CGAP
BRIEF

Can Postal Networks Advance Financial Inclusion in the Arab World?

As existing and trusted institutions with large branch networks reaching rural areas, Arab postal networks have the potential to be powerful tools in the fight for greater financial inclusion in the Arab World. Beyond a few success stories, however, the Arab World has so far not capitalized on the potential of its postal networks. This is a glaring omission in light of demographic trends that highlight the need for financial access: growing population, high fertility rates, large youth and rural populations, and recent political changes as a result of the Arab Spring.

Algeria, Egypt, Jordan, Morocco, Tunisia, and Yemen are each in the process of (or contemplating) major postal network reform. They are emblematic of a global reform trend among several countries, including China, Brazil, and India. But transforming Arab postal networks into full-fledged, financially inclusive service providers will require the government to commit to providing a clear financial inclusion mandate and to working with donors to build capacity and upgrade management information systems.

Mapping Financial Access in the Arab World

The Arab World has a low level of financial inclusion. A 2009 study determined that two-thirds of the total adult population in the Arab World is financially unserved, second only to sub-Saharan Africa in regional rankings (Financial Access Initiative and McKinsey 2009). Just over 10 percent of adults have loan accounts with a bank (CGAP and the World Bank 2009). Additionally, data from market studies show that microentrepreneurs are severely underserved and have high demand for financial services: data from Yemen showed that 52.6 percent of enterprises surveyed would like to obtain a loan, while in a similar study in Lebanon, 35.8 percent of respondents wanted a loan (IFC 2007, 2008).

Three types of organizations provide financial products for low-income consumers: financial institutions (banks and consumer lending companies), other specialized providers (mainly nongovernmental microfinance institutions [MFIs]), and state-owned postal networks with a financial services business.

Table 1: Data on Financial Providers to Low-Income Populations in Six Arab States*

	Commercial Banks	MFIs	Postal Networks
Number	131	38	6
Credit Accounts	15,238,842	2,302,000	5,583
All Deposit Accounts	55,447,910	133,000	44,584,458
No. of Branches	**9,487**	**1,887**	**10,417**
No. of Branches per 100,000 Adults	**7.2**	**1.9**	**8.6**
Average Loan Size (US$)	13,367	430	n/a
Average Savings Size (US$)	5,531	n/a	605

*Based on data collected from Algeria, Egypt, Jordan, Morocco, Tunisia, and Yemen. Source for commercial banks is the CGAP Financial Access 2010 survey. Number of branches in Egypt from Egyptian Central Bank. MFI data from MIX and postal data from CGAP Postal Survey.

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While commercial banks serve the most borrowers and savers, they have shown limited outreach, desire, or capability to reach low-income markets. MFIs continue to serve this market, but their growth so far has been limited by many regulatory and institutional constraints, primarily the widespread inability in most countries to accept deposits. Postal networks, while certainly facing challenges, are an alternative channel that could be able and willing to reach down market.

The Potential of Arab Postal Networks

Arab postal networks have substantial outreach, particularly in rural areas. Governments throughout the region have begun instituting reforms that would allow these networks to address financial inclusion. With over 40 million deposit accounts, these networks currently provide financial services to a significant number of customers, and they have more branches than commercial banks (see Figure 1). In Algeria, Egypt, and Yemen this disparity in the number of branches is significant. Even in Morocco, where the banking sector is more developed, Poste Maroc has more branches (1,755) than the country's two largest retail banks combined—Banque Populaire (with 690) and Attijariwafa Bank (with 626).

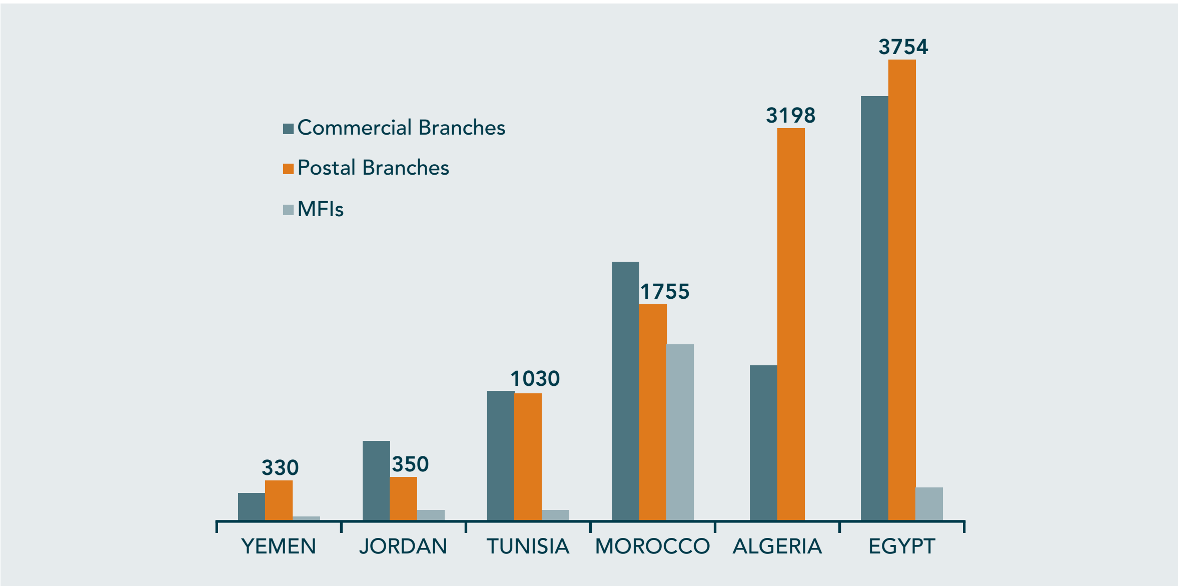
Arab postal savings or payment accounts reach close to 17 percent of adults, which is considerable in comparison to other regions, such as Latin America and the Caribbean (0.5 percent), Eastern Europe and Central Africa (5 percent), or Africa (5 percent) (World Bank 2006). Only Asia has comparable levels of penetration (20 percent). Arab postal networks have a large share of the domestic transfer markets, too (70 percent in Morocco and 90 percent in Algeria), and they are expanding financial service offerings to include current/savings accounts, transfer services, insurance, remittances, and even credit services.

Legal and Business Models for Postal Networks

There are currently three legal models for financial service delivery used in the region: (*i*) an internal unit devoted to postal financial services but remaining part of the Ministry of Posts and Telecoms (Egypt, Yemen, Algeria, and Tunisia), (*ii*) an independent state-owned entity not affiliated with the postal network (Jordan), and (*iii*) a fully-owned subsidiary of the postal network—a postal savings bank—created to manage and expand the network's financial services business (Morocco).

Some postal networks develop their own financial products, but doing so requires time and expertise that

Figure 1: MFI, Postal, and Commercial Bank Branches in Select Arab Countries



Source: CGAP Postal Survey, MIX, and CGAP and World Bank (2010).

many networks do not have. An attractive alternative business model could be to act as an agent, offering products developed by others. In this case, the postal network offers a service that is branded as a postal product but originated by another financial institution. For example, Egypt Post offers current accounts, but they are originated by state-owned Banque Misr. Still another alternative is to distribute a product that is branded by another financial institution. For example, many postal operators are agents for Western Union transfer services.

Meeting the Challenge: The 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. Following authorization 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 capitalization was 400 million MAD (US$47.5 million), which will ultimately be increased to 1 billion MAD (US$118 million). The bank's mandate is to improve financial inclusion with a focus on rural areas. It has 5 million clients and plans to reach another 500,000 by year-end 2012. It will offer a full suite of 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.

While creating a new bank might not be the best model for all countries, the transformation has enabled ABB to address some common problems of postal networks in the Arab World and elsewhere.

- 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

Box 1. Arab Postal Networks and Financial Services

Algeria: In a country with 35 million people, Algérie Poste serves 12 million customers with checking accounts (one in three Alergians). Algérie Poste is a state-owned company, and the government has set a goal of establishing a postal bank. A private-sector banking specialist has been appointed by the government to help the Ministry of Posts and Communications in this process. Since 2009, Algérie Poste has been partnering with CNEP (an entity managing savings products) and Cardiff Insurance to provide its clients combined life and disability insurance.

Egypt: Egypt Post is regulated by the Ministry of Communication and Information Technology. It has more than 20 million deposit account holders (representing a quarter of the Egyptian population). Egypt Post emphasizes product diversification through partnerships and provides multiple savings products, some in partnership with Banque Misr. Egypt Post also has a partnership with Islamic Faysal Bank for Islamic savings accounts.

Jordan: Jordan Post is a state-owned company that is regulated by the Ministry of Telecommunication. Postal savings accounts are managed by the Jordan Postal Fund, an independent institution. The Fund currently operates according to a number of Islamic models, such as Murabaha (cost plus), Musharaka (partnership), Mudaraba (special partnership with one party taking all financial risk), and Ijjara (lease-to-own). The Fund provides conventional and Sharia-compliant products that are less than JD 1,000 (US$1,400) without a guarantee.

Tunisia: Nearly one in three Tunisians already has a savings postal account. La Poste Tunisienne is a state-owned company that emphasizes product diversification; new credit and insurance products are being launched in partnership with commercial banks and MFIs. Under the interim government, the Ministry of Finance has identified postal network reform as part of its financial inclusion strategy.

Yemen: Yemen Post is a state-owned company that holds 500,000 postal savings accounts, which represent half the number of deposit accounts in the banking system. Yemen is contemplating a full-fledged postal bank with a clear financial inclusion mandate. Currently, Yemen Post provides three services: electronic services (bill payment, automated teller machine), financial services (savings and current account, remittances, salary payments), and postal services. It is also designing a project on mobile banking, called Post Mobily.

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. Recognizing 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.

Going Forward

Postal networks in the Arab World represent an underused delivery channel for financial services. To fully reach the potential of these networks, careful planning and substantial additional investment would be needed. Countries need to specify their objectives and consider the pros and cons of the different models—subsidiary, stand-alone, or full-fledged bank. The bank model is clearly the most complex and would require broader buy-in, including support from the Central Bank, and sources of capital. Donors and governments could each play roles in helping equip the entities with the hardware and software training and institution building that a financial service organization requires. Some Arab states might very well conclude that this investment and long-term commitment is worthwhile, as one element that could contribute to building a more inclusive financial and economic reality.

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