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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

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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	• 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. ***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.***

International remittances	• 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. ***Access to international remittance services at post offices varies widely, and is not positioned as a "remittances for development" concept.***
Savings	• 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. ***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.***
Insurance and pensions	• 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. ***Access to insurance and pension products at post offices is marginally existent, although some promising experiments have been undertaken.***
Credit	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. ***Access to credit at post offices develops through accounts.***

Overall	• 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. ***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.***

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.

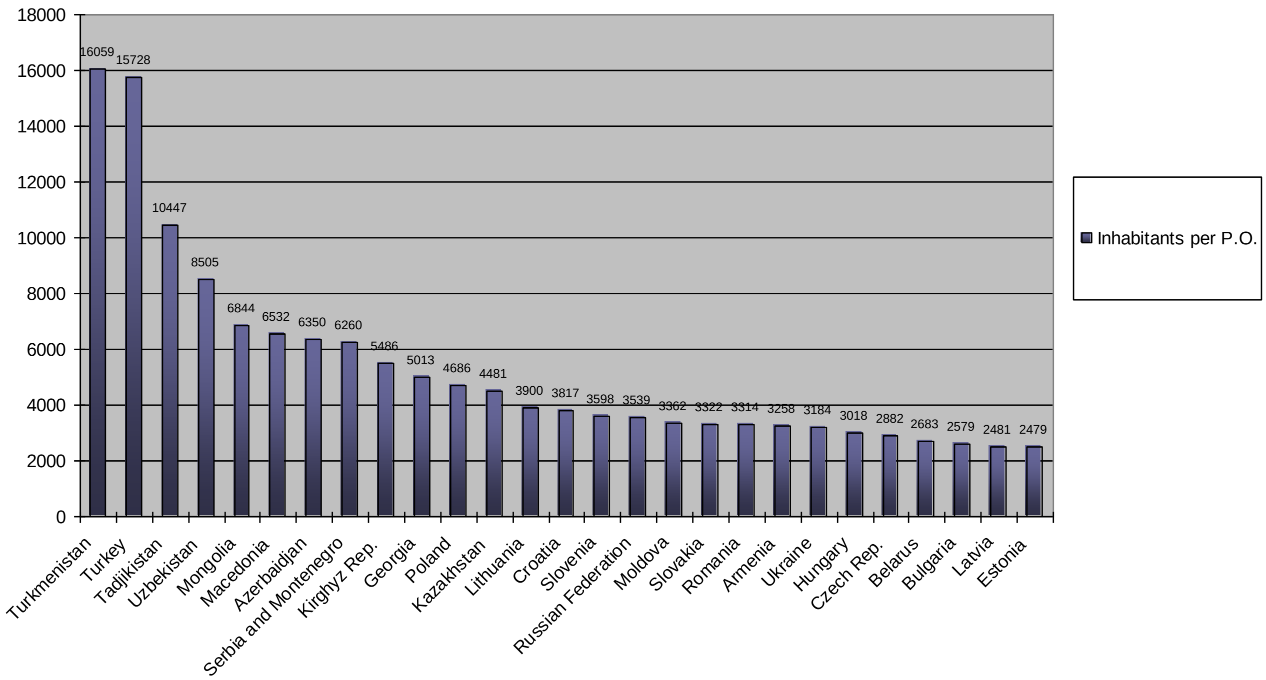
2—The Landscape of European and Central Asian Postal Networks

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

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.

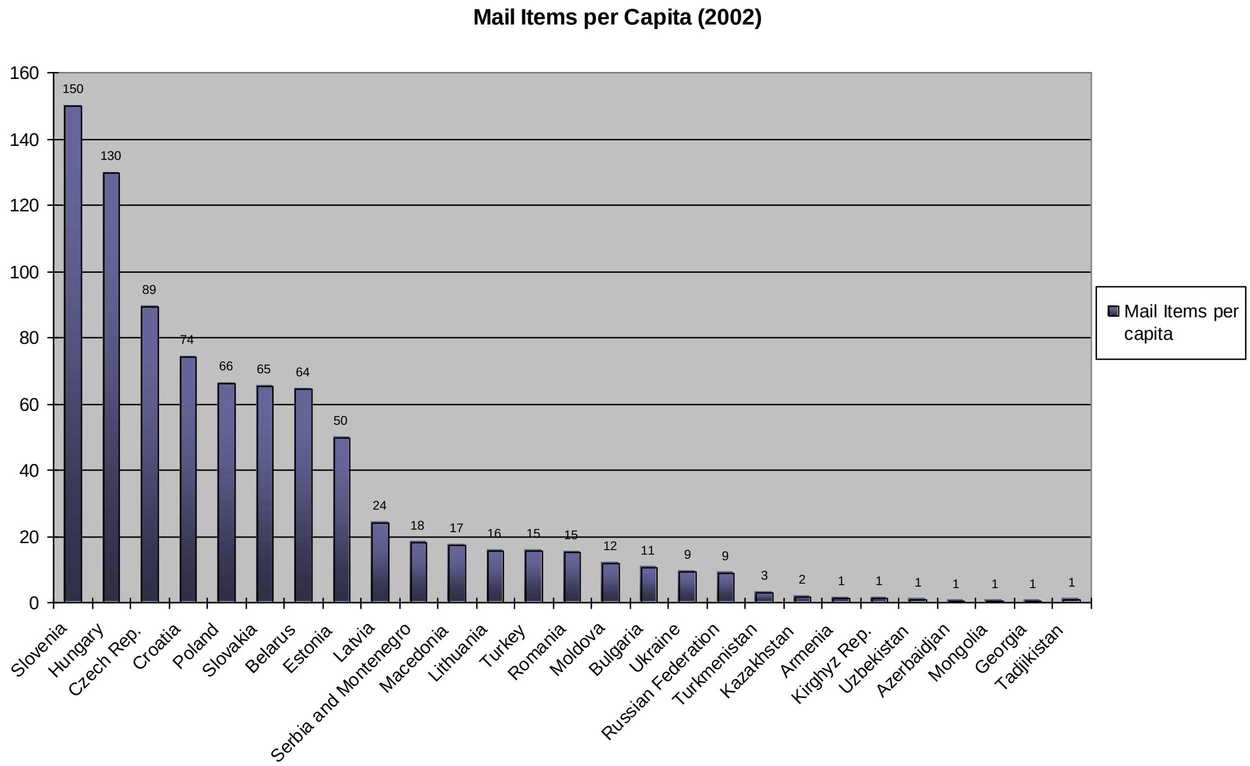
Most countries have postal network density in the range of 1 outlet per 2,500–6,000 inhabitants. A few countries deviate from this average, such as Turkey, which has a different political and historical background from most ECA countries, and Turkmenistan, which is the only country that has sharply reduced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



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

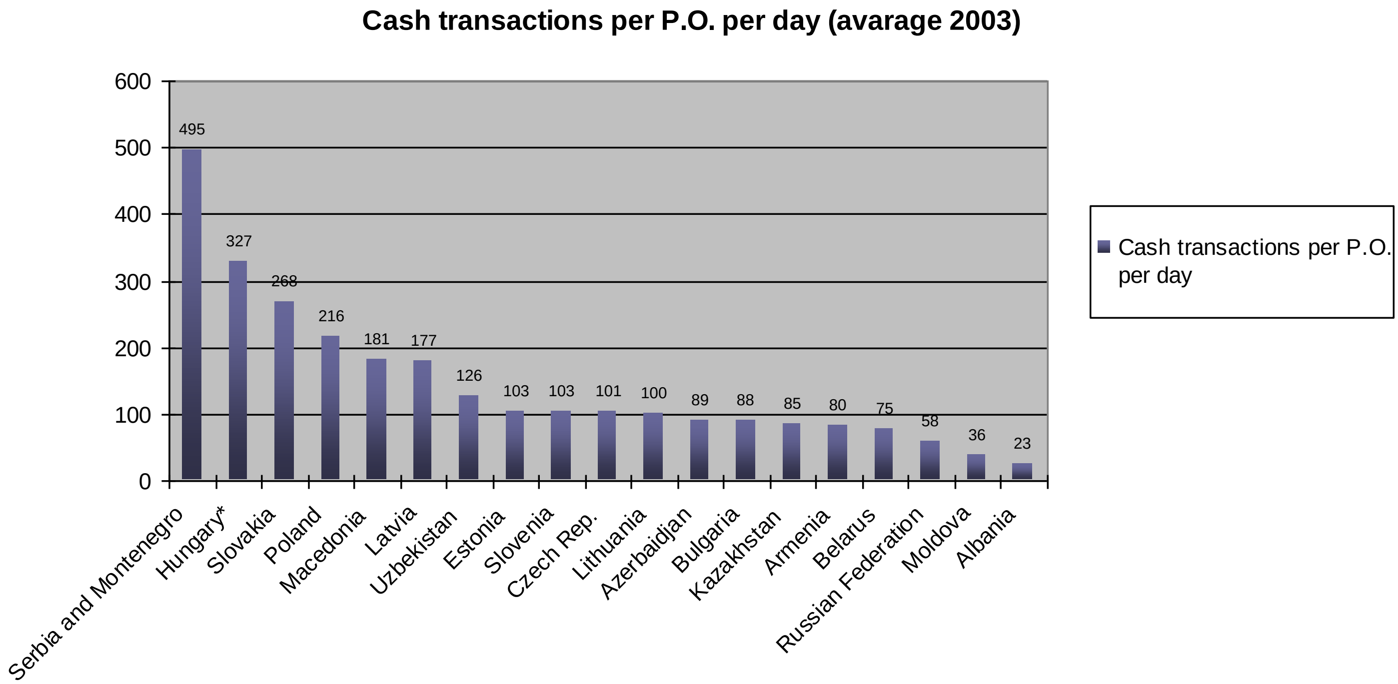
Particularly with courier, express, and parcel services, fierce competition has arisen from international operators and local private operators. In most cases, national postal operators have been left with an insignificant market share in these liberalized high-margin business segments, while the framework 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.



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	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. 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. Albanian Post is also the agent of the Financial Union of Tirana, the main operator of

	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).
Postal network	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. 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.
Postal performance	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. 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%.
Market position	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. The market position in the courier, express, parcel market is weak, and the private business market increasingly relies on private couriers. 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.
Other comments	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. 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.
Armenia	
Institutional framework	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,

	policymaker, and regulator of the sector. 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.
Postal network	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.
Postal performance	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. 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. 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.
Market position	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. 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.
Other comments	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.
Azerbaijan	
Institutional framework	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 *de facto* deregulated. AzerPost is de facto 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. 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.

Postal network	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. 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. 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.
Postal performance	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. 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.
Market position	AzerPost provides basic services in a *de facto* liberalized postal market, but there are more than 20 other providers of letter and parcel post services. 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%. 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.
Other comments	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. 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.
Belarus	
Institutional framework	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. 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

	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.
Postal network	The postal network counts 3,914 post offices, including 150 agencies. This means a very dense network with 1 outlet per 2,600 inhabitants. 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.
Postal performance	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. 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. 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. 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.
Market position	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. 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).
Bulgaria	
Institutional framework	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. 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.

	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.
Postal network	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. 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. 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.
Postal performance	Bulgarian Post processed about 58 million letters in 2002, whish 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. 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. 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. 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.
Market position	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. 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. 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. 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.
Other comments	Due to the complications around the privatization of the Bulgarian Tele-communications, restructuring of the post has been de-prioritized.

Croatia	
Institutional framework	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. 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 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. Croatia Post is the country's main agent of Western Union.
Postal network	Croatia Post operates a network of 1,168 proprietary post offices, about 1 post office per 3,800 inhabitants. 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.
Postal performance	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%. 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. 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.
Market position	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. 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.
Other comments	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 Croatian 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

	venture between Croatian Post and a selected financial institution.
Czech Republic	
Institutional framework	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. 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. 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. 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 lead 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). Postovni Sporitelna delivers financial and postal payment services through the post offices and other channels.
Postal network	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. 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.
Postal performance	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. 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. 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.
Market position	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

	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.
Estonia	
Institutional framework	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 *de facto* deregulated in the 1990s and has more than 25 private and foreign operators. 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. 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. Eesti Post is not connected to the interbank payment system, but settles directly with the banks involved. 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). 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).
Postal network	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. A rural savings and loan association movement has not developed in Estonia. 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.
Postal performance	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. 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,

	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). 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%. 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. 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. 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.
Market position	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. 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. The deposits mobilized through the postal network until 2002 amounted to EEK 4 million (*source*: 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.
Other comments	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.
Georgia	
Institutional framework	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 *de facto* liberalized. The sea ports and airport are considered important nodes in the trade routes in the Caucasus. 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.
	In view of poor economic performance and contracting postal markets, the postal

Postal network	network is being downsized from 1183 in 1999 to 1025 post offices in 2003, which is 1 post office per 5,000 inhabitants. 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.
Postal performance	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. 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.
Market position	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. Postbank is one of the 10 largest banks of Georgia, and its market share in payment cards is above 15%.
Other comments	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. 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.
Hungary	
Institutional framework	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. 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. 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.

	The aim of Posta is to become a full-fledged channel for retail financial services. 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.
Postal network	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. Post office counters are equipped with on-line computer terminals for payment data processing and many also provide space for ATMs.
Postal Performance	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. Domestic mail per capita was approximately 87 items in 2002, with growth opportunities in direct mail and advertising not being captured. 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.
Market position	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. 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. 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. 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.
Other comments	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.
Kazakhstan	
	KazPost is an open joint stock company, 100% owned by the state. It is charged with

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	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. 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. 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.
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	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. In the current ongoing large-scale improvement of the banking sector and the payment system, the post appears to be excluded.
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

	capita in 2003. Other mail flows, such as newspapers delivery, brought the number of mail items per capita to 5.8 in 2003. 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.
Market position	The market for postal services is *de facto* 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.
Latvia	
Institutional framework	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. 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.
Postal network	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.
Postal performance	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.”
Market position	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. 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.
Lithuania	
Institutional framework	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

	market was already *de facto* 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. 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. 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.
Postal network	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.
Postal performance	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.
Market position	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%. 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.
Macedonia *(Former Yugoslav Republic of Macedonia)*	
Institutional framework	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. 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. 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.
Postal network	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.

Postal performance	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. 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. 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. 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. 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.
Market position	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. 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.
Moldova	
Institutional framework	Poşta 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.
Postal network	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.
Postal performance	Poşta 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. 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.
Market position	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

	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. 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.
Other comments	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.
Poland	
Institutional framework	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. 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. 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. Telekomunikacije 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. 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 Oszszednosci (PKO bp), the state-owned Universal Savings Bank. 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. 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. 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

	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. 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. 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. 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.
Postal network	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 Spoldzieldzy branches represent a network of nearly 2,231 outlets, strongly represented in rural areas. The commercial banks have about 2,000 branches. 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.
Postal performance	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. 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.
Market position	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. 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.

	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. 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. The market positions in other segments or product lines in the financial market are insignificant.
Other comments	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. 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. 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. 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.
Romania	
Institutional framework	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. 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. 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. 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.

Postal network	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). 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. The card to capita ratio is only 15%, and the 8 cashless payments per capita ratio is among the lowest in Europe. 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.
Postal performance	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. 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. 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. 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. 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. 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. Posta Romana's network does not appear to have a role in pension reform 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

	sorting operations and counters of the postal network. 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.
Market position	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. 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. BancPost has been a rival of the state savings bank and has achieved a similar market penetration (if active accounts are taken into consideration).
Russian Federation	
Institutional framework	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. 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. 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. 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.
Postal network	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. 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. 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

	(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.
Postal performance	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. 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. Other services include retail trade and internet access. The post offices are seen as a vital infrastructure part of the e-Russia.
Market position	Russian Post's competitiveness in liberalized and commercial postal services has been boosted by higher levels of service, quality and speed. 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. 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.
Serbia & Montenegro	
Institutional framework	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. 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%. 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.
Postal network	The postal network has 1,671 post offices, with 141 operated on an agency basis. There is 1 post office per 6,300 inhabitants. 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

	be a similar size as the postal network, but more concentrated in cities, whereas the postal network has more locations in rural areas.
Postal performance	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. 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. 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.
Market position	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.
Slovak Republic	
Institutional framework	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. 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%. 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. 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.
Postal network	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. 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.
Postal performance	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

	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. Internet access and retail trade generated approximately 20% of revenues.
Market position	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. 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.
Slovenia	
Institutional framework	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. 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. 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).
Postal network	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. 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.
Postal performance	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. Financial services (cash payments, post bank services, postal money orders, and Eurogiro international remittances as well as foreign currency exchange) were 18% of revenues.
Market position	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.

	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. 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.
Tajikistan	
Institutional framework	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.
Postal network	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. 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.
Postal performance	The revenues of the postal services in 2003 were USD 0.5 million. This was not sufficient the 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. 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. 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.
Market position	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.
Other comments	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.
Turkmenistan	
Institutional framework	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.
	In the past 4 years, the postal network has been reduced from 413 post offices to 195,

Postal network	about 1 post office per 25,000 inhabitants. 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.
Postal performance	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.
Market position	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. To adjust cost to declining turnover and revenues, Turkmenistan has significantly reduced its network. Once daily delivery of mail, however, has remained the same. 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.
Ukraine	
Institutional framework	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. The State Committee concluded an agreement with Deutsche Post for further commercial cooperation. 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.
Postal network	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. 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. Fewer than 10 banks operate nationwide networks. Oschadny Bank, the state savings bank, maintains the largest network with nearly 10,000 outlets.
Postal performance	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. 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

	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.
Market position	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. 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. 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. AvalBank has been frequently commended as "best bank in Ukraine" by several rating agencies.
Other comments	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. 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.
Uzbekistan	
Institutional framework	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. 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. 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.
Postal network	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. 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.

	Aloqabank (the seventh largest bank) was not included in the program. 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.
Postal performance	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. 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).
Market position	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. 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.

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	√			√					

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 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.