from the financial services (with exception of Thailand and the Philippines). The key issue remains restructuring the posts into market-oriented businesses with management competent to develop the business. In spite of the diversity in the Asian region, it is yet too early to identify success patterns or examples of partnerships between banks and postal operators. So far, product partnerships are only being tested in India and China. Another issue is separating the post office savings banks from the posts. If they are separated and merged with other banking groups, which already have networks, this could lead to a significant business decline in the postal network, raising policy and fiscal issues for each government.

The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Europe and Central Asia Region

**The World Bank Group
Global Information and Communication Technology**

**Postbank Advisory, ING Bank
Postal Policy**



Author's Note

This section discusses the landscape of postal networks in the Europe and Central Asian Region and the current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role in expanding access to financial services.

For some aspects and some countries (Turkmenistan, Tajikistan), only limited data was available via desk research (completed in 2004) employed for this regional study. In particular, the break down of data for the postal banks and the applicable regulatory framework to render financial services through postal networks was lacking.

This report does not cover Kosovo, where the post offices do not provide any financial services, and Bosnia and Herzegovina, where there are three different postal service models and postal banking within one country.

While this African regional landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

ATM	automated teller machine
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States
ECA	Europe and Central Asia region, here Central and Eastern Europe and Central Asia
EEK	Estonian kroon
EFT POS	electronic fund transfer at point-of-sale
HUF	Hungarian forint
ICT	information and communication technology
USD	United States dollar
UPU	Universal Postal Union
WAN	wide-area network

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Summary

From a historic perspective, the post offices have long provided access to a broad range of services, such as telephone, telegraph, and payment services in particular. Letter mail has traditionally been low in the ECA region. In several countries where the post is charged with daily newspaper delivery, mail volume is higher. In none of the ECA countries does the mail and parcels business economically sustain the postal network. Legislation to liberalize postal operations is spurring commercialization of postal operators and opening up postal markets. Governments in ECA are more and more rethinking the rationale of maintaining and operating postal networks.

Postal networks in this region are de facto payments networks. In general, payments services (both postal money orders and agency or utility payments) are the main activity in the retail front office and the largest revenue stream for the postal network. Total payments processed in 2003 through the ECA postal networks is estimated at 2.8 billion transactions—much higher volume than that transacted through the banking payment systems. These bulk cash-based payment operations represent relatively small value, and are declining as the transition to cashless payments progresses.

Partnerships between postal networks and postal banks have been established during the past 10–15 years. Even though an increasing number of these banks has equity participation from large foreign financial institutions (from the United States or European Union), it appears difficult to capitalize on the potential distribution power of the dense postal network.

The challenge for many European and Central Asian governments is either to marginalize gradually or phase out the state postal services and their networks within the next 10–15 years. Reducing the state postal service to only the universal service obligation for mail activities would be driven by the liberalization of the postal service, substitution of new technologies, and increased customer demand. This has already happened in the Caucasus where mail consumption has dropped below 0.5 items per capita per year. Here, the access to payments and other financial services provided by the postal networks has sustained the viability of the postal retail network.

The challenge remains to set a proactive course in postal sector reform. This appears to be a difficult and complex decision for governments as both the postal and financial sectors have substantial private and foreign participation.

1—Introduction

The postal networks in Central and Eastern Europe and Central Asia (the ECA region for this study) comprise **110,000 post offices**, or about 17 percent of the worldwide postal network. The postal networks in Europe and Central Asia are unique compared to other networks in the region, including the estimated 70,000 bank sub-branches and agencies that include nearly 50,000 savings bank branches.

Key Data on Postal Networks and Access to Financial Services	
Population	477 million
GNI	USD 929 billion
Territory (in square kilometer 000s)	25,747
Post offices	110,000
Staff	870,000
Mail items	10,521 million
Postal financial transactions volume	2.850 million
Postal financial transactions (value)	USD 1.6 billion *
Postal giro and savings accounts	11.3–14 million
Postal financial assets	n/a

* Not including the bulk payments operations

Sources: UPU, WSBI, World Bank, ING research

The Role of Europe and Central Asian Postal Networks in Providing Access to Financial Services	
Payments	<ul style="list-style-type: none"> • An estimated 11.3–14 million inhabitants of all income classes, including microentrepreneurs, use account-based services. • An estimated 150–200 million individuals frequently use cash-based payment services at post offices (2–3 times per month). Postal networks fulfill a key role in most countries as a basic network for small value payments, including money transfers, collection of bills, disbursement of state pensions, and new technology (wide-area networks, VSAT communications, and electronic fund transfer at point-of-sale (EFT POS) and automated teller machine (ATM) terminals. • Postal networks often do not participate as an institution or infrastructure in any of the programs to develop payments systems, with the exception of Hungary and those countries where postal networks have an alliance with a postal bank. • There is a risk that the postal network eventually will be marginalized in the payment system, as it does not provide modern (cashless, electronic) payment services and connection to inter-bank payment systems. <p><i>Access to a modern cashless payment system is increasingly being provided, but postal networks still need large-scale investment to upgrade their technology and security infrastructures and develop partnerships with financial institutions to link to inter-bank payment systems.</i></p>

Worldwide Landscape of Postal Financial Services

International remittances	<ul style="list-style-type: none"> • The product range is being expanded and upgraded with Eurogiro in Central and Eastern Europe (CEE), plus, Western Union and MoneyGram, and electronic postal money orders in Commonwealth of Independent States (CIS). The actual role varies widely from key player (Romania, Croatia, Armenia,) to significant (Russian Federation, Kazakhstan, Ukraine), to insignificant (Poland, Bulgaria, Macedonia). • In view of increasing labor and educational migration, shuttle trade, small trade, and a growing open market, large opportunities are being missed. <p><i>Access to international remittance services at post offices varies widely, and is not positioned as a “remittances for development” concept.</i></p>
Savings	<ul style="list-style-type: none"> • In several countries, savings have been successfully introduced (Czech Republic, Romania, Kazakhstan) and a significant percent of the market penetrated. In several cases, Central Bank regulation hindered building efficient partnerships with banks. Also, state savings banks that continue to operate under state guarantees have distorted the market, affecting the potential development of financial service through the post offices. • Savings have often been combined with payment services and payment accounts to encourage regular use of financial services; • Depositor confidence has been relatively weak; with perception of post offices less than positive. • Current savings operations and database could be the basis for expanding to a full package of financial services. <p><i>Access to deposits and savings has been significant in countries with more than 11.3 million clients; actual usage might be higher. In most cases, deposits mobilized through the postal network have not been reported separately by most banks.</i></p>
Insurance and pensions	<ul style="list-style-type: none"> • Trials of insurance and pension packages were undertaken in a few countries only (e.g., Hungary, Poland) with different degrees of success; they are under preparation in other countries (e.g., Slovak Republic, Czech Republic) as part of pension system reform. • Opportunities for upcoming pension system reform in general have not been taken advantage of, although the traditional state role in pension distribution may decline in the medium term. <p><i>Access to insurance and pension products at post offices is marginally existent, although some promising experiments have been undertaken.</i></p>
Credit	<p>In several CEE countries, credit is usually not available directly at post offices but through accounts opened at post offices; postal banks tend to provide extensive credit products through their own branches.</p> <p><i>Access to credit at post offices develops through accounts.</i></p>

Overall	<ul style="list-style-type: none"> • The role of European and Central Asian postal network in providing financial services is significant for cash payments, although it varies from marginal to significant to leading providers in deposit taking and transfers. • In many cases, partnerships have been formed with private financial institutions to offer financial services through post offices. <p><i>Institutional weaknesses (related to a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems, and technology) will need to be addressed in order to provide for a sound and sustainable role of postal networks in expanding access to financial services.</i></p>
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The relatively solid technical condition and management of many of the European and Central Asian post offices have enabled them to be a major player in processing small-value micro-payments. In fact, postal networks process more payments than do banking systems in the ECA region. Their primary function appears to be a cashier or payments network, given the volume of postal counter transactions and revenues of the retail network. In spite of this, postal networks have in general not been included in on-going central bank programs to build cashless payment systems. They are also not part of a central bank policy framework to improve payment system efficiency or access to a payments network. To some extent, this can be explained by reporting distortions that assess the role of postal payments in terms of value, instead of volume. In several cases, postal banks did participate in these programs, but the limited scope of the partnership with the postal banks and the need to enhance the efficiency and accessibility of the electronic payment system were not fully addressed.

The current process and policy to develop expensive ATM networks and new cash outlets carries some risk. Because banks must recover costs, they will charge their clients more than if postal networks were used and equipped with EFT POS terminals. If postal networks do not offer access to modern cashless payments instruments, it will be more difficult to provide financial services via a sound, sustainable, and competitive channel. Postal banking strategies and partnerships to date have mainly focused on adding financial services to existing payments services operations. In several cases, this has had considerable success (e.g., Czech Republic, Romania, Kazakhstan), while in others, results have been marginal, leaving vast opportunities underutilized. This would call for a review and restructuring of the postal banking partnerships.

Since postal markets in Central and Eastern Europe and Central Asia differ much from the historic EU countries, it seems essential that innovative postal network strategies be developed rather than copying reforms used in industrialized countries. Not only are mail volumes small, but postal markets have only been de facto liberalized.

Postal reforms strategies need to address the position of the postal networks, their economic viability, ownership, and management. A key challenge will be to acknowledge that the postal retail networks are payments or financial networks, and not just traditional mail processing outlets, and that their future lies in developing as the front-end of financial services and information services that also handle mail.

From the data and experiences in the Europe and Central Asian region presented here, some preliminary lessons can be drawn for this region:

- Separating the postal financial and mail services (accounting, management, organization) is needed to enhance the intrinsic soundness of the financial services and to end the opaque cross-subsidies of the mail services. None of the postal regulators appears to require cost accounting for the financial services.
- Separating mail and postal financial services is also needed because mail services are a different industry than financial services, and they each require different competencies and skills. Within each sector, they deal with different regulations, competitors, and customers. Mail is primarily (more than 70 percent) generated by government agencies, large corporations, and foreign clients, whereas financial services are a consumer business, with few corporate clients. Cash payments as a stand-alone product are not sustainable

as the transition to electronic, cashless financial services progresses. Although partnerships for postal banking have been developed, their scope does not take advantage of the cash payments services, shared investments, and control of the postal network.

- The dominant position of the post (including its focus on post offices and its inability to create attractive and transparent conditions through which to share the postal network) paradoxically emerges as one of the main obstacles to develop the postal networks to provide access to financial services. As a result, recently established postal banking partnerships do not capture this opportunity and bear the risk of being terminated.

In addition some observations can be made:

- Nearly all of the individual post offices are state-owned, with high fixed costs of assets, and high fixed cost ratios for operations, especially in rural post offices where back offices and staff are often retained to sort and collect tiny, infrequent volumes of mail. The practice of allowing private small entrepreneurs to run post offices under contract has not been widely introduced, but could lead to greater cost-efficiency and better service, but would also require better management from the post and involved postal bank.
- All post and postal financial service entities look at comprehensive national solutions, although in several regions (the Caucasus, Balkans, Baltics), economies of scale cannot be achieved to justify large-scale investments in either postal or financial service operations. Alliances with banks in the respective countries and cross-border cooperation have not been much considered, to outsource payment processing, financial transactions, or data base management, for example. As payment services undergo industrialization worldwide, for which scale, cost-efficiency, technical standardization, and outsourcing are critical to success, greater cross-border cooperation should become more attractive and necessary.

In conclusion, European and Central Asian post offices have proven that they can provide a significant role in payments processing. Several recent postal banking programs also show that postal networks can become viable networks to provide access to a broad range of retail financial services. Many opportunities appear to be ignored, not least by the limited scope and mutual commitment in the partnerships. Because large numbers of the Central and Eastern European and Central Asian populations remain unbanked, reviewing and restructuring these public-private postal banking partnerships to provide better access to financial services needs to happen sooner rather than later, and to help sustain postal retail as well.

2—The Landscape of European and Central Asian Postal Networks

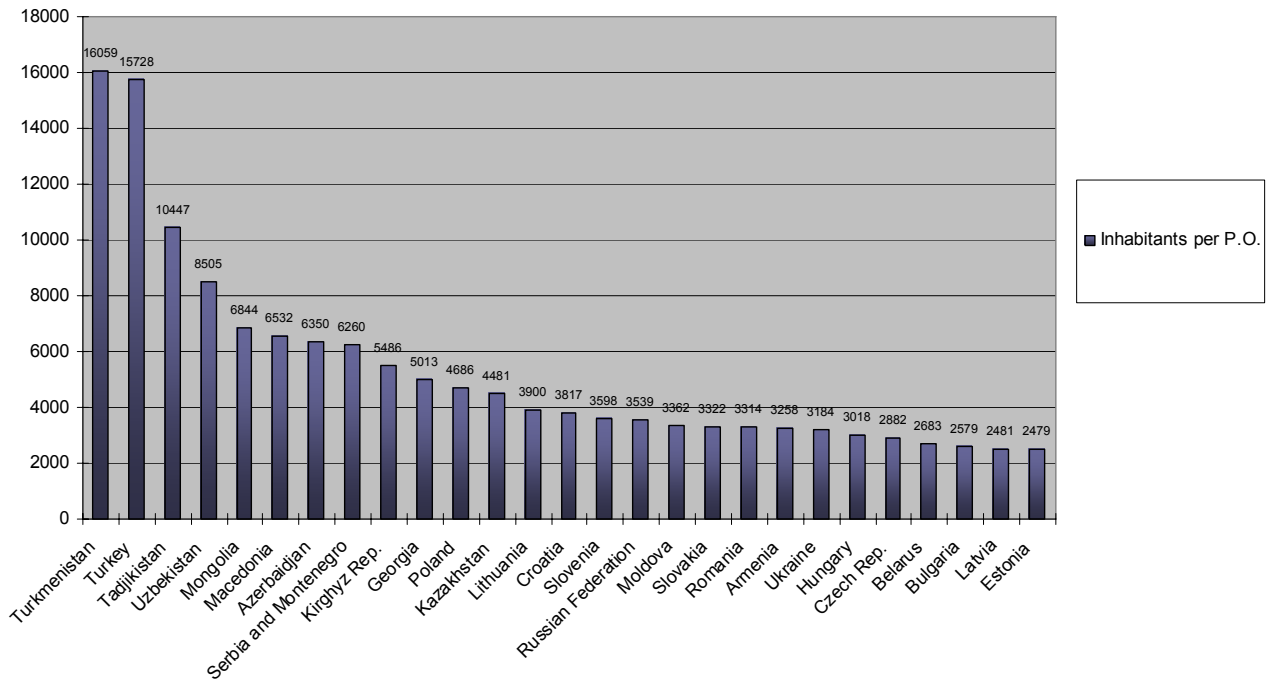
The tradition of public postal operators has evolved over the past five centuries and is deeply rooted. Most of the countries in the ECA region share a recent common history, as part of the Soviet Union, which endowed them extensive postal networks.

In 2002 there were more than 110,000 post offices in the European and Central Asian region, with more than 40,000 offices in the Russian Federation. Ukraine, Poland, and Romania jointly account for another 30,000 post offices. This implies an average of 1 post office per 4,340 inhabitants. It also represents a share of around 17% of the total of the postal networks worldwide. The ECA region has denser postal networks than elsewhere in the world, including the historic EU countries.

Moreover, the postal network in the ECA region is larger than any retail trade chains or banking networks. In fact, it is estimated that in most of the countries there are nearly twice as many post offices as bank branches. In most of the countries, 50–75 percent of the banks' networks are made up of savings bank branches and agencies. If postal networks were involved in financial service delivery, they could significantly help market transitions and provide competition in mass retail financial services outside the bigger cities. The dense postal networks are a legacy of central planning that stipulated so many post offices per inhabitants and in relation to territorial coverage. Network expansion in that era was primarily driven by public service and

Europe and Central Asia Region

Post Office Density



logistics/transportation considerations rather than by commercial demand for a retail sales network. The region has few examples of individual post offices operated under an agency contract by a local, private entrepreneur.

In many parts of the region, the networks of the savings banks followed similar rapid expansion under central planning. As a result, the networks of savings banks at the beginning of the 1990s had a density of 60–70 percent of the postal network. In the process of commercialization and rationalization, the networks of savings banks were sharply reduced in most of the ECA countries, and traditional linkages between savings banks and post offices to reach out into rural areas have been terminated. As a result, postal networks have become the only point for payments in poor and rural areas.

Most countries have postal network density in the range of 1 outlet per 2,500–6,000 inhabitants. A few countries deviate from this average, such as Turkey, which has a different political and historical background from most ECA countries, and Turkmenistan, which is the only country that has sharply reduced its network.

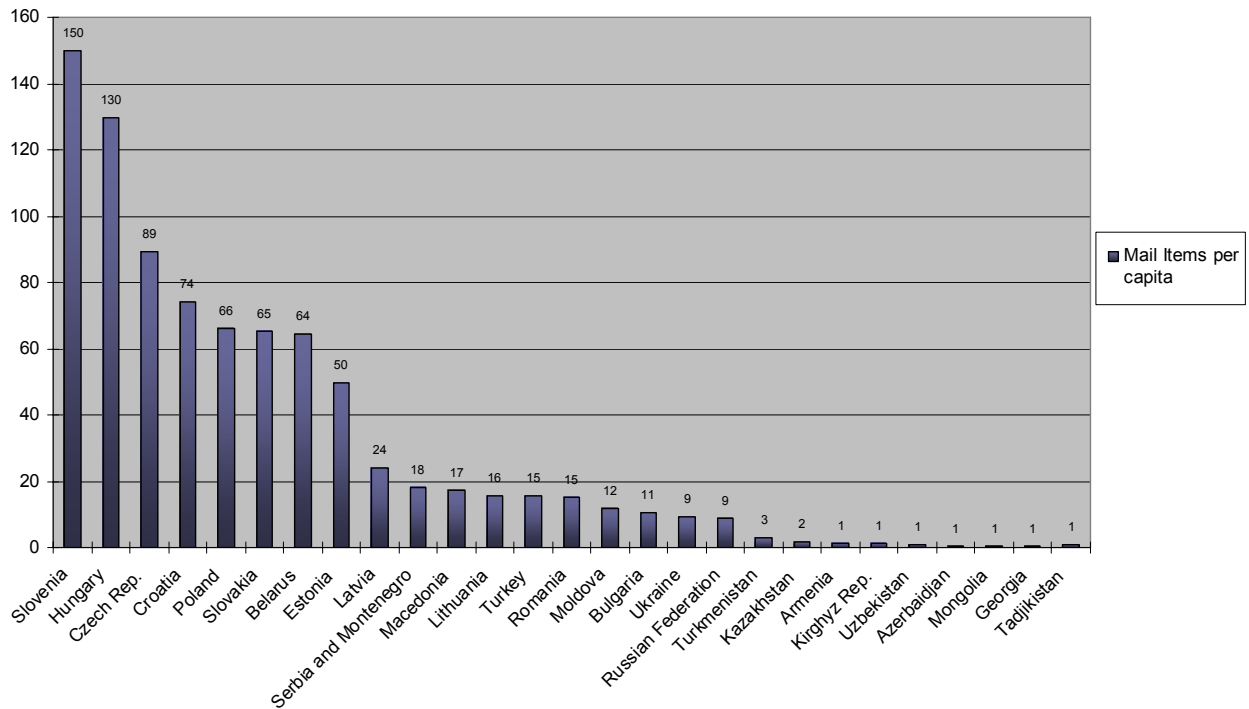
In most ECA countries, a post office handles a relatively small area of about 50 square kilometers. Exceptions are mainly in Siberia, including Mongolia, Kazakhstan, and the Russian Federation, due to the huge and sparsely inhabited areas, and Turkmenistan. In most countries in Europe, the Caucasus, and Central Asia, post offices are close and within easy reach.

For three centuries, post offices anchored the mail-processing infrastructure. Many small post offices built in the twentieth century were never equipped with delivery and sorting functions. With new mail logistic technologies and business processing available, this function has become increasingly outmoded for mid-sized post offices. The main economic purpose of the small post offices in the ECA region is to be an access point for retail payments, financial services, retail services and trade, newspaper distribution, and postal stationary. Retail practices widely differ. Some post offices (e.g., in Uzbekistan) sell basic food and sundries; Russian post offices provide catalogues for mail orders, and postcards and e-post desks are run by Estonian post offices.

The Mail Carrier Rings Twice

A cross-country comparison shows wide difference in the mail consumption between the different European and Central Asians states. In countries like the Czech Republic, Slovenia, Estonia, Hungary, and the Slovak

Mail Items per Capita (2002)



Republic, steeply rising volumes of mail have brought mail items per capita to above 80 per year, close to the average in the historic EU countries, in some cases. A closer look at the composition of the mail shows that growth has been achieved in all lines, but particularly in advertisements, direct mail, hybrid mail, and parcels. These are mail flows in the liberalized, commercialized areas, and often in competition with the increasingly present private and foreign postal service providers. Another group of countries—South-West Balkan (Albania, Kosovo), Caucasus, and Central Asia (except Kazakhstan)—have very low mail consumption per capita. Other countries have a bit more mail per capita—10–15 items per capita—such as Bulgaria and Romania.

Available UPU data is only for public postal operators. The picture from these data is somewhat distorted, as the region features numerous private and foreign operators which have gained substantial market share in the liberalized mail markets. The data also do not reveal that some bulk flows essential for historic EU country operators are not channeled through the postal operators in the ECA region. In many countries, most of the utility bills are not distributed through the postal system, but through housing corporations, for example. A further subdivision of mail flows also indicates that in many cases, the main task of post office staff is to actually deliver newspapers and cash for pensions. In industrialized countries, postal operators tend not to be involved in daily newspaper delivery.

Productivity is thus difficult to judge, but the picture that emerges from available data is that the majority of ECA countries have mail volumes that do not justify current staffing levels and postal network density. Especially in the Caucasus and Central Asia, there are less than a handful of mail items per day per staff member. Mail per capita in the Russian Federation, Ukraine, and Bulgaria is also low (15–22 mail items per day per staff member).

Although postal mail services are supposed to be the core business and are seen as such by their general management, throughout Europe and Central Asia they do not generate sufficient revenues and business volumes to be financially self-sustainable. Moreover, the growth prospects in the traditional mail markets appear limited if not absent, while the potential growth in new mail markets has to be captured in a competitive context.

The postal services and related telecommunication services and government information services are presumed to have contributed to making the post office a publicly accessible communication center, and improving its economic viability, but data supporting this are not available. Diversification has also been the basis for cross-subsidizing. Using post offices as communication and information centers has revived with the advent of internet, and a number of Europe and Central Asian governments are reportedly looking into information and communication technology (ICT) policies, that include the postal network, to provide e-government services and change post offices into tele-centers or internet cafés. This is the case in the Russian Federation where the postal network has been earmarked as vital component of the e-Russia program, as well as in Bulgaria, which launched its first tele-center in a post office. Apart from e-government, e-learning is an application considered by these governments. Only 3 percent of the inhabitants in the Europe and Central Asian region have access to Internet, the post office infrastructure could help to bridge the gaps in the digital divide.

It is clear that for several countries the postal service is not and cannot be operated profitably by postal mail services alone. Although UPU research indicates that postal mail volume could rise in the medium term in Europe and Central Asia, it is optimistic to assume that they will ever reach levels seen in Europe or North America. It is likely to assume that growth in the mail consumption will be achieved to a large extent through private and foreign operators.

Postal Networks and Postal Reform in Europe and Central Asia

Particularly with courier, express, and parcel services, fierce competition has arisen from international operators and local private operators. In most cases, national postal operators have been left with an insignificant market share in these liberalized high-margin business segments, while the framework to regulate competition is weak or absent. In only a few cases have postal operators established an effective partnership with one or more of these private or foreign operators. Data on the networks and volumes of private and foreign postal operators in the ECA region are not available. Research by the author indicates that in a key ECA market, such as Poland, private and foreign postal operators have already set up nearly 2,000 outlets and a high quality logistics infrastructure that has the potential to provide quality universal postal services on a competitive basis once the market is liberalized.

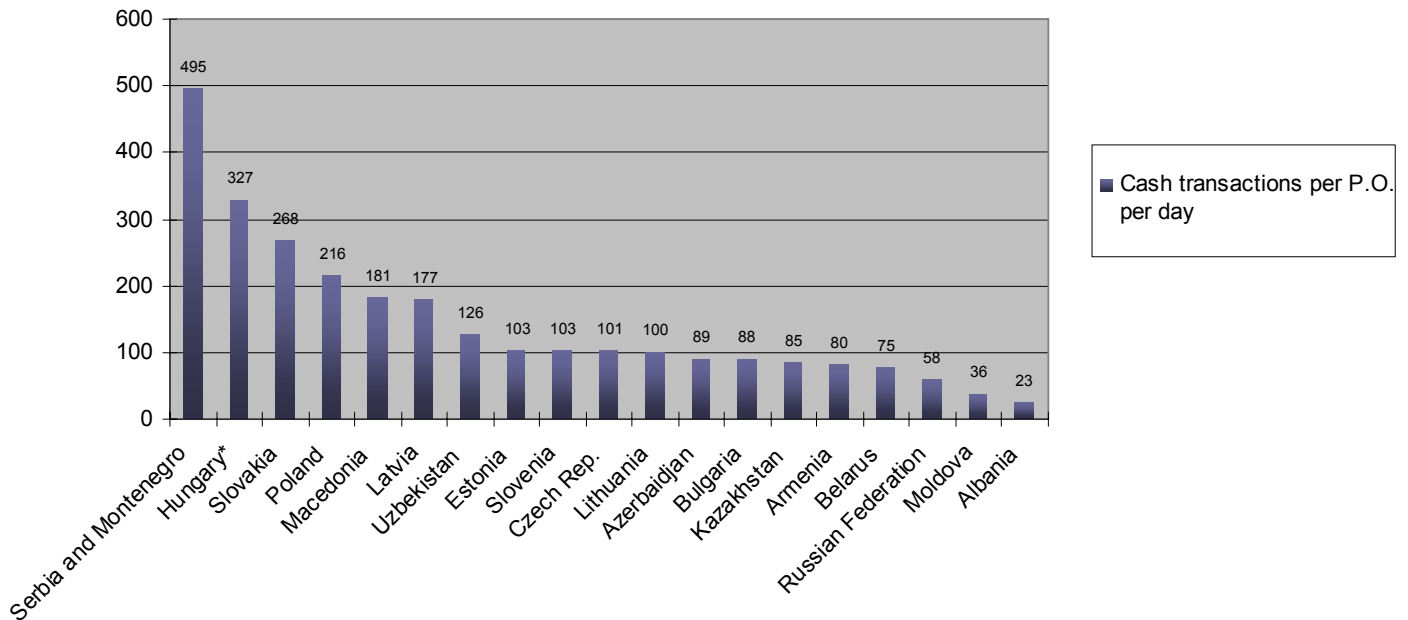
New technologies (fax, email, mobile communications, etc.) are taking over traditional mail flows. In European and Central Asian postal mail flows, the international business-to-business segment is well represented, and the impact of technology substitution appears more significant than with postal operators that predominantly have business-to-customer and customer-to-business mail flows.

The postal mail flow depends mainly on corporate and public agencies that generate bulk mail. In many cases, the 80 percent of the mail volumes are generated by fewer than 500 corporate clients. The needs of these entities are becoming increasingly sophisticated, and many of them seek one-stop service concepts, including value-added services. Central and East European and Central Asian postal operators that cannot respond promptly to clients' needs are likely to be left handling the mail of public agencies only. Client sophistication of key corporate customers has rapidly developed in the ECA region as markets and privatization progress, and better equipped US- and EU-based firms make inroads in the market.

The impact of liberalizing the postal market also implies that governments are less likely to financially support the national postal operator in favor of private-sector competitors. It also implies the need to improve cost accounting to distinguish between the cost and revenues from the reserved area and the liberalized area.

For European and Central Asian postal operators, diversifying to services that generate revenues, but still utilize the same postal staff and post office infrastructure has emerged as a challenging issue. The drive for diversification seems to explain to a large extent the interest by the European and Central Asian Posts in financial services that can be provided over postal counters. These revenues could help to counter declining revenues or margins in the core business of the postal operators. However, it also poses a risk. If the core mail business of the postal operator is not economically sound and healthy, then the risk of needing cross-subsidization remains alive.

Cash transactions per P.O. per day (average 2003)



These issues in European and Central Asian postal reform need to be addressed. This should be taken into account as critical factor when assessing the viability, strategy, and structure for using postal networks to provide access to financial services. Diversification into financial services has progressed considerably. The table above shows the average number of payment transactions per post office per day. The average numbers of payment transactions per post office per day are high: in 60 percent of the countries, they are higher than the mail items processed, on average, per day per post office. Mail items are only 2–5 percent of over-the-counter transactions, so the postal retail networks in ECA are de facto cashier or payments networks.

3—The European and Central Asian Country Profiles and Overviews

Country-by-Country Profiles

Albania	
Institutional framework	<p>The Albanian Post Enterprise was created in 1992 after the State postal and telecommunication activities were separated. Since then the Albanian Postal Enterprise operated as a quasi-autonomous state entity. It was renamed Albanian Posts and became a joint stock company, 100% owned by the state, as the national postal operator. The regulator for the postal sector in Albania is the General Directorate of PTT, Ministry of Public Economy and Privatization. The ministry is also the owner of the Albanian Post and policy maker for the sector.</p> <p>The postal sector is de facto liberalized. There are several local and foreign companies providing courier services. These services are in demand with private sector business. Moreover, both private and public sector use alternative messengers to delivery bulk and printed matters (e.g., utility bill mail). Albanian Post has been granted a license as non-bank financial institution by the Bank of Albania. Its scope of operation is limited to cash-based payments and money transfer operations.</p> <p>Albanian Post is also the agent of the Financial Union of Tirana, the main operator of</p>

	<p>international remittances. This entity, also a non-bank financial institution, has applied for a bank license to broaden its scope and to offer a "remittance for development" concept (including savings, payment cards, and eventually microcredit).</p>
Postal network	<p>The postal network rapidly expanded in Albania. In 2002 there were 556 post offices. On average, there is 1 post office per 5,600 inhabitants. This makes the postal network a unique infrastructure in the country.</p> <p>The banking sector is limited to less than 120 branches and agencies. About 100 of them belong to the Savings Bank of Albania. This bank has been recently privatized and its new owner, Raiffeisen, is expected to close more than 50 unprofitable outlets. Several banks have one branch only, with the exception of the American Bank of Albania, Commercial Bank, FEFAD Bank, and Procredit Bank. The latter two have a microcredit and small and medium enterprise focus. In addition, the Financial Union of Tirana operates through 160 private agents (for remittances, insurance, currency exchange), and these should become banking outlets.</p>
Postal performance	<p>For a long time, domestic mail per capita handled by Albanian Post has been below 1 item per capita per year. In 2003, domestic letter mail grew to more than 4 million, bringing the ratio to 1.3 items per capita per year. This is very low even for the region: only Kosovo records a lower mail demand per capita. Other postal business lines are very small.</p> <p>Albanian Post recorded during the past years operational profits at about 20% of turnover and net profits after company withholding tax was approximately 5% of turnover. About 37% of revenues stem from financial services. This is from diversification that started only in 1996. This is mainly cash payments, for which the figure was estimated at 3 million in 2003. Another 21% stem from other retail services, recently introduced. The revenue component from letter post, parcel post, and express has dropped to 42%.</p>
Market position	<p>Albanian Post is presumed to have a significant position in the domestic letter mail, but the low volume suggests that this market is shared with other structures or operators that distribute frequent paper-based messages. Monthly paper bills for energy, water, telephone and water are distributed to a large extent by these companies themselves.</p> <p>The market position in the courier, express, parcel market is weak, and the private business market increasingly relies on private couriers.</p> <p>In payments, the Albanian Post has recently begun distributing state pension and social benefits, and collecting several taxes and levies nationwide. It also provides international postal money orders and Western Union agency services. In a relatively short time, the Albanian Post has gained a significant role in small-value payment processing (all cash and paper-based), although detailed data are not available.</p>
Other comments	<p>Creating an Albanian Postbank has been on the agenda of the government as recently as 2004. The creation of a Postbank would have been instrumental to end the monopoly in both the retail savings and the government securities markets.</p> <p>No consensus has yet been reached on the institutional setting, with the post aiming to run a Postbank as a subsidiary, and the monetary authorities in favor of private/foreign financial institutions operating a Postbank on a concession or build-operate-transfer basis.</p>
Armenia	
Institutional framework	<p>Hay Post is the public postal operator, and was created after the collapse of the USSR. It is an open joint-stock company, and 100% of the shares are held by the Ministry of Communications and Informatization. Hay Post operates 10 regional subdivisions, which have been incorporated. The Ministry is owner of Hay Post,</p>

Worldwide Landscape of Postal Financial Services

	<p>policy maker, and regulator of the sector.</p> <p>Hay Post is an agent of MoneyGram; its attempts to establish a postal bank as a joint venture with the private sector have not yet been concluded.</p>
Postal network	<p>The postal network has 965 post offices, about 1 post office per 3,400 inhabitants. There are 20 banks with 232 branches, about 1 branch per 13,300 inhabitants. Arm-Savings Bank has 101 branches; 90 branches are run by 3 other banks. About 80 branches are concentrated in Yerevan. Access to electronic financial services is limited with 54 ATMs per June 2004. The postal network is the main point of access for making payments outside Yerevan.</p>
Postal performance	<p>Hay Post has posted operational profits. Before tax, the profits were about 3–5% of annual sales. Letter post generated 8% of total revenues, and parcel and express post 33%, while financial services generated 55% of revenues. Hay Post operates in a competitive, liberalized market segment.</p> <p>Demand for letter post has increased between 1999 and 2002 by more comes from abroad. Newspaper delivery is about 3.5 million items. The main function of Hay Post is courier and express delivery of items, and in particular its function as nationwide payments network for pensions, social security, utility bills, subscriptions, and international remittances. This function is reasonably efficiently organized and proved to be a lifeline for the small-value payment system, when the ArmSavingsBank went into crisis in 1998-99.</p> <p>Given the large Armenian diasporas, remittances provide an important commercial opportunity. Hay Post is the main agent of MoneyGram and provides a competitive service with banks and agents of several electronic payment schemes, mainly focused on traffic from the Russian Federation.</p>
Market position	<p>The market position of Hay Post in letter post is presumed to be significant, but the market is very small. Hay Post has a significant market position (> 25%) in the courier-express-parcel market where it competes with both global integrators and local courier firms. Hay Post also undertakes transport of money to post offices and bank agencies.</p> <p>The position in the payment market is significant. Hay Post processed more than 20 million recurrent cash payments in 2003. The banks processed less than 3 million cashless transactions and about 1 million bank card transactions.</p>
Other comments	<p>Hay Post considers the creation of a postbank as one of its key priorities in order to utilize the postal network to deliver a broader set of financial services and to develop a competitive alternative to ArmSavingsBank. To this end, it was interested in creating a joint venture operation. It also sought support from the European Bank for Reconstruction and Development (ERBD). Given the limited capabilities and focus of the local banks, and the priorities of the international financial institutions regarding financial sector development, Hay Post has not yet been able to effectively set up a partnership.</p>
Azerbaijan	
Institutional framework	<p>AzerPost is the public postal operator that operates as a state enterprise under the Ministry of Telecommunications and Informatization. The Ministry combines the functions of owner, sector policy maker, and regulator. The postal sector is <i>de facto</i> deregulated.</p> <p>AzerPost is <i>de facto</i> a payments network, but its function and its operations are not regulated or monitored by the National Bank of Azerbaijan. AzerPost is not a member of the Cash and Settlement Accounting Center of the National Bank, but settles through transfer accounts held at several banks.</p> <p>In the early 1990s, the Azeri Investment and Postbank was established with involvement of the enterprises in the communications sector. This bank is focused on corporate credit and has, in spite of its name, no specific partnership with AzerPost.</p>

<p>Postal network</p>	<p>AzerPost operates a network of 1377 post offices, of which 1012 are located in rural areas, where 45% of the population lives. This corresponds to about 1 postal outlet per 6,000 inhabitants. The network includes 123 agents.</p> <p>The banking sector has yet to be consolidated. There are 108 banks per August 2004, 41 of them licensed to take deposits from the public. The banks operate through 329 branches (per 1 August 2004; compared to 271 a year before). More than 60% of the branches are in and around Baku, and less than 40% (i.e., fewer than 100 branches) in rural areas. Most of the branches outside Baku belong to BUSBank, into which the successor organization to the USSR Sberbank in Azerbaijan was merged. In addition, several banks operate cash and settlement points. Outside Baku, the financial sector is difficult to access, and the postal network fills in a part of the void for cash payment services.</p> <p>The postal network is increasingly being used for access to Internet, and subsequently to e-commerce and e-government. AzerPost is gradually rolling out a network for internet communications.</p>
<p>Postal performance</p>	<p>AzerPost meets a low demand for letter post, about 0.2 items per year per capita. Volumes in parcels, express, and courier services are low too, and 2% of the revenues stem from traditional postal services (letter post, parcel post, express). From an economic point of view, the traditional core business has become an additional service.</p> <p>AzerPost has implemented several efficiency measures in the postal services, such as mail to rural areas is delivered once a week. AzerPost plays an essential role in the national payment system. It processes a broad range of recurrent small-value cash payments, including collection of utility bills, subscriptions, rent, and distribution of state pensions and social security. It is also the main agent of MoneyGram for international remittances.</p>
<p>Market position</p>	<p>AzerPost provides basic services in a <i>de facto</i> liberalized postal market, but there are more than 20 other providers of letter and parcel post services.</p> <p>The National Bank reported that the processing of 338,000 small value (cashless) payments in 2003. Of the 40-50 million small value recurrent cash payments, it is that estimated that AzerPost processes more than 60%.</p> <p>AzerPost does not provide deposit-taking services. Retail savings at the banks stood at USD 340 million at the end of Aug 2004, while cash in circulation amounted to USD 420 million. Given the limited access to the financial sector, the postal network could play a valuable role in capturing idle cash and utilizing this for productive economic purposes.</p>
<p>Other comments</p>	<p>AzerPost and the government are currently preparing a project to strengthen AzerPost's role as a platform for small-value payments through the implementation of new ICT, in co-operation with the World Bank.</p> <p>The relation between AzerPost and the interbank payment system and the partnership between the post and banks to provide a broader range of services eventually needs to be addressed too.</p>
<p>Belarus</p>	
<p>Institutional framework</p>	<p>BelPochta is the public postal operator. In 1995 the postal services were separated from the telecommunications and organized as a state service, with regional quasi-autonomous enterprises. In August 2004, BelPochta was transformed into a unified state enterprise. The Ministry of Transport and Communications is owner of BelPochta, as well as policy maker and regulator of the sector.</p> <p>The postal sector has been liberalized, in particular in the courier, express and parcel segment. BelPochta has a partnership agreement with DHL. BelPochta has also</p>

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	<p>concluded partnership agreements with several banks that are regulated by the National Bank of Belarus. Belarusbank provides deposit services in rural post offices and Belgazprombank provides for the issuance and operations of payment cards at post offices.</p>
Postal network	<p>The postal network counts 3,914 post offices, including 150 agencies. This means a very dense network with 1 outlet per 2,600 inhabitants.</p> <p>The 27 banks in Belarus operated a network of 589 branches in 2001. More than 400 branches are located in the 10 largest cities of Belarus. As a result, the postal network is often the only point of access to the payments and financial system outside the bigger towns.</p>
Postal performance	<p>BelPochta has been incurring losses in past years; operational loss in 2003 amounted to approximately USD 3.5 million. About 33% of revenues stems from core postal services. BelPochta's letter postal volume is relatively high, with more than 1 billion items in 2003. The domestic letter post declined from 658 million in 2001 to 555 million in 2003, a decrease of 68 mail items per capita to 57 mail items per capita in 2003. Also the volume of newspapers and magazines dropped from 530 million in 2001 to 413 million in 2003.</p> <p>The financial services operated by BelPochta account for 5% of revenues. These are mainly from postal money orders, the volume of which rose from 2.5 million in 2001 to 5.7 million transactions in 2003. Also international postal money orders with CIS countries increased slightly.</p> <p>About 62% of revenues stems from agency services. These mainly relate to approx 75 million payments of which 27 million for pensions and social security; more than 45 million transactions for collection of utility bills, services for Belarus bank (rural savings), and Belgazprombank (payment cards); and for collection of insurance payments, sales of mobile phone prepaid cards, and collection of mobile phone subscriptions.</p> <p>BelPochta is not connected with any of the international money transfer agencies (Western Union, MoneyGram) or with the Eurogiro Network. With nearly 67% of revenues stemming from financial services, the postal (retail) is de facto a payments network.</p>
Market position	<p>BelPochta has a dominant position in the traditional postal markets. In the liberalized segments for courier and express services, it has maintained a significant position through its partnership with DHL.</p> <p>The banking sector payment systems process annually approximately 30 million payments transactions, compared to 75 million by BelPochta. Its role as deposit taking network could be expanded as cash in circulation is relatively high—USD 28 per capita in 2001 (then the equivalent of an average net monthly income).</p>
Bulgaria	
Institutional framework	<p>After separation from the Ministry of Transport and Telecommunications, Bulgarian Posts became in 1997 a single-shareholder limited-liability company under commercial law, owned by the Ministry, which also sets the policy for the postal sector. A communications regulatory commission was established in 2002. Initial plans to restructure and privatize the postal operator have not made much progress.</p> <p>In 1991 the Bulgarian Telecommunications, Posts, and the National Palace of Culture established the Bulgarian Postbank, which was fully licensed by the National Bank of Bulgaria. It resumed the postal giro and savings services from the previous single state-bank system. Bulgarian Postbank concluded a long-term agreement with Bulgarian Post. In 1998-99 the Postbank was privatized as one of the first state-owned banks, supported by the International Finance Corporation (IFC) and EBRD, and attracted the local subsidiary of EFG Eurobank (Greece) and AIG as key shareholders.</p>

	<p>Bulgarian Post acts as a cash-payment agent for most provides international postal money orders. The Post is not connected to BISERA (the inter-bank payment system), but settles on a regional basis through accounts with several banks, mainly Postbank and DSK Bank. The Bulgarian postal network is one of the few in Europe not connected to Eurogiro, or as agent to MoneyGram or Western Union for international remittances.</p>
<p>Postal network</p>	<p>The postal network has 3,179 outlets, and has not significantly grown during the past 10 years, although the population has decreased by more than 10%. There is one outlet per 2,500 inhabitants, resulting in one of the densest postal networks in Europe. Nearly all post offices are proprietary outlets; there are less than 80 postal agents. There is no explicit policy or regulation regarding access and location of the postal network.</p> <p>A particular feature of the post office network is the high degree of specialized counters and windows. There are separate counters for the different types of payments (pensions, water bills, energy bills, rent bills, postal money orders, postal savings, etc.) and for different types of postal services.</p> <p>The banking sector operates through 786 branches and sub-branches and about 800 savings and cash agencies. More than 90% of these branches and agencies are concentrated in the 30 largest cities of Bulgaria. In smaller villages and towns, the post office is the only point of access to service payments and savings.</p>
<p>Postal performance</p>	<p>Bulgarian Post processed about 58 million letters in 2002, which slightly increased in recent years. The same applies for parcels and express items. The volume of newspapers distributed through the post has declined by nearly 50% in the past 5 years.</p> <p>The volume of payments processed is estimated at more than 70 million in 2002. This is a higher volume than the letters processed by Bulgarian Post and also roughly the same as the total number of payments processed by the banks.</p> <p>About 64% of Bulgarian Post revenues stems from the financial agency services and 33% from letter and parcel post services. Business customers (137) generate more than 50% of the letter and parcel post revenues. For cash payments, the Social Security Fund and the Bulgarian Telecommunications generate more than 75% of the revenues with 60% of the transactions.</p> <p>Bulgarian Post's operational revenues (Euro 53 million in 2002) nearly broke even with operational expenditures. There is a small subsidy component for the universal service obligation. The two main revenue components will be increasingly exposed to competition and electronic technology. With a high portion of fixed expenditures, and absence of access to substantial sources of finance to innovate, Bulgarian Post is facing a tremendous challenge to sustain its economic performance and its dense network.</p>
<p>Market position</p>	<p>Bulgarian Post has a strong market position in the letter post market (estimated at more than 95%), which is protected as a reserved area of the universal service obligation. Reportedly, there are initiatives in the direct mail market that have created competition, particularly in un-addressed mail.</p> <p>In the express and courier market, Bulgarian Post is estimated to be weak because the business-to-business market is dominated by global players like DHL, TNT, FedEx, and more than 10 local firms.</p> <p>Bulgarian Post also has a strong position in cash payment processing. The 70-million volume of cash payments compares to 23 million cashless payments via the BISERA inter-bank system. This position has declined, however, as an increasing number of Bulgarians switch to electronic payments, through debit cards and e-payments.</p> <p>In 2002 Bulgarian Post handled nearly 600,000 savings bank transactions, nearly all for Bulgarian Postbank. This suggests that it is a significant channel for the more than 100,000 savers.</p>
<p>Other comments</p>	<p>Due to the complications around the privatization of the Bulgarian Telecommunications, restructuring of the post has been de-prioritized.</p>

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Croatia	
Institutional framework	<p>Croatia Post was incorporated as a joint stock company in 1999 after its separation from telecommunications. It is wholly owned by the state Ministry of Transport and Communications, which also exercises the functions of regulator and policymaker. The postal sector has been liberalized and more than 20 private operators provide services.</p> <p>Croatia Post has a significant stake (34%) in the Croatian Postal Bank (HPB) that was licensed in 1992 as a full commercial banking license by the National Bank of Croatia. It is one of the 2 remaining state-owned banks in Croatia. It went through an extensive rehabilitation process in 2001. The relationship between Croatian Post and HPB has changed, and currently all financial and payment services through the post offices are the responsibility of HPB, which reports on these operations to the National Bank. The operations at the post offices are executed via a long-term agreement. HPB has one branch only, and depends on the postal network to distribute its services to the public.</p> <p>Croatia Post is the country's main agent of Western Union.</p>
Postal network	<p>Croatia Post operates a network of 1,168 proprietary post offices, about 1 post office per 3,800 inhabitants.</p> <p>The Croatian banking sector has 40 banks with approximately 956 branches and agencies in 2003. The two largest banks hold nearly 70% of the assets and around 50% of the branch network in the country. A consolidation process among the smaller banks is underway. The rapid growth of the banking network through branches and through ATMs will likely limit the postal network to providing basic financial services.</p>
Postal performance	<p>Croatia Post's results have shown strong fluctuations (due to cash-based accounting and tariff policies), with an operational loss in 2003 of USD 3 million and an operational profit of USD 18 million in 2002. Postal services (letter mail, parcels, and posts) are the main revenue component, which has grown from 57% to 66% of total revenues. Financial services are the other main revenue components, which have decreased from 41% to 32%.</p> <p>Mail demand per capita has increased from 60 items per capita in 2000 to 65 items in 2003. Domestic letter mail volume has risen from 252 million items in 2000 to 277 million in 2003.</p> <p>In financial services, postal money orders declined from 1.3 million transactions in 2000 to 1 million in 2000. In the same period, the number of giro accounts held by HPB rose from 835,000 to 991,000.</p>
Market position	<p>Croatian Post has a dominant position (> 90% market share) in the letter post market and a significant position in the courier, express and parcel market. In the payments market, the postal network has an estimated 80% of the total market of small-value payments, but its relative importance has declined due to the transition to cashless/electronic payments instruments. Cards and accounts are also offered at post offices, but the marketing appears less effective than through the bank branches.</p> <p>HPB has the largest retail client database in Croatia, but a small share of personal financial services. Its share in assets of the banking sector amounted to 2%. HPB mainly functions as a bulk payments bank and creditor to state enterprises.</p>
Other comments	<p>The privatization of HPB has been on the government's agenda since 2002. Under the latest agreement (July 2004) with the IMF, the government of Croatia pledged to assess the options for privatizing the bank or to form a strategic alliance. The partnership with Croatia Post for use of its network is critically important. Both HPB and Croatia Post consider the current partnership to be optimal, and reinforcement or redefinition of this partnership might be a precondition for privatizing HPB, or repositioning it as a joint</p>

	venture between Croatian Post and a selected financial institution.
Czech Republic	
Institutional framework	<p>Ceska Posta is the public postal operator in the Czech Republic, separated from the Czech PTT in 1993. It is a state enterprise, but is intended to be converted into a joint stock company, where a specific fund or agency would hold ownership, instead of the Ministry of Informatics. The Ministry is also regulator and policy maker for the postal sector.</p> <p>The postal market is to some extent liberalized, with 12 licensed private operators. In addition, there are various small operators competing for delivery of unaddressed items, advertisements, and express messages.</p> <p>In 1991 the Czechoslovak Ministry of Telecommunications, Radio, and Posts established a postal bank, licensed by the National Bank, to re-introduce postal savings. In 1991, all 5,000 post offices in the then Czechoslovak Republic could issue postal savings certificates.</p> <p>After separation from Slovakia, the Czech Postal Bank merged with the state investment bank, forming an investment/postal bank. For the operations through the post offices, a new label was introduced, Postovni Sporitelna, to attract the target customer segment. Inappropriate lending on the part of the former investment bank led to the collapse of the banking group. The postal savings division was acquired by CSOB (the largest bank in the Czech Republic with Belgian KBC as an 80% shareholder).</p> <p>Postovni Sporitelna delivers financial and postal payment services through the post offices and other channels.</p>
Postal network	<p>The postal network has 3,364 post offices, all of which offer postal savings and giro services. This corresponds to 1 postal outlet per 2,900 inhabitants. In addition, there are 8 specialized branches for the postal savings bank, focusing on the corporate market and special products. There are only 20 postal agencies in the Czech Republic; all other post offices are fully owned and managed by Ceska Posta.</p> <p>The postal network is about twice as large as the banks' networks, which had 1,758 branches and agencies in 2001. More than 1,000 of them belong to Česka Sporitelna, the savings bank. In addition, there are more than 2,000 ATMs in the Czech republic.</p>
Postal performance	<p>Ceska Posta has turned into a profitable postal operator that recorded more than USD 35 million in operational profit before tax in 2003. In 2000 it suffered a loss of USD 5 million. Its revenue streams are divided among postal services (50%), financial services (27%), and other services (23%, including some financial agency services, as well as electronic commerce and retail trade).</p> <p>One of the most remarkable developments is the boom in postal services from 700 million items in 2000 to 2.7 billion in 2003, a growth from 88 items per capita to 269 items. The growth is explained by the commercialization of the postal business lines, and results from direct mail marketing, advertising, hybrid mail, and parcels. Mail per capita has reached the same level as the historic EU countries.</p> <p>The postal savings bank has emerged as one of the leading retail/consumer banking operations in the Czech Republic. It serves more than 2.2 million clients. About 883,000 clients hold a giro payments account with a chip or debit card for small-value payments, and 1.3 million have a savings account. In addition, consumer and small loans can be obtained by clients who have a standing relationship with CSOB/Postal Savings Bank.</p>
Market position	<p>Ceska Posta has a dominant position in the letter mail market (estimated at >95%) and a strong (>40%) market share in express, courier, and parcel services. It delivers a respectable quality of service. Regarding payments services, the post offices processed an estimated 95 million transactions, about 25% of total transactions processed by the</p>

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	<p>Czech banks. The postal savings bank has a 12% share in payment accounts, with approximately 13% in savings accounts; data on market share in value of the deposit market are not available.</p>
Estonia	
Institutional framework	<p>The public postal operator in Estonia is Eesti Post A.S. It was re-established as a state enterprise in 1991 and then incorporated in 1997, with 100% of shares held by the state. The Ministry of Economic Affairs and Communications supervises the postal operator. The independent Communications Board regulates the postal market. The Estonian postal market was <i>de facto</i> deregulated in the 1990s and has more than 25 private and foreign operators.</p> <p>Eesti Post fulfills the universal service obligation without particular state support, and it implemented a vigorous commercialization process in the 1990s. It holds a monopoly on issuing stamps. It operates several subsidiaries, including courier, express, parcels, hybrid mail, direct mail, and e-operations, some of them beyond national borders. It relocated many post offices from large, underutilized buildings to refurbished, smaller rented outlets in commercially more attractive places.</p> <p>In financial services, Eesti Post inherited a legacy of cash payment processing, including postal money orders, bill collection, and pension payments. IT support with terminals, on-line connections, and modern standards were implemented to improve cost-efficiency.</p> <p>Eesti Post is not connected to the interbank payment system, but settles directly with the banks involved.</p> <p>Eesti Post considered developing financial services by creating a postbank subsidiary, but it was not feasible, so it initiated an alliance with Eesti Uhis Pank (Union Bank of Estonia). The project became operational nationwide in 2001. Under a "brand alliance" agreement, Eesti Uhis Pank products are relabeled and simplified as Postipank and offered through all post offices in Estonia. Postipank clients can make use of a full set of electronic channels (telephone, Internet, mobile, EFT POS, ATMs, EBPP terminals).</p> <p>As the results of mergers, Eesti Uhis Pank (EUP) became Estonia's leading commercial bank in 1997. Integration and rationalization of the bank branch network was implemented between 1997 and 2001. IFC was a shareholder in the bank along with Skandinaviska Enskilda Banken (SEB). Since 2003 EUP has been full subsidiary of SEB. Its operations are licensed by Eesti Pank (the Central Bank).</p>
Postal network	<p>The postal network has 550 outlets (439 of which are connected on-line) that provide electronic Postipank services. More than 400 post offices are situated in the sparsely inhabited rural areas. The postal network is dense, with 1 outlet per 2,550 inhabitants. The bank branch network in Estonia shrunk from 440 in 1997 to 188 in 2002. About 50 branches belong to EUP, and a slightly higher number to Hansabank (also Swedish owned, which absorbed the former State Savings Bank). About 80 bank branches are located in Tallinn, the capital, and the remaining 100 in the largest provincial towns.</p> <p>A rural savings and loan association movement has not developed in Estonia.</p> <p>The physical cashier network has lost some of its relevance for financial services as the payment card-per-capita ratio is about 1 and the cashless money portion in M1 has reached 78%. There is a dense electronic network with 638 ATMs with cash functions and 450 ATMs with giro functions. At more than 7,500 retail outlets (> 95%) in the country, card payments are accepted. Virtual networks (mobile, Internet) and instruments (virtual digital cards, mobile payment applications) are widely in use.</p>
Postal performance	<p>In an intensely competitive environment, Eesti Post has been able to manage (a) fast, stable growth rates in its core postal business lines, (b) high quality ratios, (c) commercial expansion and diversification, and (d) reasonable financial performance.</p> <p>The letter-per-capita ration reached 50 in 2002. This is well ahead of most other CEE countries, but considerably below that of EU members (>250 items per year). E-mail,</p>

	<p>hybrid mail, and other types of value-added mail services are provided. Growth perspective, though, may be limited, as certain mail flows were overtaken by the new technologies before they actually developed (e.g., bank account statement and bills).</p> <p>Eesti Post's focus has been on turning the core mail business around, and it has considered money transfer services as an additional line of business. Revenues from these financial services amounted to more than 30% of postal income in 1991, and gradually declined to 7% in 2002. The new Postipank offer has replaced some of the loss in revenues, and total revenues from financial services now stand at about 12%.</p> <p>Since 1991, Estonia's payment system and financial sector has developed rapidly and is considered as one of Europe's most technologically advanced, ahead of France, U.K., and Spain. More than 85% of the adult population in urban areas uses the Internet and mobile devices for payments and other banking services.</p> <p>The Postipank project with EUP has made it possible for post offices to provide a full range of competitive financial services, based on a self-service concept with advanced technology, and to improve cost-efficiency of existing payment products.</p> <p>Eesti Post's offer and Internet-based banking services is relevant for the rural areas (where many inhabitants are less computer literate), pensioners, and for those poorer ethnic minorities (Russian, Ukrainian, Armenian) who tend to send cash remittances via the post office to their relatives.</p>
Market position	<p>Eesti Post's market position in the payment system has not been monitored by Eesti Pank, which does not consider the postal network a part of the payment system.</p> <p>The volume of small-value payments through the postal network fluctuated between 10 and 15 million transactions per year in 1991–2003. In the first half of the 1990s, the volume of postal payments was higher than the total number of cashless transactions through the banks' payment system. Currently it represents a volume equal to the credit transfer operations at the DNS. Payments mainly concern bill payments, disbursement of pensions and other social allowances, postal money orders, and international remittances.</p> <p>The deposits mobilized through the postal network until 2002 amounted to EEK 4 million (<i>source</i>: UPU statistics), which would represent a 10% market share. The postal network's market share in remittances is not known. The post participates in the Eurogiro network and has electronic money order services with CIS countries. The volume to the CIS exceeds 25,000 (person-to-person) payments per year.</p>
Other comments	<p>Eesti Post was able to obtain a Euro 20-million loan from the Nordic Development to establish a computerized mail and parcel center in Tallinn.</p>
Georgia	
Institutional framework	<p>The Georgian Post is a state enterprise under the Ministry of Communications and Informatization. The Ministry is owner of the Post and policy maker for the sector. The Georgian National Communications Commission regulates the sector. The sector has suffered from economic and political turmoil, disasters and armed conflicts in the northern regions of Georgia. The postal sector in and around Tbilisi and the port cities has been <i>de facto</i> liberalized. The sea ports and airport are considered important nodes in the trade routes in the Caucasus.</p> <p>Georgian Postbank was established in 1995, and Georgian Post has a stake of a maximum of 25%. It is fully-licensed by the Bank of Georgia. It has been charged with the management of pension payments and collection of utility bills. However, due to Central Bank regulations, the postal counters cannot act as agents of the Postbank. Postbank services and postal services have been physically separated. The provision of postal money orders remained part of the scope of business of the postal service.</p>
	<p>In view of poor economic performance and contracting postal markets, the postal</p>

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<p>Postal network</p>	<p>network is being downsized from 1183 in 1999 to 1025 post offices in 2003, which is 1 post office per 5,000 inhabitants.</p> <p>In 143 of the larger post offices, Postbank operates in a physically separated area. There are 25 banks operating in Georgia through approximately 300 branches and agencies. Amongst the banks, several are specialized in microfinance and extend their service to the rural regions where 60% of the populations lives.</p>
<p>Postal performance</p>	<p>Total revenues recorded by Georgian Post were USD 3 million in 2003, resulting in an operational loss of approximately USD 0.8 million. Deficient postal communications have become a marginal feature in Georgia, with 0.28 mail items per capita in 2003. The volume of domestic letter mail in 2003 was 255,000 items. Because the quality of service is poor, a similar volume of letters was sent as registered mail. Other postal business lines also have small volumes, e.g. only 400,000 newspapers were delivered in 2003.</p> <p>Postbank has made an effort to become a leader in advanced payment services. It has established a payments card center with French private sector parties, and developed a range of savings and credit products. The ineffective partnership with the postal network has precluded capturing a more significant role in the financial sector.</p>
<p>Market position</p>	<p>The post's position is presumed to be somewhat significant only in the customer-to-customer and business-to-customer segment. In written or paper-based communications, other operators have captured the market. This applies to courier, express, parcel, and international correspondence. Also, new technology is believed to have made an impact, as a reported 60% of inhabitants of Tbilisi have regular access to the Internet; in rural areas this ratio is much lower and access often is non-existent.</p> <p>Postbank is one of the 10 largest banks of Georgia, and its market share in payment cards is above 15%.</p>
<p>Other comments</p>	<p>Georgian Post has received technical assistance under several bilateral programs (Greece, Netherlands) to upgrade its management and infrastructure and to link its operations and infrastructure to the newly built logistics centers at the international airport and in the seaport. Its network cannot be viably sustained in the current constellation.</p> <p>A repositioning of the network as provider of access to information and communication technology and basic financial services could respond to actual needs of rural and poor communities in Georgia. In this case, state ownership of the postal network should be questioned. In addition, restructuring the assets of individual post offices into agencies operated by private entrepreneurs may help to increase the level and quality of services.</p>
<p>Hungary</p>	
<p>Institutional framework</p>	<p>Magyar Posta Rt. is the public postal operator in Hungary. It is an incorporated commercial structure with several subsidiaries and a joint venture. Magyar Posta is 100% owned by the state (the Privatization and State Holding Company), which intends to privatize the post and liberalize the postal market before 2009. The Communication Authority regulates the postal market, which has been liberalized to some extent. The Ministry of Informatics is responsible for overall sector policy.</p> <p>Magyar Posta Rt. was one of the co-founders of Postabank, one of the first new banks in the post-communist banking sector. The bank's management did not embrace the postal network as a major opportunity; instead it focused on commercial credit through own branches. Its poor credit policy and procedures collapsed the privately-owned bank, and it was bailed out by the state and rehabilitated.</p> <p>In 2000–01 options to merge the bank with OTP (the leading (former state) savings bank) and later to position it as a subsidiary of the post, or sell the bank through a competitive bidding process were considered. None of the options fit in the increasingly private and foreign owned financial sector. Subsequently Postabank and Erste Bank Hungary merged and are in the process of redefining the relationship with Magyar Posta.</p>

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	<p>The aim of Posta is to become a full-fledged channel for retail financial services.</p> <p>Posta joined the Interbank Giro system in the early 1990s to settle bulk payment flows. In 2002 Posta set up a joint venture with the German insurance group HDI to manage and sell life insurance through the post offices. Posta is also the main agent for Western Union remittance service. Posta has maintained an agency service agreement with OTP for national savings accounts.</p>
Postal network	<p>Magyar Posta has a network of approximately 3,100 post offices throughout the country. More than 80% of business flows through fewer than 900 post offices, mainly located in cities and towns. Posta plans to transform about 600 smaller post offices into mobile post offices (mail carriers who perform counter transactions when making delivery rounds). The post office network is larger than the 1,200 bank branches and 1,800 (rural) savings cooperatives.</p> <p>Post office counters are equipped with on-line computer terminals for payment data processing and many also provide space for ATMs.</p>
Postal Performance	<p>Although postal services are the core business of Magyar Posta (revenues in 2002 were HUF 69 billion, about USD 300 million), the financial services are an indispensable activity, generating > HUF 44.5 billion (USD 220 million) in 2002 or 32.8 % of total revenues. Over the past years, however, Posta recorded an average growth in revenues of 11.5 % per annum in financial services.</p> <p>Domestic mail per capita was approximately 87 items in 2002, with growth opportunities in direct mail and advertising not being captured.</p> <p>Magyar Post had an operational profit before tax in the past 3 years. It has also been able to tap corporate finance lines for capital expenditure to modernize its logistics infrastructure and hybrid mail facilities.</p>
Market position	<p>In postal markets, Magyar Post occupies a dominant position in the letter mail market and a strong position in the courier, express, and parcel market.</p> <p>In Hungary the payments-per-capita ratio is 0.7. Nevertheless, the volume of cash payments remains high and is growing in comparison to cashless electronic payments. ATM cards and payment accounts are primarily used to receive salaries and to withdraw them periodically in cash.</p> <p>The total of cash payments operations at post offices amounted to approximately 282 million transactions in 2002, of which 219 million were cash in-payments, 6 million postal money orders, and 57 million disbursements. Reportedly, 98% of these transactions were concentrated in 800 medium and large post offices. For these post offices, this represents on average 280,000 transactions per year per post office, or >1,000 per day. The value (HUF 5,200 billion in 2002; HUF 2,800 billion in 1997) of these payments is relatively low, and represents a market share of 3–4% of total turnover in the Hungarian payment system.</p> <p>Deposits mobilized through the postal network stood at approximately HUF 30 billion (USD 20 million) at the end of 2003, or 17% of Postabank's total, with less than 100,000 accounts. In terms of market share, penetration, and value, this is insignificant.</p>
Other comments	<p>Magyar Posta's transformation has allowed it to operate competitively as a commercial structure in an increasingly open market environment. Among the key issues remaining are concluding an effective strategic partnership to provide a package of financial services through the post offices, and restructuring the postal network by increasing the number of postal agents or franchisees that operate on a flexible/variable cost basis.</p>
Kazakhstan	
	<p>KazPost is an open joint stock company, 100% owned by the state. It is charged with</p>

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Institutional framework	the universal postal service obligation and operates in a deregulated environment with nearly 50 private postal service providers. KazPost is licensed by the National Bank of Kazakhstan to provide limited financial services, mainly deposit taking. In addition, KazPost has concluded agency agreements with several banks and insurance companies to extend its product range, which now covers consumer credit, deposits, payment accounts, and insurance products.
Postal network	The postal network has 3,281 post offices (compared to 368 bank branches). Particularly in the rural areas (with approximately 7 million inhabitants), there are nearly 2,671 post offices, compared to 70 bank branches.
Postal performance	<p>KazPost's total revenues amounted to nearly USD 40 million in 2003. About 42% stemmed from postal services (mail, newspapers, parcels, express mail). Mail volumes are relatively low, and traditional postal markets have contracted sharply. The number of mail items per capita dropped from 1.5 in 1999 to 1 in 2003.</p> <p>More than 50% of revenues stemmed from financial services. KazPost had (by June 2004) more than 1,500,000 deposits accounts on its books, although the average deposit was USD 9 only. According to tax legislation, individual deposits are not subject to tax. Client deposits received by KazPost are guaranteed by the state.</p> <p>KazPost also processed around 80 million cash payments in 2003, and reported a 9% increase by the end of June 2004. The banks processed 16 million cashless payments; volumes regarding cash payments are not available. The remaining revenues stemmed from retail trade, government agency services, and internet access pilot projects.</p>
Market position	KazPost has a strong market position in traditional postal services and delivers a respectable quality of service. In liberalized and new areas of postal services, KazPost has fierce competition, particularly in the business-to-business express and courier segment. In the financial sector, KazPost plays an essential role as payments network and in the mobilization of micro-deposits. Through its agency relations, KazPost also provides access to a wider range of services, including insurance and credit.
Kyrgyz Republic	
Institutional framework	<p>Kyrgyz Pochtasi is a state department under the Ministry of Transport and Communications, which also regulates the sector. Kyrgyz Pochtasi has proactively sought to establish a partnership with the private banking sector to expand its role beyond cash payments. In 1999 it developed a "Smart city" program to introduce chip card-based payment services and ICT in post offices in partnership with Kyrgyz AvtoBank. Similarly, it attempted to establish a postal savings bank partnership with one of the banks in 2002. These initiatives hinged, however, on assistance to co-finance and build the institutional and managerial framework. Assistance has remained limited to a subcomponent for postal counter automation within an EU TACIS program and a brief UPU mission.</p> <p>In the current ongoing large-scale improvement of the banking sector and the payment system, the post appears to be excluded.</p>
Postal network	The postal network counts 920 post offices, or about 1 post office per 5,600 inhabitants. The 20 banks in Kyrgyzstan operate through 156 branches; more than 125 branches belong to the 3 largest banks. There is 1 branch per 33,000 inhabitants, but effectively in rural areas there is hardly any access to the formal financial sector. All banks are involved in microcredit, and in addition there are 40 microfinance institutions.
Postal performance	Kyrgyz Pochtasi's revenues were nearly USD 3 million in 2003 and revenues were slightly higher than operational expenditure. 18% of the revenues stemmed from postal (mail, parcel, express) services. Domestic demand for letter mail fell to 0.5 items per

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	<p>capita in 2003. Other mail flows, such as newspapers delivery, brought the number of mail items per capita to 5.8 in 2003.</p> <p>Financial services are reported to be the single largest revenue component, 53%, with other reported revenues contributing 30%. The break-down of these other services is not known.</p>
Market position	<p>The market for postal services is <i>de facto</i> deregulated and Kyrgyz Pochtasi reported at least 10 private sector operators in the postal services. Kyrgyz Pochtasi has lost a significant part of the business-to-business market for courier and express services. In the market for cash payments, the post plays a significant role as cashier network for state pensions and social security, as well as for utility payments.</p>
Latvia	
Institutional framework	<p>Latvijas Pasts is the public postal operator. It has a special status as non-profit, state joint stock company. The profits are tax exempt and can be reinvested in the enterprise. The Ministry of Transport and Communications acts as owner of the Post, regulator of the sector, and policymaker. The sector is liberalized and more than 25 private operators have been licensed to provide postal services. The Post has established several subsidiaries and joint-ventures for the development of new postal services.</p> <p>Historically the Post is charged with the execution of cash-based payment services. It is not a member of the interbank payment system. The Post has also established a division for postal giro account services. The Bank of Latvia has objected to an expansion of the post as deposit-taking institution. Consequently, Latvian Post has sought a partnership with one of the banks, Hansabank, to issue payment cards and connected savings accounts.</p>
Postal network	<p>In 2002 there were 964 postal offices, and 639 branches and agencies of banks and credit unions, and nearly 1,000 ATMs. This is a ratio of 1 post office per 2,500 inhabitants, or 1 bank branch per 4,000 inhabitants, a very dense infrastructure for financial services. In the past 2 years, more than 100 bank branches have been closed as a result of rationalization and bank mergers.</p>
Postal performance	<p>Latvian Post recorded an operational loss in 2002 that was covered by a subsidy from the state. 54% of revenues stemmed from postal (mail, parcel, express) services; 31% of revenues were reported as stemming from financial services. This is likely to be somewhat understated because insurance agency services provided at post offices were reported as "other services."</p>
Market position	<p>In 2003 the Post had 96,000 postal giro accounts, whereas the banks had nearly 1.7 million payment accounts in their books. The postal clients' transferable deposits amounted to USD 8 million, which were reinvested in the inter-bank market as part of the post's excess cash position.</p> <p>Although the post maintains a significant role in cash payments, with about 45 million transactions per year, the volume of the banks has grown much more, to about 70 million transactions per year. Other financial products are not provided on a large scale through the post offices.</p>
Lithuania	
Institutional framework	<p>Lietuvos Pastas is the state-owned postal operator. The Post reported that it had been transformed from a state enterprise into a joint stock company per January 2004. The owner is the Ministry of Transport and Communications. In 2002 a Communications Commission was established that regulates the postal sector. Prior to 2002, the postal</p>

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	<p>market was already <i>de facto</i> liberalized and deregulated, featuring a large number (>25) private operators in the mail and courier/express/parcel market. The Post does not have any subsidiaries or joint-ventures.</p> <p>In 1994–95 the post attempted to establish a Postbank joint venture through a competitive bidding process with one of the commercial banks to provide a broader range of retail financial services. The initiative met with considerable interest because several of the commercial banks had small branch networks and saw the opportunity to reach out to the mass population that was underserved by the Lietuvos Taupomasis Bankas, the Lithuanian successor to the USSR Sberbank, which was in a process of branch rationalization and closure in rural areas.</p> <p>However, the Bank of Lithuania did not allow the post offices to provide financial services beyond payment agency services for banks. The post entered in agreements with 3 banks for bill-collection services.</p>
Postal network	<p>Lietuvos Pastas has a network of 954 post offices, or 1 post office per 3,600 inhabitants. Only 10 of these are postal agencies operated by the private sector. The postal network is about 5 times larger than the bank branch network that includes 165 branches, or 1 per 16,000 inhabitants. About 70% of the branches are concentrated in Vilnius and Kaunas. In rural areas, post offices often represent the only service point to make payments. The banks also operate cash agencies, but data are not reported.</p>
Postal performance	<p>Lietuvos Posts nearly breaks even between operational revenues (USD 49 million in 2002) and expenditure. Through subsidies ranging between 2% and 7% of expenditure, its losses are covered. In 2002, 53% of revenues stemmed from postal (mail, parcel, express) services. Of the remaining 47%, 19% is reported as financial services. Services for Western Union and insurance companies are assumed to be included in "other" service revenues.</p>
Market position	<p>The post has a strong position in the letter mail market, but in other postal market segments has an estimated share in the range of 30–40%.</p> <p>In 2002 the banks handled more than 39 million payments (25 million for cash at the counter), roughly the same amount as the Post disbursed for pensions and collection of utility bills. Nearly 1 million Lithuanians keep payment accounts with cards in banks. The Post does not provide other services, like deposit taking or credit applications.</p>
Macedonia (Former Yugoslav Republic of Macedonia)	
Institutional framework	<p>Makedonska Posta is the public postal operator in Macedonia, organized as a joint stock company, 100% owned by the state. In 2002 the government outsourced the management of the Post to a consortium led by Canadian Post. The management contract focused on the postal operation only, to create a smaller postal network with fewer employees.</p> <p>Makedonska Posta is a shareholder (> 45%) in Posthenska Banka, which also has 2 private sector shareholders. The bank has a limited license from the National Bank of Macedonia for local currency operations (including credit). Until 2001, it was the Postal Savings House with telecommunications as co-shareholder.</p> <p>The Postbank is connected to the inter-bank payment system that was modernized in 2002. The bank is responsible for organizing the payments and savings services within the post offices.</p>
Postal network	<p>The post operates a network of 310 post offices; a ratio of 1 post office per 6,500 inhabitants. The banks networks are much smaller, around 100, and more than half of the branches are located in Skopje, the capital.</p>

<p>Postal performance</p>	<p>Makedonska Posta has revenues of approx USD 26 million and recorded losses during the past 5 years. In 2003, revenues increased considerably, to USD 3 million in 2003. About 27% of revenues stem from postal (mail, parcel, express) services.</p> <p>The largest part of revenues, 37%, came from financial services. The Post handled more than 15 million cash transactions (refugee payments, pension payments, utility bills); the volume is twice as high as the volume processed by the banks.</p> <p>In 2003, the post delivered 22.5 mail items per capita, which is more than in neighboring Kosovo, Albania, or Bulgaria. Hybrid mail volumes showed a particularly rapid growth.</p> <p>Services for Postbank also grew rapidly (at nearly 100% per annum.), up to 33,000 giro accounts in 2003 and 40,000 postal savings accounts. Total deposits exceeded USD 10 million.</p> <p>Neither the post nor the Postbank was connected to international payments system, and both have expressed interest in linking up to Eurogiro and/or Western Union or MoneyGram. Another area of activity is retail trade and ICT/Internet access, which appears to meet sound demand.</p>
<p>Market position</p>	<p>The postal market in the business-to-business segment is competitive in Skopje and several other cities. Makedonska Post is believed to have dominant market positions in the letter mail and parcel market, and a weaker position in the express/courier market.</p> <p>In small-value payments processing, the post and Postbank both have significant places. In the cashless payments and savings markets, the role of Postbank is quite small, but relatively rapidly capturing market share. Although markets for cashless payments, deposits, insurance, and small credit are relatively underdeveloped, there appears to be an interesting potential, but the bank is likely to need an injection of equity in order to capture those possibilities with the postal network.</p>
<p>Moldova</p>	
<p>Institutional framework</p>	<p>Poșta Moldovei was separated from telecommunications in 1993, when it became a state enterprise under the Ministry of Communications and Informatization. The Ministry combines the functions of owner of the post, sector policy maker, and regulator. Posta Modovei is the public operator. The market has been de facto liberalized, with several couriers operating in the business-to-business segment.</p>
<p>Postal network</p>	<p>The postal network has 1,270 post offices, with 180 in urban areas and 1,090 in rural areas. On average, a post office serves 3,300 inhabitants. This is considerably larger than the network of the 16 banks that comprises 165 branches, 92 representative offices, and 446 cash agencies. The postal network provides a vital infrastructure for access to payments and basic communications, in particular outside the urban centers.</p>
<p>Postal performance</p>	<p>Poșta Moldovei meets a strong domestic demand for mail. Domestic letter mail per capita was 13 items in 2003. Other lines of postal business, such as newspaper distribution, parcels, and dispatch of international remittances show growth.</p> <p>Operation revenues cover more than 90% of expenditure. About 50% of the revenues stem from the limited range of financial services and other retail agency services. Financial services include international money orders, and there is much interest in connecting with international money transfer systems to capture a larger part of this market. In 2003, it recorded a growth of 52% in 2003, or USS 146 million.</p>
<p>Market position</p>	<p>In 2003, the inter-bank payments systems processed some 6.5 million payments. Slightly more than 250,000 Moldavians (about 15% of the adult population) have a bank</p>

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	<p>card and payment account. The post office network plays a specific role in distribution and collection of small- value cash payments. These were estimated at about 12 million in 2003. The payments comprise the distribution of pensions and the transfer of postal money orders.</p> <p>The amount of local currency in circulation is about twice as high as local retail savings deposits. Even though retail savings grow quickly, the ratio between cash in circulation and the savings of individuals has not (yet) significantly changed. There is probably a large, unutilized opportunity for mobilizing small deposits. The postal network could help in collecting these deposits.</p>
<p>Other comments</p>	<p>The postal network in Moldova fulfils the function of a basic infrastructure for communications and payments. It has also been regarded as a potential backbone for the development of e-government and other ICT applications. These functions and the opportunity of providing ICT-based basic financial services, including a "remittance for development" concept would contribute to the economic turnaround of the postal operator and the rehabilitation of the postal network.</p>
<p>Poland</p>	
<p>Institutional framework</p>	<p>Poczta Polska is the public postal operator in Poland, with the understood status of a public utility state enterprise. In the process of preparing for accession to the European Union, proposals to transform Poczta Polska into a S.A (Ltd) with 100% ownership of the state have been considered, but not implemented. The state treasury is the formal owner of Poczta Polska, but supervision is charged to the Ministry of Infrastructure and a Council of Poczta Polska. This Ministry is also in charge of postal sector policy and licensing private postal operators.</p> <p>Previously, Poczta was limited to providing money transfer services and agency services for banks, but the recently adopted postal law allows Poczta Polska to provide a fairly broad range of deposit-taking, consumer credit, and money transfer services under its own name. These added financial services have sparked criticism from banks, in particular from the rural co-operatives. The broadened scope could be explained as a measure to help Poczta Polska achieve commercial viability and compensate for the increased liberalization of the postal sector.</p> <p>Bank Pocztowy S.A., the Polish postal bank, is licensed and regulated by the Narodowy Bank Polski, the Polish Central Bank. In the postbank's earlier incarnation (set up by PTT), both post and telecommunications owned 50% of the bank. Telekomunikacje Polska SA, prior to privatization, sold its postbank stake to Prokom Investments (a software house with a private investment arm), while Poczta increased its share to 75% when new shares were issued. Early attempts to negotiate a strategic partnership with international financial institutions came to naught because Poczta felt the offers did not reflect the value of the access to the postal network.</p> <p>Since 2000, the postbank has had an exclusive long-term agreement with Poczta Polska to provide financial services through the post offices. Before this, Poczta Polska maintained an agency agreement with the Powszechna Kasa Oszczednosci (PKO bp), the state-owned Universal Savings Bank.</p> <p>The postal savings bank provided both postal savings accounts and postal giro accounts and evolved into a significant institution. The post offices became an ancillary network for small-savings mobilization, and cash collection and distribution, and PKO focused on its own network. PKO maintained a relation with the postal network, which remained of more economic significance than the turnover generated by Bank Pocztowy.</p> <p>In 2002 the Polish government resolved on a privatization strategy regarding the remaining state-owned banks (BGZ, PKO, and Bank Pocztowy). The state treasury, as sole shareholder in PKO bp, agreed to acquire in 2004 25% of the shares of Bank Pocztowy from Prokom.</p> <p>One of the underlying aims (it was believed) was to increase the value of PKO for its imminent initial public offering in for November 2004. It was expected that the postal network would be repositioned as an ancillary or mass distribution network for PKO bp, and to retain PKO and Poczta as Polish-owned institutions. The proposed transaction has gained the approval of the monetary and anti-trust authorities. Reportedly, PKO and</p>

	<p>Poczta Polska have developed a joint strategy for financial services. Poczta aims to tap the retail financial skills and capabilities of PKO to reach out to the segments that PKO does not cover.</p> <p>In 1999 Poczta Polska founded the “Pocztylion” Pension Fund as a joint venture with Cardiff Insurances (BNP Paribas). This initiative took place in response to changes in the pension system, pursuant to the introduction of pillar 2 and pillar 3 pension plans. Meanwhile, the ownership structure of this fund has changed and it has merged with other pension fund companies. The number of subscribers was relatively small, less than 100,000, as Poczta was among the last to enter this market.</p> <p>As a part of its corporate strategy defined in 2002, Poczta identified financial services as a key area of development. In addition to its existing product lines, it prioritized mutual funds, international remittances, and consumer credit, with utilization of newly implemented ICT. In 2004 Poczta Polska announced that it had resolved not to develop or manage mutual funds in-house, but would seek a sales agency for white-label funds from asset managers. Implementation was expected in 2005.</p> <p>Regarding international remittances, Poczta Polska provides the traditional postal money orders. It is the only larger European country not yet connected to Eurogiro, nor does it provide agency services for Western Union or MoneyGram.</p>
<p>Postal network</p>	<p>The network of Poczta Polska has 8,223 post offices, of which nearly 6,000 are located in rural areas. PKO bp has a network of approximately 2,000 branches and sub-branches and 6,000 agencies, which work to support payroll operations. These agencies feature limited opening hours and are based in factories and large office buildings. BGZ, the Co-operative Bank for the Food-Processing Economy, and the 1,600 Banki Spoldzielczy branches represent a network of nearly 2,231 outlets, strongly represented in rural areas. The commercial banks have about 2,000 branches.</p> <p>Although the banking network has rapidly expanded in Poland, its density (1 outlet per 18,000 inhabitants) falls considerably short when compared with European countries. Particularly in rural communities, the postal network is often the only outlet to make payments.</p>
<p>Postal performance</p>	<p>With revenues of USD 1.75 billion, Poczta Polska has been able to record profits in the past 4 years. They have gradually increased to about USD 50 million in 2003. The main drivers for profit are the growing mail volumes in the reserved area, increased tariffs, and the payments services, particularly for social security. Neither business line is fully exposed to competition. With increasing liberalization of the postal and financial markets, analysts comment that Poczta Polska could incur severe losses within 2–3 years.</p> <p>Quality of services in the reserved mail area does not fully correspond to EU standards, and this makes Poczta Polska particularly vulnerable to new entrants in the liberalized postal market.</p>
<p>Market position</p>	<p>Poczta Polska maintains a dominant (>75%) position in the letter mail market. In the courier, express and parcel market, its position is weak, with an estimated range from 1% share in parcels to 10% in express. In logistics and hybrid mail, its market position falls below 1%. Poczta Polska is vulnerable in the letter mail market now that EU-based postal operators have more access to the Polish postal market, and can benefit from their acquisitions in the courier, express and parcel market, providing quality and efficiency as they expand into letter post services.</p> <p>The postal banking subsidiary Bank Pocztowy, with book-value equity around USD 25 million, ranks as one of the smallest banks in the Polish Banking system. It has about 100,000 account holders, mainly individuals, and small and medium enterprises. It also has about 400,000 depositors. As one of the last state-owned Polish banks, it is too weak relatively to effectively compete with the large banks that are predominantly owned by foreign financial groups. Through its recent linkage with PKO, it is likely to become a provider of financial services to those who are not served yet and to those who are unattractive to the existing commercial banks.</p>

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	<p>Poczta Polska has a traditional and significant position in the small value payments markets. This concerns ZUS (state social security) payments, collection of telephone and utility bills, and other recurrent payments. The volume was about 470 million transactions in 2003, about 30% of the total market of small-value payments processed through the national payment systems.</p> <p>In the early 1990s, Poczta Polska processed about 800 million cash payments per year in a much smaller market. It has consistently lost market share due to the ongoing substitution of paper- and cash-based payments by cashless/electronic payments. It has not been able to become a leader in the field of cashless payments, although it had been formidably positioned. A government resolution in 1992 mandated the post and its postal bank to implement a postal giro system, for which more than USD 10 million in government funds was allocated.</p> <p>The market positions in other segments or product lines in the financial market are insignificant.</p>
<p>Other comments</p>	<p>Poczta Polska has been plagued by frequent changes in executive management. Often appointments have been made on political grounds instead of professional qualifications. This has not helped the continuity in implementing reform and strategic changes.</p> <p>Poczta Polska has a tradition of developing ambitious plans, but lacks a track record of implementation. The relatively slow pace of reform may have been induced by the sheer size of the organization and the market, the powerful position of trade unions opposing changes, and the institutional setting.</p> <p>In 2002 a corporate strategy outlined Poczta Polska's development into a commercialized structure, with three main pillars, mail/courier/express/parcel, logistics, and financial services, supported by an advanced ICT-based post office network. The implementation required changes in the institutional framework, as well as access to corporate finance to accelerate the change.</p> <p>In 2004 the corporate plan was updated as the market environment had further developed. The postal sector legal framework had been somewhat changed, but the corporate status of Poczta Polska had not. This effectively continued to confine Poczta Polska to an organic growth scenario rather than seeking growth through mergers, alliances, and partnerships, and through access to advanced corporate finance solutions.</p>
<p style="text-align: center;">Romania</p>	
<p>Institutional framework</p>	<p>Posta Romana is the public postal operator in Romania. It was incorporated in 1991, and is currently a joint stock company with 100% of the shares owned by the state; it is also a "national company" (as opposite to a "commercial company"), which gives it a somewhat different status. It operates autonomously and independently from Posta Romana and the Ministry for Communications and Information Technology.</p> <p>The postal market has been de facto deregulated. There are more than 50 private operators, mainly in the courier, express, and parcel segment, and Posta Romana holds no statutory monopoly nor does it receive government subsidies. Posta Romana has established commercial structures, e.g., a telecom operator held jointly with Chinese investors.</p> <p>Posta Romana has long-term agency agreements with the state savings bank, Banc Post S.A (the Postbank), Eurogiro, and Western Union. It operates postal money order services under its own name, outside of the supervision of the National Bank of Romania. Banc Post S.A. is the main local banking partner of Posta Romana. The bank holds a universal banking license of the National Bank of Romania.</p> <p>Ownership changed in the early 1990s to several state-owned funds, as Banc Post was earmarked for privatization under a financial sector adjustment loan (a World Bank program). With support of IFC, a preparatory process was launched in 1993 and resulted in the 1999 sale to a strategic investor, GE Capital, in consortium with Banco Portugues de Investimento, IFC, and EBRD. Currently more than 70% of the shares are held by the Greek-owned EFG Eurobank.</p>

<p>Postal network</p>	<p>The postal network has 7,135 postal outlets, with about 2,700 post offices, 2,400 postal agents, and 2,000 rural postal outlets. The 2,700 post offices provide Banc Post services. The bank network has 2,253 sub-branches. More than 50% of these branches belong to the state savings bank (now under preparation for privatization).</p> <p>The network for electronic payments has started to develop only recently. In 2002 more than 3.3 million payments cards were in use, with 2,093 ATMs, organized in 11 different networks. Romania is still a cash society. The figures reported for M1, and the number of transferable deposits accounts, seem overstated as they included 32 million, largely dormant, savings pass book accounts of the state savings bank.</p> <p>The card to capita ratio is only 15%, and the 8 cashless payments per capita ratio is among the lowest in Europe.</p> <p>Apart from Bucharest with 2.2 million inhabitants, no other cities have more than 400,000 inhabitants. More than 60% of the population lives in rural areas, has low incomes, and limited or no access to the financial services infrastructure. Many of them are confined to cash and paper-based cash payments at post offices.</p>
<p>Postal performance</p>	<p>Posta Romana has transformed its operations without state intervention. Revenues amounted in 2002 to USD 175 million. Cost reduction (through retrenching staff retrenchment, closing postal outlets), and introduction of new services have been the pillars of the strategy. Courier, parcel, and several hybrid mail and e-based applications have been developed. In 1998, 41 post offices were equipped with computers and modems and marked the beginning of an on-line money order service, which gradually reached nationwide coverage. Many post offices still need upgrading.</p> <p>Posta Romana's market position in the letter post market is dominant. In the courier, express, and parcel market, however, it is less significant with an estimated 20%. This market is dominated by foreign and local players.</p> <p>Although the National Bank of Romania does not report on postal payments, the role of the postal network in the payment system is one of the main channels for recurrent small-value payments, such as collection of telephone bills, disbursement of pensions, children's allowances, and postal money orders. The total volume is estimated at more than 100 million operations per year. This is somewhat more than the total number of electronic payments (via ATMs, EFT POS, Internet) and those of the (inter-bank national payment system. Cash payments are also settled at cash-collection windows of utility companies and banks. Most of the cash payments processed by Posta Romana are settled on accounts of Banc Post.</p> <p>Banc Post uses the 2,700 post offices to provide savings and other retail financial services as well as its own branch network (approximately 130 branches, with some locations in large district post offices). Banc Post has been able to develop rapidly, with 2.7 million retail customers and 4.8 million accounts. It is the fastest growing retail bank in Romania. The EU and EBRD recently commended Banc Post as best large bank providing small and medium enterprise credit and microcredit.</p> <p>Banc Post and Posta Romana both agree that the postal network is underutilized for providing financial services, but a mutually balanced and satisfactory approach has not been reached, and further development suffers from internal competition. Initiatives to reinforce the relationship, e.g., through a postal network joint venture, have not materialized.</p> <p>Posta Romana has concluded an agency agreement with Western Union and Eurogiro, independent from Banc Post, which is also member of both networks. The postal network has become the main channel for person-to-person cash remittances in Romania.</p> <p>Posta Romana's network does not appear to have a role in pension reform</p> <p>Revenues from financial services are the main source of income for Posta Romana. Only 19% stems from mail services. The revenues from postal money orders are about 7%, and with revenues from remittances (Western Union) and Banc Post, the financial service component is 70% of total revenues. Rapid growth in financial services enabled Posta Romana to develop its own strategy and self-finance improvements in the mail</p>

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	<p>sorting operations and counters of the postal network.</p> <p>The overall aim of Posta Romana is to implement an advanced web-enabled platform in the post offices that would provide access to a broad array of electronic financial, retail, and information services, and thus to truly bring the old rural economy into the global new economy.</p>
<p>Market position</p>	<p>The market position in small-value payment processing in Posta Romana's network is significant, estimated at 30% of the total market of the volume of operations.</p> <p>In terms of savings mobilization, it is not reported which part of Banc Post deposits is generated through the postal network. Based on internal reports of both Banc Post and Posta Romana, this appears relatively marginal, with less than 3% share in the total household market, showing room for improvement and more effective marketing and service.</p> <p>BancPost has been a rival of the state savings bank and has achieved a similar market penetration (if active accounts are taken into consideration).</p>
<p>Russian Federation</p>	
<p>Institutional framework</p>	<p>Until recently, the Russian postal service was a department of the Ministry of Communications and Informatization, with 86 quasi-autonomous regional or specialized postal operator companies. In 2001, a federal unitary state enterprise "Pochta Rossija" was established. The state enterprise is in the process of integrating and consolidating the regional operator companies into a single national public operator, to be completed in 2006. In the course of its transformation, it has recruited private sector financial management to implement modern, advanced financial management, management information system, and centralized cash and liquidity management.</p> <p>The Ministry of Communications has a separate department for licensing, which has issued more than 90 licenses to private sector operators, mainly in the business-to-business segment.</p> <p>One of the entities recently integrated is an automated postal money center in Moscow. This unit is responsible for the development, accounting, and balancing of the inter-regional and international postal money order services. Electronic money transfer systems have been implemented and agency agreements have been concluded with more than 10 banks. In a few regions, the post is directly linked to the regional payments and settlement center of the Central Bank; in other regions it has to settle through correspondent accounts of banks.</p> <p>The Russian Post has an equity participation of around 10% in "Svyaz Bank," which ranks 60th in the Russian banking system in terms of equity (USD 35 million). The bank has been recapitalized and focuses on telecom finance and postal banking. Its original goal was to become a national postal savings bank, it failed to capture opportunities and remained a small and loss-making "pocket" bank. Prior to the Russian crisis of 1998, the largest banks at that time competed for an aggressive take-over of the bank in order to acquire access to the postal network.</p>
<p>Postal network</p>	<p>There are more than 40,000 post offices throughout the Russian Federation, including about 1,600 district or regional postal centers. More than 26,000 post offices are located in rural areas. The concept of postal agents or franchisers has not been introduced.</p> <p>The postal network is considerably larger than the 32,000 bank branches and agencies of approximately 1,300 banks. It is also much more strongly represented in rural areas and small villages, which often have no banking outlet at all. In Moscow there are fewer than 600 post offices, compared to nearly 3,000 bank branches and agencies.</p> <p>Using post offices as outlets for the banking sector has frequently been considered, as a counter to the potential monopoly of the quickly growing retail financial sector</p>

	<p>(where Sberbank holds >75% of deposits). The Central Bank of Russia, however, requires that staff handling deposit taking at post offices be employed and managed by the bank involved, implicitly requiring separate desks for banking services. This eliminates the advantage of cost sharing of staff and infrastructure. For payment services, this requirement is not required.</p>
Postal performance	<p>Russian Post's revenues grew to USD 1.47 billion, with a before-tax profit of nearly USD 50 million. About 30% of revenues stemmed from postal (mail, parcels, newspaper) delivery services. Total volume exceeded 6 billion items in 2003, representing around 45 mail items per capita. Several lines of postal business showed rapid growth, including advertising mail, hybrid mail, and parcels. In view of the underdeveloped retail trade infrastructure in the Russian Federation, direct marketing (catalogue shopping) and e-commerce could have high growth rates and attract more demand for postal fulfillment services.</p> <p>Financial services were the single largest revenue component, with 45.6 % of total revenues. This business line has strong growth, and is likely to grow more. The services included postal money orders (55 million transactions), pension payments (estimated 280 million), and payment collection services (estimated 300 million), ranging from insurance premiums, utility bills to installments for consumer credit. A competitive advantage of the postal payments network is its relative low cost, and its speed and efficiency in comparison to the banks' payments networks.</p> <p>Other services include retail trade and internet access. The post offices are seen as a vital infrastructure part of the e-Russia.</p>
Market position	<p>Russian Post's competitiveness in liberalized and commercial postal services has been boosted by higher levels of service, quality and speed.</p> <p>In the international and inter-city business-to-business courier/express segment, Russian Post faces fierce competition from DHL, FedEx, TNT, UPS, and several other specialized operators. Russian Post's market share is reportedly below 20% in this segment.</p> <p>In the financial services market, the position of Russian Post is essentially limited as a cash-payments agent. The volume of cash payments processed through Russian Post is estimated at 620 million, about 80% of the volume processed by the banks' payments systems.</p>
Serbia & Montenegro	
Institutional framework	<p>Posta Srbije is the trade name of the postal services in Serbia and Montenegro, operated as a state company that exercises the postal services as well as majority ownership rights in telecommunications, postal savings bank, and Mobtel.</p> <p>The Postal Savings Bank has been transformed into a company structure and received a full banking license from the National Bank in 2002. The Post-Telecommunications-Telephone (PTT) holds nearly 80% of shares and the state pension fund 9%.</p> <p>The Postal Savings Bank operates exclusively through all post offices, and provides a broad range of products, including giro accounts, payment cards, electronic banking, savings, and deposits in local and foreign currency and credit. In 1997 the PTT established Postbank as a small, licensed bank to undertake corporate credit services and to complement the scope of services of the Postal Savings Bank. Postbank was sold to EFG Eurobank of Greece in 2003.</p>
Postal network	<p>The postal network has 1,671 post offices, with 141 operated on an agency basis. There is 1 post office per 6,300 inhabitants.</p> <p>There are more than 45 banks in Serbia, many of them small, while the larger banks are state-owned and being prepared for privatization. The banks' network is estimated to</p>

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	<p>be a similar size as the postal network, but more concentrated in cities, whereas the postal network has more locations in rural areas.</p>
Postal performance	<p>Revenues of the post exceeded USD 210 million in 2003, but did not cover operations expenditures by nearly USD 18 million. The post received a subsidy of USD 37 million to cover losses and invest in modernization. Postal services (mail, parcel, express) represented 38% of revenues (about 17 mail items per capita). As a cost-reduction measure, mail delivery to rural areas runs twice a week only.</p> <p>Financial services are the largest revenue component with 41.3%, from postal money orders, payment operations, and services for the Postal Savings Bank (around 220 million transactions). Revenue from other services, 20.7%, is from retail trade and government agency services.</p> <p>The Postal Savings Bank's accounts are not public. Measured by its assets, it ranks among the 7 largest banks in Serbia, with the highest number of retail clients (reportedly 3 million) and the largest network. The Postal Savings Bank has nearly 1 million postal giro accounts. It is a major player in the small-value payments system and directly linked to the inter-bank payment system.</p>
Market position	<p>The Post operates in a competitive environment with an estimated 40–50 other private sector operators in courier, express, parcel, and direct mail services. The Postal Savings Bank has a broad outreach with nearly 30% of the population using its services.</p>
Slovak Republic	
Institutional framework	<p>Slovenska Posta, the Slovak postal operator was converted from a state enterprise into a joint stock company in 2004. A timeframe for privatization has not been set. The postal sector has been opened and more than 10 private operators provide services.</p> <p>After the break-up of the Czechoslovak Republic, the Slovak part of the postal bank continued to be owned by Post and Telecommunications (plus several transport and communications enterprises). Prior to privatization, Slovak Telecommunications disposed of its stake, which was transferred to the National Consolidation Fund, to be sold to a private investor. As the bank needed successive equity injections to stay afloat, two major shareholders emerged, the Consolidation Fund and Istrocapital. The Post's stake was diluted to less than 10%.</p> <p>Attempts to attract a strategic investor failed, and the post bank's majority shareholder opted for a course of organic growth and value creation before another attempt to attract strategic investments from financial institutions. It is also aiming at reinforcing its long-term exclusive partnership with Slovenska Posta.</p> <p>Posta provides a broad range of financial services on behalf of Postova Banka, ranging from cash and cashless payments, deposits, loans, and mutual funds. In addition Postova Banka has continued its own postal payment service, for which Postova Banka and VUB Banka are the main settlement banks.</p>
Postal network	<p>The postal network has 1,617 post offices (about 1 post office per 3,300 inhabitants). In addition to the postal retail network, the post has a logistics infrastructure with 46 sorting centers.</p> <p>The banking sector has 1,010 branches and agencies, of which about 700 belong to Slovenska Sporitelna (the state savings bank). The financial sector is almost entirely in private and foreign hands. The electronic payments infrastructure has rapidly developed and has widespread branches in cities and towns. The account card per capita ratio is 0.6.</p>
Postal performance	<p>Slovak Posts' revenues jumped more than 25% to USD 202 million in 2003. Profitability remained at around USD 5 million. The post received a subsidy of USD 1 million. New postal business lines grew, with more than 200 million items in 2003, such</p>

	<p>as advertising, direct mail, and hybrid mail. Postal mail, parcel, and express revenues generated 43% of total revenues. Revenues from financial services contributed more than 35%, from postal money orders, money transfers, utility bill collection, pension distribution, international remittances, and bank agency services.</p> <p>Internet access and retail trade generated approximately 20% of revenues.</p>
Market position	<p>Slovak Posts has a strong position in the traditional postal markets, as well as in the liberalized and new market segments. It has been able to maintain a significant position even though competition is strong in the business-to-business courier and express segment.</p> <p>In the payments market, Slovak Post has maintained a significant position as well, with 115 million cash payment transactions, compared to 163 million processed by all of the banks. As cashless payments gradually gain in popularity, the post faces decline. Reinforcing postal banking by emphasizing other financial services will become increasingly important. The post bank's 160,000 postal giro and savings accounts represent approximately 3% of the market.</p>
Slovenia	
Institutional framework	<p>The Slovene postal operator is Posta Slovenije, which was organized in 1999 as a joint stock company, with 100% of share held by the state. The Ministry of Information Society is the sector policymaker, while a separate agency regulates the postal sector.</p> <p>The postal sector has been opened to private sector operators, and there more than 20 active private and foreign operators. Posta has formed alliances with several operators, including DPD and TNT.</p> <p>A postbank (Postna Banka Slovenije) was established in 1992, with support of the Slovenian PTT. Eventually, the postal operator became a majority shareholder after the privatization of Telecom. During the privatization of state-owned banks, Postbank was earmarked to be sold. Eventually, after a financial sector review, the government decided that a merger with Nova Kreditna Banka Maribor, a small but quality financial group, would offer better value. The merger occurred in 2004 with a goal of creating synergy by expanding the product range sold through the post offices, developing better cross-selling, and eventually developing a service package for small and medium enterprises (that offers support in supply chain management, information and database management, accounting, and financial services).</p>
Postal network	<p>The postal and bank branch networks are about equal in size in Slovenia; both have approximately 550 outlets. The postal offices are more strongly represented in rural areas and the poorer provinces, whereas the bank branches are located in cities. In Ljubljana alone there are more than 160 branches.</p> <p>The post offices have all been modernized in the past few years, and are connected on-line through terminals. Post offices also have payment terminals and ATMs.</p>
Postal performance	<p>Posta Slovenije had revenues in 2003 of USD 190 million and a profit of 5% of turnover. Its main revenue source are from postal (mail, parcel) services which created 62% of revenues. The domestic letter volume per capita ratio was 188 in 2002; including all items, it exceeds 250, similar to the historic EU countries.</p> <p>Financial services (cash payments, post bank services, postal money orders, and Eurogiro international remittances as well as foreign currency exchange) were 18% of revenues.</p>
Market position	<p>In the postal market segments, Posta Slovenija has maintained a strong position; it has also been a leader (by contracting early partnerships with international players) in the very competitive segment of business-to-business courier services.</p>

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	<p>Although Slovenia has one of the most dense and advanced electronic payments infrastructures in Europe, its usage is lower than would be expected. Many people still use cash for recurring payments. In this market segment, the post continues to have a role, as it processed most of the pension payments and several flows of recurrent utility bills, a total of 15 million transactions.</p> <p>Postna Bank has remained a small bank with more than 100,000 accounts, but less than 2% of assets of the banking sector. The recent merger with Nova Kreditna Banka Maribor is expected to bring change and new focus on attracting more accounts and a higher share of clients.</p>
Tajikistan	
Institutional framework	<p>Tajik Post is a unitary state enterprise under the Ministry of Communications and Transport. The postal network functions as payment agent for several public entities (pension fund, telephone). It has suffered from the internal armed conflicts in the country.</p>
Postal network	<p>The postal network has 593 offices, and there are no agencies operated by the private sector. There is 1 post office per 10,500 inhabitants.</p> <p>The banking sector is small, with 20 banks operating 118 branches; 91 branches belong to the two largest banks. About 50 branches are concentrated in Dushanbe, the capital. With 1 branch per 60,000 inhabitants, the formal financial sector is difficult to access, and in many parts of the country the post office is the only place to make payments.</p>
Postal performance	<p>The revenues of the postal services in 2003 were USD 0.5 million. This was not sufficient to cover operational costs and a loss of USD 80,000 was incurred and partly covered by a subsidy. Postal (mail, parcel, express) services generated 14% of total revenues in 2003.</p> <p>Domestic demand for letter mail via Tajik Post is very low: 0.05 item per capita in 2003. The postal service handled 300,000 letter post items in 2003. Delivery in urban areas is twice per day. The largest flow is from newspapers and magazines, about 15 million items in 2003.</p> <p>Postal money orders accounted for 8% of revenues, and delivery of pensions and collection of several utility bills for more than 80%. Some revenues are also generated by retail trade at post offices.</p>
Market position	<p>In view of the limited data available on Tajikistan postal and payments markets, the position of the postal network is difficult to assess. Available data suggest that public postal communications have been marginalized and overtaken by other providers or communications means. The postal network functions as a formal channel in the cash payments system.</p>
Other comments	<p>Further assessment of the postal network is needed before repositioning it as a platform to offer a broader scope of payments and financial services (deposits, credit) and ICT applications.</p>
Turkmenistan	
Institutional framework	<p>The Turkmen Ministry of Communications operates the postal service as one of its departments. With the exception of a few international courier and express companies, there are no formal private operators in the postal sector.</p>
	<p>In the past 4 years, the postal network has been reduced from 413 post offices to 195,</p>

<p>Postal network</p>	<p>about 1 post office per 25,000 inhabitants.</p> <p>The banking sector in Turkmenistan is relatively small, with predominantly state-owned banks providing services to public agencies and companies. Recent data on the banks' network did not seem to be available. With support of international finance institutions, several attempts have been made to develop small and medium enterprise- and micro-lending.</p>
<p>Postal performance</p>	<p>The postal service broke even in 2003 with nearly USD 7 million in revenues. A breakdown of revenues shows that 59% came from postal services (mail, parcel, express), with a volume of more than 80 million items. The 5.6 letters or 17 mail items per capita is relatively high in comparison to neighboring countries. Revenues from philately amounted to 8.6% of total revenues. Financial services accounted for 15% of revenues and mainly relate to the disbursement of state pensions and welfare.</p>
<p>Market position</p>	<p>The postal sector has not been significantly reformed yet and has limited private sector participation. The sector, however, has been hit hard by new technologies, in particular faxes, as a means of conveying written messages.</p> <p>To adjust cost to declining turnover and revenues, Turkmenistan has significantly reduced its network. Once daily delivery of mail, however, has remained the same.</p> <p>The financial sector is in early stages of transition and is mainly focused on the corporate sector, with few incentives to increase demand from consumers or microentrepreneurs.</p>
<p style="text-align: center;">Ukraine</p>	
<p>Institutional framework</p>	<p>UkrPoshta is the public postal operator. It is a state enterprise for specialized communications under the State Committee for Communications and Informatization. Its official mission is to provide universal postal services. The sector has been opened to private sector competition and there are more than 10 operators, mainly in the international courier, express, and parcel services.</p> <p>The State Committee concluded an agreement with Deutsche Post for further commercial cooperation.</p> <p>The post, ministry, and pension fund were involved in 1992 in the establishment of the postal and pension bank, AvalBank, which has become a private sector bank and has emerged as one of the most respected financial institutions in the country.</p>
<p>Postal network</p>	<p>UkrPoshta has a network of 15,252 post offices, with 11,312 (75%) located in rural areas (about 1 post office per 3,200 inhabitants). None of the post offices is operated by a private entrepreneur under an agency contract.</p> <p>AvalBank has 1,400 branches, agencies, and mini-banks throughout the country, all in cities and larger towns. Several branches are located in district post office buildings. The banking sector has 190 banks with a dense network that is approximately the same size as the postal network, but >60% is concentrated in cities. Many of the banks are small and operate on a regional scale with a few branches in the district's main cities.</p> <p>Fewer than 10 banks operate nationwide networks. Oschadny Bank, the state savings bank, maintains the largest network with nearly 10,000 outlets.</p>
<p>Postal performance</p>	<p>UkrPoshta had USD 220 million in revenues in 2003. Other postal product lines remained stable or witnessed growth. Newspaper delivery of approximately 800 million items is the largest operational postal flow.</p> <p>Postal money orders contributed 6.2% to revenues (with more than 1 million money orders). Another 29.4% came from the delivery of pension payments and social welfare payments. Of the remainder, 42% is from collecting utility bills, mobilizing savings, opening personal bank accounts, providing transfers and other money orders, making</p>

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	<p>Western Union payments, as well as selling lottery tickets, offering photocopy and photo print services, selling transport tickets, and providing Internet access. Although a detailed breakdown of revenues is not available, it is assumed that a total of around 70–75% of revenues comes from financial services.</p>
Market position	<p>UkrPoshta's position in the postal market is presumed to be strong, except for the business-to-business international courier and express services. UkrPoshta's position seems to be challenged by new technologies, including e-mail and fax. UkrPoshta has started to offer these services too in post offices.</p> <p>AvalBank has a strong market position in the corporate and wholesale banking segment, with approximately 0.21 million clients. It is also strongly represented in the retail market, with 3.2 million individual clients and microentrepreneurs, implying that more than 20% of Ukrainian households have a bank relationship with AvalBank. Data do not indicate details on the number of clients who came through the postal network, or who primarily use the postal network.</p> <p>AvalBank has a market share of 60% in card payment transactions, and jointly with Ukrposhta its more than 350 million payment operations represent a similar position in cash-based money transfers. In savings and deposits, its share is estimated below 10%. AvalBank on-lends small and medium enterprise- and micro-credit from EBRD and World Bank.</p> <p>AvalBank has been frequently commended as "best bank in Ukraine" by several rating agencies.</p>
Other comments	<p>The partnership relation between Aval Bank and UkrPoshta is productive, but not ideal. It is essentially an agency agreement, with no commitment to invest in developing the postal network.</p> <p>UkrPoshta provides transaction-based access to a low-cost ancillary network. Issues of quality of customer service at post offices overlap between bank branches and post offices, and the limited scope of products offered at post offices continues to be points of concern for both partners.</p>
Uzbekistan	
Institutional framework	<p>Uzbekiston Pochtasi was transformed from a state enterprise into an open joint stock company in 2004. The government declared its intention to sell up to 49% of shares to a foreign strategic investor, although the time and mode of sale have yet to be determined.</p> <p>Pochtasi's regional departments were already organized into closed joint stock companies, wholly owned by Pochtasi. Pochtasi falls under the Agency for Communications and Informatization, which regulates the sector. The postal sector has been deregulated, and has more than 10 operators, which are mainly active in business-to-business courier and express services.</p> <p>Pochtasi and several regional subsidiaries were involved in the establishment of Aloqabank, a fully-licensed commercial bank that initially specialized in telecom financing and postal savings. Postal savings agencies have been established since 2000 in post offices under a partnership agreement between Aloqabank and Pochtasi.</p>
Postal network	<p>The postal network in Uzbekistan has been expanded from 3,029 post offices to 3,211 post offices in 2003 (about 1 post office per 8,100 inhabitants). More than 2,400 post offices are located in rural areas.</p> <p>The primarily state-owned banking sector is dominated by National Bank of Uzbekistan, which accounts for more than 65% of total assets. Uzhilsberbank is the savings bank. These two and four other banks have been assisted by the World Bank, in cooperation with EBRD, under a financial institutions development program completed 2004. This program improved the quality of financial institutions' management, payment systems, and banking technology, and led to private and foreign sector participation.</p>

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	<p>Aloqabank (the seventh largest bank) was not included in the program.</p> <p>Use of banking services by individuals has been low in past years, partly due to weak local competition and the multiple currency conversion system which effectively encourages stockpiling foreign currency and hoarding valuables at home.</p>
Postal performance	<p>Consolidated revenues of Uzbekiston Pochtasi in 2003 amounted to nearly USD 15 million, with 11% of these revenues coming from postal services (mail, parcels, express). Total mail volume in 2003 was only 11 million letters (8 million domestic), about 0.4 letter per capita. The main flow was from newspaper delivery, which came to 3.2 mail items per capita in 2003.</p> <p>The majority of revenue (56.5%) came from financial services, specifically delivery of pension payments, collection of utility payments, money orders, and savings mobilization. Another 32.5 % came from other services, predominantly retail trade (basic consumer goods) and communications services (fax, photocopies).</p>
Market position	<p>Uzbek postal market has sharply contracted and within the small market Uzbekiston Pochtasi has a strong position. Several new postal mail services, like direct mail, advertising, and hybrid mail, have not been developed, as demand has not been analyzed yet.</p> <p>The postal network is dense and mainly acts as an outlet for cash payments and retail trade. Electronic or cashless payment services have not been widely developed in Uzbekistan. With nearly 100 million transactions per year, the postal network is one of the main access points for recurrent small-value payments. In rural areas, it is the only access point. Postal savings have only recently been offered.</p>

Cross-Country Overviews

Product Diversification*

Country	Cash Payments	Postal Giro Accounts	ATM Cards	Intl Remittances	Postal Savings	Life Insurance/Pensions	General Insurance	Credit	Mutual Funds
Albania #	√			√					
Armenia	√			√					
Azerbaijan	√			√					
Belarus	√	√	√	√	√	√	√		
Bulgaria #	√	√	√	√	√				
Croatia	√	√	√	√	√			√	
Czech Republic	√	√	√	√	√	√	√	√	√
Estonia	√	√	√	√	√	√	√	√	√
Georgia #	√		√	√					
Hungary #	√	√	√	√	√	√	√		
Kazakhstan	√	√	√	√	√	√	√	√	
Kyrgyz Republic	√			√					
Latvia	√	√	√	√	√				
Lithuania	√			√					

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Macedonia	√	√	√	√	√	√			
Moldova	√			√					
Poland #	√	√	√	√	√	√	√	√	
Romania #	√	√	√	√	√	√	√	√	√
Russia Federation #	√	√	√	√	√	√	√	√	
Serbia	√	√	√	√	√	√	√	√	
Slovak Republic #	√	√	√	√	√	√	√	√	√
Slovenia #	√	√	√	√	√	√	√	√	√
Tajikistan	√			√					
Turkmenistan	√								
Ukraine #	√	√	√	√	√	√			
Uzbekistan #	√	√	√	√	√				

* The extent of diversification refers to the functionality of the offer, not the actual relevance or market share.

Cash based payment services are operated by the post (100% government-owned) as an internal department, under postal law.

Institutional Aspects of Postal Financial Systems

Country	State Ownership* of PFS Entity	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
Albania #	0%	FUT	CB	SLA	Front Office
Armenia	100%		CB	Internal	M + Ops
Azerbaijan	100%		CB	Internal	M + Ops
Belarus	100%	Belarusbank/ BelGazprombank	CB	SLA	Front Office
Bulgaria #	1%	Postbank	CB	SLA	Front Office
Croatia	>50%	Hrvatske Postenska Banka	CB	SLA	Front Office + Ops
Czech Republic	0%	CSOB/ Postovni Spořitelna	CB	SLA	Front Office + Ops
Estonia	0%	EYP/Postipank	CB	SLA	Front Office
Georgia #	0%	Georgian Postbank	CB	SLA	Front Office + Ops
Hungary #	<50%	Postabank (Erste)	CB	SLA	Front Office
Kazakhstan	100%		CB	Internal	M + Ops
Kyrgyz Republic	100%		Gov't	Internal	M + Ops
Latvia	100%	PNC	CB	Internal	M + Ops
Lithuania	100%		CB	Internal	M + Ops
Macedonia	<50%	Posthenska banka	CB	SLA	Front Office, M + Ops
Moldova	100%		Gov't	Internal	
Poland #	75%	Bank Pocztowy	CB	SLA	Front Office, M +

					Ops
Romania #	0%	Banc Post	CB	SLA	Front Office
Russian Federation #	10%	Svyazbank	CB	SLA	Front Office + Ops
Serbia	100%	Postenska Stedionica	CB	SLA	Front Office
Slovak Republic #	<50%	Postova bank	CB	SLA	Front Office + Ops
Slovenia #	>50%	Postna bank (NKBM)	CB	SLA	Front Office + Ops
Tajikistan	100%		Gov't	Internal	M + Ops
Turkmenistan	100%		Gov't	Internal	M + Ops
Ukraine #	0%	Post & pension AvalBank	CB	SLA	M + Ops
Uzbekistan #	<50%	Aloqabank	CB	SLA	Front Office, M + Ops

Legend: CB= Central Bank; SLA= service level agreement; Ops= operations; M= management

Cash based payment services are operated by the post (100% government-owned) as an internal department, under postal law.

* This refers to additional and account-based financial services; in all countries: cash payment services are operated as service of the Posts, regulated by postal law.

The product range has, in most cases, developed from basic, narrow cash payment services to a fairly full range of services. The actual volume and value of these services remain relatively small. As a rule of thumb, one should assume that cash payment services constitute more than 90 percent of the total volume and value of the transactions. This is clearly a legacy. In several cases, there is an internal conflict or counter-productive competition between cash-based transactions and the account-based services of a postal bank. A key issue is the structure of the partnership between the postal operator and the involved bank.

Most ECA countries frequently demonstrate initiatives and innovations when they provide financial services:

- Nearly all postal networks in the ECA region have significant electronic networks (including WANs and VSAT technology), which is used for applications for electronic money orders, bill payment processing, as well as tracking mail items, MIS, intranet, and client internet access.
- A significant number of countries develops new, more complex products, such as mutual funds, life insurance, and pensions, and more basic products, such as payment accounts and savings accounts, that were introduced recently or on a small scale only;
- Cross-border cooperation has strongly evolved in the area of international payments, via the Eurogiro network and UPU regional initiatives. Nearly all postal networks provide a range of international remittances, including from global money transfer agents, such as Western Union or MoneyGram.

4—The European and Central Asian Landscape in Perspective

Financial Services and Their History in Europe and Central Asia

Institutional frameworks for the provision of postal financial services in Europe and Central Asia were established at the end of the nineteenth century and the beginning of the twentieth century. Three different models influenced the development of the postal financial services, namely the Austrian postal savings bank model late nineteenth early twentieth century, the USSR Sberbank model during Soviet rule, and the Dutch/Scandinavian Postbank model in the 1990s.

With the establishment of the postal savings bank (Postsparkasse, or PSK) in 1883 in Vienna, postal giro and savings services were extended to most parts of the Austrian-Hungarian Empire.¹ PSK was established as specific legal person, with management and central operations conducted separately from the postal service. The post offices acted as agents of PSK. (PSK was also a wholesale funder to the government and other public entities.) Postal savings, check, and giro services were provided, which were important payment instruments for government and public agencies because they were more cost-efficient than check payments through the banks.

After World War I and the reshaping of Central Europe, postal savings banks promoted their presence and range of services through the postal networks, and became fixtures in local banking systems. They operated alongside rural cooperative savings banks, and regional and local savings banks. Unlike Africa and Asia, a dominant, quasi-monopoly did not develop. After 1917, the Soviet Union used the savings bank as its main channel for mobilizing household savings.

Pursuant to central planning guidelines, post and telecommunications networks were rapidly expanded, as were the agencies and branches of the Sberbank. In many newly-built residential urban areas, post offices and Sberbank agencies were neighbors, but not in the vast, sparsely inhabited, rural regions. Post offices were more densely represented in rural areas (determined by number of inhabitants and square kilometers) than Sberbank agencies, whose network was determined by number of inhabitants and economic prospects. The practice of operating Sberbank agencies in post offices became widespread; at the end of the 1980s more than 20,000 rural post offices (of the total 78,000 post offices) housed a savings bank agency. (Agents in post offices were not involved in lending.)

After the dissolution of the Soviet Union, most successor entities to the USSR Sberbank were commercialized and up-scaled, discontinued having agents in post offices, and closed many branches. (Numbers dropped from 44,000 outlets to fewer than 22,000 branches by 2002). Neither the newly established postal banks nor other banks have been able to fill the gap.

In Central and Eastern European countries under Soviet influence, existing savings banks plus postal savings and giro institutions were consolidated into national Sberbanks. The postal network became an ancillary cashier network, primarily providing cash distribution of pension and social welfare payments, collection of utility bills, and savings bank agency services (mainly small savings). The postal networks became significant outlets for bulk payments processing.

After the break-up of the Soviet single bank system, the postal banks were re-established as newly incorporated companies, licensed by the central bank for commercial banking operations but without specific mission or privilege. Nearly all postal banks were established with relatively small equity bases, in the range of USD 1 million to 5 million.

In the early 1990s, some of the promising legal and institutional features of the postal banks in Central and Eastern Europe were:

- non-exclusive access to the entire postal network, mainly to add post bank savings and transfer accounts, but with the possibility of offering a full product range including credit;
- cash management of some settlements accounts held by the postal service;
- build-up of small, branch networks to service the emerging small and medium enterprise market and some larger corporations;
- a clean balance sheet, with no “skeletons in the closet”; and
- the introduction of new bank technologies.

These features provided the newly established postal banks with the potential to capture relatively quickly a significant market share in the retail financial market and to provoke competition with the older state

¹ This included the territories that today are Hungary, Croatia, Slovenia, Bosnia and Herzegovina, the Czech Republic, and the Slovak Republic, as well as parts of today's Romania, Southern Poland, and Western Ukraine.

savings banks (which struggled with large portfolio of non-performing loans and legacies of inefficient paper-based systems). However, capturing the potential before them was in most cases a difficult mission because the postal banks also had these problems:

- No agreements between post and post banks to effectively integrate the management and operations of cash-based postal payments and the electronic payments instruments that postal banks could offer, plus little demand from the corporate environment or customers for cashless payments.
- Low priority for the transition and reform of the postal sector and postal networks to provide grass roots access to financial services, which took second place to separating posts from telecommunications, privatizing telecommunications (also favored by international institutions), and reform of the financial sector, central banks, and state-owned banks.
- Troublesome competition with state savings banks that received privileged deposit guarantees and other support from the government.
- No client segmentation between postal network and branch network, leading to inefficient use of bank branches and ineffective use of postal networks.
- Weak credit skills and policies, which allowed non-performing loans to increase rapidly.

The critical factor in building postal banking entities was the capability of postal bank management to develop the institution, and build a productive working relationship with postal networks. In the development of postal banks and their subsequent privatization, one can observe that in an increasing number of cases:

- equity participation of the postal operator in the postal bank was diluted to less than 5% (exceptions were Poland and Croatia);
- postal banks became subsidiaries of large international financial groups (e.g. KBC, RZB, Erste, EFG Euro Bank, SEB), had strong local shareholders (e.g. NKBM, Aval), the bank was positioned to serve the mass customer and small and medium enterprise segments with standard services, or new technology channels developed (e-banking, telebanking, ATMs);
- relationships with the post were not significantly restructured, and the post continued to handle bulk volumes of small-value cash payments for large parts of the populations that continued not to have access to more advanced financial services; and
- the distribution power of the postal network in retail financial services continued to be underutilized. (The market share of postal banks' assets in Slovenia, Croatia, Poland, Slovak Republic, Macedonia, for example, and all former Soviet Union countries fell below 2 percent in spite of their dense networks and strong positions in payments.)

The Role of the Postal Networks in Providing Access to Financial Services

The role of postal networks is based on their physical density and outreach into rural and poor areas. If the postal networks are included as points of access, most countries in the ECA region would have a ready infrastructure with 1 point of access per 3,000 inhabitants or less (a ratio found in EU countries). The post offices' role in processing bulk, recurrent flows of small-value payments results in considerable work flow at post offices.

The volume of payments processed through the postal networks was estimated at 2.8 billion in 2002 in the ECA region—a higher volume than payments processed through bank offices. However, the value of the postal payments is less than 5 percent of the total value processed through the bank payments systems. Several central banks in the ECA region do not include postal networks in their reports on the national payments system. On the other hand, few banks in the region want these payment flows in their network because they are regarded as loss-making (given the operational costs of bank branches). Moreover, in all

countries, with the exception of Hungary, postal networks and their payments processing centers are not connected to local automated clearing houses, and settlement takes place via various transfer accounts with commercial banks. (In some cases, the postal banks are connected to the clearinghouses.) Because the cash and liquidity management of postal networks tends not to be centralized, oversight of flows, cash positions, and settlement risks is not fully in place. The indirect settlement also leads to inefficiency in the settlement of the bulk flows.

Banks across the ECA region have begun launching cashless payments instruments. In Central European countries, the account/card per capita ratio approaches 1. Usage of the electronic payments tends to be very low, and the most frequently occurring transaction is withdrawal of cash at ATM from salary accounts. There are several possible explanations for the relatively slow evolution to cashless money. One is a low level of trust in cashless money. There are also few incentives to change the habit of making cash payments. In general, over-the-counter cash transactions are free of charge, while several of the cashless payment instruments charge fees to the user. Also, ATMs have charges for cash withdrawals, while salary or social security payments at the employer or via post offices are free. In general there are no policy frameworks to promote mass transition from cash to cashless payments. Such policy frameworks would have to include a pricing structure that would make usage of the most efficient payment instrument most attractive, ensure transparency, and make a cashless payment system widely available and accessible.

In the ECA region, postal networks are uniquely positioned to create economies of scale in the retail payment systems, to help enforce standardization, to lower cost to access or enter the payments system, and provide other channels than just through ATMs. Conversion from cash to cashless payments, however, is one of the biggest threats to postal networks as it would reduce the revenue stream that currently sustains the postal network.

Although nearly all postal networks have expanded their financial services, few have been able to achieve a significant market share (measured in accounts or in value). One obvious explanation is that many initiatives are new, and still need time to gain the required scale. This may not be totally valid, however, as postal banks have not grabbed the opportunities for substantial market share as have newly established commercial banks with smaller networks.

Another problem is that postal operators and postal banks have not agreed on joint strategies for existing payments processing, and conflicts often emerge when the banks offer products that compete with these operations. In this context, several of the postal bank partnerships lack mutual commitment to share the network, investments, potential clients, and revenues. This lack of mutual commitment is also seen in relationships with state savings banks, which remain strategically defensive. The distortion from state guarantees, tax privileges, and duplicate networks is an additional obstacle for small, recently established postal banks.

Another problem is the required marketing approach and focus. As several of the postal banking ventures in the ECA demonstrate, the postal network can be developed into a channel for a broad platform of financial services, such as payment accounts, savings, insurance, credit, mutual funds, and mortgages. However, given the size and complexity of the postal network, setting up and introducing each product requires a dedicated project approach, a fair amount of marketing, product re-engineering, new systems, training, and client education. In several cases, postal bank development strategies have been over ambitious and suffered from trying to do too much.

Another reason contributing to the limited success of postal banking in ECA is the lack of competitive partnerships. As seen in the country profiles, most postal banks were initially established as subsidiaries of the state postal and telecom operators. In cases where the postal bank was privatized, the exclusive, long-term relationship with the postal network was a very minor feature in the valuation and bidding.

For postal networks to provide access to financial services in the ECA region, countries may have to consider restructuring the partnerships and ensure a competitive basis for such partnership. In restructuring the partnerships, it should also be taken into account that financial services (mainly payments) are the single largest revenue stream sustaining the network. Although none of the postal regulators require their incumbents to report on the profitability and cost of the financial services, estimates based on simulations suggest that the

current range of financial services provides enough revenue to support the entire postal retail or counter network. In several cases, revenues exceed cost and the margins are used to cover deficits in mail operations.

5—Conclusion

The challenge for many European and Central Asian governments is either to marginalize gradually or phase out the state postal services and their networks within the next 10–15 years. Reducing the state postal service to only the universal service obligation for mail activities would be driven by the liberalization of the postal service, substitution of new technologies, and increased customer demand. This has already happened in the Caucasus where mail consumption has dropped below 0.5 items per capita per year. Here, the access to payments and other financial services provided by the postal networks has sustained the viability of the postal retail network. The challenge remains to set a proactive course in postal sector reform, which seems to be a difficult and complex decision for governments, as both the postal and financial sectors have substantial private and foreign participation.

The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Latin America and the Caribbean Region

**The World Bank Group
Global Information and Communication Technology**

**Postbank Advisory, ING Bank
Postal Policy**



Authors' Note

This section discusses the landscape of postal networks in the Latin American and Caribbean Region and their current role of postal networks in providing access to financial services. The landscape is intended to serve as a basis to assess the potential role to expand access to financial services.

For some aspects and some countries, data was not available or was very limited via the desk research (completed in 2004) employed for this regional study.

While this Latin America and Caribbean landscape can stand alone, it is an integral part of this large study of the potential of postal networks to coordinate with financial service providers in 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*) and 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*).

Glossary of Abbreviations and Acronyms

BRL	Brazilian real
LAC	Latin American and Caribbean region
MIS	management information system
UPU IFS	Universal Postal Union's International Finance System
USD	United States dollar
USPS	United States Postal Service
WSBI	World Savings Banks Institute

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Summary

Postal networks in the Latin American and Caribbean region (LAC) include nearly 37,000 post offices. Unlike Europe, Asia, or Africa, in nearly all of the Latin American and Caribbean countries, these post office networks lack a tradition of providing payments and savings services. The role of the postal networks in providing access to financial services is more incidental than an actual feature. Research indicates that currently 1.5 million people in Brazil and the Antilles have postal savings accounts with a total balance of more than USD 200 million. This is mainly due to the Banco Postal program, which also has provided more than 150,000 microcredit agreements.

Postal networks in the LAC region do provide payment services. Reportedly, about 7 million money transfer operations are performed through postal networks, including international remittances. The market share is small for both domestic and international remittances, and in general is far below 1 percent. It should be considered a marginal feature. Argentina, Brazil, Chile, and Uruguay have somewhat more advanced payment operations.

The postal networks in the LAC region differ from other continents in delivery of financial services at post offices. Public postal operators in this region were among the first in the world to face fierce competition from private and foreign entrants. As a result, diverse types of postal operators have established themselves in most of the LAC countries and have captured significant market share in all postal markets. In some countries, the public postal operator has been able to retain only a significant market share in domestic letter mail.

The postal markets in LAC region have, to a large extent, been de facto liberalized and deregulated, even though the public postal operator operates de jure as a broadly defined postal monopoly. Weak financial results, poor service quality, and the shift in the market caused several governments in the LAC region to react by addressing reform of the postal sector and the public postal operator. Various approaches have been pursued, ranging from outright privatization (Argentina), to outsourced management (Trinidad and Tobago, Nicaragua, Antilles), to incorporation and commercialization (Costa Rica, Uruguay, Chile) and improvement of service quality (Mexico).

By and large, introducing financial services in post offices appears to occur as a second or third priority. Public postal operators in the LAC region are concerned with restoring public trust by improving the quality of mail service, ensuring economic viability by developing their core business lines, and gaining commercial freedom to effectively compete with the private sector. In financial service provision, the public postal operators tend to prioritize the opportunities in international remittances. Initiatives range from signing agency agreements with Western Union to developing alternative postal applications (which to date have lacked significant scale and are not connected to service providers in the United States, the main origin of remittances to the LAC region).

There are several, severe obstacles (historical, legal, financial) to overcome to enable postal networks to provide financial services in the LAC region. It is useful to assess in more detail (a) applying lessons from Brazilian postal bank to other LAC countries (i.e., outsourcing key functions in the financial services operation to a competent private sector bank), and (b) capturing—through international cooperation—a stronger role in remittances as a trigger or lead product for a broader spectrum of financial services.

The rationale for doing assessments is to provide easier and broader access to financial services. "Yellow Book" reports on payment systems in the LAC region indicate that up to 75 percent of the population does not have a transferable deposit account (or debit card) with the payments system. The number of bank branches and sub-branches is approximately equal to the number of post offices. Post offices are more evenly dispersed throughout the countries, and found in locations where no banking facilities are available, and could be repositioned to compliment existing formal financial sector infrastructure.

1—Introduction

The postal networks in the Latin American and Caribbean region comprise **36,835 post offices** (about 5 percent of the worldwide postal network). Argentina, Uruguay, and Mexico have 80 percent (29,000) of these postal networks. The public postal networks are dense, with 1 public post office per 13,000 inhabitants. In addition to the public post offices, there are large networks of private postal operators and retail franchise networks.

Key Data on Postal Networks and Access to Financial Services	
Population	400 million
Gross national income	USD 317 billion
Territory (in square kilometer 000s)	13,206
Post offices	36,835
Staff	67,000
Mail items	18 billion
Postal financial transactions volume	6.5 million
Postal financial transactions (value)	USD 205 million
Postal giro and savings accounts	1.5 million
Postal financial assets	USD 200 million

Sources: Research by UPU, WSBI, World Bank, ING

A significant difference between Latin America and other continents is that mail markets have been de facto liberalized and deregulated for 15 years. State postal operators have in some cases a significant or dominant market share in domestic mail, but in all other segments (courier, express, parcels, direct mail), their share is in general less than 20 percent or insignificant. The main exception is Brazil where the Correios hold a strong market position in all segments. Per capita mail volumes average around 30 items per year, although some countries show only one 1 to 2 items per capita per year, and others (Brazil, Argentina) have much higher numbers. (These data relate to the public postal operator only, not to the postal sector.) Other private postal operators in several countries in the LAC region process two to three times the mail volume of the state mail.

Several public postal operators incur chronic losses and depend on state budget intervention to continue their services. In most other cases, postal operators break even, but have no budget for major improvements or innovations in their mail service. Revenues from postal mail services for the state-owned postal operator have tended to decline due to increased global competition in international mail, express, parcels, and logistics, as well as from substitution by e-mail, fax, and other new technologies.

Governments in the Latin American and Caribbean region are therefore increasingly rethinking the rationale of maintaining and operating public postal networks. In some cases, the public postal operator has been marginalized, mainly providing the universal mail service obligation but at poor quality. Several public postal operators and governments in the region have initiated postal reform programs, varying from privatization, to management contracts, to commercialization to quality improvement programs. These programs have not identified developing financial services in the post offices as a key priority.

The Role of Latin American and Caribbean Postal Networks in Providing Access to Financial Services	
Payment systems	<ul style="list-style-type: none"> • More than 1.5 million inhabitants (mostly low-income and rural) of Brazil and the Antilles use account-based services. • The systems are cash-based, playing small but valuable roles in money transfers and bill collection with varying degrees of success, particularly if new technology is available (Uruguay, Argentina, and Brazil). In general, they have very low volumes, though. • They do not participate in any of the programs to develop payments systems. In most countries, post offices are by law confined to providing postal money orders only. • Payments systems in LAC in general have advanced technological features, but are accessible or affordable to less than 25% of the population. <p><i>Access to modern cashless payment systems in general is not available, although there are a few exceptions demonstrating success. Roll-out in other countries will require substantial regulatory, institutional, and technical change.</i></p>
International remittances	<ul style="list-style-type: none"> • The product range of remittances has been somewhat expanded through experiments and upgrades, in particular with Universal Postal Union's International Financial Systems, but the actual role is still insignificant. The estimated market share is below 1%. Some postal networks have agreements with Western Union (Argentina, Chile) and Eurogiro (Brazil). • Although the United States is the main country of origin of remittances going to the LAC region, the US Postal Service (USPS) has been reluctant to develop remittance agreements or connections with their postal counterparts, which poses an additional obstacle to providing access. • In view of economic significance of remittances for LAC countries, key opportunities are being missed. <p><i>Access to international remittance services at post offices is very limited, and is not positioned in a "remittances for development" concept. Access would require considerable service and quality improvements and participation of USPS or an alternative network in the United States.</i></p>
Savings	<ul style="list-style-type: none"> • With the exception of Brazil and the Antilles, savings options are absent. • Regulatory frameworks in general prohibit post offices from taking deposits as one of its services or as an agent for a licensed bank. <p><i>Access to deposits or savings options are currently limited to approximately 1.5 million savers in Brazil and the Antilles. In general, post offices are not allowed to take deposits.</i></p>
Insurance and pensions	<ul style="list-style-type: none"> • Insurance and pension options only exist on an experimental basis in Aruba and are under preparation in Brazil. • Opportunities to develop these have not been captured. <p><i>Access to insurance and pension products at post offices is non-existent, but there are some promising experiments. Access would require regulatory</i></p>

	<i>changes and institutional reforms.</i>
Credit	<p>Credit is virtually non-existent through post offices with the exception of Brazil, which is rapidly developing as a leader in microfinance. There is some small-scale experience in Argentina and the Antilles. In Mexico, Bansefi uses some post offices for microfinance.</p> <p><i>Access to credit at post offices is virtually non-existent.</i></p>
Economic significance of the postal networks	<i>The economic significance is marginal, on average 2% of the revenues of postal operators in the LAC region stems from financial services. There is some diversification of products, and on average 20% of revenues stem from other non-postal services.</i>
Overall	<p><i>The role of Latin American and Caribbean postal networks in providing financial services is marginal, both in terms of access to the services and the economic viability of the postal operators. Lack of tradition, prohibitive legal frameworks, and poor service contribute to this situation.</i></p> <p><i>The recent Banco Postal initiative in Brazil demonstrates that the postal network can fill a valuable complementary function and provide basic financial services to previously unbanked communities.</i></p> <p><i>Institutional weaknesses of the postal operators (from a broad range of issues, including regulatory environment, governance, management, market and business development, management information systems (MIS), and technology) still need to be addressed so that postal networks can provide sound and sustainable access to financial services. Postal operators need public trust, which has been undermined in several LAC countries as a result of very poor service coupled with weak financial and market performances. In the deregulated postal markets, options for private-sector participation need to focus on assessing and engineering new approaches.</i></p>

2—The Landscape of Latin American and Caribbean Postal Networks

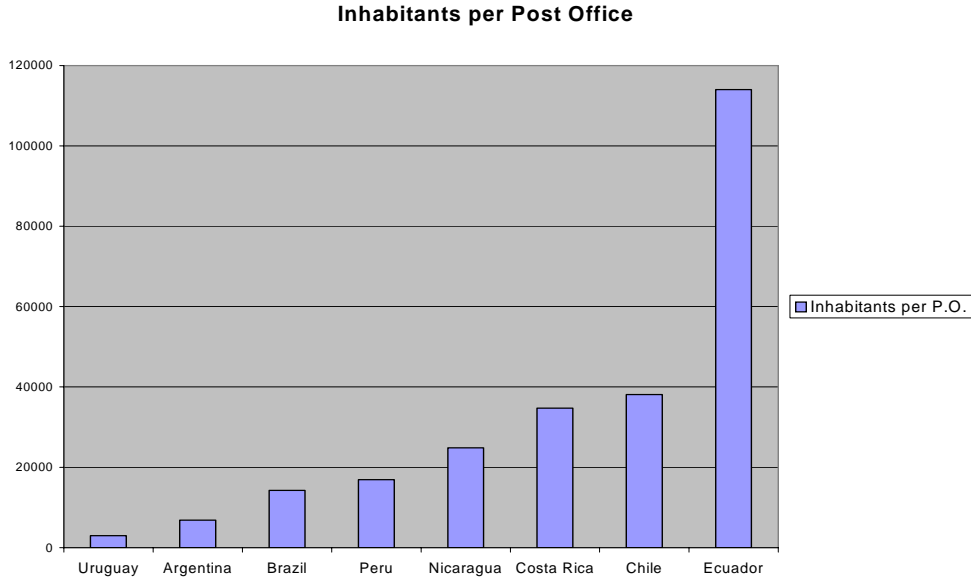
Post offices in the Latin American and Caribbean region have existed for more than three centuries, established by former Spanish, Portuguese, British, French, and Dutch colonial powers. The nearly 37,000 post offices in the Latin American and Caribbean region, run by public postal operators, do not in most cases include postal agencies or other services points. These arrangements differ from country to country, as do accounting and reporting practices.

In Latin America, private postal operators also manage large postal networks as collection and distribution points for mail and parcels, both for businesses and consumers. In addition to these networks, the region features retail franchise post offices, such as Mail Boxes Etc.,[®] that provide an array of private postal services. Data on these networks are not consistently available.

The figures in the charts below show dense coverage of post offices per inhabitant, although it is short of the ratio recommended by the UPU a gap of 1 post office per 6,000 inhabitants. Nevertheless, the postal networks in the Latin American and Caribbean region are much larger than other chains or banking networks. In fact, it is estimated that there are about as many post offices as all bank sub-branches. Postal networks in the

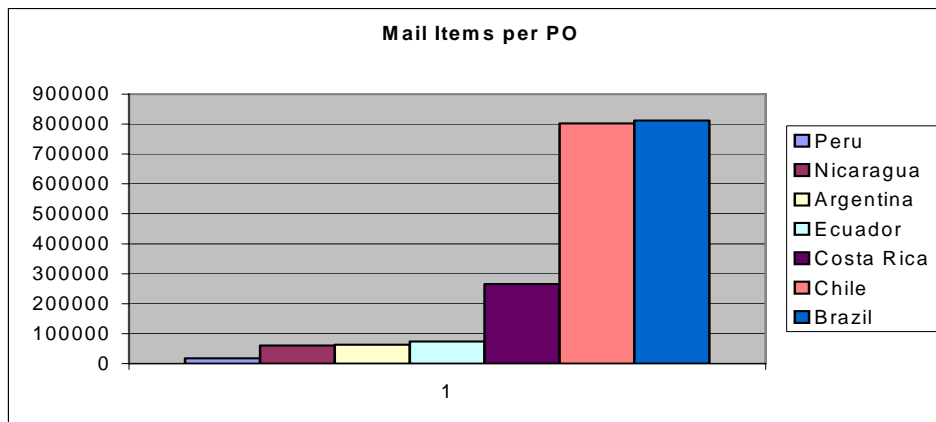
Caribbean and Central America tend to cover small areas, ranging between 50 and 500 square kilometers, while post offices in Brazil and Chile much cover larger areas, up to 3,400 square kilometers.

Which Mail Carrier Rang the Bell Today?



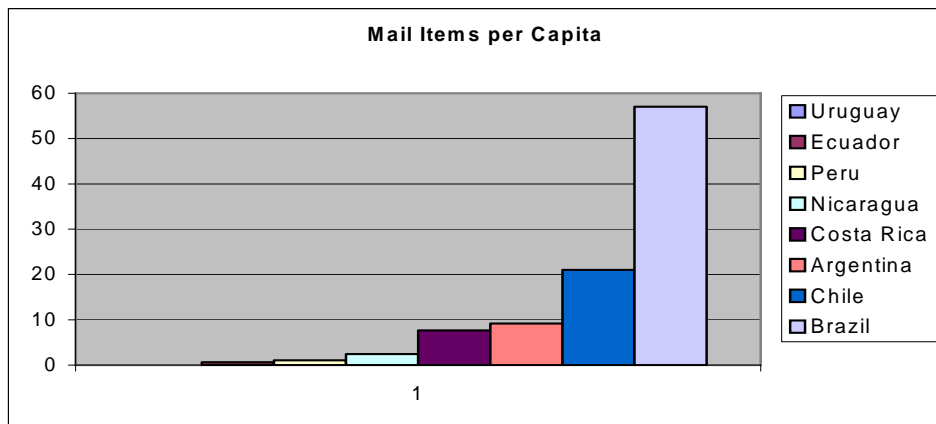
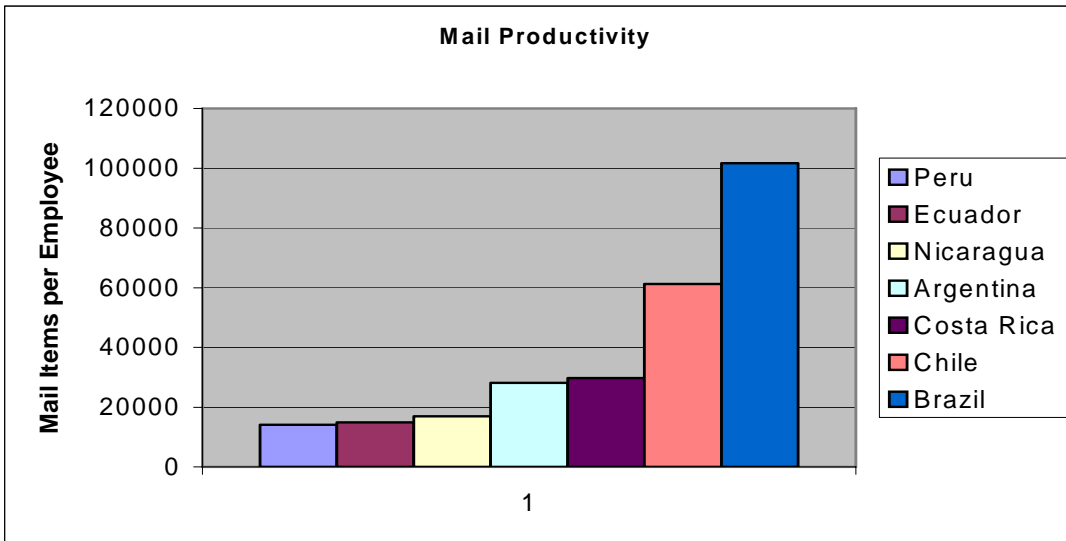
A cross-country comparison of mail items per capita (delivered by the public postal operator only) shows broad differences between Latin American and Caribbean countries. In Brazil, mail items per capita are nearly 60 per year, while in Ecuador, Nicaragua, or Peru, it is only 1 or 2 items per year. Total mail items per capita, however, are considerably higher in some of the LAC countries where companies and individual households receive mail from various operators, particularly in urban areas. In some cases, cost-efficient distribution methods for distributing bulky business-to-consumer mail flows (utility bills, bank account statement, etc.) are used, such as convincing employers to distribute bulk staff mail through the company’s internal mail system. This lets the postal system primarily serve the bulk letter mail flows between the public sector and households.

The average number of mail items per post office differs widely, from more than 3,000 items per day in Brazil and Chile to approximately 250 items per day in Nicaragua and Ecuador. Productivity of each postal staff



member also varies, with Brazil processing more than 100,000 mail items per year per staff member (higher than some industrialized countries), and with Ecuador, Nicaragua, and Peru processing a volume of around 15,000 items per year per staff member (i.e., approximately 60 mail items per working day).

In most Latin America and Caribbean countries, mail services are as the core business for post offices. Diversification into other services has been more limited than on other continents. On average 78 percent of the revenues stem from mail and parcel services, only 2 percent from financial services, and 20 percent from other retail, communication and financial services (Internet access; sales of post cards, telephone cards, and lottery tickets, Western Union agency services) and state budget intervention. As in other countries worldwide, revenues from mail services alone in Latin America and the Caribbean region will not sustain the public postal networks.



Revenue Flows and Financial Results of Public Postal Operators (2001)

Administration	Percent of Revenues from Letter Mail	Percent of Revenues from Parcels and Logistics	Percent of Revenues from Financial Services	Percent of Income from Other Services and Sources
Brazil	44.0	23.0	5.0	28.0
Mexico	95.9	1.1	2.8	0.2
Colombia	64.8	24.2	7.8	3.1
Argentina	89.0	7.0	1.0	3.0
Venezuela	75.1	0.0	0.0	24.9
Chile	90.6	3.8	0.0	5.6
Ecuador	95.1	0.1	0.0	4.7
Dominican Republic	42.0	5.0	3.0	50.0
Bolivia	21.4	2.9	4.9	70.8
El Salvador	70.0	10.0	0.0	20.0
Paraguay	61.0	11.0	0.0	28.0
Uruguay	96.0	1.0	1.0	2.0
Costa Rica	78.0	2.0	0.0	20.0
Trinidad & Tobago	73.0	4.0	2.0	21.0

According to UPU research data, the postal mail market in the LAC region is expected to show stable, slightly positive development. Research by the American Direct Mail Association predicts a 30-percent growth in direct mail over the next five years. This could be an exciting growth opportunity, but with the fierce private and international competition in this field, it is optimistic to assume that public postal operators will capture most of the growth in this segment.

Diversifying and utilizing the postal network to deliver financial services might be relevant to postal operators and their owners in the LAC region. In addition, several governments (e.g., Costa Rica, Brazil) and postal operators are wondering to what extent postal networks can play a stronger role in providing access to Internet and other communication services.

Postal Networks and Latin American and Caribbean Postal Reform

Latin American and Caribbean postal operators were among the first in the world to face dramatic changes in their business environment where they once operated as a monopoly. In nearly all LAC countries, the postal sector has been *de facto* liberalized and deregulated. Few countries, however, have fully adjusted their legal frameworks to the *de facto* situation. On one hand, international businesses, such as UPS, FedEx and DHL, have grabbed substantial market share in international and local business-to-business mail, while local and regional private entrepreneurs have filled in the gaps in the domestic courier, express, mail, and parcel segments, particularly in urban areas. As figures from Chile, Argentina, and Mexico show, the sector show a broad diversity of private postal operators, including the large global operators (UPS, FedEx, DHL, TNT), the strong nationwide and regional operators (Exel, OCA), and many small-to-micro operators serving one city only.

The *de facto* liberalization of the postal sector was mostly a response to the poor reputation and offerings of the public postal operators, often coupled with low quality of mail service that did not match the demands and requirements of the more sophisticated consumers (private sector and international business and urban individuals). A recent report indicated that 80 percent of international mail arriving in Ecuador does not reach

its destination within a month; other countries (Mexico, Colombia, Bolivia, Paraguay, and Venezuela for example) show substandard mail quality, which is the reason that private and foreign-owned businesses to engage private postal operators.


This combination of a de facto deregulated market, poor quality performance, and negative financial results triggered postal sector reform across the region, as well as the concept of disposing of the public postal operator. Privatization through long-term concession agreements was implemented in Argentina by 2002. Bolivia and Ecuador attempted to privatize the postal operator in similar fashion, but no change materialized. In Chile, Costa Rica, Uruguay, Mexico and Brazil different courses to postal reform were taken. Postal reform in these countries has some common denominators:


- Improvement in quality of service
- Transformation of the state postal service from a government department or agency into a corporate structure
- Accountable management and commercialization and diversification of services
- Preparation of a legal framework to regulate the various operators in the postal sector

In several cases, the postal reform turned into a lengthy, protracted process (more than five years in Brazil, Chile, and Mexico). In Nicaragua, the Antilles, and Trinidad and Tobago, private sector participation in the public postal service was achieved by outsourcing company management to a private operator. The experiences with these approaches appear to have effectively upgraded the quality of mail services and help instill modern and private sector management and accounting practices. None of these countries seized on financial service delivery through the post offices feature as a key element, except for Brazil. Also given the lack of tradition, developing financial services has not been a high priority. To date, financial services are seen as an "added-value" service that can generate some additional business.

3—Latin America and Caribbean Country Profiles and Overviews

Country-by-Country Profiles

Argentina	
<p>Institutional Framework</p> 	<p>The Argentine public postal operator is Correo Argentino S.A. The Correo privatization was a landmark in the postal industry and the first privatization in a large emerging market. (The consortium was made up of Sideco, 69%; Banco Galicia, 12%; International Finance Corporation, 5%; and staff, 14%.) It operated as a privately-owned company under a 30-year concession agreement with the government. The concession included the universal service obligation, an obligation to upgrade services and productivity, and payment of royalties to the government. The on-going business and utilization of the postal infrastructure were provided.</p> <p>Correo operated until the crisis of 2002 when it defaulted. With evidence of its inability to pay the concession amounts, the government cancelled the agreement and put Correo temporarily under state control. The plan was to re-privatize Correo, possibly with a new model, but it took more time than expected.</p> <p>Under the regulations of the Banco Central de la Republica Argentina, Correo was able to continue its money transfer and collection function, but it was not allowed to provide deposit taking services over the postal counters. For international remittances and local money transfers, Correo concluded a joint-venture agreement with First Data Corp/ Western Union to implement its payments processing technology.</p> <p>The National Committee for Communications is Argentina's regulator for the postal sector. It oversees the postal sector and licenses private postal operators. There are more than 300 private postal operators in Argentina.</p>
<p>Postal network</p>	<p>The postal network in Argentina comprises 5,300 post offices. About 2,000 of the</p>

	<p>post offices are the property of the state and rendered for use to the concessionaire; the other post offices are operated on a franchise or agency basis. The network has been reduced to about 500 offices since 1997.</p> <p>The network of 94 banks comprises 4,325 bank branches, of which 48% are situated in the metropolitan area of greater Buenos Aires. The banks serve about 7.5 million individuals in a population of 38 million. This suggests that the postal network (with 4,100 outlets outside Buenos Aires) could help provide more access to the financial system.</p>
Postal performance	<p>Over past years, Correo consistently upgraded and expanded the quality and volume of services. Correo had a market share of less than 25% in the total national postal market, with 37% in the mail market. Correo had access to large amounts of money (>USD 300 million) to inject into new technology and modernization. IFC, IDB, Citibank, Banco Galicia, and Banco Rio have been among the most prominent lenders. Employment was reduced from more than 18,000 in 1997 to 13,000 in 2003.</p>
Market position	<p>Correo's financial products are limited to money transfers services. It offers a widely-used bill collection service and fast postal money orders. This operation was developed with First Data Corporation. Although the service is mentioned in the "Yellow Book" as valuable, it concerns less than 2% of the total payments volume. For international remittances (in cash, person-to-person), the market share is believed to be more significant because Correo is the main agent of Western Union.</p>
Other comments	<p>The re-privatization of Correo underway does not feature an explicit initiative to utilize the postal network for financial service provision. The opportunity has been identified, though, by some of the potential bidders, but will nevertheless require a solution to the regulatory framework that principally prohibits deposit taking services at post offices.</p>
Brazil	
<p>Institutional framework</p> 	<p>The Brazilian public postal operator is ECT (Empresa de Correios e Telegrafos), operating under the trade name Correios. It is a state enterprise with some managerial autonomy from the Ministry of Communications. A 2002 revised postal law envisaged the incorporation of Correios, with more commercial freedom and a regulatory framework for the other (private) operators in the postal market. It is not clear if this proposed law will be adopted.</p> <p>Traditionally, ECT provided a limited range of financial services (cash-based money transfers and collection service), particularly in areas where banks do not provide such services (even though these operations were not compliant with the instructions of the Central Bank). The volume of operations was small, below 1 million operations per year. The Brazilian government considered allowing the postal network to provide savings and basic financial services. After a pilot program, Banco Postal began as a partnership between ECT and Bradesco Bank.</p> <p>The contract is a concession where ECT grants the selected bank to operate payments and savings services exclusively through the post offices. Under this partnership, ECT had a broad scope of tasks for front office and mid-office operations, but the overall responsibility for the banking operation was with Bradesco, which re-invests deposits as part of its own asset and liability management. Bradesco reports to the Banco Central do Brasil regarding the Banco Postal program.</p> <p>To enable participation of post offices in deposit-taking operations, the National Monetary Council approved the role of the postal network as a financial service intermediary. Also, other networks, such as lottery agents, were approved to become a bank agent.</p>
Postal network	<p>The postal network in Brazil comprises 12,200 post offices. About 5,500 of these post offices are property of ECT, and nearly 7,000 are operated on a franchise or agency basis. Post offices are strongly represented in the poor and rural areas of</p>

	<p>north and north-east Brazil, where chances of profitably privately running a post office are slim. Post office franchisers in Brazil usually do not operate other retail services, but usually offer added-value mail services (such as preparing direct mail campaigns, addressing mail, filling enveloping, sorting, or direct mail fulfillment) and mail account management.</p> <p>The postal network is smaller than the 17,700 bank branches. These branches are heavily concentrated in the greater metropolitan area of Sao Paulo and Rio de Janeiro. In addition, there are 22,400 ATMs, only accessible by existing bank clients, and 7,000 self-service stations, and 12,000 other agents.</p>
Postal performance	<p>Over the past years, Correios has been consistently voted the most reliable brand in Brazil. It scores 98 on a scale of 100, whereas banks score 42. ECT provides a high level of services and is profitable. Unlike many other postal operators, ECT can borrow money from banks in order to finance its modernization projects.</p> <p>ECT employs 83,000 staff, of which approximately 250 are involved in the Banco Postal program full time, while about 15,000 provide front office/ financial services over the counter. Bradesco Bank also has considerable staff working in the Banco Postal program for marketing, promotion, and data base management.</p>
Market position	<p>The products offered by the Banco Postal program include payment cards (VISA Electron), payment accounts, and deposit/savings accounts, and for established savers, microfinance from Bradesco. Plans to introduce insurance and mutual funds are underway, but a tender for a "Seguros Postais" partnership has not been launched yet.</p> <p>In absolute figures, the Banco Postal is too young to have significant impact on the market in household deposits. Bradesco's share in the growth of retail deposits boosted it to a leadership position thanks to Banco Postal, which has now more than 1,448 million accounts with BRL 150 average per account (approximately USD 50).</p> <p>Banco Postal's microcredit is a rapidly expanding product, the portfolio of which has jumped from BRL 112 million in March 2003 to BRL 270 million at the end of April 2004. With nearly 50,000 microcredit lines, it has a significant position in the microcredit market, which in 2002 counted about 180,000 microcredit agreements from 30 microcredit institutions.</p>
Other comments	<p>ECT has other initiatives, including providing Internet access at > 2,000 post offices and export trade support to small and medium-size enterprises.</p>
Chile	
Institutional framework	<p>Correos de Chile is charged with the universal postal service obligation. The scope of the monopoly covers domestic and international mail. Correos de Chile is a public enterprise. A proposal to incorporate Correos has been prepared, but not been adopted, and a privatization strategy has not been approved. In practice, Correos de Chile does not exercise a monopoly and operates in a de facto liberalized and deregulated environment. Chile has approximately 300 private postal operators, many of which operate on a local scale only with a small range of services (e.g., parcels only). About 20 companies provide nationwide service and a broad scope of mail, courier, parcel, and other services. These companies have heavily invested in technology and focus on urban business-to-business mail. There is no regulatory body for the postal sector.</p> <p>The Ministry Transport and Telecommunications fixes the tariffs of Correos mail services.</p> <p>Within the de facto deregulated market for mail services, Correos's freedom to diversify into other services is very limited. Correos de Chile offers postal money order services and is a sub-agent for Western Union remittances. It has considered a partnership with Banco del Estado to support continued outreach in rural areas, while the bank would be able to reduce its network. No conclusions have been reached.</p>
Postal network	<p>Correos de Chile operates through 460 post offices and in addition 528 agents, and</p>

	<p>345 pharmacies. This compares to the network of 1280 bank branches in Chile that serve approximately 1.5 million individuals.</p>
Postal performance	<p>Correos de Chile has a market share of 70% in domestic letter mail, but only 4% in the courier market. Through a joint venture with TNT, it has acquired a 32% share in the international express market. Correos de Chile is particularly strong in mass communications (from and to households), but it has only 33% share in the business-to-business market.</p> <p>In 2000 and 2001, Correos recorded severe losses and remains dependent on government tariff policy and subsidies.</p>
Market position	<p>The market position of Correos de Chile in financial services is very small. In the payments market, Correos has a share of less than 0.5 % in the volume of transactions. In international remittances (in the cash person-to-person segment), their position is believed to be better, mainly because of the sub-agency agreement with Western Union.</p> <p>Given the underserved portion of the Chilean population, involving the postal network extended basic financial services to individuals and small enterprises.</p>
Other comments	<p>Per Correos de Chile, the regulatory framework is antiquated, given the actual market situation, and an overhaul of the legal framework is needed to create conditions for Correos' sustainable development. Moreover, Correos reported that it considers the preparation and implementation of a new postal sector policy a high priority to provide clarity about its mission and statute in executing the universal postal service obligation. Further postponement could increase the risk of Correos de Chile becoming a marginalized operator.</p> <p>In the context of repositioning or restructuring the public postal operator, providing basic financial services does not really seem to feature.</p>
Mexico	
Institutional framework	<p>SEPOMEX was established in 1986 as a decentralized public agency to provide universal postal services in Mexico. The regulations set a very broad monopoly for mail services for SEPOMEX. As a state service it reports to the ministry responsible for communications. SEPOMEX was declared bankrupt in 2001 politically paving the way for restructuring and modernizing. A new regulation facilitated a centralized management of SEPOMEX.</p> <p>SEPOMEX operates in a de facto deregulated and liberalized postal sector. Private postal operators (local Estafeta and foreign operators) have strongly established their presence in the business-to-business market segment and the CEP services.</p> <p>SEPOMEX does not provide financial services, with the exception of domestic and international postal money orders. SEPOMEX did not qualify as contract partner for the international money transfers from US Postal Services.</p> <p>Under the BANSEFI program (a rural microsavings and microcredit institution), several hundred post offices were signed as outlets for BANSEFI, with its staff deployed at the post offices.</p>
Postal network	<p>SEPOMEX has a dense network, with 1608 of its own post offices, 8710 permanent post offices staffed with external staff, and 20,000 postal service agents (not full-time). The postal network covers all communities with more than 250 inhabitants.</p> <p>Around 63.2 million Mexicans live in urban or semi-urban area (552 towns have more than 10,000 inhabitants). All 7,311 commercial bank branches are located in these semi-urban areas: 1 bank branch per 8,600 inhabitants. In addition, there are more than 17,000 ATMs in the semi-urban areas.</p> <p>In Mexico, banks have issued 8 million credit cards and 33 million debit cards to</p>

The Latin America and Caribbean Region

	<p>clients in semi-urban areas, meaning that more than 50% of the semi-urban inhabitants has bank cards. The potential added-value of involving the postal system in the urban areas gives access to only 36% of the population (or 35.1 million); those who live in rural areas have very limited access to formal financial services. There are 28,000 communities with more than 250 inhabitants.</p> <p>Three million people live in communities smaller than 250 inhabitants and are not serviced by the post office system.</p> <p>The post office system could be considered an optional network to provide basic, uniform financial services particularly in rural areas and possibly be a network to provide access to the Internet.</p>
Postal performance	<p>SEPOMEX has operated at a deficit for nearly 10 years (based on government cash-flow accounting principles), with increasing costs and declining revenues. In 2002 changes were implemented to a reduce costs, including closing post offices and increasing revenues. A particular point of focus has been the improvement of quality of service of mail. A restructuring plan envisages it would break-even in 2005, although so-called "social" mail would still contribute negatively.</p> <p>Upon concluding the first restructuring phase in 2005, if SEPOMEX restored quality and economic viability. Its management would consider introducing financial services and other services as priority.</p>
Market position	<p>The market position of SEPOMEX is non-existent in financial services. In the payments market, SEPOMEX operates cash transfers (postal money orders), but the share in volume is insignificant, less than 0.1%.</p> <p>Mexico is one of the world's largest markets for international remittances. More than USD 10 billion per annum is sent by Mexican immigrants in the United States. SEPOMEX's extensive postal network does not play a role in remittance services and SEPOMEX's counterpart in the United States, the US Postal Service, chose a commercial bank in Mexico instead of SEPOMEX for its remittance services. SEPOMEX is aware that a critical condition for qualifying for any international payment system is the quality of its service and management system.</p>

Cross-Country Overviews

Product Diversification

Country	Cash Person-to-Person Transfers	Postal Giro Accounts	ATM Cards	Int'l Remittances	Postal Savings	Life Insurance/Pensions	General Insurance	Credit	Mutual Funds
Argentina	4			4					
Brazil	4	4	4	4	4			4	
Chile	4			4					
Costa Rica	4			4					
Mexico	4								
Netherlands Antilles	4	4		4	4	4	4	4	
Nicaragua	4			4					
Peru	4								
Uruguay	4		4	4					

The table shows that the product range has remained very basic and narrow, with the cash payments predominantly present. The majority of the countries also provide international remittances. As discussed the market share position in the payments products are very small, particularly if compared to the size and outreach of the postal network.

The narrow product scope is clearly a legacy of the past. Innovations through new programs have taken place in Brazil that can now be considered the leader in this field amongst public postal operators in the Latin America and Caribbean region.

Innovations in Postal Financial Services

Country	New Projects or Products Launched or In Preparation
Argentina	Pago Facil was launched to settle payments (utility bills) at post offices both in cash and with credit/debit cards. The operation was set up in a joint venture with Western Union/First Data Corporation.
Brazil	The Banco Postal program was launched in 2001 and has introduced deposit accounts, payment cards, microcredit, and international remittances (Eurogiro).
Chile	Intends to expand the range of financial services through a partnership with one of the banks. Talks have been conducted with Banco del Estado, but no conclusion has been reached.
Colombia	Plans to launch electronic remittances with Spain in 2004.
Costa Rica	In its commercialization drive, Correos launched new electronic remittance services with other Central American states and intended to do this with Spain. A partnership agreement has been concluded with Banco de Costa Rica to sell a limited range of financial products, and options and opportunities are being considered to further structure the financial services and expand the portfolio.
Ecuador	Is in the process of establishing electronic remittances with Spain.
Mexico	Will consider financial services as a priority when higher quality has been achieved in basic mail operations.
Netherlands Antilles	Product portfolio has been fully expanded to include payments, savings, and mortgage loans, and insurance in Aruba.
Nicaragua	New electronic remittance services were launched as a pilot with Costa Rica, with plans to further expand to other Central American states and Spain.
Paraguay	Plans to launch electronic remittances with Spain.
Peru	Plans to launch electronic remittances with Spain.
Uruguay	The Correo Banc initiative has been successful in efficient bill collection; deposit accounts and debit cards are not allowed under the current regulations. Correos has considered plans to create a partnership following the Brazilian experience, to launch electronic remittances with Spain.

Postal operators focused on expanding or upgrading their offerings in international remittances. Launching electronic remittances with Spain is useful learning experience to gain practice in the application of new technology; the economic value might be very limited. The main innovation was the Banco Postal program in Brazil, and its success has roused interest from Uruguay and Chile in try similar initiatives.

Regarding institutional aspects of postal financial services in the LAC region, one sees most of the postal operators providing money transfer services as an integrated part of their own operations. The Antilles have a historical structure (post office savings bank) that is a separate entity owned by Netherlands Antilles Posts, Ltd. Only Argentina and Brazil have different structures in their agreements with financial institutions. Argentina has a joint venture charged with the product, network, and operations management (but it does not have the status of a bank), and Brazil has a program under which Correios has licensed a private bank for eight years.

Institutional Aspects of Postal Financial Services

Country	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
Argentina	0%	JV Pago facil	CB	Internal	M + Front Office
Brazil	mixed	Bradesco	CB	Agreement	Front office
Chile	100%		Gov't	Internal	All
Costa Rica	100%		Gov't	Internal	All
Mexico	100%		Gov't	Internal	
Netherlands Antilles	mixed	Post Office Savings Bank	CB	Internal	M + Front Office
Nicaragua	100%		Gov't	Internal	All
Peru	100%		Gov't	Internal	All
Uruguay	100%		Gov't	Internal	All

Legend: CB = Central Bank; Gov't = government; M = management

4—The Latin America and the Caribbean Landscape in Perspective

The actual historic pattern for the Latin American and Caribbean region is that postal operators provided domestic and international postal money orders as an add-on service with no tradition of postal savings or banking as in Asia, Africa, and Europe. Instead, in many of the LAC countries, the doctrine of the 1933 US Glass-Steagall Act¹ was mirrored in their regulatory frameworks for financial services. The ensuing segregation of financial service institutions placed the postal network outside the financial sector, in several cases to such an extent that the post office could not act as an agent for a licensed financial institution. Also, the state treasuries did not push to make money through the postal network. As a result, most of the postal operators have been confined to postal money orders which are regulated under UPU treaties.

Most of the countries in Latin America have faced one or more grave constitutional and economic crises. This turbulence and market volatility have not only eroded savings but discouraged savings habits; in general, savings and gross domestic product ratios in Latin America are lower than in Asia or Europe.

Most Latin American postal operators (with the exception of Brazil) had few-to-no resources to diversify or to develop new or financial services organically because the overriding priority was sustaining their position in the core mail market. Due to growing competition from the private sector, poor service quality, and operational losses in the state postal mail services, virtually all financial and management resources were absorbed in sustaining loss-making mail services.

¹ In 1933 in the United States, following the 1929 stock market crash and during a nationwide commercial bank failure and the Great Depression, two members of Congress crafted a piece of legislation known today as the Glass-Steagall Act (GSA). This act separated investment and commercial banking activities, with an amendment that established bank deposit insurance for the first time.

Retail financial services in Latin America are in general well developed and feature high-tech, fast, and modern products that respond to the sophisticated needs of customers and sensitive to fraud risks. Initiatives to introduce financial services through the post offices would need to raise the level of sophistication: one Mexican postal manager described his clients as “poor but no fools.” Traditional products paper-based, manually processed postal savings passbooks will not fit the requirements of the market. The required institutional strength and capital expenditure to set up advanced payments and retail financial services would presumably stretch beyond the current capability of public postal operators to develop these themselves.

In addition, most Central American and Caribbean markets are too small to attain the economies of scale required to commercially justify large-scale investments to set up national postal financial service operations. Regional cooperation has not strongly developed, either.

The development of postal financial services in Latin American and the Caribbean region seems to have well-rooted barriers facing them, and core postal services are hard for governments to relinquish. In certain cases, reforming the public postal operator has led to renewed interest in providing financial services, especially in Brazil, Uruguay, Costa Rica and Argentina. The main focus in Latin America is on extending or upgrading the international postal money order business with the aim of providing low-cost international remittances.

The Role of Latin American and Caribbean Post Offices in Payments

In most of the Latin American and Caribbean countries, large-scale projects for payment systems have made substantial progress. The status of the payment systems and the payment system development programs is reported in the so-called "Yellow Books" prepared by the Center for Latin American Monetary Studies, the Western Hemisphere Payments and Securities Clearance and Settlement Initiative, and the World Bank. In none of the payment system programs underway is the post office linked to the check clearing houses. If they play any role in payments, they must settle directly with the involved financial institutions. This also applies to Argentina, even though Correo plays a significant role in the collection of utility bills. Moreover, the “Yellow Books” sections on the institutional framework do not provide data on the postal networks and in general little data on actual postal payments.

Country	Cashless Payments * (volume in thousands per year)	Number of Postal Payments ** (volume in thousands per year)
Argentina	142,000	1,900.0
Chile	341,000	230.0
Colombia	133,000	0.1
Costa Rica	43,000	0.0
Ecuador	39,000	0.1
Mexico	1,894,000	500.0
Venezuela	264,000	0.3

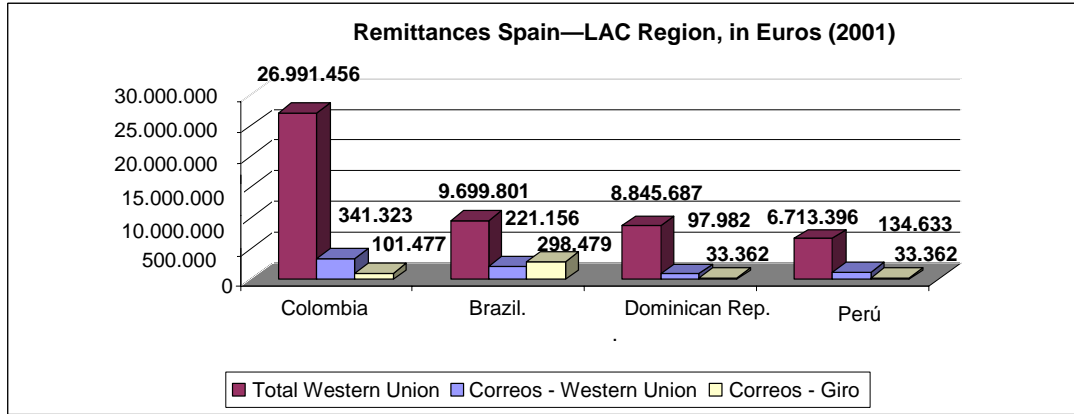
* Source: “Yellow Books” for 2000–03

** Source: UPU, 2002

The Role of Post Offices in International Remittances

With growing numbers of Latin American and Caribbean workers abroad (in the United States and Europe), the business of sending money home is accelerating. According to the World Bank, these flows amounted to more than USD 30 billion in 2002 in the LAC region. However, the international postal money order has lost much of its attraction because it is slow, cumbersome, and relatively costly, and occasionally the money never arrives. Complaints are above 10 percent and an increasingly number of industrialized countries terminated paper-based services after September 11, 2001, to foil easy money laundering and sending funds to support

crimes and terrorism. Services offered by other parties, such as Money Gram and Western Union, have captured a large part of the international remittances market. Western Union has 11,500 offices throughout the LAC region. Their agents include banks, independent organizations, and even post offices (in Argentina and Chile) as their principal agents



The postal services have recently launched an electronic money order service between the Correos in Spain and postal operators in El Salvador, Colombia, Venezuela, Uruguay, and Argentina, using one of the Universal Postal Union’s International Finance System applications. Introducing a so-called tele-money order would improve services offered. This tele-money order resembles the product features and business process of the money transfer products offered by Western Union and Money Gram, except that a low fixed fee is charged, and transmission would take two working days as opposed to the 10–15 minutes advertised by other providers. Other important differences are that marketing, promotions, and pricing, etc., must be determined and developed by the national postal operator, and exchanges will be based on bilateral agreements between postal operators.

However, postal money orders in 2001, with a value of nearly Euro 0.6 million, are a small part of the remittances that originated through the Spanish postal network, and a much larger amount flows to Western Union agents. Introducing electronic money orders might improve this somewhat, but a much more vigorous approach would be needed if post offices in the LAC region want to play a more significant role. Any approach would have to include a thorough market assessment and diagnosis of the current strengths and weaknesses.

Given the fact that most of the remittances to LAC originate from the United States, the involvement of the US Postal Service, or another provider, is critical for capturing a larger slice of the remittance flows. The US Postal Service provides international postal money orders to more than 20 countries worldwide, but too few countries in the LAC region. It has developed a specific product for the Mexican market, the Dinero Seguro, or Sure Money (a fast electronic money transfer product), in collaboration with Bancomer. The US Postal Service does not work with SEPOMEX (the Mexican postal service) in this field primarily due to the poor service quality and reliability experienced during a pilot project. A challenge for LAC postal operators will be to meet quality requirements of remittance providers based in the United States and to develop a unified product offering. Moreover, attempts in the field of remittances focus on this service as a “stand-alone” operation. This cannot be the first step of a “remittances for development” approach, where a fast, high-quality remittance service would restore customer confidence and serve as a springboard to offer a broader package of financial services, such as savings, payment cards, and credit.

The Role of Post Offices in Savings

The role of postal networks in Latin America and Caribbean region in savings has been virtually non-existent in past decades. Any Caja Postal or post office savings bank in operation was a marginalized entity, prior to becoming extinct. Only the Antilles and Aruba have continued to operate postal savings banks (Postspaarbank) that have some relevance within their local economies. In both cases, privatizing them is on the governments' agendas.

The main recent development in savings mobilization is seen in Brazil through the Banco Postal program. The Government initiated the program preparation in 1997 with the intention to provide access to basic financial services to the unbanked communities. The study and pilot experiences led to a partnership between the postal service ECT and Bradesco, a large, privately owned bank. The Central Bank of Brazil allowed the postal network to act as an agent of the bank and take deposit and to handle payment transactions.

The successful Banco Postal program commenced operation in 2002 and within three months more than 100,000 savings accounts were opened through the 1,000 post offices involved. More than 1 million accounts then were opened through the 5,500 public post offices. With the involvement of the post office network, 1,800 municipalities without access points into the financial sector were linked into the formal financial sector through the postal network. The success of the Banco Postal program has reinforced Bradesco's lead in growth of household deposits, and has increased the level of competition in this segment of the market. Other banks, including the Caixa Economica Federal, have reacted by contracting other networks, such pharmacies, lottery agents, and petrol stations.

The Need for Reform of the Postal Networks and Postal Financial Service Entities

As liberalization of the postal sector and increased competition continues in the LAC region, the issue of repositioning, reforming, or privatizing the public postal operator becomes more pressing. A number of reform and privatization attempts have not lead to effective, sustainable outcomes. In several cases, the government and other stakeholders consider that closing a significant part of the postal network and laying off postal workers would eventually result in other costs for the government, which deters them from pursuing privatization. In none of these cases is utilizing the postal networks as existing channels for financial institutions to deliver financial services broadly taken into consideration. Partnering with financial institutions that share the postal networks could significantly contribute to the commercial and economic sustainability of postal networks in the LAC region.

5—Conclusion

There are historical, legal, financial obstacles to overcome to enable postal networks to provide financial services in the LAC region. It is useful to assess in more detail (a) applying lessons from Brazilian postal bank to other LAC countries (i.e., outsourcing key functions in the financial services operation to a competent private sector bank), and (b) capturing—through international cooperation—a stronger role in remittances as a trigger or lead product for a broader spectrum of financial services.

The rationale for doing assessments is to provide easier and broader access to financial services. "Yellow Book" reports on payment systems in the LAC region indicate that up to 75 percent of the population does not have a transferable deposit account (or debit card) with the payments system. The number of bank branches and sub-branches is approximately equal to the number of post offices. Post offices are more evenly dispersed throughout the countries, and found in locations where no banking facilities are available, and could be re-positioned to compliment existing formal financial sector infrastructure.

The Role of Postal Networks in Expanding Access to Financial Services

Worldwide Landscape of Postal Financial Services

Middle East and North Africa Region

**The World Bank Group
Global Information and Communication Technology**

**Postbank Advisory, ING Bank
Postal Policy**



Author's Note

This section discusses the landscape of postal networks in the Middle East and North Africa region (MENA) and their current role in providing access to financial services. The landscape is intended to serve as a basis to assess their potential to expand access to financial services.

For this purpose, eight countries in the region were pre-selected for further analysis. The main assumption was that these countries have postal networks actively involved in providing financial services. The countries have diverse backgrounds, market contexts, institutional constellations, and development of their respective postal networks.

For some aspects and some countries (e.g., Libya, Syria), data was not available, or only to a limited extent, by the desk research finished in 2004. In particular, this concerns data for the role of the postal networks in the cashless payment systems, the significance of the postal financial services compared to monetary aggregates, and the details of the financial services rendered through the post offices.

Glossary

CNE	Caisse nationale d'épargne
ENPO	Egyptian National Postal Organization
ICT	information and communication technology
MIS	management information system
MNA	Middle East and North Africa region
UPU	Universal Postal Union
USD	United States dollar

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Summary

The services of postal networks in the MNA region are relatively well-advanced; their payment services include electronic and web-based applications to transfer money on-line and in real time. Nearly 8 million Middle Eastern and North African people use a giro account. Postal giro services provide money transfer channels for government agencies (municipalities, tax offices, public utilities). Postal networks also process international remittances, and have agreements with Eurogiro and Western Union, or have implemented their own electronic transfer channels. The limited data available suggest a significant role of the postal network in remittances, especially in the Maghreb region.

All of the postal financial services in the countries reviewed are state-owned. In most cases, they are administered by a separate state-owned entity (a post office savings bank or a national savings bank), utilize the postal network under an agreement with the post office, and some of their functions are operated by the post office. In Iran, there is an incorporated and licensed postal bank; in Morocco, there are partnerships with other financial services. The respective Central Banks are aware of the postal financial services, but do not actively supervise and regulated them. Postal networks and the postal financial institutions in general are not considered a priority in the large-scale programs to upgrade cashless payments systems or to strengthen the financial sector in Middle East and North Africa.

Financial services are highly relevant to the sustainability of the postal networks in the MNA region and to postal operators as a whole. In several countries, financial services are the largest revenue source for the postal operator. Postal operators are increasingly interested in expanding the range of financial services (to include credit), so reforming postal financial service entities and partnering with licensed credit institutions are priorities for them.

1—Introduction

Postal networks in the Middle East and North Africa region (MNA) have nearly **20,000 post offices**. Postal networks in MNA are large compared to other networks in the region, including an estimated 12,000 bank branches and sub-branches. In many of these countries, post offices have provided payments and savings services for more than 100 years. Research indicates that at the end of 2002 more than 25 million Middle Eastern and North African inhabitants had postal savings or giro accounts, with a total balance in excess of USD 50 billion. This represents an estimated penetration of more than 25 percent with the adult population. Actual market share in deposits in several countries is above 10 percent. Although the product range is limited and fragmented, rural citizens, public servants, and pensioners use the network extensively because there are no banking networks in rural areas or they have little confidence in formal financial institutions.

Key Data on Postal Networks and Access to Financial Services	
Population	262 million
GNI	USD 357 billion
Territory (in square kilometer 000s)	14,608
Post Offices	11,365
Staff	108,000
Mail items	1.6 billion
Postal financial transactions volume	94.4 million
Postal financial transactions (value)	USD 41 billion
Postal giro and savings accounts	25.5 million
Postal financial assets	USD 5.7 billion

Sources: Research by UPU, WSBI, World Bank, ING.

The average density of the postal networks in MNA is 1 post office per 13,000 inhabitants, and **the postal networks play a vital role in communications, payments, and savings mobilization**. Per capita mail volumes are on average 6.1 items per year in the MNA region. Revenues from postal mail services for the state-owned postal operator are likely to fall due to increased global competition in international mail, express, parcels, and logistics, and from substitution by e-mail, fax, and other electronic technologies, despite. In view of changes in communications media and technologies, more and more postal operators are seeking to upgrade their postal networks and to equip them with advanced, networked technologies. They need to rely on a diverse range of revenues that including financial services, communication services, and other retail services (such as printing services).

Lebanon started to privatize its postal operators under a long-term concession agreement. Although the quality of the postal mail service was upgraded by the concessionaire (a Canadian consortium), it was insufficient to sustain the company, and it was sold to a local financial consortium which added a range of basic financial services and other retail products to make the postal operation economically viable. **Jordan, Saudi Arabia, and several Gulf States are considering privatizing their postal operators** and preparatory steps have been undertaken. **In North Africa, the focus is on establishing partnerships with the private sector for specific products or services, not privatizing postal services.**

The Role of Middle Eastern and North African Postal Networks in Providing Access to Financial Services	
Payments	<ul style="list-style-type: none"> • More than 7.5 million Middle Eastern and North African inhabitants, including pensioners, rural citizens, military, and public servants, use account-based services for salary payments. Semi-public agencies, such as municipalities, use postal networks for domestic money transfers. • The postal network payment system is cash based, valuable as a significant source for money transfers, bill collection, etc., but has various degrees of success. It could be greater if new technology is applied. Several North African countries show significant volumes. • Postal networks do not clearly participate as an institution or infrastructure in any of the programs to develop payments systems. • There is risk of creating dual payment circuits or systems that can lead to higher costs and inefficiencies. <p><i>Access to a modern cashless payment system could be available broadly across North Africa and Iran. Further expansion in rural areas is underway. Linkage with the national payment systems should be issue of concern.</i></p>
International remittances	<ul style="list-style-type: none"> • Product range includes Eurogiro, Western Union, and UPU options. Actual role of postal networks in remittances differs widely from country, from very insignificant to substantial (Morocco, Algeria). Most of the traditional solutions have been de facto abandoned. • In view of global migration, big opportunities are being missed. <p><i>Access to international remittance services at post offices exists and in some cases represents a significant market position. It is not positioned in a “remittances for development” concept.</i></p>
Savings	<ul style="list-style-type: none"> • There is good penetration: in some countries, 10%–30% of adults have accounts with the post offices. In terms of market share (value), postal savings represent a significant amount (>10%). • Actual usage (deposit transactions) is quite high, suggesting relatively low numbers of dormant accounts. • Depositor confidence is still dependent on state guarantees. Tax exemptions could be seen as creating unfair competition. • Most often there is a single product offering, no range of deposit products and no link to other services, such as remittances, payments, credit. Often there is institutional separation between savings and payments. • Integration of savings and payments operations and addition of a linked database could be the basis for expanding into more products and a full-fledged banking institution. <p><i>Access to deposits and savings is widespread, with more than 20 million clients who actual use the services. There is a potentially strong basis to expand to other client target groups and to other products.</i></p>
Insurance and pensions	<p><i>Access to insurance and pension products at post offices is non-existent</i>, but there are some promising experiments. In other countries, postal savings books still function as de facto retirement schemes. Opportunities to expand are not captured.</p>
Credit	<p><i>Credit is virtually non-existent through post offices.</i> In Morocco and Iran, programs are under preparation; in Tunisia and Algeria, it is seen as a potential</p>

	development.
Economic relevance for the postal network	<i>Delivery of financial services through the postal networks is vitally important for the sustainability of the postal network and the postal operator.</i> In Algeria, Egypt, Morocco, Tunisia, and Syria, postal networks thrive on the revenues from financial services. The net revenues are to some extent re-invested in upgrading services and technology for the financial services. In some other cases, the revenues cover operational losses of the mail operations.
Overall	The role of Middle Eastern and North African postal networks in providing financial services varies from marginal to significant in deposit taking and transfers. Several postal operators have implemented reforms and improvements, in number of products offered, upgraded technology, and quality of services. While more advanced than in some other parts of the world, there are issues and weaknesses that need to be addressed in the next few years to ensure sound and sustainable financial services can be provided. Specifically these are the regulatory environment, interfaces with banks and payments systems, governance, management, market and business development, and management information systems (MIS).

Several governments consider **the post offices as point of access into the “e-economy.”** Given the relative success of the postal networks with financial services and particularly payment services, it will be important to ensure that the postal payments systems become part of the national payments system, and be considered a vital component of the payments infrastructure. Failure to do so could result in the development of dual payment circuits, with different technical standards, processes, and risks, which lower efficiency and make the payments system less transparent.

North African postal operators in particular are necessary to provide access to financial services. Studies are on-going to transform the postal financial services operations into postal banks. Since the postal retail networks are largely if not entirely dependent on the transactions and revenues from financial services, a key issue in these studies is the nature and structure of the relationship between the postal banking institution and the postal retail network.

In the Middle East, postal financial services are less developed, perhaps with the exception of Yemen which has a postal and savings corporation that provides basic financial services to more than a half million inhabitants. In other countries, the postal savings function is non-existent or insignificant. In United Arab Emirates and Lebanon, partnerships with private-sector banks have been established, which could inspire neighboring countries to follow this example.

Iran is the only country in the region with a post bank that is an incorporated entity, a subsidiary of the post, licensed by the Central Bank. The Postbank was established in 1996 to reach out through the postal to rural areas. Unfortunately, the Postbank has not made much progress in achieving this mission.

2—The Landscape of Middle East and North Africa Postal Networks

Post offices in the Middle East and North African region have existed for several centuries, established primarily by former British and French rulers. Originally, post offices were established to provide mail services, and post offices were seen as an “anchor” in the mail-processing infrastructure. In many of the countries in the MNA region, this has remained the case. In few countries, separate (automated) mail sorting and processing centers have been established, mainly to deal with international mail processing (e.g. Cairo, Dubai).

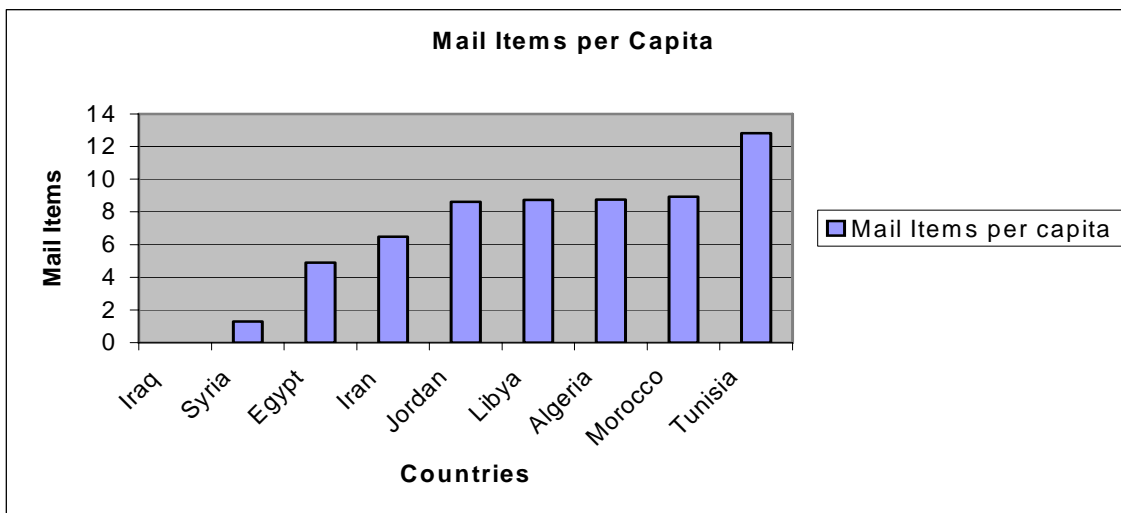
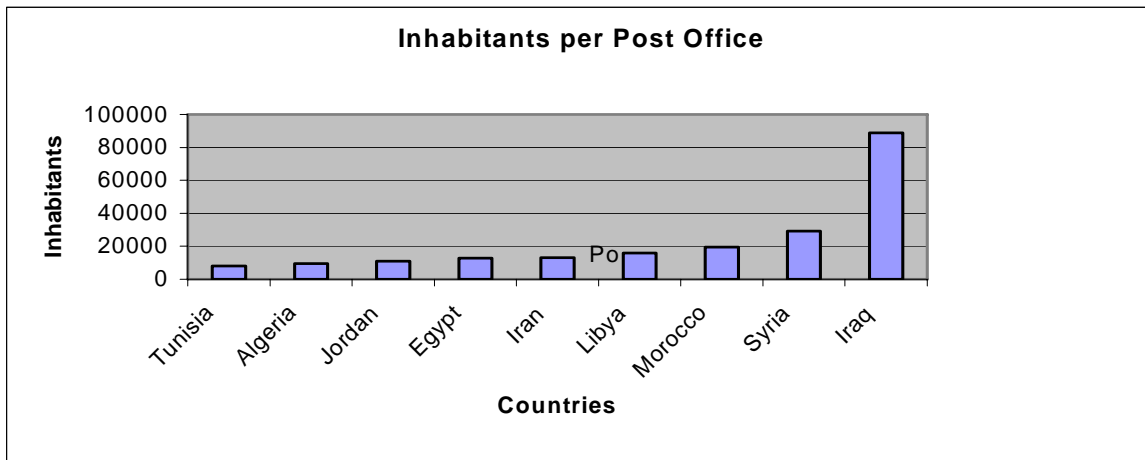
The postal network in the Middle East and North African region is uniquely large compared to other chains or banking networks. In fact, it is estimated that **there are nearly twice as many post offices as**

bank branches. Post offices in the Middle East and North African region tend to have a front office to collect mail and parcels, sell stamps, and transact financial services, as well as an extensive back office for "last mile" mail sorting.

Did the Mail Carrier Ever Ring a Bell?

In 2002 there were about 18,470 post offices in the countries selected for this study. Algeria, Egypt, and Iran account for nearly 14,000 offices, and the other five countries for about 4,500 offices. Several countries make use of postal agents and sub-post offices (e.g., Egypt and Iran) and it is unclear to what extent they are included in the above figures. **In many cases, these agents are not private entrepreneurs running the post office like a shop, but municipalities** that provide office space and staff to operate the postal agency at low or zero cost to the postal operator. This ensures the availability of postal services in the respective townships, but could also be a hidden subsidy.

The density of the postal networks, expressed as the ratio of post offices to population and to territory coverage in MNA is fairly dense compared to sub-Saharan Africa. There are differences per country as the charts below show.

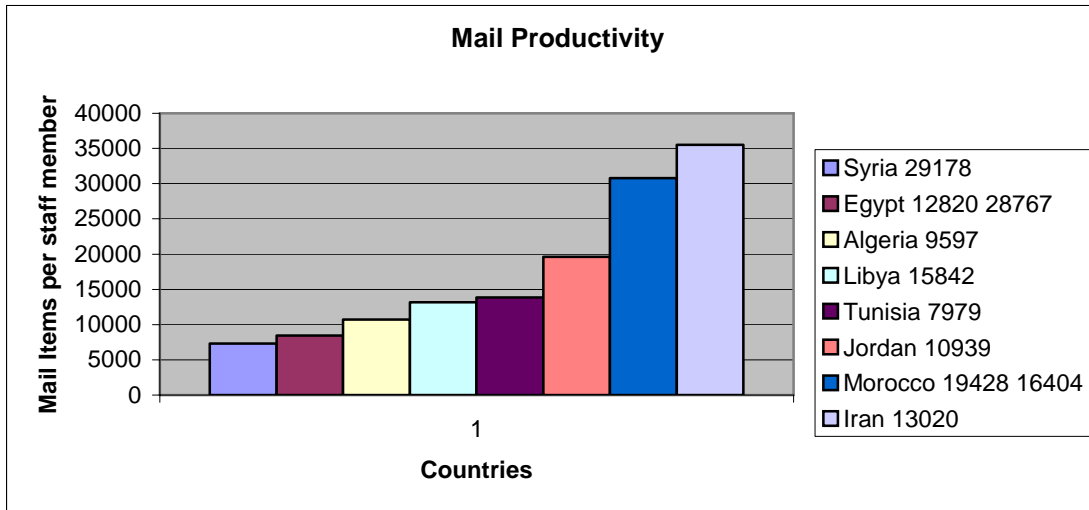
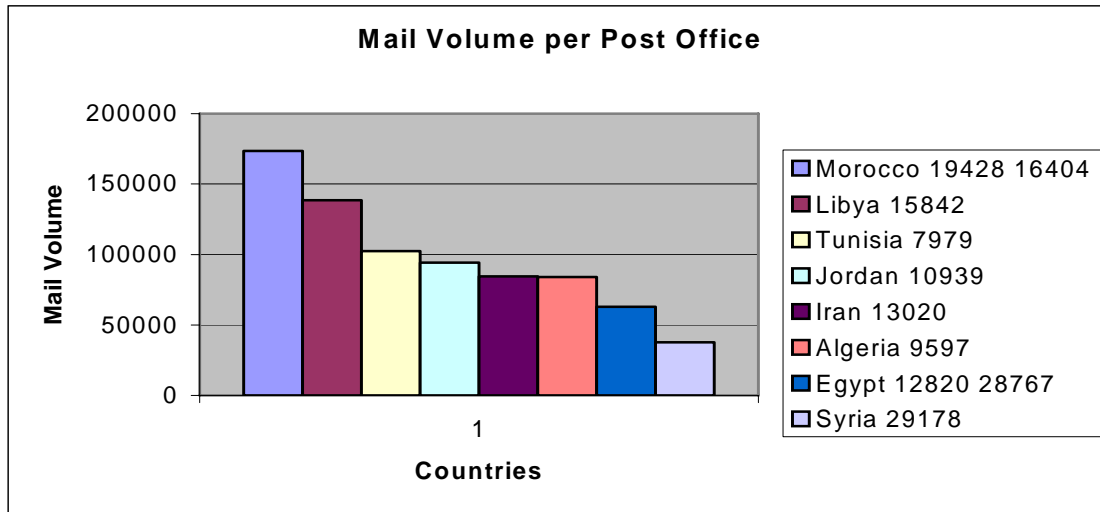


The Middle East and North Africa Region

In Egypt, Tunisia, Jordan, and Morocco, the average distance to a post office is less than 15 kilometers. In Syria and Algeria, the average is 25 kilometers, but in Iraq, Iran, and Libya, the distance is more than 40 kilometers.

Households are supposed to receive mail one or more per times per month, but often mail is not delivered and must be picked up at the post office. The volume of mail items that post offices process per day on average ranges in most cases between 250 and 500. Syria has lower average volumes (150 per day), while Morocco's are slightly higher (700 items per day).

The productivity per postal staff member also varies, from an average of 30 pieces handled per day in Egypt and Syria, to Algeria, Jordan, Libya, and Tunisia where it is in the range 40–70 per day, and Morocco and Iran in the range of 20–140. These volumes are relatively low and may point at overstaffing or unutilized capacity. These figures, however, do not reflect the financial services workload that postal staff handles.



Although the **postal mail services are supposed to be the core business for post offices, in much of the Middle East and North Africa they have not generated sufficient revenues and business volumes to**

achieve financial self-sustainability. Governments in MNA have tried to increase utilization of the postal infrastructure by adding other activities:

- Other communication services (telephone, telegraph, telex, fax, internet)
- Government and public services (government announcements, public information, registrar functions, e-government)
- Financial services (payments, savings)

This diversification is presumed to have contributed to the post office being a publicly accessible communication center, and improving economic viability, but it has also been the basis for cross subsidization.

Using post offices as communication and information centers revived with the advent of the Internet.

Algeria, Morocco, Egypt, and Jordan are reportedly looking into information and communication policies that will upgrade the postal network to offer e-government services and change post offices into tele-centers or Internet cafés. Apart from e-government, e-learning is also an application under consideration. Since only a small percent of the inhabitants of MNA have access to Internet, the post office infrastructure could help to bridge the gaps in the digital divide.

The basic figures shown above indicate that for several countries the postal service cannot be operated profitably with postal mail services alone. Although UPU research indicates that postal mail volume could rise in the medium term in Middle East and North Africa, it is somewhat unlikely that they will reach the levels seen in Europe or North America. The question arises, not whether to keep supporting the postal infrastructure to provide mail services, but how soon to make postal counters the front offices for the financial sector.

Postal Networks and Middle Eastern and North African Postal Reform

Postal operators in the Middle East and North Africa region have witnessed dramatic changes in their business which once was operated as a monopoly. Particularly with courier, express, and parcel services, competition from international operators and local private operators is flourishing. International operators have found it relatively easy to gain entry and market share by serving the business sector in the large urban centers. In most cases, national postal operators have been left with insignificant market shares in these liberalized high-margin business segments, while the frameworks and enforcement to regulate competition are weak. **The paradox seen in many MNA countries is the existence of a broadly-defined postal monopoly and a de facto deregulated sector. Often the functions of owner, regulator, and operator are not transparent or separate.**

New technologies (fax, e-mail, SMS, mobile communications) are substituting for traditional mail items. The international and business-to-business segments are strongly represented, and the impact of technology substitution might be more significant with postal operators that primarily have business-to-client and client-to-business flows.

The mail flow depends mainly on corporate and public agencies to generate mail. In many MNA countries, more than 50 percent is government mail volume and another large percent generated by 100 to 200 large corporate clients. The needs of the private sector have become more sophisticated, and many want one-stop service, including value-added services. Several MNA postal operators (e.g., Morocco, Tunisia, United Arab Emirates), have responded by improving and expanding their mail services. Middle Eastern and North African postal operators that do not change to meet clients' needs are likely to be left servicing the mail of public agencies only.

Liberalizing the postal market implies that governments may be less able and less willing to financially support the national postal operator in the face of private-sector competitors. It also implies the need to improve cost accounting to distinguish between costs and revenues of the reserved areas and the liberalized areas. Postal operators need to have MIS and transparent cost accounting in place.

In response to the changes in the core postal markets in MNA, the option of diversifying with other services that generate revenues while utilizing the same postal staff and infrastructure has emerged as a challenging issue. **Diversification into financial services has been an historic feature of North African countries, and has now become more significant than the original core business.** Introducing technologically more

advanced financial services as well as more sophisticated products (e.g., insurance) can optimize cost-efficiency and higher margins.

It also poses a risk. If the core mail business of the postal operator is sound and healthy, the temptation to subsidize it with financial service revenues remains alive. The risk is a distorted, competitive environment in both the postal and financial sector.

Key issues in Middle Eastern and North African postal reform are responding to the challenge of building a transparent and competitive postal sector, where a healthy and viable public postal service can operate its core business self-sustainably within the liberalized and increasingly globalized market.

3—Middle East and North Africa Country Profiles and Overviews

Country-by-Country Profiles

Algeria	
Institutional framework	Algerian Post has been separated from the Ministry of Posts and Information and Communication Technology. The public postal operator is a state enterprise, and is allowed to operate its postal payments and giro operations by statute. The post is also the agent of the Caisse nationale d'épargne (CNE).
Postal network	Algerian Post has a network of 3,300 post offices; 1,600 of them provide a full range of financial services, and 1,400 are connected on-line to the postal giro payments processing center. Algerian Post also operates an ATM network (with voice recognition technology), and a call center. The network is larger than any bank branch network. The postal network provides a range of technologically advanced financial services, ranging from money transfer services to savings and deposits.
Postal performance	The postal service benefits from a strong and solid reputation and a high level of customer confidence. The banking sector has yet to recover from recent scandals. (Khalifa Bank lost USD 1.5 billion in 2003).
Market position	Algerian Post has more than 6 million giro account holders and 3 million savers. It is the largest consumer bank operation in Algeria (even though it is not a bank). The growth rate is considerable: in 2002 it gained 500,000 new accounts. (Many were students who were obliged to have a postal account.) The post has a market penetration at 40% of adults. Total consolidated balances of payments and savings exceed USD 4.6 billion. Postal money orders accounted for more than 34 million transactions in 2002; the cash turnover from to money orders was nearly USD\$ 30 billion (or 50% of GDP) at post offices. Algerian Post is also a channel for remittances from abroad, with nearly 1 million transactions and an inflow of USD 200 million. The other remittance alternative in Algeria is Western Union.
Other comments	The Ministry of Posts and Information/Communication Technology benefits from donor programs to further upgrade the ICT infrastructure and its accessibility in Algeria. The postal network plays a key role in the implementation. In 2003 a study was commissioned to assist the Ministry in evaluating the postal financial services and reform options. One particular issue is to develop a more effective saving function, e.g., by consolidating giro and savings in a postal bank. Algerian Post envisages launching other programs, such as debit cards.

Egypt	
Institutional framework	<p>The Egyptian National Postal Organization (ENPO) is the public postal operator. Two laws govern ENPO, giving it the status of an economic authority and providing it with institutional features that resemble to a public sector corporation. The government sets the postal tariffs. The owner of ENPO and regulator of the Postal sector is the Ministry for Communications and Information Technology.</p> <p>By law, ENPO provides domestic mail services, international and local express mail (private couriers are now allowed to operate express services), as well as postal check and giro services, postal money orders, some other payment services, and postal savings.</p> <p>Earlier the post had been charged with operating a postal savings fund under an agency agreement with the National Investment Bank (NIB). NIB is not a bank but a department of the Ministry of Finance in charge of investing public funds (including civil servants' pension and social security funds).</p> <p>Neither ENPO nor the post office savings bank is a licensed financial institution. The Central Bank of Egypt observes postal savings developments from a macro-economic point of view only.</p>
Postal network	<p>The postal network of Egypt has nearly 5,500 offices, of which 3,016 are property of the ENPO. The 2,500 other post offices* are operated via agency agreement. Some are commercial agents, but many are local administrations that operate the agency as a community service and provide office space and staff.</p> <p>The postal network's particular strength is its presence in rural and low income areas.</p> <p>* These post offices are often not included in counts of the postal network. The Egyptian Banking Company (the ATM switch network with 24 connected banks) contributed data to this study without mentioning the 2,500 agencies. If these agencies are included, there are eight to nine times post offices than bank branches in rural and remote areas.</p>
Postal performance	<p>ENPO faces competition in the express mail and parcel market from 7 privately-owned operators (6 are foreign-owned) and 40–50 illegal operators. Estimates indicate that the private sector has a 10% market share, mainly due to its coverage in Cairo.</p> <p>ENPO's network is competitive in the area of savings. The total number of depositors with ENPO equals that of all state and commercial banks. Together, they hold approximately 9 million savings accounts, but a large number of Egyptians do not save with formal financial institutions. Interest in traditional savings products is declining, and the generation younger than 45 is not attracted by pass books and certificates that require queuing, stamps, and time consuming bureaucracy. They are familiar with what the Internet can offer: convenience and on-line, real-time options.</p> <p>ENPO has begun installing ATMs and EFT POS terminals in 50 post offices in greater Cairo and plans to offer debit cards to disburse pension and welfare payments.</p> <p>ENPO's traditional giro and check service functions as an intra-government payment system, mainly for municipalities, ministries, etc. It is not yet equipped for high volumes, but is relatively solid and timely. This is not the case with the banks' check-based payment system. There are 4 check clearing houses and only the one in Cairo is computerized, so check payments take a long time.</p> <p>The banks have 1 million individual checking accounts, plus credit card facilities. There about 300 ATMs in Egypt mainly serving higher income groups and tourists. Banks aim to attract other client groups, but with easy access to funding, high margins, cost inefficiencies, and a focus on branch expansion, progress is slow.</p> <p>ENPO is also exploring new applications for remittances, including Western Union and Eurogiro. Very few banks offer remittance services that are attractive to senders or recipients. The estimated USD 4 billion flow (2002 figures) is primarily handled via informal channels.</p> <p>With no access to life insurance and pension products, postal savings are used as a rudimentary old-age retirement plan. At retirement, civil servants receive a one-time payment equal to 36 years of salary. This can be deposited with the postal savings that earns interest monthly, without consuming the principal sum.</p> <p>The government is still considering restructuring the postal savings into a postal bank.</p>

The Middle East and North Africa Region

Market position	<p>The postal service incurs large losses, which are currently subsidized by the interest margin earned on the postal savings.</p> <p>ENPO has a market penetration of nearly 50% of small savers, 20% of the adult population. ENPO mainly deals with small deposits that represent 3% of total deposits in Egypt. Short-term deposits are utilized by government for long-term lending to infrastructure, hospitals, schools etc.</p> <p>ENPO is one of the few formal channels that handle bulk payment flows. ENPO reported more than 22 million payment transactions in 2002, compared to 8 million checks processed by the banks and an unknown number of low value cash payments for utility bills.</p>
Other comments	<p>ENPO has not been included in current Central Bank initiatives to develop a national payment system development. Financial sector development is focused on reinforcing and restructuring state banks.</p>
Iran	
Institutional framework	<p>In Iran, the public postal operator has been incorporated as the Post Company of Iran, 100% owned by the government. The Ministry of Posts-Telecom-Telegraph (PTT) regulates the sector and owns the Post Company. Postal financial services were separated from the Post Company and incorporated in Postbank of Iran.</p> <p>Postbank is licensed and supervised by the Central Bank of Iran, and has been commissioned to reach out throughout the country. Although separated, Postbank is managerially affiliated to the Ministry of PTT.</p>
Postal network	<p>Iran Post Company has a network of reportedly more than 5,200 post offices. The network is important, particularly outside Teheran, where there is 1 bank branch to 5 post offices. The Postbank of Iran is charged with providing broad access to cashless payment services, mobilizing small savings, and the providing microcredit. The post offices have different levels of computerization. A set of Postbank services is provided in the 900 largest post offices that have a reasonably adequate IT infrastructure (on-line computer network), but services differ widely from post office to post office. A general agreement for using the postal network is not in place, so Postbank works through its own 26 branches and employs 2,000 staff.</p>
Postal performance	<p>Postbank had more than 200,000 savings accounts on its books at the end of 2003, with a balance of USD 18 million. Considering its branch network, this is good, but is fairly insignificant compared to the large postal network.</p>
Market position	<p>Postbank of Iran is a young bank, so its market position is still marginal.</p>
Other comments	<p>Postbank aims to launch new technologies that support a nationwide roll-out of financial services. Chip cards have been tested, and a contract has been concluded to implement a core banking system (Tenemos). However, because these initiatives are technologically driven, the lack of a commercial strategy setting out market and customer requirements has slowed down implementation and thus the return on the capital expenditure.</p> <p>Despite its ambitious mission, Postbank and its own branch network risks remaining a small entity whose management capacity is absorbed by its branch network and technology issues.</p>
Iraq	
Institutional framework	<p>The war has deeply affected the functioning of the Iraqi Post. Data previously reported to the UPU may have significantly changed. Teams from the US Postal Services and the United Arab Emirates have been working on a restoration/ rehabilitation plan, which</p>

Worldwide Landscape of Postal Financial Services

	<p>focuses on mail and express functions.</p> <p>When the Iraqi currency was converted, the postal network provided the basic infrastructure for cash supply, payment collection, and savings mobilization.</p>
Postal network	<p>There are 273 post offices in Iraq, which is low in absolute terms, but it is not known whether an additional agency network is available. The banking sector must be rebuilt from scratch and the postal network may be a useful infrastructure to provide savings, payments, and other financial services.</p>
Postal performance	<p>Postal savings used to serve nearly 300,000 Iraqis, a 1.25% of the total population.</p>
Jordan	
Institutional framework	<p>Postal reform in Jordan led to the establishment of a regulatory authority and a process to incorporate Jordan Post as a separate entity. Private sector participation is being considered.</p> <p>The Jordan Postal Savings Fund (JPSF) was established as a statutory fund without authorized capital to take deposits or use them for lending.</p>
Postal network	<p>The postal network in Jordan comprises 475 post offices and presumably 500 postal agencies, providing limited services. There are approximately 400 bank branches, and nearly half is located in Amman. The coverage by the postal network in rural areas is good.</p>
Postal performance	<p>The postal network used to have a significant function in savings mobilization and handling small-value payments for the population. It also was involved in consumer and corporate lending. The role of the JPSF declined as a result of not responding to increased competition and consumer sophistication and a high non-performing loan ratio resulting from weak asset management. There were 36,000 savings accounts at the end of 2002 with a balance of less than USD 4 million.</p>
Market position	<p>The market position of JPSF has declined to a marginal position with less than 1% market penetration and share.</p>
Other comments	<p>At the request of the governor of the Central Bank of Jordan, a World Bank team recommended replacing the JPSF with a partnership with a private-sector bank, and identified private Jordanian commercial banks interested in working through the postal network and ready to invest. These recommendations were not implemented because priority was given to reforming the postal sector and the public postal operator, specifically mail and express operations. It has overlooked the relevance of financial services for the commercialization and sustainability of the postal network.</p>
Libya	
	No data available
Morocco	
Institutional framework	<p>Barid-al-Maghrib (BAM) is the public postal operator in Morocco, and is a 100% state-owned company that operates under an extensive postal monopoly. In addition, BAM provides financial services, with a division for postal giro accounts. It operates postal savings under an agency agreement with the Treasury (Caisse de depots et de gestion) and cash-based postal money orders on its own, and through agreements with Western Union and Eurogiro. It is allowed to enter into partnership agreements, which have been effected for additional services, such as insurance and mutual funds. BAM is not licensed by the Central Bank of Morocco.</p>

The Middle East and North Africa Region

Postal network	<p>The postal network comprises 1,595 offices, which are fairly evenly spread over the country including rural communities. There are 1,889 bank sub-branches in Morocco. In the 4 main cities (Casablanca, Fez, Rabat, and Tangier), there are 862 bank sub-branches. Another 300 sub-branches are concentrated in the medium-size cities.</p> <p>BAM has about 1,100 post offices outside of these main and medium-size cities and has a better rural outreach than the banking sector.</p>
Postal performance	<p>While the postal services of BAM have been improved and expanded in the past 10 years, financial service delivery has also been improved. Since the early 1990s, several phases of new technology have improved quality of financial services and cost efficiency. These improvements have helped it maintain a competitive position in traditional product lines (payments and savings) and have also contributed to BAM's attractiveness as partner for financial institutions, particularly for international remittances, insurance, and mutual funds.</p> <p>The financial service operations account for more than 75% of the activity at postal counters and generated 30%–40% of total revenues.</p>
Market position	<p>With 600,000 postal giro accounts and 1.7 million postal savings accounts, it is estimated that BAM reaches out to about 10% of the adult population. Most are not rural or poor, but are public servants, teachers, hospital workers, soldiers, and pensioners. Total balances collected stood at nearly USD 600 million at the end of 2002, a 17% market share in demand deposits held by households (but less than 5% of the overall household deposit market).</p> <p>The gross turnover in 2002 at post offices for processing small-value payments and collecting savings amounted to more than US\$ 8 billion, suggesting that BAM plays a significant role.</p> <p>In 2003 Morocco received more than USD 4 billion in remittances from migrant workers. An estimated 25% was channeled via the postal network, through postal money orders, and Eurogiro and Western Union transfers.</p>
Other comments	<p>BAM has made considerable capital expenditure (estimated at around USD 30 million) to upgrade its network and operations. It is considering its options to restructure its financial services by establishing a postal bank, possibly with a partner financial institution.</p>
Syria	
	No data available
Tunisia	
Institutional framework	<p>The postal giro service (CCP) was established by decree as a division of the post. It is a "closed circuit" for bulk small-value payments and does not participate in the banks' clearing house. In addition the post operates a range of cash-based transfer operations.</p> <p>Postal savings are provided by the Tunisian National Savings Bank (La Caisse d'epargne nationale tunisienne).</p>
Postal network	<p>The postal network comprises 1212 post offices, and it is reported that a large number have been equipped with modern (payments/banking technology, including 80 ATMs. Access is also provided through the Internet.</p> <p>The size of the network is comparable to the entire bank branch network of the 23 banks in Tunisia. The post offices have more branches in rural areas than the banks.</p>
Postal performance	<p>La Poste Tunisienne revenues depend largely on financial services revenues, (bout 51%. (La Poste recorded an operational deficit in 2002.) CCP holds more than 480,000 accounts, including 50,000 accounts with "Dinarpost" cards (Visa debit cards). CCP</p>

accounts show strong growth. A modernization program with more effective marketing, simplification, a more efficient business process, and computerized settlement has enhanced the quality and attractiveness for its clients. Not only individuals but companies and public agencies keep accounts with CCP. The volume of transactions in 2002 was 4.5 million (as reported to UPU), about 10 transactions per account. There are more than 2 million postal savings accounts.

In 2002 La Poste processed 1.4 million postal money orders (cash-based person-to-person payments). In addition La Poste distributes pension payments and social security benefits (6.2 million transactions in 2002), and collects cash to pay utility bills (water, electricity, telephone). Since 2000 La Poste has issued e-money and e-money instruments. These include an electronic wallet "e-dinarpost" and the "e-dinar" as money. These instruments and the money can be used to make electronic payments at point-of-sale or through the Internet, e.g., for public transport subscriptions, e-learning, and e-commerce.

It processed 0.6 million international postal money orders, valued in excess of USD 210 million, and 3,000 postal giro transfers with a value of USD 6 million. To handle these volumes, La Poste is a member of Eurogiro, and has substituted the telegraph money order with real-time electronic technology. In addition, the postal service is the agent of Western Union. On a bilateral basis, electronic real-time remittances have been implemented between Yemen, Cote d'Ivoire, and Mauritania.

Market position

The financial services of La Poste position it as a leading provider of retail financial services. Its role in small-value payments is significant. Market penetration is estimated at 10% of the adult population for payments accounts, with a market share estimated at 50%.

For household deposits, the postal network provides access to 2 million savers; an estimated 50% penetration of the adult population.

Other comments

To improve return on assets or economic utilization of the postal network, La Poste aims to broaden the range of financial services. Steps underway include making arrangements with other large companies (e.g., public transport), and introducing CCP Net (to provide on-line access to payment services) and EBPP ("Factura net"). In the short to medium term, La Post aims to respond better to customer needs and will launch new financial services to respond to increasing competition. It will sell life insurance on behalf of several insurance companies; it will offer credit through a partnership with a banking institution; and provide differentiated savings products, including savings to qualify for housing loans, term deposits, and retirement savings.

On the basis of its strong payments operation, recently upgraded with modern technology, La Poste has achieved a better foundation for economic sustainability. It also appears to be pursuing a strategy that positions the post office network as an outlet for standard financial services, with cross-selling and links to other products (direct mail, e-commerce fulfillment, and e-learning).

It remains unclear to what extent La Poste and its payment system, which includes issuing e-money, participate in the development of a national payments system.

Cross-Country Overviews

Product Diversification

Country	Cash Payments	Postal Giro Accts	ATM Cards	Intl Remittances	Postal Savings	Life Insurance/Pensions	General Insurance	Credit	Mutual Funds
Algeria	4	4	4	4	4				
Egypt	4	4	4	4	4				
Iran	4	4	4	4	4				
Iraq	4				4				
Jordan	4			4	4				
Libya	4	4							
Morocco	4	4	4	4	4	4		4	4
Syria	4	4		4	4				
Tunisia	4	4	4	4	4				

The product range in MNA has remained relatively narrow, strongly focused on postal savings, and dominated by payments services. The Maghreb and Egypt are leading product innovation towards a broader range of financial services. The narrow product scope is clearly a legacy of the past, where services are liability-based, and exclude individual credit-risk assessment at the post offices. Growing interest by the post and postal banking entities in widening the range of services is limited by current legal and regulatory frameworks.

Institutional Aspects of Postal Financial Services

Country	State Ownership	Independent Legal Person	Regulator	Relation to Post Offices	Shared Functions with Posts
Algeria	100%	Mixed/CNE	Gov't	Internal +SLA	M + Ops
Egypt	100%	POSB	Gov't	Internal	
Iran	100%	Postbank	CB	SLA	M + Ops
Iraq	100%		Gov't		M + Ops
Jordan	100%	POSB	Gov't/CB	Internal	
Libya	100%		Gov't	Internal	M + Ops
Morocco	100%	CNE	Gov't	Internal +SLA	M + Ops
Syria	100%	POSB	Gov't	Internal	
Tunisia	100%	CNE	Gov't	Internal +SLA	M + Ops

Legend: CNE= Caisse nationale d'épargne; POSB= post office savings bank; CB= Central Bank; SLA= service level agreement; Ops= operations; M= management

The overview shows that all postal financial service entities are still fully state-owned. The postal giro centers are divisions within the post, while postal savings are operated by law through state-owned savings banks (Caisse nationale d'épargne or post office savings banks), operated by the post. Assets are deposited in specific funds under the Ministry of Finance, e.g., the National Investment Bank in Egypt or the Caisses des depots in Morocco and Algeria. In these cases, the post is essentially a wholesale funder of state funds or banks.

An exception, Iran has an incorporated Postbank, which is licensed by the Central Bank of Iran. In most MNA countries, postal financial services are not directly regulated by the Central Bank (or the Reserve Bank) because these services fall under the jurisdiction of the postal regulator (if such exists), or more often the ministry responsible for the postal operator. The need for change is being felt throughout the region, and transformation of postal financial service operations into postal banks is being considered in Algeria, Morocco, and Egypt, while partnerships with the private sector are being considered in United Arab Emirates, Jordan, and Saudi-Arabia, as well as Morocco and Egypt.

In several countries, the postal savings are the leading deposit-taking institution; in others, it is a marginal phenomenon. The total volume of postal financial transactions (active giro and savings accounts) was nearly 100 million in 2002 (an average of 5 transactions per account). Under existing accounting practices, financial services generated more than 30 percent of total postal revenues in 2002.

4—The Middle East and North Africa Landscape in Perspective

The postal financial services in Middle East and North Africa were introduced by former colonial powers at the end of the nineteenth century and beginning of the twentieth century. In most cases, the historic legislative and institutional legacy has evolved but is essentially still in place. Given the changes in the environment the call for reform has grown. And since the early 1990s the majority of the Middle East and North African countries have initiated reform in their postal financial institutions. These attempts to reform have achieved various degrees of success and impact.

The historical models that are most widely applied in Middle East and North Africa are French and British. Egypt, Yemen, and Syria had models combining features of both. The financial sectors in MNA were also based on French and British traditions, and for a long time the check was the predominant payment instrument. The check and the check book involve individual credit risk and were issued by the banks very selectively to individuals with large income. In many cases, deposit accounts could be opened if relatively high minimum requirements were met or proof of income could be provided.

Individuals with limited financial means have not been made to feel at ease in banking branches, so many post offices have been able to attract large client groups for postal savings and payments. The latter was encouraged by governments because they required military, teachers, civil servants, and students to receive their salary or stipendium via such accounts. Also utility companies and municipalities, etc., found it effective to use the postal payment system to collect taxes, fees, and bills. Since the services were handled with operational discipline, reliability, and simplicity, they appealed to a large number of individuals.

Postal savings in Egypt had an additionally attractive feature for the large groups of Egyptian migrant workers in the Middle East. These workers were able to make deposits in their savings pass books at foreign post offices instead of keeping their earnings in cash. They were also able to withdraw the funds at home. This practice, not supported by modern technology, was obviously vulnerable to fraud, abuse, errors, and delays, and faded away in the early 1990s.

The duality of financial services can still be found in several MNA countries where banks continue to serve predominantly high net-worth individuals via scattered branch networks, and where post offices provide the mass consumer with basic standard services. **However, customer sophistication has grown in the MNA region**, and many younger people consider the traditional paper-based financial instruments (check books, postal savings pass books, queuing in a bank branch or post office) as relics of the past. Both banks and postal operators have recognized this and to some extent it has powered the drive to modernize and upgrade to electronic technology. Leadership in financial services technology is of critical strategic relevance in the MNA region, and several postal operators have made impressive progress (e.g. Tunisia, Algeria, Morocco) ahead of locally-based retail banks.

This duality is also reflected in the payments systems projects. Traditionally and until recently, the clearing houses were merely a meeting place for bankers to exchange small volumes of paper-based checks. The

environment of pin-striped bankers exchanging a few high-value checks per day (less than 1,000) in a clearing houses contrasts to the postal payment processing of more than 100,000 transactions per day, all small value.

5—Conclusion

The history and economic development of the Middle East and North African countries and the road to independence has been quite diverse and this has had its impact on the evolution of the postal networks and the institutional frameworks and product ranges provided at post offices. With very exceptions, one can say that before 1995 the postal financial services operated along the same lines as decades before introduced by colonial powers.

The winds of changes sweeping from the early 1990s through the communications sector induced to a separation of post and telecommunication. And, this separation on its turn has subsequently resulted in shaking up the postal financial services operations. Postal financial operations were once used to thrive as pseudo monopolists on the autonomous demand in absence of alternative providers have also been increasingly facing competition from micro- and retail banks providing cost-efficient modern services to a larger part of the population. This has eroded in several cases the (dominant) market position of the Posts. Moreover the advent of new technologies (Internet) and the increasing migration leading to stronger demand for international remittances services have resulted in changed demand patterns for postal financial services. Most of all the increased demand for comprehensive micro finance solutions. This poses new challenges to the posts and postal savings banks. The breadth and depth of on-going efforts to reform the postal financial services with the aim to reduce the poverty can truly be classified as a renaissance of the postal savings banks in Middle East and North Africa.