

African Union Commission

Summary

Of the Study regarding:

**Development of Postal Financial Services in Africa:
Strategies to Increase the Inclusion
of Low-Income Populations**

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A. Introduction

1. Reference is made to the Constitutive Act of AU, AU Vision and the Millennium Development Goal as well as the decisions made by the Heads of State, the Ministers and the Executive Council in the field of poverty reduction through improving social, digital and financial inclusion;
2. Reference is made to the initiatives of the UN agencies and the G20 Global Partnership for Financial Inclusion and its development partners to improve financial inclusion;
3. Specific reference is made to the decision of EX.CL/435 (XIII) of the Executive Council 24-28 June 2008 in Sharm-el-Sheikh, Egypt and the report of Dec 2007.

B. Statement of Problem

4. **Financial inclusion is a top priority in poverty reduction.** 80% of the African adult population is un(der)banked, and more than 97% of children have no access to financial services. More than 60% of the African Governments and/or African financial sector regulators have already published their commitments to and are active in improving financial inclusion, including financial literacy, consumer protection. Key issues in financial inclusion concern the insufficient infrastructure for physical access to financial services and financial literacy.
5. Unleashing the potential of the 26,000 post offices in Africa to increase the financial inclusion of low-income population appears therefore as a challenge. It seems to make socially and economically sense as many of the postal networks in Africa feature a high degree of underutilization of state-owned assets and low productivity of the human resources employed.
6. There appears a continued sharp decline in the demand for conventional postal mail services provided by designated state-owned postal operators. In many cases a vicious circle evolves. The increasing and accumulated losses are financed by revenues from the financial services provided via the post offices. Consequently, the weak and in-transparent financial condition and financial management of the postal operator present a major obstacle in the opportunity to improve access to financial services via the 26,000 post offices to the un(der)banked, particularly in rural areas.

C. Objective of the Study

7. Strategies to unleash the potential of postal networks in Africa to ultimately increase the (rural) access to financial services for low-income populations

D. Key Findings

8. **The 26,000 post offices in Africa form a historic and relevant part of the landscape¹ for financial inclusion.** The post offices currently serve an estimated 60 million or more

¹ Or: ecosystem?

Africans or about 10 % of Africa's adult population with money transfers, or basic transaction accounts and/or savings accounts. Post offices deliver an estimated 5 % of the migrant remittances from abroad. There is a broad diversity in the roles that post offices play in the landscape for financial inclusion, varying from virtually non-existent, to cases where the post office is the largest provider of access to basic financial services and delivery of remittances. In most cases the post offices seem to have substantial potential to provide access to a broader range of financial services to more individuals but lack effective strategies, capacity and resources to capture the potential.

9. **Data on the role of the African postal networks in delivery of financial services are in most cases not or only partly included in standard reports on the financial sector, and the quality of data is often ambiguous.** There appears a wide and generic recognition of a potentially larger role of postal networks in increasing access to financial services. In many cases, the absence of reliable and comparable data about financial services delivered via post offices implies that the actual role is not clearly visible in reports of financial regulators. Consequently, financial regulators, governments and international organizations cannot adequately assess options or prioritize strategies to improve the role of postal networks in financial inclusion. The Study has attempted to collect and combine the relevant detailed data available about the relative condition, position and potential of the postal networks.

10. **Access to financial services is a key priority issue in poverty reduction in nearly all African countries.** The penetration of the formal banking sector is often very small and the approx. 25,000 bank branches are highly concentrated in urban areas, serving about 10% of the African adult population. Banks expand their outreach with electronic channels with currently more than 40,000 ATMs and more than 1 million terminals for EFT POS at retailers for payments. Banks also expand through agency agreements with retailers for sales and transactions for financial services. New dimensions are added through partnerships with Mobile Telecom Network operators and their agents for access to financial services via mobile phones. Moreover, there are about 100,000 outlets for Microfinance in Africa. In this context the existing 26,000 post offices can fill in some of the gaps, as a physical and public access infrastructure especially in peri-urban and rural areas and in-between the bank branches and the micro finance outlets. Estimates suggest that a 10 % of the African adults use the post office as channel to access one of more financial services.

11. In several African countries considerable progress is made in the provision of financial services through the post offices. Most frequently the key components of the strategies are:

- **Institutional reform**, towards a corporate structure for the designated postal operator, able to grow competitive business, with improved corporate governance, management accountable for performance, with separate business units, improved financial management, risk management and Human Resource Management, and with financial services managed by entities that are licensed by the financial regulator.
- **Marketing**, based on a business concept to deliver demand driven services ,responding to the specific needs in the underserved and unbanked population, supported by a broader and a new mix of products, transparent pricing, financial

literacy and mass communications, and using placing the post office in a multi-channel concept;

- **Technology** or ICT and Business Process Reengineering , implementation of advanced ‘light’ technology in post offices on-line connected to adequate back office systems for processing, and management

a. Institutional reform

12. **Most (>90%) postal operators actively pursue diversification of services, mainly into financial services and ICT based consumer services and record significant progress.** In numerous cases the diversification is or has been supported by international organizations. Reform approaches and the results achieved differ widely. The result of the on-going business driven diversification is that most postal operators become increasingly operators of a retail network providing access to a range of consumer services, and lead by ICT-based financial services. The traditional postal services then become a non-core business line. This is already the case in 70% of the African postal operators. The legacy of the historic legal and institutional framework however presents severe barriers in doing business and facilitating business, or to operate in competition. In particular this harms the effectiveness of strategies to increase financial inclusion through the post offices, because financial services are part of the financial sector.
13. **The separation of functions of postal sector policy, postal regulation, and ownership and management of the state-owned postal operator is often not yet effectively or fully achieved.** Several postal operators have been incorporated, but the majority continues to operate under specific law or statute or as a department of a Ministry. This means that they cannot operate as a business within a competitive environment. In an increasing number of African states, independent postal sector regulators have been established and start to look into ways to promote competitiveness and growth in the postal sector.
14. **There appears broad recognition of the need to reform the postal sector and to incorporate the postal operator.** This transformation process is a complex process with involvement of various stakeholders with different interests and politically sensitive. Frequently, postal transformations take more than 7 years and that is long given the vibrant dynamics of competitive markets and technology. The long duration of the process implies increased risks in consistency and effectiveness of the envisaged change process.

Postal reform is a key success factor or condition for effective implementation to improve financial inclusion via the post offices

15. Several African postal operators have made significant progress in the institutional reform. Although there is broad diversity in the reform, the approaches can be grouped as follows:

Transformation of the Postal Services into a Group Company with a licensed Bank as subsidiary

16. This is the case in e.g. Morocco, Algeria, Gabon, South Africa and several others where the former state owned enterprise advances in or has become an incorporated company with its own board of directors, with audited financial statements and with a company structure that features business units responsible for different products/market combinations. Most often the Group structure features a subdivision for the postal mail services as a transport and logistics entity, a retail network (the post offices) and the financial services incorporated as a Postbank and licensed by the financial regulator. In some cases, a separate division exists for the asset management, in particular for real estate.

For strategies to increase the financial inclusion, key challenges in this model are the relationship between the Bank and the post office network and the applicable contracts or Service Level Agreements and cost allocation or internal transfer pricing.

The progress in these cases also indicate considerable success in increasing the financial inclusion, with a broader set products and services and offered under more competitive conditions. The experiences also indicate that the Bank assumes a higher degree of responsibility and control of the network of post offices. Early lessons also indicate that this process facilitates the mail services to transform in a lean and cost efficient operation and thus to improve its business continuity.

Transformation is highly dependent on strong and consistent leadership throughout the process, and consensus with the key stakeholders.

This model seems applicable for those cases where the business volume of postal mail services is of a relatively large size.

The model can also be seen as essential to create conditions for private-sector partnership, as it allows the different subsidiaries to partner with private entities in their own sector and to expand the business through the post offices with fresh investments.

This transformation process has parallels with approaches elsewhere in the world, e.g. in China, but also with Kazakhstan, Hungary and Poland.

Transformation of the Postal Service in a Bank or Financial Services group with the Post as non-core business :

17. In some other cases the transformation seems to progress in the postal services become a bank or financial institution. Comoros appears to advance in this approach.

This way of institutional reform resembles the approach described above. However as the nature of the business is predominantly financial services it appears as logical to recognize this and to structure the operation as a Bank or Financial Institution, which as part of its structure continues to operate a separate unit or entity for the postal mail services. In cases where the mail operation has, in relative and absolute figures, a very small volume this appears as an effective approach to optimize the usage of the post offices for increased access to financial services.

Also in this approach, transformation is highly dependent on strong and consistent leadership throughout the process, and consensus with the key stakeholders. In this case, the pro-active support of the financial regulator is indispensable.

Elsewhere in the world this approach not (yet) seen as implemented, although in e.g. Azerbaijan the Post is in a process of becoming a financial institution

Transformation of the Postal Service in an ICT based consumer service network providing agency services for multiple financial institutions

18. In several African countries, an institutional separation between the postal services and historic postal financial services has occurred in the past. In some cases the separation coincided with termination of the historic postal financial services due to insolvency of the assets. In other cases the historic postal financial services institution has been transformed in a bank or special financial institution, and focused on the operation through its own branches.

In other cases a mix has evolved with the bank operating through its own branches, post offices and other agents.

In cases such as Kenya, Botswana and Zambia the designated postal operator has pursued a strategy focused on improving the quality and technology of its operation, in particular its post office network. This created the conditions to expand the services via the network for one or more financial institutions, also for several operators of migrant remittances and to work with mobile telecom operators and/or actively with public agencies in the field of e-government. Consequently, the designated postal operator is able to generate more revenues, increase utilization and productivity of its assets and resources and to transform its postal mail services in a lean and more efficient operation.

This approach presents challenges as to select financial institutions and the terms of cooperation.

The Brazilian Banco Postal case is an example of a partnership from which many useful lessons could be taken. Cases where the Posts have improved its network with ICT, supporting e-government and have entered in to relationships with several financial institutions can be found in Russia, India, or e.g. in Albania.

Real estate management or rental of post office to financial institutions

19. The option of letting office space in postal building to banks appears as the most feasible and pragmatic one in some of the cases where the postal services have been split in the past from the financial services or where financial services have been discontinued, or where the financial regulator has not adopted regulations for agency banking via post offices.

The option requires there a strict and physical separation of the postal and financial services, and the involved bank , microfinance institution or insurer can rent the space for a long-term, redesign and equip it, and staff with own employees trained by that institution.

In this model, the involved institutions are often interested to be present in the short-term in a selected number of post offices, e.g. in other cities or towns. It is therefore a challenge to

design rental agreements that encourage the involved bank to be active in most or all post offices. Instead of or in addition to letting space to banks, postal operators could also consider MFIs or insurers.

The case of letting space occurs e.g. in Uganda and Zambia.

It is not clear if this model is viable in the long-term as the return of the fixed assets (buildings) relate only to the rental income not to business development of the postal network. If a large part of the post office real estate is not needed anymore by the postal operator, the option could also be considered to sell the buildings and lease back the part needed for postal services. In that case the postal operator would increase its liquidity and funds for improving its operations, whereas the involved bank may feel comfortable in acquiring through one transaction an entire network, controlling the property and then be able to expand with services to include the low-income segments. The structure of such transaction could also be more attractive for other investors (e.g. mobile telecom operators) and development banks.

Cross-border operations- international alliances

20. In the strategies to increase the financial inclusion and also in ensuring continuity of postal mail services the issue of cross-border operations or internationalization becomes increasingly an issue. Both the financial services focused on the low-incomes and postal mail operation requires economies of scale to become economically viable. “Big is beautiful” is therefore often heard in the postal world, and is also a prerequisite for sustainability if postal financial services.

While telecom operators, banks, airlines, money remitters operate across borders, it seems timely to start recognizing the importance of increasing outreach and achieving economies of scale through expansion beyond national borders to create regional operations and cross-border financial services and/or postal operations.

Through cross border operations or international alliance the smaller or weaker designated postal operators could benefit from transfer of know-how and experience, strong systems, and methodologies to ensure business continuity. By broadening the scope of their operations, the smaller operators could also benefit from a stronger brand and reputation, economies of scale, and lower costly technology investments.

b. Marketing

21. Specific marketing of financial services via the post office to increase the financial inclusion is typical challenge. The nature of the post offices and their staff imply in fact that the financial services offered need to be easy to understand and simple to handle.

Improving financial literacy programs and dedicated products to educate the poor on financial services can help as well to lower the barriers to entry. Government might want to consider specific support to such efforts to improve financial literacy, especially when these efforts would be directed to children and young people helping to learn about financial services and to inculcate a habit of savings.

In any case, marketing of financial services via the post offices requires intensive mass communications and advertising, ranging from in-store posters and brochures, to advertisements in radio, television, and other mass media, corporate or bulk SMS messaging, internet and social media to build visibility, awareness and credibility.

It is often held that poor people are not ‘bankable’. Numbers globally, and especially from Africa, however, paint a different picture, and through low-cost operations via the African postal networks the opposite can be proven. Research has repeatedly demonstrated that poor people do (want to) use financial services and can pay for it, although limited. This implies for strategies to increase the financial inclusion a challenge to offer product packages designed for different livelihood situations (the elderly, families, children...). Packages are more than only a savings pass book or a current account, but need to combine payments and transfers, savings, and a linkage to forms of credit and insurance.

Another challenge in offering packages is the pricing. For the low incomes tariffs need to be very transparent and clear. Moreover they would need to encourage the use of the most efficient type of financial services and to relate to loyalty and ‘share of wallet’, even if the wallet of the family is small.

A particular opportunity for postal networks and the related banks may appear when governments engage in programs to reduce cash in circulation and look for cost efficient ways to pay teachers, civil servants and military personnel, and beneficiaries of social security and pensions in a card or account. Experiences also indicate that this opportunity of G2P payments does not come as granted to postal networks or post banks, as with new technologies the services may be offered via e.g. other microfinance and mobile networks timely and cost efficiently.

For numerous African countries, migrant remittances are to be looked at as an opportunity for start and expanding the increase in financial inclusion. Given their geographic outreach, postal networks should be well positioned to capture a much larger market share in the last-mile delivery, and several of the African postal operators have proven to be able to do this. It helps to reduce the cost and risk for the recipient, and it also presents a ‘quick-win’ opportunity for the postal network to increase revenues and improve credibility.

A key success factor in marketing strategies to increase the financial inclusion is therefore that the involved (postal) bank entity has strong marketing capability and ways to directly communicate to the post office tellers, and to support them in training and with performance incentives.

c. Technology: A wide range of technologies promises to reduce costs and leapfrog a generation of traditional banking.

22. A wide range of technologies are available to enable post offices and involved banks to improve efficiency, control operations and client data bases more accurately, increase transparency, improve quality and customer service and reach out to new customers. These technology solutions that can help drive down costs vital to enabling greater access to services and ensure a higher degree of quality and reliability. It can help to make the post office a low cost channel with a face and personal touch. The availability of diverse information technologies is increasing rapidly across the continent, and, at the institutional level, its utilization varies from minimal use of computer equipment to touch screens for clients and post office staff, video connections with a call center for specific questions and biometric imaging of fingerprints to identify clients.

Technology for financial services through the post offices differs from technology in banks and microfinance institutions. The profile of the post offices as public or state-owned, the

staff capability and the low income levels requires that technology is simple to use, and proven to operate without failures. Highest standards of quality and reliability of the operational technology turn out as more important than additional features or gadgets. This also implies that implementing new technologies requires a more extensive process of design, testing, and piloting etc. before launching nationwide.

ICT and information systems technology can assist the post offices and partner (postal) banks in improving the operations. Modern ICT enables post offices and related banks to increase their operational efficiency and centralize certain financial management functions. In addition, technology can improve information management by offering better instruments and scoring techniques that analyze data to predict customer behavior and essential for offering a broader range, and connectivity technologies that transmit data among staff and branches - such as broadband or VSAT (satellite-based wireless data connections). In addition, electronic delivery technologies for card payments, such as automated teller machines (ATMs), point-of-sale (EFT POS) networks, and mobile banking are increasingly being explored as a means to make payments, transfers, cash withdrawals, and cash deposits in post offices. The rapid rise of the mobile phone and its potential for expanding access to financial services merits special mention. Mobile phones provide a new and rapidly developing technology to facilitate payments and transfers from those who have so far been excluded from the formal financial system. More than 60 percent of Africans now have a mobile phone, implying that virtually every household owns or has access to one, and over 50 African countries have at least one M-banking provider. Post offices could team up with M-banking providers using point of sale devices that use GSM digital mobile phone technology to transmit transactions between clients and head office or payments processing centers. Post offices could provide cash services related to mobile banking transaction and expand in sales of mobile telecom products, such as sales of airtime, handsets and SIM cards.

Also other new payment technologies appear such as contactless payment instruments and chip based store value cards, which appears very cost efficient for distribution of pensions and social benefits or so-called G2P payments. This context offers the opportunity to leapfrog an entire generation of traditional and expensive banking to the introduction of state-of-the-art technology for payments and transfers, with other financial services to link with. In their strategies post offices and the related banking entities need to include these technologies. Crucial issues in the design of the ICT strategies are the interoperability with other systems in the financial sector, such as the interbank clearing house, and client data base building to analyze and predict client behavior to propose new products and services.

E. Key Constraints

23. Lack of Capacity

The most fundamental constraint remains the lack of capacity (clients, post offices, financial institutions and regulators)

In most African countries, lack of capacity is the critical bottleneck to expanding access to financial services via the postal networks. This is true, starting with the clients of postal financial services who may have insufficient knowledge and capacity to manage and make use of formal financial services. In the strategies to increase financial inclusion, post offices need to be actively involved in advancing or supporting financial literacy, and this could be seen as specific mission of post offices to provide and distribute transparent information on

the usage of financial services and on the main conditions. Moreover, ensuring adequate consumer protection is a challenge to be addressed in strategies for the post offices.

The lack of capacity is most acute at the post office teller level, which is the face and backbone for the provision of financial services via the post offices. Some of the postal operators and their associated or subsidiary postal financial institutions have made considerable investments in training and talent management, but there remains a significant number of postal operators throughout the continent that are too small or too burdened with legacy issues to address these weaknesses on their own and have little potential to professionalize. Capacity needs to be reinforced, primarily through training and recruiting skilled manpower to improve productivity, professionalism and quality of products, and processes to manage growth.

In particular, several designated postal operators and related postal banks lack strong management and leadership. As elsewhere in the world, one could call for “getting the basics right” and optimizing the use of innovations to increase capacity of distribution of financial services via the post offices. Proven tools to increase the capacity at all levels include affordable in-house training, performance-based payment, and efficient recruitment and career development. Several initiatives of operators, PAFU, and WSBI work to address this constraint but the scale is yet too small and sometimes too internally focused. In most cases, capacity building is needed in the areas of financial management, in e.g. internal control, audit, and improvements in information system and management, in marketing management of financial services, including sales, product development, pricing, promotions, retailing and client services and in ICT management.

In nearly all cases the financial accounts of the postal operator are not in compliance with IFRS and are not subject to an independent external audit, and may therefore not represent an accurate picture of the financial condition of the postal operator. Available data suggest weaknesses in reporting market valuation of assets (post offices), adequate depreciation of assets, risk provisioning and pension obligations and other employment liabilities.

Finally, the capacity of financial regulators, and especially supervisors, is also stretched, with supervisory bodies relatively unfamiliar with the specifics of the concept of financial services via post offices and in some cases understaffed to pick this up. In general, postal regulators are assumed not to regulate the financial services, and not to have capacity in this field.

Lack of capacity is likely to continue to be a major constraint to the pace of implementation of strategies to increase inclusion via postal networks. Moreover, capacity building programs cannot fully compensate for weaknesses in education and require much more fundamental and long-term solutions. Partially, capacity constraints can be solved through the application of advanced technology that supports in the provision of standard and basic financial services.

24. High Costs/ High Investments: The rationale for post offices to be involved in access to financial services would be their low cost per transaction, benefitting from synergies with other services provided in the post offices. If operational costs for financial services turn out as high in post offices, it becomes very difficult to extend services on a large scale and on a competitive basis. Operational costs do not need to be high and should be lower than retail agents and ATMs, but in most cases the absence of a transparent and objectivized system of cost allocation and internal transfer pricing generates high operational cost, which in practice serves to cover the internal losses for other product lines. Operational cost may also be substantial as a significant number of post offices are not equipped with basic ICT, connectivity, power, and security. This implies a need for high amounts of

capital expenditure to upgrade the post office technology. However access to finance to invest in the post offices is often difficult and limited, given the absence of a clear-cut business case, and audited financial accounts.

A fundamental challenge for African postal operators is the further reduction of operational costs for postal services through business process re-engineering, centralizing mail sorting and splitting, and change of lay-out of the post offices.

25. Government Intervention in postal USO

Some government interventions harm the potential of postal networks in expanding their role in financial services. In most African countries, designated state-owned postal operators need to fulfill a broad universal service obligation for postal services at regulated tariffs below the cost of the service. This appears as an obstacle to implement strategies in increasing access to financial services and other demand-driven services.

In most, > 80%, of the African states a sharp decline occurs in the market demand for conventional postal (mail) services operated in a classic business model and with a traditional, mainly manual, business process. Post offices were originally part of an infrastructure for a bundle of communications services provided as a monopoly. Unbundling of telegraph, telephone and post, coupled with subsequent globalization, liberalization, and new communication technologies have already resulted in a significant decrease in traditional mail business.

The demand for mail as a medium for personal communications has been marginalized in most African countries to less than 1 mail item (letter or card) per 1,000 inhabitants per year. Letter mail was once one of the few possibilities to communicate with others persons around the globe and in the 19th century a reason for governments to intervene and ensure an accessible and affordable service. Since the beginning of the 21st century, the usage of mobile communications and internet increased sharply. Practically, every African household has at least one mobile phone. These communication media are cheaper and much faster than letter mail, and usage in Africa for person to person communications is at least 10,000 times higher than personal letter mail.

In courier, express, parcel, international and advertising mail segments, the market position of most of the state-owned operators has also been marginalized. In these commercial and lucrative segments the private sector has developed a vibrant competition. These market segments for postal services have been liberalized, by law and/or in practice and in most African states, the market share of the designated postal operator has fallen below 5% in these segments, in several cases below 1 % .

In fact, in > 60% of the African states the delivery of non-urgent commercial correspondence and printed paper from OECD countries represents the largest flow of mail. Other main mail flows handled by state-owned postal operators are legal documentation, commercial mail and mass communications from public agencies to the business community or the public. A part of the latter is being substituted by Governments as part of e-government programs.

In view of the above, the reality of the postal sector and the evolution in demand for and supply of postal services call for a reviewed setting of the scope, tariff regulation and financing of the net cost of reserved area for the Universal Service Obligation.

In most (>70%) cases, the losses in the postal mail operations are financed by absorption of most or all of the net earnings from financial services and other ICT-based consumer services. This, and the lack of transparency in subsidizing these costs implies that many post offices continue to lack financial resources to ensure business continuity through investments in upgrading their operation with ICT and staff training to improve the competitiveness, quality and range of their services.

F. Conclusions

26. Several successful initiatives in expanding financial inclusion via the postal network exist across Africa, but ensuring that access to financial services continues to improve will require a strong commitment from all stakeholders, including the African Union, RECs, AU member states, PAFU, designated postal operators, postal savings banks, IFIs, the Global Partnership for Financial Inclusion and Making Finance Work for Africa donors, investors, and leading experts.

The AU can bring significant value added to the unleashing of the potential of postal network in financial inclusion in Africa by leveraging roles that it has effectively used in other domains. As such, the AU, in collaboration with RECs, should pursue the following three actions to advance this effort:

- 27. Signaling.** The AU can play a powerful role in signaling important issues to AU member states and the international community that need to be addressed for advancing financial inclusion through the postal networks; a first step is the release of the report on the development of postal financial services in Africa: Strategies to Increase the inclusion of low-income populations;
- 28. Policy Platform.** A primary objective of the Strategies' report is to propose "a minimum set of policies and strategies including the legal, regulatory, and operational framework for the leveraging of the existing postal infrastructure for access to financial services in Africa." The AU will compile and disseminate key policy recommendations for the advancement of financial access through the post offices to its member states. It will be important that a dialogue is developed with the financial regulators and international financial institutions and that some of the staff in these organizations will gain more specific insights and expertise in order to engage meaningfully with the many central banks and postal sector stakeholders across Africa to agree on roadmaps for implementing strategies advancing the usage of the post offices for financial inclusion; and
- 29. Convening.** The AU will coordinate high level reflections among its member states on needed actions for advancing financial access through the post offices in Africa. It will leverage existing expertise from stakeholders such as World Bank, UPU and WSBI and bring them into the dialogue in partnership with other key convening bodies such as the Global Partnership for Financial Inclusion and Making Finance Work for Africa. To connect more directly with practitioners the AU can also set up with the Pan African Postal Union (PAFU) and the regional central banks workshops and facilitate the exchange of lessons learned among member states and other stakeholders.

30. In light of the experiences in developing the access to financial services through post offices in other regions of the world, as well as the main constraints and opportunities facing Africa today, it is recommended that AU member states consider the review of the following minimum set of policy principles, emerging from the study commissioned by the AUC for adoption and start with broad consultations with development partners and stakeholders and as a specific follow up to principles adopted by the G20 / Global Partnership for Financial Inclusion and the members of the Alliance for Financial Inclusion.

Strategic Principles for the increase of financial inclusion via postal networks

31. **Post offices need to be seen as an existing specific component of the financial access infrastructure** and as distribution channel with substantial unutilized potential. Post offices are not bank branches and also not a group of random retail agents, and carry a social and public responsibility to provide reliable, fair and transparent financial services, and where applicable a specific role in promoting financial literacy.

To function as distribution channel of one or more financial institutions, three key issues appear:

- interoperable ICT supporting and connecting the operations in post offices with financial institutions;
- sufficient control by the financial institutions on the operations, quality and cost of the offices, staff and systems at the post offices
- Promoting competitiveness for delivery of sustainable financial access.

Dependent on if and how these issues are resolved and on the institutional framework of the post offices, financial institutions need to be engaged in using the post offices for management of the delivery of financial services. This can vary from simple, one-product, agency agreements for a short-term, to long term ventures in which the financial institution is involved in managing and investments in the network.

32. **Financial services via the post offices need to be managed and controlled by responsible institutions licensed by the financial regulator.** Financial services via the post offices should not be in the domain of a postal regulator.

The institutions can be:

- The state-owned postal operator as a Non-Bank Financial Institution licensed to operate e.g. money transfer services and bank agency services. To increase the financial inclusion, the postal operator will subsequently need to prepare for, select and enter into partnerships or agency agreements with licensed financial institutions to distribute their products;
- The postal savings bank as an eventually incorporated entity as a licensed deposit-taking institution, MFI Wholesale funder or as a retail bank and operating under a transparent agreement for the usage of the post offices;
- Banks, MFIs, MTOs and insurers meeting a set of minimum requirements in responsible finance, transparency, literacy and consumer protection operating under an agreement with the postal operator to use one or more post offices as their agent, or alternatively under an agreement to rent space in one or more post offices for their representation with own staff and own ICT.

33. **Diversity of the financial services offered via the post offices is needed** through a broad range of affordable services (payments and transfers, savings and deposits, loan installments, and insurance premiums). It should not remain limited to one or two products, and also not be based on long-term exclusivity to (historic) providers who face limits to expand to a broader range of services on a competitive basis and/or to a larger number of clients.
34. **Innovation in the delivery of financial services via the post offices** is needed through building partnerships between the post offices as delivery channel, competent financial institutions and mobile telecom operators for the application of new technologies to expand financial system access and usage. This needs to be seen beyond the usage of modern ICT for teller operations, and could include self-service terminals, mobile post offices and postal couriers equipped with mobile technology to deliver financial services; interconnectivity and interoperability with e.g. mobile and electronic channels for financial services is therefore a requirement.
35. **Empowerment for financial inclusion via the post offices** with transformation and change programs based on building financial capability within the postal operator and post offices, and the involved financial institutions and to include the development of financial literacy with the un (der) banked. Empowerment needs to be based on a “learning curve” for the postal organization and its environment. This also requires proportionality in strategies to increase financial inclusion via the postal networks, with steps that are balanced between the risks, capability and benefits, and taking into account the gaps and barriers in the existing postal sector regulation.

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

36. **Full data reporting to the financial regulator on all financial services delivered via post offices**, and inclusion of these data in the financial sector statistics. The statistical reporting does not require an immediate change of existing legislation or regulation. In cases where the reporting does not exist it can be seen as one of the first steps in the preparation of new strategies to increase financial inclusion via the postal networks.
37. **Corporate transformation** of the existing postal financial services in corporatized entities that are part of the regulated financial sector. Roadmaps for the transformation need to be based on a consensus between the financial regulator and the involved Government agencies. Roadmaps depend on specific local circumstances but can be built around a selected number of options and phases. Moreover, intensified cross-border cooperation or international alliances will need to be considered to ensure adequate economies of scale and sustainability.
- As a part of the transformation, audited IFRS accounts of the designated postal operator, with a separate account of the services provided within the reserved area would be needed and of the incorporated postal financial services entities.
38. **Transparent methodology of the financing of the net cost of the reserved area of the postal Universal Service Obligation**; in the case of net cost, or net losses, these would need to be addressed through an increase of postal revenues, mainly through further differentiation of postal tariffs for those clients who should be able to afford higher tariffs

such as business and sender from abroad. If losses occur they need, in principle, to be financed from the net earnings from other postal mail services, not by cross subsidies from other business lines, such as financial services for the low-income population.

In the short-term the operational losses in postal mail delivery of various African postal operators can be significantly reduced or converted in net earnings by raising the tariffs for the delivery of commercial mail from OECD countries to at least an average of e.g. US\$ 1 per letter instead of the frequently seen US\$ 0.20 or less, and requiring pre-payment instead of post-payment with a delay of 18 months or more. The latter also helps to improve the liquidity of the involved postal operators.

39. **Revised sector policy and regulation for ‘postal services’ with emphasis on promoting growth and competitiveness of the sector;** in recognition of the fact that the sector has been liberalized, this calls for the need to redesign of a reserved area for a specific operator or design of other measures encouraging nationwide delivery, taking experiences from e.g. the telecom and airline industry.
40. **Revised definition of the scope of the reserved area of the postal USO** entrusted to the designated postal operator; in principle, the reserved area cannot include any type of financial services; it appears as essential that financing methodology of the net cost of the postal USO is made transparent, avoiding the suggesting that internal cross subsidies exist between the postal services and the provision of financial services to the low-income groups.

Nota Bene:

All figures and quantitative indications will be checked and where necessary refined or amended on the basis of the details found in the country profiles. This relates also to expressions as “many, most, several, a few..”.