WSBI

Helping Savings and Retail Banks Thrive

POSTAL FINANCIAL INCLUSION: PUSHING THE ENVELOPE

Governance and corporate transformation of postal financial institutions

Discussion paper

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1. EXECUTIVE SUMMARY

The modern postal banking concept effectively contributes to lowering barriers to financial inclusion. Using post offices can help to eliminate access constraints across a country, keeping costs low for financial services for the un(der) banked – and via trusted places – educating users with simple, standard products enabling them entrance to financial inclusion in combination with issuing identification documents as part of e-Gov or ID4D programmes.

In 51 countries, people use the services provided by a corporatised and licensed PFIs. This is the prevalent model. In a group of 24 countries, post offices play a substantial role in providing access to financial services as agent of one or more licensed and corporatised financial institutions. In another 24 countries, PFIs are in a process of reform and not yet corporatised nor licensed: they provide a limited range of services. A missed opportunity occurs for this group, which holds substantial and obvious potential. In another 30 or more countries, post offices have relevant, widespread networks with presence in bank "deserts", but their institutional framework limits their obvious potential to act as agents of licensed banks and insurers.

Reforms of PFIs until now were dependent on, and driven mainly by, individual government initiatives and have taken often 12 years or more to complete. For a group of at least 24 PFIs in transformation, there appears a compelling rationale for governments to intervene and to pursue accelerated reforms to realise a PFI's contribution to rural financial inclusion. The main reason would be to turnaround the existing loss-making operation into a sustainable, profitable institution that adds value to poverty reduction, economic growth and competitiveness in the retail banking market. Pathways to progress could benefit from best practices and lessons learned elsewhere, as well as support to step up partnership-building efforts with the private sector to fill in existing gaps in PFI capacity.

Interventions and support by the international financial institutions, UN agencies and other public- and privatesector donors helped some 40 countries to make a step forward in the process of transformation. In most of the cases, support has been short-term, small-scale or fragmented. More concerted and convergent efforts during the process could be more effective, with more focus on governance and management accountability alongside technical assistance in capacity building.

Reforms can be achieved at an faster pace through more international cooperation – on one platform – between governments, their PFIs, and international financial institutions and other funders supporting financial inclusion and, in particular, by the key industry stakeholders of these institutions. WSBI is a committed stakeholder in this area to push the financial inclusion envelope.

This report provides 10 strategic principles and actions needed to widen financial inclusion via postal networks in Africa and beyond. Those principles, designed for policymakers and international institutions, when applied, can (a) help accelerate the process of transformation and (b) catalyse the process of bundling international efforts.

WSBI thanks consultant Hans Boon for his tireless effort in shaping the content and structure of this report.

Ten strategic principles and actions needed to boost financial inclusion via postal networks in Africa

The following principles are seen as essential for strategies to boost financial inclusion through postal networks and highlight the factors that are considered essential for viability of the provision of financial services through the postal network to low-income populations.

1. Post offices need to be seen as an existing specific component of the financial access infrastructure and as a distribution channel with substantial unutilised potential. Post offices are neither bank branches nor a group of random retail agents. Post offices carry a social and public responsibility to provide reliable, fair and transparent financial services, and where applicable, a specific role in promoting financial literacy.

To function as a distribution channel of one or more financial institutions, at least three main issues need to be addressed:

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

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

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

The institutions can be:

- Banks, microfinance institutions, money transfer operators, payment service processors and insurers meeting a set of minimum requirements in responsible finance, transparency, literacy and consumer protection. They operate under an agreement with the postal operator to use one or more post offices as their agent, or alternatively under an agreement to rent space in one or more post offices for their representation with own staff and ICT.
- A historic postal (savings) bank institution as a licensed deposit-taking institution and, for example, as a microfinance institution (MFI) wholesale funder, in conjunction with a programme to corporatise the entity within a reasonable term into a licensed retail bank and operating under a transparent agreement for the usage of the post offices; and
- A state-owned postal operator licensed as a non-bank financial institution to operate in areas such as money transfer services and bank agency services.

3. Diversity of the financial services offered via the post offices is needed through a broad range of affordable services, such as payments and transfers, savings and deposits, loan instalments, bonds and insurance premiums. It should not remain limited to one or two products and also not be based on long-term exclusivity to providers, oftentimes "historic" provider, who face limitations in their capacity to expand to a broader range of services on a competitive basis or to a larger number of clients.

4. Innovation in delivery of financial services via post offices is needed through building partnerships. Those partnerships should be formed between the post offices as a delivery channel, and competent financial institutions and mobile telecom operators for the application of new technologies to expand financial system access and usage. This needs to be seen beyond the usage of modern ICT for teller operations and delivery of financial services. It could include issuing biometric ID cards with payment functionality, self-service terminals, mobile post offices and postal couriers equipped with mobile technology to deliver financial services fitting in a broader scenario of expanding e-commerce, e-government and e-learning. Standardised interconnectivity and interoperability is therefore a requirement with, for example, mobile and electronic channels for financial services.

5. Empowerment for financial inclusion via the post offices needs to include the development of financial literacy with the un(der)banked. Post offices need to be seen as a mass communication medium instrumental to enhance information and transparency about using financial services. Empowerment of the post offices as a channel for financial inclusion will frequently require transformation and change programs based on building financial management capabilities within the postal operator and post offices, and the involved financial institutions. Empowerment needs to be based on a "learning curve" for the postal organisation and its environment. This also requires proportionality in strategies to widen financial inclusion via postal networks, with steps that are balanced between the risks, capability and benefits while taking into account the gaps and barriers in existing postal sector regulation.

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

6. Full data reporting to the financial regulator on all financial services delivered via post offices, and inclusion of these data in the financial sector statistics. Statistical reporting does not require an immediate change of existing legislation or regulation of the postal operator. In cases where the reporting does not exist it can be seen as one of the first steps in the preparation of new strategies to widen financial inclusion via postal networks.

7. Corporate transformation of existing postal financial services in a corporatised entity that forms part of regulated financial sector. Roadmaps for the transformation need to be based on a consensus between the financial regulator and the involved government agencies. Roadmaps depend on specific local circumstances but can be built around a selected number of options and phases. Intensified cross-border cooperation or international alliances will need to be considered, moreover, to ensure adequate economies of scale and sustainability.

As a part of the transformation, there is need for audited IFRS financial statements of the designated postal operator. It is imperative that these financial statements include segmented accounting of the services provided within the reserved area for mail services and of the financial services entities.

8. Transparent methodology of financing of net cost of reserved area of postal universal service obligation (USO). It appears as essential to make transparent the financing methodology of the net cost of the postal USO, avoiding the suggestion that internal cross subsidies exist between the postal services and the provision of financial services to the low-income groups.

9. Revised sector policies and regulations for 'postal services'. Emphasis should be placed on promoting growth and competitiveness of the sector. In recognition that the postal sector has been liberalised globally, a redesign is needed of a reserved area for a specific operator or design of other measures encouraging nationwide delivery and taking experiences from other sectors. Sector policy needs to take into account the new postal logistics business models and application of new ICT-based postal technologies, replacing large parts of the early 20th-century model mainly based on manual labour.

10. Human capital building is a prerequisite. It is a critical success factor in implementing effective strategies to increase financial inclusion and improve competitive viability of the postal services. To build up human capital, it requires recognition that trustworthiness and competence to reach out to the un(der)banked hinges on investing in and incenting talented post office staff and management while ensuring a customer-centric corporate culture.

2. PURPOSE AND PROBLEM DEFINITION

The purpose of the paper is to provide an outline of sound practices in business models and transformation and an outline for a global initiative to make postal financial inclusion work.

The main problem presented in this paper is that a group of postal financial institutions in developing countries cannot yet realize their obvious potential contribution to universal financial access or financial inclusion. Some of the typical symptoms of the problem include:

- The financial services offer is not competitive and not responding to client needs; a limited range of separate products is offered, not as a package, hardly promoted or advertised, and relatively cumbersome if compared to banks, fintech or mobile money providers.
- Poor service quality due to an archaic corporate culture, low labour morale coupled with high levels of resistance to change, weak skills and capacities resulting from shortages in training and human resource management.
- Outdated business processes, often dependent on paper-based processing, manual labour and limited technology.
- Accommodating accounting standards and distorted taxation rules disguising actual financial performance.
- Financial statements are not publicly disclosed, often not in accordance with IFRS, or not independently audited and not providing a fair and transparent picture of the financial condition; aspects that might be window-dressed include poor capital adequacy, solvency concerns, under-provisioning, and stressed liquidity.
- Net interest margin income is very limited. This could stem from constraints in investing the clients' deposits – e.g. only in T-bills, or deposits with banks and not in credit.
- Accumulated backlog in maintenance: depreciation of non-current assets (e.g. buildings, equipment) is understated.
- Net earnings from financial services cannot be fully used to invest in business growth; earnings tend to be used to cross-subsidise a loss-making and inefficient mail operation, in some cases combined with a high level of social employment at low salaries.
- Growing risk of client deposits being used to fund the operational losses in the postal service to comply with Universal Postal Service Obligations.
- Management with experience in banking or fintech and specialists cannot be recruited or retained due to political dependencies and official remuneration levels far below financial sector averages; no capacity in risk management
- Unfocused strategies across different business lines and markets and insufficient management information (MIS) & information technology (IT) systems.

The problem can be characterised as a vicious circle or downward spiral comprised of falling business and revenues, not keeping up with competition, swelling operation costs, inability to maintain post offices, technology and other assets, low morale, low salaries, no funds to invest in modernisation and accumulated losses, or dependent on state budget and taxpayer money. This has resulted recently in liquidity and solvency crises, especially in Africa but also elsewhere, endangering PFI continuity, and in some cases, the entire state-controlled postal service.

Cases that featured such crises or are known for a high-risk exposure towards such situation include:

2018-2005	2005-1995
Cameroon	Burkina Faso
Chad	Burundi
Comoros	CAR
Gabon	Congo
Lao PDR	Cote d' Ivoire
Mali	Croatia
Niger	Gabon
Zambia	Ghana
	Madagascar
	Malawi
	Niger
	Nigeria
	Senegal
	Sierra Leone
	Uganda
Source: IMF consultation reports, FSAP reports, World Bank projects, and PFID research.	

In certain circumstances, harsh and quick interventions took place to separate postal mail operations from the PFI, or a rescue operation leading to amalgamation of PFI "remainders" into a larger bank. In some cases, the institutions followed their own way, detached from post offices, and in other cases they developed new models of cooperation.

In several cases [see table below] the "Posts" and PFIs have recently faced sharp contraction of, for example, their postal network and operation and in many cases has closed off any potential leveraging of post offices as an unique, massive nationwide channel for financial access. The reduced network supports the economic viability of the Post and opens new, though markedly smaller opportunities for agency banking and payments as seen, for example, in Uganda, Ghana, Nigeria and Lithuania.

In several cases [see table below] the "Posts" and PFIs have recently faced sharp contraction of, for example, their postal network and operation and in many cases has closed off any potential leveraging of post offices as a channel for financial access.

	Post offices		Closed
Country	**2006**	**2016**	
Nepal	13,349	993	92.6%
Georgia	1,076	81	92.5%
Guinee-B	20	2	90.0%
Vietnam	17,061	3,022	82.3%
Thailand	4,534	1,290	71.5%
Ghana	688	327	52.5%
Nigeria	3,925	1,888	51.9%
Uganda	303	157	48.2%
Lithuania	934	674	27.8%
Madagascar	603	495	17.9%
Total	42,493	8,929	79.0%
Source: UPU postal statistics 2006, 2016			

The root cause of the inability to capture the potential in financial inclusion can be found in the legal and institutional framework of the PFI and the related Post and in particular in the governance and management of the PFI and Post. The historic model features often a combination of a handful of functions: owner, sector policymaker, regulator, executive management and absence of independent audit.

In view of the rapid digitisation and postal industry changes, the "wait" option is chosen until governments, international financial institutions and the public become aware of the problem and the subsequent need of intervention nearly times out. A new wave of cash crunches that require taxpayer money or IMF arrangements seems to be "in the mail", or highly likely to occur for several of these PFIs which, if turned around, could provide to hundreds of millions of people access to basic financial services.

The international community is presumed to bear a responsibility to early alert and help governments with more pro-active and effective ways to support the transformation towards PFIs that significantly contribute to universal financial access. Once governments decide to transform the PFI, it seems frequently as if they set course into uncharted waters. Reforms often tend to take 12 years or more, which is too long. Guidance in navigating through the roadmap and pitfalls of the corporate transformation could help to accelerate the process to a much shorter period, with results of a turnaround showing up within two or three years.

3. THE STATE OF POSTAL BANKING WORLDWIDE IN 2018

Postal banking has proven to be an effective and widespread concept to financially include and educate un(der)banked mass market segments. Worldwide, in about 100 countries, nearly 2 billion people use post offices as access point to basic financial services. There are nearly 1.9 billion accounts held by an estimated 1.1 billion persons. An estimated 900 million people use also the post office as an access point to make or receive payments. See Table 1 at http://www.wsbi-esbg.org/publications/Pages/Tables-Postal-FinancialServices-Report.aspx.

In 75 countries there are corporatised, licensed financial institutions that manage and operate these services using the post offices as their agent. In another 24 countries, historic postal financial institutions mostly operating outside the regulated financial sector are entangled in a protracted reform process to expand financial inclusion.

This section will provide highlights on (a) the first group of 75, of which 51 are countries where a PFI operates as a corporatised, licensed financial institution, using the post offices as their agent and channel towards the mass market segments; and a group of 24 countries where post offices act as agent for a multiple set of licensed financial institutions. The section will also present (b) a group of 24 countries where PFIs operate outside the regulated financial sector and face constraints and obstacles to advance financial inclusion in an economically viable mode. In addition, there are another 30 or more countries, including the United States and Canada, where widespread postal retail networks exist, but only active on a limited scale with a postal money order service or as cash agent for collection of bills. Partnerships with providers of digital financial services could quickly advance financial inclusion leveraging the usage of post offices as low-threshold entry points.

a. Post banks or postal financial institutions

In 51 countries postal banking is operated by a "Postbank" or PFI, as a corporatised, licensed financial institution. This is by far the most frequently seen business model, using more than 420,000 post offices or about two thirds of the post offices worldwide. These institutions have more than 1.8 billion accounts held by an estimated 1 billion adults. This is in addition to an estimated 400 million or more adults who use these post offices as an access point to pay bills in cash or pick up the cash through a remittance, pension, or other transfer schemes. See tables 1 and 2 » avec « See Tables 2 and 3

Twenty-six PFIs, or more than 50% of the total in operation, are owned partly or fully by the private sector with 11 of them belonging to the 100 world's largest banks ranked in assets (see table below). If ranked in number of client accounts, Postal Savings Bank of China is the largest worldwide. If ranked in physical distribution network, India Post Payments Bank takes the top position. Investments made by the private sector in the equity of the PFIs in recent years exceeded US$ 20 billion. Several of the PFIs show fast and stable growth. See Table 4 at http://www.wsbi-esbg.org/publications/Pages/Tables-Postal-FinancialServices-Report.aspx.

The international community is presumed to bear a responsibility to early alert and help governments with more pro- active and effective ways to support the transformation towards PFIs that can significantly contribute to universal financial access. Once governments decide to transform the PFI, it seems frequently as if they set course into uncharted waters. Reforms often tend to take 12 years or more, which is too long. Guidance in navigating through the roadmap and pitfalls of the corporate transformation could help to accelerate the process to a much shorter period, with results of a turnaround showing up within two or three years.".

IIn another eight cases the state is the main shareholder of the PFI which has a contract with the postal service to operate and distribute its financial services also via post offices. In at least four cases there is a declared intention to privatise the PFI in the short to medium term, depending on market conditions. PFIs manage essentially all financial services rendered through the post offices. These services are not only those of the PFI, but also of other institutions with which the PFI or Post has an agreement. These can be other banks, insurers, MTOs, or mutual funds. From the financial regulator's perspective, the post offices are the agencies of the PFI.

It is worth noting that except for China, India, Japan, and Russia, where nearly all post offices are owned and operated by the Post or postal group, 60% of post offices are operated on an agency or franchise basis by private entrepreneurs. Some cases, such as Germany and the United Kingdom, are prime example of complete privatised postal services.In

35 of the countries, or 70% in this group, the national postal operator (NPO) itself is a corporatised legal entity, and in 14 of these cases the Post has been privatised. All of these privatised Posts or postal groups report to be profitable in their own business of transport and logistics.

However, of the 26 cases where the Post is state-owned,11 of them report loss-making operations, often for the past four years or more. This points to a correlation between corporatisation / privatisation and economic sustainability of the PFI and Post.

In all cases, the corporatised 51 PFIs have an obligation to issue separate financial statements, audited and for reporting to the financial regulator. The corporatised Posts or postal groups issue their own financial statements. Several of them reported results per business segment, in compliance with IAS 8. Twenty-two of these Posts, based in the European Union, have also separated and audited accounts for the postal services provided under a Universal Service Obligation (USO). The calculation of the net cost of this obligation is considered by regulators as a basis for a compensation of the burden of the obligation and for tariff policy. The practice of this separated accounting of the net cost of the USO is hardly applied outside the EU jurisdiction, and its methodologies are not widely disseminated.

In addition to the 51 PFIs operational, there are 12 other cases where corporatised and licensed PFIs existed in the recent past. These countries include Denmark, Estonia, Finland, Netherlands, Norway and Sweden where account ownership is 100% according to Findex 2017, and usage of cashless payments are amongst the highest worldwide. In general, these PFIs have played a very significant role in achieving that high level of financial inclusion and widespread, popular usage of cashless money. Lessons could be extracted from government policy and the role of the postal banks. The PFIs also facilitated the transition of post offices towards a light network of service points operated by retailers, enabling the mail operator to lower substantially its fixed cost while maintaining a widespread presence. The advanced progress in the transition towards a fully inclusive and cashless economy eventually limited the need for using post offices as a separate physical channel, for cash transactions, and resulted in the continuation of the basic financial services on a fully digital, direct or on-line basis only.

There are six cases where changes in opportunities and market conditions made the rationale of the private sector continuing or considering investment in a separate PFI weak or doubtful. That was the case in countries like Georgia, Hungary, Ireland, Macedonia, Philippines and Spain. Although each of these cases are different, the common denominator is that the foundation for a sufficiently appealing business case was weak in view of the progress in financial inclusion, usage of digital financial services and the relative size and condition of the postal network, or terms of usage. This underpins the reason that in countries where a potential of PFI in financial inclusion is identified, reforms need to be implemented within a relatively short term and on the assumption that prerequisites and enabling conditions are already met or can be arranged soon.

The time that was needed for the reform of the 51 operational PFIs from a specific state entity into a corporatised licensed financial institution has been long, often more than 12 years and in some cases more than 25 years. In about 20 cases of the 51, reforms are halfway and cannot be considered as completed.

Nevertheless, the experiences and lessons learned in these reforms present a valuable reference for other countries that want or need to reform their existing PFIs or Posts.

The challenge is to expedite these processes in a much shorter time frame. It is not a matter of (re-) inventing the wheel.

b. Agency services for multiple financial institutions

In about 24 other cases there is not one single bank or financial institution engaged in using the post offices as a channel for delivery of basic financial services. There can be various reasons from a historic, market, legal, regulatory, financial or operational perspective.

One of these reasons is that the capacity or commitment of local banks faces constraints to enter into partnership with a network that is in some instances 20 times larger than their own branch network, or that, from the post's perspective, an arrangement with one bank would not sufficiently leverage the usage of the existing postal network.

In some cases, the agency services substituted the decline or failure of a previous PFI, or the opposite, agency banking is considered as a step towards building a postal banking partnership, and in some other cases these agency relationships are operated in combination with the services provided by a PFI.

While several of the agency relationships have existed for decades, practice shows that they can be set up at relatively short notice, within three months, and grow to full scale within a year.

The critical issue in agency relations concerns the agreement and the exact scope and terms of the agreements. Certain elements play a role, including quality of the network, staff capacity, locations, ICT readiness, operations cost and reputation or brand. Without going into detail about the specifics of these agreements, it can be observed that the commitment towards a long-term partnership, including investments in the post offices, depends on the extent of corporatisation of the post, the compliance and in particular the control of the bank on the post office operation.

This model of using the post office is essentially compliant with financial sector regulations. It is a licensed financial institution that leverages the usage of the existing postal network as a channel to complement other access infrastructure and on a competitive basis.

The arrangements for the agency services with multiple financial services can take shape in various forms. From a **strategic marketing** perspective, one can distinguish two main types:

Distributor	Post as a "distributor" operating for one or many banks who organize marketing, products, promotions, back office and asset management. Post is **a neutral or "universal" channel.**
Integrator	Post as an integrator, branding and repackaging the products of one or more institutions to be sold as part of the postal package. Client data base and cross marketing are arranged by Post. There is no new financial institution but a **unique "post bank" or postal finance brand.**

Strategic marketing There are 24 specific countries where, 104,000 post offices play a significant role as agent of licensed banks, insurers and money transfer operators.

Revenue diversification of the Post from postal operations to mainly financial services generated via the retail post offices is quite significant.. In 13 cases, or 54% of this group, the diversification is above 40%, while nearly 60% of the retail points are postal agents. This tends to indicate that in declining mail markets, Posts remain viable when they pursue diversification strategies to maintain a relatively dense postal network. The strategies aim at increased revenues through agency services and reduction of high levels of fixed cost through a conversion of proprietary post offices in postal agents.

c. Historic postal financial institutions

Whereas the first two groups concerned the corporate, licensed financial institutions involving post offices as a delivery channel and operating within the regulated financial sector, this section looks at the third group in general operating outside the financial sector, based on historic legislation and within an institutional framework that is not or not fully reformed. The role of these "hybrid dinosaurs" is in several cases highly significant for financial inclusion, and also critical for the economic continuity of the Post or the postal retail network. This is also the group where most of the problem cases are found.

The group concerns 24 countries where PFIs keep about 125 million accounts and operate with 37,500 postal outlets. These post offices also serve many more citizens who walk in for paying a utility bill or to pick up the money of a social security payment, salary, pension or remittance. About 50% of the post offices are owned by the Post and the other 50% concern postal agencies.

Nearly 60% of the group reports accumulated annual losses for more than five years. Those cases could be considered as technically insolvent, or as a fiscal operation, fully dependent on government and taxpayers' money. However, about a quarter of these PFIs usually report positive net earnings. The remaining 15% reports results around break-even with sometimes a small loss. Financial statements are in most cases not published, and not in accordance with IFRS nor independently audited.

Twenty-one of these 24 Posts are from an economic perspective *de facto* financial institutions. It is their main business, generating more than 50% of their total revenues. In 16 countries, or 66% of the total, the financial services generate more than 70% of revenues; in six cases, or a quarter of the total, more than 80%.

Yet, their governance and management are mainly in the hands of the government ministry responsible for Post and bypassing the supervision and regulations applicable for financial institutions. In 15 of the 24 cases a classic model remains in place whereby the ministry responsible for the postal sector is involved as policy maker, owner, regulator, executive manager and supervisor of the Post and its PFI. In more than 10 cases, the PFI is actually led by the director for financial management and accounting or chief accountant. In some cases the PFI is fragmented into several units, one for postal savings, one for postal checking accounts and one for postal money orders.

The Banque Postale in Comoros leads the group in terms of revenue diversification with 98% of revenues stemming from financial services. Only 2% or US$70,000 in 2016 of revenues stemmed from an annual total of 200,000 letters and 100 parcels, a volume that could be efficiently handled by a separate, small courier company. Sixteen of the PFIs, 75% in the developing countries in this group, receives or has received assistance from international and bilateral aid programs to improve the operation. A review of the effectiveness has not taken place to date.

d. Cash agent and postal money order service

The fourth group consists of about 30 up to 50 countries, where the situation regarding PFI is often less prominent and more complicated to classify. Many cases relate to post offices being active in a limited range of cash payments at an early stage of payments agency (e.g. Kyrgyz Republic, > 80% of revenues) and with postal money orders as a relatively archaic and small-money transfer service outside the scope of the supervision of the financial regulator.

Especially in the case of postal money order operations, the actual role in financial inclusion appears as highly marginal or neglectable, not measured, while the potential is often substantial to expand access to financial services by leveraging the existing postal network as a part of the infrastructure complementing the networks of banks, MFIs and other financial institutions.

In this context, reference can be made to the cases of the United States and Canada where existing legal frameworks constrain the Post to offer via its retail post offices certain agency services for payments to or from licensed financial institutions. Constraints limit activity in rural areas where the access infrastructure to payments such as bank branches, agencies and ATMs is quasi non-existent.

The existing business model of these Posts with its governance structure and management capacity appear frequently as a constraint to the relatively obvious opportunity to prepare for partnerships with licensed financial institutions. Moreover, unfocused and overambitious strategic visions covering the build-up of their own post bank, setting up supply chain management for e-commerce logistics to renovating and expanding their own post office network plague the process of effective transformation. International guidelines and policy frameworks could help to redirect the mail and "push the envelope" to address gaps in financial inclusion. A more active role of post offices in distribution of financial services also tends to meet resistance of the established banking sector. A concept of basic digital financial services with post offices as touch points could be another disruptive factor.

The analysis of the four groups leads to the following diagnosis:

- PFIs and postal networks do significantly contribute to Universal Financial Access; estimates point to nearly 2 billion citizens using the financial services offered through post offices managed mainly by corporatised and licensed financial institutions;
- The potential to expand universal financial access with several hundreds of millions of adults on a competitive basis through existing postal networks faces constraints particularly in the corporate governance and management capacity, and requires an expedited transformation process.
- The transformation is a complex, multi-faceted process. In many cases, governments and stakeholders could benefit from guidance and assistance to consistently move through this path.

A chart, labeled Table 5, is available at the WSBI-ESBG website at www.wsbi-esbg.org/publications/Pages/Tables-PostalFinancial-Services-Report.aspx. That table presents the main differences between the classic but antiquated governance model of a PFI bundled with a mail operation in a government department or state enterprise and a PFI as a separate legal entity cooperating with a corporatised postal operator or postal network.

4. SELECTED SOUND PRACTICES IN PFI REFORMS

1. Rationale: why governments should intervene and prioritise, the business case or investment thesis

There appears a compellingly strong rationale to intervene and prioritize the transformation of PFIs and related Posts in developing economies. Transformation appears as an opportunity to turn around the distressed state entity into a sustainable operation relevant to achieving social and economic development goals, with growth through competitiveness and significantly contributing to universal financial access. Many of the assets and resources needed to achieve the turnaround of the PFI are already in place. Transformation requires to (a) address the issue of governance and management capacity and (b) transparently separate and resolve on the liabilities regarding the postal mail services for which demand marginalised in the developing world.

However, frequently the basic ingredients of the case are not seen or poorly presented. The essentials of the case are:

Preserve the present situation Continue the "as is"	Transform towards digitalised inclusion
• Continued direct and indirect dependence on state budget • Decrease of net asset value • Increased risk in short or medium term of liquidity crisis to be solved by budget intervention, staff retrenchment and closure of post offices and asset disposal In most cases the "endgame" is transformation of the Post into a small, local courier company preceded by liquidation of a substantial part of the state assets. See: Georgia, Guinea Bissau, Rwanda	• Contribution to universal financial access • Contribution to economic growth and reduced poverty • Facilitation of small trade, rural development and e-government • Increased value of assets and company • Contribution to the tax authority through corporate income tax and other taxation Transformation offers several scenarios for the "endgame", including: • International cooperation/partnerships • Privatisation and business continuity

Key elements of the rationale for intervention would probably need to include:

1. An estimate of the net asset value of the entity, combined with the accumulated net results of the past five years, and the value of direct or indirect subsidies provided. This reveals what the state paid to support the PFI or Post and the current price or value.

2. Preliminary identification of gaps in universal financial access that the entity could fill in through demand-driven, competitive approaches.

3. A preliminary projection of the potential net present value of a cost-benefits analysis a program for the turnaround or transformation of the entity with relevant development objectives. This would provide insight in the investments needed, and the expected return.

Another element is how the intervention supports the government's policy objectives with regard to:

a. National financial inclusion agenda

With specific attention to the value proposition of the transformed PFI in:

- Financial literacy through the postal media and at post offices
- Geographic access to basic financial services
- Incentivised competition with low-cost access in rural communities and for poor segments
- Support to transition from cash to cashless payments
- Mobilisation of small savings for productive economic development
- Facilitation of small and rural trade, finance and communication
- Enhanced transparency; through simple products with clear conditions

b. National digital development agenda

Through enhanced effective usage of existing postal network and in particular:

- Leveraging the postal networks for the build-up of a rural ICT access infrastructure
- Issuing of identification documents (IDs, passports) and other official registration documents
- Connectivity for local agencies

c. Corporate transformation from a state enterprise operating under a monopoly into:

an accountable corporate entity that operates on an economically sustainable basis and enabled to build partnerships

- providing demand driven services in a competitive fair level playing field
- compliant with standards for corporate governance and financial sector regulations
- Increased and effective usage of state assets, and adding value to the public assets and as taxpayer

The rationale could be further supported if the intervention aims specifically at:

d. Ensuring financial and operational sustainability

This relates to:

- Move or turnaround program from a subsidy dependent, loss-making operation with a backlog in maintenance to full financial sustainability and profitable operations; the impact and cost of the alternative, namely closure of post office branches and retrenchment of staff could also be taken into account
- Response to market changes related to social, financial and digital inclusion
- Development of products and financial outreach requiring services and infrastructure modernisation along with global trends (digital financial services, e-government and e-commerce)

e. Financial and social inclusion agenda

This would further highlight the impact of the intervention especially when it fits in a context with:

- Low financial inclusion, with limited number of clients actively using bank accounts and even less micro, small and medium-sized enterprises (MSMEs) having access to loans and financial products, especially in rural regions
- Government's need to deliver basic financial and social services to the regions and vulnerable groups in a sustainable basis
- Regional development towards a level playing field, encouraging increased entrepreneurship and jobs for a better quality of life

There is clearly no "one size fits all" for acceleration of the corporate transformation of existing PFIs and their related Posts towards increased delivery of financial inclusion. Net cost or losses of the universal postal service obligations need to be made transparent in a separate account and be subject to independent audit. Based on the calculation of the net cost (or: loss) the owner or postal regulator needs to consider arranging the funding for these losses and prepare and issue policy and regulatory measures to reduce the need for using taxpayers' money. These differences do not justify, however, that each one needs to invent the wheel. Governments would benefit from support in preparing and defining the case of transformation.

Below three main models for transformation are presented.

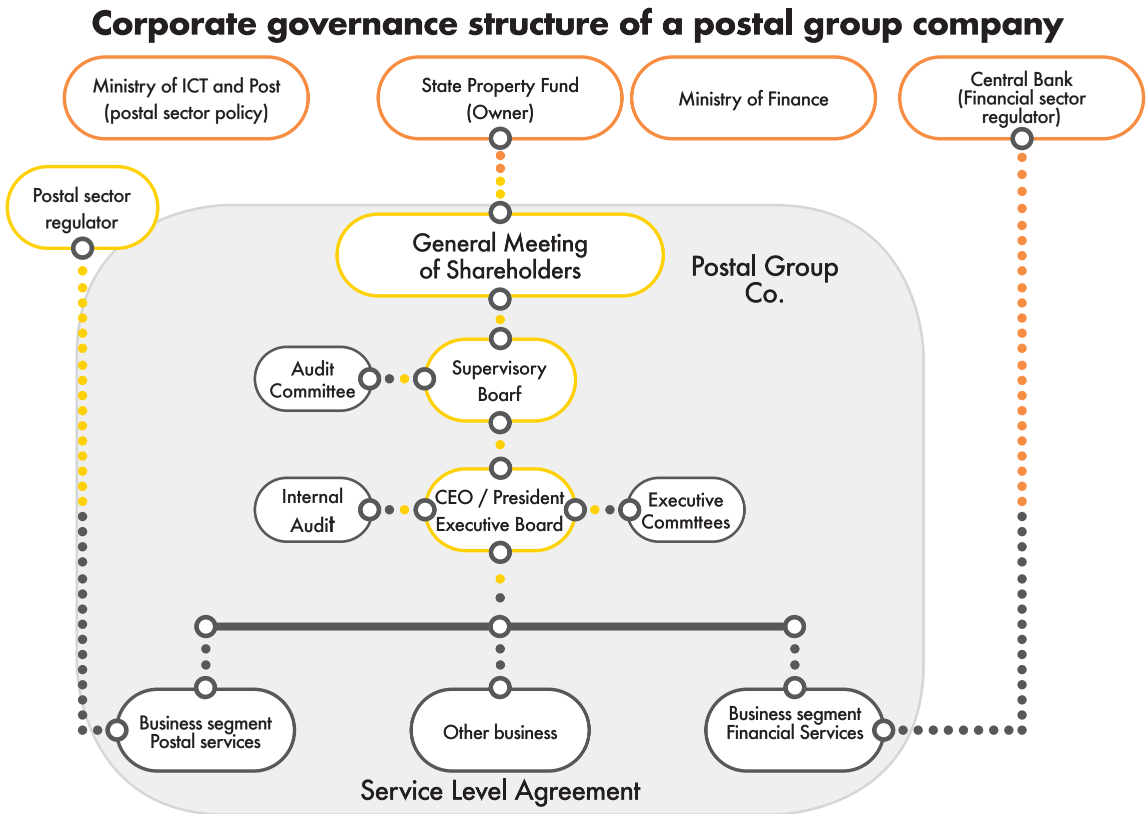
A. Diversified Post with PFI

This concerns the model of a postal organisation with operations in mail, logistics and financial services, and a relevant and relatively large network of post offices. Traditional mail revenues tend to be in decline, relatively small and operated under costly universal service obligations. Losses are not separately calculated and funded but covered at the expense of competitiveness in courier, express and parcels while attempts to diversify especially in financial services through their own existing or new PFI stagnate due to limitations in regulatory framework and limited financial resources.

Based on a preliminary valuation and assessment of the market and the institution, the following steps could be considered.

Net cost or losses of the universal postal service obligations need to be made transparent in a separate account and be subject to independent audit. Based on the calculation of the net cost (or: loss) the owner or postal regulator needs to consider arrange the funding for these losses and prepare and issue policy and regulatory measures to reduce the need for using taxpayers' money. This could include revised tariffs, adjusted (relaxed) obligations in collection and delivery, in maintaining a dense infrastructure and through improved efficiency achieved by reduction in cost and staffing. In addition, there should be financial statements, at least income statements, of the main business segments of the entity, such as for postal and financial services. These steps related to the postal USO could be seen as prerequisite for the postal stakeholders to coordinate with the financial regulator the supervision and compliance of the PFI and its operations. If there are no separate accounts for the PFI, it is a first step to be taken. The PFI would then need to headed by competent management from the financial sector, and be supported with capacity building in financial management and expanding its marketing approach, product range and with reengineered business process and technology.

These key issues relate to the progress in corporate transformation; if transformation is at an early stage, support of government or the international community is often the only option especially when it is not politically feasible or prudent to finance the cost of transformation through disposal of some obsolete or redundant assets.



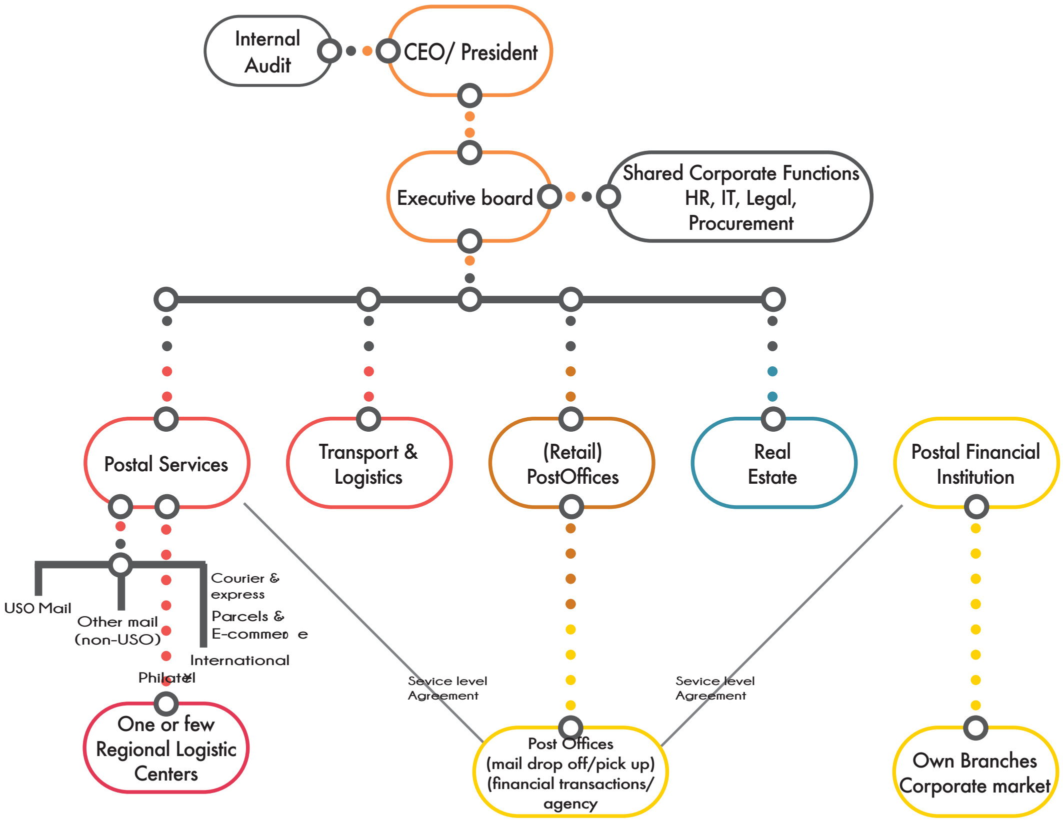
Source: Annual reports of postal groups, investor presentations, industry reports of IPC, PFID research.

Depending on the stage of corporate transformation, it will be needed to:

- proceed and complete the creation of a "Group" company with separated business units as legal entities for logistics (Post), financial services, retail network and real estate, each with own regulators, and separate accounts; and,
- prepare and agree on service level agreements between the operating companies and then consider partnerships for each subsidiary.

Corporate transformation requires the group to operate at arm's length from government, with e.g. the shareholder represented through a fund or property management agency, and with independent non-executive directors sitting on the board of directors.

Internal governance and management structure of a postal group



Source: Annual reports of postal groups, investor presentations, industry reports of IPC and own research of PFID.

Examples of this model could be found at KazPost, Barid Al Mahreb / Al Barid Bank, and Turkish PTT or Gabon Post. Processes tend to be cumbersome and lengthy, taking between seven and 12 years, with substantial risks of protraction or disruption as recently seen in, for example, Gabon.

In several cases in places like North Africa — namely Algeria, Egypt, Tunisia — the transformation has not yet lead to corporatisation of the Post in a group. In all three cases the PFI represents by far the largest business segment and faces constraints in growth through broadening its product range.

The process could be considerably accelerated and stabilised if and when the business unit for financial services is prepared for entering into a partnership, such as a joint venture, with an existing licensed financial institution. That would require less capacity building within the entity and leveraging on the synergy potential with the partner institution. Moreover, the transaction could spill over benefits to the other arm of the group and repeat the experience for the postal services as regards partnership building.

B. Distressed PFI / Post

While the first case concerns a Post with PFI that is not deeply facing problems, the second model concerns a distressed postal organization with a weak PFI. Narrow liquidity and an extremely low or even negative capital adequacy are the most prominent indicators for such situation. There are, unfortunately, several dozens of these around the world. The main common features include:

Traditional postal mail has been marginalised to the edge of the logistics market and is operated at a high loss; position in courier, express and parcels is minimal.

Attempts to diversify into financial services and other retail activities continue to fail due to these operations funding the losses in postal services; the growth potential of the PFI is aborted at the expense of the mail operation. If there is a remainder of a typically small, historic PFI, it may have illiquid assets, be technically insolvent and see its net earnings being used to cross-subsidise the postal losses and its client deposits being exposed to fund postal operations deficits.

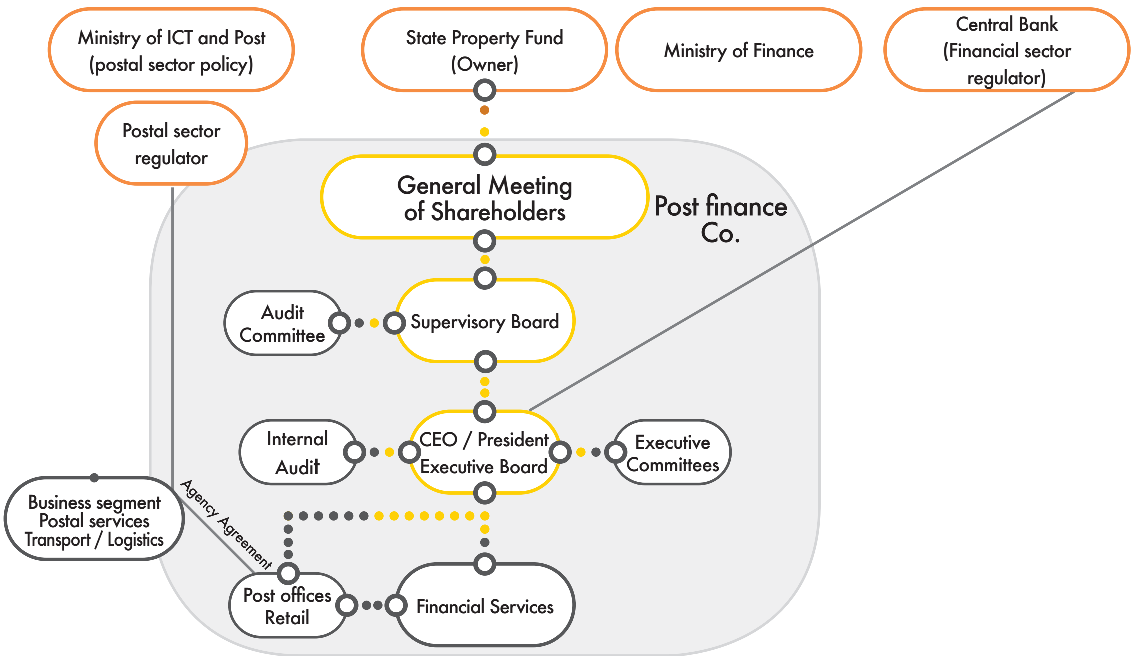
The entire operation becomes a vicious circle or downward spiral. Directly or indirectly the Post is a fi scal operation, subsidized, or facing a liquidity crisis.

The potential value of the public assets and labour resources are not used.

Based on valuation and assessment of market and institution, the following options can be considered:

A. Continue as "Post" in logistics only, increase postal tariffs commercialise, and pursue retrenchment of employment and disposal of a part of assets (post office buildings), if possible, to use the proceeds of those assets to transform into a lean, competitive operator and terminate or separate the PFI first (Examples: Georgian Post; Posta Uganda). Once reformed as a lean logistics company, new options can be assessed. This approach does not add to financial inclusion, but it does limit the risk exposure on financial stability.

Corporate governance structure of a postal finance company



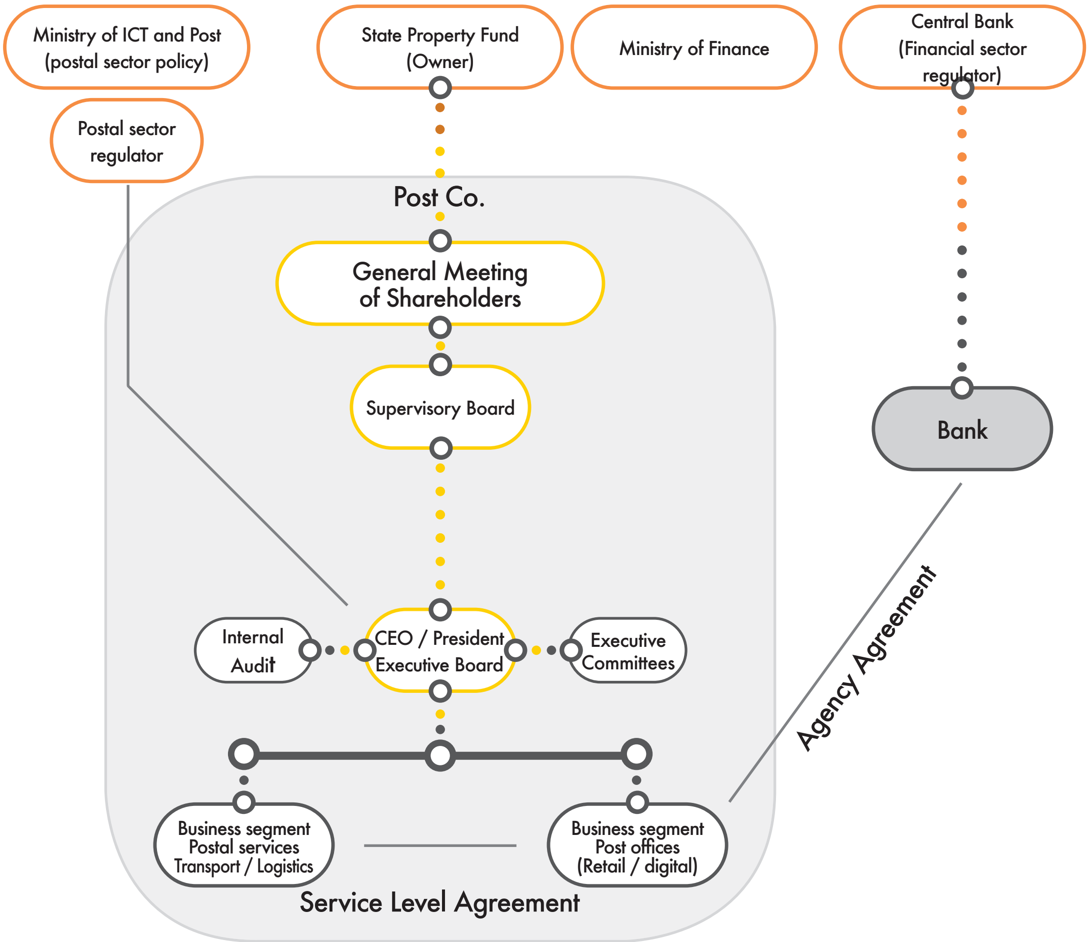
Source: Annual reports of selected PFIs, PFID research.

B. Restructuring cost and efforts within the existing institutional framework are considered as much too high or cumbersome. Then the options could be assessed to:

a) Separate and restructure the PFI into a regulated financial institution, corporatised and separate accounts using post offices. Examples in Tanzania, Niger and several other African cases. High risk of a protracted, ineffective approach, as seen in Niger.

b) Transfer the entire entity as a PPP (BOT or a concession) to a licensed financial institution with a mandate to restructure it and primarily for delivery of financial services or sell the post office assets and any PFI remainder to one or more banks to use as branch or agency network. Continue mail services or find a joint venture partner for Post (logistics) using a small part of selected post office buildings under agreement with the bank(s) involved. Examples of this are Cambodia Postbank and Congolese Postbank.

Internal governance and management structure of a postal group



Source: Annual reports and management presentation of selected PFIs and postal operators, UPU reports and PFID research.

C. Post without PFI

The core business of this type of a postal enterprise is transport and logistics in a competitive market. There is no separate PFI entity, and currently no significant operation or plan in distributing own financial services. In several cases the postal operations are economically viable, or operating at a break even, although more often there are accumulated losses, and pressure to reduce the cost by retrenchment of staff or reduction of proprietary post offices.

If an opportunity is identified to leverage the existing retail post offices for distribution of financial services, then the most viable option is likely to contract the postal network as agent or partner of a licensed financial institution. An example of this is building through a competitive bidding process a public-private partnership or joint venture. Examples worth noting are: ECT Correios / Banco Postal, Brazil; Correios / Banco Postal, Angola; Thailand Post with Pay-at-Post as agent for banks and other institutions.

This process could be accelerated and improved by (a) guidelines on preparing and structuring the process of agency agreements and partnerships as well as training and exchange of experiences as well as (b) with a package of transaction advisory services to effectively conclude and implement the operation within a reasonably short time.

Case of Morocco's Al Barid Bank

Al Barid Bank (ABB) in Morocco offers another example of how postal networks can be positioned for growth and product diversification to make a stronger contribution to financial inclusion. ABB is fully owned by Poste Maroc—the group company.

Following authorisation from the Ministry of Finance and a three-year transformation process during which Poste Maroc's finance operations were transferred, ABB was officially launched as a new bank on June 2010. It received a full banking license from the Moroccan central bank at the end of that year. Initial capitalisation was MAD400 million (US$47.5 million), which has been increased at several occasions.

The bank's mandate is to improve financial inclusion with a focus on rural areas. It had started with 4 million clients and added every year between 500,000 and 1 million new clients. Its narrow product offer expanded to a full suite of digital financial products, including savings, insurance, and money transfers, leveraging its network of almost 1,800 branches—half of them in rural areas—and establishing 250 new branches in underserved areas by 2015 and since then adding hundreds of small agencies and kiosks. From an economic perspective the bank has become the largest business line for the group company, and its management is directly in charge of the postal retail network and its agencies. While creating a new state-owned bank might not be the best model for all countries, the transformation has enabled ABB to address some common problems of postal networks elsewhere.

Notable highlights of the transformation include:

- Poste Maroc strengthened management by hiring new management teams with retail banking and private sector expertise.
- ABB invested in market research and has chosen to partner with experienced providers, such as SOFAC—a leading consumer credit institution in Morocco—to assist with credit delivery. This approach allows ABB to build customer loyalty while delivering reliable service through its partners.
- ABB addressed weak human resource management by creating University Barid Al Maghrib, which is divided into three departments: Management and Corporate Programs Institute, Professionalization of Banking Technologies Institute, and Advanced Technologies for Mail and Parcel Institute.
- Hardware and software upgrades, along with training, are desperately needed to allow postal networks to manage and secure their data like a modern financial institution. ABB made a multi-million dollar investment, including both hardware and software acquisitions, to upgrade its information systems. These were necessary to improve its product offering and to reduce risk.
- Instead of focusing on new, untried products and services, ABB focused on the proven market of remittances. ABB invested in its own payment infrastructure and has been able to capture approximately 80 percent of the domestic transfer market. Recognising that international remittances account for 5 percent of gross domestic product, ABB joined Eurogiro, which provided it with low-cost access to international transfer services. ABB also upgraded its payment platforms to provide payment services to large utility companies and governments.

Other reforms include:

- Set up of a separate real estate management unit, in charge of management of all the buildings and grounds owned by group and promoting an optimal exploitation and maintenance.
- Strong progress in usage of mobile money applications, and other digital advanced financial services.

The involvement of the World Bank was in the period prior to ABB obtaining its license and in the period immediately after that. In earlier times the bank has also provided assistance in reforming the classic model of the postal financial services through the various reform phases.

5. GOVERNMENT INTERVENTION AND INTERNATIONAL SUPPORT

Funder commitments to financial inclusion reached a historic high of US$37 billion in 2017 according to CGAP's survey. About 75% of this amount was meant for loan portfolio funding, and the other 25%, or US$9.25 billion, for policy, capacity building and infrastructure.

The amount to increase inclusion via PFIs in 2017, funded by these organisations, is tentatively estimated between 0.1% and 0.5%, similar as in previous years. Those funds are earmarked towards widening financial inclusion via the PFIs and post offices through policy, capacity building and infrastructure.

The main funders of advancing financial inclusion through the PFI and post offices are:

- Governments (e.g. India spent more than US$2 billion in the past decade on India Post's transformation towards a social and financial inclusion network); and
- Private sector (Investments in e.g. Japan Postbank, Postal Savings Bank China, Poste Italiane / Banco Posta, CTT Bank, Banco Postal in Brazil, Pochtabank Russia and others amounted to nearly US$25 billion).

In many cases where the opportunity in expanding access to financial services by the PFI and Post is obvious, the options to access finance to advance financial inclusion remain quite limited or non-existent. The main reasons could be found in:

- The "closed P.O. Box" syndrome, or the lack of, or absence of international objective, standard data that presents the role of PFIs and post offices in financial inclusion; this severely limits the reference framework and benchmark information.
- The "dead letter" syndrome, or the subjective perception of PFIs and post offices as a retro, nostalgic effort, or as a legacy issue of the past. Accessible data and knowledge management could provide better insight into 'sound practices'.
- The aversion to interfere in existing national legal and institutional frameworks.

These reasons, in particular the last one, tend to affirm that first and foremost all governments need to declare their intentions to transform the PFI and its Post.

As a matter of illustration, reference can be made to the Findex 2017 report, where it mentions that 46% of the world's unbanked population lives in just seven economies. In the two largest of these seven — China and India — financial inclusion defined as accountholdership currently stands at 80%. PFIs and postal networks contribute a share of 59% and 46% respectively. The role of the donor community has been relatively limited in both cases. In the case of China, mainly after 2006, corporatisation and licensing of the Postal Savings Bank with technical assistance had occurred followed by a US$300 million equity participation in 2015 by IFC. In the case of India Post and its Payments Bank, it received advice by World Bank to design its strategy.

In four of the five other cases, involvement of the donor community in assisting the PFIs or Posts to advance in financial inclusion appears not well defined yet.

Seven Findex-tracked countries: 46% of the world's unbanked	Total	of which PFIs/Posts
China	80%	47%
India	80%	37%
Indonesia	49%	➢5%
Bangladesh	50%	N.D.
Pakistan	21%	➢5%
Nigeria	40%	0%
Mexico	37%	0%

Indonesia: With more than 55,000 access points, Post Indonesia highly relevant distribution channel used by most of the largest banks, insurers, and payment service providers; active in promoting inclusion.

Bangladesh: Own pilot initiatives of Bangladesh POSB in DFS—cards and mobile—and starting partnerships with banks have been implemented; need to scale up to support inclusion using the 8,900 post offices.

Pakistan: Government launched in February 2018 a call for a 10 years' PPP—a concession or BOT—to a licensed bank to transform POSB ("Pakpostbank") into a competitive and compliant DFS operation advancing inclusion using the nearly 12,000 post offices which are equipped with ICT.

Nigeria: Government (Nipost) is since early 2018 in the process of appointing "transaction advisers" to arrange for a PPP in DFS as a partnership with a bank (dubbed as "Nipostbank") and as implementation to a strategic alliance for financial inclusion agreed with the central bank to leverage more than 3,000 Nipost access points, which consist of post offices and postal agents. Progress has been achieved in launching pilots for agency banking, labelled as "bank@ post".

The question of support from the donor communities to transforming PFIs and Posts seems to remain open for the four cases above and many of those that could contribute more to the other 54% of the unbanked adults.

a. Overview of interventions and programs of recent past and on-going

Support to PFIs and Posts with financial services has been provided to a relatively large group in the past 20 years (see table below). In the majority of the programmes this concerned capacity building in expanding or improving the marketing and especially the technical operation of financial services. This was the case in the following programmes and countries as examples:

- African Postal Financial Services Initiative (APFSI), involving 11 countries of which four for pilot implementation to reduce the time and cost of sending remittances via the post offices. The initiative was co-funded by the European Commission, led by IFAD in collaboration with WB, WSBI, UPU and UNCDF (2013-2017). This initiative also addressed the need of independent market research, and strengthening the financial management capacity.
- WSBI Doubling Savings Accounts Programme, involving seven PFIs in Africa and Asia with capacity building in the areas of marketing, business process engineering, finance and human resource management; the programme was led and managed by WSBI, and funded by the BMGF (2009-2014);
- UPU Postal Financial Inclusion programme, focusing on research, advocacy, training and analysis of about 10 PFI cases, funded by the BMGF (2011-2014);
- UPU Financial Inclusion Technical Assistance Facility, 2016-2020, managed by UPU and funded by BMGF and Visa Foundation with the aim to provide technical assistance in initiation of digital financial services in 20 developing countries;
- Postal Money Orders regional programs:
  - West Africa involving four countries, funded by the European Commission and led by Planet Positive with UPU (2013-2016)
  - Funded by IFAD and led by UPU to implement electronic postal money order solutions (2009-2015).

- West Africa (2009-2011),
- Central Asia (2012-2014),
- South Asia (2013-2015) and
- Burundi, Poste (CCP/CNP) support to process payments and remittances with modern, light ICT, funded by IOM, managed by UPU (2016-2018)
- Uganda, Postbank, support to deliver low cost remittances in rural areas including refugee camps, funded by IFAD, (2017-2019)

In addition, programmes were supported often as a subcomponent of a WB program, and several bilateral programs, mainly (co-) funded by France, Italy, Netherlands, Sweden and Switzerland, in about 30 countries in the last 20 years. UNDP has provided support in especially training and technology in some cases, UNCDF in training in digital financial services, and UPU mainly in launching its electronic postal money order operation.

The aspect of corporate transformation or institutional development featured not or not prominent in the above-mentioned programmes.

In several other cases however, assistance was rendered to prepare or progress in corporate transformation. This concerns at least the following 23 cases:

Algiers (WB, 2002-2004) ; Azerbaijan (WB, 2006-2016) ; Cape Verde (WB, 2007) ; Comoros (WB, 2000); Congo (WB, 2004) ; Egypt (EC, WB, 2009-2012) ; Gabon (WB, 2006) ; Ghana (WB, 2008) ; Jordan (WB, US, 2004-2009) ; Kenya (WB, 2012) ; Kyrgyzstan (WB 2012-2020) ; Lao PDR (UNCDF, 2014) ; Mali (WB 2011) ; Morocco (EC, WB -1998-2008) ; Mozambique (EC, 2005) ; Niger (WB, on-going, and 2003-2006) ; Papua New Guinea (WB, 2002) ; Senegal (WB, 2002-2006) ; Serbia (SECO, 2010, WB 2012, WB, on-going) ; Sri Lanka (WB, 2006) ; Tanzania (WB, 2001) ; Trinidad and Tobago (WB 2000-2004) ; Tunisia (EC, on-going ; Uganda (WB, 1997, 2006) ;.

The interventions varied from short-term (<3 months) to long-term (>5 years).

The role of regional development banks—for example in project finance and corporate finance—has been relatively limited in the past 25 years. The European Investment Bank has been providing long-term finance to several Posts with PFIs, EBRD has an estimated three or four transactions in its records in South-East and Eastern Europe, Asian Development Bank 1 in Central Asia, and the African Development Bank has started to be involved in a program with Burkina Faso. The Islamic Development Bank has financed two projects in South and Central Asia.

IFC has been involved in several cases such as Argentina, Bulgaria, China, Romania and Vietnam and has assessed more projects.

The IMF advised governments in the past 15 years on reforms, corporatisation or privatisation of Posts and PFIs in, amongst others, Cameroon, Chad, Comoros, Georgia, Namibia, Niger, Philippines, Romania, Senegal and Serbia.

With the exception of a few cases, the overall impression is that aid has been limited in scope and time or effort. Interventions concerned in many cases preparatory steps, design, planning or small-scale piloting of operations, leaving the actual implementation or roll out to the beneficiary institution. In some cases, the beneficiary followed up, but frequently capacity appeared insufficient to deal with the relatively complex environment to complete the implementation process.

In cases of longer and larger interventions, reforms occurred which were either disrupted by sudden changes in governance or management or absorbed a larger part than planned of the internal capacity in operations management and financial management. The issue of slow change in governance and corporate transformation has frequently been deferred.

One could conclude that the interventions to date have a limited, somewhat fragmented character and lack the needed, structured international cooperation between the different countries, institutions and donors. Aid effectiveness could be assessed from the view that many of the PFIs progressed in transformation but appear to stagger in completing the process.

In spite of the stunning growth results in postal financial inclusion and its highly significant position in the market, the financial inclusion potential of PFIs appears to be "off the radar screen" for the organizations funding the efforts to advance in financial inclusion.

PFIs and post offices provide access to about 35% of the adult population worldwide and present an obvious potential to expand this in other countries with low rates of financial inclusion. Yet commitments from funders do not even exceed 0.5%, which can be considered as highly disproportionate and an issue for further analysis and assessment. A major cause seems to stem from limited information, facts, data and the consequent high level of preconceived notions or personal perceptions, combined with the weak capacity of PFIs to lobby for their interest with their own government and financial regulators. Improvements in presenting standard data to the relevant authorities, such as financial regulators, would be a first, basic and relatively simple step to notice and include postal financial inclusion in the inclusion ecosystem.

An "aid effectiveness" assessment or review of the support rendered by the donors has not taken place to date and might be a useful instrument to extract lessons learned, in particular as regards the corporate transformation. It would also be instrumental to enhance coordination between the donors.

b. Impact and sustainability

In view of the extremely wide variety of interventions undertaken and the absence of a comprehensive assessment only a few observations can be presented here:

- Impact of design and planning of new strategies, structures or products has impact if followed up and led by a "champion" in a committed stakeholder' environment. If there is no "champion" at the beneficiary's side able and committed to proceed, the impact of written plans turns out to be greatly limited and frequently end as a report or a book shelved.
- Extensive training and pilot exercises often bring more impact, visibility and credibility of the institution's potential and subsequent steps. The impact tends to be positive in the medium-term if the institution is led by visionary and capable management and achieving consensus with its key stakeholders. However, if the key manager or government changes, the pace of progress can be at risk, or slowed-down and exposed to disruption or political interference. In addition, there is a risk that transformation does not progress due to increased complacency with the short-term successes achieved, or the increased resistance to change.
- Impact of longer-term interventions tend to be relatively positive and resulting in a more sustainable transformation contributing to demand driven and competitive financial inclusion. In addition, risk of aid fatigue exists, however, requiring refined balancing between the amount of support and progress in building capacity.

These observations point to a need to progress with transformation in relatively short and quick steps in corporate transformation, rather than aiming at legislative changes.

c. Early lessons

The "early" lessons of effectiveness of interventions to progress and expedite corporate transformation of Posts / PFIs to advance in financial inclusion are:

- The project or initiative must be led by a "champion", with commensurate management capability, stature, and vision on the change programmes. Recent cases as shown in Kazakhstan, Moldova, South Africa, Tanzania, Ukraine, among others, confirm that this can be seen as the most critical success factor.
- Cross-sectoral coordination between postal stakeholders and the related ICT agencies, the ministry of finance (state budget) and financial regulator and financial institutions need to be pursued to achieve consensus on the role, mission, governance and ownership of PFI, Post and the postal (retail) network, as regards "universal postal service", and digital and financial inclusion. The complex dimension requires the involvement of a "champion" able

to work with the different stakeholders.

- Interventions need to be designed as a series of short-term steps in a medium-term framework, with exit options when progress, commitment or changes in the environment appear as unsatisfactory enabling the achievement of the ulterior objectives. Steps in the short-term need to include pilot exercises to demonstrate feasibility, credibility and visibility, and thus facilitating the more complicated, structural processes of transformation.
- The process of transformation of Posts / PFIs is in most cases not self-propelling once design is completed, tested and approved. The corporate transformation requires scaling up the pilot operations to national roll out, most often requiring both:

  - *transaction advisory* to arrange PPPs and project finance to catalyse the PPPs' implementation; and,

  - *assistance in planning and control of performance-based contracts* with management of the PFI and Post and arranging participation in its board through professionals as independent non-executive directors.

The scaling up would need to eventually result in:

- Clear separation by law, persons and legal entities between public policymakers (For Post: specialized ministry department. For PFI: financial regulator.), owner (state property agency or fund if not privatised), regulators (independent authorities for postal sector [Post] and financial sector [central bank]) and operators (incorporated PFI and with qualified management);
- Financial reports and accounting based on IFRS / IAS and independently audited;
- Transparent separation in financial and management accounting between mail, financial services and other business lines, based on objective service level agreements, internal transfer pricing—avoiding the suggesting of internal or political based cross subsidization;
- Management authorised, and held accountable and responsible for performance;
- Mandate and mission to manage the PFI or Post as a sustainable business, and to enter into partnerships with the private sector via contracts, joint ventures, in / outsourcing and to structure corporate finance; and
- Corporate ICT network with sufficient connectivity and power supply to act as infrastructural component of the inclusive operation.

Interventions also need in most cases to address support in building a transparent and balanced regulatory framework for the:

- Postal Sector—regulator for mail / parcel / express ensuring a fair level playing field;
- Postal Sector—clear and exact definition of scope of postal "Universal Service Obligation" and objectivised (public) financing of the cost of the USO [i.e. the losses incurred from low public tariffs set in combination with requirements to deliver small mail volumes six days a week everywhere] as well as a solution for terminal dues for international mail & parcel exchange;
- Financial Sector—clear definition of requirements for post offices as non-bank branches participating as intermediary agents for small-value financial services, including areas such as reporting, safety / security, cash, links with payments systems and risk liability;
- Financial Sector—policy and regulations incentivising outreach to the un(der)banked including and recognising the potential of the PFI and post offices in, for example, a national financial inclusion strategy;
- ICT Infrastructure / sector—clear, financially viable, definition of role of the postal (retail) network in providing (public) access to ICTs, in particular e-government as a potential business line, not based on competition and dependent on financial arrangements with state agencies.

6. WAY FORWARD AND CHALLENGES TO ADDRESS

Several steps should be considered to support PFIs and related Posts to capture the obvious potential in expanding access to financial services.

As mentioned in Section 5, the initiation of a programme depends greatly on the initiative taken by local governments. The initiative could be summarised in a two-page letter and as a request to the international community. The request is then presented to the international community and ideally followed up at short notice. For several reasons the follow up would benefit from some coordination between the international financial institutions (IFIs), UN agencies and other public sector and private sector donors and the constituencies representing the PFIs and Posts engaged in delivery of financial services.

Such collaboration between the key international stakeholders appears as a prerequisite in view of the relatively limited interventions provided so far and the limited previous experience and capacity in transformation of PFIs and Posts. None of the IFIs or UN agencies employ staff with specialisation or substantial experience related to reforms of PFIs. Knowledge management capacity and sources within the donor institutions regarding this theme is mainly on an ad-hoc basis. Many PFIs and Posts at a national level lack capacity in presenting their business case and need for support, and are weak in lobbying with stakeholders and decision makers, including governments and the international community. That could be addressed with training and coaching. This challenge is amplified by the lack of one global voice or industry association, as well as no UN agency or development finance institution with a specific mandate to represent the interests of PFIs / Posts in advancing financial inclusion directly at international level. The representation of interests is fragmented across several domains or sectors, and presumably perceived as sensitive.

WSBI could be considered as a lead party on this issue as it counts today approximately 20 of the more than 75 PFIs among its membership. Separately there is Eurogiro which has PFIs in 40 countries as active members, handling substantial volumes of retail cross-border payments.

Apart from WSBI and Eurogiro, the Universal Postal Union (UPU) – a UN specialised agency – convenes government delegates to seek cooperation in international postal sector issues. In the context of the pressing needs required for postal reform in developing countries, UPU has encouraged postal sector reform initiatives since 1990s and has labelled it a paradigm shift. The main focus placed during the past decade tends to have focused on responding to the digital disruption and thus operations and technology development. UPU is arranging assistance to selected member states, currently for digital financial inclusion, including for those Posts or PFIs operating outside the regulated financial sector. UPU's tmandate is formally limited to operating international postal money orders. UPU counts about 60 member states, active in operating these international postal money orders in competition with the private sector. Data are not published on the operation and its market share. Of UPU's regional unions, only two —Pan-Africa and Asia-Pacific—include financial services in their agendas.

There is a low level of interaction between these entities, which further augments the fragmentation of the issue towards the funding organisations. At the side of the PFIs, a greater effort to coordinate the interests would need to be considered and encouraged as imperative to mobilise further support to the PFIs in advancing financial inclusion.

Taking basic and initial steps in a way forward, the following could be taken into account.

- An "Aid Effectiveness" review of the interventions undertaken in the past;
- Improved and consistent data collection and reporting on PFIs or postal financial inclusion consistent with the data and statistics used in the field and as defined by the international standards settings bodies. Both UPU and postal regulators could encourage the data collection and timely exchange with financial regulators; and
- A building up knowledge management data based on previous interventions.

Databases and web portals:

IMF Data Financial Access Survey (FAS); https://www.imf.org/en/Data

UN statistics, *Demographic Yearbook* 2016, Population, Table 7, pp.174-279. https://unstats.un.org/unsd/demographic-social/products/dyb/

UPU postal statistics**:** http://www.upu.int/en/resources/postal-statistics/query-the-database.html

2017 IPC Global Postal Industry Report, December 2017, Brussels. https://www.ipc.be/en/Report_search

BIS central bank research hub: https://www.bis.org/cbanks.htm and BIS Payments and Market Infrastructure https://www.bis.org/cpmi and Red Book statistics

Global Partnership for Financial Inclusion (GPFI) publications and data: https://www.gpfi.org/publications

Websites, annual reports and financial statements from PFIs, postal operatorsReports and publications:

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