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Reviving Postal Savings Banks In East Africa

by

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"It is not savings only that are required but a channel of communication between potential savings and potential real investment" (Sir John Hicks, Nobel Laureate, Economics, 1972)

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Introduction:

Saving is common to all human societies, even if savings practices differ from one to another. Motivations also vary, but caution, social pressures and ambitions for future consumption are the key drivers encouraging people to save (Keynes, 1936; Friedman, 1957). Yet, the experience of industrialized countries in the early stages of development showed that people of lower income levels were precluded from depositing their savings at commercial banks. The focus of commercial banks on industry, trade and the wealthier classes led to a division in society between those who had access to financial services and those who had not (Vittas 1994; Wysocki, Moster & Vogler1996).

At the same time, there was little protection for depositors when banks failed, and the gold standard provided a more stable store of value than many banks and paper currency have been able to offer in the last 50 years. However, wealth stored in the form of gold by common people was not available for intermediation through the financial sector, foregoing efficiency gains for the economy.

To address this issue of access, postal savings banks (PSBs) were created in many countries to encourage, collect and safeguard low-income people's resources (Lewins 1935) and to ensure financial deepening. They provide access to basic financial services and promote savings among less affluent groups. Just after the mid-nineteenth century, PSBs were established in Great Britain (1861), Japan (1875), France (1881), the Netherlands (1881), Austria (1883) and the USA (1910). During the same period, the experience was transferred to African countries: South Africa (1883), Nigeria (1886), Ghana (1888) and East Africa (1910).

In Africa, commercial banks have always been reluctant to target the average citizen and have thus failed to attract mass private savings. PSBs distinguish themselves from commercial banks as they are not purely profit-oriented institutions, but also focus on public and social goals. Restructuring in the banking sector following the economic crisis in the early 1980s only emphasized this trend: In a continent where the majority of people still live in rural areas, efforts to reshape banking networks reduced the already low outreach of banks beyond urban areas even further.

In light of the above, there is renewed interest in reforming and reviving PSBs across Africa. With large numbers of outlets, PSBs offering financial services could significantly contribute to efficient savings mobilization, improve financial transactions and strengthen the overall financial system particularly in rural and low-income areas (Soyibo, Ogunkola 1996).

Legal Framework of Postal Savings Banks (PSBs)

As financial institutions, PSBs resemble savings banks in that they thoroughly share their corporate culture. PSBs have demonstrated a remarkable capacity to offer access to finance to private citizens in several countries in the world. Normally, PSBs core business objectives have not included full bank services as they provide a social service, using post offices as a convenient means to deliver deposit services. There are five main variations of PSBs:

- *Administrative Unit*: the PSB operates as a department of the Post administration (which in some cases also looks after telecommunications) or of the Finance Ministry with features typical of a civil service carrying out banking operations. As for any government department, business policy, when there is one, is dictated from the top. The culture is often unprofessional, hinders any incentive for financial innovation and is predominantly based on a single product. This structure is evident in French-speaking African countries and was to be found in the Uganda Post Office Savings Banks (UPOSB) until its break-up and the creation of the Post Bank Uganda in 1997.

- *Profit Center*: A simple reform to increase the efficiency of PSBs is achieved by isolating them as a profit center within the Post administration. These PSBs have budgetary autonomy and their accounting system is separate from that of the Post management. However, their autonomy is still limited. As in the previous structure, the PSB is not a separate legal entity. This approach has been adopted in France and some African countries such as Senegal, the Ivory Coast, and Namibia.

- *Legal Entity*: The PSB is granted autonomy from the Post (Seibel and Marx 1987), with relations between their agencies based on a partnership. In some cases, Ministry of Finance supervision is added to the control exercised by the Board of Directors to ensure the safety of deposits. This change favors a commercial culture that encourages financial innovation within the PSBs. For example, the Japanese Postal Savings Bank (JPSB), Korean Postal Savings-Insurance and Finance Bureau (KPSIFB) and the Kenya Post Office Savings Bank (KPOSB) enjoy this status.

- *Non-Bank Financial Institution*: This legal framework provides PSBs with a capital structure and grants both legal and financial autonomy to them. They are registered under the Banking Act and allowed to diversify cautiously into lending. Their operations are controlled either by the Ministry of Finance or the Central Bank to guarantee the safety of deposits and the soundness of the banking business environment. These PSBs still face some restrictions depending on domestic laws and the supervisory authority: In Malaysia, Thailand and Sri-Lanka where the PSBs have been named "national savings banks" with diversified credit services, they are subject to constraints on credit to the private sector.

- *Banking Status:* This provides a PSB with operational freedom similar to that of commercial banks. The bank is allowed to enter all profitable business according to its objectives and in accordance with Central Bank directives. Few PSBs have been granted this status excepted in countries such as Austria, Hungary and Philippines. In the specific case of Hungary, following the transition to a market economy the Postbank diversified into retail loans, corporate loans and even into shareholding. However, serious difficulties have emerged, apparently as a result of unprofessional management practices and, following substantial management changes, the bank has recently commenced a restructuring program.

Depending on the legal framework ruling PSBs activities, transactions are handled either free of charge or with remuneration. When the PSB is legally a Post department or a profit center, financial operations are handled in post offices and the Post enjoys benefits from investments in government securities. When legally separated from the Post, two main variants of partnership are found:

- The partnership is based on agency relations and restricted to rules governing deposit operations carried out by the Post on behalf of the PSB. In general the arrangement stipulates that the Post should handle all banking transactions in post offices, for which it receives a commission. The implementation of this simple agreement sometimes faces common hurdles such as the non remittance of excess deposits to PSB or the modification of agency costs, as happened in the case of the Tanzania Postal Bank (TPB) described below.

- The partnership takes the shape of a rent agreement when PSBs teller positions are located within post offices. The bank provides skills and agents to handle its operations in a professional way. This should help to overcome problems of image, customer service, backlogs of unbooked transactions and remittances of funds.

Compared to other financial institutions, PSBs enjoy two main advantages: a) a guarantee on liabilities and fiscal incentives awarded by the State; and b) through their close relationship with the Post, PSBs benefit from associated logistics to supply financial services which substantially lower their transaction costs. The

Post provides PSBs an extensive network of post offices and available agents. Table 1 shows the network coverage of PSBs in comparison to the banking system in selected countries:

Table 1: Network of Deposit-Taking Offices of Various Savings Institutions

	Austria	France	Greece	Japan	Kenya
PSBs	2,302	17,000	931	24,564	491
Banking System	1,053[1]	25,389	2,443	28,838	370

Source: WSBI database 96, OECD (1996), JPSB & KPOSB (1998).

PSBs have long benefited from the convenience of the Post as its product range was often complemented by the Postal Giro which offered money transfer facilities. Hence, savers could make use of modern payment services. Furthermore, PSBs' activities were boosted by marketing activities towards Post and Telecommunications companies' wide customer base. Clearly, it was appropriate to have a package of day-to-day transactions delivered within the same office. Likewise, the association of Post with telecommunication services lowers the prices of payment services for PSB customers. In addition, PSBs were authorized to carry out other public services such as to pay annuities and pensions, and collect taxes and insurance charges.

The State guarantee on bank liabilities and fiscal incentives energized PSBs activities in a number of countries. In the middle of the nineteenth century, postal banking services were launched in an unstable social context and limited financial environment. The explicit guarantee of PSBs liabilities aimed to stimulate public trust in the State and to reinforce the safety of deposits.

Preferential fiscal treatment of interest paid on post bank savings is one of the fiscal advantages offered to customers in some countries. According to a World Bank study (Vittas, 1994), for example, the success of postal savings in France for many decades resulted from tax-exempt interest paid on deposits in the passbook known as "Livret A". Although intense competition over the last 10 years has eroded the French PSB's position, householders and others small savers remained loyal to the "Livret A", which still provide benefits not available from savings facilities offered by commercial banks.

Successful Experience

Overview

Unlike commercial banks, insurance companies or other financial institutions, the role of PSBs has been largely neglected by policy makers, perhaps in part due to lack of knowledge. PSB activities are not featured often in the media and many people are unaware of their importance. Public ignorance of PSBs activities perhaps reflects their low visibility due to their relationship with the Post. Alternatively, PSBs' limited role as retail lenders has perhaps limited media interest in their business. However, this does not mean that PSBs are marginal and their potential insignificant. Some success stories substantiate the active role of PSBs both in developed and developing countries.

Across the world, PSBs performance in mobilizing savings has varied from the modest to the impressive. Figure 1 highlights the strong position of some PSBs in both industrialized and developing countries:

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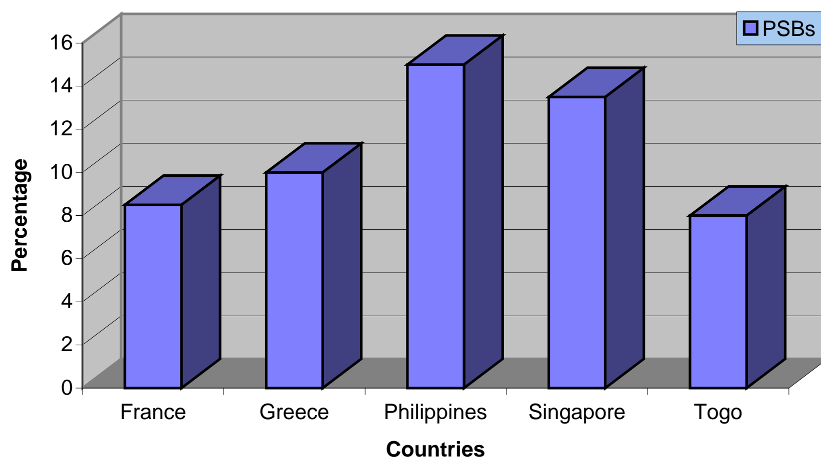
[1] Only commercial banks in 1994.

Figure 1: Estimation of Postal Savings Banks Deposit Market Shares in 1997

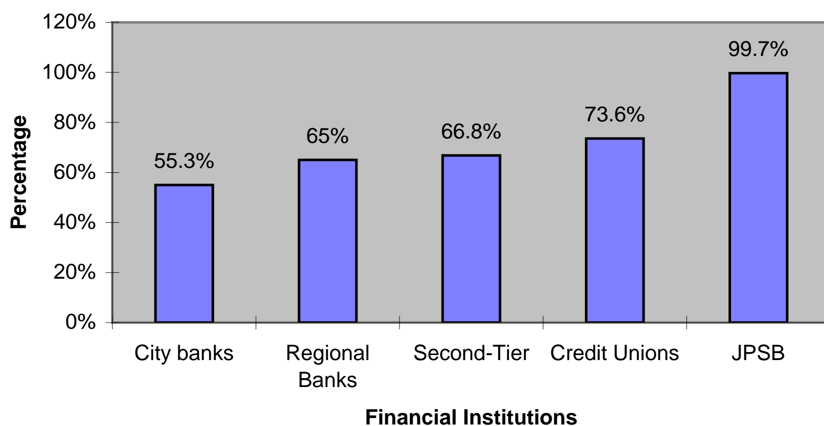


Source: The Banker (various 1997, 1998), WSBI statistical data (1997)

Japan's PSB

The Japanese PSB is the most successful in the world. Established in 1875, just after Japan started its modernization, the JPSB played an important role after World War II as a vehicle to promote and mobilize the deposits necessary for the country's reconstruction. Figure 2 shows the impressive proportion of personal deposits at JPSB compared to other financial institutions in Japan:

Figure 2: Proportion of Personal Deposits in Various Financial Institutions



Source: JPSB Annual Report (1998)

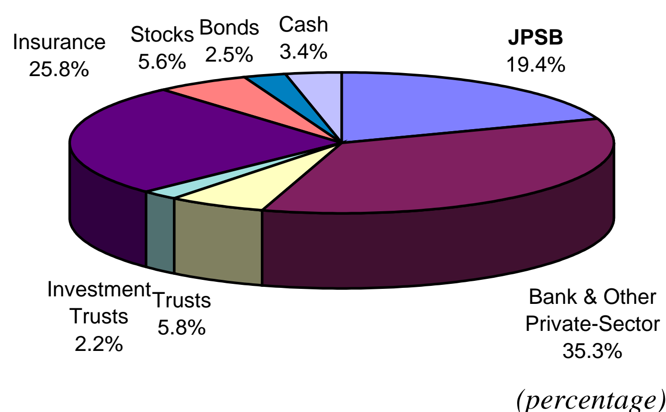
To encourage savings, deposits were tax-exempt up to ¥3 million (about US$25,000 at 1999 exchange rates).[2] Although this exemption has been revised through tax reform, it is still available to people aged 65

[2] This fiscal incentive was also applied to other Japanese financial institutions.

and over for deposits of up to ¥3.5 million (US$30,000). The JPSB enjoys a state guarantee of up to ¥10 million (US$85,000) of deposits per customer. [3]

An extensive network of outlets is also an important factor in the success of the JPSB. The overall banking network of private financial institutions matched the size of the postal banking system in 1980. In 1997, the JPSB's 24,564 outlets represented 46% of deposit-taking locations. Moreover, the post office network covers sparsely populated areas, providing access to financial services and fulfilling the social function of a savings bank. The JPSB operates 74.7% of deposit-taking branches in these remote areas. Today, the JPSB is one of the biggest financial institutions in the world with a share of around 20% of total personal financial assets in Japan. Its deposits amount to almost US$2.25 trillion.

Figure 3: Composition of Personal Financial Assets in Japan



(percentage)

Source: JPSB Annual Report (1998)

JPSB offers a wide range of products and services from checking accounts to high performance financial services such as sales and purchase of Japanese Government bonds, annuity payments, foreign currency exchange, and travellers checks. The main products and services are:

- *Ordinary Savings* - A demand savings account enhanced by cash cards, automatic debit of utility bills and other regular payments, payroll deposit, and pension transfer payments
- *New Ordinary Savings* - An account paying a higher rate of interest than Ordinary Savings for balances above a certain amount. There are two types of account: one for balances of ¥300,000 or more, and one for balances of between ¥100,000 and ¥300.000.
- *Teigaku Savings* - A savings account that can be closed at any time six months after it is opened and can be maintained for up to 10 years. The interest rate at the time the account is opened is maintained throughout the term of the account. Interest is compounded semi-annually.
- *Time Savings* – A savings account for which the depositor may designate a term of any number of months from one to three years in length, or a term of four years. Interest on three and four year accounts is compounded semi-annually. An automatic renewal option may be selected, eliminating renewal procedures.
- *Collection Savings* - A savings account in which monthly instalments of an amount designated by the customer are made. Account terms are from one to three years in length, in increments of three

[3] The same amount of deposits in other financial institutions is guaranteed by deposits insurance scheme.

months. The account may be set up so that a postal savings employee will collect the deposit at the customer's home or office, or deposits may be made at post office counters.

- *Housing Savings* - An instalment savings account for the purpose of building, purchasing or renovating a residence. Account terms are from one to five years in length, or any number of months within this range. The Postal Savings Service provides intermediary services for increased loan amounts if the depositor applies for financing from the Housing Loan Corporation.
- *Education Savings* - An instalment savings account for the purpose of putting money aside for high school or university costs or studying abroad. Account terms are from one to five years in length, or any number of months within this range. The Postal Savings Service provides intermediary services for loan amounts up to the savings balance if the depositor applies for financing from the People's Finance Corporation.

PSBs in East Africa

East African PSBs share a common background. Set up initially in Kenya (1910), PSBs spread into Tanganyika (1925) and then into Uganda (1927). At that time, they were under the sole management and control of the East African Posts and Telecommunications (EAPT). Facilitated in those early days by the existence of a common currency, the East African Shilling, common services were available to the citizens of the three countries and they could use any EAPT offices to conduct their business (Newlyn and Rowan 1954). When the East African Community (EAC) broke up in 1977, each country decided to establish its own bank to take over operations and customers within its territory. Until the end of the eighties, the legal status of the East African PSBs remained unchanged as a subdivision of their respective Post and Telecommunications Administration. In recent years, a gradual institutional change has been spreading throughout the region.[4]

Eroding Position

While a number of PSBs in some industrialized and developing countries have been very successful, many African PSBs faced extended crises. During the colonial period, lack of competition gave the PSBs the leading position in the savings market (Soyibo and Ogunkola 1996). When banks and other financial institutions started their deposit-taking operations, PSB market shares began to decline. Banks attracted deposits from companies and upper-income groups, while PSBs failed to launch dynamic policies aimed at expanding their core market, a proportion of which has entered the informal sector (Brown 1966). Nowadays, African PSBs usually hold a marginal position on the market despite their comparative advantages. Characterized by declining numbers of accounts, an increase in dormant accounts and declining deposit value per account, PSBs' position in African financial markets has eroded sharply. The costs of funds were fixed below market level to favor state investment policies, in the sense that African PSBs did not make loans but rather invested in government securities. As a result of inefficiencies, this failed to promote savings mobilization and fund mismanagement was prevalent.

Table 2 evidences the low level of PSBs deposit rate especially for the ordinary savings scheme (OSS) which represents the bulk of their liabilities. Furthermore, taking into account inflation rates, PSBs paid negative real interest rates to depositors.

[4] Since the Uganda Post Bank (UPB) is in its very early stages of reform, the following sections concentrate on Kenya's KPOSB and Tanzania's TPB only.

Table 2: Market Rates and Spreads in Kenya, Tanzania and Uganda
(percentage)

	Kenya		Tanzania		Uganda	
	1980	1997	1980	1997	1980	1997
PSBs						
OSS deposit rate		5.00		7.00		3.00
Treasury bills/ Invested rate		17.00		10.30		9.76
Interest rate spread		12.00		3.30		6.76
Commercial banks						
Bank deposit rate	5.75	17.97	4.00	11.74	6.80	12.04
Bank lending rate	10.58	33.50	11.50	30.00	10.80	21.70
Interest rate spread	4.83	15.53	7.50	18.26	3.28	9.66

Source: IMF *International Financial Statistics* (1997), KPOSB, PBU and TPB statistical data (1998).

Over the last few years, financial liberalization in Africa has dismantled interest ceilings and credit allocation or quotas, providing flexibility and increasing competition among banks. With less government intervention, markets have experienced positive real interest rates following a fall in inflation rates and an increase in nominal rates. Yet, PSB customers do not yet enjoy the benefits of financial deregulation, whereas commercial bank depositors are well rewarded. Moreover, despite an increase in interest rates on bank deposits, rising lending rates increased commercial bank's interest rate spreads, making them considerably wider than those of the three East African PSBs. PSBs investment in government securities became a hindrance in this competitive environment, as yields on these obligations were much lower thank the returns realized by banks on their loans and investments (figure 4). Hence, banks were willing to pay more for deposits than the PSBs could offer their customers. Notwithstanding efforts to invest part of their funds in commercial paper, PSBs began to suffer from this stiff competition and saw the lending business as the only a real option for their expansion.

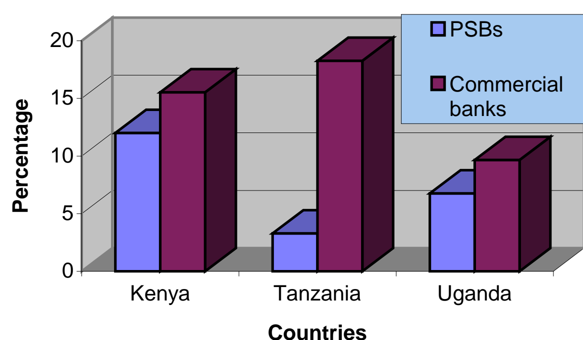


Figure 4: Comparison of Interest Rate Spreads in 1997

Reform

Following the process of institutional reform some PSBs have been given sole responsibility for the management of their liabilities (i.e., money owed to customers) with profit objectives taken into account. Both the Kenya Post Office Savings Banks (KPOSB) - which is expected to be privatized after 2002 – and the Tanzania Post Bank (TPB) have extended their range of deposit products.

Kenya Post Office Savings Bank (KPOSB)

The KPOSB was established in January 1978 by an Act of Parliament, which was amended in 1990 to allow the bank to engage in profit making activities. In particular, the KPOSB obtained the right to:

- Open, maintain or close branches in any location the Board may deem appropriate, including at any office of the Kenya Posts and Telecommunications Corporation;
- Provide facilities for savings accounts;
- Issue other personal savings instruments or facilities in any form it thinks appropriate and consistent with the Act;
- Invest any surplus funds in accordance with the Act’s provisions;
- Cover the expenses of its operations with revenue earned from its investments;
- Establish and operate a company or corporation for the purposes of undertaking banking business and other related financial services in Kenya and to utilise for that purpose such part of the deposit capital as the Ministry of Finance may authorise; and
- Own and hold shares in any company or corporation established in accordance with this section.

The KPOSB is a state-owned company with no issued shares. KPOSB enjoys a Government guarantee on its OSS. KPOSB’s mission is to “encourage and facilitate savings and provide associated financial services to the satisfaction of customers and other stakeholders, hence actively contribute to Kenya's economic development”. The executive board of KPOSB is led by a Managing Director assisted by a Deputy. With 1,300 employees, the bank’s operations are divided into five directorates and fourteen departments. The board of directors consists of six members who represent various groups with direct interest in KPOSB - the government and customers and taxpayers, among others. The board is charged with overseeing the bank’s activities and has exercised close scrutiny of the bank since 1993.

KPOSB offers five major products through its network of 493 outlets (compared to a total of 370 operated by commercial banks):

- *Ordinary Savings Scheme (OSS):* The OSS or the “Passbook” is a typical interest-earning account, opened with a minimum initial amount, which must be left on deposit at all times. KPOSB customers receive 5% tax-free interest (1998) on their accounts.

- *Save as You Earn (SAYE)*: This product was introduced in 1981 to attract savings from formal sector employees and independent small business people. It is a contractual savings scheme whereby the saver remits specific amounts of money for a fixed period. Currently, the KPOSB scheme has three contractual periods: two years with a minimum remittance of US$7.69 per month; a one-year period with a minimum remittance of US$15.38 per month and a six-month period with a minimum remittance of US$83.33 per month. Interest is payable at 10% per annum plus a 10% bonus on interest payable if deposits have been made without interruption.

- *Fixed Deposit Scheme (FDS):* The FDS was introduced by KPOSB in 1983 to cater to middle to low income groups. Deposits are placed for fixed terms ranging from 7 days to 12 months. The minimum deposit is US$153.85 and the interest offered is usually higher than the OSS rate, ranging from 8% to 17%, depending on market conditions.

- *Premium Bond (PB):* This scheme was introduced in 1978 and is based on bearer bonds sold in denominations of US$0.15 and US$0.307. All bonds are eligible for prizes from a monthly draw. Some conditions are attached to participation; deposits are interest-free, and withdrawals are not possible within the first three months. This is a major source of income, as the bank can utilize these cheap funds in interest-bearing investments. There is much customer enthusiasm for the scheme, and KPOSB is therefore introducing larger denominations of US$8.30, US$15 and even US$160, together with higher value prizes.

- *Premium Savings Account (PSA):* KPOSB launched this product in 1991 for middle and high-income groups. A minimum of US$769.2 is needed to open an account and subsequent deposits must be regular. Interest is tax-free and in 1998 ranged from 11% to 16%, depending on the balance in the account.

KPOSB's interest rates are in line with market rates and roughly equivalent to commercial bank rates. Deposits have shown constant growth during the latest three years, rising from US$62 million in 1996 to US$73 million in 1997, and are expected to top US$89.6 million in 1998. The 1997 operating balance reveals that OSS is the heavyweight deposit scheme, leading the other schemes in value of deposits, number of clients and resources mobilized. The PSA scheme has experienced a steady growth since its creation in 1991, and is currently second in terms of value.

Table 3: Kenya Post Office Savings Bank's Operating Balance

Schemes	Deposits (million of US$)*	Customers	Percentage of Deposits
OSS	81.66	1,650,000	91.14%
PSA	4.5	770	5.02%
SAYE	1.93	14,607	2.15%
FDS	0.95	1,319	1.07%
PB	0.56		0.62%
Total	**89.6**		**100%**

*1US$ = 60 KShs in 1997
Source: KPOSB 30 November 1998.

Despite efforts to diversify the savings products offered, savings are still highly concentrated on the traditional OSS, accounting for 91% of deposits. However, growth forecast for products such as PSA and FDS are much higher (30-35% per annum) than OSS (6%) which, if achieved, could substantially help diversify deposits.

KPOSB has a deposit market share of 2% and faces stiff competition. The Kenyan financial system is one of the most developed in Sub-Saharan Africa and includes all types of financial institutions (FAO 1995). With nearly fifty commercial banks and twenty non-bank financial institutions, Nairobi and other urban areas are generally overbanked and dominated by four commercial banks which together have around 80% of the market. Following new development policies, banks are slowly moving back into rural areas after widespread withdrawal during the years of financial restructuring. Likewise, some banks are moving towards medium and/or small savers. If this trend continues, KPOSB will have to be aggressive to keep their customers.

In addition to the commercials banks, credit unions in the small savers market are also putting KPOSB under increasingly intense competitive pressure. With over 934,000 members, deposits of US$355 million and loans of US$302 million (WOCCU 96), they enjoy overwhelming support from rural populations. Furthermore, if microfinance institutions (MFIs), which receive a considerable amount of aid from donors, were also allowed to mobilize voluntary savings, the pressure on KPOSB could grow substantially.

The current situation in the Kenyan financial system shows how difficult it will be for the KPOSB to find a market position, given the state of competition in the upper, middle and low-income segments of the population. To tackle this problem, the management is trying hard to adapt to the new environment and acquire commercial expertise. Growth in the customer base is an encouraging reward, particularly since they include members of wealthier sections of the population.

After outstanding performance in 1996 with an 8.72% net revenue margin producing a net income of KShs63.8 million (US$1.06 million), the bank's net income fell in 1997 to KShs6.4 million (US$0.107 million). The decline was entirely due to heavy dependence on government securities and their behaviour as an investment.

Tanzania Postal Bank (TPB)

As part of the Financial Sector Reform Program, the TPB, established by the Tanzania Postal Bank Act in 1991 and amended in 1992, was created to replace the Tanganyika Post Office Savings Bank (TPOSB), registered in 1927 under the Post Office Savings Bank Ordinance of 1925. It began its activities in March 1992 as an entity separate from the Tanzania Posts and Telecommunications Corporation. The key point of the reform was TPB's registration under the Banking and Financial Institutions (BFI) Act. The bank's objectives and functions are as follows:

- To mobilize local savings and to promote the savings habits of the population;
- To provide, in accordance with the provisions of the BFI Act of 1991, adequate and proper banking services and facilities throughout the United Republic;
- To mobilise resources by accepting deposits, floating bonds, debentures and other monetary instruments;
- Subject to the provisions of the Act, to administer special funds as may from time to time be placed at the disposal of the bank; and
- To undertake any other functions performed by commercial banks.

The bank's authorized capital was set at TShs1 billion (US$1.5 million[5]) in the TPB Act, divided into one million shares of TShs1,000 per unit, allocated to four main groups of shareholders. Initially, attracting investors was difficult despite using a private intermediary. However, the opening of the Dar-es-Salaam stock market in 1994, and TPB's efforts to become profitable (achieved in 1995) helped attract investors who avoided the operation initially.

Table 4: Tanzania Postal Bank's Capital Structure in 1998

Shareholders	Percentage of Shares
Government of Tanzania (GOT)	45.30
Government of Zanzibar (GOZ)	11.05
Tanzania Posts Corporation (TPC)	33.15
Others	10.50

Source: TPB (1999)

The bank's activities are organized into four operational divisions, or Directorates and eleven Executive Departments, with a workforce of about 400. The board of directors is in charge of overseeing the bank's management and represents the interests of its shareholders. The bank's internal rules require the audit and inspection unit to regularly convene with the board.

As in the case of KPOSB, TPB's network is larger than that of commercial banks (157 compared to 140 outlets). In both cases, it is important to note that more than 80% of their branches are in rural areas, which is roughly equal to the proportion of East African populations living in rural areas.

TPB's products also include an OSS, but to better serve customers the scheme has been split into two distinct products:

[5] The exchange rate in December 1998 was 1US$ = TShs670.

- the *Postal Product Account (PPA):* deposits and withdrawals can be made in any post office or TPB branch, but only once a week and in accordance with limits on different categories of post offices and branches stipulated by the authorities. The interest rate paid was 7% in 1998.

- the *Domiciled Savings Account (DSA):* DSA deposits and withdrawals are limited to one branch, but without size or frequency limits on transactions. Currently, operations are available only in TPB branches but plans to extend the scheme are being discussed. This product was created to suit customers such as small traders and pays a 6% interest rate (1999).

TPB also offers a product similar to the SAYE of KPOSB, known as WADU, as well as Fixed Deposits and Pension Funds.

TPB is experimenting with a particular strategy for attracting small savings by maintaining low opening deposit requirements. Presently these stand at TShs5,000 (US$7.50) for an ordinary savings accounts and TShs10,000 (US$15) for WADU. As a result, more than 85% of deposits are under US$200. To promote savings among low-income people, the minimum interest-bearing balance has been fixed at TShs50,000 (US$75) for an ordinary savings account. This aims to simplify account management and to encourage customers to achieve the threshold.

Although not as dominant as at KPOSB, the OSS (PPA + DSA) is also the leading savings scheme at TPB with 62.9% of deposits. WADU accounts for 31.4%, followed by Fixed Deposits at 5.1% and 0.6% of pension funds.

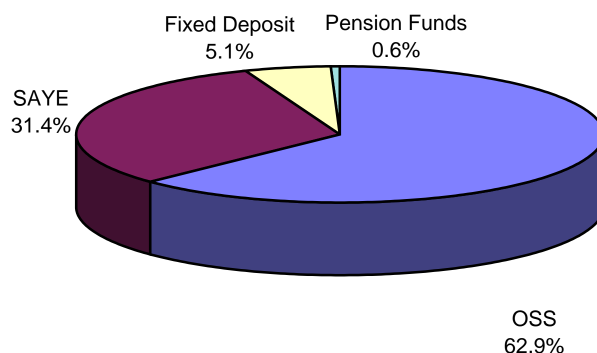


Figure 5: Deposit Structure in the Tanzania Postal Bank

Source: TPB "Situational Analysis and Prospects" (1998)

TPB has demonstrated a remarkable capacity to respond to developments. According to TPB statistical data, it now holds 16.5% of the Tanzanian savings market. However, unlike KPOSB where direct expenses are under control, TPB costs are increasing due largely to the deterioration of its partnership with the Tanzania Post Corporation (TPC). Following the separation it was agreed by both entities that unremitted funds would be converted into loan repayable by TPC over a two year period at 35% interest beginning in October 1995. However, TPC unilaterally and unexpectedly increased the agency fee by 300%, which negatively affected direct expenses.

Strengths and Weaknesses

Despite some similarities, such as legal separation from the Post administration and regulation by the Ministry of Finance, there are also some significant differences between KPOSB and TPB. TPB has established a clearly defined capital structure. Even though the bank remains dominated by government ownership, it nevertheless has various shareholders including the Tanzania Post Corporation (TPC) and the

employees of the former Tanzania Post and Telecommunications Corporation. This ownership structure was expected to combine Post and savings bank interests: TPC has the opportunity to enjoy TPB benefits while at the same time postal agents have the necessary motivation to handle financial services. By contrast, KPOSB is simply represented on the board of the Kenya Post and Telecommunications Corporation in order to facilitate their partnership.

A second disparity lies in the numbers and quality of staff. KPOSB is by far the larger of the two PSBs, with an estimated workforce of 1,300 people, compared to TPB's 400 employees.

Table 5: Key Figures of KPOSB and TPB in January 1999

	Staff	Deposits (US$ million)	Loans (US$ million)	Assets (US$ million)
KPOSB	1,300	102.70		
TPB	394	40.17	0.86	47.96

Source: KPOSB and TPB (February 1999)

So far, both PSBs attract primarily middle and low-income households as savers. Nevertheless, it may be expected that a move towards a more commercial culture within the PSBs could result in depositors from upper-income segments being attracted, as demonstrated by KPOSB's success with the premuim savings account (PSA).

Both KPOSB and TPB have set up their own branches to ensure nation-wide coverage and improved customer service. The TPB also rented counter positions in twelve regional post offices for the same purpose. These efforts helped reduce queues in offices and improved the quality of service. Meanwhile, KPOSB and TPB payments facilities were extended in both countries through partnerships with Western Union Financial Services on international inbound payments. Since 1995 in the KPOSB and 1997 in the TPB, the service is available and domestic transfer facilities are being extended in both banks.

Clearly, the extensive post office network is the key advantage for PSBs because it makes them accessible to a broad customer base. Furthermore, the state guarantee of postal deposits is a security feature attractive to customers, despite criticism about using customer deposits as a source of cheap funds to buy government securities that cover public deficits. PSBs offer simple products, and interest on deposits is tax-free, promoting savings by low-income groups.

The PSB objective of integrating low-income people into the world of financial services has good prospects because the potential market is severely underestimated. More than 80% of potential savers are not served by modern financial markets. The retail banking opportunity, if appropriately tackled, may become a substantial source of profit, while cooperation with other financial institutions would be desirable in order to develop payments systems.

However, both PSBs have had numerous deficiencies which explained their backwardness and hindered progress and development. Widespread organizational and operational inefficiencies are present in their businesses. Lack of adequate infrastructure results in cumbersome operating procedures, and inadequate control of branches. Also, governance issues are of concern. These drawbacks render PSBs unfit to compete effectively in the banking sector. However, improvements can be observed. Both PSBs are acquiring a commercial culture and becoming integrated into the banking system.

The PSBs' future in many countries is still jeopardized by government tradition and inaction. In several African countries it is very unlikely that there will be any improvement in their performance without a substantial modification of their present legal status. Institutional reform is a precondition to achievement

of PSB potential. Such reform could dismantle the civil service culture that holds PSBs back, and stimulate adoption of the best practices encouraged by financial reform.

Conclusion and Recommendations

According to Mauri (1983), governments in many African countries neglected personal savings in the 1960s. In the wake of the "vicious circle" model (Nurkse, 1953), aid programs were considered the only tool for fighting underdevelopment for more than three decades (Adams, Graham and Von Pischke, 1984), while the mobilisation of savings was "the forgotten half" of development finance programs (Vogel[6], 1984). The awareness that poor people are potential savers, resulting from studies of microfinance activities, is leading to a new paradigm in development issues (Adams, Vogel, 1997).

The mobilization of domestic savings for economic development is the next century's challenge for Africa. Indeed, "no country is too poor to save if the available potential is effectively unused" (Adera, 1995). Postal Savings Banks could be a vehicle for this task because they are currently the only formal financial institutions able to provide financial services to remote areas of Africa.

During a long and damaging period of negligence PSBs' activity seriously declined to a marginal share of the retail banking industry. African PSBs need massive reforms to reverse this trend and enhance their performance. African PSBs have entered a critical period in their evolution. What should be the future profile of PSBs? Once restricted to deposit-taking only, both retail banking and microcredit functions are now under consideration.

The current business environment dictates that PSBs get rid of civil service practices. The changeover thus involves institutional, cultural and technical components. Following institutional reform (which is fairly advanced in East Africa), PSBs should rebuild their strategy around professional banking principles (Mc Naughton, 1992), adopting a commercial culture that can generate a dynamic deposit-attracting institution. This requires the following:

Improving operational efficiency: A huge proportion of PSB operations is still handled manually in post offices because of the failure to keep up with technological change. Without an effective computerized data system, it is extremely difficult to deal with large volumes of small transactions (Bocheneck and Holtmann, 1995). Procedures within PSBs are very complicated, leading to serious delays in handling operations. A number of operations are processed more than twice, with overlapping responsibilities. Consequently, PSB operations are time-intensive and expensive and need to be updated to compete in the banking industry framework. Computerization does not solve all problems, but it does reduce inefficiencies considerably, improving the quality of customer service and diminishing the likelihood of fraud and forgeries. Unfortunately, computerization has been viewed so far solely as a means of reducing staff numbers, and not as a driving force for efficiency. KPOSB considers information technology as a key issue outlined in their "Corporate Development Plan 1998-2002". In its transition towards privatization, objectives include computerizing all regional centers and branches. KPOSB planned to finance this program out of its own budget, but the low profitability recorded in 1997 may jeopardise this goal. Dansave (The Danish Savings Banks Development Association) provided technical assistance for TPB restructuring from between 1993 to 1997. The aim is to have on-line services in all regional post offices. For remote areas, an off-line smart card option may be preferable.

Market analysis and research: Research is needed to develop accurate customer and competitor profiles in order to ensure that appropriate products and services are delivered, with the right pricing structures. Promotional activities are required as, without advertising programs, PSB objectives of increasing savings values even in remote areas are unrealistic. Furthermore the corporate image of PSBs is always confused

[6] Vogel R. 1984. "Savings Mobilization: The Forgotten Half of Rural Finance." In Adams, Dale W, Douglas H. Graham and J.D. Von Pischke, eds., *Undermining Rural Development with Cheap Credit.* Westview Press.

with that of the Post. Although their partnership is a basic condition for widespread access to finance, PSBs need to develop their own positive image to increase their business. Enhancing customer service is a priority for deposit mobilization. Efforts should focus on reducing queues and the time spent handling transactions in post offices. Also, adequate cash resources should be available at counters to meet customer demand for withdrawals of more significant amounts. In countries where people do business in cash, shortages of cash at counters appear to bring into question the safety of deposits. The establishment of PSB counters in post offices should be encouraged and efforts made to train a number of agents in basic banking skills.

Internal audit: Audits should provide adequate insight into operational procedures, deficiencies and risks. It may be appropriate to decentralize responsibility to a regional level to intensify the application of audit principles, providing independence is maintained. It is advisable, as with the TPB, that auditors report directly to the board of directors in order to strengthen the bank's monitoring and control.

Central bank supervision: Since East African PSBs are moving into credit activities, central bank authority should be extended to cover PSBs for reasons of monetary policy and to integrate PSBs into the banking system. Supervision by the central bank is considered to be a prerequisite to PSBs' issuing loans, as was the case with TPB.

Moving into lending only when ready: PSBs in Botswana, Cap Verde, and the Togolese Savings Bank (which operates through the post offices network) started to provide loans as far back as 1980. Most PSBs, however, are not yet in the position to move into lending successfully. TPB has already been allowed to make loans under the provisions of the Bank and Financial Institutions Act, and started credit operations in 1998. While TPB is ostensibly committed to low-income clients, in practice it lends to wealthier clients like commercial banks do. As of end 1998, 28 applications out of 125 were approved and processed. Loan amounts ranged from TShs 0.6 million (US$9,000) to TShs350 million (US$525,000). Sixty-four percent of the beneficiaries were individuals, and 36% registered companies. TPB should be cautious in expanding this activity, and give particular attention to preserving the safety of deposits.

Cooperation with other financial institutions: There may be opportunities for links with credit unions, microfinance institutions (MFIs) (Adera, Nissanke and Aryeety, 1995), and commercial banks that offer both savings and loan services:

a) Dynamic credit unions are for the most part self-sustainable and usually have excess funds. In particular in rural areas, credit unions often lack second-tier institutions or connections with commercial banks where they can deposit these funds. PSBs could provide this service. TPB is working on an arrangement for financing rural activities through Savings and Credit Cooperative Societies (SACCOS) for clients who cannot meet conventional borrowing conditions. The bank is negotiating a loan guarantee facility with the European Union (EU). A similar arrangement is also being negotiated with the National Income Generating Programme (NIGP). TPB is cautiously integrating the informal and the banking sectors without taking any direct risk.

b) PSBs could initiate widespread savings schemes in partnership with MFIs and act as refinancing or broker institutions. For example, following a government recommendation, the Senegalese PSB began in 1995 to establish relations with NGOs offering deposit-taking services to microclients. Several deposit accounts were opened that mainly benefited women's groups active in the region. The PSB acted as a broker and negotiated loans with commercial banks on behalf of women's unions. It was able to obtain credit on better conditions from the commercial banks than the women could ever have achieved directly as individuals or as groups.

c) PSBs' adoption of professional banking practices offers an opportunity for commercial banks to expand their services. Considering the difficulties in executing domestic money orders, PSB networks may be useful in tackling this problem and improving payment systems. Money order services

have been successfully implemented in Kenya, where commercial bank customers may send money directly to any account in KPOSB. The partnership plays a linking role between the upper-income class and the poor. Likewise, SACCOS also use the KPOSB network to reach their customers in remote areas.

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