

**The Role of Postal Networks in Expanding Access to Financial Services**

**Country Case: Namibia's Postal Financial Services**

**The World Bank Group  
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**Postbank Advisory, ING Bank**



## Author's Note

This paper discusses the role of the postal network in expanding access to financial services in Namibia. It reviews the public postal operator within the postal sector and within the broader context of the communications sector. The roles of the postal network and the Namibia Post Bank are also reviewed from the perspective of the financial sector development, with particular focus on payments systems development and micro finance.

This paper was prepared with desk research in 2004. Field visits were not scheduled, but data was drawn from previous work with NamPost and its post office savings bank. Data on the payments system was available, including a Committee on Payments and Settlement Systems report from the Bank for International Settlements, a recent study on access to financial services conducted by FinMark, and several other sources. Unfortunately, access to recent annual reports of NamPost or the Namibia Post Office Savings Bank was not forthcoming.

While this country case on Namibia 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 7 countries (*Egypt, Kazakhstan, Namibia, Romania, Sri Lanka, Uganda, and Vietnam*) and 5 regions (*Africa, Asia, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and Northern Africa*).

## Glossary of Abbreviations and Acronyms

Agribank	Agricultural Bank of Namibia
CSIB	City Savings & Investment Bank
FNB	First National Bank
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
NAD	Namibian dollar
M2	Total deposits as a percentage of all physical money (coins and currency)
NAMFISA	Namibia Financial Institutions Supervisory Authority
NamPost	Namibian Post Office
NBFI	non-bank financial institutions
NCC	Namibian Communications Commission
NNAWIB	Namibia National Association of Women in Business
NPOSB	Namibian Post Office Savings Bank
SWABOU	South West African Building Society
SWAPO	South West Africa People's Organization
SWOT	Strengths, Weaknesses, Opportunities, and Threats
USD	United States Dollar

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## Summary

### SWOT Analysis of Namibia Postal Service

Strengths	Opportunities
<ul style="list-style-type: none"> <li>• Dense network with nearly 190 post offices and agents throughout the country (1 per 9,000 inhabitants); relatively good counter automation and flexible cost structure (agents)</li> <li>• Strong growth in both domestic and international mail, express, and parcel flows; good quality of service</li> <li>• Significant position in distribution of savings and cash-based payment products; market share of 13% in deposits and nearly 50% share in number of savers</li> <li>• Economically viable, not dependent on tax privileges or subsidies; post has a diversified product portfolio</li> <li>• Modern legal/institutional framework with regulator separated from operator, and postal sector policy addressed by the government</li> <li>• Private sector management with marketing capability; and long-term foreign technical assistance to transfer knowledge</li> <li>• Internal profit center-based organization with MIS</li> <li>• Relatively good level of awareness of rural and remote communities</li> <li>• On-going stream of customers using financial services and postal services</li> </ul>	<ul style="list-style-type: none"> <li>• Existing client database of savers can be broadened to possibly another 100,000 users, and product use considerably deepened with additional products, such as cashless payments, consumer credit, microcredit, and eventually other services.</li> <li>• Postal network can play crucial role in providing awareness and access to Internet-based services, including financial services and e-commerce, as well as e-learning.</li> <li>• Eventually, NamPost can become the link for Namibia's small entrepreneurs and consumer access to international retail trade and payment systems.</li> </ul>
Weaknesses	Threats
<ul style="list-style-type: none"> <li>• Narrow range of financial services: no cashless payments and no credit; not competitive with commercial banks; no banking license</li> <li>• Balance sheet of NamPost Savings Bank not published; and internal product profitability not clear</li> </ul>	<ul style="list-style-type: none"> <li>• Policy and privatization process for the public postal operator is not clearly determined. Communications ministry remains influential through ownership of NamPost and Namibia Communications Commission (NCC).</li> <li>• Policy of microfinance and role of NamPost Savings Bank has not led to consensus between Ministry of Finance, NCC, and Bank of Namibia.</li> <li>• Protracted decision process decreases opportunities for NamPost Savings Bank as small market matures.</li> <li>• Substitution impact of new technologies on postal turnover likely to manifest itself in the medium term.</li> <li>• Re-mailing practice exposed to high risk of regulatory intervention or competition from Botswana-Lesotho-Swaziland postal services.</li> </ul>

## 1—Postal Sector Development

Namibia's postal sector development is exceptional. NamPost is one of the few postal services worldwide, and the only one in Africa, that has been consistently profitable over the past 10 years as a commercialized state-owned enterprise. With its modernized and expanded infrastructure, NamPost has been able to help **stimulate postal usage** by the commercial and business sectors of the market. The steady increase in the number of mailed items handled each year by NamPost—both domestic and foreign mail—is substantially higher than all other countries worldwide. NamPost also plays a significant role in providing access to financial services.

### Origin of Modern Postal Services in Namibia

The origin of modern "state" postal services in Namibia dates back to 1886 when German merchants and missionaries established a postal system based on the standards practiced in Bismarck's German Empire. Germany was among the few European countries that in those days had not introduced postal savings or postal giro services, so these services were not introduced in what was then South West Africa. After World War I, postal services in the Namibian territory were part of the South Africa Post Office, and remained so until 1991.

In 1991 independent Namibia inherited a postal system not much different than the one in 1921, which primarily served government communications. After independence, a vigorous postal reform was initiated. In 1992, the post office was transformed from a government department into an autonomous national enterprise, under the 1992 Post and Telecommunications Company Establishment Act. This same act also established Telecom Namibia, Ltd., and both companies were placed under the responsibility of a holding company called Namibia Post and Telecom Holdings, Ltd. The reform process had two objectives in mind regarding NamPost:

- Mandate a **postal service for the whole country at reasonable cost** to prevent discrepancy between the developed and the rural areas from increasing
- **Meet commercial demand with a modern and efficient service**, essential for the urban and industrial development of the Namibian economy

Pursuant to the Namibia Communications Commission Act of 1992, an independent regulatory authority was established, the Namibian Communications Commission (NCC). The commission granted NamPost, Ltd., a general mandate to offer postal services (the business of receiving, collecting, handling, conveying, and delivering postal articles; transmitting and delivering telegrams; and performing other services as prescribed by law), and money transfer services (money order and postal order services, and any other service that remits money through the postal company on behalf of the customer). The commission also directed that NamPost establish a post office savings bank. NamPost would own, control, and manage it, as well as have the authority to determine the interest rate on deposits (although consent of the Minister of Finance is required).

NamPost is governed by a board of directors, which determines the scope of postal services in the country. Pricing policy was delegated by the government to the NamPost Board of Directors, with the responsibility of fixing postal rates. The rates are cost-related and to a certain extent sensitive to market requirements and customer needs. NamPost effectively has full management independence to establish or abolish jobs. Employees of NamPost have their own status, and are governed by the terms and conditions of employment of NamPost. A managing director, or chief executive officer, accountable to the Board of Directors, heads Nam Post. The first managing director, with extensive experience in commercial banking and financial management, was recruited from the private sector to develop NamPost as a fully commercialized enterprise.

Although a broad monopoly was retained for the collection, handling, and delivery of letters, the NCC also grants licenses to private companies to operate courier, express, and parcel services. Interest from the private sector has been limited, though, and fewer than 10 private courier companies operate in Namibia.

### Business

In order to meet the demands of the market, NamPost developed a business vision and a corporate plan. According to this plan, the mission of NamPost is to "... provide fast, reliable, affordable, and readily available postal, courier, savings bank, and money transfers services that exceed customers' expectations. In doing so, NamPost operates as a profitable company and discharges [its] social obligations." The company's strategy has three objectives: profit, customer satisfaction, and staff satisfaction. To achieve its strategic goals, NamPost has focused on:

- knowing the market conditions in which the company operates;
- analyzing the product portfolio to identify weak and strong points and adopt appropriate steps to promote or correct them;
- customizing products to the needs of clients;
- identifying large customers (in the business sector); and
- developing customer service training programs for employees.

The first major reorganization was completed in 1995. In the years after, organization was further refined and professionalized to operate on the basis of commercial business principles. The current structure is a flat organization which is better responsive to the business requirements of modern management. Finance is a separate function that includes planning, budgeting, control, accounting, and the management information systems (MIS). Its regional offices are run as business profit centers, as is the new savings bank, which is already profitable. Marketing and public relations divisions have been introduced.

Namibia has seven postal areas, which have been zoned into three main control regions—northern, central, and southern. As business centers for profit, the managers must operate within their budgets and are fully accountable for operational and financial performance.

### Postal Mail Operations and Traffic

NamPost mail operations consist of collection from and delivery to private letterboxes, i.e., post office boxes. In general, there is no home delivery, but it has been introduced for the business sector. NamPost has its own transport fleet with more than 50 vehicles, which has improved quality of mail delivery and security.

The number of posted items in Namibia increased from 26 million in 1992 to 108 million in 2002, an increase of 415 percent. This figure includes international mail, which has a larger volume than the domestic mail. (A large part of the international mail is said to stem from so-called "re-mailing" by South African companies to avoid the higher domestic postal rates.) The domestic mail flow (letters) reached 36 million items in 2002, an increase of 33 percent compared to 2001. The number of letters delivered per capita increased from 21 in 1992 to 60 in 2002. Per capita domestic mail demand was 20 items in 2002. The growth trend has significantly outpaced the economic growth, and figures are much higher than the average found in Africa (8 items per capita). Data on the subdivision of mail flows are not available. Such analysis would be useful to understand in which market segment demand and supply has grown most significantly.

NamPost saw a steady decrease in parcel post as a changing business environment required faster delivery services. After poor results from pilot programs with international courier services, NamPost introduced **its own courier service** in 1995. NamPost handled 117,600 parcels handled that year, and quickly established itself as the indisputable leader in the small parcel market. In 2002 the volume reached nearly one million parcels. NamPost has also positioned itself as an important **postal gateway** between southern Africa and Europe. Postal items from the Netherlands to countries in southern Africa are routed via NamPost which adds to the mail transit volume of NamPost.

Reportedly, **customer satisfaction** has increased substantially. Regular benchmark studies track NamPost's performance and show that NamPost consistently performs better than required

## Post Office Network

Namibia needs extensive coverage by the postal service because of its extremely low population density—at 1.7 per square kilometer, it is one of the lowest in the world. Only 28 percent of Namibians live in urban areas, and the majority of inhabitants—72 percent—live in rural communities scattered around the country.

In 1991, an average of 30,000 inhabitants was served per postal point in the northern region. By 2003, the introduction of counter points of service and mobile units significantly reduced this discrepancy to less than 6,700, especially in northern areas. NamPost dramatically expanded the network through agency arrangements with small, private entrepreneurs that offer basic postal services, and reduced its proprietary network from 109 to 91.

Namibia still **lags behind in the number of inhabitants with individual mail boxes**. In 1992, there were only 41,490 post boxes or private bags (with approximately 42 inhabitants per post box). The number of mail boxes rose by 2002 to 130,000, or one box per 15 inhabitants. About 100,000 inhabitants and families have their own mail box.

The NamPost network has three types of postal facilities. Post-offices offer a full range of services and are staffed by NamPost employees. Postal agencies are staffed by people who are not NamPost employees. Mobile offices service people in the rural areas of Namibia. This **post-office network offers four basic services**. General **postal services** include selling postage stamps, accepting and delivering parcels and registered mail, etc. The **financial service** primarily issues and cashes domestic money orders and postal orders. **Agency services** cover the sale of television licenses, radio communications licenses, telephone cards, voter registration, plus it collects sales tax and customs duties and distributes state pension checks, among other services. The **post-office savings bank**, a unit of NamPost, offers savings accounts, savings-bank certificates, fixed-term deposits, and a “save as you earn” program.

In 1998, NamPost embarked on a major **counter automation program**. Currently, all 90 proprietary post offices are automated and on-line. This program enables NamPost to offer its customers an on-line banking system which speeds up transaction times and a more cost-effective banking service, which enables the delivery of new products and services.

### Distribution of NamPost Network

Postal Areas	Post Offices	Postal Agencies
Oshakati	7	6
Tsumeb	7	6
Otjiwarongo	10	
Swakopmund	10	
Windhoek	11	
Mariental	15	1
Keetmanshoop	14	1
New postal outlets since 1995	5	5
<b>Total</b>	<b>79</b>	<b>19</b>

Per the NamPost 1995 annual report, postal outlets are evenly spread all over the country. Data sources with a more recent subdivisions are not available; it is assumed that the current postal network has a similar geographic distribution.

## Financial Results and Management

In financial terms, NamPost has done very well. In 1992, the government gave NamPost five years to break even financially. It recorded operating losses of 9 million Namibian dollars (NAD) in its first year, but **turned a profit in its third year of operation**. Turnover jumped from NAD 30 million to NAD 160 million—an increase of more than 400 percent. In 1997 NamPost recorded a profit before tax of NAD 6.7 million (then approximately USD 1 million). In 2001 before-tax profit was NAD 2 million, and in 2002, NAD 3.9 million. NamPost **converted to commercial accounting standards** in fiscal year 2001.

Due to the changes in accounting standards, it is difficult to assess which product lines have most significantly contributed to the financial performance. Universal Postal Union statistics indicate that as much as 45 percent in 2001 and 48 percent in 2002 of revenues stemmed from “other” services. NamPost's own information recognizes “other” services to be approximately 11 percent of revenue. From the data available, it is not possible to conduct a product profitability analysis. Financial services appear to be an indispensable revenue stream for the economic viability of the postal network.

### Breakdown of NamPost Revenue, 2002

NamPost Services	Contribution to Revenue (%)
Domestic letter mail	29
Parcels	3
Courier and Express	14
International mail terminal dues	11
<b>Total postal services</b>	<b>57</b>
Savings bank	15
Money transfers	5
Agency payments	12
<b>Total financial services</b>	<b>32</b>
Other services (lottery, radio, TV licenses)	11

As the public postal operator of Namibia, NamPost has successfully expanded accessibility, quality, and range of postal services. Demand for mail service has increased steeply, contrary to the global trend of stagnation and decline. NamPost has been converted from a government agency to a state-owned company, or parastatal, that operates with commercial principles and practices with private sector management. NamPost has been able to generate gross and pre-tax profits early on, which served as the funding source to upgrade and modernize its operations.

Namibia has separated the roles of postal-sector regulator and public operator in 1992. Although several segments of the postal sector have been liberalized, still further liberalization is desirable. In addition, the separation between regulator and operator is not fully effective as long as they report to the same ministry.

NamPost received multi-year technical assistance from the Netherlands in 1994 and 1997–99, consisting of on-site advisory help and extensive training on postal services. Telecom Namibia got help in telecommunications development, while NamPost Savings Bank was provided with several traineeships at the Postbank in the Netherlands



## Telecommunications and ICT

Because of Namibia's close economic and historic links to South Africa, its telecom sector has advanced at a rate on par with South Africa's. It now has one of the most modern and sophisticated telecom infrastructures in Africa, with fiber optic links connecting the country by north-south and east-west axes. The original departments of posts and telecommunications were abolished in 1992, and **Telecom Namibia** was created as a state-owned enterprise, owned by Posts and Telecom Holdings, with a monopoly over all basic telecommunications services. To promote decentralization and increase efficiency, Telecom Namibia was divided into four regions: Northern, Central, Windhoek, and Southern. Telecom Namibia served more than 114,000 customers, with 1,503 employees, and an annual revenue of more than NAD 896.2 million. Telecom Namibia runs the largest digital telecommunication network in Namibia.

Some telephone exchanges in Namibian towns are still manually switched via an operator, making data connections virtually impossible. A fiber optic cable was laid out, which considerably improved the reliability and availability of the primary international telecommunications route.

The **Namibia Communications Commission** was established as a quasi-independent regulatory body in 1992. The Commission reports to the Ministry of Information and Broadcasting, and is responsible for licensing, frequency management, and other regulatory functions. The Commission's first major licensing action was the approval of cellular service by **Mobile Telecommunications, Ltd.**

Mobile Telecommunications, Ltd., is a **joint venture** between Posts and Telecom Holdings (51 percent), Telia of Sweden (26 percent) and Swedfund International (23 percent). Telia has taken responsibility for the management of the operations.

The Namibian cabinet approved the Namibian telecommunications policy and regulatory framework in 1999. This is expected to pave the way for **further liberalization of the sector**, and open up the market to private companies and investors, including possible competitors to Telecom Namibia.

The density of telecommunications is relatively good with more than 6 percent for the entire country, above 30 percent in urban areas, and just above 3 percent in rural areas. Internet access was 24.6 per 1,000 inhabitants in 2001, which is the second highest figure in Africa, and is expected to rapidly increase.

The Namibia Communications Commission has recently circulated a draft policy paper on the development of the telecommunications sector. It acknowledges the need to accelerate the expansion of the communications infrastructure to provide 80–90 percent of the inhabitants with access to telecommunications. The commission wants to achieve this by **opening the sector to private enterprises** offering different types of telecommunications and Internet applications, to increase the number of public booths and access points, particularly in rural areas. It also intends to reduce state ownership in the two existing telecom companies and end their monopoly.

Improved access to telecommunications and the Internet will support social and economic development. It may reduce the demand for mail services, although early indications in 1999–2002, suggested that the communications market was underserved and immature. Impact on mail will probably come in the middle term, rather than short term. Telecommunications policy did not set out specific targets for the post office network in providing access to telecommunications or Internet, so NamPost essentially had the commercial **freedom to find partnerships** to sell mobile phone, phone cards, Internet access, etc.

## 2—Postal Financial Services in a Market Perspective

In the early 1920s, when South Africa imposed its rule over then southwest Africa, all operational regulations for the South Africa Post Office also governed the post offices and post office savings bank in Namibia. When Namibia gained independence, the post office savings bank had about 66,000 postal savings accounts on its books, a substantial number of which were dormant or not in use. Operations were manual and paper-based and service levels were low. More than 80 percent of the transactions took place in or near Windhoek, where the administration of the post office savings bank was based.

In 1992 the Namibian Post Office Savings Bank (NPOSB) became a division of NamPost. The Banking Act did not apply to it, but the NamPost savings bank's deposits were implicitly presumed to be guaranteed by the Namibian government, as owner of NamPost. Interest earned on NamPost Savings Bank accounts is tax exempt, and has no transaction costs. NamPost Savings Bank **cannot lend to third parties**; it can only invest in its parent companies and in government entities. The institutional framework mirrors that of the South African post office savings bank (which does not have to comply with the requirements of the Reserve Bank of South Africa).

However, as of 1992, NamPost Savings Bank substantially differed from the South African postal savings bank. While the latter remained a relatively small operation, NamPost Savings Bank soon became a fast-growing, highly profitable division of NamPost, serving the Namibian population through all post offices and mobile agents even in the most outlying rural and under-developed areas of the country.

NamPost's finance department managed the savings bank until August 1994 when a bank manager was appointed for the first time. (The bank manager became NamPost's chief executive officer in 1996.) Bank staff increased from five members in 1983 to more than 30 in 1998. NamPost signed an agreement in 1995 with the German Savings Bank Foundation for International Cooperation to develop NPOSB into a **full-fledged savings bank**. In addition NPOSB management trained at the Postbank in the Netherlands to acquire skills in marketing management, product development, and client service.

NPOSB currently offers four savings products: savings accounts, savings certificates, "save-as-you-earn" accounts (launched in September 1997), and fixed-term deposits (launched in April 1998). Additionally, the savings bank offers two money-transfer options, postal and money orders, in addition to payment services for telephone and utility bills and distribution of pension payments. The bank's client portfolio more than tripled in the first 10 years, attesting to its rapid growth. NamPost Savings Bank has more clients than any other financial institution in Namibia. (It has more than 230,000 account holders and approximately 500,000 savings accounts, the most widely used financial product.) However, it **cannot offer transferable deposit accounts with cashless payment instruments**. It wants to expand its services in this area, but is limited by its current institutional framework. NPOSB's market share in *volume* of payments was estimated at less than 20 percent.

It is estimated that half of its customers would have stayed "unbanked" had it not been for the NamPost Savings Bank. The **savings and investment portfolio increased by a staggering 500 percent**—from NAD 50 million in 1992 to NAD 260 million in 2002. This represents a market penetration of the adult population of nearly 25 percent and a market share of 13 percent in household deposits. NamPost's financial services generate more than 30 percent of total revenues, but the details of product profitability and cost compensation for the use of the postal network are not known.

In a draft finance policy on small and micro enterprise (SME) in Namibia, the NPOSB was recognized as an **important outlet to provide financial services to SMEs, especially in the rural areas** of the country. Even Namibia's current Postal Act foresees lending as a service that should be provided by the NPOSB. However, no conclusions have been drawn, and several sources point to NamPost's desire to conduct a feasibility study on transforming the NamPost Savings Bank from a division into a licensed banking institution under the Banks Law.

## Financial Sector Development Perspective

The banking sector in Namibia currently consists of five commercial banks (Bank Windhoek, First National Bank of Namibia, Standard Bank Namibia, Commercial Bank of Namibia, and SWABOU Bank), an investment bank (Nedcor Investment Bank), and a savings bank (NamPost Savings Bank, which does not operate under the Bank Act).

Despite the uncertainty during the early nineties, after independence in 1990, the **banking sector remained remarkably stable**. In addition to the political turmoil, the central bank was established in 1990 and had a steep learning curve. Prior to independence, the banking sector was regulated by the South African Reserve Bank under South African laws and regulations, so it was necessary to enact appropriate legislation to take over regulation and define the responsibility of financial sector regulation. Over the last decade, there were no banking crises and no banks collapsed. City Savings & Investment Bank started operations in 1994, joining the NamPost Savings Bank. This bank was small compared to the other banks and struggled until its merger with SWABOU, the South West African Building Society. With this merger, SWABOU Building Society transformed itself into a fully-service commercial bank.

### Distribution Network of the Banking Sector

	Branches	Agencies	ATMs
<b>Commercial Banks</b>			
Standard Bank	21	16	68
Bank Windhoek	24	10	50
Commercial Bank of Namibia	9	2	N.D.
First National Bank of Namibia	28	10	71
SWABOU Bank	15	1	N.D.
<b>Government Banks and Credit Institutions</b>			
Agribank of Namibia	6	—	—
Namibia Post Office Savings Bank	91	95	—
National Housing Enterprise	4	18	—

Like Botswana, Lesotho, and Swaziland, the Namibian banking sector is dominated by South African banks. First National Bank of Namibia and Standard Bank operate under their own brands, while Absa Bank and Nedcor Investment Bank have large shareholdings in Bank Windhoek and the Commercial Bank of Namibia, respectively.

Commercial banks are not “enthusiastically entrepreneurial,” especially in terms of extending credit to small and microenterprises. Despite excess liquidity in the financial system, credit extended to the private sector declined from 83 percent to 72 percent of total banking assets. Within the private sector credit, more than 30 percent went to mortgage advances, and this, together with other private loans like installment credit, made up less than 60 percent of total credit extended to the private sector. In comparison, the business sector received about 40 percent of available credit, which declined from 40 percent in 1996 to 36 percent in 2000. The **credit, therefore, went increasingly toward less productive activities**. In addition to less total credit extended to the private sector, there was also a rise in foreign assets held by the banking sector (as percentage of their total assets), which seemed to indicate that **banks more and more were moving their funds offshore rather than providing credit to the local market**.

Banks have been criticized for not having sufficient rural outreach. However, this criticism was based on the location of bank branches only and did not take into account the number of bank agencies. Other research has shown that, given the geographical spread of the population, there is reasonable access to banking across the country. Furthermore, in terms of **bank density**, Namibia (with 20,000 individuals per bank branch) is second

only to South Africa (11,000 individuals per bank branch) in the South African Customs Union region and is much better off than most other southern African countries. When one includes **the postal network**, the ratio is 1 physical point of access per 5,300 inhabitants, similar to medium to highly-industrialized countries.

Several issues, however, have made it difficult for commercial banks to extend access to credit:

- **Collateral:** Farmers in rural areas have difficulty in getting loans as they farm on communal land that cannot serve as a marketable form of security. This is less of an issue with urban mortgage bonds as most urban land has been proclaimed.
- **Transaction costs:** Commercial banks are seemingly reluctant to get involved with any ventures beyond the usual traditional credit evaluation process. The main reason for this is the implied transaction costs. The need to spend more time evaluating proposals and recovering non-performing loans is not cost-efficient for banks. The wide geographic dispersion of the population also makes it very costly to provide banking services to them. Using group-lending methodology or the cooperative model might be a possible solution. Group-lending has not been widely used in Namibia, and savings and credit cooperatives are still in development.
- **General economic growth and the lack of “bankable” projects:** Similar to Botswana, Lesotho, and Swaziland, the growth performance of Namibia has been moderate at best. Under such circumstances there is little room for establishing new businesses.

Despite these issues and the government's criticism, banks in Namibia are providing **fair access to savings products**, compared to Botswana, Lesotho, and Swaziland, due to the NamPost Savings Bank, which holds nearly 50 percent of all savings products. However, there is considerable room for expansion.

The **access to transaction services**—ATM cards and the ATM network—compares well with Botswana, Lesotho, and Swaziland, although usage of these services appears relatively low and there is room for expansion. There are reportedly more than 225,000 ATM cards (most of them issued by stores, not directly by banks), 12,000 petrol cards, and 20,000 credit cards. In total, more than 100,000 transaction and check accounts are kept in the banking system, which is a penetration of only about 10 percent in the adult market.

Total deposits as a percentage of all physical money (M2) could be used as an indicator of financial intermediation. This ratio should ideally be increasing as more people are exposed to the formal financial sector and decide to hold deposits with banks rather than cash. Another indicator of financial intermediation is monetary depth, measured as the ratio of M2 to GDP. This provides an indicator of the flow of funds available for loans relative to the size of the economy, and indicates a country's capacity to channel surplus savings into productive investment. In Namibia, deposits as part of M2 were above 80 percent in the past few years,<sup>1</sup> which is high (although lower than in some other countries), and may be explained by the fact that unit trusts have gained popularity. Deposits as a percent of GDP grew gradually to above 30 percent in 2002, which is also high. Savings were also about three times higher than currency in circulation. Although this provides room for conversion from cash into transferable deposits, the ratio in Namibia is much better than in some other African countries.

Some other market segments are relatively underdeveloped. There were about 6,000 personal loans issued in 2002, 9,000 housing mortgage loans, and 5,000 hire/purchase contracts. These numbers are very low, even when compared to the under-developed market for microlending.

The NGO-MFI sector, which does focus on microentrepreneurs, is extremely small, with 17 MFIs and cooperatives. Many of the microlenders are small one-office operations. The sector has 200 registered microlenders and serves only 120,000 customers. Market penetration is low, at 30 percent.<sup>1</sup>

### MFI Market

The **potential market** for microloans, including both formal and informal sectors, in Namibia is estimated to be 400,000 clients, with a total loan potential of NAD 6.5 billion. Given that the existing level of lending to

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<sup>1</sup> Only incomplete data was available, based on five main MFIs and 12 cooperatives.

individuals in the country at year-end 2002, by all of the “deposit money banks” was NAD 8 billion, a full exploitation of the microfinance loan market would increase lending by 60 percent over existing levels provided by the commercial banking sector.<sup>2</sup> The estimated demand for microloans,<sup>3</sup> covering both formal and informal lending activities, is based on the following segments:

Self-employed individuals: NAD 1.5 billion  
 Government employees: NAD 3.0 billion  
 Non-government employees: NAD 2.0 billion

Microfinance products are primarily delivered by various commercial microlenders, as detailed below. Given the **focus by commercial microlenders on loans to salaried employees**, many of these borrowers also have access to normal bank credit. Over-indebtedness in this sector has been an ongoing concern and helped spur the development of registration procedures and credit-reporting agencies.

The few **NGOs** actively providing financial services have **not achieved any significant scale**. Most of their operations are small, and only a few are national in scope. **Credit cooperatives** are still at an early stage of development and have not played a role in the microfinance sector to date.

**Non-bank financial institutions** are regulated by the Namibia Financial Institutions Supervisory Authority (NAMFISA), which was established in 2001. Although the Namibian microfinance market consists of three segments, data is available only for the formal MFIs, which are registered with Ministry of Finance and NAMFISA. Little information exists on semi-formal MFIs, which are only registered with the Ministry of Finance for tax purposes, or informal microlenders, which are not registered.

### 3—Options for Development

With long-term assistance from international donors, Namibia has implemented a series of best practices, leading to growth in business, turnover, quality, customer and staff satisfaction, and bottom line profitability. Some of the best practices implemented are:

- Separation of regulator and operator, and separation of telecommunications and postal services
- Commercial (flat) structure, lead by private sector management with profit targets throughout the organization
- Separation of the postal accounting function (financial management/chief financial officer) from the postal financial services (client operations)
- Application of total quality management
- Implementation of marketing function and account relationship management for large customers
- Product development; service differentiation for different market segments
- Active international marketing as a regional (transit) hub or gateway
- Partnerships with international and/or private sector parties
- Strong human resources management, focused on motivation and training
- Computerized postal counters and creation of a local network for on-line transactions
- Flexible/variable cost, e.g. through the introduction of postal agents
- Product revenue diversification leading to less dependency on one or few markets
- Inclusion of international expertise and exchanges

<sup>2</sup> “Access to Financial Services in Namibia,” FinMark Trust Research Paper No. 3, Genesis Analytics, March 2003

<sup>3</sup> Much of the microloan market in Namibia is focused on salaried employees.

After more than 10 years of buoyant growth, NamPost has matured enough to enter a **new stage** in its corporate and business development. The objectives of the next phase should be the consolidation of the quick gains achieved and the construction of a stable and robust framework that assures the continued growth of the different business lines and enables the expansion and broadening of the scope of operations.

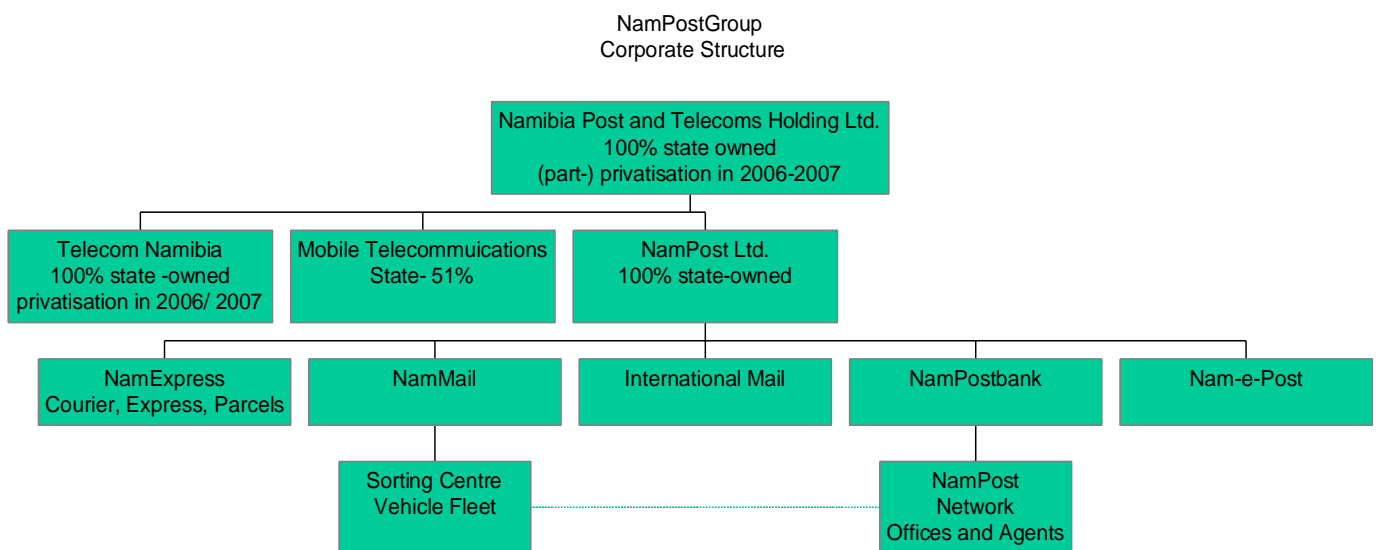
One of the most plausible steps is to **reform NamPost into a group company** where the different profit centers or business lines are incorporated entities with their own balance sheets and income statements. Within such structure, the position of the NamPost Savings Bank could also be better assessed, including the options to transform in into a licensed bank. Depending on the actual assessment and valuation, one could consider in more details the pros and cons of a NamPost subsidiary or joint venture.

Any assessments would need to include these points:

- In-depth market analysis (including client demand analysis and competitor analysis)
- Assessment of NamPost’s current operations, including valuation of current business and assets
- Strategy and business plan, including blueprint of the desired organization, human resources, training, business process, information systems and technology
- Financial plan and action plan to set up the post bank
- Feasibility evaluation (including political, regulatory, market feasibility) of the selected reform options.

### NamPostbank Subsidiary

NamPost Savings Bank could be transformed into a bank as a subsidiary of the NamPost (Group) Company, regulated by the Bank of Namibia. The intrinsic strengths, risks, and restructuring requirements of such a transformation should be analyzed and evaluated against the market and its potential development. With the **bank as a separate entity within the NamPost group** structure, the emphasis on synergy with other postal business lines and competition via low-threshold access could be assured. The hypothetical model below, of a restructured postal network, suggests that the NamPost Bank be responsible in principle for the postal retail network, as it is presumed to generate the majority of revenues and expenditure. On the other hand, it is also assumed that postal group companies will conclude service level agreements with the postal network unit for services to the retail and consumer segments. If the privatization of NamPost is resolved, the position of the Postbank could be assessed and privatized in advance of the postal mail services.





### **NamPost Savings Bank Joint Venture**

NamPost Savings Bank, after being incorporated, could consider becoming a strategic partner through a strategic equity participation of one of the existing Namibian banks. With such transaction, the NamPost Savings Bank could gain access to new products/services to sell through the postal network, as well as diversify its asset portfolio. However, while this may be an efficient solution, the limited number of Namibian banks and their relative complacency, this partnership might not enhance competition and outreach. The risk is that such a joint venture could slow development of NamPost Savings Bank's outreach and focus on select post offices to target higher-value consumers.

### **NamPost Savings Bank**

Another option is to privatize NamPost Savings Bank itself, and operate under a long-term agreement with NamPost to provide financial services. At issue here is whether attracting sufficiently strong and strategically dedicated investors interested in expanding the business of the NamPost Savings Bank is feasible.

### **NamPost Financial Service Joint Venture or Concessions**

Instead of the options above, the NamPost Savings Bank could stay as is, but add new products and services through specific arrangements. Cashless payments services might be contracted with one of the commercial bank or directly from one of the leading card payment houses. For small loans and microcredit, a specific arrangement could be established with a bank, a credit union, or microfinance institution, where NamPost would offer their product under a private label to the public. Although risk management would remain formally with the partner institution, in actuality NamPost would **risk its popular reputation** should the arrangement fail.

### **Conclusion**

Namibia features a relatively successful, reformed public postal operator. Both the postal and financial sectors have rapidly developed and belong to the most advanced in Africa. Within this context, NamPost has achieved an impressive track record unique on the African continent, and perhaps even worldwide. Both the postal mail business and the postal financial services have a **compound annual growth rate greater than 40 percent** in the past 10 years. This is exceptionally high, and far exceeds GDP growth rate or regional or global industry growth rates. Most of these successes can be attributed to strong, visionary management, recruited from the private sector.