Guide to Postal Reform and Development

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Guide to Postal Reform and Development

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This guide has its main basis in the publication “Postal Reform Guide for Latin America”, which was prepared jointly with the Postal Union of the Americas, Spain and Portugal (PUASP) by the project Management Team: Rudy Cuadra Leiva (UPU), Guillermo Ronderos Tobón (UPU) and Juan Ramón Martinez-Acha (PUASP), with the collaboration of the following specialists of various postal administrations, as well as the Planning Team of the Postal Development Action Group (PDAG). In alphabetical order the specialists are: Kim Deby (La Poste, Belgium), Wagner Moreira dos Santos (ECT, Brazil), Alberto de Mello Mattos (ECT, Brazil), Elizabeth Soier Maximiano (Ministry of Communications, Brazil), Roberto da Rocha Miranda (Ministry of Communications, Brazil), María Yolanda Palomo del Castillo (Regulator, Spain), Robert Perez (La Poste, France), Ercole da Fonseca Tramontano (ECT, Brazil), Francisco Javier Valverde Benito (Regulator, Spain).

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This Guide is a practical model that can be applied or adapted in the light of the specific needs and realities of each country and region. The concepts set out should therefore not be regarded as the UPU’s official position on the subject, and should be taken as reference documents and models relating exclusively to the practical aim of the Guide.

**Authors’ Note:**
As this version of the Guide has been finalized in the year of the Bucharest Congress, reference may still be to certain articles of the Beijing Congress.

October 2004
MODULE I

Foundation for Reform
GUIDE TO POSTAL REFORM

Module I
Foundation for Reform

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Introduction

The main purpose of this module is to explain the importance of the postal service for nationwide development and the underlying rationale for postal reform efforts.

Chapter 1 describes the main features of the postal sector, the obligations of government as the guarantor of the universal postal service, and the current regional and global environment surrounding the operation of postal services.

Chapter 2 discusses the core elements of postal reform, the major stakeholders involved, the basic underlying conditions for undertaking a reform effort, and the issues and spheres of action involved in any reform process.

Chapter 3 describes the postal reform process, establishing the main project preparation phases, the major determining factors in the success of a postal reform effort, and mechanisms for monitoring performance throughout the reform process.

Postal reform and sustainable development were acknowledged by the Bucharest Congress as priority objectives for action by the Universal Postal Union. In this sense, objective 4 of the Bucharest World Postal Strategy (BWPS) establishes the need to “Undertake reform of the postal sector to ensure sustainable development of postal services and anticipate technological, socio-economic, ecological and regulatory changes”.

Thus the importance of reform and modernization concerns the different stakeholders of the postal world. Governments as guarantors of the universal postal service will have to define policies of reform allowing the adoption of the means necessary to promote the transformation of postal structures. Operators for their part will have to apply modern management policies allowing them to participate appropriately in an increasingly competitive market. The restricted unions as a result of their action programmes will be able to collaborate actively in postal reform and development processes, and the different UPU bodies will have to introduce joint actions to facilitate this important BWPS objective.

Thus, in general, the module provides an overview of the issues addressed throughout the Guide and which make it a useful tool for anyone in charge of devising a reform strategy, both for the postal operator per se and for the postal sector as a whole.
CHAPTER 1: THE POSTAL SECTOR AND NATIONAL DEVELOPMENT

1.1. INTERNATIONAL POSTAL ORGANIZATIONS

Historically speaking, the Universal Postal Union (UPU) is the second oldest international organization, after the International Telecommunication Union.

With 190 member countries, the UPU is the leading international forum for cooperation among national postal administrations and does its utmost to ensure the continued existence of an integrated international postal service network. To this end, it plays the role of an advisory and mediatory body, a contact group and a technical assistance service provider. It sets rules for international exchanges of mail and makes recommendations designed to help boost the volume of mail traffic and improve service quality for postal service customers.

As a specialized United Nations agency, the UPU does not intervene directly in the internal affairs of its member countries. However, ever since its foundation, it has been striving to enforce the principle of a so-called “single postal territory” to ensure the smooth operation of the world’s largest mail delivery network.

National postal administrations voluntarily choose to become members of the UPU, whose operations are managed at the highest levels of the organization, governed by the UPU Constitution and its derivative instruments, the Universal Postal Convention and its Detailed Regulations.

The following is an outline of some of the main underlying principles governing Universal Postal Union operations and decisions.

❖ **Access to postal service**: the UPU and its member countries are to promote broad-based, equal access to postal service;

❖ **Single postal territory**: together, the member countries of the UPU form a global network for the free circulation of mail in accordance with international law and the domestic legislation of each member country;

❖ **Shared decision making**: Union decisions are made by its member countries, which also work together in commissions and technical groups for the framing of proposals for approval by the UPU;

❖ **Compliance with Union decisions**: all member countries are bound to comply and monitor compliance with decisions taken by the UPU membership and, where necessary, ratify international laws governing postal services in their domestic legislation;
❖ **International cooperation:** all postal administrations have agreed to work together for the improvement and development of postal services;

❖ **Quality of service:** implementation of joint efforts to continuously improve service quality as one of the Union’s main priorities.

At the regional level, restricted postal unions are working towards goals and objectives extremely similar to those of the UPU but specific to a particular geographic area. Collaboration between the UPU and the various restricted postal unions is of vital importance for the development of postal services in the different parts of the world. By way of example, the publication used as a basis for this Guide was developed in close cooperation with one such union, namely the Postal Union of the Americas, Spain and Portugal (PUASP), which has its headquarters in Montevideo, Uruguay.

Other restricted unions include the Association of Postal and Telecommunications Operators of Portuguese-Speaking Countries and Territories (AICEP), the Southern Africa Postal Operators Association (SAPOA), the Association of European Public Postal Operators (POSTEUROP), the Arab Permanent Postal Commission (APPC), the European Postal Financial Services Committee (CSFPE), the Regional Community for Posts and Telecommunications (RCC), the European Conference of Postal and Telecommunications Administrations (CEPT), the Pan African Postal Union (PAPU), the African Postal Union (APU), the Baltic Postal Union (BPU), the Caribbean Postal Union (CPU), the Asian-Pacific Postal Union (APPU), the Nordic Postal Union (NPU) and the South and West Asia Postal Union (SWAPU).

### 1.2. THE POSTAL ENVIRONMENT AND THE NEED FOR CHANGE

The history of the postal sector is closely intertwined with the history of each individual country. Postal services have been playing an important social role ever since the formation of national governments. Postal service organizations have undergone a series of structural reforms in line with different cultural, economic, political and technological factors, particularly in recent years, with the stepped-up pace of change. Its close ties to social structures also subject the postal sector to pressure to change, so as to keep in step with its surrounding environment. The following sections analyze the factors contributing to the reshaping of the institutional framework for the postal sector.

Section 1.2.1 contains a brief retrospective study of the postal sector from its origins up to the present, highlighting its latest challenges. Next, section 1.2.2 looks at major trends on the postal market, which are growing stronger every day. Section 1.2.3, in turn, focuses specifically on the main institutional trends in the postal sector, while section 1.2.4 underscores the need for and timeliness of change.
1.2.1. Brief history of the postal sector and recent challenges

Historically, in many countries, postal services were normally run directly by the government, serving the public under a rather extensive government monopoly. Unchallenged by competition for a long time, postal services were generally run without paying much attention to the needs of customers, who were considered mere recipients of services.

Existing mechanisms for the establishment of quality-of-service models are only one example of this mindset, shaped more by the service provider’s technical and operational capacity than by customer needs per se.

Cost factors were not given sufficient weight in government decision-making processes, which created large financial deficits in countless postal administrations around the world.

Production processes were largely manual due to the limited availability of applicable technology for postal operating procedures and a lack of necessary technology resources for automating the processing of letter mail and other items.

This situation persisted for many years, during which time postal services could rest assured that their operations were not – nor could be – subject to any form of competition in a completely stable postal environment.

The late 1960s and early 1970s saw the emergence of private firms offering significantly higher quality document and merchandise delivery services than the traditional services rendered by official postal administrations, for the first time creating competition within the postal sector, though restricted solely to more sophisticated services.

One of the main points of entry for private firms was the international service area, in which inconsistency in the quality of service provided by different government-operated postal services helped foster the emergence of new service providers using private service networks and offering consistent standards of quality. In time, their international operations eventually enabled these firms to expand into domestic markets, posing a direct threat to existing postal monopolies.

The government-owned postal services of certain countries reacted positively to the actions of these private service providers, embracing a new, more customer-driven operating strategy and endeavouring to develop a more streamlined, market-oriented organizational structure. However, many postal organizations were still government agencies, making it difficult for them to operate with the necessary degree of administrative flexibility and autonomy required to meet the challenges posed by the growing demand for postal service in an increasingly competitive environment.
The postal service operating model was based entirely on the concept of a national territory in which the market area was defined by national geographic boundaries. The shift from a political polarization paradigm to the globalization of trade and economic integration has created a whole new approach to postal service, in which the postal sector takes on the pivotal role of infrastructure provider for the conduct of business in a world in which manufacturers and consumers are often physically separated by large distances.

Added to this is the effect of new technology in general and of new information technology in particular, which is creating a twofold challenge for the postal sector. The first has to do with a new form of competition in which new communications options (fax, Internet) offering advantages in terms of speed and cost are replacing postal message delivery services. The second challenge has to do with the need for postal operators to develop systematic innovation and organizational skills for the assimilation of these new technologies by the postal sector, engendering new services for postal customers, lower prices, better quality and more efficient operational and administrative resource management practices.

In addition to the problems created by the increasing complexity of the postal sector, private service operators are penetrating and flourishing on certain segments of the postal market, attracted by the economic potential of postal business opportunities and spurred by increasingly advantageous models for private enterprise, particularly on more lucrative market segments in which the public operator has a positive cash flow to finance universal postal service operations.

1.2.2. Major market trends in the postal sector

According to data compiled by the “Post 2005” study conducted under a joint Universal Postal Union/World Bank project mounted in 1995, postal administrations processed approximately 496 billion letter mail items and 5 billion parcels in the year 1997, producing approximately US $200 billion in revenues. A 2002 update of this study projects that the volume of letter mail and parcels will grow at average annual rates of 2.4% and 5%, respectively, over the period from 2000 to 2005.

These figures show that, despite new communications technology, the volume of letter mail is still expected to grow at a rather encouraging rate, even with the high degree of imprecision in calculations of substitution effects, particularly with respect to e-mail versus traditional letter mail.

There is an opposite effect in the postal parcels sector where, rather than being threatened by new information technology, both domestic and international parcel traffic has grown significantly with the advent of e-commerce.
In another UPU/World Bank study (*Redirecting Mail: Postal Sector Reform*, 1996), worldwide traffic patterns for domestic letter mail according to the type of sender show a large portion of this type of mail originating with organizations and bound for individual households, as illustrated by the figures in the following table.

<table>
<thead>
<tr>
<th>Origin / Destination</th>
<th>Households</th>
<th>Organizations</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Households</td>
<td>10%</td>
<td>60%</td>
<td>70%</td>
</tr>
<tr>
<td>Organizations</td>
<td>5%</td>
<td>25%</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>15%</td>
<td>85%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Thus, the worldwide postal industry is undergoing major structural adjustments with the advent of new information technology. Though the postal service’s share of the communications market may be shrinking, the postal market itself has grown over the years, which shows that, rather than abruptly and completely replacing postal service, the use of new technology can coexist with postal activities, engendering complementarities.

However, the Post 2005 study predicts a trend towards the substitution of letter mail, progressing at different rates in different groups of countries, averaging out to somewhere around 17% of worldwide letter mail volumes.

While there is no general consensus on this matter, the UPU reports that the letter-mail market appears to be growing, though its growth is slowing as a result of the use of other means of communication. Certain calculations show that, within the next five years, somewhere between 10 and 20% of letter-mail traffic in industrialized countries will be replaced by other means of communication.

The effect of the Internet, the latest challenge to the postal sector, is still a rather hot topic. There is no question as to its existence or its impact on the postal market. The only difference of opinion involves the extent of its impact. In brief, there are two different positions on this issue, both of which have to do with the role of the official postal operator in today’s new postal environment with stepped-up business activity, direct competition, technological competition and the increasing globalization of postal service operations.

The first position is that postal services are irreplaceable at the worldwide level and that mail volumes will continue to grow despite the expansion of telecommunications services in general and e-mail services in particular. It accepts the fact that the postal sector’s share of the communications market is destined to shrink with the plethora of new emerging technologies. However, it maintains that not everyone has access to these new technologies, which is why there is no real threat to postal services which, on the contrary, have an important advantage over other communications media, namely their extensive retail and delivery network.
The second position is that postal services can expect to lose business, not only due to the increasingly lower cost of other communications media but also because private service operators are more responsive to market needs. Moreover, underinvestment by postal services has made them incapable of absorbing the growing volume of mail traffic, and public postal operators are simply not economically sustainable without exclusive monopoly rights.

Just as, in the past, many were predicting the downfall of postal service with the invention of the telegraph and telephone, this same prophecy has been batted around for a number of years now. However, in the same way postal services were able to not only face up to that emerging threat but incorporate the new breakthroughs of that time into their own operations by offering new services to the public, the current threat posed by the development of new technology is being turned into an opportunity for postal operators.

Thus, as we see it, right now, the postal sector is up against a similar situation to that of the past, giving rise to new predictions of its growing obsolescence and eventual extinction. In fact, a number of postal operators are already beginning to take a stand with the launching of a new service platform known as “e-Post.”

The concept of e-Post service is not a negation of traditional mail service but, rather, a growth option for the postal sector, building on its past achievements. While conventional postal service is based mainly on the interconnection of various processes and operations in an extensive physical network in the real world, the strength of e-Post service lies in its juxtaposition of new digital infrastructure with this physical infrastructure, underpinned by the intensive use of information technology resources.

Just as physical infrastructure forms a gigantic platform for the operation of different types of postal services, today’s new digital infrastructure provides a foundation for the operation of different types of services, including both existing and completely new services.
Without going into all the possibilities afforded by this new type of infrastructure, the following is an outline of a few of the major potential areas of e-Post service:

a) **Financial services**, establishing or expanding an entire service line, including electronic funds transfer service, bill payment service, pension and postal money order payment services, etc.

b) **Logistics services**, offering a solution for large customers requiring better merchandise delivery service (for products and parts) between internal units or to outside parties (representatives, middlemen, consumers) using physical postal service infrastructure and resources.

c) **Certification services**, bringing the credibility of the postal service into virtual reality, authenticating currently vulnerable messages and transactions whose authenticity may need to be established for legal purposes.

d) **Messaging services**, developing a whole new line of communications services including but not limited to hybrid mail, which gives postal operators the possibility of developing digital customer interfaces, offering value added services (customized printing, enveloping, delivery confirmation) in addition to physical mail delivery service per se.

This physical and digital infrastructure is not configured separately but, rather, interconnected to take advantage of all the benefits of a grid. Their configuration as separate networks would fail to tap into their synergy, turning them into mere conventional resources incapable of creating any key market differentials.

For example, a digital network alone does not represent a key market differential for the postal service, aside from the geographic coverage factor in mail service. Such a model would restrict postal services to a market segment in which there are already other service providers, such as Internet hosts, present.

However, there are new developments every day in the debate over the future of the postal sector in the face of the threat posed by new technology. There are already signs of a growing consensus around the need for a clear change in market management practices within the postal sector. The box below depicts some of these suggested changes which, however, should not be construed as confined solely to the specific market segments in question.
Together or separately, the market segments depicted above reflect the effects of change on three basic aspects of postal service:

a) **Integration**: postal services are less and less confined to a nation’s political boundaries and, more and more, part of a global marketplace;

b) **Diversification**: a more intensive use of technology in combination with existing postal infrastructure affords new possibilities for service delivery, improving the use of existing operating capacity and helping to build market share;

c) **Positioning**: a new approach to postal services in which they are no longer viewed merely as a sequence of operating processes but as links in a value chain between manufacturers and consumers, or between government and the general public.

There is another important aspect of diversification which should be taken into account. The following data extracted from Document CA-2002-Doc 7 entitled “The Postal Industry at October 2002 – Environmental Update” looks at the share of income from letter mail service in the total revenues of postal enterprises in selected countries.

<table>
<thead>
<tr>
<th>COUNTRIES</th>
<th>SHARE OF TOTAL REVENUES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland</td>
<td>58%</td>
</tr>
<tr>
<td>France</td>
<td>59%</td>
</tr>
<tr>
<td>Great Britain</td>
<td>83%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>35%</td>
</tr>
<tr>
<td>Germany</td>
<td>31%</td>
</tr>
<tr>
<td>Italy</td>
<td>50%</td>
</tr>
</tbody>
</table>
Note that, even in countries with a rather aggressive strategy for the geographical expansion and diversification of postal services, letter mail still accounts for a large share of total revenues, though the actual percentage varies from country to country. Thus, any attempt at diversifying postal services must include safeguards for protecting revenues from these traditional services, which still play a pivotal role in underpinning the economic viability of postal operators.

1.2.3. Major institutional trends in the postal sector

The existing institutional model based on premises which are no longer completely valid in the face of new realities, such as the existence of a single market operator, a lack of competition and little need for innovation, is inconsistent with the juxtaposition of different factors discussed above.

The European Union’s progress in devising a new model is noteworthy. It has already made a formal decision to regard Europe as a single postal territory, turning what was previously international into domestic mail traffic, with free competition among postal operators. The main underlying principles of the proposed new model are outlined in EU Directives 97/67/CE and 2000/39/CE referring to the opening up of postal services to competition and the timing of efforts to implement the proposed changes. This reflects the cautiousness with which the European market is being opened up to competition. The first tangible step in this direction dates back to 1992, with the publication of the so-called Green Book.

Thus, the European Union has already taken concrete measures to gradually open up the European postal market to heightened competition by lifting restrictions on the following items:

- as of 1998, letters weighing over 350 grammes (or costing more than five times the regular letter rate);
- as of 2003, letters weighing over 100 grammes (or costing more than three times the regular letter rate).

Over the next few years, the following items will also be subject to competition:

- as of 2006, letters weighing over 50 grammes (or costing more than two and one half times the regular letter rate);
- as of 2009, all outbound cross-border letter mail items. (However, member countries which need this market segment for the provision of the universal postal service may continue to protect it from competition.)
While steadfastly striving to open up the market to increasing competition, the caution with which the European Commission is moving ahead with this process is reflected in its plans to conduct a study over the course of 2006 to assess the impact of full liberalization of the postal market on the universal postal service in each member country by the year 2009, based on the results of which the Commission will frame a specific proposal. This issue will have to be dealt with, since there are still sizeable differences between EU member countries.

The case of the European Union is a good example, if not necessarily of an actual model, since it involves industrialized countries with extremely strong postal operators, at least of a cautious approach to the liberalization of the postal market.

There are countries which have suffered sorely from the shock waves produced by haphazard market liberalization without any advance planning and without considering the needs of the postal operator responsible for providing the universal postal service to all segments of the population. The most visible consequence of the current combination of new trends in the postal environment is the recent wave of acquisitions and alliance-building by postal operators around the world. Recently, government enterprises in European nations in particular have been making acquisitions or forming partnerships among themselves or with private service operators to help enable them to more aggressively exploit specific market segments, such as international express mail service.

Other postal administrations have been looking to form alliances with other administrations considered vital to the establishment of worldwide partnerships in certain service areas.

The intent behind these new trends is to lay the groundwork for service operators previously confined to domestic markets to operate on a global scale, as is already the case in the telecommunications, power and banking sectors, among others.

Although there is no clear trend towards development of a single, worldwide model for the postal sector which, moreover, would be inadvisable in the face of differences in prevailing conditions at the country and regionwide level, the member countries of the Universal Postal Union have already forged a consensus around a number of principles, as outlined below.
a) **Separation of regulatory and operational functions:** A postal market with multiple service operators requires the establishment of sanctioning, regulatory, supervisory and arbitration functions encompassing all such operators. Historically, governments have ignored the existence of any operators other than government-run postal services, with their regulatory activities targeted primarily at the official postal service rather than at the postal market as a whole. The growing complexity of the postal market requires that governments regulate all operators on such market, primarily to protect consumer rights and interests.

b) **Universal access to postal service:** This is a core issue having to do with the physical accessibility and affordability for the general public of a package of basic services ensured by the government. Right now, coverage indicators for postal services are satisfactory but, with the opening up of the postal sector to competition, there is a risk that these indicators could deteriorate if governments fail to take proper measures to safeguard and build on their progress in this area.

c) **Coexistence of public and private interests:** More and more, government-controlled enterprises are operating side by side with private firms within the postal sector. In some cases they are competing with each other while, in others, they are entering into agreements and forming alliances. However, they will need to continue to discharge different responsibilities and obligations and to play different roles in the postal sector, as defined by legal instruments, under the supervision of a market regulatory agency.

d) **Competition:** Phasing in of competition and phasing out of monopolies. As previously discussed, this should be a methodical process to enable the official postal operator in particular to prepare itself to do business on a free market. The reason for caution is not to protect the corporate interests of the official postal operator, but to continue to ensure access to the universal services provided by such operator. The unique characteristics of universal postal services require a transition period to enable the official postal operator to complete necessary restructuring efforts to transform it into a modern, streamlined, technology-driven service provider capable of turning a profit on lucrative, competitive markets to finance the provision of the universal postal service.

e) **Modernization of government-owned postal operators:** This refers to the need for the restructuring and commercialization of traditional, government-run postal services to give them a market-oriented focus. At this point, there is no worldwide trend to privatize government postal enterprises. On the contrary, rather than privatizing postal services in general, governments are choosing to give them more administrative autonomy and management expertise to help make them more results-oriented.
f) **Technology**: Heavy investment in the modernization of operational infrastructure is needed, not only to boost productivity but also to strengthen and develop new services for postal customers and improve working conditions for postal employees.

g) **Regional integration and globalization**: This allows both official and private postal operators to expand their operations across national boundaries onto regional and global markets. While, on the one hand, this trend opens up new markets for a country’s postal operators, on the other hand, it also opens the door for foreign service operators to penetrate the domestic market.

This new market dimension will require postal operators to break away from variable models (i.e. alliance-building with a particular service operator for the provision of the universal service and competition with that same operator for services for which they are both competing) and develop new management skills (for the formulation of a market strategy and the development of new services for example).

1.2.4. Need for change in the postal sector

Postal administrations in many countries around the world are simply not in a position to deal with the growing complexity of the postal sector. As a result, many are finding themselves trapped in a vicious circle.

Obviously, there are many different circumstances and reasons explaining how these postal administrations came to be caught up in their current situation, from which it would be hard to disentangle themselves without a well-planned-out, synchronized effort to tackle the main structural roots of their problems, taking care not to be misled into going for “quick fixes” addressing only the surface of such problems and incapable of distinguishing between causal and resulting effects, such as privatization, concessions, etc.

It is difficult to pinpoint exactly where this sort of vicious circle begins, as it forms a chain of events constantly feeding on itself. However, the point of departure for addressing the problem is the poor quality of the nationwide postal services furnished by the government, either through a central government agency or through an organization separate from though still owned by the government and subject to government oversight and supervision.

Poor quality postal services discourage customers from turning to the official postal operator to meet their demand for communications services and supporting services for business and financial transactions. To avoid having to deal with poor service quality, customers may look for other alternatives available within the postal sector, turning to other service operators competing directly with the official postal operator.
Under certain circumstances, customers will look for alternatives outside the postal sector, replacing postal services with other comparable services, in some cases, gaining quality and price advantages.

The market segment most vulnerable to substitution is the message delivery segment, which is reeling from the effects of direct competition from new communications technology.

Poor quality service means a declining volume of mail traffic, particularly in terms of the volume of items processed by the official postal operator. The rate of decline will vary according to the market segment, the customer profile, the presence of other operators and the extent of the penetration of new information technology. Given the relatively widespread use of fax equipment, whose purchase price and operating costs make such equipment affordable to many individuals as well as businesses, the substitution of message delivery services lending themselves to assimilation by this communications medium could turn out to be a rather quick process, with visible short and medium-term results.

Such a drop in mail traffic would undermine the economic and financial position of the official postal operator left with a dwindling volume of income to finance its operating costs, producing increasingly large deficits. The financial management of the official operator in charge of providing universal access to postal service is much different from that of other service operators. Private operators confronted by adverse market conditions reducing incoming revenues are flexible and responsive enough to adjust their cost basis in line with corresponding calculations and decisions. With no universal postal service obligations to fulfill, private operators can choose to exit unprofitable markets, close down retail outlets and discontinue any services failing to provide targeted economic returns.

However, the public postal operator with a universal postal service mandate cannot simply discontinue service to areas in which it is operating at a loss or close down outlets which are not making money or stop providing loss-making services. Moreover, the official operator must use its income to maintain or expand its service delivery network, which is reflected in different elements of its cost structure.

The next link in the chain of effects is underinvestment in the public postal operator, which can be approached from two different perspectives. The first perspective is that of the government which, as the owner/manager, in many countries provides necessary funding for balancing the budget and ensuring the economic and financial viability of the universal postal service operator, though it has been gradually cutting back on the volume of such funding.

In such cases, the government is also the main source of financing for necessary investments for the provision of postal services.
Thus, if the books of account of the public operator show a chronic deficit, the government will be loathe to allocate additional funding to finance needed investments, since it is already funding day-to-day operations without any assurances that such spending will actually close the budget gap.

It is a well known fact that haphazard allocations of investment funds only affect cost trends, without having the necessary counterpart effect on income trends. Rather than solving the problem, ill-advised investments could widen the public operator's income-spending gap, requiring increasingly larger subsidies from governments generally attempting to deal with dwindling tax revenues and higher priority social needs.

As a result, there is little prospect of the perpetuation of this model.

The second perspective is that of financial market operators as a source of development project funding. Project financing agencies tend to examine the intended use of requested funding, either looking for guarantees and an economic return on their investment (from the private standpoint) or seeking to establish the social purpose and returns on the investment (from the public standpoint).

The postal sector fits both these bills, by virtue of the business potential and social value of postal services. However, a public postal operator in poor financial condition will have a hard time accessing financing. It will be subject to more stringent requirements and forced to furnish larger guarantees, making it that much more difficult for it to obtain needed funding to finance projects designed to improve and expand postal infrastructure.

Thus, underinvestment precludes the renovation, rehabilitation and expansion of existing infrastructure and the streamlining of operating methods and procedures, thereby fueling the deterioration in service quality.

The following diagram graphically illustrates the vicious circle which can undermine the quality of postal service.
This type of vicious circle can continue indefinitely, spiraling downward until creating a crisis in the domestic postal sector, eventually drawing the attention of government officials responsible for ensuring the delivery of universal postal service to the general public.

Crises can offer opportunities for resolving historic and/or structural problems but, at the same time, can also precipitate impulsive action, with the risk of further aggravating the problem.

Thus, it is better to anticipate crisis situations, while there is still time to take less drastic measures compared with the options available once the problem has reached crisis proportions.

Postal reform is intended to serve as a well organized policy package through which society as a whole, led by the government and with the involvement of the official postal operator, attempts to develop a new nationwide postal service delivery model designed to meet individual needs and sustain short, medium and long-term national development efforts.

1.3. MAJOR UNDERLYING PRINCIPLES AND CONCEPTS RELATING TO POSTAL SERVICE

Though an important presence in everyone’s daily life, most people are ignorant of the scope of the postal sector and the full range of services it provides.
Its most common symbols, namely the post office and the mail carrier, are opposite ends of a long, intricate process providing secure service between senders and addressees. Thus, it is important to keep in mind the true nature of this industry, whose scale alone explains the scope and complexity of the postal sector.

To this end, section 1.3.1 describes the main building blocks of the postal industry as a whole, section 1.3.2 discusses the core elements of postal service, while section 1.3.3 deals specifically with the universal postal service. Lastly, section 1.3.4 addresses the role of government in ensuring the existence of postal services, in line with the actual needs of the general population.

1.3.1. The postal industry

According to statistical data for the year 2001 released by the Universal Postal Union (UPU), the letter mail segment of the worldwide postal market accounts for 450 billion mail items a year, including 440 billion domestic mail items and 10 billion international mail items. The parcels segment of the worldwide postal market accounts for a total of approximately 5 billion items.

To ensure the smooth flow of this mail traffic, postal administrations around the world have formed an interconnected network of over 650,000 permanent post office facilities. These outlets and other administrative and operational units are staffed by some 5.5 million workers.

This infrastructure network produces approximately US$ 220 billion a year in revenues, of which 61% is generated by letter mail service, 20% by parcel service, 11% by financial services and 8% by other services.

In addition to official operators, the postal industry also includes thousands of private operators on all segments of the postal market. Though the number of private operators far exceeds that of official operators, they can take many different forms, from small family businesses operating in local areas using manual processes to high-tech international corporations with worldwide operations.

At this juncture, the boundary between the public and private sector in the postal industry is somewhat blurred, not only by the different types of business and operational ties between public and private postal operators, but by more formal relationships such as acquisitions and the formation of joint ventures.

These types of arrangements can be found in a number of developing countries, particularly under business and operating agreements.

This core group of operators is surrounded by countless product and service providers, which are also part of the postal service value chain.
This latter group includes providers of transportation services, technology, supplies and other items used by postal services in their production processes.

The sustainability of this industry is ensured primarily by the interconnection of national postal infrastructure networks, with each nation having sovereign rights over the technical and operational management of its respective network while, at the same time, joining together under the aegis of the Universal Postal Union to form a single, worldwide postal territory to ensure the smooth flow of letters, parcels or financial instruments between different points of origin and destination around the globe.

With few exceptions, universal postal service operators around the world are owned by their respective governments. In general, their operating chains are characterized by strong forward and backward linkages and they have extensive infrastructure networks by virtue of their mandate to provide universal access to postal service. As repeatedly discussed throughout the Guide, to enable them to finance the high cost of maintaining this infrastructure, these operators normally have a so-called “reserved” area (or monopoly) as economic compensation to help cover the deficits generated by their universal postal service operations in certain loss-making geographic areas, even in industrialized countries in North America, Europe and Asia.

In general, the postal industry is currently in the midst of a structural adjustment process marked by two main controversial trends, namely market liberalization and partnership-building between public and private service operators.

As discussed earlier, countries around the world are in different stages of liberalizing their postal markets. Very few countries have completely eliminated their postal monopoly. The majority have not yet made any progress in this direction. Another group of countries is gradually opening up their postal markets, though it is not completely clear whether or not their goal is full market liberalization or, if so, whether this can really be achieved.

Thus far, there have been only a few isolated attempts at privatization. Right now, there are no signs of any specific ongoing efforts in this direction. Thus, the trend is apparently to keep the official postal service under government control, though with different types of management systems.

At this juncture, the postal sector is feeling the effects of the cooling of the global economy, driving annual growth rates down below projected levels according to studies conducted prior to the year 2001. Prospects for the revitalization of the postal sector are closely tied to the worldwide economic outlook, which is one of the main determining factors in mail volume, together with the growth in the number of households.
1.3.2. Postal services

Access to communications media has not always been considered a universal right. In the early twentieth century, only a small percentage of the population was considered entitled to exercise such right and, thus, able to reap the benefits of services available during that era. In time, with ensuing changes in social structures, there was a growing consensus around the need for all segments of society to have the right to communications services, with access to communications media taking on pivotal importance as a vehicle for social integration and the exercise of civil rights.

The culmination of this historic process was the adoption of the Universal Declaration of Human Rights by the United Nations General Assembly in 1948, Article 19 of which states that:

“Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers.”

Throughout the second half of the twentieth century, more and more countries came to recognize the need to guarantee their citizens the right of communication. The basic legislation of most national governments now includes regulations specifically designed to establish, guarantee and protect this right. The right of communication is a broad-based right offering a wide range of possibilities, which have steadily expanded in line with the development of new technology. Among such possibilities, it is safe to say that postal communications are of particular importance, due to factors such as access costs, the density of the corresponding retail and delivery network and the interconnection of national postal networks to form a worldwide postal service network.

Furthermore, throughout its history, the postal service has been able to incorporate technological breakthroughs into its operating procedures and service offerings which, rather than making postal services obsolete, have given postal administrations new opportunities to improve their efficiency, expand access to their services and introduce new services. Thus, postal services can be viewed as a massive infrastructure network for the effective exercise of the right of communication, not only by virtue of the very nature of postal service, but also as a gateway to new innovations in communications media for those segments of the population without access to more sophisticated services such as fax and Internet service, for example.
Postal services are not a monolithic block. On the contrary, they are broken down into different areas with rather different customer, market, product and service profiles. Their common denominator is their shared infrastructure forming an extensive nationwide network highly interconnected with a vast worldwide network. The following outline of some of the major lines of services included in the broad spectrum of available postal services is a good illustration of this concept.

❖ **Traditional mail service:** This refers to regular delivery services for items such as letters and printed matter. Since the content of such items lends itself to digital communications media, these services are already feeling the effects of technological competition from existing media (such as telephone, fax, e-mail, EDI, etc.) and, in the future, will likely be facing competition from other mass media such as interactive television for example.

❖ **Parcel service:** This is a delivery service for items for which there is no technology capable of replacing conventional transportation service. With the growth in international trade in general and e-commerce in particular, this market segment is expanding and attracting investment by large-scale private operators around the globe and so-called courier services, as well as by airlines and road carriers.

❖ **Express mail service:** This is a high value-added end-to-end rapid delivery service for letter mail and other objects in which mailed items are tracked from their point of origin to their final delivery point.

❖ **Logistics services:** These are integrated solutions for large customers who need to ship items by mail, involving a value-added chain ranging from the transporting of items between subsidiaries of the same customer or between a customer and its market to storage and automatic provisioning (“store and forward”) services.

❖ **Hybrid mail service:** These are processes combining physical mail delivery and electronic messaging technology. The basic process consists of the computer generation of letter mail, its transmission over data exchange networks to postal operators and the conversion of the electronic data into physical mail items through remote printing. This process is convenient and offers a good cost-benefit ratio for customers and operators alike.

❖ **Retail services:** Until recently, this was considered a mere stage of the postal production process. Now, it is a major segment of the postal market. Traditionally viewed solely as a service network for attracting items to feed the mail stream, nowadays, post offices are run like a store chain, offering services not directly related to the carriage of mail per se. This service line includes the sale of retail services to government agencies and private organizations without in-house customer service and public relations structures.
Financial services: This includes a broad spectrum of financial services drawing on the extensive postal infrastructure network, the most sophisticated of which are so-called postal banking services in which postal services play an important role as low-cost banking service providers. Such services include not only simple deposit-taking and savings and cheque account management services but also credit facilities for individual borrowers and, in some cases, bill payment services for utility (water, gas, electric and telephone) companies, funds transfers, pension and annuity payment services, etc.

1.3.3. Government obligations

One of the main responsibilities of government is to enforce the laws governing a particular society. Accordingly, most countries have statutes establishing, guaranteeing and protecting the right of communication, which is considered a basic civil right. Thus, most governments recognize the existence of regular, continuing postal service as part of their regulatory framework. However, in many developing countries, despite their existence, large segments of the population still have no access to any such service or, in other words, no access to a post office or to home delivery service. Another large segment of the population is still forced to travel long distances from their home to the nearest post office.

This phenomenon, as it relates to the exercise of basic civil rights, reopens an issue which, for many, had seemingly been resolved, namely, that of the role of government in redefining the ground rules for the postal sector.

In brief, the rationale for revisiting the role of government in the postal sector is that the changing postal environment is becoming increasingly complex, engendering new situations completely different from anything the postal sector has experienced at any other point in its history, as summed up in the following table.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Past</th>
<th>Present</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monopoly</td>
<td>Full</td>
<td>Increasingly limited</td>
</tr>
<tr>
<td>Operators</td>
<td>Single</td>
<td>Multiple</td>
</tr>
<tr>
<td>Competition</td>
<td>Non-existent</td>
<td>Growing</td>
</tr>
<tr>
<td>Customers</td>
<td>Passive</td>
<td>Exigent</td>
</tr>
<tr>
<td>Innovation</td>
<td>Slow</td>
<td>Fast-moving</td>
</tr>
<tr>
<td>Management</td>
<td>Empirical</td>
<td>Professional</td>
</tr>
<tr>
<td>Technology</td>
<td>Secondary</td>
<td>Pivotal</td>
</tr>
<tr>
<td>Challenges</td>
<td>Operational</td>
<td>Strategic</td>
</tr>
</tbody>
</table>
Thus, this new view of postal issues requires the establishment of a regulatory framework reconciling the public service, social and business facets of postal services. Despite radical changes in the postal environment, the regulatory frameworks for many of the world’s postal administrations are relics of the past, complete anachronisms and out of touch with today’s new realities.

The first and foremost result of the gap between the de jure and de facto situation in the postal sector is the constant emergence of new operators haphazardly conducting business, without even the most basic regulations to, at a minimum, establish the rights and obligations of government, the general public, customers, the official postal operator and private operators.

This phenomenon has undermined the economic and financial stability of the official postal operator (the universal service provider), with private operators targeting the most lucrative markets, or the very markets on which the official operator generates the revenues needed to offset the cost of servicing those parts of the country in which it has an obligation to ensure universal access to postal service despite problems with structural deficits.

The second result of this phenomenon affects postal customers—consumers, who are starting to get poor service due to the debilitated state of the official postal operator.

The last link in the chain of effects is the government itself, which is forced to deal with a series of problems such as unsatisfied customers, constant requests for subsidies from the universal service operator and disputes between the public postal operator and private service operators.

Thus, eventually, the failure of government to play its role in establishing and enforcing basic regulations has a boomerang effect, triggering a series of problems building up indefinitely, until the government itself takes control of the situation and implements necessary corrective measures.

Module V of the Guide deals specifically with the issue of regulation and provides guidance for the establishment of ground rules and criteria designed to facilitate the government’s task of regulating the postal sector.

1.3.4. Universal postal services

As discussed in Module II of the Guide, the universal postal service is one of the main bastions of society, guaranteeing the right of communication and, as such, is considered a government obligation.
Though the principle of universal postal service has been around since time immemorial, as part of the rationale for the very existence of the postal system, it was not until the last decade of the twentieth century that circumstances engendered mainly by globalization and sweeping changes in the postal environment, as discussed earlier specifically with regard to Europe, made governments begin to appreciate the need to clearly define the terms, conditions and features of the universal postal service.

The 1999 UPU Congress in Beijing decided, not only to specifically incorporate the concept of the universal postal service into the Union Acts, but also to single out the universal postal service as the first and foremost objective of its global strategy.

The Beijing Congress recognized the need to set clear conditions and standards for the provision of the universal postal service, calling on governments, postal administrations, restricted unions and other stakeholders in the postal sector to make a special effort to establish a frame of reference for ensuring the delivery of the universal postal service to all segments of the population. Discussions with respect to universal postal service obligations have been heated and are still ongoing, as part of the historical clash between policies championing the social responsibilities of government and positions advocating economic openness.

The Bucharest World Postal Strategy (BWPS), adopted by the most recent Congress of the Universal Postal Union, confirms the vital importance of the universal postal service and, among other things, hopes that as a result of the new world strategy more countries define the universal postal service in their legislation, applying criteria and rules concerning access, content and quality of the universal postal service, thereby reducing the level of postal exclusion.

What is interesting about the current international debate in this respect is that, at no time, have governments ever questioned their duty to provide the universal postal service since, as explained in Module II, countries signing the UPU Acts undertake to provide a basic package of core services as defined in Article 12 of the Universal Postal Convention. As a result, such discussions revolve mainly around the services to be reserved for the universal postal service operator to cover the cost of guaranteeing this inalienable civil right.

Thus, one of the main tasks of government is to define all major aspects of provision of the universal postal service regarding its accessibility, geographic and demographic coverage, quality and price.
1.3.5. **Universal access to postal service and competition**

At the beginning of the discussion process at the country level with respect to the need to regulate or set conditions for the provision of universal postal service, unfortunately, many nations find themselves wasting a great deal of time debating the issue of universal access versus competition, with certain groups viewing any initiatives designed to promote universal access as an attempt to undercut the free market system. As a result, in many cases, ongoing reform efforts which have already consumed a great deal of time and resources are halted in the face of the pressure brought to bear by these groups, causing such initiatives to end in failure.

Accordingly, it is vital for any discussion of the issue of expanding universal access to postal service to be approached from the standpoint of the need for government to fulfill its incontrovertible obligations, which need not preclude competition since, in practice, the two concepts are not mutually exclusive but, on the contrary, can coexist as part of the same model.

The manner in which this issue is broached is largely determined by geographic, economic and social conditions at the country level, as illustrated below based on three hypothetical scenarios.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Geography</td>
<td>Unfavourable</td>
<td>Mixed</td>
<td>Favourable</td>
</tr>
<tr>
<td>Population</td>
<td>Heterogeneous</td>
<td>Intermediate</td>
<td>Homogeneous</td>
</tr>
<tr>
<td>Per capita income</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Concentration of income</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Political climate</td>
<td>Unstable</td>
<td>Intermediate</td>
<td>Stable</td>
</tr>
<tr>
<td>Legal model</td>
<td>Unstable</td>
<td>Intermediate</td>
<td>Stable</td>
</tr>
<tr>
<td>School enrolment ratio</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Social needs</td>
<td>Primary</td>
<td>Secondary</td>
<td>Tertiary</td>
</tr>
<tr>
<td>Emphasis</td>
<td>Universal access</td>
<td>Balance</td>
<td>Competition</td>
</tr>
</tbody>
</table>

This figure is designed to illustrate how the determining factors in the universal access-competition equation lie outside the postal sector and how balancing this equation requires:

**a) Specificity:** The right mix is one which is specific to a particular country or region, in line with similarities in such factors.

**b) Versatility:** This allows for the rebalancing of the universal access-competition equation in line with progress in national economic and social development efforts.
c) **Objectivity**: Quantitative analytical data for use as the basis for decision making at policy levels of government.

The scenarios outlined in the preceding table are only three examples of a wide range of possible hypothetical situations and are presented solely as a frame of reference for discussion purposes. It will be up to the government of each country to lead the postal community and the public-at-large in a broad-based discussion in search of the proper balance between universal access and competition within the postal sector in line with nationwide conditions, enabling the postal sector to achieve both its social and business objectives.

This issue is explored at greater length in Module II, which takes an in-depth look at the foundation for mapping out a postal reform process without losing sight of the basic need to provide the universal postal service.

### 1.4. ROLE OF THE POSTAL SECTOR IN THE NATIONAL DEVELOPMENT PROCESS

One of the recurring themes in discussions with respect to postal reform and development is the low priority accorded the postal sector in the wake of the enormous economic and social challenges facing governments in certain parts of the world. Underlying this issue is the notion that focusing on and investing in the postal sector will preclude progress in other important sectors such as health, education, security, housing and transportation.

The following discussion attempts to show that, rather than competing for attention and priority, the postal sector has a large untapped potential which could spur progress in other sectors of the economy.

Section 1.4.1 portrays the postal sector as an integral part of a nation’s infrastructure, whose expansion and modernization are pivotal to country development efforts.

Section 1.4.2 discusses its potential to help further the national development process, not only through its own intrinsic gains but, first and foremost, by virtue of its potential to help spur progress in other economic and social development sectors.

#### 1.4.1. Communications infrastructure and postal communications

Social relationships have grown increasingly complex in the wake of social development and of breakthroughs in applied technology in which time and space are no longer barriers to the interaction of different social agents in the broadest sense of the term.
Nowadays, communications media have penetrated all domestic cultural, political, social and economic relations, as basic infrastructure for today’s modern social organizations.

The World Wide Web is a good example, as the basis for a host of business and other activities. It is safe to say that, without modern communications technology, such businesses could not exist.

Businesses, the main generators of mail traffic, are constantly finding new ways to meet their communications needs, as illustrated in the following table from the “Post 2005” study.

**Business access to communications media (%)**

<table>
<thead>
<tr>
<th>Medium</th>
<th>1995</th>
<th>2005</th>
<th>Growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MIC</td>
<td>W</td>
<td>MIC W</td>
</tr>
<tr>
<td>Physical mail</td>
<td>98.0</td>
<td>96.7</td>
<td>98.2 98.0</td>
</tr>
<tr>
<td>Fax</td>
<td>61.3</td>
<td>63.8</td>
<td>81.1 81.4</td>
</tr>
<tr>
<td>Telephone</td>
<td>90.9</td>
<td>89.4</td>
<td>96.3 94.0</td>
</tr>
<tr>
<td>E-mail</td>
<td>17.3</td>
<td>19.4</td>
<td>50.8 49.1</td>
</tr>
<tr>
<td>Hybrid mail</td>
<td>11.9</td>
<td>23.4</td>
<td>42.8 49.8</td>
</tr>
</tbody>
</table>

*MIC: Middle income countries (US$ 696 to US$ 8,625, 41 countries)*

*W: World (94 countries)*

The findings by the UPU study entitled “The Postal Industry at October 2002 – Environmental Update” are noteworthy.
"Lack of growth in the letters market in recent years could be due to substitution, to the difficult business environment, or both. Substitution cannot be estimated with any accuracy, and this is due partly to the fact that when users move from the physical letter to an alternative form of communication, the substitution is seldom 1:1. Hence the growth in the volume of the substitute is not per se a clear measure of the impact of substitution.

Also the strength and immediacy of substitution are sometimes overestimated. Substitution depends not only on the availability of alternative technology, but importantly on the readiness of people to adopt the alternative. And here, inertia plays an important role as change often occurs more slowly than supposed. It was recently reported «in spite of all the conveniences banks provide account holders over the Internet, only 25% of U.S. households are clicking online with their checking accounts».

Other factors also can encourage or inhibit substitution. There are signs now that the posts themselves are starting to encourage a switch from physical letters to electronics as part of their strategy to remain viable in a technologically changing environment. For example, the electronic post boxes services offered by Posten Sweden (i.e. Postboxen) and by Post Danmark (E-box) can be interpreted as both anticipating customers requirements and actively stimulating change."

In other words, at least in the immediate future, virtual reality is not expected to completely replace physical reality, making the postal sector obsolete and, eventually, extinct. In fact, even with the expansion in computer technology, a number of postal operators have shown that, when used to their advantage, such technology is no longer a threat to postal service but, on the contrary, offers a great opportunity, not only to boost their efficiency, but also to launch new services to meet the growing needs of postal service customers. Thus, the growth of technology infrastructure is spurring the development of service infrastructure and the growth of the postal sector.

This is changing the mix of installed infrastructure in the postal sector, as illustrated in the following figure:
In short, the development of new information technology has helped reconfigure production infrastructure in the postal sector, which has taken advantage of the new opportunities afforded by such technology to:

♦ boost productivity;
♦ launch new services;
♦ improve existing services;
♦ establish real-time management models;
♦ improve working conditions for postal employees;
♦ refine management procedures;
♦ improve customer relations;
♦ lower operating costs.

1.4.2. Contribution to economic and social development

As previously discussed, modern economic and social dynamics require proper infrastructure to bolster country development efforts. Thus, inadequate communications infrastructure can prevent a country from moving ahead in its development process. Clearly, development of the communications sector alone is incapable, in itself, of furthering nationwide integrated development efforts, which also requires progress in other equally important sectors such as education, health, transportation, housing, urban infrastructure etc. But it is also clear that a stagnant or malfunctioning communications sector can make it very hard to move forward in other areas.

Since the postal sector is part of the larger communications industry, this same line of reasoning also applies to the postal sector, with its extensive, countrywide infrastructure network used as the basis for providing different types of public services.
Anyone unfamiliar with postal processes could easily underestimate the nationwide importance of postal services, which is only logical since, in many cases, the public does not realize that, behind a mail box or post office, is a whole series of units (retail outlets, operations centres, vehicles, etc.) interconnected in an intricate network and interfacing based on specific operating principles, as required for service delivery purposes.

In short, today's postal service has a more active role than in the past. Moreover, postal services around the world have developed countless value-added products and services and have become important engines of national development, as facilitators of different public and private development initiatives. The following brief case studies illustrate the development potential of postal service.

a) In one particular country, one of the goals of government policymakers was to boost national savings. However, most of the population had no access to banking services. In the wake of a policy decision helping to lay the necessary regulatory groundwork for this purpose, the official postal operator introduced a new line of low-cost banking services accessible to those segments of the population bypassed by the regular banking system, thereby furthering national government goals and strengthening its internal operations through the development of new financial products.

b) The combination of poor health conditions and an uninformed public in a specific area of another country was creating high child mortality rates. The local population had very little income, requiring that it spend all its free time on income-producing activities, making formal education projects unfeasible. Partnering with the official postal operator, the government was able to use local mail carriers to conduct an information and education campaign targeted specifically at the population of that area, which visibly reduced the severity of the aforesaid problems.

c) In most cases, export procedures in developing countries are extremely complex and costly, making them inaccessible to many small and medium-sized businesses. The result is a high concentration of exports in a small number of specific products and manufacturers, making such countries more vulnerable to international economic risks. The government of one such country decided to diversify its exports by introducing a system of export incentives for small and medium-sized businesses.

To accomplish this, it simplified export procedures for small and medium-sized businesses, which were conducted by the official postal operator, which was not only put in charge of shipping merchandise, but of all customs formalities. As a result, local craftsmen and small businesses in remote areas without prior access to the international market were soon exporting their products.
d) In yet another country, public school students were repeatedly forced to wait for their government-furnished textbooks, whose delivery was generally delayed until well after the beginning of the school year. To solve this problem, the official postal operator took over all necessary logistics services to ensure the on-time delivery of textbooks, whereupon all public school students began receiving their books before the beginning of the school year.

e) Internet service coverage in developing countries is still extremely limited due to a combination of circumstances, such as low-density telephone networks, the high cost of telephone service, the limited number of service providers, the high price of computers and low income levels. To overcome these serious structural constraints, the government of one particular country approved a project designed by its official postal operator calling for the installation of public Internet booths in post office facilities, giving the public free access to both e-mail and Internet service.

Obviously, these are only a few examples of successful or ongoing programs and explore only a handful of the potential solutions offered by the postal sector for the implementation of government programmes and private initiatives.

Thus, postal reform efforts designed to spur growth and development within the postal sector are not only a solution to sector-wide problems, but investments in a country’s economic and social development.

Module IV of the Guide discusses the main conditions for turning the universal postal service operator into an efficient service provider and preparing it to follow a comprehensive development strategy to enable it to survive the increasingly powerful shocks associated with today’s new global postal environment.
CHAPTER 2: POSTAL SECTOR REFORM

2.1. CHARACTERISTICS OF POSTAL REFORM

In many countries, the issue of public sector reform is far from new. On the contrary, in recent years, many governments have been making enormous efforts and important strides in economic and social areas. Examples include the power, sanitation, transportation and telecommunications sectors, which have been subject to different types of reforms in a number of countries, the magnitude and depth of which varies according to the specific sector and country in question. As far as the postal sector is concerned, in many cases, the unique features of this sector rule out mere replications of even the most successful solutions implemented in other countries.

Section 2.1.1 looks at the broad spectrum of stakeholders involved in this sector, while section 2.1.2 discusses the resulting need to clearly define postal reform objectives as a frame of reference for the general population. Section 2.1.3 talks about essential political conditions for undertaking postal reforms, while section 2.1.4 examines equally essential technical conditions for implementing a reform process. The discussion concludes with a look in section 2.1.5 at the specific issues which need to be addressed in postal reform processes in developing countries.

2.1.1. Stakeholders in postal reform processes

With their traditionally public nature, postal services penetrate all social strata and segments of society which, like it or not, are impacted by postal reform efforts. Accordingly, one of the basic conditions for the success of a reform program in the postal sector is the broadest possible involvement of all affected stakeholders. In this case, the concept of involvement is not simply an abstract notion, but refers to a systematic, organized approach to the promotion of active participation by all corresponding stakeholders, according to their respective responsibilities with regard to the postal sector.

- Central government

The most important stakeholder is the central government, which has the ultimate responsibility for ensuring that the country has a well organized postal service geared to nationwide needs.
In line with its organizational responsibilities in the postal sector, it is only natural and logical for the government to play a leadership role in the postal reform process, being as the public service orientation of the postal sector in general and of universal postal service in particular requires that a task as important as postal reform be handled by the same party responsible for dealing with and reconciling all the complicated issues at stake within the postal sector.

However, government is actually a collection of different stakeholders directly in charge of the postal sector. The executive and the legislative include numerous examples of government stakeholders.

In the executive, the goal is to engage the chief executive or head of state, who generally has the authority to put forward top priority initiatives in furtherance of national development goals. In addition to the head of state, there are a number of other important areas of the executive which should be playing an active role in postal reform efforts, beginning with the supervisory ministry for the postal sector.

- The supervisory ministry and other cabinet ministries

Some countries have a specific cabinet ministry in charge of postal, telecommunications and radio broadcasting services. In other countries, supervision of these areas is part of a ministry’s general responsibilities with respect to infrastructure or other public services such as public works, transportation and energy. Regardless of the type of supervision for the postal sector, it is important that the supervisory ministry (or ministerial-level department) be an essential part of any postal reform effort, without whose “buy-in,” any development initiative in this sector would virtually be condemned to failure.

In addition to the supervisory ministry per se, there are a number of other ministries at this same level with an extremely strong influence in shaping the fate of the postal sector, beginning with the ministry of planning which, in many cases, is in charge of framing major national development plans in addition to drawing up and monitoring implementation of the national budget.

Another such ministry is the ministry of finance in charge of administering public funds. Some postal administrations have the authority to manage their own income and spending while, in other cases, the responsibility for their financial management is vested in the ministry of finance.

There are also specific groups within the executive devoted to the modernization of government. In some countries, such groups operate at the ministerial level or at a level extremely close to major national decision-making centres.
The importance of government goes beyond the immediate need to raise funding to finance reform efforts. Sensitizing and engaging all areas of government is an important step forward in shaping an internal vision within the executive in which the postal sector is regarded as an integral part of the nation’s infrastructure and, as such, as warranting inclusion in national development programs.

A good understanding of the postal sector on the part of government is extremely important, not only for postal reform per se, but also in day-to-day postal affairs, in attempting to meet sector-wide economic and financial challenges relating to:

- the shaping of government and sectoral policy;
- annual and multi-year budgets;
- price and rate negotiations;
- the approval of projects;
- the establishment of sector financing instruments.

Thus, government involvement in postal reform efforts is essential. An understanding of problem areas within the postal sector and of recommendations for its development would significantly improve internal dialogue within the executive branch of government and the synchronization of sector work and government programmes.

- The universal postal service operator

Logically, the leading role in postal reform efforts goes to the national postal service operator, which is generally attached directly to the executive, either as an agency operating under the direct supervision of a cabinet ministry or as a government enterprise or other type of legal entity. For purposes of clarity, regardless of its actual legal status, this postal operator is referred to throughout the Guide as the so-called “official operator”, with the term “official” referring to its government mandate to provide universal postal service.

With its universal postal service mandate, the official postal operator cannot be treated the same as other private service operators on the postal market. On the contrary, its unique features require a different approach from that of other service operators. It is not a question of giving it preferential treatment but, rather, of recognizing that its situation is somewhat more complicated than that of the private operators on the postal market without any universal postal service obligations.
The postal workforce

The involvement of postal workers who, in most countries, are organized into unions or trade associations is a must in any reform process. In some postal administrations, labour is a driving force for change while, in others, it will try and block any sector reform movement, largely out of a fear that such reforms could mean a loss of jobs or other drawbacks for postal workers.

At any rate, labour can be either a major catalyst or opponent of postal reform, both within and outside postal enterprises. This is why, from all points of view (ethics, transparency, communications, partnership-building, etc.), the postal workforce needs to be engaged and involved in the postal reform process.

The legislature

Sector reform and modernization efforts are underpinned by the organizational structure of the postal sector and the provisions of legislation passed by the national Congress specifically spelling out the postal service obligations of government and laying down ground rules for service operation on the postal market, without affecting universal service obligations. Thus, the engagement and involvement of the legislative branch of government is vital to the success of postal reform efforts. A good proposal is meaningless if it is not fully understood and backed by those in charge of the drafting and passage of legislation, which is not only a means of legalizing such proposals, but an important symbol of reform efforts. Many countries have a bicameral legislature (a Senate and an Assembly) with special congressional committees in charge of conducting technical studies of the texts of proposed legislation before submitting them to a plenary session of the legislature, such as a Communications Committee, in which case the engagement of such a committee is also important, given its potential ability to shape the opinion of the entire legislature.

Special interest groups

While the legislature is the main institution representing the public interest, the intricacy of modern society has given rise to a variety of different groups and interests, which are also represented by organizations working on behalf of specific status groups, classes, other groups, minorities, etc.
Thus, the public is also represented by organizations endeavouring to protect the special interests of different groups, which must be heard and whose concerns must be aired. In other words, there is a broad spectrum of special interest groups representing postal customers, consumers, business, industry and private operators. This type of social representation is playing an increasingly important role in the democracy-building process, making it necessary to also engage such groups in postal reform efforts.

However, the unshakable apathy of all stakeholders towards postal reform efforts in the face of attempts to engage them in this process should come as no surprise. This sort of apathy is basically a reflection of one of two attitudes, namely candid indifference or resistance. This raises the question of how to spark an interest in reform. One way is to demonstrate the advantages of reforming the postal sector for each group of stakeholders.

Postal reform is technically and politically feasible only if all interested stakeholders (government, postal operators, postal workers, consumers, etc.) appear to have something to gain from the reform process. As used in this context, the term “gain” has a much broader connotation than a mere financial gain. For example, better quality service can mean an important gain for postal customers. However, in most instances, not all stakeholders actually have something to gain, in which case it is important to thoroughly and carefully study the positions of all parties concerned, endeavouring to pin down both their common and opposing interests and goals. Even without a general consensus, an effective statement of the main objectives of the reform process still has the advantage and lure of mobilizing all interested stakeholders around such objectives.

2.1.2. Main objectives of postal reform

Defining the objectives of a reform process is one of the most important and crucial factors in ensuring a successful outcome and, as such, should take precedence over all other activities.

It is quite common, in time, for ongoing activities under reform programmes mounted without a clearly established frame of reference to get off track with respect to the original goals of the reform effort. It is also common for such efforts to get bogged down in lengthy discussions in which the end goals of the reform program are relegated to secondary importance, with most of the time spent talking about the means to the end.
Thus, the first step, before developing any new models, should be a broadbased discussion in search of answers to core questions such as the following.

| a) Why undertake a postal reform programme? |
| b) What existing problems need to be addressed? |
| c) What potential problems run the risk of destabilizing the postal sector? |

Clearly, this is far from an exhaustive list of questions with regard to postal reform issues, but it gives us some idea of the major misgivings which need to be addressed from the outset, before effectively beginning to develop and implement new models. Though they may appear simple on the surface, even these three questions have no quick or easy answers, given the mix of different stakeholders involved in a postal reform process.

The optimal model is one in which each stakeholder is able to express its point of view with respect to such questions, giving those heading up the reform effort a look at all sides of the issue.

While it is true that such open-ended questions tend to give rise to all sorts of different answers, given conditions in the postal sectors of different countries and the fact that we are not dealing with isolated situations but with different parts of a single interactive network, hopefully, they will produce a set of core issues as focal points for a postal reform effort. Different countries may be at different stages of progress in dealing with such issues, depending on their level of development, but, as a whole, they are a good foundation for a postal reform process and a good basis for setting objectives and establishing guidelines for sector restructuring efforts.

**Demarcation:**
What is the postal sector and what are its interfaces with other national infrastructure sectors?

**Commitment:**
A clear commitment to modernize and develop the postal sector. There are cases of postal reform efforts whose objectives are not focused on the postal sector per se, but on goals and targets outside the postal sector, which poses a serious risk of harm and setbacks for postal services.
Adaptation:
Help the postal sector adapt to changing social, political and economic realities to enable it to offer products and services which the public considers as valid options for meeting its needs and, thus, as practical engines of nationwide social and economic change.

Development:
Provide the postal sector (primarily the universal postal service operator) with new resources for the assimilation of new breakthroughs in technology to improve the efficiency of the postal operator and the quality of services rendered and expand postal product and service offerings.

Expansion of universal access:
While, comparatively speaking, postal services are much more accessible than other national infrastructure sectors, efforts to meet the challenge of providing universal access to postal service are still underway. In fact, with the help of new technology, the public has made important strides in gaining access to other communications resources which, in some areas, are already more widely available than postal services.

Organization:
In addition to expanding universal access, it is also important to consider the economic dimension of the postal sector, in which there is enough of an economic interest to attract and sustain large numbers of private service operators. To ensure harmonious relations between all corresponding stakeholders under the best possible conditions, it is vital to develop an economic model for the postal sector giving each corresponding stakeholder a clear notion of its operational possibilities and limitations.

Financing:
By definition, universal services are not generally profit-making activities and must have a clearly defined source of financing. This issue is becoming increasingly important in the face of efforts to expand universal service coverage to more and more areas in which service delivery costs outstrip operating revenues.
Planning:
Postal reform efforts are difficult to undertake and complete within the framework of a short-term programme, given the complex and comprehensive nature of reform processes, requiring a long-range vision, with intermediate stages and interim goals and objectives for monitoring the progress of work and, depending on the extent of the consensus reached by corresponding stakeholders, possibly a phased approach, in line with reform prospects at a particular point in time.

Universal service operator:
Rehabilitation, strengthening and modernization of the universal service operator, whose universal postal service obligations set it apart from other service operators.

Thus, a government mounting a postal reform programme could state the main objectives of such an initiative in the following terms:

1. **Ensure universal access to postal service**: recognize the widespread coverage of postal services, which must be sustained and, more importantly, expanded, by broadening access and extending service into areas where it is currently unavailable;

2. **Find the right balance between universal coverage and competition**: promote universal access to postal service while at the same time helping the public reap the benefits of an environment in which postal operators competing for a larger market share offer increasingly high quality services at progressively lower prices;

3. **Promote new service development**: breakthroughs in technology and the rapid growth of other sectors of the economy are going to require new types of supporting postal services for other economic activities, providing new solutions better geared to changing customer profiles;

4. **Strengthen the role of the postal sector as an instrument of economic and social development**: recognize the postal sector as an important part of the nation’s infrastructure and its physical network as a means of expediting business activities around the country, particularly in national development hubs. It also represents an important vehicle of social integration and citizenship training, primarily by providing access to information activities and educational and cultural initiatives;
5. **Ensure self-sustaining universal postal service:** this establishes the need for reform efforts to preserve the system’s self-financing capacity, which rules out the implementation of any models undermining the financial stability of the universal postal service provider or requiring the use of tax revenues to sustain essential nationwide services;

6. **Strengthen the role of the postal sector as an interactive channel of communication between government and society:** recognize the postal sector and, more specifically, the universal service operator’s extensive retail and delivery network as an important vehicle for expanding the government’s sphere of operation, particularly in areas not served by other government agencies, programmes and initiatives;

7. **Restructure the public postal operator:** recognize the need for deep-seated structural changes in the public postal operator to vest it with the basic qualities needed to improve its performance on the postal market in the wake of the reform effort;

8. **Prepare the postal sector for international integration:** study the ongoing deep-seated structural changes taking place within the international postal community and make a commitment to prepare the country to consciously and actively make a place for itself in a new global postal environment;

9. **Strengthen the regulatory role of government:** openly shoulder governmental responsibilities to govern the postal sector, first by establishing a regulatory framework and subsequently by discharging its natural regulatory functions;

10. **Promote job creation:** understand the importance of employment to the public-at-large and recognize that laying the groundwork for development of the postal sector also means taking specific measures to help create new jobs.

### 2.1.3. Political conditions for postal reform

Before setting in motion any postal reform process, it is important to confirm the existence of certain necessary pre-requisites for the success of such an undertaking.

As discussed earlier, the first and foremost requirement is a clear political will to undertake a postal reform effort on the part of government and other interested stakeholders. Without such a will, it would be impossible to implement a program of such magnitude impacting on all such parties. A political consensus around the need for change is often grounded in the existence of common problems or in a general
dissatisfaction with the current situation, prompting a sector-wide restructuring effort. However, it is important to distinguish between a consensus around the need for change and a consensus around a proposal for change.

The former is a general perception of the need to do something to change the status quo. The latter specifically addresses what needs to be done. Obviously, the latter consensus is more difficult to achieve, but nor is it always that simple or easy to forge the first type of consensus. Such a consensus is often achieved in times of crisis, in the face of a state of emergency. However, under other circumstances, it may be necessary to work hard to build a consensus around the need for change, since certain stakeholders may have a special interest in preserving the status quo.

The role of government is to introduce the issue of the need for postal reform into the national discussion process. In cases where there is little interest in or even resistance to undertaking a reform effort from other stakeholders, a steadfast policy decision on the part of government could attract and motivate certain parties who, otherwise, would prefer not to get involved in such discussions and, in some cases, even those opposed to a postal reform programme.

Where truly committed to a reform effort, the government and, more specifically, the executive will express its specific intentions in a variety of different forms, including but not limited to:

a) **National plans**: including postal issues in national development plans and policies, showing that the postal sector is considered important to the nation’s progress and that its development helps foster the nationwide development process;

b) **Funding**: allocating funding for sector reform work (studies, research, seminars, agreements, technical services, etc.);

c) **Technical resources**: forming a group of high-level experts to perform technical studies, analyses and planning and design work for postal reform programmes and entering into agreements with domestic and international agencies and organizations in a position to provide technical cooperation services for corresponding reform programmes.

d) **Legal backing**: issuing executive orders, decrees etc. providing a basic framework for legal reform efforts.

It is a well known fact that most governments give top priority to compelling social issues and, as a result, tend to put off addressing postal issues.
Thus, it is vital to convince government officials that the postal sector has great potential as a support system for government efforts to tackle social problems. There are countless examples of countries around the globe in which the postal service is a major link in the government assistance and social service chain.

Many governments are already aware of this. Others are not. In such case, the legislature can be an important government consciousness-raising agent helping to convince the executive to put the postal sector higher on its list of priorities. Accordingly, the legislature could be a real ally in a postal reform effort. Its political and social sensitivity, shaped by the public interest, makes it a good forum for establishing and assessing the responsiveness and commitment of government to development efforts in the postal sector.

The universal service operator is another stakeholder whose political will is essential in any reform process. In most cases, it is the main driving force behind the reform effort, as the party most directly affected by the changes taking place in the postal sector, including growing competition, a more exigent clientele, the new challenges raised by modern technology, and the increasing globalization of postal service operations. It is often the universal service operator which will ask the executive and the legislature to make structural changes in the postal sector, whose understanding of conditions in the countrywide and worldwide postal industry gives it the necessary standing to attempt to sensitize national government officials to the need for a sector-wide restructuring effort.

The universal service operator also takes part in forums, meetings and colloquiums sponsored by international postal organizations, and is familiar with the different postal reform issues being discussed at length and in depth by the international postal community.

Accordingly, the direct involvement of the universal service operator in reform efforts is a must. On the contrary, without its involvement, resulting proposals could be completely out of touch with conditions in the domestic postal sector. The mere adaptation of models imported from other countries or sectors of activity has proven unsuccessful as a strategy for postal reform. In fact, a number of failed experiences have highlighted the inadequacy of this type of approach, requiring follow-up action, not only to effectively address the original issue, but to correct new distortions.

2.1.4. Technical conditions for postal reform

Once the necessary political conditions are in place, the focus should turn to laying the proper technical groundwork to try and ensure the highest possible level of analytical study and professionalism in the technical aspects of sector reform work.
The first step should be the establishment of a macro-schedule to map out the main phases of work over the envisaged timeframe. It is rather difficult to establish a detailed work schedule from the very outset, with all relevant information for the specification of each and every task. However, it is possible to establish a basic timetable showing the main phases of work to be completed over the envisaged time period, along with a rough draft of a critical path analysis.

In addition to the actual technical phases of work, the work schedule should also include supporting activities, which are generally responsible for most major departures from original plans. Examples of such activities include the mobilization of financial and technical resources, the formalization of agreements and the contracting out of specialized services. The conduct of forums and seminars normally requires a reasonable amount of lead time to ensure their success. Their organization could mean several months of preparatory work, particularly if scheduled to be attended by delegates from other countries.

Naturally, like any planning effort, an action plan must be dynamic enough to synchronize all corresponding efforts over the envisaged implementation period, setting interim goals and objectives leading to the targeted final outcome.

Once the work schedule is in place, the next step is the study of certain crucial information for the framing of a technically coherent proposal geared to prevailing conditions at the country level. Such a study should begin with an objective assessment of the specific situation of nationwide postal services. Obviously, the services factor can be evaluated from many different angles and approaches. However, the best approach for purposes of a structural reform process is one which offers a bird’s eye view of the market as a whole, showing all its component parts and describing their different functions and dimensions; in short, providing information on:

♦ the types of services rendered;
♦ service delivery conditions;
♦ service coverage from a geographic and demographic standpoint;
♦ the extent of universal access to postal service;
♦ market characteristics;
♦ the official postal operator.

Without this baseline data, it is impossible to develop an approach which can effectively meet postal reform objectives. The closer the baseline data is to reality, the greater the likelihood of coming up with a proposal geared to development needs in the postal sector. Section 3.1.4 in chapter 3 of this module contains examples of pertinent questions for assessing the status of postal services within a given postal administration as the basis for a better insight into market issues.
The second type of study, after assessing the status of postal services and the postal market, is an in-depth analysis of the domestic legal environment surrounding the postal sector to establish the legal possibilities and constraints which need to be addressed in developing a new model for the postal sector. However, this does not mean to say that the current legal environment is nothing more than a starting point for sector reform work whose direction needs to be charted based on an existing scenario.

The analysis of the legal environment goes much farther than that, assessing the need for changes in existing legal instruments for the effective implementation of postal reforms. Here, it is important that appraisals of different options be guided by common sense since, while amendments of legislation governing the postal sector may be considered plausible, proposed changes in legal texts whose reach extends beyond the postal sector per se are somewhat more complicated.

This is a technical problem, in that any proposed changes are highly likely to affect other sectors of the country’s economy to an extent far beyond the objective of the postal reform effort. It is also a political problem, in that the involvement of stakeholders outside the postal sector will make it much more difficult to get corresponding proposals past the appropriate decision-making authorities.

There may be cases in which such an analysis exposes the need for amendments of major statutory provisions such as national constitutional provisions as the basis for instituting postal reforms. While the success of such an undertaking is not completely out of the question, we need to be aware that the hurdles to be overcome in such case are much greater, requiring a strong political will and the allocation of highly qualified technical resources.

The third type of required information is a bird’s eye view of the global postal environment, or of prevailing conditions and ongoing reform efforts in the postal sectors of different countries. The objective, in this case, is to try and pinpoint common problems faced by postal administrations and examine the different options chosen as solutions to such problems. Obviously, each postal administration is unique, and a mere transposition of models is not a valid option for ensuring the success of postal reform efforts. However, the main advantage of understanding the situation in other countries is that it helps clarify the domestic situation through a study of comparative data and, as a result, is a good basis for the framing of a proposal genuinely responsive to nationwide needs.
2.1.5. Unique features of reform processes in developing countries

The postal sectors of many developing countries are marked by serious structural problems, in many cases, stemming from the economic, social, political and cultural problems faced by development efforts in such countries. According to the joint UPU/World Bank study *Redirecting Mail*, the postal sectors of most developing countries are inefficient and, as discussed in section 1.1.4 above, this inefficiency creates a vicious circle which is difficult to break out of without deep-seated, sustainable reform measures. Thus, an in-depth study of the postal sector reveals problems in many developing countries. Many official postal operators are unable to generate enough revenue to cover their operating costs and, year after year, have been becoming increasingly dependent on infusions of national budget funds.

In cases where the official operator is able to obtain such funding, this generally creates apathy towards any effort to improve its efficiency. At the same time, in the face of the alarming rate of growth in the volume of such annual subsidies, governments are becoming less inclined to maintain needed subsidies for the operation of postal services.

With governments showing themselves increasingly unwilling to subsidize operating costs, possibilities for the allocation of funding for expanding and modernizing existing infrastructure are nil. As a result, a large segment of the population still does not have reasonable access to postal services and is forced to travel long distances to mail or receive postal items. The official postal operator does not have the means to provide home delivery service to residents of such areas or of large cities lacking basic urban organizational infrastructure. Mail delivery to post office boxes is a common solution to this problem.

In many countries with an inadequate legal framework, the inability of the official postal operator to carry out its mandate has fostered the emergence of numerous private operators of various shapes and sizes to fill this service gap, at considerably higher prices. Faced with a lack of options, the public is penalized by being forced to pay exorbitant prices and, in turn, looks for its own solutions to the problem, turning to the informal sector, which offers no guarantees whatsoever as far as quality, security or confidentiality is concerned. Large corporations (credit card companies, banks, etc.) prefer to develop their own in-house mail departments, and it is not uncommon for such companies to, themselves, become postal operators, serving other businesses.

All of this has a negative effect on the revenues of the official postal operator, making it impossible for it to cover its fixed infrastructure costs. Moreover, the salaries paid by the official operator to its staff are below market rate, and its employees have no access to training and career development resources, which significantly weakens the ability of the official operator to attract professionals with good technical qualifications and the average skills mix of its workforce.
Turnover rates are generally high and the frequent lack of human resource policies hinders efforts to build a professional management staff, with many managers mere political appointees without the proper skills for their particular position or any visible personal commitment to the plans and objectives of the official postal operator.

This, in turn, considerably undermines its internal innovation capacity, with a number of critical functions such as the refinement and development of new services performed only sporadically, with a lack of consistency, hastening the aging and obsolescence of its service portfolio, while its competitors are busy tapping potential new market segments created by new technology.

In the face of this juxtaposition of negative trends, a number of governments have been seduced into embracing so-called “quick fixes,” taking drastic measures such as the hasty privatization of the postal operator or the abrupt opening of the postal market to unbridled competition. Though we are not rejecting such options outright, there is no denying the fact that resorting to such alternatives without a well-organized long-term approach to postal reform only aggravates the problems of the sector.

There are a number of international experiences along these lines which have still not produced any tangible benefits for society or the country as a whole. On the contrary, the findings emerging in such cases are showing that these types of measures have helped neither postal services nor the official postal operator nor the general public. In other cases, reform efforts are interrupted by constant changes at policy levels of government, disrupting long-term projects and programmes vital to sustainable structural reforms in the postal sector.

Thus, obviously, many developing countries need to take a more systematic approach to postal reform, one which recognizes the complex conditions which need to be addressed and is able to turn around the negative trends reported in many such countries. The benefits of a well-organized reform effort are not confined to the postal sector alone. As discussed in section 1.3 above, the strengthening and development of one of the nation’s major service infrastructure sectors can help all sectors of the economy, particularly those with social ramifications for the general population.

2.2. FOCUSES AND SCOPE OF POSTAL REFORM PROCESSES

Postal reform processes involve the synchronization of many different elements. In other words, the officials heading up the reform effort will need to address a series of internal factors within the postal sector. It is important that such an effort be well coordinated from all standpoints to help ensure its short, medium and long-term sustainability.
A number of developing countries have had experiences with postal reform programs addressing one or more isolated factors which were not as successful as expected. The reason for this has to do with the type of approach taken by such programmes, marked by “one-off” or isolated activities ignoring linkages between different parts of the whole.

Section 2.2.1 below looks at the importance of the existence of a legal framework for the postal sector and of its content. This issue is discussed at length in Module III of the Guide. Right now, the goal is simply to furnish a few general guidelines for corresponding legal reforms. Section 2.2.2 takes a closer look at the market regulation function, which is discussed in detail in Module V of the Guide. Lastly, section 2.2.3 addresses the important issue of the development of the official postal operator, which is examined in depth in Module IV.

2.2.1. Legal framework for the postal sector

In general, at the country level, the postal sector is organized based on a legal framework which helps shape its structure. The structure, scope and fine points of this legal framework vary from country to country. Moreover, in the case of certain postal administrations, there is not one but a whole series of instruments establishing the legal foundation for the postal sector.

As indicated earlier in this module, as a structural reform process, postal reform programs almost invariably require amendments of legislation, which means engaging the national legislature in the reform effort.

It is important to bear in mind that the purpose of amending legislation is not simply to provide a short-term solution to an existing problem. On the contrary, insofar as possible, the goal should be the shaping of a long-range vision to avoid the constant need for new amendments slowing down sector development efforts.

Obviously, postal administrations operate under all different types of domestic legal systems. Still, it is important to try and develop a legal framework with a built-in ranking system for different types of instruments, with higher-ranking instruments (such as the constitution and legislation) governing more perennial matters, while more operationally oriented matters in constant flux are governed by lower ranking instruments (such as decrees and regulations).

There are two major advantages of such an approach. The first has to do with the longevity of so-called “senior” legislation, which should focus mainly on setting goals and establishing basic principles and guidelines. The second has to do with so-called “subordinate” instruments which, while mutable by nature, follow guidelines established in “senior” instruments.
In any event, for guidance purposes, the main objective of the legal framework should be to lay the necessary institutional foundation for the long-term sustainable development of the postal sector in furtherance of national economic and social development efforts.

Sector development efforts need to go beyond mere rhetoric and be translated into objective indicators. Examples of relevant indicators include:

- mail traffic volume;
- average number of mail items per person per year;
- percentage of the population with access to the universal postal service;
- quality of service;
- productivity of the official postal operator;
- service prices and rates;
- economic and financial performance of the official postal operator.

In the final analysis, the main targeted outcome in any postal reform process is the development of the postal sector, whose achievement requires answers to a number of key questions, as outlined below.

### Universal postal service

- What is its objective?
- What are acceptable minimum standards of quality?
- How is it gradually being made accessible to larger segments of the population?
- How is service performance monitored?
- Who is in charge of service delivery?
- How is it financed?
- What are the expected future trends in universal postal service?

### Government

- What is its role in the postal sector?
- What mechanisms will be used to regulate the postal sector?
- How will it set policy for the postal sector?

### Universal postal service operator

- What conditions need to be met for it to carry out its mandate?
- What are its development mechanisms?
- How can we help promote the modernization of the universal postal service operator from a commercial, operational, technological and administrative standpoint?
- Can it provide other services in addition to the universal postal service?
- What restrictions are imposed on its operations?
### Other operators

- Who are they?
- What are their universal postal service obligations?
- Are they being monitored? In what way? How?

### Customers / consumers

- What are their rights and obligations?
- How are their rights guaranteed, verified and monitored?
- What types of mechanisms are used to systematically assess their needs?
- How are they involved in setting sector policy and guidelines?

The answers to these questions should serve as the basis for the framing of a proposal for restructuring the postal sector in the form of clear policies which can be understood, implemented and followed by all interested stakeholders, including the following elements.

### Customers / consumers

- Familiarity with the services to which they are entitled.
- Familiarity with expected levels of service quality.
- Access to mechanisms designed to protect their interests.
- Involvement in setting policy and guidelines.

### Government

- Establish its accountability with respect to the postal sector.
- Ensure the sustainability of the universal postal service.
- Protect the consumer public.

### Universal service operator

- Know which services to provide, expected levels of service quality, where to provide service and how to gradually expand service.
- Clear, secure sources of universal postal service funding.
- Commitment to modernization and corporatization.
- Clear definition of its performance objective.

### Other operators

- Clear delineation of their sphere of operation.
- Clear postal market rules for implementing plans and making investments.
- Free enterprise within their established sphere of operation.
Working out these issues with the level of precision outlined in the preceding text boxes as part of the postal reform process will help establish clear ground rules of vital importance to all corresponding stakeholders, providing the institutional stability required for the sustainable development of the postal sector.

It is extremely important not to confuse the concept of institutional stability with the notion of an immutable legal framework. Our allusion to the concept of institutional stability is simply meant to underscore the benefits of a clear legal framework for all interested stakeholders.

In the face of constant, increasingly fast-paced economic, social and, in particular, technological developments, it is unreasonable to expect there to be an immutable set of rules. On the contrary, a dynamic legal system is a good thing, as a way of keeping pace with constantly changing social needs. However, this sort of change needs to take place as part of a process of natural evolution, safeguarding previous accomplishments and ensuring bigger and better future achievements.

2.2.2. Development of a regulatory function

The next step after the establishment of a regulatory framework for the postal sector is the development of a regulatory function. As part of a postal reform programme, a regulatory function serves to implement and consolidate corresponding reforms which, by nature, is a long-term process requiring regular evaluations of different courses of action against its original objectives.

Many postal administrations still have no regulatory function while, in others, it is an integral part of their operations. Only a comparably small number of postal administrations have a fully developed regulatory function separate from operational matters.

Regulation can be perceived as an effort on the part of government to build a market development model in line with national economic and social objectives and to oversee and monitor compliance with the established model. Operational issues, on the other hand, have to do with the delivery of postal services by public and private service operators to individual and institutional clients.

The separation of regulatory functions is considered a must in the current postal environment surrounding reform efforts, in which other important factors come into play, including a growing trend at the country level to embrace a free market system, the emergence and growth of competition within the postal sector and the presence of growing numbers of private operators.
Thus, there are two important concepts at play, namely that of a free market and that of regulation.

Obviously, as the postal sector continues to grow and develop, the complexity of internal relations at the sector level will only increase. New technology, new services and new operators are complicating both operational and business relations. The emergence of multiple service operators and resulting new situations such as competition, alliance-building, etc. are making it necessary to address matters which had never before been an issue, particularly in a service operating environment monopolized by a single operator.

The growing complexity of the postal sector is creating a need for the establishment of models, procedures, protocols, etc. for integration and consistency purposes. We should recall that the postal sector is configured as a system requiring the existence of models for reconciling its various elements (customers, operators, suppliers, technology, etc.)

Moreover, since the operation of the postal sector involves the interaction of different players, private operators, sector regulators, competition regulators and government authorities, including the judiciary, it is vital that postal regulatory activities embrace all such parties as a whole, as well as their operations, and that they take into account all decisions and regulations likely to directly or indirectly affect the postal industry.

Obviously, a sector reform effort paving the way for the entry of new postal operators cannot possibly do without basic regulations to ensure the system’s integrity and protect customer and public interests. Thus, liberalization does not mean doing away with rules and regulations but, rather, adapting them to fit the new shape and form of the postal sector.

However, regulation need not be purely interventionist in nature. Its objectives should be threefold:

a) to protect and defend customer/consumer interests;
b) to harmonize relations between postal operators;
c) to uphold government obligations and promote sector development.

To this end, efforts to shape the regulatory function should try and include certain basic features to enable it to fully accomplish its mission, as outlined in the following table:
### Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Features</th>
</tr>
</thead>
<tbody>
<tr>
<td>Authority</td>
<td>Legally established, with powers to fully accomplish its mission.</td>
</tr>
<tr>
<td>Legality</td>
<td>Regulatory nature recognized by all corresponding stakeholders.</td>
</tr>
<tr>
<td>Independence</td>
<td>No ties to any special interests, to enable it to act in everyone’s best interests.</td>
</tr>
<tr>
<td>Autonomy</td>
<td>Full decision-making authority.</td>
</tr>
<tr>
<td>Capacity</td>
<td>Appropriate physical and technical conditions for discharging its responsibilities.</td>
</tr>
<tr>
<td>Vitality</td>
<td>Timely action and decision making.</td>
</tr>
<tr>
<td>Transparency</td>
<td>Widespread knowledge of its actions and decisions.</td>
</tr>
<tr>
<td>Financing</td>
<td>Economically and financially self-sustaining.</td>
</tr>
</tbody>
</table>

Module V of the Guide furnishes all necessary information for the design, creation and establishment of a regulatory agency.

### 2.2.3. Development of the universal postal service operator

As discussed earlier, one of the main objectives of postal reform is the expansion of the universal postal service, making it increasingly accessible to larger segments of the population and diversifying and improving corresponding services as new opportunities present themselves.

At the international level, without exception, all postal administrations have chosen a model with a single operator in charge of providing the universal postal service. This is somewhat of a hallmark of the postal sector, setting it apart from other sectors such as telecommunications for example, in which certain models promote universal access based on different service operators with separate geographic target operating areas. Experiences with the privatization of the universal service operator are rare and found in only a handful of countries. Even in such cases, the same operator, though privatized, still has sole responsibility for providing universal postal service.
The following figure recaps the main guidelines for the development of the universal service operator as an important linchpin in expanding universal access to postal service.

<table>
<thead>
<tr>
<th>FROM</th>
<th>DEVELOPMENT OF THE OFFICIAL OPERATOR</th>
<th>TO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-tech</td>
<td>TECHNOLOGY</td>
<td>High-tech</td>
</tr>
<tr>
<td>Fragmented</td>
<td>STRATEGY</td>
<td>Integrated</td>
</tr>
<tr>
<td>Precarious leadership</td>
<td>MARKET</td>
<td>Solidified leadership</td>
</tr>
<tr>
<td>Classic model</td>
<td>ORGANIZATION</td>
<td>Market-oriented</td>
</tr>
<tr>
<td>Reactive</td>
<td>STAFF</td>
<td>Proactive</td>
</tr>
<tr>
<td>Process management</td>
<td>CULTURE</td>
<td>Performance management</td>
</tr>
</tbody>
</table>

This figure depicts only a few general guidelines. It does not explore the issue of the development of the universal postal service operator in any depth, which is discussed at length in Module IV of the Guide.
CHAPTER 3: THE POSTAL REFORM PROCESS

3.1. KEY FACTORS IN THE REFORM PROCESS

There are certain key factors which must be borne in mind in conducting a postal reform programme in order to achieve targeted outcomes. As previously explained, the large number of different stakeholders involved, the complexity of the issue addressed and the economic and social dimensions of the postal sector require that those in charge of heading up a postal reform effort be fully aware of the existence of certain key factors which can help achieve the envisioned benefits of postal reform.

Section 3.1.1 looks at the need to establish a conceptual model for the postal reform process geared to conditions in each country. Section 3.1.2 addresses the issue of sensitizing government officials and creating a political will to promote postal reform. Section 3.1.3, in turn, talks about engaging stakeholders and other interested parties in the postal reform process, while section 3.1.4 underscores the importance of having solid core data as the basis for a good general understanding of the status of nationwide postal services. Lastly, section 3.1.5 discusses the role of the public operator in the postal reform process.

3.1.1. Conceptual model

Postal reform is a long-term complex process which requires a strong will to mount such an effort and a shared vision by all interested stakeholders of key factors relating to the implementation of the reform process.

The following are all crucial issues in shaping a shared vision of the reform process. A joint exercise in answering the following questions will pinpoint differences in individual views, which will necessitate an all-out initial effort to build common ground.

<table>
<thead>
<tr>
<th>1. Who are we?</th>
<th>Conceptualizes and specifies the aims and boundaries of the postal sector.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Where are we?</td>
<td>A clear, objective, conclusive assessment of the status of the postal sector.</td>
</tr>
</tbody>
</table>
3. Where are we heading?

The new proposed target situation for the postal sector.

4. How are we going to get there?

What needs to be done to help change the status quo to the proposed target situation.

5. When do we get there?

A timetable showing the necessary steps to attain the target situation.

The main benefits of this joint exercise are:

- a clear definition of corresponding objectives;
- the establishment of general guidelines;
- the development of specific benchmarks;
- the synchronization of all corresponding initiatives;
- the development of a long-range view;
- the benefit of the organized involvement of interested stakeholders.

In addition to this conceptual model, it is also important to have an action model as the basis for a systematic understanding of the different work fronts involved, as illustrated in the following figure.

- **Legal reform:** involvement in efforts to establish a new legal framework embracing the market as a whole and its various components (services, customers, the public operator, private operators and the regulatory agency).
❖ **Organizational reform:** restructuring of the public operator, addressing factors such as its organizational structure, legal status, ownership structure, autonomy, authority, obligations etc.

❖ **Commercial reform:** commercialization of the business practices of different areas of the public postal operator, incorporating concepts such as quality of service, a market and customer service orientation, information systems, new services etc.

❖ **Operational reform:** establishment of projects for the modernization of operating processes and procedures with a view to improving service quality, boosting productivity and cutting costs.

❖ **Technological reform:** intensive use of technology in production infrastructure and service delivery to help improve management practices and build market share.

Thus, the postal reform strategy must be comprehensive in scope, embracing all elements of the postal sector which, by nature, are closely interrelated. The underlying premise is that a deep-seated postal reform effort requires action on all elements of the postal sector. A reform effort limited to a single such element or which does not systematically include all building blocks of the postal sector will produce piecemeal, unsustainable reforms.

Accordingly, national postal officials and experts in charge of the postal sector need to play a key role in the reform process, which should be spelled out in advance to ensure a successful outcome.

This group of individuals has a particularly extensive knowledge of the postal sector based, not only on more complete implicit or explicit data, but, more importantly, on their own personal experiences working in the postal sector. This knowledge base warrants their playing a more active role in the reform process.

The need for such a knowledge base stems from the fact that postal reform processes are designed to provide definitive solutions to sector-wide structural problems based on answers to the following types of questions.

a) **Promotion of universal access to postal service:**
   
   ➢ What percentage of the population has a post office close to home?

   ➢ What percentage of the population has home delivery service?
b) **Objective of postal service:** What services are being provided?

c) **Objective of universal postal service:** What package of services is included in the government's universal postal service obligations?

d) **Quality of service:** What are the standards of quality? How well does the operator meet these standards of quality?

e) **Funding of the official postal operator:** What sources of finance are available to ensure the modernization and funding of the official operator?

f) **Modernization of postal services:** How up to date are postal services? How much innovation has there been in this area?

g) **Technological innovation:** How up to date is the technology used by the official operator? How has it acquired such technology?

h) **Competition among postal operators:** How many operators are there? Which services are they competing for? How is the competition?

i) **Protection of consumer interests:** Have the rights of consumers-customers been established? How are they being protected?

This brief outline of the types of questions which need to be addressed by the reform process shows the complexity of the issues involved and how it is virtually impossible to count on an easy fix.

The proposal of overly simplistic solutions incapable of addressing the broad spectrum of different issues involved is a rather common phenomenon. A case in point is the somewhat misleading statism versus privatization conundrum. This does not mean to say that it is not an important issue. On the contrary, it is extremely important and needs to be methodically addressed. However, it would be a mistake to consider it as the pivotal issue in a postal reform process, relegating all other matters to secondary importance, flagrantly twisting its objectives and confusing the means with the end.

Why is this the case? Why is this a recurring theme in both national and international discussion forums?

Apparently, it is a result of the lack of a comprehensive model as the basis for approaching the discussion process from a broader perspective. The lack of such a model splinters the big picture into countless disjointed issues, which is virtually certain to produce inconsistent, one-off solutions.

This piecemeal vision is fertile ground for emotional defenses of special interests and personal viewpoints which, by nature, are virtually always
incompatible. If this were not the case, a special postal reform effort would be unnecessary, and all developments within the sector would be consensual and spontaneous.

Such an approach to postal reform is reckless, because it is virtually doomed to fail from the start. But what sort of broader perspective could be used as a basis for more objectively charting the course of reform efforts, particularly when dealing with conflicts between different special interests? The general consensus is that the national interest should take precedence over the interests of any one group. Accordingly, what is needed is commitment and effective leadership on the part of government, which has the legitimacy and authority to put the national interest above special interests and personal concerns.

3.1.2. Sensitizing government officials and building political will

In line with the conclusions drawn from past experience, the need for a postal reform effort to be staunchly supported by national government officials in charge of leading the nation is self-evident, given its ties to the national interest and its nationwide development impact.

Meanwhile, the question is how to make this happen. Government awareness-building efforts need to be grounded in specific facts, contentions and analyses furnishing as much information as possible. This, in turn, requires preliminary research and studies to enable postal reform advocates to provide objective data fully exposing the status of nationwide postal services.

However, the presentation of government officials with highly detailed, in-depth studies and analyses has proven to be counterproductive, which does not mean to say that they are unnecessary. The recommended approach is to draw up a more abridged document presenting a clear line of thought, beginning with a brief profile of the postal sector and outlining the types of problem situations requiring a reform effort such as that proposed.

In general, this calls for two sets of documents:

a) **Preliminary technical studies:** analyses, research studies, appraisals and other studies of a highly technical nature reflecting existing sector-wide problems and justifying the need for postal reform. The main requirements for this type of data are objectivity, precision and reliability

b) **Information materials:** reports, documents, summations and other materials providing outsiders with a good basic understanding of the postal sector and existing problems. The requirements for such materials include a clear presentation, simplicity and objectivity.
The absence of either of these sets of documents could jeopardize the success of political consciousness-raising and government awareness-building efforts. A lack of information materials (type “b” documents), for example, would complicate dealings between postal experts and national government officials, with the risk of this creating misunderstandings since, in most countries, the government is perceived as distancing itself from the postal administration. Moreover, many countries do not have separate postal operators and regulators and postal service providers do not always have spokespersons they can count on in dealing with the government.

In most cases, the government has a piecemeal view of postal services, with different areas of government vested with different responsibilities (budgeting, finance, procurements, human resources etc.) and seeing only that part of the picture pertaining to their specific functions, without a full and complete understanding of the postal sector as a whole. Thus, information materials presenting an overall picture of the postal sector are valuable tools for providing different areas of government with a better picture and understanding of this sector.

These information materials are not advertising materials. They are communication tools designed to transmit abridged technical messages providing interested stakeholders with a complete picture of the postal sector.

Obviously, type “a” documents (preliminary technical studies) are crucial to awareness-building efforts, presenting essential technical data as the basis for convincing national government officials of the justification for postal reform. Such studies are generally designed to shed light on pivotal issues such as:

a) the extent of universal postal service coverage;

b) the economic-financial soundness of the universal service operator;

c) the productivity of the official postal operator;

d) quality of service;

e) the extent of competition;

f) an assessment of the strengths, weaknesses, opportunities and threats for the postal sector and the public postal operator;

g) comparative international yardsticks and data.

It is quite helpful to contrast the status of domestic postal services with the situation in other countries without the comparison of such indicators being distorted by differences in conditions in each country. The postal community has a standard set of indicators for comparison purposes, which by no means precludes the inclusion of other such indicators.
The standard indicators used in such comparisons are outlined in the following table.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Country 1</th>
<th>Country 2</th>
<th>...</th>
<th>Country n</th>
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<tbody>
<tr>
<td>TRENDS IN TOTAL TRAFFIC VOLUME</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>TRENDS IN TRAFFIC VOLUME PER PERSON PER YEAR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRENDS IN TRAFFIC VOLUME PER POSTAL WORKER PER YEAR</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NUMBER OF POSTAL WORKERS PER CAPITA</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NUMBER OF RESIDENTS PER POST OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF THE POPULATION SERVED BY POST OFFICES</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF THE POPULATION WITH HOME DELIVERY SERVICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ADJUSTED BASIC LETTER RATE</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>STANDARDS OF QUALITY</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECONOMIC PERFORMANCE OF THE PUBLIC POSTAL OPERATOR</td>
<td></td>
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</tbody>
</table>

There is an excellent international technical cooperation mechanism available to assist with the preparation of these types of studies and with actual consciousness-raising efforts operated by the Universal Postal Union (UPU) and various domestic and international organizations and, obviously, including restricted postal unions and the UPU’s Postal Development Action Group (PDAG), which has been playing an important role in assisting postal administrations interested in promoting postal reform.

Such cooperation can take a number of different forms, including but not limited to:

a) discussions of postal reform issues at technical seminars and workshops;
b) the organization and conduct of specific seminars in the host country;
c) technical assistance in conducting studies;
d) assistance in arranging travel to other postal administrations for the sharing of information;
e) access to data bases for comparative studies;
f) access to information on lessons learned from similar works, projects and studies.

When all is said and done, how can we evaluate the success of
government awareness-building activities? What types of indicators would reflect the extent to which the goal of sensitizing national government officials to the need to undertake a postal reform effort has been met? The main targeted outcome of such awareness-building activities is government involvement in postal sector development efforts. But there is still the matter of how to evaluate the extent of its “buy-in.” Obviously, there are no objective indicators for measuring this factor, but there are certain formal and informal responses which can provide a good idea of the level of commitment on the part of the national government. The following list of possible responses is presented for guidance purposes only, is by no means exhaustive and is more of a conceptual framework than an actual sine qua non condition. Moreover, such responses are not always all implemented simultaneously but, rather, in various combinations. Thus, examples of possible responses are:

a) the inclusion of postal issues in national development plans;
b) the mounting of a postal reform project/program under an administrative decision;
c) the allocation of budgetary and financial resources for the conduct of research, studies and analyses;
d) the appointment of qualified experts to study postal issues;
e) the conduct of round tables, forums and seminars to discuss and promote a clearer understanding of postal issues;
f) the attendance of international forums addressing postal issues by government officials;
g) the designation of an agency, committee or similar body to serve in an executive management capacity in the postal reform process.

3.1.3. Stakeholder involvement

The success of efforts to get the government (the executive) involved should not affect ongoing efforts to engage other interested stakeholders since, sooner or latter, they too could be affected by proposals under discussion.

While certain groups may be willing to get involved in postal affairs of their own volition, others may consistently refuse to deal with such issues, either on ideological grounds or for reasons of special interests.

Despite the potential for resistance and differences of opinion, it is essential to establish and maintain a channel of communication and dialogue with interested stakeholders providing for a two-way flow of information, criticism, suggestions and comments. Participation in a postal reform process is not simply a series of random or fortuitous acts. It should be an organized and well-managed process, with established objectives and mechanisms and designated managers.
It is also important to bear in mind that the stakeholders in a postal reform process include a wide spectrum of different players with very different if not opposing interests. Thus, good participation management means pinpointing the main interests of each party concerned so as to properly balance such interests.

This type of stakeholder involvement in postal reform processes cannot be allowed to turn into a form of co-management. The responsibility for heading up the reform effort clearly lies with the government, whose duty it is to try and engage other stakeholders with a view to fine-tuning proposals, building consensuses, expediting reform efforts and dissipating any unfounded doubts and fears.

Stakeholder involvement in postal reform processes needs to be carefully planned out, endeavouring to set objectives, frame strategies and develop working arrangements for well-organized, timely interfacing with interested stakeholders via:

- round-table discussions;
- forums;
- seminars;
- panel discussions;
- public meetings;
- public hearings;
- conferences;
- debates;
- consultation mechanisms for presenting criticism, suggestions, etc.;
- other organized participation mechanisms.

Without attempting to identify all interested stakeholders in postal reform processes, the three main groups of stakeholders in terms of their representativeness and ability to influence the direction of reform efforts are:

a) Members of Congress who, as “antennas” or “feelers” for the general public, are usually concerned with issues such as:

- shutdowns of post office facilities;
- layoffs;
- price and rate increases;
- privatization of postal services;
- private investment in the postal operator;
- quality of service;
- access to services.
b) Postal workers (including trade unions):

- layoffs;
- pay cuts;
- cuts in benefits;
- privatization;
- restructuring of the postal operator;
- job security.

c) Private operators:

- nationalization of postal services;
- universal service obligations and payments of financial contributions;
- competition from the universal service operator;
- cross subsidization;
- expansion of monopolies;
- prices and rates charged by the universal service operator;
- access to the universal service operator's mail delivery network.

Lastly, with stakeholder involvement, there is a natural expectation of a flow of regular information on the progress of work, particularly on the part of the staff of the universal service operator. Accordingly, it is both productive and helpful to draw up a communications plan designed to bolster postal reform efforts.

The aim of this section of the Guide is not to delve into the technical characteristics of such a communications plan, but merely to outline a few of its core elements, as depicted in the following table.
The communications plan may call for the use of different tools for different target audiences. This particular issue is not addressed in the Guide. What is relevant, here, is the importance of good communications with the internal audience within the universal service operator (workers and trade unions), not only for the progress of reform efforts, but also for day-to-day postal service operations. This target group warrants special attention, considering the large numbers of individuals involved, all of whom have serious concerns with respect to their job security and benefits and their future career prospects.

3.1.4. Assessment of the status of postal services

"We won't know where we're heading until we know where we're at."

This maxim reflects one of the most important factors for the success of a postal reform process. To begin with, any reform effort requires an objective (qualitative and quantitative) assessment of the status of nationwide postal services to get as clear as possible a picture of the domestic postal sector. This is helpful in establishing a baseline for the reform programme, setting interim goals and subsequently evaluating the progress of reform efforts. Conducting such an assessment will provide answers to a number of key questions, including but not limited to the following:
Questions with respect to the market

✓ What is the total nationwide volume of mail traffic?
✓ What is the mail traffic volume per person per year?
✓ What is the breakdown of mail traffic by different types of services?
✓ What is the share of different operators in the total traffic volume?
✓ What are the trends in these variables over the past few years?
✓ What are the projected future trends in these variables?
✓ Is there a monopoly or some other type of exclusive franchise?
✓ To what extent are monopoly rights enforced?

Questions with respect to the universal postal service

✓ What percentage of the population has access to post offices?
✓ What percentage of the population has access to home delivery service?
✓ What is the cost of providing the universal postal service?
✓ How is the universal postal service financed?

Questions with respect to the universal postal service operator

✓ What is its operating efficiency in terms of numbers of items per worker per year?
✓ How is its economic and financial performance?
✓ In which market segments is it present or absent?
✓ What is its share of different market segments?
✓ What is the breakdown of costs and revenues by different types of services?
✓ How have these variables behaved in the past?
✓ What are the projected trends in these variables over the next few years?
✓ What is its legal status?
✓ What is the extent of its autonomy and of any restrictions on its autonomy?

These few examples of the role of information give us some idea of the number and types of questions which need to be answered to provide specific, objective baseline data as a starting point for the reform process around which those in charge of sector reform work and interested stakeholders can begin forging a consensus with respect to prevailing conditions in the nation’s postal sector and, later on, build a consensus around the goals and objectives of nationwide sector restructuring efforts.

Section 3.3 (Evaluations) looks at how this baseline data should also be used as a benchmark in subsequent evaluations of the progress of postal reform for an objective assessment of the results of reform efforts.

The availability of different types of data generally varies quite a bit. Certain types of data are considered classic indicators and, as such, are readily available.
Other types of data may be nonexistent and may need to be developed, which could require inputs of specialized technical resources.

Obviously, the ability of many governments to furnish necessary resources for the generation of such data is limited, particularly in the face of what are considered to be higher priority needs. There is a clear cost-benefit ratio which needs to be considered in making decisions with respect to the allocation of resources to postal reform efforts. More resources mean better technical accuracy and, thus, a better likelihood of a successful outcome.

3.1.5. Role of the official postal operator

Among postal reform issues, one of the most pivotal issues to be addressed in the framing of a proposal for reshaping the postal sector has to do with the role of the official or public operator. Its characterization as “public” or “official,” in itself, sets it apart from other operators on the postal market. Moreover, the term “public” refers to two rather different concepts, namely to the ownership of the postal operator and to the nature of its services.

As far as its ownership is concerned, a public operator is owned by the government, which holds, if not all, then at least enough shares to ensure effective government control. Most postal operators in developing countries fit the definition of government ownership though, from an organizational standpoint, they can range from central government departments to government agencies and enterprises with independent legal status.

There are a few examples of so-called “private” universal postal service operators, if we include time-limited concession or management agreements between governments and private domestic and/or international postal organizations. However, in such cases, the government retains ownership of all corresponding infrastructure and has the power to award such concessions to other operators, turning the postal service into a type of mixed public/private enterprise.

As for the nature of its services, an official operator is responsible for providing the universal postal service, while private service operators are governed solely by market rules, with none of the obligations imposed on the public operator. In developing countries and around the world, the universal postal service operator not only provides universal postal services per se, but also offers all types of services open to competition as a source of financing.
As used in this Guide, the term *public or official operator* refers to the postal operator mandated to provide the universal postal service and, as such, required to provide access to postal service even in areas where this is economically and financially unfeasible, as a result of which its cost structure is quite different from that of other postal operators with the ability to confine their service coverage to more lucrative areas.

There is a case to be made for the fact that other sectors of the economy such as the telecommunications and power sectors, for example, which also involve universal service obligations, do not impose such obligations on a single service operator. In many cases, universal service coverage in these sectors is ensured by different service operators on a region-by-region basis. While certainly a possibility which should not be discarded without further study, practices in different countries around the world do not bear out the workability of such an option in the postal sector, even in countries with a more developed postal market or in a more advanced stage of postal reform. The postal sector has unique features, such as an integrated physical (domestic and international) network management system, the need for high volume and a cost structure setting it apart from other sectors of the economy and precluding the direct transposition of models used in other areas.

A thorough understanding of the structural factors at play in the postal sector is vital for anyone undertaking a postal reform effort.

Thus, the universal service operator is an important linchpin in any reform effort. Internal factors warranting special consideration include, without being limited to, its economic and financial stability and physical productivity, as well as universal service financing, infrastructure modernization programmes, expansions in its service coverage, service modernization efforts, human resource development and management development.

This allusion to the importance of the official operator is intended to underscore the importance of the universal postal services, which are what set it apart from other postal operators. When addressing this issue in discussing postal reform, in should be borne in mind that it is not only the internal features of a particular department or enterprise which are being looked at under a microscope but, more importantly, the model for expanding universal access to nationwide postal services.

### 3.2. DESIGN AND IMPLEMENTATION OF THE REFORM PROCESS

A postal reform process is something more than the mere passage of legislation. Previous experiences with postal reform viewed as anything other than all-inclusive, ongoing processes have failed to produce any tangible, sustainable, long-term benefits. The economic and social importance and complexity of the postal sector are incompatible with
piecemeal solutions or prototype models, which are much more likely to create new problems than to solve any existing ones.

Section 3.2.1 looks at the main discussion topics for the restructuring of the postal sector. Section 3.2.2 outlines the framework for a reform process. Lastly, section 3.2.3 underscores the importance of learning from experiences with other reform processes and technical cooperation mechanisms.

3.2.1. Postal reform issues

The search for so-called "canned," ready-to-use models is a rather common phenomenon. However, such "solutions" have no place in the postal sector, which requires the framing of proposals geared to each individual country and its unique characteristics, ruling out the use of a single, standardized model. However, we can and should take a look at different experiences, not to replicate them but, rather, to avoid making the same mistakes, or to study their strengths with a view to their adaptation to conditions at the country level for use in developing a country-specific model.

Important issues to be addressed include:

❖ **extent of universal service coverage:**
  how much emphasis is to be placed on expanding universal access to postal service.

❖ **cost of universal service:**
  lower-cost versus higher-cost service delivery options.

❖ **universal service financing:**
  no, limited or large infusions of government funding to finance the provision of universal postal service.

❖ **extent of competition:**
  how much competition is envisaged in the postal sector.

❖ **ownership of the public operator:**
  a government-owned versus a mixed or private operator.

❖ **separation of regulatory and operational functions:**
  extent of the separation of these two functions.

❖ **autonomy of the regulatory agency:**
  how much power is to be vested in the regulatory authority for the postal sector.
❖ **autonomy of the public postal operator:**
how much administrative autonomy is to be granted to the universal postal service provider.

❖ **modernization of the public postal operator:**
how much emphasis is to be placed on modernizing the universal postal service provider.

❖ **regulation of the postal sector:**
how much regulation is envisaged in the postal sector.

❖ **regional-international integration:**
how much emphasis is to be placed on facilitating domestic market integration with regional and international markets.

These concepts are graphically illustrated in the following figure.

![Graphical Illustration](image.png)

These issues are all interrelated. Thus, the option chosen in each case will have a direct impact on one or more other factors. For example, a major expansion in universal postal service coverage means higher service delivery costs and, as a result, may require government assistance in financing such costs.

Likewise, the extent of the separation of regulatory and operational functions will affect the autonomy of the regulatory agency.

3.2.2. *Organization of the reform process*

The reform process should be based on a full-scale study of prevailing conditions in the postal sector, including historical data, comparisons, international benchmarks and the framing of proposals for discussion and eventual approval.
In general, in-depth studies of the following issues should be included as part of this process.

1. **International postal environment**: studies designed to establish and describe the international environment surrounding the operation of postal services around the world, examining historical patterns of change to date and trends in selected countries, including but not limited to the following elements:

   a) a study of historical patterns of change on the worldwide postal market, including major postal products and services and trends in mail traffic;

   b) an assessment of the impact of the development of new types of communications technology on the postal market;

   c) a study establishing and describing the extent of the use of technology;

   d) a performance evaluation of operational, economic and market management factors;

   e) a cross-country study of reforms in the regulatory/institutional framework for the postal sector exposing possible trends and showing the different models used in this connection;

   f) an outline of major postal product and service offerings showing trends with respect to their expansion and/or elimination and corresponding standards of quality;

   g) a study of the market share of public and private operators, broken down by types of services;

   h) an examination of the accepted definition of the concept of universal service and of how it has evolved over the years;

   i) a study of economic-financial compensation mechanisms for the provision of universal postal service;

   j) a description of outreach activities in which postal operators carry out government programmes, with an outline of corresponding payment or compensation mechanisms;

   k) a description of the characteristics of universal service operators, identifying the factors ensuring their economic-financial stability as service providers;
l) a description of the regulatory agency, including its characteristics, powers, structure, representativeness and source of funding and the regulatory mechanisms in place and in the implementation phase;

m) a description of the major private operators on the postal market, establishing their target market segment and geographic breakdown, the type of services rendered and their relationship with the regulatory agency and official postal operator;

n) a description of the official postal operator, at a minimum, establishing its target market, business structure, ownership structure, economic-financial and operational indicators, legal status, degree of autonomy, powers, obligations and relationship with the regulatory agency and private operators.

2. Domestic postal environment: studies designed to establish and describe the extent of the satisfaction of domestic postal market needs, examining supply and demand for existing products and services, broken down into as much detail as possible, including but not limited to the following elements:

a) a description of existing product and service offerings by the public operator and by private service operators, including an examination of corresponding supply and demand data and of their respective market shares;

b) a study of historical trends in products and services, broken down into as much detail as possible, and an examination of annual qualitative and quantitative projections of demand for postal services, at a minimum, broken down by type of service, customer and geographic area;

c) a description of complementary products and services competing with or crowding out offerings by operators currently active on that market;

d) a study of trends in the lifespan of each product and service in the face of economic and technological developments and changes in any other variables affecting the launching of each such product/service onto the market;

e) a study of postal service customer profiles, broken down by product and service, income bracket, location, legal status, the extent of their usage of postal products and services etc.;
f) an outline and analysis of public and private operators offering postal products and services, establishing their target market segments, their respective market shares, expansionary and/or contractionary market trends etc.;

g) a definition of the concept of universal postal service, at a minimum establishing the types of core services included in this concept, their geographic and demographic coverage, the regularity of mail collection and home delivery service, the business hours of retail outlets, standards of quality with respect to delivery time, reliability and security, and corresponding enforcement and compliance monitoring mechanisms;

h) a study of the economic-financial feasibility of providing self-sustaining universal postal services;

i) a study of different tried and tested universal postal service financing options, including specific data with respect to their economic-financial impact, scope, historical performance and implementation mechanisms;

j) a look at postal services to be opened up to competition from different postal operators, specifying all necessary standards and regulations for service operation, monitoring and supervisory purposes.

3. Legal issues: conduct of studies designed to establish and describe the current constitutional and legal framework and drafting of necessary legislation and constitutional amendments institutionalizing the structural reform process in the nation’s postal sector. Necessary steps for the accomplishment of this task include, without being limited to, the following:

a) identification and analysis of current legal instruments governing the postal sector;

b) study of the content of these legal instruments, checking for any inconsistencies;

c) design of a regulatory mechanism for the postal sector, at a minimum including the regulatory agency, its characteristics, powers, structure, representative capacity, source of funding and regulatory mechanisms;

d) description of necessary standards and regulations for the operation of postal services;

e) indication of necessary legislative and constitutional amendments for full and effective operation of the nationwide postal market;
f) drafting of necessary legal instruments for the implementation of envisaged reforms.

3.2.3. Learning from experience

Each country has distinctive features and conditions setting it apart from other countries, along with a unique set of equally important historic, cultural, social, political, economic and other factors.

This is precisely why it is inadvisable to make overly simplistic comparisons such as “what’s good for country A is good for country B.” As pointed out earlier, efforts to modernize any country based on a mere transposition of even the most successful models or experiences generally end up as major failures and disappointments. A look at the worldwide postal sector reveals a number of actual experiences bearing out this contention, even in the early stages of a large-scale reform effort.

Similar comparisons of the postal sector to other sectors of activity within the same country are just as unsound as such cross-country comparisons. Reforms of the power, water supply, transportation and telecommunications sectors, for example, are often invoked as models to be followed (or used) for postal reform purposes.

While certain lessons can be learned and a certain amount of experience gained from examining accomplishments in these sectors, a mere transposition of concepts and models has proven ineffective in the face of the different configuration of each sector, which requires an individualized approach to addressing their unique features. Examples include:

♦ entry barriers;
♦ the scale of operation;
♦ the capital structure;
♦ the technological obsolescence cycle;
♦ the extent of competition;
♦ the balance between supply and demand;
♦ the extent, objective and intricacy of sector regulation;
♦ structural or natural constraints.

Thus, while recognizing the importance and value of drawing on experiences in other sectors of activity and other countries, the fact of the matter is that the postal sector is a highly specialized sector from a technical standpoint, deeply rooted in the economic and social environment of each particular country, and must be treated accordingly. However, this does not mean to say that it cannot benefit from lessons drawn from other reform efforts. The aim, here, is not to analyze specific
experiences but, rather, to pinpoint common determining factors in the success or failure of reform efforts.

Very few countries have actually completed a postal reform programme. Most countries undertaking an organized postal reform effort are still in the implementation phase of such process. Thus, there are not really any entrenched experiences in this area which can be considered a lasting success. A number of such initiatives are going well and can be a source of valuable experience for those in a less advanced stage of this same process. There are also examples of failed experiments which can also provide important lessons for those about to undertake a postal reform effort.

Thus, the progress made by different postal administrations undertaking postal reform efforts is a reflection of the effect of specific mindsets on the course or direction of their work and, measured against the baseline scenario, of the extent of their success or failure in achieving their goals.

These mindsets are outlined in the following table.

<table>
<thead>
<tr>
<th>FACTOR</th>
<th>SUCCESS</th>
<th>FAILURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action</td>
<td>Proactive</td>
<td>Reactive</td>
</tr>
<tr>
<td>Focus</td>
<td>Sector structure</td>
<td>Sector-wide conditions</td>
</tr>
<tr>
<td>Vision</td>
<td>Long-range</td>
<td>Short-range</td>
</tr>
<tr>
<td>Approach</td>
<td>Integrated; systematic</td>
<td>Piecemeal</td>
</tr>
<tr>
<td>Objectives</td>
<td>Sector-specific</td>
<td>Beyond the sector</td>
</tr>
<tr>
<td>Political climate</td>
<td>Stable</td>
<td>Unstable</td>
</tr>
<tr>
<td>Leadership</td>
<td>Strong commitment</td>
<td>Little commitment</td>
</tr>
<tr>
<td>Universal service operator staff</td>
<td>Highly engaged</td>
<td>Little involvement</td>
</tr>
<tr>
<td>Transparency</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Technical know-how</td>
<td>Strong</td>
<td>Weak</td>
</tr>
<tr>
<td>Reform financing</td>
<td>Certain</td>
<td>Uncertain</td>
</tr>
<tr>
<td>Institutionalization</td>
<td>Within the existing legal model</td>
<td>Outside the legal model</td>
</tr>
<tr>
<td>Universal service</td>
<td>Main objective</td>
<td>Secondary objective</td>
</tr>
<tr>
<td>Universal service operator</td>
<td>Strengthened</td>
<td>Weakened</td>
</tr>
<tr>
<td>Universal service financing</td>
<td>Secured</td>
<td>Not addressed</td>
</tr>
<tr>
<td>Quality</td>
<td>Main objective</td>
<td>Not addressed</td>
</tr>
<tr>
<td>Management of the universal service operator</td>
<td>Modernized</td>
<td>No change</td>
</tr>
<tr>
<td>Public involvement</td>
<td>Strong</td>
<td>Limited</td>
</tr>
</tbody>
</table>
Both the Universal Postal Union and the Postal Union of the Americas, Spain and Portugal have technical cooperation mechanisms providing invaluable access to an extensive data base on postal reform.

A familiarity with the experiences of other countries undertaking postal reform efforts, not only helps managers and technical experts involved in reform processes save time, effort and resources, but also provides a wide range of direct experiences as the basis for checking out selected alternatives and examining their successes and failures.

3.3. EVALUATION

The success of a postal reform effort will need to be evaluated based on objective indicators analytically reflecting changes from a previously established scenario.

The extent of universal postal service coverage, the economic-financial stability of the public postal operator and improvements in service quality are all basic variables reflecting tangible changes in a country's postal sector.

It would be hard to regard a reform effort as anywhere near successful without improvements in this core set of variables. This underscores the importance of advance planning for the evaluation of reform efforts, so that those heading up such efforts have some way of monitoring the progress of work and, eventually, so that the public can see for itself how much progress has been made.

To this end, section 3.3.1 takes a look at the evaluation process, while section 3.3.2 discusses the establishment of performance indicators. Lastly, section 3.3.3 talks about the importance of establishing an evaluation and "course correction" or adjustment cycle as part of the implementation of a postal reform process.

3.3.1. Evaluation of the reform process

In mounting a reform effort, it is important to take the time to establish a mechanism for systematically evaluating performance against its original goals and objectives.

To this end, the objectives of the reform effort need to be broken down into benchmarks for purposes of establishing its impact.
Example:

<table>
<thead>
<tr>
<th>OBJECTIVE 1: EXPAND UNIVERSAL ACCESS TO POSTAL SERVICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
</tr>
<tr>
<td>Percentage of the population served by a post office</td>
</tr>
<tr>
<td>Percentage of the population with home delivery service</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>……</th>
<th>Year n</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OBJECTIVE 2: HELP MAKE THE UNIVERSAL SERVICE OPERATOR ECONOMICALLY AND FINANCIALLY SELF-SUSTAINING</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benchmark</td>
</tr>
<tr>
<td>Economic and financial performance of the universal service operator</td>
</tr>
<tr>
<td>Spending on modernization and expansion</td>
</tr>
<tr>
<td>Amount of the subsidy received by the universal service operator</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>……</th>
<th>Year n</th>
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</thead>
<tbody>
<tr>
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</table>

This evaluation method converts descriptive objectives into clear, measurable performance benchmarks giving postal reform managers a pretty clear picture of the extent to which their original objectives are being met.

3.3.2. Establishment of performance indicators

The table on the following page contains a sample set of indicators for evaluating the progress of postal reform efforts over time. This set of suggested variables is by no means an exhaustive list of all possible indicators which could be used for this purpose. It does, however, furnish different types of analytical data providing a good overview of the progress of the postal reform process in quantitative terms. Depending on the original objectives of the reform movement, some of these suggested variables can be discarded, while others can be added and built on with a view to systematically and objectively evaluating the progress of postal reform efforts.
These qualifications are to be borne in mind in examining the following outline of performance benchmarks.

<table>
<thead>
<tr>
<th>Benchmark</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>……</th>
<th>Year n</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL MAIL TRAFFIC</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRAFFIC VOLUME PER PERSON</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TRAFFIC VOLUME PER WORKER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>POSTAL WORKERS PER CAPITA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE NUMBER OF HOURS OF TRAINING PER WORKER</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NUMBER OF DAYS THE PUBLIC OPERATOR WAS SHUT DOWN BY STRIKES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>NUMBER OF RESIDENTS PER POST OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF THE POPULATION SERVED BY A POST OFFICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF THE POPULATION WITH HOME DELIVERY SERVICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF THE MARKET REPRESENTED BY RESERVED SERVICES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARKET SHARE OF THE UNIVERSAL SERVICE OPERATOR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BASIC LETTER RATE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>QUALITY OF SERVICE</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PERCENTAGE OF LOST MAIL ITEMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AVERAGE PERCENTAGE OF MANUALLY SORTED ITEMS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECONOMIC AND FINANCIAL PERFORMANCE OF THE UNIVERSAL SERVICE OPERATOR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SPENDING ON MODERNIZATION AND EXPANSION</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMOUNT OF THE SUBSIDY RECEIVED BY THE UNIVERSAL SERVICE OPERATOR</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In developing new indicators, it should be borne in mind that their utility will be determined by the extent to which they meet the following requirements:

- **simplicity**: clear understanding of their import;
- **objectivity**: can be evaluated in a non-subjective manner;
- **credibility**: reliable sources and means of verification;
- **execution**: feasible sources and means of verification;
- **timeliness**: can be verified in a timely fashion for decision-making purposes;
- **comparison**: good basis for comparative benchmarking.
3.3.3. Acting on evaluation data

Postal reform is essentially a planning process. It assesses the situation and implements proposed changes designed to produce a new, more desirable situation. This is accomplished by using planning tools to more effectively manage the reform process by reducing the number of uncontrolled variables.

However, a plan is a course of action to be followed, in which deviations from the original plan are a distinct possibility. Accordingly, evaluations reflecting any such deviations will require adjustments in the situation deviating from the established model. In practice, this is a cyclical, interactive process, as graphically illustrated in the following figure.

![Diagram showing the cycle of plan, adjust, act, evaluate]

This only serves to emphasize the fact that a reform effort does not end with the passage of applicable legislation. One could say that it actually begins at such point, when all previously discussed, agreed-on and formally adopted proposals begin to take shape in the real world of the postal sector. Depending on the magnitude of the reform effort, this can take several years, as in the case of postal administrations looking to make deep-seated changes in basic building blocks of the postal sector.

To prevent the consensus achieved as of the date of the passage of corresponding legislation from breaking down, it is essential to establish a frame of reference for the pursuit of reform efforts. As work continues, there could be a need for further studies, unanticipated technical design work, additional follow-up projects or, in short, countless situations requiring decision making, monitoring and management efforts.
Postponing such activities could jeopardize compliance with established deadlines and the attainment of targeted outcomes. It also runs the risk of thwarting the attainment of envisaged benefits for the postal sector and, more importantly, for the general public.

The following main elements will need to be clearly established to ensure the continuity of sector reform work in line with previously instituted guidelines:

❖ **Line of authority**: clearly identifying those in charge of heading up follow-through efforts;

❖ **Decision-making model**: showing the types of situations requiring decisions, as well as the different decision-making levels involved;

❖ **Action plan**: establishing procedures for the pursuit of work under normal circumstances and in emergency situations;

❖ **Evaluation reports**: establishing the content, timing and recipients of regular data on the progress of work;

❖ **Other mechanisms**: capabilities and processes for conducting necessary follow-up studies, analyses and projects underpinning the pursuit of postal reform efforts from a technical and political standpoint.
# Guide to Postal Reform

## Module II

### Universal Postal Service

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Introduction

In line with reported trends in postal regulation and the universal postal service, the 1999 UPU Congress in Beijing was instrumental in helping a number of member governments recognize the need to take action to ensure the future of the universal postal service and of postal service in general.

The adoption of the Beijing Postal Strategy and the pivotal role assigned to the universal postal service in the Union’s global strategy expanded issues which had previously been clearly defined by the 1994 Seoul Congress to include new elements shaping the future of postal service in today’s rapidly changing world.

The Bucharest World Postal Strategy (BWPS) decided to make the universal postal service one of the core elements of its action plan, giving increasing importance to issues involving universal postal service quality, access and security.

The main goal of the architects of the principle of a single postal territory and of the obligation of government to offer certain basic services remains embodied in the concept of the inalienable human right to send and receive mail.

These underlying principles of the universal postal service are designed to help governments lay the foundation for the development of postal services in their respective countries with a view to maintaining a worldwide postal network accessible to all segments of the population.

However, lasting, viable universal postal service requires clearly defined conditions with respect to access, quality, security and regularity. The political will of government was clearly expressed in the instruments alluded to above. Now, the task at hand is to set specific ground rules geared to today’s new world and attuned to the new regional and global environment.

One of the main problems in a number of countries is that their governments are having a hard time understanding the difference between domestic public services and public services governed by rules of international law requiring that the provision of such services be guaranteed by the government.

The difference between public services such as electricity, education and health, for example, and postal services is that the former are not subject to any outside performance requirements and, as such, are more in line with national development policy.

In contrast, in the case of postal services, governments are required to maintain a nationwide universal postal service network though, in many cases, national development plans include no provisions for maintaining and upgrading the postal network.
Thus, it is important to make governments aware of the need, on one hand, to set clear rules for the continuing operation of universal postal services and, on the other hand, to put forward specific plans enabling them to establish the scope of this obligation.

For obvious reasons, the task of sensitizing national government officials to these needs has fallen on the traditional universal postal service operator, which has always been in charge of ensuring the provision of such service.

In many countries, the ability of the traditional universal postal service operator to fulfill its responsibilities has been ensured primarily by government funding of the countrywide postal network, by subsidizing all or part of its operations and/or by maintaining a monopoly to protect basic postal services.

This began to radically change in the late 1980s under the influence of four main factors: pressure from private enterprise; the effects of globalization; systematic changes in government policy driven by corporatization processes; and the global economic crisis.

The first effect of these changes on the postal environment was the debilitation of the traditional postal operator, whose investment capital dried up in the wake of the raging economic crises in so many countries, leading to the usual clamp-downs on government agencies.

The second effect of these phenomena was the haphazard \textit{de facto} if not \textit{de jure} liberalization of the postal markets of many countries. The problem was not the institution of free market principles per se, but the fact that such principles applied only to the private enterprises penetrating the market, without imposing any requirements on them whatsoever, while the traditional universal postal service operator was denied government funding though required to continue to maintain the nationwide postal network.

Thus, private operators (courier companies in particular) grew steadily stronger, targeting the most lucrative service areas, while the traditional operator grew steadily weaker in the absence of clear regulations and an action plan to ensure the continued maintenance of the postal network.

Thanks to international developments in postal regulation and the universal postal service and countless consciousness-raising measures targeted at government officials, many governments have come to recognize the need to establish a legal framework for the postal sector.
However, in order to take deep-seated, lasting measures to turn around the current situation in certain countries, stakeholders directly involved in these matters need a specific, simple tool to help them craft a plan for the implementation of the universal postal service as part of a broader-based reform process.

This Module, which consists of three sections and a series of annexes, is designed to facilitate the task of framing a plan for the implementation of the universal postal service and, as such, to be used by corresponding planners as the basis for their work.

Section I discusses the underlying principles of the universal postal service and addresses a number of issues underscoring the importance of the concept of the universal postal service and the obligation of government to ensure the sustainable operation of such services.

Thus, this Module provides practical guidance for a clear understanding of the scope of work involved in the demarcation of the universal postal service, its inclusion in domestic legislation and the framing of specific action plans for expanding service operation.

Section II addresses the issue of the demarcation of the universal postal service and the organization of development efforts in different areas as the basis for the establishment of nationwide universal postal service.

It talks about the pivotal importance of the decision-making process for the demarcation of the universal postal service as the basis for market organization, the future development of postal services and the postal sector and for building the capacity of the postal sector to help promote national economic growth and development.

Among other things, it looks at decisions with respect to universal postal services, service delivery conditions and applicable legal instruments.

Lastly, Section III deals specifically with the issue of universal postal service financing, underscoring the pivotal importance of universal postal service funding in ensuring the long-term sustainability and viability of these mandatory government services.

Thus, the Module is designed to serve as a reference aid and tool for the complicated task of establishing a framework for the operation of postal services, bearing in mind differences in conditions at the country and international levels and differences in the conceptual framework for the development of the universal postal service.

Accordingly, the officials in charge of these tasks will need to examine national policy and development planning issues for the formulation of a proper strategy leading to the approval of a regulatory framework helping to ensure the future of the universal postal service.
SECTION I

UNDERLYING PRINCIPLES OF THE UNIVERSAL POSTAL SERVICE
CHAPTER 1. PRINCIPLES OF THE UNIVERSAL POSTAL SERVICE

1.1. DEFINITION

To begin with, we need to fully grasp the meaning and scope of the concept of so-called “universal postal service,” the focus of this Module, which is examined in depth on the following pages of the Guide, for a clearer understanding of this concept and to promote its effective implementation.

According to the general definition of this concept:

"Universal postal service refers to the basic postal services which the government has pledged to guarantee all segments of the population on a continuing basis, with a specific standard of quality, at affordable prices."

The importance of a clear understanding of this definition warrants a more in-depth look at each of its core elements.

First, by definition, the universal postal service is a government obligation. Government has an obligation to protect the right of communication as a basic human right. As society has evolved, government has had to take on the responsibility for ensuring the exercise of different types of human rights, including the right to essential services or services affected with a public interest.

Secondly, again, by definition, the main characteristic of such services is their universality, as services guaranteed to all members of a nation’s population regardless of their location, race, religion, social status, etc. Moreover, the government’s obligation is a continuing obligation which cannot be allowed to lapse, given the type of rights protected thereunder. Basic human rights do not come and go. They are inalienable rights.

Furthermore, according to this definition, the universal services to be guaranteed by the government are basic services to be provided under specific conditions meeting a given standard of quality, at prices which are affordable for all segments of the population.
It is important to be clear, from the outset, that the concept of universal service refers to the availability of essential postal services affording a level of postal communication promoting social cohesion and bringing together people and communities, as an integral part of the quality of life in modern society.

Attempts to define and differentiate the concept of universal service or universality frequently mistakenly confuse it with considerations of profitability and geographic coverage. Thus, universal service is often considered synonymous with the notion of “loss-making services” or “service to rural or remote areas.”

The concept of universal service refers to both profit-making and loss-making services and to urban service in densely populated cities as well as to service to rural, remote, sparsely populated areas. Universal postal services are made available to both individuals and businesses. Individuals benefiting from the universal postal service are entitled to enjoy the right to send as well as receive postal communications. Sending and receiving mail entails both social and business or commercial communications.

Applying the definition of the concept of the universal postal service to all industrialized and developing countries alike translates the notion of the universality of basic postal services meeting specific standards of quality into reality. It also lays the foundation for reducing disparities and differences in service delivery conditions to protect communication rights, regardless of location and circumstances.

Thus, guided by this definition, the discussion of the universal postal service presented in this Module is designed to foster a better understanding of this concept and promote its dissemination and effective implementation.

1.2 LEGAL PRECEPTS

The point of departure for examining the underlying principles of the concept of universal postal service is a look at how it relates to basic human rights and to constitutional and international law. The organization of society into sovereign States governed by the rule of law provided the impetus for the crafting of national political constitutions establishing individual rights and obligations, as well as the obligations and responsibilities of legally constituted governments.

Thus, governments have taken on the responsibility for protecting basic human rights, one of which is the right of communication, which involves different forms of communication such as postal services.
Whether the constitution explicitly or tacitly refers to postal service, the inviolability of the mail or the unassailability of the right to privacy, governments have traditionally reserved themselves the exclusive right to engage in certain strategic activities or operate certain public services as a way to monitor and oversee their delivery and development.

The United Nations Universal Declaration of Human Rights, adopted and ratified by United Nations member countries in December of 1948, deals with issues with direct ties to postal service in several of its articles.

Article 12 of the Declaration of Human Rights, dealing with the protection of privacy rights, expressly refers to a person’s right to the protection of his or her mail, as reflected in the following text.

“No one shall be subjected to arbitrary interference with his privacy, family, home or correspondence, nor to attacks upon his honour and reputation. Everyone has the right to the protection of law against such interference or attacks.”

(Emphasis added)

Later on, the text of article 19 dealing with freedom of opinion and expression, also applies to postal service, establishing a person’s right to receive and convey information and opinions. The complete text of this article reads as follows:

"Everyone has the right to freedom of opinion and expression. This right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers."

(Emphasis added)

Finally, article 25, which addresses the right to a proper standard of living, also relates to postal service in establishing a person’s right to the assurance of necessary social services.
The pertinent portions of the text of this article are reproduced below.

"Everyone has the right to a standard of living adequate for the health and well-being of himself and his family (...) and necessary social services, and the right (...)"

(Emphasis added)

In the Americas, the American Convention on Human Rights, known as the “Pact of San José, Costa Rica,” signed by area governments in November of 1969, reaffirmed the recognition of basic human rights at the global and regional level, establishing similar legal precepts.

Moreover, more than a century ago, governments around the world agreed to join together under the aegis of the Universal Postal Union in 1874, forming a single territory to make the notion of the universality of postal service a reality, looking to lay the necessary foundation for discharging their responsibility to ensure universal communications through the provision of effective postal services.

In ratifying the Constitution of the Universal Postal Union, member countries agreed to form a single postal territory for the operation of universal services subject to standard guidelines and regulations to ensure the consistency of such services in all UPU countries. The Constitution, the Universal Postal Convention and the international treaties signed by member countries are legally binding on all parties, securing specific commitments from their signatories without which the existence of a worldwide postal network as the basis for the operation of domestic and international postal services in each country would not have been possible.

Thus, the existence of a single postal territory is vital to the concept of the universal postal service, as discussed later in this Module.
CHAPTER 2. THE CONSUMER PUBLIC

2.1. PUBLIC SERVICES

In general, a country’s political constitution and institutional framework expressly allow for government intervention in economic affairs, sanctioning government oversight of domestic markets for goods and services.

Accordingly, from time to time, the government will reserve itself ownership rights and exclusive rights to certain strategic activities or public services, where justified by reasons of national sovereignty or by the public interest, without this endangering economic freedoms.

So-called “essential public services” have changed with the modernization of government and today’s global market economy. Social development requires increasingly large infusions of government funding for the provision of essential services, which are getting harder and harder to come by due to financial constraints. Health and education services are still given top priority.

Against the backdrop of a globalized marketplace and market economy, service industries are being gradually liberalized and opened up to private competition, with regulation and government regulatory functions taking on increasing importance. The goal in infrastructure service sectors such as ports, airports, power, telecommunications etc., depending on the specific characteristics of ongoing activities in each sector, has been to modernize and improve the availability of such services by expanding access and service coverage, improving quality and lowering costs through sector development policies and mechanisms designed to improve market conditions to help foster growth and investment. As public services, postal services are also affected by trends in the prevailing economic environment, if somewhat more slowly.

There is a large private presence in the high-income express mail segment of the postal market open to free competition, with limited-coverage service networks confined to more lucrative geographic areas.

As far as regular mail services are concerned, exclusive rights to operate certain services and universal service obligations in all geographic areas, including loss-making areas, require more stringent controls over this market segment to guard against cream-skimming in more lucrative service areas such as densely populated urban areas with high concentrations of business and industry.
Looking ahead to the immediate future, market conditions require a clear, nationwide, sector development policy and more transparent regulations as a basis for the development of the postal industry to continue to ensure universal access to basic postal services.

The growth of the national economy is contingent on regular contributions from all national infrastructure sectors, including the postal sector. Thus, basic postal services need to be expanded to effectively contribute to the nation’s growth.

Balancing supply and demand requires an all-out effort on the part of government in terms of policy-making, planning and investment to bring the level of service in line with market demand. Module IV of the Guide devotes an entire section to the universal postal service operator.

### 2.2. GOVERNMENT OBLIGATIONS

The section of the previous chapter discussing the legal precepts underlying the concept of the universal postal service touched on the subject of the obligations of government with respect to public services in general and postal services in particular. However, this issue warrants a more in-depth discussion. Government obligations with respect to a public service like the postal service stem from two main sources. First and foremost, they are rooted in the concept of basic human rights, which requires the government to ensure that everyone has the opportunity to exercise such rights by guaranteeing the continuing availability of essential services.

Secondly, for historical reasons, virtually all governments regard the postal service as a strategic economic activity affected with a public interest, compelling them to monitor and oversee postal market operations. In order to properly discharge its obligations, it is vital that government clearly understand the role and impact of the postal industry and postal services on society and on the national way of life as an important core infrastructure factor contributing to nationwide economic growth and development.

Thus, it is up to government to set development policy for the postal industry, to establish the legal framework setting ground rules for the postal market and to determine how postal services are to be operated and how postal regulatory functions are to be discharged. Module V of the Guide specifically addresses the issue of regulation.

Countries able to gradually and systematically meet such obligations have developed an infrastructure component fostering economic and social development, with effective, high-quality, high-tech services in which the country makes regular investments to sustain the level of service and ensure continuing service to all segments of the population, without this being a drain on the public treasury.
2.3. NATIONAL DEVELOPMENT

In general, postal services still play a major role in transactions between businesses and individuals, both in terms of postal communications per se, through the carriage of mail, and with respect to the movement of merchandise through postal parcel service and the transferring of funds via postal money order, remittance and payment services. For many communities, postal services are an engine of social integration and a means of providing a government presence to promote access to information and trade.

In fact, according to a recent World Bank report, for most countries, postal service is the most common basic communications medium. In parts of certain countries, the official postal service is the only service connection for the entire local population, as well as the most important communications medium for business and trade.

Postal services in industrialized countries have been an engine of economic and social development, playing an important role in the expansion of transportation and banking services, retail sales, the publishing industry, direct marketing activities, as well as many other types of business activities.

Postal services in these countries are the foundation for the entire commercial invoicing system for transactions between different businesses and between businesses and individuals, moving enormous sums of money in payment of outstanding invoices, which keeps the economy going and, depending on the efficiency of postal service, drives the economic system ahead more rapidly, at a lower cost, operating as an engine of competitiveness for such countries.

In many developing countries, the postal service is caught up in a vicious circle in which poor quality curtails the use of the mails, reducing revenues, creating deficits and engendering underinvestment.

In such case, a special effort by government to ensure the fulfillment of its universal postal service obligations and ensuing postal reforms can turn this vicious circle around into a so-called “virtuous” circle of high quality service, greater use of the mails, higher revenues and stepped-up investment, in which postal services end up buttressing national development efforts. Postal service has enormous growth potential. More developed economies with high GDP (gross domestic product) also have higher postal revenues. Calculations of the value of postal revenues per US$ 1,000 of GDP are an extremely useful yardstick for assessing this developmental impact, demonstrating the correlation between good postal service management and a strong national economy. In G-8 countries, this indicator ranges from US$8.40 in Great Britain to US$7.22 in the United States, US$6.35 in Canada and US$6.18 in Italy. In contrast, in halfway economies, it varies from US$0.86 in Turkey, to US$2.4 in China, US$2.29 in Brazil and US$3.38 in South Africa. Korea,
a nation whose GDP has grown significantly over the last twenty years, is showing US$7.09 in postal revenues per US$1,000 of GDP.¹

Countries whose postal service is not reliable enough to be fully utilized by most consumers and businesses are not only failing to serve the general public but are putting a large financial burden on all members of the population by forcing them to resort to higher-cost alternatives to meet their social communication needs, such as courier service, telephone service or digital media. These communications media not only charge customers higher prices but are not universally accessible and, in many cases, are used only when absolutely necessary.

Private international courier and delivery services confine their operations to large cities, offering higher-priced document and merchandise delivery services. Their contributions to the local economy are limited, and any earnings and other economic benefits are generally exported to their overseas headquarters. Such a situation may also force consumers and businesses to hire their own couriers or to personally go to the bank to get a simple financial statement and, in general, to waste more time and money for lack of good postal service. Thus, efficient universal postal service capitalizing on the well-documented economies of scale engendered by the collection, processing and delivery of mail would enable domestic consumers and businesses to meet crucial basic communications and small package delivery needs as effectively and economically as possible. Accordingly, postal service also helps promote the development of a key sector of activity, namely the domestic business sector.²
CHAPTER 3. UNIVERSAL POSTAL CONVENTION

3.1 UNIVERSAL POSTAL SERVICE NETWORK

Local or, in other words, nationwide communications needs can be met by country efforts, infrastructure and funding, through the provision of domestic postal service. Service access and coverage and general standards of quality are contingent upon factors which can be controlled locally, at the country level.

The availability of in-demand services to satisfy such needs hinges on a combination of sound national policy decisions with respect to such services and legislation governing market organization and of needed human, physical and economic resources for service operation at the nationwide level.

Meeting communications needs involving other countries through the operation of the international postal service is another thing entirely. There are factors and situations at play at the international level which cannot possibly be controlled by any one country. These are multi-country operations in which exchanges of mail with any point on the globe involve all different countries, engendering situations which no one country can manage on its own.

Here, the Universal Postal Union plays a vital role in regulating exchanges of mail and ensuring universal access to postal service.

Together, the national postal services of all UPU member countries represent a fully globalized mail service, with interconnected networks and mailstreams using each country’s domestic infrastructure. Thus, the UPU has formed a worldwide postal service network which, in effect, is really an inter-networked network.

This worldwide network of domestic “universal postal service” networks carries over 450 billion physical mail items a year, operates over 660,000 retail offices serving the public and has a full-time workforce of over 5.5 million employees in charge of providing the universal postal service. This global universal postal service network utilizes a combination of different human, physical, economic and technological resources and elements to ensure the smooth flow of letters, messages, printed matter etc. via letter mail service, to move merchandise and all types of articles via the postal parcel service and to transfer funds through postal financial or payment services.

Customer needs and market conditions are making it increasingly necessary to standardize quality of service. Different bodies within the UPU have been addressing this issue, seeking to balance and reconcile existing differences to meet mutual country needs to satisfy demand. Thus, in line with decision making at the country level, the UPU has been working to establish basic specifications and set standards governing
core elements of service quality applicable to universal postal service providers around the world.

3.2. RULES COMMON TO COUNTRIES

3.2.1. Nature of country obligations

The basic obligations embodied in the UPU Universal Postal Convention are set by the Union’s member countries at the Congress of Plenipotentiaries, which normally meets every five years, but which, after the Bucharest Congress, will meet every four years.

UPU member countries attending this worldwide congress discuss and agree on the details of all rules and regulatory issues pertaining to postal service and their governments sign the Postal Convention and other specific agreements.

All signatories of the UPU Acts must be official delegates with the authority to legally bind their respective governments. Accordingly, they must be accredited by the UPU Congress as holding plenipotentiary powers granted by their government.

The Constitution is the UPU’s basic act containing its organic rules, while the Convention establishes common rules with respect to postal services. By nature, the UPU Constitution and its protocols and the Universal Postal Convention are international treaties.

3.2.2. Universal service and the UPU

The creation of the Universal Postal Union was the embodiment of the desire of its member countries to form a single postal territory to facilitate exchanges of mail items and the fulfilment of their obligation to provide certain basic services referred to as the universal postal service. This decision on the part of UPU member countries is the foundation for the operation of universal postal services. The text of article 1 of the Constitution reads as follows:
“Article 1. Scope and objectives of the Union

1. The countries adopting this Constitution shall comprise, under the title of the Universal Postal Union, a single postal territory for the reciprocal exchange of letter-post items. Freedom of transit shall be guaranteed throughout the entire territory of the Union.

2. The aim of the Union shall be to secure the organization and improvement of the postal services and to promote in this sphere the development of international collaboration. (...)”

Thus, the formation of a single postal territory with each country agreeing to the incorporation of its sovereign territory and existing postal service network laid the foundation for the provision of the universal postal service to all segments of society.

From this same starting point, the basic rules established under the Universal Postal Convention and its Detailed Regulations, as agreed to at UPU Congresses, have been regularly expanded and refined.

The general rules set by the provisions of the Universal Postal Convention and its Detailed Regulations governing the so-called single UPU postal territory are international legal mechanisms for the establishment of balanced universal postal services in UPU member countries. These same mechanisms have also helped make mail service the most extensive and accessible communications service available to individuals, businesses and communities.

Postal Services are capitalizing on breakthroughs in technology, particularly in new information and communications technology, to continue to expand and facilitate access to service, strengthening universal service coverage throughout the single postal territory serviced by the worldwide postal network.

3.2.3. Universal postal service obligations under the UPU Convention

New developments in the global environment and in public services and trends in globalization, market liberalization and free competition have engendered the need for certain provisions of the Universal Postal Convention to be made more explicit, particularly with respect to the universality of the postal services established by the UPU.
The interest displayed by private enterprise in getting involved in postal services and the gradual reduction in the scope of the monopoly enjoyed by public postal operators responsible for fulfilling the government’s universal postal service obligations are beginning to jeopardize continuing assurances of service delivery to all segments of the population in all geographic areas, unless appropriate regulations are implemented.

Growing competition, globalization and the deregulation of postal service have clearly engendered new practices on the postal market making it increasingly necessary for postal services to “commercialize” their operations.

In many countries, this radical change in the postal environment triggered a positive reaction to the need for modernization, enabling postal service operators to transform themselves into commercial business enterprises with the ability to generate enough income and high enough returns to ensure their financial self-sufficiency and future expansion and development. These reforms have helped them maintain and strengthen their market position and face up to the competition.

This trend towards the modernization and commercialization of Postal Services should not affect the social and cultural role played by postal service in the everyday lives of people and communities. Their modernization and internal cash generation capacity will only serve to make them more efficient and help them improve service to all areas, including loss-making areas.

This is why the member governments of the UPU decided to incorporate more specific universal service obligations into the amended version of the Universal Postal Convention adopted by the 1999 Beijing Congress to complement policies with respect to change, reform, the use of technology and quality of service emanating from UPU Congresses since as far back as the 1970s, so as not to lose sight of their basic commitment to maintain regular nationwide communications service for all segments of the population, at affordable prices, meeting certain minimum standards of quality.

The countries decided to define the obligations in the Universal Postal Convention under the basic precept of universal postal service, setting out in the article, “Universal postal service”, the following common rules binding on all member countries.
“Article 3. Universal postal service

1. In order to support the concept of the single postal territory of the Union, member countries shall ensure that all users / customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.

2. With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions.

3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service.

3bis. Member countries shall ensure the universal postal service is provided on a viable basis, thus guaranteeing its sustainability.”

These new provisions more explicitly establish the commitment undertaken by member governments to ensure that all segments of the population are able to exercise their right to universal postal service, confirming and underscoring their obligation to guarantee a basic right, namely the right of communication through access to postal service. They also require a specific level of universal postal service in stipulating that the rendering of such service involves the provision of basic postal services.

The article specifies the core services to be included under the concept of universal postal service, tying it directly to the basic postal services established under Article 12 of the Convention. It also sets specific conditions for the provision of universal postal services, stipulating that such services must have continuity, be of good quality and be offered at affordable prices for all segments of the population. These provisions supplement previous commitments, explicitly making the government responsible for the establishment of the universal postal service under domestic legislation in line with the provisions of the Universal Postal Convention and with local needs and circumstances.
Clearly, in establishing this commitment on the part of each country to clarify its domestic obligations through the enactment of new legislation, the updating of existing legislation or otherwise, the UPU member countries are indicating that decisions made by UPU members as sovereign, autonomous, independent nations are to comply with the general rules embodied in the Universal Postal Convention and, in particular, are to bear in mind the specific rules pertaining to universal postal service established in Articles 3 and 12.

The provisions of Article 3 go even further in requiring that the universal postal service operator in member countries effectively provide nationwide universal postal services meeting established service delivery conditions at the country level.

3.2.4. Basic services

The Universal Postal Convention has always established the basic postal services to be provided by UPU member countries, though their descriptions have changed over the years, in line with prevailing customs and practices.

The complete text of Article 12 of the Universal Postal Convention is reproduced on the next page.
“Article 12. Basic services

1. Member countries shall ensure the acceptance, handling, conveyance and delivery of letter-post items.

2. Letter-post items are:
   2.1 priority items and non-priority items, up to 2 kilogrammes;
   2.2 letters, postcards, printed papers and small packets, up to 2 kilogrammes;
   2.3 literature for the blind, up to 7 kilogrammes;
   2.4 special bags containing newspapers, periodicals, books and similar printed documentation for the same addressee at the same address called “M bags”, up to 30 kilogrammes.

3. Letter-post items shall be classified on the basis either of the speed of treatment of the items or of the contents of the items in accordance with the Letter Post Regulations.

4. Higher weight limits than those indicated in § 2 apply optionally for certain letter-post categories under the conditions specified in the Letter Post Regulations.

5. Member countries shall also ensure the acceptance, handling, conveyance and delivery of postal parcels up to 20 kilogrammes, either as laid down in the Convention, or, in the case of outward parcels and after bilateral agreement, by any other means which is more advantageous to their customers.

6. Weight limits higher than 20 kilogrammes apply optionally for certain parcel-post categories under the conditions specified in the Parcel Post Regulations.

7. Any country whose postal administration does not undertake the conveyance of parcels may arrange for the provisions of the Convention to be implemented by transport companies. It may, at the same time, limit this service to parcels originating in or addressed to places served by these companies.

8. Notwithstanding § 5, countries which, prior to 1 January 2001 were not parties to the Postal Parcels Agreement shall not be obliged to provide the postal parcels service.”
Universal Postal Convention provisions with respect to basic services have been adapted, expanded and refined in line with changes in the postal environment and market needs. The current text of Article 9 reproduced in the preceding text box is based on decisions taken by UPU member countries at the 2004 Bucharest Congress.

At the Beijing Congress, the UPU member countries had resolved to make a fundamental change in the concept of basic services as defined in the Universal Postal Convention by including postal parcel service for items weighing up to 20 kilogrammes as a basic service.

This addition to the definition of basic services which, traditionally, were limited to letter mail items reflects today’s new vision of current and future postal market needs, which is being gradually shaped by new technology, globalization, stepped-up trade and the need for value-added services. In the new postal environment, which has taken on an even more definite shape since the celebration of the Beijing Congress, postal parcel service is playing an increasingly important role in servicing postal market needs and demand.

Many developing countries will need to promptly take special measures to bring their postal service operations in line with their new commitment to offer parcel service as a basic postal service subject to the same service delivery conditions as letter mail service.

**In short, the basic services established under Article 12 of the Universal Postal Convention are mandatory core services which member countries have agreed to include in their legal definition of nationwide universal postal service.**

### 3.3. ACTION-ORIENTED GOVERNMENT DECISIONS

In addition to decisions taken by member countries at UPU Congresses with respect to the Universal Postal Convention and its Detailed Regulations, Union members also make decisions on strategic plans and programmes for specific courses of action in different areas and on different issues, establishing the role of the various stakeholders in the postal sector. Such decisions establish a framework for action by member governments, postal administrations, restricted postal unions and standing UPU bodies for the period following the Congress.
The Bucharest World Postal Strategy (BWPS) defines strategic orientation for 2005-2008. It outlines five main objectives:

- Universal postal service
- Quality of service and efficiency of the postal network
- Markets and responding to customer needs
- Postal reform and sustainable development
- Cooperation and interaction among stakeholders

Objective 1. **Universal postal service** is presented in the BWPS as follows:

> “Ensure the provision of a good quality, affordable universal postal service, allowing effective communication between people around the world.”

Specific actions included in the BWPS are clearly presented, as follows:

### Objective 1: Universal postal service

**Ensure the provision of a good quality, affordable universal postal service, allowing effective communication between people around the world.**

**Overall results expected:**

- A greater number of countries with a definition of universal postal service in their national legislation.
- A greater number of countries applying the criteria and rules concerning universal postal service access, content and quality.
- A reduced level of postal exclusion: increased access to the collection and delivery of letter-post items and other products and services defined as elements of universal postal service.

#### Programme 1:

*Universal postal service regulation and criteria. Authorizations/licences*

**Aims of programme:**

- increase the number of member countries that have defined and developed a regulatory framework setting out the conditions and criteria for universal postal service provision;
- increase the number of countries implementing measures and activities required for the provision of an accessible, affordable, good quality universal postal service;
- increase the number of countries providing an accessible, affordable, good quality universal postal service which satisfies customers and takes account of market requirements.
<table>
<thead>
<tr>
<th>Strategies to be implemented by the various parties</th>
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<tr>
<td><strong>Government</strong></td>
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<tr>
<td>Define and delimit the content and scope of the universal postal service (products and services offered, level of coverage) and ensure that these rules are incorporated into the appropriate legislative and regulatory texts.</td>
</tr>
<tr>
<td>Define minimum quality objectives for the universal postal service in order to meet the expectations of the population.</td>
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<td>Conduct studies on the level of postal exclusion.</td>
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<td>Designate the operator(s) responsible for fulfilling the universal service obligation.</td>
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<tr>
<td>Participate in UPU activities and projects on definition of the universal postal service, and in particular on definition of models that take account of differences in levels between countries.</td>
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</tr>
<tr>
<td>Take the necessary steps to implement the minimum quality objectives for the universal postal service defined by the government.</td>
</tr>
<tr>
<td>Expand access to collection and delivery of universal postal service products and services to geographical regions in which the postal service is non-existent or limited.</td>
</tr>
<tr>
<td>Using new communication and information technologies where appropriate, develop products and services that meet the criteria for accessible, affordable, good quality universal postal services.</td>
</tr>
<tr>
<td>Publish and disseminate the list of products and services provided as part of the universal postal service, including their prices.</td>
</tr>
<tr>
<td>Participate in UPU activities and projects on definition of the universal postal service, and in particular on definition of models that take account of differences in levels between countries.</td>
</tr>
<tr>
<td><strong>Restricted Unions</strong></td>
</tr>
<tr>
<td>Promote the use of new technologies in the provision of the universal postal service.</td>
</tr>
<tr>
<td>Develop initiatives aimed at harmonizing and improving provision and coverage of the universal postal service at regional level.</td>
</tr>
<tr>
<td>Disseminate information and best practices at regional level on the definition of criteria for an accessible, affordable, good quality universal postal service which satisfies customers.</td>
</tr>
<tr>
<td>Participate in UPU activities and projects relating to definition of the universal postal service and to technical cooperation geared towards its development.</td>
</tr>
</tbody>
</table>
Permanent UPU bodies
Continuously update and provide member countries with guidance on the definition of standards and criteria for the universal postal service in terms of quality, accessibility and customer satisfaction.

Develop activities and projects, in particular on definition of universal postal service models that take account of differences in levels between countries.

Develop technical cooperation projects aimed at improving and extending universal postal service provision at international level.

Disseminate information on models and standards for provision of the products and services comprising the universal postal service.

<table>
<thead>
<tr>
<th>Programme 2: Financing of the universal postal service</th>
</tr>
</thead>
</table>

**Aims of programme:**

- increase the number of member countries that have defined the conditions for funding the universal postal service, or have found alternative funding methods for providing the service under optimum conditions;

- develop technical cooperation activities and make available tools and methodologies to assist with the pricing of universal postal service services.

**Strategies to be implemented by the various parties**

**Government**
Define the regulatory framework laying down the conditions for universal postal service funding.
Define universal postal service pricing rules.
Designate the entity responsible for universal postal service pricing.
Participate in Restricted Union and UPU activities aimed at developing universal postal service costing and pricing methodologies.

**Public postal operator**
Apply/improve universal postal service costing systems and implement cost reduction measures.
Offer products and services responding to the pricing conditions defined so as to ensure access to the universal postal service.
Publish and disseminate the list of products and services provided as part of the universal postal service, including their prices.
Participate in UPU and Restricted Union activities and projects on universal postal service costing and pricing.
Restricted Unions
Develop initiatives aimed at developing costing and pricing methodologies for the universal postal service at regional level.
Disseminate information and best practices at regional level.
Participate in UPU activities and projects in this area, along with technical cooperation activities aimed at disseminating the methodologies developed.

Permanent UPU bodies
Support activities geared towards the development of methodologies for defining the universal postal service cost structure.
Disseminate these methodologies to Union member countries.
Monitor the degree of development of these methodologies and disseminate the results.

Programme 3:
Status of the universal postal service

Aim of programme:
– provide information on the status of the universal postal service around the world.

Strategies to be implemented by the various parties

Government
Monitor the degree to which the universal postal service operator has fulfilled its obligation.
Disseminate the results obtained.

Public postal operator
Publish and disseminate the list of products and services provided as part of the universal postal service, including their prices.
Participate in UPU activities and projects aimed at disseminating information on the status of the universal postal service around the world.

Restricted Unions
Disseminate information and best practices at regional level.
Participate in UPU activities and projects on the status of the universal postal service around the world.

Permanent UPU bodies
Monitor the degree of development of the universal postal service around the world, including technical cooperation activities geared towards its development, and disseminate the results.
Disseminate information on best practices.
SECTION II

DETERMINING THE UNIVERSAL POSTAL SERVICE
CHAPTER 1. IMPLEMENTATION OF THE UNIVERSAL POSTAL SERVICE

1.1. NEED TO DETERMINE THE UNIVERSAL POSTAL SERVICE

The definition of the universal postal service presented in section I explains the concept and briefly outlines the features of such services.

However, in and of itself, this definition of the universal postal service does not allow for a full and complete grasp of the real meaning of this concept, given the broad scope of this issue and the different factors implicitly involved. The effective implementation of government-guaranteed, mandatory, individual and community services requires the explicit demarcation and specification of such services.

Thus, the meaning of the universal postal service needs to be expressed in more concrete terms clarifying the scope of the government’s obligation, so that the public-at-large and each and every member of the population understands exactly what the government is really guaranteeing as a universal right.

1.2. WHAT TO DETERMINE

There are three main elements which need to be explicitly mapped out for a clear understanding of the right of all members of a nation’s population to specific postal services:

a) Included services
   The specific type or class of service included in the government’s universal postal service obligation.

b) Service delivery conditions
   The specific form in which included services are to be offered to all members of the population.

c) Service financing and operation
   The responsibility of government to ensure service delivery under economic conditions allowing for the sustainable financing of corresponding operations.

At a minimum, the starting point for the mapping out of these three elements is the country’s international obligations under the Universal Postal Convention and its Detailed Regulations. The country will then need to make decisions on the types of services and conditions to be added to these obligations.
The starting point for country decisions with respect to the classes of service to be included under the concept of universal postal service is letter mail and parcels up to 20 kilogrammes in weight. The basic considerations in establishing service delivery conditions are accessibility, speed, reliability, security and accountability for claims ensuring an acceptable standard of quality. Decisions with respect to service financing must ensure that the service operator has sufficient long-term sustainable income to cover service delivery costs and finance regular investments in its modernization and development.

1.3. THE DECISION-MAKING PROCESS

It is the task of postal officials to push through necessary country decisions in a decision-making process which begins with the government (the executive), initiated by the postal operator and supervisory ministry for the postal sector, shifts to the legislature, to the national congress, which passes the postal act establishing the universal postal service and an appropriate legal framework, and then shifts back to the government for the effective implementation of such decisions in postal service operations on the postal market through the postal operator and regulatory authority.

This decision-making process for the determining and establishment of nationwide universal postal service consists of a series of sequential steps and activities for the attainment of targeted outcomes. It requires inputs from postal sector entities, as well as from other areas of government such as national planning and finance. It also requires timely inputs from other interested stakeholders for consensus-building purposes, such as customers, unions and representatives of private service operators.

The universal postal service demarcation process is designed to assemble all required information and research data for conducting necessary studies as the basis for sound decision making. At a minimum, the successful mapping out of the universal postal service is a sequential four-step process, as outlined below.

1.3.1. Assessment of the status of nationwide postal services

This is the preparation stage, devoted to collecting the following types of timely, accurate information:

♦ country data;
♦ legal texts;
♦ postal market studies, quantitative and qualitative market data, projections;
• data on economic and operating conditions for service delivery by the universal postal service operator;
• national government policy for the postal sector;
• development plans for the postal sector and universal postal service operator.

1.3.2. Decision making by the national government

In this stage, the supervisory ministry for the postal sector makes decisions on the following matters based on studies conducted by postal entities (the postal operator and/or regulator):

• the proposed blueprint for nationwide universal postal service: types of services, service delivery conditions, service financing and operation;
• the drafting of a proposed postal act establishing universal postal services and an appropriate legal framework for their implementation;
• the framing of a development plan for the universal postal service and the postal operator.

1.3.3. Decision making by the national congress

In this stage, the government introduces and defends the proposed postal act establishing universal postal services and an appropriate legal framework for the due and proper fulfillment of its universal postal service obligations in congress. This step includes:

• discussions of the bill and passage of the act establishing and mapping out nationwide universal postal services and a corresponding legal framework.

1.3.4. Implementation of universal postal services and the established legal framework

This stage begins the process of carrying out the mandates established under the postal act and implementing necessary investment plans for the modernization of postal services, including:

• the issuance of implementing regulations under the postal act, universal postal service regulations, and market and service regulations;
• the implementation of development plans for the public postal operator and of universal postal service development plans.

The pace of decision making by the national government and national congress will depend on the availability of required information and the promptness with which necessary studies are conducted.
CHAPTER 2. STATUS OF NATIONWIDE POSTAL SERVICES

2.1. NATIONWIDE GEO-POLITICAL AND SOCIO-ECONOMIC CONDITIONS

Understandably, the framing of national strategies with respect to public services requires a familiarity with the unique characteristics of each country. The different geographical and cultural factors at play and the different population groups, forms of political and social organization and economic environment in each country require a case-by-case study.

All of these factors have to be taken into account in studying the specific circumstances surrounding the operation of postal services in a given country for the public-at-large and for the different communities in such country.

In general, for government organizational and administrative purposes, a nation’s territory is divided into different “hierarchized” geographic areas commonly referred to as political subdivisions or administrative areas or districts. Depending on the type of political subdivisions and the central or federal government structure, each level of government is involved in some way or other in delivering services to the area under its jurisdiction.

In addition to geographical information and data, it is also necessary to collect population data. It is extremely important to have national census data showing the size of the population of cities, towns, villages and hamlets around the country and the population breakdown by rural and urban area, gender, age, education, income bracket, etc.

Basic socio-economic development data is important as a source of information on health, education, housing, nutrition, birth and mortality rates and poverty conditions, among other factors. In some cases, these measurements of social development will vary from one part of the country to another, affecting the emphasis of government policies designed to reduce social disparities and inequities.

It is also important to consider economic infrastructure factors, including road, air, ocean and railway transportation and inland navigation systems. General information and data on other residential public utility services such as water, gas, electricity, sewerage, refuse collection and fixed and cellular telephone service, etc. is equally essential.

It is important to know how many households in the country have electricity and piped water and the number of telephone lines nationwide.

The status of these public utility services can also be expressed in the form of development indicators, such as the percentage of the population with electricity service, the percentage of the population with a safe water supply, the number of fixed telephone lines per 100 inhabitants, etc.
The level of development of business and industry and the main types of business and industrial activities engaged in by the nation's population are especially important considerations for postal service purposes. Figures for GDP, per capita income and for other national economic development indicators are all important study data.

Table N° 1 below contains a sample list of important national geopolitical and socio-economic data.

### TABLE N°1
General country data

<table>
<thead>
<tr>
<th>GEO-POLITICAL DATA</th>
<th>INFRASTRUCTURE</th>
<th>SOCIO-ECONOMIC DATA</th>
</tr>
</thead>
<tbody>
<tr>
<td>SURFACE AREA</td>
<td>DRINKING WATER</td>
<td>LITERACY RATE (%)</td>
</tr>
<tr>
<td>GEO-POLITICAL ORGANIZATION</td>
<td>ELECTRICITY</td>
<td>LIFE EXPECTANCY (Years)</td>
</tr>
<tr>
<td>POPULATION (Most recent</td>
<td>TELEPHONE</td>
<td>POVERTY RATE (%)</td>
</tr>
<tr>
<td>census data)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Breakdown by:</td>
<td>CONNECTIVITY</td>
<td>PER CAPITA INCOME (US$ per year)</td>
</tr>
<tr>
<td>POPULATION DENSITY Inhab,</td>
<td>AIRPORTS</td>
<td>GROSS DOMESTIC PRODUCT (GDP-US$)</td>
</tr>
<tr>
<td>WORKING POPULATION (#) and/or (%)</td>
<td>RAILROADS Kms</td>
<td>GDP GROWTH RATE (% last 5 years)</td>
</tr>
<tr>
<td>MAJOR CITIES (5 to 8) and population</td>
<td>REFINERIES (Oil)</td>
<td>GDP GROWTH RATE (%)</td>
</tr>
<tr>
<td>NATIONWIDE NUMBER OF HOUSEHOLDS</td>
<td>ROAD NETWORK Kms</td>
<td>MAJOR TYPES OF PRODUCTION AND EXPORTS</td>
</tr>
<tr>
<td>AVERAGE HOUSEHOLD SIZE</td>
<td></td>
<td>EXPORTS – YEAR (US$)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>IMPORTS – YEAR (US$)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>FOREIGN DIRECT INVESTMENT (US$)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>INFLATION RATE (% last 5 years)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>DEVALUATION RATE (% last 5 years)</td>
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<tr>
<td></td>
<td></td>
<td>UNEMPLOYMENT RATE (% last 5 years)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>LEGAL MINIMUM WAGE monthly (US$)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>EXCHANGE RATE local currency per 1 US$</td>
</tr>
</tbody>
</table>
2.2. STATUS OF POSTAL SERVICES

2.2.1. Legal instruments

Normally, the foundation for the development of business and industry is the text of domestic legislation establishing the legal framework for such activities.

In this case, regardless of whether or not existing legislation has been updated in response to social and economic needs, it is important to be sufficiently familiar with legal instruments governing the operation of postal services. Service delivery and market organization are both contingent on the types of rules laid down as part of the established legal framework for postal service. It is also important to be acquainted with implementing regulations for the principles and mandates established in the postal act, as well as with related legislation affecting postal service such as constitutional provisions and consumer protection regulations, regulations promoting competition and free enterprise, customs regulations, regulations governing transportation services, etc.

The main provisions of the postal law, generally referred to as the postal act or postal service act, which need to be examined at greater length for study and discussion purposes are those establishing the legal nature of postal services, the types of activities and services regarded as postal activities and services under the law, the classification of postal services, the obligations of government and the services assigned to the official postal operator, provisions with respect to international obligations and provisions establishing service operating and regulatory systems and the organizational structure of the official postal operator.

- Legal nature of postal services. In general, legislation governing public services will specifically allude to the public nature of such services to justify their subjection by the government to constitutional provisions. The nature of public services may be expressed in such legislation through a variety of different terms such as essential services, services vested with a public interest, etc. Thus, there is generally a reference to the public nature of postal services, though the actual term used in each country to designate such services may vary. Some countries, for example, use the term mail service, while others use postal service.

- Postal activities and services. The rendering of postal services involves a variety of different operations such as receiving, processing or sorting, forwarding or transportation, delivery, etc. The text of legislation or corresponding implementing regulations often includes provisions to this effect, specifying the types of operations regarded as postal-related and the types of services legally defined as constituting postal activities and, thus, subject to specific operating conditions.
Classification of postal services. Legislation governing postal or mail services normally distinguish between different classes of service and may tacitly or explicitly establish a service classification system according to the type or content of mail items, their delivery time or geographic destination or, in some cases, the customer segment. Postal services are most often classified according to the content of mail items and their delivery time or priority. In general, postal services are used for a variety of reasons involving considerations such as content, speed, weight, form of delivery and destination and should be classified accordingly.

Government obligations. The law may directly and expressly or indirectly and implicitly establish the government’s obligations with respect to the provision of postal services. In the case of a total or partial monopoly, the law generally makes the official postal operator responsible for fulfilling the government’s obligations, specifying the postal services to be provided by such operator. Such services include mandatory domestic and international services.

Compliance with international obligations. The postal legislation of all UPU member countries includes provisions requiring the fulfillment of their obligations under the Universal Postal Convention and delegating the task of meeting such obligations to the official postal operator. United Nations member countries incur postal service obligations as members of the Universal Postal Union at the regular Congresses celebrated by such organization. Acts by UPU Congresses have the force of international treaties signed by its member countries. The Universal Postal Convention contains provisions establishing general rules applicable to all member countries with respect to basic services (letter mail and parcel service) and other special postal services.

Service operating system. In general, long-standing postal legislation established or establishes service operating systems consistent with the existence of a full monopoly, in which all postal or mail services are provided by a single nationwide public postal operator. However, with the radical changes over the last few decades in postal needs and services, in the postal market and in service delivery practices, postal legislation has been amended to open up the postal sector to private enterprise and enable private service operators to furnish specific services under a partial monopoly or system of reserved services for the official postal operator.

Under this type of system, the official postal operator is assigned specific services and granted compensation and exclusive rights to do business on specific market segments. Private operators are allowed to do business under special licenses issued by the
government, the regulatory agency for the postal sector and, on occasion, the public postal operator itself, subject to specific conditions and requirements.

- **Regulatory system.** Conditions in the current postal environment characterized by a free market system and free competition have made it necessary to separate government regulatory functions from operational matters. Such regulatory functions are assigned to different types of bodies, depending on conditions and circumstances in each country and on each market. In some cases, such functions are assigned to a specialized unit within the supervisory ministry for the postal sector. Other countries have a single-sector or multi-sector regulatory agency for the performance of such functions.

In still other cases, there are specialized regulatory bodies for the postal sector operating as independent, autonomous entities with independent legal standing and assets, where permitted by conditions within the government and on the market and the level of industrial development in the postal sector.

Regulatory functions normally include the power to issue implementing regulations under existing legislation and to further sector policy and plans. It is also up to the regulatory body to ensure the continued fulfillment of government obligations and control the services furnished and prices charged by the public operator.

On the market, the regulator is responsible for overseeing and monitoring compliance with regulations governing service delivery conditions, protecting consumer rights and ensuring fair competition. Studies of current legislation will need to be rounded out by information on how the provisions of such legislation are being implemented and enforced on the postal market.

In most cases, the root of the current problems faced by public postal operators lies largely in the violation and unenforceability of existing laws and regulations. The ineffectiveness of postal legislation is not only a reflection of its obsolescence, but also of its unenforceability, or of the lack of effective enforcement mechanisms.

Last but not least, the study of existing legislation must include a look at how well the existing legal framework allows postal services to help further national development processes.

The postal sector helps spur economic growth and national development when services are geared to nationwide needs and postal activities are on par with other national infrastructure sectors such as the telecommunications and power sectors, etc. in terms of their growth, investment and modernization.
2.2.2. Postal market

For some time now, the postal sector has been giving a great deal of weight to market issues. However, quantitative and qualitative information and data on supply and demand for postal services still need to be studied more methodically.

In some cases, information on the magnitude of effective demand for postal services is limited at best. We may know what percentage of the market is serviced by the public postal operator, but information on demand for basic postal services and on the volume of such items handled otherwise than by the public operator is extremely limited at best.

Not all countries have available data on their postal market and even fewer use such data in the normal course of business by the postal sector or the public postal operator. Those in charge of collecting data on mail volume and countrywide sector development indicators, such as the number of mail items per person per year etc., need to realize that such data excludes large segments of the market serviced by operators other than the public postal operator.

To better understand the postal market, the best place to begin is by examining the role of postal services in the national economy. The postal sector satisfies economic communication, payment and service complementation needs and provides essential backward and forward linkages at the very core of business, government, consumer and individual activities.  

Figure N° 2 graphically illustrates the position of the postal service in modern market economies and its pivotal role in linking buyers and sellers, expediting business transactions and filling purchase orders. At the highest level, mail service brings together businesses and consumers for trade and communication purposes.
Nowadays, postal activities are a product of the interplay of a mix of different market-related factors with supply and demand for postal services, as illustrated in Figure N° 3 below. On one side are demand-generating customers, in the form of businesses and individuals, with their corresponding needs and expectations. On the other side are supply-generating service providers in the form of postal operators, with their service facilities and networks.

**FIGURE N° 3**

**INTERPLAY OF MARKET FORCES**

| Urban National International FOR Letters Printed matter Packages VIA Regular mail Express mail Electronic mail |
|---|---|---|---|---|
| Flow of demand from businesses and individuals | Level of service | Level of prices | Value added |
| B to B | B to I |
| I to B | I to I |
| Measurement Indicators |
| Sector policy and regulations Legal and regulatory framework |

Demand-side needs and supply-side activities both generate business involving regular, express or electronic urban, domestic and international products or services for letters, printed matter, packages, etc.

The last factor in the mix has to do with the legal conditions at the country level and within the postal sector governing the interplay of all market activity flows. These market dynamics produce specific levels of service at different levels of development, which can be quantified through specific measurements. The flows depicted in Figure No. 3 produce business-to-business (B2B), business-to-individual (B2I), individual-to-business (I2B) and individual-to-individual (I2I) service interfaces representing specific shares of total mail volume. Most mail is generated by businesses (over 85% of total mail volume) and addressed to individuals (over 70% of total mail volume).

Quantitative data on the annual volume and value of business, expressed in terms of the number of items and their local currency value, is especially important for an assessment of the domestic postal market. Figures on the value of business should also be expressed in U.S. dollars for purposes of making cross-country comparisons.
Postal market data must be sufficiently disaggregated to show patterns and trends in different types, classes or categories of service. In general, postal market services are broken down according to their specific features and operating conditions, as outlined in the following text box.

<table>
<thead>
<tr>
<th>♦ Postal line of business:</th>
<th>Regular or traditional mail services and specialized express mail or courier services</th>
</tr>
</thead>
</table>
| ♦ Destination of mail items: | Urban  
Domestic  
International |
| ♦ Type of customer (major market segments): | Businesses, including the national government, local government, etc.  
Individuals |

The business segment of the postal market can be broken down into the following major economic sectors:

<table>
<thead>
<tr>
<th>♦ Public utilities</th>
<th>This sector includes water and sewerage, power, gas, refuse collection and telephone service.</th>
</tr>
</thead>
<tbody>
<tr>
<td>♦ Financial sector</td>
<td>This sector includes banks (cheque accounts, savings and credit services), debit cards, commercial finance companies (vehicles, appliances, etc.), pension funds and insurance companies.</td>
</tr>
<tr>
<td>♦ Publishing sector</td>
<td>Publishing industry. Newspapers, magazines, books, etc.</td>
</tr>
<tr>
<td>♦ Business and industry</td>
<td>Businesses in general.</td>
</tr>
<tr>
<td>♦ Government</td>
<td>Different central and provincial government offices and agencies.</td>
</tr>
</tbody>
</table>

In the absence of market study data, the next best thing is to make a rough estimate of the size of the market for regular mail service, which should have an acceptable level of accuracy of close to 80%.

Such an estimate is based on nationwide geo-political, socio-economic and infrastructure data and uses general postal service benchmarks and available data on the public postal operator and its market share.

❖ **General benchmarks.** The general belief for some time is that close to 85% of mail traffic is generated by businesses (business mail) and approximately 15% by individuals.

❖ **Estimates of key mail flows.** The economic sectors generating the largest volumes of mail on the postal markets of many developing countries are the residential public utilities sector (water, power, telephone companies, etc.) and the financial sector (banks, credit cards, pension funds, etc.)
In the case of public utilities, data on the number of power and water connections or customers and the number of fixed and cellular telephone lines produces reasonably accurate figures on monthly and annual invoicing volume. The supervisory authorities for the financial sector can provide data on the number of active cheque accounts in the banking system, the number of credit cards issued, the number of pension fund accounts, etc. for calculating mail volume based on mailing schedules for statements and other information.

- **Estimates of other mail flows.** Figures for other types of business mail traffic from business, industry and government are based on rough estimates of corresponding mail volume, with the assumption being that this can represent anywhere from 25 to 35% of key mail flows.

Lastly, calculations of domestic and international mail traffic generated by individuals can be based on the estimated or statistical volume of business by the public postal operator in these areas.

Estimates of the value of business on the postal market require price data and data on the share of both the public operator and of private service operators in the total market volume.

Such estimates should also take into account data on the volume and highest price of outbound international mail, most of which is generally processed by the public postal operator, and whose volume and value can be calculated with reasonable accuracy based on the annual number of kilogrammes of mail shipped to destinations outside the country.

There is less information available for estimating the volume and value of business for express mail or courier services and no general benchmarks which can be used as guidance in estimating these figures. The public postal operator’s small share of this business segment also limits the availability of corresponding data.

Thus, it would be inadvisable to recommend any specific calculation method. However, the importance of this business segment of the postal market cannot be overstated. In fact, with the high price of such services, despite the relatively small volume of items involved, they still represent the highest-value business segment of the postal market.

While the high price of both international and domestic express mail and courier services is common knowledge, precise figures on their share of market value are not always available.
The rough country figures presented in table N° 4 illustrate the importance of courier or express mail services in terms of their value.

### TABLE N° 4

<table>
<thead>
<tr>
<th></th>
<th>Yearly VOLUME millions of items</th>
<th>Yearly VALUE millions of US$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular mail</td>
<td>400</td>
<td>70</td>
</tr>
<tr>
<td>Express mail – courier service</td>
<td>40</td>
<td>130</td>
</tr>
<tr>
<td>Domestic</td>
<td>33</td>
<td>30</td>
</tr>
<tr>
<td>International</td>
<td>7</td>
<td>100</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>440</strong></td>
<td><strong>200</strong></td>
</tr>
</tbody>
</table>

Note how regular or traditional mail service, with 400 million items a year, represents 90% of mail volume but only 35% of market value. In contrast, express mail or courier services, moving only 40 million items a year, account for 10% of mail volume but 65% of market value. International express mail service, moving 7 million items a year, represents a mere 1.6% of mail volume but generates US$ 100 million in revenues, accounting for 50% of the value of business.

Annex 1 contains guidance for estimating and disaggregating postal market data. The data presented in the tables is invented and not representative of any particular country.

Establishing the supply of postal services requires information from service operators broken down by business area (regular mail versus express mail/courier service). Within each of these business areas, the coverage area of postal enterprises can be broken down into urban, domestic and international. Service providers can also be broken down into small, medium and large-scale operators according to their volume of business and revenues.

In general, the lack of regulations and control procedures for the postal industry makes it difficult to obtain information on private service operators, even with methodical market studies.

In conclusion, the formulation of sound, sustainable proposals with respect to the legal framework for postal service, universal postal service and postal reform requires methodical studies and reliable calculations regarding the postal market, its make-up and major supply and demand factors. It is a big mistake not to consider the scale and characteristics of the postal market.
2.2.3. Service delivery

Knowing how the country’s consumer public is obtaining and receiving services from existing postal operators is crucial in establishing baseline data and assessing the status of postal services. This requires a basic knowledge of and information on actual operating conditions in the postal sector, primarily with respect to postal products offered as part of the basic services available to both individual and business clients.

Over the last 20 or 25 years, in many parts of the world, both formal and informal private business enterprises have been making their presence felt on the postal market, furnishing all types of mail services, with and without proper authorization, which has had a significant effect on the situation of the postal service. In most countries, the market share of these private service operators has been steadily growing, invariably, at the expense of and to the detriment of the public postal operator, which has gradually lost market share, in some cases, as a result of rules and practices fostering unfair competition.

In such cases, despite having to deal with these constraints, the public postal operator has continued to meet its government obligations and to offer loss-making services under conditions where declining revenues and cutbacks in investment and working capital have weakened its competitive strength, reduced its market share, tightened its geographic and demographic service coverage and eroded service quality. Moreover, large multinational firms have penetrated local markets, targeting the high-profit, high-performing express mail or courier service segment, particularly the international segment. As a rule, domestic express mail or courier services are furnished by large numbers of highly profitable local firms with limited service coverage areas.

Though such services meet different needs than basic postal services, supposedly moving items requiring unusually quick delivery service, with features making them particularly lucrative operations in light of the high prices charged for these services and their limited service networks confined to densely populated urban areas with high concentrations of business activity, they have still had a major impact on the income, market share and image of the public postal operator.

In general, postal service customers have been building the reputation of courier firms as private service enterprises offering rapid, modern, high-price, high-quality delivery service, making no distinction between international or local firms or between large or small enterprises. In contrast, the public postal operator is associated with inefficiency, government red tape, slow service and non-performance and regarded as out of touch with modern times. However, in most cases, private operators furnishing regular domestic mail service have had the greatest impact on the public postal operator. This group includes a surprisingly large proliferation of formal and informal businesses.
There are also large numbers of casual or temporary service operators continuously entering and exiting the postal market, in line with available business opportunities.

The problems faced by the public postal operator are mounting and becoming increasingly serious in the face of private service operators confining their business activities to large urban areas where, with a few large customers and no organizational requirements, retail offices, service networks or technology needs, they are able to do business with remarkably low operating costs impossible to match, even in the case of a public operator functioning at optimal levels of productivity and efficiency, resulting in predatory pricing and unfair competition.

This kind of environment has also been conducive to the establishment of in-house mail services for a variety of different reasons. A number of firms, large companies in particular, generating large volumes of mail have been setting up their own internal mail units. Of late, this relatively recent practice has developed into the use of outside contractors to provide mail delivery service or the establishment of subsidiaries for the delivery of both inter-company mail and that of outside customers.

The results of this explosion in the number of service operators without any sort of regulatory mechanism are quite different from the types of improvements expected under a system of free competition. In country after country, it has become clear that this type of competition has not improved operating capacity, infrastructure facilities or quality of service, not to mention the level of technological development. Any way you look at it, the postal sector is clearly underdeveloped, with a visible lack of either public or private investment in the postal industry.

❖ **Public operator.** These insights into the services rendered by private postal operators is a good starting point for addressing the operations and the financial and market situation of the public postal operator.

❖ **Market share of the public postal operator.** The market position of the public postal operator hinges mainly on the share of demand it services in terms of mail volume and its share of invoicing value for regular and express mail service for letters, printed matter and parcels. Available data from the public operator, broken down by market segment and services, should provide figures on its annual business volume (in numbers of items) and value and its market share for:

<table>
<thead>
<tr>
<th>Customer Group</th>
<th>Service Categories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular mail service</td>
<td>Letters, printed matter, parcels</td>
</tr>
<tr>
<td></td>
<td>a) domestic</td>
</tr>
<tr>
<td></td>
<td>b) international</td>
</tr>
<tr>
<td>Express mail service</td>
<td>Letters (documents), printed matter, packages (parcels)</td>
</tr>
<tr>
<td></td>
<td>a) domestic</td>
</tr>
<tr>
<td></td>
<td>b) international</td>
</tr>
</tbody>
</table>
Annex 1 contains a sample breakdown of data on the market share of the public postal operator of a hypothetical country similar to and in line with the breakdown of market data discussed in section 2.2.2. above. There are other essential factors which also need to be considered, such as image and credibility, although it is hard to find any measurements of these variables. The coverage and status of service in rural and other remote areas in which the postal service may be a symbol of the government’s presence in such areas should also be given special consideration in assessing the needs of local communities.

❖ **Service operation by the public postal operator.** Without exception, the public postal operator is always charged with providing mandatory postal services and fulfilling country obligations under the Universal Postal Convention and the international treaties signed by UPU members. The efficiency with which these services are rendered depends on the level of development of the service operator in question, as reflected in the availability of infrastructure, technology and human, physical and economic resources for maintaining a service network offering a specific level of coverage and quality. The level of development of the public operator also determines its capacity and efficiency in meeting demand and fighting competition.

Information on existing infrastructure, the features of the postal network and the characteristics of available human, physical and technology resources is especially useful when supplemented by additional measurements and comparative data, both at the country level and at the level of the regionwide and global postal environment.

This provides more solid and useful information on its level of productivity and efficiency based on indicators such as:

♦ the number of items processed per postal worker per year;
♦ the daily number of items delivered per mail carrier, in urban areas, rural areas and at the countrywide level;
♦ annual revenues, costs and profits per postal worker;
♦ mail delivery times in urban areas, rural areas and at the countrywide level;
♦ the volume of mail (%) delivered on time;
♦ mail theft, loss and tampering rates as a percentage of the volume of mail processed per year;
♦ complaint and claim reporting rates and average response time for claims.
Geo-political and socio-economic country data will also need to be used to calculate other service indicators for the postal network maintained by the public postal operator, such as:

♦ the percentage (%) of the population served;
♦ the percentage of the population with daily home delivery service;
♦ the number and percentage of locations around the country (cities, towns, villages, hamlets, communities, etc.) with postal service;
♦ the number and percentage of households (dwellings) serviced daily by mail carriers;
♦ the number of inhabitants per post office;
♦ the service area per post office, in square kilometers.

Annex 3 contains examples of selected indicators for use in comparisons with industrialized countries at the subregional, regional and worldwide levels.

❖ Financial and administrative situation of the public postal operator. The most important consideration in assessing the economic performance of the public operator's service organization and service delivery system is its pattern of income and spending over the last ten years, or five years minimum. Its deficit, or the degree to which spending and investment are covered by incoming revenues, and trends in these figures are important indicators of its economic situation and of any existing problems.

Other important factors are the strength and sustainability of its financial statements, its level of debt and, in particular, labour-related liabilities, including pension payments, where applicable, its annual level of investment and its ongoing and envisioned development plans.

Administrative factors to be considered include the characteristics of its human resources and human resource management conditions within the postal organization, the organizational climate, annual investment levels in terms of the number of hours of training provided per employee and staff profiles (average level of academic education, age, seniority and salary).
2.3. LOCAL NEEDS AND POSTAL REFORM

A number of major national infrastructure sectors have been restructured and modernized and are becoming increasingly technology-driven, in line with patterns of economic growth and development. This is especially true of the telecommunications, power and other residential public utility sectors, as well as of the banking system and the financial sector in general.

Like business and industry, these latter two sectors, which are the national postal service’s main customers/users, involve operations which tend to make use of all available technology and, as such, are seeking the same sort of high-tech supporting services from the postal sector in moving communications, information, goods and funds. They need postal services to be rapid and reliable enough and to provide enough value added to continue to represent a valid service option for their business activities.

As an integral part of today’s new information and communications society, the individuals or household segment of the postal market also expects postal service offerings in line with conditions in the surrounding environment. Even those parts of the world which do not yet have access to Internet service and to information and communications technology, in general, are going to be connected faster than may be thought, and will soon have basic access to these digital media. Ongoing efforts by the international community to wipe out poverty in which education is viewed as the main bastion of development are based on ICT connectivity (Internet, technology, etc.) at both the individual and the community level.

Business activities boosting nationwide output and spurring growth and development for competing in a globalized free-market economy require modern, efficient postal communications infrastructure and services based on the use of postal technology and digital media.

The technological development of postal service requires time, investment and manpower training and hinges on decisions with respect to the approaches and courses of action to be taken in developing the postal sector and the public postal operator. Fortunately, there are models and procedures which can expedite the assimilation of postal technology to help postal services make rapid strides in technological development.

Country needs for essential postal services, whether referred to as basic services or as the universal postal service, are going to require technology-driven services, as dictated by the activities of business clients and individual customers. Poor, remote communities need postal services to offer legitimate solutions for overcoming existing obstacles to the provision of core services, and technology opens doors which had previously been closed to them.
Another extremely important need in many areas is to overcome weaknesses in parcel service. Despite the impressive growth in parcel service with the advent of e-commerce and other types of business technology, the postal services of many countries have neglected this market segment, while other service operators or carriers have strengthened their market position, at the expense of this postal product.

Experience with e-commerce and Internet sales is limited. The importance of parcel service and country needs in this area is underscored by two basic facts. First, worldwide package flows are growing and will no doubt continue to grow. Secondly, UPU member countries specifically decided to include parcel service as a basic postal service or core nationwide universal postal service at the 1999 Union Congress.

Studies of data with respect to service delivery conditions should include an exercise in identifying major weaknesses in physical infrastructure, in technology resources for mail acceptance, sorting and delivery operations, in the use of post codes for sorting purposes, in the customer addressing practices of large mailers, in transportation resources, in the number of mail carriers and in daily home delivery service. There is a widespread general need to overcome weaknesses in existing services, to speed up the technological development of postal processes and procedures and to systematically organize the postal market based on clear ground rules ensuring the continuity of the universal postal service. Predictably, all this, in turn, requires a comprehensive postal reform process to establish an appropriate legal framework for the development of the postal sector and ensure the long-term sustainability of the universal postal service while at the same time providing the country with a viable universal postal service operator and needed high-quality services.
CHAPTER 3. DETERMINING THE UNIVERSAL POSTAL SERVICES

The previous chapters discussed the underlying principles of the universal postal service and service needs based on local conditions in the postal sector. This chapter takes a look at specific issues relating to the mapping out and establishment of nationwide universal postal service.

The mapping of nationwide universal postal service involves making decisions with respect to the postal services to be included in the government’s universal postal service obligations, standards of quality for service delivery and provisions for the operation and financing of the universal postal service. The government decision-making process to determine the universal postal service involves two phases. In phase 1, the government makes decisions based on operational and economic studies and discussions of different approaches and their impacts and practical ramifications. Phase 2 involves the implementation of these decisions through the enactment of enabling legislation by the legislative branch of government to modernize the legal framework for the national postal sector.

The first phase of this process requires operational, technical and economic feasibility studies, cost analyses, performance evaluations and studies of market trends. The goal is to balance expectations for meeting needs against the operational, technical and economic viability of establishing financially self-sustaining operations.

The second phase is devoted to substantiating corresponding proposals with a view to updating the legal framework for ensuring fulfillment of the government’s universal postal service obligations through the enactment of a postal act mapping out universal postal services and establishing a viable service delivery system and financing mechanism. The new postal act would also establish appropriate mechanisms for the implementation and enforcement of postal legislation as part of the government’s legal mandate to issue regulations and exercise its regulatory functions.

3.1. APPROPRIATE LEGAL FRAMEWORK FOR THE UNIVERSAL POSTAL SERVICE

As explained in Section I in discussing the underlying principles of universal postal service, the government’s universal postal service obligations cannot be vaguely or loosely defined, left open to interpretation or expressed in unrealistic terms, without proper mechanisms to facilitate their fulfillment.
Government universal postal service obligations stem from tangible countrywide needs. All segments of society, including both businesses and individuals, require postal communication services for the pursuit of business and social activities. UPU member countries have agreed to meet such obligations in signing the Universal Postal Convention, which lays the foundation for providing universal access to postal service.

In establishing the universal postal service, the government needs to make decisions of vital importance to and with serious repercussions for the quality of life of its citizenry and for the organization of the nation’s postal market which, in turn, will also affect nationwide economic growth and development. Thus, the provisions of legislation establishing universal postal service must reflect the importance of these decisions affecting the lives of each and every member of the population.

Establishing the government’s universal postal service obligations means spelling out the types of mandatory services to be provided and the way to guarantee service delivery under specific conditions, subject to a set of market rules designed to ensure the continuity of such services.

A number of countries in certain parts of the world have still not explicitly established the universal postal service in their domestic postal legislation. Not all countries have been able to conduct necessary preliminary studies for the enactment of new legislation in response to needs for postal reform and for the approval of a new legal framework for the postal sector geared to the current postal environment.

The legal framework for the postal sector must treat the universal postal service as a specialized subject, with the necessary depth and level of detail. The importance and significance of the universal postal service requires a clear, unambiguous legal text ruling out any possibility of misinterpretations contrary to the spirit of the law.

The clarity of the law with respect to the various elements of the universal postal service will also provide necessary guidance for the due and proper crafting of regulations for the implementation of corresponding legal mandates.

Table No. 5 is a list of the core elements of the universal postal service to be explicitly addressed in the text of the postal act.
A satisfactory outcome from country decision making with respect to universal postal service depends on the consistency with which other elements of the legal framework for the effective implementation of policy decisions help provide for service delivery and the fulfillment of governmental obligations.

The established legal framework must see to it that the public service features of postal services, the market operating system, the organization of the public postal operator and the regulatory system consistently and effectively implement the underlying principles of the universal postal service.

Annex 2, table 2.1, outlines the core issues which need to be coherently addressed in the legal framework for the postal sector. This annex, entitled “Appropriate legal framework for universal postal service”, is a model or frame of reference for fitting and reconciling provisions for the establishment of nationwide universal postal service with other elements of the postal act.
Thus, under this model, the law begins by acknowledging the public service orientation of postal services and establishes what is meant by such services, the types of activities involved and the classes of service included under this concept. The law then goes on to establish the government’s postal service obligations, defining what is meant by the universal postal service, the services included in the government’s universal postal service obligations, service delivery conditions and the universal postal service financing mechanism.

Lastly, the law establishes a service operating system for both the universal postal service and other specified postal services, including elements such as the legal framework for the operation of different classes of service, operating procedures for the universal postal service operator, the regulatory framework and appropriate penalty provisions.

Legal texts defining and determining the universal postal service are not the sort of legislation that can be issued in a vacuum. The effective establishment of nationwide universal postal service requires consideration of the entire policy framework for the postal sector, so that ensuing decisions have a direct impact on the economic organization of the postal market and sector. Universal postal service is the core of the nationwide postal industry. Thus, market operating rules must, first and foremost, ensure compliance with government universal postal service obligations.

The incorporation of universal postal service into the provisions of domestic postal legislation means building an appropriate legal framework in line with prevailing conditions and the environment surrounding the operation of worldwide postal services by passing comprehensive laws fully addressing the various issues discussed above. For further information on this subject, see Module III of the Guide dealing specifically with the legal framework for postal reform.

3.2. SERVICES

The issue of the services included in government universal postal service obligations has been repeatedly touched on in previous sections. This section takes a more specific, in-depth look at country decision making with respect to the classes of service included in universal postal service obligations as services to be permanently guaranteed and maintained by the government.

In line with the obligations incurred by UPU member countries under the Universal Postal Convention, the starting point or minimum level of service should be the basic services established by the Convention, namely letter mail and parcel services, allowing decision-makers to focus on the types of additional services to be included as mandatory postal services to be guaranteed and maintained by the government.
Industrialized and developing countries around the world also include services such as registered or certified mail and postal financial services consisting mainly of simple financial payment services (making payments to third parties, receiving payments from third parties, transfers, remittances, money orders etc.) and, in some cases, savings services under this concept.

Depending on local circumstances and individual and community needs, for some countries, postal financial services are a good complement to letter mail and parcel service and a good fit with the network services normally provided by postal administrations, requiring no major infrastructure works or additional investments.

As a supplemental line of business, financial services not only generate additional net income, but enable postal services to make more efficient use of needed physical and technology infrastructure for their network of post offices or public access points, strengthening the earning power of the postal network.

The benefits of postal financial or payment services become much clearer when viewed from the perspective of the needs of rural and semi-rural communities in small and medium-sized villages without access to the financial system and regular banking services available in large cities. Third-party payment services (for sending and receiving payments) are not only required by individuals in their private lives, but are equally important to the government for all types of activities, operations, transactions and relations with the public.

Table N° 6 is an outline of the classes of services to be considered for inclusion in government universal postal service obligations. Bear in mind that all UPU countries have an obligation to provide a mandatory minimum level of universal postal service consisting of basic letter mail and parcel service, as defined in the Universal Postal Convention. Letter mail consists of all types of current, personal communications, including receipts, bills and business papers and documents normally carried by the universal postal service operator and its service network in sealed envelopes.

Other postal services refer to all classes of special postal services other than basic services, such as certified and registered mail service, COD service, insurance service for letter mail etc.
TABLE N° 6

UNIVERSAL POSTAL SERVICES

<table>
<thead>
<tr>
<th>CORE UNIVERSAL POSTAL SERVICES</th>
<th>Basic postal services (Art. 12, UPU Convention)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Letter-post items</td>
</tr>
<tr>
<td></td>
<td>† priority items and non-priority items up to 2 kg</td>
</tr>
<tr>
<td></td>
<td>† letters, postcards, printed papers and small packets, up to 2 kg</td>
</tr>
<tr>
<td></td>
<td>† literature for the blind, up to 7 kg</td>
</tr>
<tr>
<td></td>
<td>† special bags (“M bags”), up to 20 kg</td>
</tr>
<tr>
<td></td>
<td>• Parcels</td>
</tr>
<tr>
<td></td>
<td>† parcels, up to 20 kgs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>MANDATORY SUPPLEMENTARY SERVICES</th>
<th>• Registration service for outbound priority and airmail letter-post items</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Registration service for outbound non-priority and surface letter-post items to destinations for which there is no priority or airmail service</td>
</tr>
<tr>
<td></td>
<td>• Registration service for all inbound letter-post items</td>
</tr>
</tbody>
</table>

| OPTIONAL SUPPLEMENTARY SERVICES  | • Other postal services                                                   |
|                                 | • Postal financial services                                                |
|                                 | † payments to third parties                                               |
|                                 | † transfers, remittances, postal cheques etc.                             |
|                                 | • Savings etc.                                                            |

3.3. SERVICE DELIVERY CONDITIONS

Determining nationwide universal postal service goes beyond decision making with respect to the services to be included in the government’s universal postal service obligations. The decision-making process needs to be taken a step further, to determine the manner in which such services are to be provided.

Countries are committed to provide a basic package of services defined as mandatory core services under the provisions of the Universal Postal Convention. Moreover, in undertaking such commitment, they agreed that this package of core service offerings or basic postal services should consist of high-quality, continuing, affordable services.

Furthermore, regardless of the interpretation of their obligation with respect to the manner in which they are to provide these core services, the governments of UPU member countries agreed on certain basic standards of quality with a view to minimizing inconsistency in the international postal service network. To this end, UPU countries have agreed to consider access, speed and reliability, security, accountability for the handling of claims and complaints and customer satisfaction as key quality of service factors.
Thus, service delivery conditions take into account important operational and economic considerations.

The operational considerations involved include facilities providing access to physical infrastructure and the postal network and standards of quality for operating processes with respect to the speed and reliability of delivery service, mail security, accountability for claims and customer satisfaction.

The economic considerations in service delivery conditions have to do with the price factor, or the prices which customers should be obliged to pay for service, with the premise being that such prices should cover costs. Costs are determined by the level of efficiency and by required performance standards and, in turn, significantly affect the feasibility of the sustainable financing of universal postal service and the shaping of the legal framework for service operation on the postal market.

As in the case of all decisions pertaining to the mapping of universal postal service, country decisions with respect to service delivery conditions must be based on studies and information on the situation of the postal sector and must consider the needs and requirements of the general public and the surrounding environment. Here again, the country will need to consider the current circumstances and future expectations of today's new information and communications society.

Turning to market dynamics, certain postal services have had serious problems providing the products and services demanded by their customers. Public utilities, financial institutions and business and industry are still waiting for postal services with value-added, modern operating processes and, in short, all the conveniences offered by modern technology using digital processing systems, such as hybrid mail, electronic central post office services (e-post), e-business and e-commerce services, etc.

Decisions on different aspects of service delivery conditions need to be grounded in performance evaluations of different options or alternatives, given their tie-ins with universal postal service cost, price and financing factors. The challenge for government decision-makers is to find the right balance between needs and the technical, operational and economic feasibility of meeting service delivery conditions for universal postal service.

The recent inclusion of parcel service in the universal postal service package with the same service performance criteria as for letter mail service, i.e. for letters, etc., has added yet another major challenge to the list of problems being dealt with by postal services in a number of countries. This new requirement imposed under the Universal Postal Convention and agreed to by the governments of UPU member countries necessitates a special, extra operational effort on the part of the universal postal service operator.
In some countries, postal parcel service is extremely underdeveloped, with very little attention having been paid to this type of service up to now. Postal service operations in this area have been confined mainly to inbound parcel traffic from other countries subject to time-consuming, out-dated, obsolete customs regulations and formalities and operating procedures. Those countries which do have domestic parcel service report a negligible business volume. As a result, processing facilities and information and experience relating to this product and market are extremely limited.

In addition to the need to ensure that decisions on service delivery conditions are operationally and economically viable in light of the situation of each country, it is vital that such conditions be expressed in specific, quantitative, measurable terms for purposes of monitoring and controlling the country’s progress in attaining proposed targets with respect to quality, efficiency and effectiveness. The following sections take a separate look at different service delivery conditions. The one condition not discussed is the continuity of universal postal service.

Continuity is an inherent characteristic of universal postal service stemming from its very nature. Universal postal service is a right and, as such, may not be terminated or suspended for any reason. Thus, universal postal service is inherently a perennial service, which is something that does not need to be spelled out.

3.3.1. Access

"Access" refers to the availability of facilities enabling customers to use and benefit from the services provided by the postal network and its physical infrastructure.

The physical infrastructure and operational postal network providing the universal postal service through specific facilities consist of elements such as:

- post offices or retail outlets operated directly by the postal service or by contractors;
- collection boxes;
- processing centres (mail sorting and operations centres);
- transportation systems (ground transportation, air transportation, etc.) operated directly by the postal service or by contractors;
- the delivery network (mail carriers and post office boxes).
The accessibility of universal postal service to the general public can be expressed in terms of its geographic and demographic coverage and the regularity of retail, mail transportation and delivery services, all of which are pivotal issues on which the government will need to make decisions specifically affecting service delivery conditions.

**Geographic and demographic coverage.** This refers to the physical locations around the country in which the government guarantees the future availability of universal postal service and the targeted number of inhabitants to be afforded an opportunity to exercise their right to universal postal service.

The government will need to establish the types of geo-political and administrative subdivisions, or the localities and levels of population to which it is able to extend service. For example, it may decide to extend the nationwide the universal postal service network only to municipalities with over 5,000 inhabitants, to villages with a population of over 2,000 inhabitants, or into small hamlets with over 200 residents, in all cases, according to the ability of the country and the universal postal service operator to meet established service coverage targets.

Likewise, it may decide that a specific percentage of the population is to have access to universal postal service within a specified timeframe. For example, it may decide that 98% of the nation’s population must have access to universal postal service within a period of five (5) years.

**Regularity of service.** This aspect of service ACCESS refers mainly to the regularity with which services are made available to the public for the mailing or receipt of postal items.

- **Regularity of retail service**
  Office hours for the mailing of postal items or the use of universal postal services. Number of days a week and number of hours a day the public has access to counter services.

- **Regularity of home delivery service**
  Access to home delivery service. Number of days a week on which home delivery service is provided. This also includes the regularity of delivery service to post office boxes.

- **Regularity of mail transportation service**
  Regularity of mail transportation service to and from a particular location. In the case of villages and rural areas, it is essential that mail transportation service schedules coincide with existing passenger and freight transportation schedules in such areas to make sure that postal service is a legitimate service option for local residents.
Whatever the situation in any given country, decisions with respect to the accessibility of universal postal service are of paramount importance, owing to their direct effect on the operational and economic viability of the postal network. Decisions on the geographic and demographic coverage of universal postal service will determine the extent of the postal network, while decisions on service operating schedules and the regularity of service will determine the complexity and cost of corresponding operations.

3.3.2. Speed and reliability

Delivery time has always been an important determinant of the quality of postal service. Nowadays, more than ever, customers are demanding rapid delivery service for letters, messages, packages, funds etc., all of which are elements of the universal postal service and, as such, must meet standards of quality effectively satisfying customer needs.

A delivery standard is a prescribed deadline for the delivery of mail items from the time of mailing, expressed in hours or days.

Reliability has to do with the level of confidence that service obligations and delivery standards will be met. Together with speed, the reliability of the service organization and of corresponding operating processes is the service quality factor most valued by customers. Compliance rates can be expressed as a minimum percentage of mail volume which must meet established delivery standards.

In establishing quality of service standards for postal operators with respect to delivery time and compliance, decisions on the speed and reliability of the universal postal service need to set targets to be gradually attained over a specified time period, such as the following sample targets for domestic letter mail.

<table>
<thead>
<tr>
<th>Year</th>
<th>Delivery standard</th>
<th>Compliance rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>3 days</td>
<td>90% of mail volume</td>
</tr>
<tr>
<td>2005</td>
<td>2 days</td>
<td>95% of mail volume</td>
</tr>
<tr>
<td>2007</td>
<td>1 day</td>
<td>85% of mail volume</td>
</tr>
<tr>
<td>2009</td>
<td>1 day</td>
<td>95% of mail volume</td>
</tr>
<tr>
<td>2010</td>
<td>1 day</td>
<td>98% of mail volume</td>
</tr>
</tbody>
</table>

Different classes of service and geographic areas will be subject to different delivery standards.
3.3.3. Security

Security refers to the protection of the physical integrity of items entrusted by customers to the postal service for delivery at a given destination point. A 100% security guarantee in the processing and transportation of mail items is a sine qua non condition for postal services.

Along with predictable references to speed and reliability, security is invariably mentioned as an essential element of quality of service in ensuring customer satisfaction.

Irregularities such as theft, rifling and tampering and lost, damaged and missing items arising in the course of the service delivery process require close monitoring and supervision.

Decisions on service delivery conditions need to set detectable, measurable, tolerance limits for these types of irregularities as a share of mail volume, expressed as a ceiling rate or index, either in percentage terms or per thousand items per day, month or year.

3.3.4. Accountability for claims, complaints and inquiries

This refers to the obligation of the postal operator to handle problems confronted by customers using its services and any ensuing claims and complaints at any point of its service network. This factor is measured and expressed as a number of events or percentage of mail volume.

Decisions will need to be made on admissible levels of claims and complaints, response times for settling claims and complaints and targets for gradually reducing their level as part of efforts to improve service quality and customer satisfaction.

Response times for the handling and settling of claims and complaints depend on the existence of infrastructure facilities and technology for the intake of claims at all points of the service network and for processing and responding to such claims.

3.3.5. Customer satisfaction

Customer satisfaction is the product of an acceptable level of service ACCESS and proper compliance with QUALITY of service standards with respect to speed, reliability, security and accountability.
Since universal postal service involves different classes of service, customer satisfaction should be measured both on a factor-by-factor basis and as a whole.

The degree of customer satisfaction is generally measured in periodic customer surveys and opinion polls.

3.3.6. Price

The cost or price of a universal postal service product must be affordable to the entire population.

The cost of postal service will obviously vary according to factors such as weight, distance, quantity and delivery time. However, it would be extremely complicated and impractical to charge different prices for the universal postal service based on differences in such factors.

The general practice is to charge uniform prices. Under this type of pricing system, service to more lucrative (lower-cost) geographic areas offsets the cost of service to less profitable areas, making it possible to charge uniform prices.

Decisions on price levels and the pricing system for universal postal service are tied to decisions on service coverage, operation and financing. There are three basic options with respect to possible pricing systems, namely free-market pricing, monitored free-market pricing and price control.
CHAPTER 4. POSTAL SERVICE DEVELOPMENT

4.1. LEGAL MANDATES

The postal act embodies government decisions on all aspects of the organization of public and private postal service operations at the countrywide level. One of the main issues which must be addressed in the postal act is that of the universal postal service. The treatment of this issue under the postal act is designed to resolve any problems faced by the government in meeting its postal service obligations.

As discussed earlier in this Module, the issue of universal postal service is of such vital importance to policymaking for the postal sector that it is the focal point of the postal act and the basis for the treatment of all other issues. Without clear provisions with respect to the scope of the universal postal service and the operation and sustainable financing of corresponding services, no decisions can be made with respect to the treatment of other services. Thus, the law must first ensure the viability of universal postal service before addressing any other issues.

Chapter 3, section 3.1, which deals with the appropriate legal framework for universal postal service, talks about how the postal act must address all core issues for the mapping of nationwide universal postal service.

We cannot over-emphasize how important it is that the legal framework for the postal sector clearly and specifically spell out the classes of service included in universal postal service obligations, requisite service delivery conditions and the manner in which such services are to be operated and funded.

However, the postal act cannot possibly cover as broad an issue as that of the establishment of detailed technical specifications for all the different factors and variables involved in service delivery. In such case, it needs to establish a conceptual framework for key factors such as access and quality laying the necessary foundation for the issuance of more detailed regulations accurately interpreting and expanding on these concepts.

4.2. DEVELOPMENT OF REGULATIONS

Without further development of the provisions of legislation under implementing regulations, it would be extremely hard to enforce the law, particularly in the current postal environment ruled by private competition and business interests. It would be a serious mistake to underestimate the importance of this matter, which could jeopardize the achievement of targeted outcomes and weaken the political will to strengthen postal service embodied in the postal act.
The development of implementing regulations under the postal act is a strategic issue far too broad to cover in this discussion, particularly in light of the different circumstances in each country.

Thus, our goal is merely to touch on some of the most important aspects of the development of universal postal service regulations which cannot be overlooked. The process of framing universal postal service regulations is grounded in the same information, studies and analyses used as the basis for the decisions embodied in the postal act. Actually, the best approach is to draft such regulations prior to introducing the proposed postal act since, in some cases, they may clarify certain technical details and aspects of its provisions for government bureaucrats and law-makers, helping to support and substantiate its provisions.

The decisions embodied in the provisions of the postal act with respect to the universal postal service will need to be converted into explicit procedural rules and tangible specifications in three main areas with a view to their effective implementation, namely into detailed specifications for determining factors in service delivery conditions, indicative plans for the modernization and development of the universal postal service and performance monitoring, measurement and evaluation provisions.

4.2.1. Regulation of service delivery conditions

Regulations issued under the postal act must contain detailed provisions with respect to required service delivery conditions, establishing clear technical specifications to be met by the universal postal service operator. Moreover, the establishment of technical specifications and requirements involves a whole other series of tasks associated with the development of regulatory provisions, including the establishment of work programmes, operating instructions and specifications and procedures manuals.

Regulations governing service delivery conditions for the universal postal service must address all applicable issues in depth, through the establishment of tangible, technical specifications. Addressing the issue of access, for example, they will need to establish technical criteria for determining the types of offices and regularity of mailing, mail delivery and mail transportation service required in different types of localities. The implementation of such regulations will require a great deal of technical work on the part of the postal operator.

Table N° 8 is an example of a blueprint for a hypothetical regulation setting standards with respect to service access.
### TABLE N° 8

**HYPOTHETICAL STANDARDS FOR THE DELIVERY OF LETTER MAIL ITEMS AND PARCELS**

<table>
<thead>
<tr>
<th>LOCAL AREA POPULATION</th>
<th>TYPE OF DELIVERY SERVICE</th>
<th>DELIVERIES PER WEEK</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>URBAN</td>
<td>RURAL</td>
</tr>
<tr>
<td>&lt;= 500</td>
<td>IN-OFFICE</td>
<td>IN-OFFICE</td>
</tr>
<tr>
<td>500 to 3,000</td>
<td>IN-OFFICE</td>
<td>COMMUNITY MAIL BOXES</td>
</tr>
<tr>
<td>3,000 to 10,000</td>
<td>HOME</td>
<td>COMMUNITY MAIL BOXES</td>
</tr>
<tr>
<td>10,000 to 50,000</td>
<td>HOME</td>
<td>COMMUNITY MAIL BOXES</td>
</tr>
<tr>
<td>Over 50,000</td>
<td>HOME</td>
<td>COMMUNITY MAIL BOXES</td>
</tr>
</tbody>
</table>

### 4.2.2. Development plans

In implementing the provisions of the postal act, government policy for the postal sector and national development policy, it is up to the government regulator for the postal sector to set policy guidelines for modernization and development of the services rendered by the universal postal service operator.

These policy guidelines for the development of universal postal service are best established in conjunction with the universal postal service operator responsible for their implementation. For practical purposes, these guidelines will need to be embodied in indicative service development plans, as the most effective way of planning the implementation and further development of service performance specifications, given the time and resources available and targeted outcomes.

The universal postal service development plan will need to include elements such as development objectives, strategies, projects and economic studies. Economic studies should include estimates of projected benefits and corresponding investment and financing requirements. This plan, to be discussed and jointly agreed on with the universal postal service operator, covering a three or five-year period, with annual reviews and adjustments, should serve as a type of “field guide” for implementation of the government’s universal postal service development policy, with the universal postal service operator in charge of carrying it out and the regulatory authority or regulator in charge of monitoring compliance.
In establishing this development plan, the government is committing itself to the furtherance of specific objectives and the attainment of tangible outcomes through its postal operator and regulator. Accordingly, it will need to know the operational, technical and economic capacity of both entities to follow through with the plan.

Universal postal service development plans can be an extremely useful tool in support of proposals for needed reforms, for a new legal framework and for modernizing the services rendered by the postal operator if crafted as part of the studies and analyses conducted for purposes of the mapping of universal postal service. Moreover, countries are finding themselves in need of development plans requiring significant amounts of spending and investment for which they will have to make necessary financial arrangements.

4.2.3. Performance monitoring and measurement

Another pivotal issue to be addressed in connection with the framing of regulations and the performance of regulatory functions is the need to establish performance monitoring and measurement mechanisms for the universal postal service operator and its services.

Part of the regulatory function involves closely monitoring compliance by the universal postal service operator with regulatory provisions setting standards and specifications for the operation of each established class of service. Effective monitoring requires the prompt detection of any deviations from and omissions or violations of such provisions. Close monitoring provides timely data on the achievement of agreed-on interim performance targets for the expansion, improvement and modernization of postal services.

However, the monitoring process cannot impose constraints on the universal postal service operator or heavy economic and operational burdens on the regulator. The success of monitoring efforts hinges on the establishment of simple, practical measurement mechanisms allowing for sound, effective supervision and evaluation, without creating additional expenses or interfering with the activities of the postal operator or the operations of the regulator in performing its functions. The regulatory process should also provide effective supervisory mechanisms enabling the regulator to detect any situations or actions on the part of service operators other than the universal postal service operator undermining, violating or threatening to violate universal postal service standards and regulations. Timely measures against events and situations in danger of violating the provisions of universal postal service legislation and regulations can forestall the need to resolve deeper problems, particularly in the case of encroachments on the reserved service area for the financing of the universal postal service. Prices for reserved services warrant special attention, since price protection for the products offered by the universal postal service operator does not automatically rule out their being undermined by unfair practices, which
are not always easy to detect. Thus, the monitoring and surveillance of market prices require clear rules and foresight.

Regulation also requires a special effort to establish effective measurement instruments to ensure the soundness and viability of monitoring and evaluation activities. The provisions of postal regulations will need to establish yardsticks for assessing service delivery conditions with respect to each performance factor and its various characteristics, as well as corresponding measurement intervals, which could be daily, weekly, monthly or yearly.

The regulator does not necessarily have to make such measurements personally. Preferably, measurements of different aspects of the operational, financial or market performance of the postal operator will be made by private firms. Postal regulations can establish different types of performance measurements and distinguish between those to be made directly by the regulator, at its expense, and those whose costs are to be borne by the postal operator.

Performance measurements involve the following main quality-of-service-related factors:

- **Mail delivery times:** Number of days
- **Reliability:** Percentage of mail volume meeting established delivery standards
- **Security:** Mail theft and loss rates, etc.
- **Accountability:** Claim reporting rate. Response time. Compliance rate with response times
- **Customer satisfaction:** Surveys and opinion polls to establish customer satisfaction indexes

It will also be necessary to make periodic measurements of compliance with specifications for access facilities, physical infrastructure, post offices, mail boxes etc., including checks of the regularity of mailing and mail delivery and transportation service.

### 4.3. OPERATIONAL DEVELOPMENT

The government is deemed to have met its postal service obligations when the public has a supply of universal postal services adequately meeting its needs. This means providing adequate service coverage and
access and affordable prices for all segments of the population, and a satisfactory level of service quality across the board.

Reaching this point means that the universal postal service operator has solved its viability problem, which leaves the matter of its sustainability.

The viability and sustainability of universal postal service require an adequate level of development of the services furnished by the universal postal service operator and major improvements in its operations, technology and organization as a result of the type of comprehensive postal reform effort repeatedly referred to in previous sections and of vital importance to meet the needs of the public. Policy decisions establishing nationwide universal postal service and the enactment of a postal act and the issuance of implementing regulations thereunder should create an enabling environment for the development of postal service, at which point the responsibility for getting results shifts to the universal postal service operator.

The operational development of the universal postal service refers to the restructuring of the service operator and the modernization of corresponding services, both of which are crucial to the fulfillment of governmental obligations passed on to the universal postal service operator. As discussed earlier, today’s information and communications society is demanding change, in the form of structural, organizational, operational, technological, strategic and enterprise reform.

Universal postal service requirements established under the provisions of the postal act and its implementing regulations impose obligations on the public postal operator to meet a specific market demand subject to specific standards of quality which it has not normally had to deal with in any capacity up to this point. Moreover, in general, the legal framework for the postal sector gives the universal postal service operator exclusive rights to a reserved service area, along with price protection, in an arrangement designed to generate most of the revenues needed to finance aggregate universal postal service costs.

In certain developing countries, the official postal operator in this reserved service area is servicing only a small portion of total market demand, and it would be unfortunate if it were unable to build the operating capacity needed to meet its obligations. Such countries urgently need to take immediate action to implement a phased development programme designed to transform the official postal operator into the kind of service operator required by today’s information and communications society. The universal postal service operator cannot afford to wait for this change to occur spontaneously, through the operation of the law. On the contrary, it needs to begin this operational development process even before the postal act is passed by congress.
The success of this operational development effort lies largely in the commitment and will of the postal service staff to foster needed internal changes. The government cannot possibly unilaterally achieve a positive outcome without the support of the postal workforce.

The government and the regulatory authority can also help further this process through sector policies designed to bolster the universal postal service operator and its specific development plans, in line with the provisions of the postal act and its implementing regulations.

In most cases, the operational development of the universal postal service will necessitate a major planning effort. It is difficult to institute complex organizational and technological reform processes “off-the-cuff,” without the aid of management planning tools to help organize work and monitor performance.

These types of development projects by the universal postal service operator include certain universal components whose consideration should be given top priority, such as:

♦ required major investments, primarily in postal technology and manpower training;
♦ technical organization of operating processes for traditional mail service for letters and printed matter and capacity building for daily home delivery, mail sorting, transportation and other services;
♦ organization of domestic and international parcel service;
♦ institution of modern administrative procedures, information technology and organizational development.

In most cases, these four factors represent only part of the crucial needs to be addressed by these development efforts. The most pressing needs are for investment funding and the solution of problems with operational processes for letter mail and business mail service for regular and large business customers.

In addition to the need to target development projects to the types of services demanded by today’s information and communications society, the universal postal service operator will need to build up its limited daily operating capacity and acquire basic mail processing technology, such as technology for the organization of mail delivery operations (automated sorting, code marking etc.)

Any service development plan for the universal postal service operator must include at least three of the following types of operational development projects:
♦ Modernization of letter mail processing procedures.
  Letters and printed matter
  □ Organization of mail sorting and delivery operations. Automated sorting and code marking of items deposited by large mailers.
  □ Reconfiguration and expansion of the postal network.
  □ Reconfiguration of the transportation network.

♦ Establishment of a modern parcel service.

♦ Establishment of modern postal financial services.

♦ Modernization of supporting administrative procedures for the provision of postal service.
  □ ICT-driven financial, business and management procedures.

In addition to the need for investment funds, the implementation of these types of large-scale programmes with specialized technical components requires other strategic resources such as technical know-how, experience and appropriate postal technology. The need to carry out such programmes in relatively short periods of time will require universal postal service operators to use every possible means at their disposal to secure these resources, such as business arrangements for the sharing of information and experience, consulting service, management and operating agreements, and strategic alliances.

2. Ibid.
4. Ibid.
## POSTAL MARKET DATA

<table>
<thead>
<tr>
<th>Service</th>
<th>Volume</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Millions of items/year</td>
<td>Millions of US$/year</td>
</tr>
<tr>
<td><strong>TRADITIONAL MAIL SERVICE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>DOMESTIC MAIL</td>
<td>41.0</td>
<td>8.1</td>
</tr>
<tr>
<td>Businesses (1)</td>
<td>38.0</td>
<td>7.3</td>
</tr>
<tr>
<td>Individuals</td>
<td>3.0</td>
<td>0.8</td>
</tr>
<tr>
<td>INTERNATIONAL MAIL (2)</td>
<td>4.0</td>
<td>2.9</td>
</tr>
<tr>
<td>Businesses</td>
<td>3.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Individuals</td>
<td>1.0</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>EXPRESS MAIL – COURIER SERVICE</strong></td>
<td>3.0</td>
<td>13.0</td>
</tr>
<tr>
<td>DOMESTIC COURIER SERVICE</td>
<td>2.2</td>
<td>3.0</td>
</tr>
<tr>
<td>Businesses</td>
<td>1.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Individuals</td>
<td>0.5</td>
<td>0.8</td>
</tr>
<tr>
<td>INTERNATIONAL COURIER SERVICE</td>
<td>0.8</td>
<td>10.0</td>
</tr>
<tr>
<td>Businesses</td>
<td>0.7</td>
<td>8.5</td>
</tr>
<tr>
<td>Individuals</td>
<td>0.1</td>
<td>1.5</td>
</tr>
<tr>
<td><strong>TOTAL MARKET</strong></td>
<td><strong>48.0</strong></td>
<td><strong>24.0</strong></td>
</tr>
</tbody>
</table>

(1) Data on domestic business mail service (all types of business concerns and government entities) is broken down by sector of activity in Table 1.2. on the next page.

(2) This refers to traditional outbound international mail service to other countries.
DATA ON TRADITIONAL DOMESTIC MAIL SERVICE TO THE BUSINESS SEGMENT OF THE POSTAL MARKET

<table>
<thead>
<tr>
<th>Category</th>
<th>Volume (Millions of items/year)</th>
<th>Value (Millions of US$/year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DOMESTIC BUSINESS MAIL SERVICE</td>
<td>38.0</td>
<td>7.3</td>
</tr>
<tr>
<td>PUBLIC UTILITIES</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Telephone – Fixed and cellular lines</td>
<td>9.0</td>
<td>1.4</td>
</tr>
<tr>
<td>Electricity</td>
<td>8.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Water</td>
<td>6.0</td>
<td>0.9</td>
</tr>
<tr>
<td>FINANCIAL SECTOR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banks – Cheque accounts</td>
<td>4.0</td>
<td>0.9</td>
</tr>
<tr>
<td>Banks – Credit cards</td>
<td>3.5</td>
<td>0.8</td>
</tr>
<tr>
<td>Loans – Home loans, etc.</td>
<td>0.5</td>
<td>0.1</td>
</tr>
<tr>
<td>Pension funds, insurance, etc.</td>
<td>1.0</td>
<td>0.2</td>
</tr>
<tr>
<td>PUBLISHING SECTOR</td>
<td>0.5</td>
<td>0.2</td>
</tr>
<tr>
<td>BUSINESS AND INDUSTRY</td>
<td>2.5</td>
<td>0.6</td>
</tr>
<tr>
<td>GOVERNMENT</td>
<td>3.0</td>
<td>1.0</td>
</tr>
</tbody>
</table>
### MARKET SHARE OF THE UNIVERSAL POSTAL SERVICE OPERATOR

<table>
<thead>
<tr>
<th>OPERATOR</th>
<th>VOLUME Millions of items/year</th>
<th>%</th>
<th>VALUE Millions of US$/year</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>TRADITIONAL MAIL</td>
<td>7.0</td>
<td>15%</td>
<td>2.3</td>
<td>21%</td>
</tr>
<tr>
<td>DOMESTIC MAIL</td>
<td>5.5</td>
<td>13%</td>
<td>1.2</td>
<td>16%</td>
</tr>
<tr>
<td>Businesses</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public utilities</td>
<td>1.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial sector</td>
<td>1.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other sectors</td>
<td>2.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>1.0</td>
<td></td>
<td>0.2</td>
<td></td>
</tr>
<tr>
<td>INTERNATIONAL MAIL (1)</td>
<td>1.5</td>
<td>38%</td>
<td>1.1</td>
<td>38%</td>
</tr>
<tr>
<td>Businesses</td>
<td>0.4</td>
<td></td>
<td>0.3</td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
<td>1.1</td>
<td></td>
<td>0.8</td>
<td></td>
</tr>
<tr>
<td>EXPRESS MAIL – COURIER SERVICE</td>
<td>-</td>
<td>-</td>
<td>0.1</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL (2)</td>
<td>7.0</td>
<td>15%</td>
<td>2.4</td>
<td>10%</td>
</tr>
</tbody>
</table>

(1) This refers to traditional outbound international mail service to other countries.

(2) In addition to the total volume of mail originating in the country processed by the postal operator, it also receives approximately 4 million inbound items a year (140,000 kg) from all UPU countries for which it is paid US$ 650,000 a year.
### APPROPRIATE LEGAL FRAMEWORK FOR THE UNIVERSAL POSTAL SERVICE

<table>
<thead>
<tr>
<th>Legal nature</th>
<th>Postal services are essential public services.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Postal services</strong></td>
<td>Mail receiving, sorting, transportation and delivery operations for the provision of basic postal services or regular mail service, as well as for express mail or courier services. Specification of the unique features of express mail service.</td>
</tr>
<tr>
<td><strong>Universal postal service</strong></td>
<td>Includes basic letter mail (letters, printed matter etc.) and postal parcel service, as well as postal financial services.</td>
</tr>
<tr>
<td><strong>Universal postal service delivery conditions</strong></td>
<td>Guidance with respect to standards of quality, accessibility and general criteria with respect to geographic and demographic service coverage. Gives the regulator the authority to issue implementing regulations under the postal act.</td>
</tr>
<tr>
<td><strong>Universal postal service financing</strong></td>
<td>Reserved service area for regular mail service for letters and printed matter weighing up to 500 grammes. Prices charged for letter mail items and printed matter by service operators other than the universal postal service operator must be at least 5 times the rate charged by the universal postal service operator for the first weight step of domestic letter mail.</td>
</tr>
<tr>
<td><strong>Market rules for postal service operation</strong></td>
<td>Operation of basic services included in the reserved service area by the public operator under a direct, exclusive franchise. Operation of nonreserved basic services under a licensing arrangement against payment of financial compensation. Operation of express mail or courier service under a licensing arrangement against payment of financial compensation.</td>
</tr>
<tr>
<td><strong>Treatment of the public postal operator</strong></td>
<td>Legal status of a government enterprise governed by private law, with the same freedoms as its private competitors. Government assistance for partnership building, transfers of technology and adequate investment.</td>
</tr>
<tr>
<td><strong>Regulatory system</strong></td>
<td>Creation of an autonomous regulatory body or a unit within the regulatory agency for a related industry with the authority to issue implementing regulations under the postal act and to oversee and supervise market participants.</td>
</tr>
<tr>
<td><strong>Penalty provisions</strong></td>
<td>Study and characterization of violations and offenses relating to the delivery and use of postal services, establishing administrative sanctions and civil and criminal penalties.</td>
</tr>
</tbody>
</table>
DATA COLLECTION GUIDE FOR AN ASSESSMENT OF NATIONWIDE UNIVERSAL POSTAL SERVICE

PART 1. GENERAL COUNTRY DATA

1.1. Area __________ square kilometers

1.2 Population __________ inhabitants
    Working population _______ %

1.3 Distribution of the population
    Urban _____ %
    Rural _____ %

1.4 Population density ____ inhab/km²
    Urban __________ inhab/km²
    Rural ________ inhab/km²

1.5 Literacy rate _______ %

1.6 Life expectancy _______ years

1.7 Poverty rate _______ %
    Absolute poverty rate (indigence) _______ %

1.8 Geo-political organization (subdivision) of the country __________
    Number of each type of subdivision __________
    Total number of towns and villages or human settlements __________
    Number of households __________

1.9 Major cities (ten largest cities). Population of each city

<table>
<thead>
<tr>
<th>Name</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
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<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Name</th>
<th>Population</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1.10 Telephone service
    Number of fixed and cellular telephone lines __________
<table>
<thead>
<tr>
<th>1.11</th>
<th>Electric power service</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of customer connections nationwide ________</td>
</tr>
</tbody>
</table>

| 1.12 | Percentage of households with electricity _____ % |

<table>
<thead>
<tr>
<th>1.13</th>
<th>Water supply</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of customer connections nationwide ________</td>
</tr>
</tbody>
</table>

| 1.14 | Percentage of households with piped water _____ % |

| 1.15 | Roads __________ |

| 1.16 | Ports and airports __________ |

| 1.17 | Per capita income (US$) __________ |

| 1.18 | Gross domestic product (millions of US$) __________ |

<table>
<thead>
<tr>
<th>1.19</th>
<th>Economic growth rate (%) for the last 5 years __________</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projection for next year __________</td>
</tr>
</tbody>
</table>

| 1.20 | Yearly imports (millions of US$) __________ |

| 1.21 | Yearly exports (millions of US$) __________ |

| 1.22 | Leading exports __________ |

<table>
<thead>
<tr>
<th>1.23</th>
<th>Inflation rate for the last 5 years __________</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projection for next year __________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.24</th>
<th>Devaluation rate for the last 3 years __________</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projection for next year __________</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>1.25</th>
<th>Unemployment rate for the last 3 years __________</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Projection for next year __________</td>
</tr>
</tbody>
</table>

| 1.26 | Legal minimum wage (US$ per month) __________ |

| 1.27 | Exchange rate per U.S. dollar __________ |

PART 2. LEGAL FRAMEWORK FOR THE POSTAL SECTOR

2.1. CURRENT LEGISLATION

2.1.1. Postal or postal service act or acts

❖ Date(s) passed

2.1.2. Core content of legislation

❖ List a maximum of 5 major legal precepts established under each piece of current legislation.

2.2. DEFINITION OF POSTAL SERVICES IN EXISTING LEGISLATION

2.2.1. According to the nation’s constitution, what is the role played by government in the provision of public services in general and postal service in particular?

2.2.2. How is postal or mail service defined under current legislation?

❖ What is the legal nature of postal services?

❖ What classes of services are included in postal service?

2.2.3. Are there special classifications of service?

2.2.4. How are the obligations incurred under the Universal Postal Convention embodied in domestic legislation?

2.2.5. What was the last Universal Postal Convention expressly ratified by the country?

2.3. UNIVERSAL POSTAL SERVICE

❖ Contemplation of universal postal service in current legislation

❖ Included services under current legislation

❖ System of universal postal service financing under existing legislation

❖ Effectiveness of the financing mechanism

❖ Long-term sustainability

❖ Regulations governing “universal postal service” service delivery conditions and standards of quality
2.4. SERVICE OPERATING SYSTEM

2.4.1. Extent of the monopoly

- Total or partial monopoly with exclusive rights to service operation
- Method of establishing exclusive rights or reserved services
- Deregulated services or services open to free competition

2.4.2. Service operating arrangement

- Licenses, with exclusive franchises
- Licenses, with free competition
- Licensing conditions and requirements

2.4.3. Treatment of the public postal operator (PPO)

- Scope of its postal service obligations
- Types of authorizations held by the public operator and way in which they are issued
- Forms of compensation for its service obligations
- Compliance by private postal operators with market rules for service operation
- Provisions for compliance monitoring and penalty provisions for enforcement purposes
- Legal status of the public operator under current legislation

2.4.4. Service performance monitoring system

- Authority to exercise regulatory powers
- Extent of the separation of regulatory functions and operational matters
- Stage of development of regulations governing the PPO and private operators
- Monitoring procedures for the operations of the PPO
- Price control provisions
- Penalty provisions
PART 3. POSTAL MARKET

3.1. BREAKDOWN OF ANNUAL DEMAND FOR POSTAL SERVICE

a. TRADITIONAL REGULAR MAIL SERVICE

(Record the volume of items in one column and the value of business in another column, expressed in US dollars.)

a.1. Public utilities sector (business segment – domestic mail)
   a.1.1. Power
   a.1.2. Water
   a.1.3. Telephone (fixed and cellular)
   a.1.4. Gas
   a.1.5. Refuse collection
   a.1.6. Other

a.2. Financial sector (business segment – domestic mail)
   a.2.1. Banks. Cheque accounts
   a.2.2. Banks. Credit cards
   a.2.3. Banks. Savings
   a.2.4. Mortgage loans
   a.2.5. Commercial credit (vehicles, etc.)
   a.2.6. Pension funds (statements)
   a.2.7. Insurance companies

a.3. Publishing industry (businesses)

a.4. Industry (business segment – domestic mail)

a.5. Business (business segment – domestic mail)

a.6. Government (business segment – domestic mail)
   a.6.1. Central
   a.6.2. Provincial
   a.6.3. Municipal

a.7. Traditional individual mail traffic (individuals segment – domestic mail)
a.8. Traditional international mail service (businesses and individuals – International mail)

a.8.1. Outbound
a.8.2. Inbound (not including the value of these items.)

b. EXPRESS MAIL OR COURIER SERVICE

(Includes express mail service for letter mail items and postal parcels. Record the yearly volume of items and their US dollar value in two separate columns.)

b.1. Domestic express mail service

b.1.1. Businesses
b.1.2. Individuals

b.2. International express mail service (outbound items)

b.2.1. Businesses
b.2.2. Individuals

In the absence of official figures or market surveys, this data will need to be estimated. As far as public utilities are concerned, country data on the number of customers with power and water service connections and telephone lines provides very close approximations of the yearly volume of mail traffic. Likewise, the supervisory agency for the financial sector has general information on the number of active cheque accounts, the number of credit cards issued, etc., which can be used as the basis for estimating the number of mail items containing statements of account, credit card bills, loan statements etc. on a monthly basis or at other intervals.

Estimates for business, industry and government will need to be based on sound criteria for approximating the volume of such mail traffic. Business and industry generates a large volume of invoicing items, as well as regular written communications and promotional and advertizing materials.
3.2. **MARKET SHARE OF THE PUBLIC OPERATOR**

Provide data on the annual volume and value of business by the public postal operator, expressed in terms of the volume of mail items processed and their US dollar value, using the same format as for the breakdown of market demand under item 3.1. above.

Calculate its share of market volume and value.

3.3. **SUPPLY OF SERVICES**

3.1.1. Traditional mail service (provided otherwise than by the public postal operator)

- **Domestic service**
  - Number of urban and nationwide service operators
  - Breakdown of the domestic market share of major firms
  - Daily and annual operating volume (capacity) of leading service operators (number of items)
  - Monthly invoicing value (US$)
  - Level of technological development of leading service operators
  - Product prices. Level of price competition
  - Quality of service. Standard of quality. Delivery standards
  - Business and competitive practices. Confirm whether there are any instances of predatory pricing and unfair competition affecting the PPO in particular.

- **Traditional international mail service**
  
  Provide the same data as for domestic service. International mail service should be broken down into outbound and inbound mail traffic. Indicate whether there are any remailing operations and consolidators.
3.1.2. Express mail or courier service

Provide the same breakdown as in item 3.3.1., bearing in mind that domestic service operators may be in both the traditional mail business and the express mail or courier business. Also keep in mind the special case of multinational firms furnishing international delivery service, providing data on their service offerings and share of the nation’s postal market. Examine the level of technological development of domestic and international courier firms and investments made by multinational courier companies in the country.

PART 4. PUBLIC POSTAL OPERATOR (PPO)

4.1. TYPE OF ORGANIZATION

- Legal status and governing law
- Degree of administrative and financial autonomy
- Applicable procurement procedures for goods and services
- Applicable labour legislation

4.2. ORGANIZATIONAL STRUCTURE

- Centralized management. Regional headquarters
- Number of workers. Size of its administrative and operational staff. Size of its operational staff as a percentage of the total workforce. Number of mail carriers. Academic educational level of postal workers. Average age of postal workers. Average number of years employed (seniority).

4.3. BUSINESS OPERATIONS

- Business areas. Share of each business area in its business volume, income, and profits or losses
- Main product lines in each business area
4.4. SERVICE OPERATING PROCESSES

- Traditional mail service
  - Types of operating processes. Use of technology etc. in major cities
  - Installed daily operating capacity for mail sorting and delivery operations. Percentage of installed capacity currently in use
  - Daily and annual volume of business
  - Productivity. Number of items processed per worker per year

- Express mail service

- Other business areas

4.5. ECONOMIC PERFORMANCE

- Volume of business – (last five years)

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<thead>
<tr>
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<th>1998</th>
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<tr>
<td>Mail – Letters and printed matter</td>
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<td>Mail – Parcels</td>
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<td><strong>TOTAL MAIL</strong></td>
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<td>Courier service –</td>
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<td>Documents and packages</td>
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<td><strong>TOTAL</strong></td>
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<td><strong>PROFIT/LOSS</strong></td>
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4.6. INFRASTRUCTURE

- Number of offices operated directly by the postal service
- Number of offices operated by contractors
- Number of other types of offices, if any
- Number of post office boxes
- Number of collection boxes (curbside, inside buildings)
- Number of main sorting centres
- Number of satellite sorting centres
- Number of vehicles owned directly and/or by contractors
- Number of motorcycles
- Number of bicycles
- IT capacity
  - In operating processes using specialized postal technology
  - In operating processes using general computer technology
  - In administrative processes

4.7. SERVICE DELIVERY CONDITIONS

4.7.1. Postal network coverage – Mailing service

- Total number of domestic postal network offices
- Total number of communities with postal service
- Total population of serviced communities
- Percentage of the nationwide population with mailing service
4.7.2. Postal network coverage – *Delivery service*

- Total number of domestic postal network offices providing home delivery service, including special types of home delivery service (on-site community mailboxes)
- Total number of communities with home delivery service
- Total population of serviced communities
- Percentage of the nationwide population with home delivery service

4.7.3. Regularity of service

- Standards for the regularity of mail transportation service outside large cities. Regularity of mail collection and transportation service in small and medium-size communities.
- Formal or informal standards for operating hours for retail offices in large and intermediate-size cities and small towns and villages. Number of days a week and hours a day. Permanent and mobile post offices. Offices operated directly by the postal service and by contractors.
- Formal or informal standards for mail collection from curbside collection boxes and mailboxes inside buildings.
- Where applicable, standards with respect to maximum distances between dwellings and the nearest post office or point of service. Maximum service area in square kilometers per full-service office. Maximum number of inhabitants per full-service office.

4.7.4. Speed

- PPO mail delivery standards for different classes of service and locations. Indicate delivery standards in hours or days and the percentage of mail delivered on time. Indicate any guidelines and criteria and any targets established by the PPO or the regulatory agency.
- Method of informing customers of the public postal operator’s obligations in terms of mail delivery time.
- Rate of compliance with corresponding obligations. Reliability
4.7.5. Security of operating processes

- Standards and indicators for mail theft, losses and mail tampering. Other irregularities
- Postal security system. Available security resources and assistance

4.7.6. Claim reporting system

- Intake facilities for complaints and claims
- Established response times
- Monitoring and tracking of response and settlement times

4.7.7. Parcel service

- Domestic business volume. Volume of inbound and outbound international parcels
- Domestic and international parcel traffic as a share of estimated market volume
- Operating processes. Mail processing, sorting and delivery facilities
- Delivery standard for domestic parcels. Delivery standard for inbound international parcels
- Streamlining of customs formalities for inbound international parcels. Adequacy of technical and IT facilities and standards
- Business vision and vision of the public operator's parcel service obligations as part of its nationwide “universal postal service” obligations.
PART 5. PRELIMINARY GENERAL PROPOSAL

5.1. What services do you feel need to be included in the nationwide universal postal service in addition to the mandatory core services required under the Universal Postal Convention?

5.2. Thus, what services, in your opinion, should be included in nationwide universal postal service?

5.3. At a minimum, what percentage of the population should have reasonable access to the universal postal services specified under item 5.2. above? Within what timeframe should this universal service target be met and at what rate of progress?

5.4. According to your answer to the previous question, with what regularity should universal postal service home delivery service be offered in small villages and hamlets?

5.5. What delivery standards should be established for cities, at the nationwide level and for rural areas in connection with the provision of the universal postal service? What percentage of mail volume should meet these standards? Indicate envisioned trends in delivery standards and the percentage of on-time deliveries.

5.6. How do you propose framing sector policy to facilitate the development of the nationwide universal postal service and the domestic postal industry? Present 3 or 4 proposed sector policy statements with respect to the legal framework and the postal market, the public postal operator and investments in its modernization and development, the focus of postal regulations, the role of the postal sector in promoting national development and the involvement of private enterprise.

5.7. How would you propose financing the nationwide universal postal service to ensure the sustainability of investments in its modernization and development without any outside funding of service operations under a reserved service area model in which the PPO holds exclusive rights to corresponding reserved services? How would this reserved area be legally defined, by class of service, item weight and support price?

5.8. What type of legal framework for service operation on the postal market would be engendered by your proposed financing mechanism? What types of sanctions would be required by this financing mechanism to ensure compliance with the reserved area?

5.9. Could you frame a proposal for postal reform based on universal postal service financing needs? What form would such a proposal take?
SECTION III

UNIVERSAL POSTAL SERVICE FINANCING
CHAPTER 1. UNIVERSAL POSTAL SERVICE COSTS

1.1. THE IMPORTANCE OF UNIVERSAL POSTAL SERVICE FINANCING

There is a wide range of available options for financing the universal postal service. However, the choice of a financing mechanism should be based on certain fundamental principles grounded in conditions at the country level.

The delivery of the universal postal service is an obligation whose fulfillment must be guaranteed by the government, which will need to ensure the availability of funding for maintaining universal postal services and the existence of corresponding financing mechanisms.

The purpose of this Module is not to delve into all the economic mechanisms for financing the universal postal service, but simply to outline a few simple, practical steps for accomplishing this task.

Moreover, regardless of the choice of a universal postal service financing mechanism, as a rule, there are certain policy decisions which need to be made before undertaking the framing of an action strategy.

There are ongoing discussions all over the world with respect to the best financing methods for this purpose. In Europe, which has been a pioneer in this field, the European Union is still hard at work on many different fronts. However, available options are more limited in many developing countries, where the characteristics of the postal market and, more importantly, problems in enforcing existing rules and regulations, either due to the absence of regulatory agencies or, in many cases, due to the weaknesses of existing regulatory structures, rule out the use of economic financing models subject to external control procedures.

What is important is the fact that, in all countries, even in the most progressive countries, government clearly needs to play a leading role in this area and to make necessary decisions in its capacity as the guarantor of the universal postal service. Such decisions will serve as the foundation for ensuring the continuity of universal postal service subject to established service performance criteria.

Thus, the issue of universal postal service financing is tied in with both economic and political considerations and, in both cases, not everyone will be happy with ensuing decisions. However, it is also clear that what is important in this case is to have a system providing long-term stability while simple enough so that it can be effectively implemented without the need for too many controls.
One thought to be kept in mind throughout this process is that the best financing method is one which, while ensuring the delivery of the universal postal service, also gives the postal operator enough freedom of action to establish mechanisms designed to expedite its own internal development, for the benefit of all interested stakeholders.

### 1.2. COST ASSESSMENT CRITERIA

The best way to treat economic issues is with caution, based on a careful consideration of conditions at the local level.

More specifically, in addressing economic issues pertaining to the universal postal service, it is important to neither over-reach nor under-reach in terms of service targets, given the direct impact of either extreme on the cost and economic feasibility of service delivery. It is equally important to bear in mind the environment surrounding the operation of the proposed services. In our particular case, we are dealing with the operation of universal postal services in developing countries with serious weaknesses in the organization of the postal operator and in existing rules governing the operation of the postal market.

A common question raised by government officials and other stakeholders in discussing decisions with respect to the universal postal service is: “How much does the universal postal service cost?” The preparation of a timely, accurate response to this question requires sound cost assessment criteria accepted by the economic authorities, as well as a clear definition of universal postal service costs.

Thus, universal postal service costs are to be construed as:

| “The total cost to the postal operator of providing the services included in its universal postal service obligations.” |

This simple criterion and approach to the costs of the universal postal service has helped many industrialized and developing countries accurately assess the economic and financial needs engendered by the provision of the universal postal service. All related costs must be taken into account, namely the fixed and variable and direct and indirect costs of all services included in the government’s universal postal service obligations, as well as the cost of conducting corresponding operating, business and administrative processes in all geographic areas.

Occasionally, certain facets and characteristics of the universal postal service can cause confusion.
The universal postal service is often mistakenly equated with postal services rendered in loss-making geographic areas, low-traffic rural areas or poor or low-income population centres. This same error is also made in addressing its costs, producing flawed proposals. In such case, calculations of universal postal service economic requirements take into account only the cost of service operation in certain remote areas or low-income communities and nothing else, which understates needs for income and investment and limits the future expansion of the service network.

In some countries, looking at the market share of the public operator and weaknesses in service delivery conditions, the total present costs of the postal operator do not even come close to accurately reflecting the cost of providing an acceptable level of universal postal service in line with nationwide needs. Thus, it is important to bear in mind the need to consider both the current costs of the postal operator and the estimated costs of a given projected level of the universal postal service.

In approaching the study of universal postal service costs, bear in mind that costs are a controllable factor of production and, as such, proper cost management and control is, not only a necessity, but a requirement for the operation of the universal postal service. Thus, universal postal service costs are tied, both to required service delivery conditions and to established productivity and efficiency targets for the postal operator.

For years, terminal dues rates for international mail have been gradually moving closer to actual costs and local prices at the country level, which makes sound cost management and control an absolute necessity. As a result, UPU countries have agreed to use cost accounting systems.

1.3. COST CALCULATIONS

Cost calculations required to determine the universal postal service should consider the following cost factors:

- **Total present cost of basic services**
  This is the present cost of operating the current service network, which is considered the baseline scenario, according to the current geographic coverage of the postal network and the regularity of corresponding services.

- **Total cost of the projected level of universal postal service (recommended)**
  This includes present costs, plus the estimated cost of adding services, extending the postal network, stepping up the frequency of service and offering a given level of quality with a specific, normally much larger, operating capacity.
Estimated value of investments and amortization costs
Based on 5 and 10-year indicative universal postal service development plans.

Calculations of prices and market value
Calculations of prices, market value and the projected share of the universal postal service operator in different areas of postal service to estimate the value of future income for financing the operation and development of the universal postal service.

The so-called total cost approach is a simple method and good way of ensuring sound decision making. There are other equally good approaches, but they are somewhat more complicated, with more requirements. Examples include the standard allocated cost, net avoided cost and entry pricing approaches, among others. However, since these other approaches require a number of conditions which simply do not exist in many developing countries, it makes no sense to delve into theoretic explanations of what may well be irrelevant methods and procedures.

1.4. FUTURE CHALLENGES

In the future, costs and timely, accurate cost data are going to be crucial to universal postal service management, both for the postal operator and for the regulatory authority.

Not only must the postal operator successfully meet service delivery conditions imposed on it under the postal act and its implementing regulations and enforced by the regulator and its customers. It must also cope with the surrounding postal environment and with current trends towards growing market liberalization, stronger competition, the more intensive use of technology and increasing product substitution, requiring highly specialized and professional management practices on the part of the postal operator, as well as high levels of productivity and efficiency.

The requirements imposed by postal legislation present a permanent challenge to the universal postal service operator to successfully manage opposing factors, such as the need to expand the postal network to keep pace with nationwide population growth, higher standards of quality, wage hikes and, in general, rising costs in the face of expected future trends such as shrinking revenues due to declining mail volumes with the substitution of mail service by digital communications media (primarily with respect to invoicing systems) and falling prices in response to pressure from growing competition.
All this requires the effective management of efforts to promote technological development and strengthen productivity, efficiency and the value added of postal services which, if not properly conducted from a technical and strategic standpoint, could throw off all corresponding forecasts.
CHAPTER 2. MODES OF FINANCING

2.1. FACTORS SHAPING FINANCING DECISIONS

If the focal point of the legal framework for the postal sector is the treatment of the issue of the nationwide universal postal service, the core issue to be decided with respect to the universal postal service is the means of financing governmental universal postal service obligations. This decision is pivotal, as the basis for the establishment of market rules for the operation of postal services. It is a decision affecting private business interests and, in some cases, could become a political decision, undermining the resolve to meet country needs. It determines the limits to be set on private enterprise in postal business segments open to free competition.

Strictly speaking, the private sector would prefer that there be no restrictions whatsoever on conducting business in the postal sector. It would also prefer that it not be required to pay compensation for the right to operate a strategic, essential public service for the country, and it has no interest in operating in loss-making geographic areas which could cause it losses or lower its profits.

Accordingly, from a strictly business standpoint, a system of market organization with a legal framework imposing certain restrictions designed to ensure the fulfillment of governmental universal postal service obligations will produce opposing positions and pressures. However, as discussed earlier, setting conditions with respect to the universal postal service also means looking at available options from a political perspective. All decisions cannot be based solely on economic considerations. There is always a political decision to be made and, whatever such decision may be, it will not necessarily be neutral.

The financing of the nationwide the universal postal service can be made easier or more complicated by a series of factors which, for the most part, can be adapted to meet existing needs, such as:

- **The level of development of the public postal operator**
  Strong or extremely strong operators like those found in industrialized countries facilitate the financing of the universal postal service and postal reform processes. In the case of weak or very weak operators, the development of a sustainable universal postal service financing mechanism meeting existing needs is far from a simple undertaking. It is also a vicious circle in that, as the traditional postal operator grows steadily weaker, this also weakens the universal postal service, which is an important reason for mounting reform efforts with a view to the long-term strengthening of the traditional postal operator, to facilitate the implementation of an appropriate service financing mechanism.
Organization of postal market operations
Both developing and industrialized countries with modern market rules and a reserved service area for the universal postal service operator have succeeded in expanding postal services and ensuring the long-term financial self-sufficiency of the universal postal service operator.

The lack of modern postal legislation and regulations and the unenforceability of weak rules and regulations governing operations on the postal market impose serious constraints on the provision of the universal postal service.

In addition to these factors, there are other considerations which need to be taken into account in making decisions with respect to the financing of the universal postal service.

Other influencing factors:
- **Investment.** Lack of investment and a limited internal cash generation capacity at the national government level.
- **Technology.** Serious technological underdevelopment with respect to the use of postal, information and communications technology.
- **Regulatory function.** Limited, if any, exercise of government regulatory functions.
- **Level of national development.** Higher levels of national development bolstered by infrastructure factors such as postal services help provide better insights into existing needs and pressure to create an enabling environment.

### 2.2. FINANCING MECHANISMS

In the current and future postal environment based on a market economy, globalization and market liberalization, the situation of national postal administrations of both industrialized and developing countries is extremely different from what it was 15, 30 or 40 years ago, making economic models developed decades ago ineffective and obsolete.

It is extremely common for governments to find themselves without any available funding to allocate to the financing of the universal postal service. Their main argument is that they do not even have enough funds to meet more compelling social development needs in the areas of health, education, etc., while postal services are business operations which should be self-sustaining.
Government needs to rid itself of all avoidable economic burdens, which means eliminating allocations of national budget funds to cover postal service operating deficits as soon as possible. Thus, it is looking to establish a viable, sustainable self-financing mechanism for the essential services whose delivery it is duty-bound to ensure.

In theory, there is a wide array of possible universal postal service financing models. However, from a practical point of view and in light of conditions at the country level and the global environment, it would be pointless to take the time to expand on common models whose effective implementation and successful performance is a remote possibility at best. Past experience in both industrialized and developing countries has shown in case after case that the most successful universal postal service financing model is a financing model based on funding generated by the operation of reserved services clearly specified and legally protected under a legal framework for the organization of the postal market, complemented by continuing reform efforts targeted at the postal operator, postal services and the sectorwide level.

Some countries have made half-hearted, “half-baked” attempts to establish a reserved service area based on previous experiences in certain parts of the world. There have been mail services designated a reserved service area for many years, while express mail or courier services have always been open to competition.

The industrialized countries have had financing models with first-class or letter mail service designated as a reserved area for more than 20 years, in all cases with price protection provisions to prevent predatory pricing by competitors, setting floor prices for private service operators at 3 or 5 times the rate charged by the universal postal service operator. At the centre of such models in the case of all industrialized countries was a strong public postal operator with a dominant market position for letter mail and printed matter (with a 90 to 100% market share) and a dynamic, ongoing investment programme.

As indicated above, local conditions in many developing countries suggest that the most feasible model for such countries is also the reserved area model including provisions for price protection, assuming the existence of an enabling environment for its implementation, sustained mainly by:

- postal legislation and regulations ensuring that the model is strictly adhered to;
- rapid development of the postal operator and its postal services through reform processes laying the groundwork for the institution of sound business practices and for ongoing investment and technological development programmes.
In most cases, at least temporarily, in the early stages of its implementation, the reserved area + price protection model may need to be underpinned by infusions of government funding until the postal operator reaches the break-even point and a surplus position, pending the completion of preliminary investment projects.

The following paragraphs outline the features of the three main financing models based on government funding, industry funding and a reserved service area.

**MODEL 1  
Government funding**

In this model, the government is responsible for covering any service operating deficit. This financing mechanism is difficult to implement in the face of limited government funds and conflicting priorities. It has been used by postal operators in developing countries without much success. The long-term sustainability of this mode of financing is doubtful.

However, it could be used in the early stages of reform processes and during transition periods to temporarily bolster development and modernization programmes and projects. It could also be used as an alternative source of funding for the postal operator in unforeseen emergency situations. It is unsuitable for resolving productivity, efficiency and competitiveness issues and inconsistent with the goal of building an independent, corporatized, financially self-sufficient postal operator.

While it could be regarded as a payment system for the rendering of mandatory services whose delivery is incumbent upon the government, this financing model tends to require increasing government funding to keep pace with rising costs. Without supporting legislation, this model does not provide long-term security and is constantly subject to changes in political leadership.

**MODEL 2  
Industry funding**

Under this financing model, private postal operators pay taxes or fees for the right to operate postal services. Such levies may take the form of fixed or variable sums payable to the universal postal service operator, the universal postal service regulator, universal postal service development funds etc., subject to different payment terms and conditions.
This model has been used in a number of countries for decades, with poor results. Its enforcement is both difficult and costly to control and is easily evaded. A requirement to make payments to a competing service provider is not something welcomed by other postal operators, who see it as yet another tax burden.

A reserved service area is a specific segment of the country's postal market for which the universal postal service operator holds an exclusive franchise as the basis for the effective, sustainable financing of this public service whose provision is to be guaranteed by the government.

The reserved area must be clearly and specifically delineated in terms of three core elements, namely class of service, item weight and price protection. These three basic elements for the delineation and establishment of a reserved service area must be jointly and simultaneously embodied in the decision establishing this model. The absence of any one of these three elements would make its delineation incomplete and undermine its effective implementation on the postal market.

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<th>BASIC POSTAL SERVICES</th>
<th>RESERVED AREA</th>
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<td>Basic postal services segment of the country’s postal market to be serviced solely by the universal postal service operator under an exclusive franchise.</td>
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<td>• Letter-post items:</td>
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<td>− Priority and non-priority items, up to 2 kg</td>
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<td>− Letters, postcards, printed papers and small packets, up to 2 kg</td>
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<td>− Literature for the blind, up to 7 kg</td>
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<td>− Special bags (“M bags”), up to 30 kg</td>
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<tr>
<td>• Parcels</td>
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<td>− Postal parcels, up to 20 kg</td>
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a) **Class of service.** In establishing a reserved service area, the government will need to decide what class or classes of postal service are to be furnished solely and exclusively by the official postal operator.

Normally, the reserved service area includes basic postal services for letter mail items due to their importance and volume and the availability of national market data on trends in this type of mail traffic. Letter mail items are items containing letters and printed matter, with letters construed to mean any and all personal and business communications, including bills, receipts, business papers and documents, and printed matter construed to mean any and all types of printed materials.

The actual number of services included in the reserved area will depend on country needs for the assurance of sufficient revenues to cover all universal postal service delivery costs. The volume and monetary value of such services are quantified separately and as a whole, in real terms, based on national postal market data as the basis for establishing the necessary scope of the reserved service area.

b) **Item weight.** The decision delineating the reserved service area must be extremely precise in order to minimize any overstatement and understatement, which requires specifying the weight limits of included items. The individual and aggregate data resulting from the specification of each included class of service and corresponding item weight limit will allow for an accurate assessment of the value of the postal market segment to be reserved for the official postal operator under an exclusive franchise to ensure the generation of sufficient revenues for the sustainable financing of the nationwide universal postal service.

Looking at postal service operations in countries with a reserved service area, we find that the size of the reserved area varies according to the maturity of the postal market and the level of development of the universal postal service operator and that, without exception, the extent of this variation is inversely proportional to the level of development of the postal operator and the maturity of the postal market. A more modern, high-tech, highly-developed public operator and more mature postal market require a smaller reserved service area and vice versa.

c) **Price protection for reserved services.** Service operating conditions on the postal market require price protection for services reserved for the universal postal service operator to ensure the effective exercise of its exclusive rights to that market segment and minimize its vulnerability to unfair competition and predatory pricing by other postal service operators.
To this end, regulations delineating the reserved service area will need to establish a specific floor price for postal services furnished by private operators or by any operators other than the universal postal service operator.

This floor price is to be explicitly spelled out in a provision setting the minimum price to be charged by other postal operators for their services at a specific number of times (3, 5 or 10 times) the price charged by the universal postal service operator for a specific class of service and weight step, i.e., for domestic letters weighing from 20 to 50 grammes.

This prevents other postal operators from encroaching on the market segment reserved for the universal postal service operator with similar or disguised services.

Defining and establishing the reserved service area in terms of these three core elements can help ensure the simple, effective, sustainable operation of the universal postal service financing model. A reserved service area can be established for a limited or indefinite time period. In either case, the legal instrument will need to be flexible enough to enable the government and the regulatory authority to adapt its provisions to changing universal postal service needs and trends on the postal market.

An adjustable, temporary reserved area can help motivate the universal postal service operator to speed up its efforts to improve and expand service, reduce costs and improve its productivity, efficiency and service quality. However, any such adjustments must be in keeping with the law, to ensure that they do not undermine or jeopardize the viability and sustainability of universal postal service financing in any way. This financing mechanism also requires the conscientious implementation of plans and projects for the modernization and development of universal postal services.

Some countries have had problems with misinterpretations of the difference between the concepts of the universal postal service and a reserved service area. This Module has dwelt at length on the concept of the universal postal service, its binding force as far as government is concerned and the obligation incurred by signatories of the Universal Postal Convention to clearly define and map out universal postal services under the provisions of domestic legislation. Thus, universal postal service is a specific government obligation to the general public with respect to the provision of postal services.
The concept of a reserved service area is another thing entirely. It refers to a financing mechanism under which, as explained earlier in this section, a specific segment of the postal service market is reserved for the universal postal service operator under an exclusive franchise to ensure necessary funding for the fulfillment of its obligations. In no event should the reserved area be equated with the basic postal services to be guaranteed by the government.

2.3. DECISIONS ON UNIVERSAL POSTAL SERVICE FINANCING

The objective of decision making with respect to a sustainable universal postal service financing mechanism is to establish exactly how the government can be absolutely certain of ensuring the generation of necessary revenues to cover the cost of the universal postal service, which is also the basis for ensuring the fulfillment of its service delivery obligations.

The following is a list of *sine qua non* conditions for sound decision making with respect to this issue.

a. Studies and data on nationwide postal activities and current legislation and operations. Projected legislation and operations for legal reform purposes and for the restructuring of the postal sector for the establishment of nationwide universal postal service.

b. Quantitative and qualitative data and studies on service supply and demand on the nation’s postal market. Breakdown of data on the value and volume of the postal market by class of service, customer segment, etc.
c. Studies and data on the operational development status and financial situation of the public postal operator and data on its level of development and modernization requirements. Development and business plans for the public postal operator.

d. Studies and data on projected universal postal service costs at the country level. Cost estimation model.

Armed with this data, the government could estimate funding needs for a minimum of ten (10) years as the basis for designing a proposed financing model for discussion and eventual approval.

Since socio-economic conditions in many developing countries and prevailing conditions in the postal sector make universal postal service financing based on government funding or contributions from commercial operators highly impractical, a few remarks on the decision-making process for the establishment of a universal postal service financing mechanism based on the so-called “reserved area” model would appear to be in order.

The main foundation for economic studies of the “reserved area” universal postal service financing model is, on the one hand, market data and studies, total nationwide universal postal service cost data and a corresponding cost estimation model and, on the other hand, cost calculations for projected universal postal services for the first and last years of the ten-year development plan and market data establishing the share of the market for basic letter mail service (letters and printed matter) generating sufficient revenues to cover such costs. Costs include operating costs as well as the amortization cost of investments under the development plan. Based on these guidelines, the task of deciding on a universal postal service financing model can be summed up in the following sequence of activities and operations:

❖ Collection of data on the postal sector, market and operator, the universal postal service cost estimation model and current and projected costs.
❖ Consultations on necessary studies with government, postal operator and regulatory agency officials involved in the economic study process for the delineation of the reserved service area.
❖ Conduct of technical studies to establish the scope of the necessary reserved service area.
❖ Articulation and substantiation of the findings from the aforesaid technical studies.
❖ Drafting of legal provisions establishing and delineating the reserved area and defining its three (3) core elements, namely: a) class of service; b) item weight; and c) price protection.
❖ Submission of the financing model to the parties in charge of approving all corresponding work and making official decisions.
In deciding on the universal postal service financial mechanism, government officials and law-makers need to be mindful of their specific responsibility to discharge governmental obligations to ensure the long-term sustainability of universal postal service. Financing is a quantitative factor and, as such, needs to be expressed in specific terms, or in terms of income, cost and market value, volume, etc. Sound, objective decision making requires simulations and projections of specific scenarios based on all available information and data.

They also need to be aware of the need to promptly dispel the doubts and relieve the outside pressure likely to be engendered by a decision-making process on a matter as important to the legal framework for the postal sector and the provision of universal postal service as the choice of a sustainable service financing mechanism. Examples of common factors hampering such decision-making processes include:

♦ movements to deregulate postal services;
♦ pressure from private interests claiming that such decisions could stifle private initiative and investment;
♦ the viability of the public postal operator and its ability to overcome major problems by stepping up modernization efforts.

The eventual deregulation of service industries in general and of postal services in particular is a given in many countries, but needs to be accomplished through a carefully planned, well-organized, strictly controlled process. Deregulation in developing countries cannot be allowed to attack the legal system and basic human rights.

Though postal reform efforts have made faster progress and been more effective in industrialized countries as part of comprehensive reform processes with provisions for the regulation, restructuring and modernization of the postal operator, where service operation on the postal market is well organized and subject to supervision, this does not mean that efforts to raise developing countries to this same level need not consider the future consequences of such an undertaking.

To ensure good results, the most advisable course of action for developing countries is to capitalize on direct experiences and best practices. The challenge of ensuring the long-term sustainable financing of nationwide universal postal service is too important to be left to chance, and to trial and error. The industrialized countries offer obvious handy examples of the successful use of a reserved service area and price protection, with strict rules and regulations for the effective enforcement of these exclusive rights.

There are those who consider the “reserved area” model a step backwards, or a curb on current market liberalization trends. However, this model is designed to serve as a dynamic, flexible standard geared to market conditions and the level of service development, as explained in the previous section, with its scope pegged to the maturity of the postal
market and the level of development of the universal postal service operator. As for pressure from private business interests, it is safe to say that such pressure would present a problem only under a legal framework completely deregulating the postal service market, which is not necessarily the case under current legislation in many developing countries.

Lastly, the need to dispel doubts with respect to the viability of the postal operator and its internal capacity to transform itself into a modern organization with sufficient operating capacity to meet demand for the universal postal service will require a completely objective assessment of its actual situation. The public operator could come up with convincing proposals for practical, feasible reform and modernization programmes, along with corresponding action and business plans. The government needs to be aware of all short and long-term development plans, business plans and investment needs.

Thus, the government and the public postal operator have a number of convenient, viable options, depending on the situation in each particular country. Reform and modernization programmes for the universal postal service operator can be bolstered by advisory service, consulting service, management and operating agreements with other universal postal service operators, with which the operator in question could also form alliances and joint ventures and enter into other business arrangements for the operation of postal services. The issue of the development of the universal postal service operator is discussed at length in Module IV of the Guide.
MODULE III

Legal Framework
# GUIDE TO POSTAL REFORM

## Module III
Legal Framework

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Introduction

One of the most important steps in the reform process is the establishment of a legal framework ensuring consistent ground rules providing stability for the delivery of basic postal services and guaranteeing the effective organization of the domestic postal sector.

One of the main problems in postal reform efforts at the country level is the lack of clear regulations. Time after time, efforts to modernize the public postal operator have been hampered by problems in instituting necessary legal reforms. Legislative proceedings are cumbersome in any country, and the obstacles which need to be overcome to discuss a proposed bill and make sure that it contains the necessary elements for undertaking a real reform programme are overwhelming to say the least.

Thus, the mounting of a comprehensive reform programme may be contingent on the drafting of sound, well-grounded proposed legislation. The objective of this Module is to outline the core elements of legal reform.

The nature of postal reform legislation will shape the organization and regulation of postal activities and the ground rules for the postal market. It will also help define development prospects for the postal sector to help foster nationwide growth and development.

Moreover, the provisions of enabling legislation for postal reform can facilitate efforts by the public postal operator to institute a comprehensive internal reform programme addressing organizational, operational, commercial and technology factors affecting service.

This Module, which is divided into two chapters, discusses legal issues affecting service delivery in the nation’s postal sector. The first chapter deals with legal reform and the way in which legislation shapes and defines the main underlying principles guiding postal reform efforts. The second chapter, which is more limited and specific in scope, is designed to furnish guidance for establishing the content of a new postal bill.

The second chapter also endeavours to underscore the importance of certain core issues addressed in the postal act, such as universal postal service, its operation and financing, the appropriate legal status of the public postal operator and the performance of government regulatory functions.
CHAPTER 1. LEGAL REFORM

1.1. POSTAL REFORM LEGISLATION

The domestic legislation of each and every country has always included legal texts governing the operation of postal services. This so-called postal legislation is geared to conditions in the surrounding environment for the delivery of postal services.

Historically, postal legislation has reflected the prevailing system of social organization and the communications needs of the times, in an era when market conditions and characteristics were simpler, demand was less exigent and supply was limited to service offerings by a governmental postal agency or organization, without any competition.

However, there have been deep-seated changes in the postal environment over the last few decades of the twentieth century and in the wake of today’s new information and communications society, engendered by new political, economic and technological developments.

Governments have been forced to implement structural and legislative reforms in virtually all areas of economic, political and social activity. The free market system has become the norm, and globalization is on the rise, fostering bilateral, subregional and regional trade agreements and integration. Science and technology is progressing at a dizzying pace in all fields, affecting all types of personal and institutional activities.

As a result, efficient and effective postal service delivery to today’s new information and communications society under an entirely new set of circumstances means adapting existing legislation to today’s new environment as the foundation for postal reform.

Legislation is the main vehicle for promoting and underpinning change as part of a postal reform process. Thus, it must resolve any issues affecting service delivery and embody government policy with respect to the organization of postal activities on the nation’s postal market.
Legislation also provides needed legal backstopping to ensure that all interacting parties, including customers and service providers, have legal resources at their disposal giving them the necessary degree of confidence and assurance in the ground rules governing the postal market.

The domestic legislation of each country includes instruments governing the operation and delivery of postal services within its borders. In most cases, these legal texts have been updated in line with progress in socio-economic and technological development to help better gear postal organizations and services to customer needs.

The amendment of existing legislation is the main driving force for reforming postal services and the postal industry. This process is referred to as legal or regulatory reform. Each and every one of the overriding objectives of this legal reform process, such as the specification of the government’s universal service obligations, the creation of an enabling environment for the development of the service operator, the strengthening of the postal regulatory function and the assurance of fair and equitable conditions for the operation of non-reserved services by private enterprises, requires legislation in line with specific needs at the country level.

The legal environment for postal service produces different sets of circumstances and characteristics in each country. However, all countries have certain needs in common, such as the need for new legislation consistent with conditions at the nationwide level and for legal texts providing permanent solutions to problems associated with the delivery of postal services.

In addition to addressing structural issues pertaining to the organization of the postal sector and postal services, postal reform legislation also needs to resolve other extremely important issues from a practical standpoint. One such issue has to do with the general propensity to disregard the law, which requires that postal legislation be given enough force to ensure its enforceability, with penalty provisions establishing sanctions and penalties for violations and criminal offences and legal mandates for their implementation. Another such issue is the lack of regulations issued by the government, exercising its authority under the law, applying and enforcing legal mandates for the implementation and updating of established legal precepts.
1.2. BASIC FOCUS OF LEGISLATION

The main objective of the enactment of new legislation as part of the legal reform process is to resolve problems engendered by the current and future postal environment affecting the development of the postal sector and postal services.

The focus of postal legislation is on meeting the service needs of individuals, businesses, communities and the postal sector as a whole. Development needs with respect to postal services to be maintained by the government include:

- universal postal service development needs;
- development needs of the public operator in charge of fulfilling government obligations;
- development needs for the performance of service regulatory functions on the postal market;
- the need to determine the desirable extent of participation by private enterprise in postal activities

The focal point of enabling legislation for legal reform and nationwide postal sector restructuring efforts is determination of the scope of universal postal services and of targeted standards of quality, including decisions with respect to service operating conditions and the specific universal postal service financing mechanism.

With the public postal operator vested with the responsibility for the provision of the universal postal service, the role of legislation is to lay the foundation for:

- its development in line with conditions on the postal market;
- granting it adequate autonomy to enable it to enjoy the same freedoms as its competitors;
- its commercialization and corporatization;
- the delivery of postal services meeting the high standards of quality demanded by its customers.
Legal reform legislation for the postal sector should also be geared to organizational arrangements for the performance of service regulatory functions on the postal market and the development of the postal industry.

Thus, legislation defines the scope of the government’s authority to govern, regulate and intervene in postal activities based on existing needs in the postal sector.

Likewise, depending on decisions with respect to universal service, postal reform legislation must establish operating conditions and requirements for those classes of postal service whose features distinguish them from basic postal services and, thus, can be operated under a free competition system. Furthermore, it must create an enabling environment for promoting healthy competition and for the modernization and development of postal services and the postal industry.

The better the government’s grasp of needs for postal service and for the regulation of business practices on the postal market, the better legislation will reflect sector policies to be followed by the national government in endeavouring to satisfy such needs.

Government officials in charge of shaping legal reform efforts in the postal sector often find themselves up against situations which, at least on the surface, appear to involve conflicting interests, both in the legislature in enacting new legislation, and in the executive in issuing regulations implementing established legal mandates and governing postal services. Sometimes, maintaining the universal postal service, strengthening the public operator and stepping up the performance of regulatory functions are considered incompatible with the promotion of competition, the liberalization of postal service and the opening up of the postal market to private enterprise.

All these issues to be contemplated in postal legislation are compatible and consistent when addressed and treated in proper chronological order in pursuit of a single objective, namely that of simultaneously meeting government obligations, customer needs and country development needs. This is precisely the approach taken by countries having successfully met postal sector modernization needs as part of a comprehensive reform process.

The postal markets in these countries all have postal legislation clearly distinguishing between ordinary mail services and express mail services, or between services to be operated exclusively by the public operator and liberalized services.
Moreover, the universal postal service financing mechanism ensures that the postal operator has sufficient long-term sustainable income to meet government obligations to deliver services meeting high standards of quality and efficiency, and the growth and modernization of the postal sector in these countries is in line with the level of national development.

1.3. LEGAL FRAMEWORK FOR POSTAL ACTIVITIES

In general, the rules governing nationwide postal service consist of the provisions of the postal act or post office act, the provisions of regulations issued under such act and the provisions of international conventions and agreements signed at UPU Congresses. This body of law represents the legal framework governing the operation and delivery of nationwide postal services.

The postal act or post office act is the legal instrument establishing the legal framework governing the operation of the domestic postal industry.

This framework establishes the legal nature, definition and classes of postal service, the government’s universal postal service obligations, the legal status of the public postal operator, economic operating principles for service operation on the postal market and legal mandates with respect to the regulation, supervision and monitoring of service delivery.

The postal act must expressly allude to the government’s obligation to meet its international commitments under conventions and agreements signed by the country as a member of the UPU.

The purpose of implementing regulations issued by the government under the provisions of the postal act, exercising its authority under the law, is to elaborate on the various issues addressed in the postal act, namely its purpose, service classification system and definitions, the determination, specification, operation and financing of universal postal services, conditions and requirements for the operation of other postal services on the nation’s postal market and provisions for the monitoring, inspection and supervision of market operations.

The provisions of the Universal Postal Convention contain all regulations governing exchanges of postal services by UPU member countries applicable to basic universal postal services, as well as to all other services contemplated in the Convention.
The provisions of the Universal Postal Convention are periodically revised at UPU Congresses in line with prevailing conditions in the surrounding postal environment, member country recommendations and needs and findings by studies conducted by UPU commissions and working groups.

Thus, these international postal rules and regulations are regularly updated based on needs and conditions in the global postal environment. It is a regulatory instrument in constant flux, subject to constant modification and adaptation, which requires an enormous effort to reconcile the interests and views of all signatory countries at UPU Congresses. These regular updates are made possible by the existence of necessary mechanisms for getting results, including meetings of country experts with specific goals and agendas to facilitate efforts to reach agreements.

Domestic postal services require similar dynamics, particularly with respect to regulatory instruments, to the extent that the executive branch of government has the authority to make corresponding adjustments in such instruments in response to changing needs.

The powerful effects of social change on service delivery and on the postal market require the issuance of new legal instruments with statutory force to update current legal texts, as enabling legislation for the modernization of the postal sector.

The scope and complexity of necessary amendments of domestic postal legislation may or may not require action by the national congress or assembly to institute needed reforms.

More specifically, the following three major needs will require the enactment of a new postal act:

a) Determination of the universal postal service pursuant to the provisions of the UPU Convention;

b) A compelling need to restructure the public postal operator;

c) Performance of the government’s regulatory function vis-à-vis the postal sector.

In signing the Universal Postal Convention at the 1999 Beijing Congress and the 2004 Bucharest Congress, the governments of UPU member countries committed themselves to incorporating provisions into their domestic postal legislation mapping out universal postal services, governing service operation and ensuring its long-term sustainable financing.
This commitment means, not only legally spelling out the government’s obligations in guaranteeing the delivery of such services to the general public, but also mapping out operating procedures for these basic services, along with a long-term sustainable financing mechanism.

Moreover, the conduct of postal activities by public and private postal operators under a free market system requires sound business and commercial policies and practices. Thus, the public postal operator in charge of fulfilling the government’s universal postal service obligations will need to be transformed into a commercial business organization with sufficient autonomy to enable it to enjoy the same freedoms as its competitors on the postal market.

Thus, there is no escaping the fact that the public postal operator must function as a business enterprise, with the ability to meet needs on the basic postal services market and the high standards of quality demanded by postal customers which, in turn, requires that it generate enough income to cover all corresponding operating and investment costs, eliminating government funding and operating subsidies once and for all.

Lastly, conditions surrounding the conduct of postal activities and on the domestic postal market require greater care and vigilance on the part of government in intervening in the postal sector and discharging its responsibilities for overseeing and monitoring the provision of this essential public service.

Irrespective of the best arrangement for the performance of these functions, whether it is through a specialized unit or through an autonomous sectoral or multisectoral agency attached to a cabinet ministry, the government must regulate postal activities and monitor service delivery by licensed service operators to ensure the operation of clear ground rules on an open market with healthy competition and promote investment and development of the nationwide postal industry.

Module V of this Guide, which is devoted specifically to an in-depth discussion of the issue of regulation, examines important considerations in establishing the focus of regulatory instruments.
CHAPTER 2. CONTENT OF THE POSTAL ACT

2.1. COMPONENTS

The postal act is the basic national policy framework for development of the postal sector. As such, its treatment of relevant issues must be well organized with clear, concise, specific provisions and mandates.

The provisions of the postal act can be organized as follows:

- **a)** an introductory section, containing general provisions;
- **b)** provisions with respect to the universal postal service as the focal point of the postal act;
- **c)** provisions with respect to the public operator;
- **d)** provisions establishing service delivery conditions.

### 2.1.1. General provisions of the postal act

The general provisions forming the introductory section of the postal act define its purpose, declare postal service to be an essential public service, define specific, specialized postal-related terms and establish the classes of service governed by the act.

- **Purpose of the postal act**

  The purpose of the postal act is to set rules governing postal activities to help the government meet its obligation to ensure the continued delivery of basic postal services to the general population while, at the same time, creating an enabling environment for the postal sector to help promote nationwide growth and development.

  This main guiding principle for the legislative framework for the nation’s postal sector is to be explicitly spelled out at the beginning of the text of the postal act in terms geared to local usage and custom.
Nature of postal service as an essential public service

Government postal service obligations are rooted in the basic tenets of constitutional and international law. The nature of postal service as a public service is well grounded, both in the basic rights established under national constitutional provisions and in the United Nations Declaration of Human Rights.

Accordingly, for the sake of clarity, the introductory section of the postal act should explicitly confirm the nature of postal service as an essential public service and, as such, establish the government’s responsibility to intervene in public services rendered in the public interest to oversee service operation and monitor service performance.

Classification of postal services

New developments in services, market operating practices and technology in response to customer needs have made it necessary to distinguish between different modes of service, giving rise to various classes of service and lines of business.

At a minimum, the classification system for postal services will need to establish different classes or categories of basic postal services as defined in the Universal Postal Convention and distinguish them from other postal services which, under the law, are not included in the category of basic essential services. The postal act must be precise in establishing the types of services regarded as postal services and, thus, subject to legislation governing the operation of the postal sector.

In addition to the classification of postal services, it is essential for the postal industry that the postal act expressly spell out what it considers to be postal activities. Activities conducted in connection with the provision of postal services involve the receiving, sorting, transportation and delivery of mail, as defined below.

- Receiving or acceptance of mail. The acceptance of mail items over the counter, in collection boxes or through the use of any other physical medium or available technology.

- Mail sorting and bundling. The separation, bundling or sorting of mail items through the use of any physical medium or available technology in preparation for their forwarding to corresponding destination and delivery points.
- **Mail transportation.** The process of moving and forwarding mail items from one location to another through the use of any physical medium or available technology.

- **Mail delivery.** The process of remitting mail items to their addressees in the exact geographic location indicated by the sender in the address. This includes mail delivery to post office boxes.

Both the postal service classification system and the definitions of postal activities are clear as to the types of services to be construed as included in the delivery of postal service and the types of activities which, together or separately, represent operations or tasks performed as part of the service delivery process.

- **Definitions**

To clarify the meaning of the terminology used in the text of the postal act, it is extremely important to provide definitions of specialized postal terms and concepts to ensure that they are understood correctly.

The following is a list of examples of some of the main postal terms which will need to be defined in the postal act.

- **Postal or mail articles.** Tangible goods with or without market value which can be dispatched by means of physical service networks for delivery to a specific address.

- **Postal or mail items.** The same meaning as postal or mail articles.

- **Postal service.** The sequence of activities by means of which letter mail and other mail items are shipped by the sender for delivery to an addressee at an address reflecting a specific geographic location under conditions prescribed by law.

- **Letter mail items.** Letter mail items are mail items referred to as letters, postcards, printed matter, literature for the blind, and small packets. This category also includes items transmitted via hybrid mail networks.

- **Letters.** Any current, personal, written communication indicating the name of the sender and addressee, dispatched via postal service networks with or without the use of available technology. The weight limit for such items is 2 kilogrammes. Letters include bills, receipts, statements of account and business papers and documents.
- **Printed matter.** Any type of publication printed on paper or another material, including books, brochures, catalogues, newspapers, magazines etc.

- **Postal message.** A text transmitted in the form of a wire or electronic postal communication, including faxes, telegrams, teletype messages and hybrid mail.

- **Hybrid mail.** Letters, messages or printed matter processed and transmitted via postal service networks by digital media producing a physical or paper mail item for delivery to a specific address.

- **Postal parcel.** A postal item containing any type of goods or merchandise, with the exception of articles whose mailing is banned by law. Postal parcels may also be referred to as parcel post items.

- **Registered item.** Any individually recorded letters, printed materials or parcels for which a receipt is issued attesting to their acceptance by the postal service and for which the addressee must sign upon delivery. Such items are also referred to as recorded or certified items.

- **Post office box.** A special, supplemental mail delivery service to an individual box identified with a specific customer serving as a mailing address and domicile. Rights to the use of a post office box are acquired by means of the payment of usage charges or rental fees for a specified period.

2.1.2. **Treatment of government obligations**

The focal point of the postal act is the specification of the postal services whose delivery is guaranteed by the government within its jurisdiction. This is the country’s universal postal service statement. This core component of the postal act consists of the definition and mapping out of universal postal services and provisions for ensuring their regular, viable, sustainable operation and financing.

This statement is considered the focal point of the postal services act, in that decisions on this matter affect the organization of postal activities and the legal framework for service operation governing the conduct of postal business activities on the nation’s postal market. Decisions with respect to universal postal service operation and financing will determine the extent and form of liberalization processes within the postal sector. The legal treatment of this postal service issue is discussed in greater detail later in this Module. The issue of the universal postal service has already been addressed in Module II.
2.1.3. Treatment of the public operator

The third component of the postal act involves the treatment of decisions with respect to the legal status of what the government considers to be the most appropriate organizational arrangement for the public postal operator responsible for fulfilling its universal postal service obligations. Whether establishing, restructuring or reforming the universal postal service provider, the postal act must specify the type of entity involved and the governing law.

In framing the strategies adopted at UPU Congresses, years ago the UPU member countries agreed that the public postal operator in charge of delivery of the universal postal service should be an autonomous, business-oriented corporate entity enjoying the same freedoms as its competitors on the postal market to enable it to compete successfully.

Thus, the decision on the legal status of the postal enterprise is of pivotal importance to the organizational model for the nation’s postal sector established under the provisions of postal legislation. Module IV of the Guide discusses the issue of the development of the universal postal service operator in depth.

2.1.4. Establishment of service delivery conditions

The fourth component of the postal act consists of provisions establishing necessary arrangements for service delivery on the postal market, including:

- the service operating system;
- the regulatory system;
- penalty provisions.

Service delivery conditions set ground rules for the nation’s postal market applicable to all service operators and, thus, are extremely important, both to the public postal operator and to private service operators.

Though the sections of the postal act referring specifically to the universal service and treatment of the public operator establish separate, specialized rules and operations for the fulfillment of government universal postal service obligations vested in the public postal operator, being as it will also need to offer other services open to competition, the public operator is also subject to general operational, regulatory and penalty provisions relating to the provision of these services.
➢ **Service operating system**

These provisions set conditions and requirements to be met by service operators conducting business on the nation’s postal market.

The organizational arrangement for service operation on the nation’s postal market will depend on each country’s unique situation, its level of modernization and development with respect to the delivery and universal coverage of basic postal services and the maturity and level of development of its postal market.

Mindful of the government’s responsibility to guarantee and maintain the universal postal service, many countries have successfully taken a cautious approach to the liberalization of postal services, gradually, progressively and methodically opening up their postal markets. Their first step in the reorganization of their postal market to allow for participation by private enterprise was the granting of authorization for the operation of special, expedited delivery services referred to as express mail or courier services, taking a more vigilant and prudent approach to the opening up of basic letter mail service (letters and printed matter) to private enterprise. Reductions in the scope of the postal monopoly for letter mail service were made with extreme caution, taking care not to undermine the economic viability of the universal postal service financing mechanism in any way.

Special precautions were taken throughout this process to reserve a certain market segment for the public postal operator under an exclusive franchise in order to ensure the generation of sufficient revenues to finance operating costs and investments in the modernization of services guaranteed by the government.
SETTING NEW MARKET OPERATING CONDITIONS REQUIRES THAT THE POSTAL ACT ESTABLISH:

- the postal services which the government is willing to open up to competition;
- the types of entities which may be authorized to operate such services;
- the type of authorization to be granted to service operators and the administrative procedures for granting such authorization;
- the financial consideration or compensation payable for such authorization;
- the obligations of service operators. The duties and responsibilities of service operators with respect to service delivery.

Regulatory system

One type of reform necessitated by changes in the surrounding postal environment is the separation of the government’s regulatory and operational functions. Accordingly, the postal act needs to address this pivotal issue for the organization of nationwide postal services.

The interest of private enterprise in providing a service clothed with a public interest on a market where there is a public service operator traditionally vested with regulatory powers requires the separation of regulatory functions from operational matters, as well as government intervention with a direct, specialized presence, to monitor and oversee postal activities.

The regulatory system consists of a series of rules and regulations as guidelines for administering the government’s regulatory functions with respect to the delivery of postal services. These regulatory functions reflect the government’s responsibility to protect customer and consumer rights and enforce government controls over service operation on the postal market.

It is the government’s responsibility to regulate universal postal services assigned to the public operator, as well as all other postal services offered by public and private service operators.
The government defines the focus and scope of its regulatory functions and establishes procedures for performing such functions under the provisions of the postal act. One common approach is for sector policy to be set at the ministerial level, with regulatory activities conducted by government departments or agencies assigned or entrusted with supervisory responsibility for postal services.

The regulatory provisions of the postal act will need to establish:

♦ the ministry in charge of setting sector policy;

♦ the department or agency in charge of exercising government regulatory functions, creating the unit, department or agency in question, where necessary;

♦ the specific functions assigned to the regulator;

♦ the scope of the authority granted to the regulator to amend and update legislation as needed;

♦ legal mandates to elaborate on its provisions in detailed implementing regulations;

♦ specific and special powers to be granted to the regulator to ensure the enforcement of penalty provisions;

♦ mandates for ensuring the availability of funding for the performance of government regulatory functions.

➢ Penalty provisions

In many countries, one of the main weaknesses in the legal framework for the postal sector is the limited availability of tools for enforcing corresponding legislation. Most violations of legal provisions and operating models for the postal market are engendered by a lack of explicitly established sanctions and penalties applicable to certain practices and situations associated with postal activities, with respect to both supply and demand-side activities.

The penalty provisions of the postal act are designed to ensure compliance with rules governing the organization of the postal sector and to enforce individual and public rights and obligations with respect to the operation and use of postal services.
Statutory violations and offences may be committed by postal operators and employees, as well as by postal service customers. Thus, the law needs to characterize such violations and offences and establish legal procedures for the imposition of applicable sanctions and penalties.

For example, the law could characterize specific acts or omissions in the conduct of postal activities breaching the provisions of the postal act and the regulations issued under such act as administrative violations of:

♦ rate-setting procedures;
♦ information reporting and disclosure requirements;
♦ service delivery conditions;
♦ deadlines for required payments of financial consideration or compensation;
♦ other requirements, as established in regulations issued by the postal regulator.

Likewise, the postal act could characterize the following acts as postal offences:

♦ mail tampering;
♦ violations of postal secrecy requirements;
♦ the unauthorized operation of postal services;
♦ the misappropriation of funds from the operation of government-guaranteed universal postal services;
♦ the operation of services reserved for the public postal operator;
♦ the mailing of legally banned items;
♦ the counterfeiting of postage stamps, the use of counterfeit stamps and the illegal use of stamps.

2.2. FOCAL POINT OF THE POSTAL ACT

The focal point of the postal act is the definition and mapping out of nationwide universal postal services. This section of the act serves as the basis for constructing the envisioned postal service model.
Decisions on this matter will affect all facets of the legal system for the postal market and the operation of postal services, both for the public postal operator and for private service operators. Such decisions will determine the future level of public access to quality postal services, as well as the future extent of market liberalization and competition.

Legislation in this area needs to make sure that service delivery in fulfilment of government universal postal service obligations does not become a drain on the public treasury in any shape or form. Thus, in essence, what the public is looking for in the enactment of legislation is the development of an appropriate model establishing economically viable procedures assuring its long-term sustainability.

Module II of the Guide discussed all aspects of the universal postal service at length. This Module addresses a number of important issues to be taken into consideration in drafting the text of corresponding legislation.

### THE POSTAL ACT COULD CONTAIN PROVISIONS:

- defining the nationwide universal postal service;
- determining the services comprising the nationwide universal postal service;
- establishing service delivery conditions;
- establishing a financing mechanism;
- establishing operating procedures;
- addressing other issues pertaining to the nationwide universal postal service.

#### 2.2.1. Definition of the universal postal service

The law needs to establish a definition of the nationwide universal postal service as a government obligation to the general public, with requisite features and characteristics in keeping with such obligation and in line with constitutional and legal principles and country commitments under the Universal Postal Convention as a member of the UPU.
The provisions of the postal act defining universal postal service must stipulate:

♦ that the delivery of universal postal service is an obligation whose fulfilment is be guaranteed by the government;
♦ that service offerings shall consist of basic, accessible, high-quality services furnished on a continuing basis, at affordable prices for all segments of the population;
♦ that universal postal services must be available to all members of the population on a completely nondiscriminatory basis.

2.2.2. Determination of services

The postal act must specifically establish the postal services included under the concept of nationwide universal postal service.

By definition, the core services which each country has agreed to ensure its population are the basic postal services established under article 12 of the Universal Postal Convention.

This article of the Convention defines basic services as services for letter mail items and postal parcels up to 20 kilogrammes in weight. Letter mail items consist of:

♦ priority items and non-priority items, up to 2 kilogrammes;
♦ letters, postcards, printed papers and small packets, up to 2 kilogrammes;
♦ literature for the blind, up to 7 kilogrammes;
♦ special bags (“M bags”), up to 30 kilogrammes.

In addition to these core services, the concept of the universal postal service can also embrace other special services such as registered mail and postal payment or financial services, depending on public needs and the ability to meet corresponding obligations.

2.2.3. Specification of service delivery conditions

The postal act must contain general guidance with respect to standards of quality for the nationwide universal postal service and establish a government mandate and give government the necessary authority to issue regulations through the postal regulator with respect to service access, speed, reliability, security and other quality-of-service-related factors.
Provisions with respect to service delivery conditions can establish basic parameters such as guidelines for setting quality of service targets to be attained within a specific timeframe. For example, they might include a stipulation to the effect that 90%, 95% or 98% of the population is to have access to the universal postal service within a period of 5, 8 or 10 years, depending on conditions at the country level.

2.2.4. Establishment of the financing mechanism

This is one of the most important parts of the postal act. This decision determines the very essence of the legal framework for the organization of the nation’s postal sector and postal market. It is an extremely sensitive issue from the dual standpoint of government finance and private business interests. A well-conceived approach to this issue is pivotal to the viability and sustainability of efforts to meet government universal postal service obligations. These provisions of the postal act will ensure the continued delivery of universal postal services.

Assumably, preliminary technical and economic studies and analyses serving as basis for recommendations as to the most viable financing method have first examined the feasibility of:

♦ government funding;
♦ payments of contributions or fees by domestic postal service operators;
♦ the establishment of reserved services to be operated under an exclusive franchise by the public universal service operator;
♦ a combination of the aforesaid three options.

Without exception, all countries with successful postal reform programmes resulting in the delivery of high-quality universal postal service have elected to establish a reserved service area.

In some cases, it is recommended that the postal act provide for all three alternatives, with the actual financing mechanism based solely on the operation of the reserved service area, and the other two options as alternative sources of government funding to help out in the event of a real need.

Thus, the sections of the postal act referring to the financing of the universal postal service may include the following provisions.
Universal postal service financing

The postal act may provide for the establishment of reserved services to be operated under an exclusive franchise by the universal postal service operator to ensure the continued fulfillment of government universal postal service obligations and regular delivery of the universal postal service. Given the misinterpretations of these terms in a number of countries, it is essential to make a special point of the differences between the so-called "reserved service area" and the "universal postal service," which are two entirely different concepts. The notion of the universal postal service has been consistently defined throughout the Guide. The "reserved service area" refers to those services to be operated by the universal postal operator under an exclusive franchise and which calculations show should generate enough income to cover universal service delivery costs.

Module II of the Guide provides more specific examples of the differences between the two concepts, but the importance of this matter in preventing errors in the framing of corresponding legislation cannot be overemphasized.

The "reserved service area" will need to be specifically delineated in terms of:

♦ the classes of postal services to be furnished by the universal postal service operator under an exclusive franchise;
♦ the item weight limit for such services;
♦ the price protection provided in an endeavour to prevent predatory pricing practices on the postal market.

In addition to the establishment of a reserved service area, the postal act may give the national government the right to require payment of financial consideration by the postal industry in return for the granting of service operating licenses to finance all or part of the cost of the universal postal service and provide for national budget funding, where necessary.

Delineation of the reserved service area

The law will need to specify the classes of services defined as reserved (or exclusive) services, item weight limits for reserved services and the price protection accorded such services. With the vulnerability of these reserved services to encroachment by private operators on the postal market, price protection is the single most important factor in monitoring compliance with exclusive rights to the operation of reserved services on the postal market.
The scope of the reserved service area will depend on how much income is required by the universal postal service operator to cover service costs and the size of the nation’s postal market. As a rule, the higher the level of economic development, the larger the postal market. The larger the postal market, the smaller the reserved service area.

The industrialized countries, most of which have ongoing postal reform programmes, have had reserved service areas for the past twenty years. Originally, the "reserved service area" encompassed all letter mail (letters and printed matter). However, the trend over the years has been to gradually limit the scope of the reserved area to letters of up to 500 or 350 grammes in weight.

The price protection method of choice for the reserved service area is the establishment of a specific price threshold above which such services can be offered by private service operators. Hard-currency countries have set such threshold at 2.0 GB£ or US$ 3.00, for example. Other countries define such thresholds as a specific number of times the rate charged by the public postal operator, as the most practical way of updating such provisions, or as 3, 5 or more times the rate charged by the universal service operator for a 50 or 100 gramme letter for example.

Turning to the example of the European Union alluded to in Module II of the Guide, EU legislation allows a private operator to foray into the service area reserved for the public operator, but requires that it charge five times the rate charged by the public operator for the same service, thereby discouraging private service operators from encroaching on the reserved service area designed to finance universal postal service costs.

➢ Assignment of exclusive rights to the reserved service area

The law must mandate that the universal postal service operator be granted exclusive rights to the operation of reserved services. As things currently stand, the universal postal service operator is the public postal operator.

➢ Regulation of the reserved service area

The postal act must grant the national government the authority to regulate the reserved service area and make any necessary changes and adjustments through the postal regulator, with a view to streamlining the management of this important facet of universal postal service in line with changing needs and conditions in the surrounding postal environment.

The postal act will need to qualify the regulatory authority granted thereunder and the provisions of corresponding regulations through a stipulation to the effect that, without exception, the public welfare is to take precedence over any and all other concerns, which will require continual vigilance to ensure that any measures taken with respect to the reserved service area have no effect on the economic and operational
viability of the delivery of universal postal services guaranteed by the government.

2.2.5. Service operation

This is another pivotal issue to be addressed in the provisions of the postal act. Given the profit motive driving business on the postal market, private operators are not going to service unprofitable areas, which is the responsibility of the public operator in charge of fulfilling government postal service obligations.

Thus, the postal act must mandate the establishment of special rules for the operation of the universal postal service; first, to delegate responsibility for the provision of government-guaranteed services to the public postal operator and, secondly, to provide it with an enabling environment for modernization efforts designed to improve service delivery.

➢ Designation of the universal postal service operator

The postal act must expressly designate the public postal operator as the universal postal service operator, granting it exclusive rights to the operation of reserved services for the financing of service delivery costs.

It also needs to address the other benefits and privileges to be granted to the public operator to better enable it to meet its obligations and ensure the availability of necessary funding, such as waivers of income taxes, taxes on net worth and sales taxes, exclusive rights to the use of the name of the national “postal” service, an exclusive franchise for the rental of post office boxes and special customs treatment for inbound and outbound mail items.

➢ Legal status of the postal operator

The postal act will need to decide on the most advantageous legal status for the public postal operator for the provision of the nationwide universal postal service. In keeping with conditions in the current postal environment, the general consensus is that the universal postal service operator should be organized in the form of a business enterprise with the same freedom of action as its competitors on the postal market to enable it to compete successfully.

In just about all cases, the legal status best enabling the public postal operator to compete with private service operators on an equal footing is that of a commercial corporation.
2.2.6. Other related issues

Examples of other important issues relating to universal postal service which need to be addressed in the postal act include the following:

♦ **PRICE CONTROL BY THE POSTAL REGULATOR.** Provisions with respect to price control measures for the universal postal service and the reserved service area and granting authority to the postal regulator to establish special price control measures where necessary.

♦ **DISCLOSURE OF STANDARDS OF QUALITY.** Requirement to disclose the standards of quality set by the postal regulator and publish prices.

♦ **ACCOUNTING.** Provisions requiring the universal postal service operator to keep separate accounting records for such services and use a cost accounting system.

♦ **FORMALIZATION OF THE OBLIGATIONS OF THE POSTAL OPERATOR.** Provisions requiring the postal operator to enter into a contract with the regulator based on specifications with respect to service delivery conditions under which it agrees to meet such conditions, which include the framing of a universal postal service development and investment plan for the term of the contract.

Such contract must establish procedures for monitoring and evaluating the performance of the universal postal service operator and for the periodic updating of corresponding development and investment plans.

Obviously, the legal environment is extremely different in each country, which makes it difficult to develop a single model for the establishment of a domestic legal framework. Nevertheless, this Module has attempted to explain and clarify the core issues to be addressed in drafting a proposed postal act. In this spirit, the following pages contain a general outline of the content of a model postal act as guidance for the framing of corresponding legislation.
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MODULE IV

Development of the Postal Operator
GUIDE TO POSTAL REFORM

Module IV
Development of the Postal Operator

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Introduction

The postal sector has been going through major changes over the past several years.

Globalization, market liberalization, reductions in trade barriers, new technology and expansion programmes by major postal market operators are only a few examples of the types of changes driving efforts to redefine the role of postal regulators and operators, and of the official postal operator in particular.

Needed reforms should be made quickly but, at the same time, it is impossible to make any changes without clearly understanding their ramifications in the prevailing climate in each country. A study and discussion process is important as a way of charting future courses of action. The degree of governmental and public interest in the postal sector hinges on the proper handling of this process.

Every country’s postal environment has certain features which make it unique. In addressing the sweeping, fast-paced changes currently underway in the postal sector, it is important to bear in mind that not all such changes are propagated in the same way, with the same intensity and at the same pace on all markets. Some countries have chosen to take “one-off” measures, which have thrown the entire postal industry into disarray, causing visible harm to the entire population. These countries opted to forego an in-depth study of nationwide conditions and careful thought and reflection on the best options for meeting their future goals. One of the main tasks of country leaders in charge of instituting reform processes is to understand the magnitude of the impact of these types of changes on the postal environment, pinpoint current and potential future obstacles and drivers on the local market and determine how long it will take for the effects of envisioned reforms to be felt.

This module is designed to bolster country efforts to study existing conditions with a view to developing sound alternatives for restructuring the postal sector and the universal postal service (UPS) operator.

Chapter 1 discusses the foundation for the development of the postal operator. The object is to assess the adequacy of the official postal operator in the face of existing threats and opportunities in the surrounding environment for the framing of strategies designed to consolidate its strengths and minimize the effects of its weaknesses.

Chapter 2 discusses the process of reforming the official postal operator in the light of the internal and external environment (the postal market and postal sector) at the country level. The targeted output is an up-to-date, specific assessment of the official postal operator and its targeted market and the development of alternative scenarios for use in the planning process discussed in chapter 3.
CHAPTER 1. FOUNDATION FOR DEVELOPMENT OF THE POSTAL OPERATOR

An organization is not an isolated entity. There are many different factors which can significantly affect market behaviour, management performance and satisfaction of market needs. Thus, it is absolutely essential for a business organization to understand and position itself with respect to different scenarios in order to successfully compete within its sphere of activity.

This chapter discusses these conditions and criteria for expanding the organization and its service operating function with a view to promoting self-sustainable development driven by sound business policies and guidelines.

1.1. SURROUNDING ENVIRONMENT

This section takes a look at how society influences businesses in general and postal service operators in particular.

In today’s new business climate, customers do not always settle for what companies are offering. They are generally looking for low-cost, customized solutions tailored to their needs.

This poses a major challenge to the official postal operator, particularly in light of its social responsibilities embodied in its universal postal service obligations.

1.1.1. Society and the economic model

Any sort of change has an impact on society. The first reaction to change is one of skepticism, and a “conviction” that it is merely a passing phase. In time, the change may become an integral part of every day life. As a rule, organizations able to adapt to change and capitalize on opportunities presenting themselves in the surrounding environment, while dodging potential threats, will survive and prosper. This often means changing their business focus, revising their strategies, assimilating new technology and reshaping their organizational structure to enable them to position themselves more advantageously on the market.

The need for more information, faster communications and closer contact is creating new social attitudes and customs with powerful effects on consumer behaviour.
In general, people are looking for time-saving amenities designed for convenience and, thus, for improving their quality of life. In the postal environment, as people and nations are brought closer together, this is creating a growing need to reconcile business and social interests. On the one hand, the official postal operator needs to engage in business activities designed to ensure its sustainable development while, on the other hand, it cannot lose sight of its role as a so-called “national integrator” responsible for engendering and promoting social cohesion and integration at the countrywide level.

The official postal operator has the main responsibility for defining and creating necessary conditions for the establishment of the Universal Postal Service. The government will need to lay the foundation for ensuring its sustainability as part of a broad-based, nationwide social programme. Public demand for goods and services, combined with the need to expand business and trade, is creating a thirst for knowledge with respect to the rights of all segments of society to have access to services whose provision is incumbent upon the government.

1.1.2. The postal sector and conditions in the surrounding environment

The situation outlined above is prompting discussions on the need to revise current regulatory, business, organizational and technological models for the postal sector in countries around the world.

Policy-makers and government officials in many countries feel that the solution to the current situation in the postal sector is the same as for other sectors, such as the telecommunications, transportation and power sectors, for example. This view is based on the premise that market liberalization alone should satisfy public demand, given the interest expressed by private enterprise in engaging in lucrative postal business activities.

However, decision-makers often tend to overlook the need to also provide access to service in remote communities at reasonable prices and subject to reasonable service delivery conditions. There are more than enough examples of experiences which demonstrate that this approach is a departure from the principle of universal service coverage endorsed by UPU member countries at Union Congresses.

Moreover, the lack of provisions for including the postal sector in government development policy has made the current postal service model obsolete before its time, resulting in a deterioration in service quality, increasingly limited service offerings and a lack of motivation on the part of the postal workforce and creating a pressing need for change.
Due to the attachment of official postal operators to cabinet ministries in charge of matters which, in many cases, have very little to do with postal affairs (security, police, justice, transportation and public works etc.) and decision-making problems stemming from their lack of autonomy or legal standing, government has spent very little time on discussions of postal affairs, relegating postal sector priorities to secondary importance. Government efforts to balance the budget and limited investment funding are also to blame. Keeping a postal service with increasingly large budget deficits going puts more pressure on the public treasury and the taxpaying public.

The elimination of the postal monopoly without establishing any compensatory mechanisms has further aggravated this problem, with a large part of the revenues generated by lucrative postal business activities to help defray the cost of providing basic postal services to remote areas going to private enterprises, destabilizing the delicate financing mechanism established under the current postal service model.

At the same time, the recent revolution in information and telecommunications technology, while threatening traditional, physical letter mail and message traffic, has also presented the official postal operator with countless new business opportunities, such as hybrid mail, e-commerce and integrated logistics services. This same technology has also given rise to a new, more sensible, better informed and more sophisticated consumer public.

Clearly, the regulatory, business, organizational and technological model for the official postal operator needs to be adapted to these new phenomena. Faced with a whole new postal environment, the Western European countries; Malaysia, Singapore and Japan in Asia; New Zealand and Australia in Oceania; and the United States of America, Canada and Brazil in the Western Hemisphere, have spent years discussing and redesigning their service operating models in an effort to reconcile social objectives stemming from universal postal service obligations with corporate objectives driving postal business activities in a competitive environment. While such models are not necessarily identical, they have a number of core elements in common, such as:

1. the gradual phasing out of the postal monopoly and its replacement with reserved service areas and other compensatory mechanisms;
2. guaranteed universal postal service financing by strong official postal operators;
3. the separation of regulatory and operational functions which, in many countries, were traditionally performed by the official operator;
4. the expansion of the scope of the regulatory function to encompass the entire postal market;
5. a clear vision of the obligations of the official postal operator with respect to the provision of universal access to basic postal services;
6. the adaptation of the business model to allow for new forms of
alliance building with private enterprise (diversification of capital ownership, joint ventures, franchises, stock ownership, etc.);

7. the establishment of realistic pricing policies to cover universal service costs and investment needs, including the adaptation of price-setting mechanisms for services subject to competition;

8. the introduction of business accounting principles, with separate cost determination for basic services, different universal postal services and services open to competition;

9. the updating of technology used in operating processes to strengthen the competitiveness of the official postal operator (improving its speed, operating capacity, efficiency and quality and lowering its costs);

10. the expansion of service offerings to make better use of existing infrastructure;

11. the updating of technology used in value added services (hybrid mail, e-commerce, integrated logistics services and financial services and miscellaneous derivatives of different combinations of these services in value and supply chains);

12. the modernization of administrative and production infrastructure.

In many countries, postal operators have not yet risen to the level of an independent enterprise, continuing to operate as a department within a cabinet ministry, dependent on the operations of slow-moving government bureaucracies, which is a far cry from the economic principles driving the business operations and commercial practices of a modern postal enterprise.

1.1.3. Challenges faced by the official postal operator

In the face of the current postal environment, it is important for each country to find ways and means of promoting the sustainable development of its postal sector for the public good by strengthening its official postal operator, whose mission is to serve all segments of the population by providing the universal postal service, and laying the foundation for the participation of private service operators on the postal market subject to proper oversight and regulation.

The figure on the next page sums up the challenges faced by the official operator in adapting to today’s new postal environment and the core elements of the postal reform process which need to be addressed in developing an appropriate new domestic postal service model.
The reform process should be implemented in phases, with clearly defined but not necessarily sequentially arranged objectives, some of which will need to be pursued simultaneously.

As part of this process, it will be necessary to:

a) raise government awareness of the need for a new postal service model;

b) establish an agenda for discussing postal-related legal issues, including:
   ♦ the shaping and assignment of regulatory and operational functions;
   ♦ the definition of the universal postal service;
   ♦ the characterization of services and operators targeted by regulatory activities;
♦ the development of the universal postal service financing mechanisms (reserved areas, allocations of government funding, tax waivers etc.);
♦ the definition of the legal status and functions of the official postal operator;
♦ other related issues (franking privileges, consumer rights, etc.)

c) develop an agenda for the discussion of organizational, marketing and operational models for the official postal operator, including:
♦ the study and definition of concepts and objectives for updating service and product lines, including the incorporation of new postal technology responsive to customer needs;
♦ the study and identification of new technology to be incorporated into postal production and business management processes;
♦ the development of a new organizational model for the official postal operator;
♦ the framing of human resource development, training and motivational strategies for the official postal operator.

1.2. GROWTH FACTORS

The development of the official universal postal service operator is a phased process. The phases in this process are interrelated and the successful completion of each phase is an engine of growth.

This chapter discusses the concept of corporatization, postal business activities, customer demand, postal products and services and their production process, inputs and linkages with targeted outputs and the business focus of the official postal operator.

1.2.1. Concept of corporatization

The period of duration of a postal enterprise is perpetual to ensure continued service delivery, which helps foster social acceptance. From an organizational standpoint, an enterprise is a legally constituted, organized collection of commodities, equipment, assets and human resources designed to produce goods and services. The economic profit motive is a product of its corporate nature and of the commercial orientation of its business activities.
The concept of corporatization is relevant to all postal organizations, whether or not they are actually referred to as corporations per se. Historically speaking, postal organizations have evolved from government offices into commercial enterprises and corporations, as illustrated in the following figure:

The flexibility and responsiveness of postal operators depend on their achieving more autonomy. There is more than one approach to accomplishing this. Each country must decide on the type of organization best suited to local conditions and needs, to its market and to the government’s policy objectives.

The importance of laying the necessary legal, administrative and economic foundation to enable the postal operator to hold its ground in the face of increasingly strong and often predatory competition cannot be overemphasized. Failure to do so could be detrimental to the government, the consumer public and the general population.

The challenge for official postal operators is to find the right balance between the commercial orientation of a modern postal enterprise with clear business and profit-making objectives and its other side, that of a public service enterprise with a high social consciousness and a responsibility to act in the public interest, guided by public policy, including governmental universal postal service obligations. In the business world of official postal operators, these two dimensions are not contradictory but, rather, mutually complementary. The closer the postal operator is to the public, the better its business prospects, particularly at this time when the Internet is beginning to generate business in which the official postal operator can serve as a logistics service provider in transactions between buyers and sellers for the physical delivery of merchandise purchased on-line.

The challenge to the official operator is to serve all segments of society.
To do this, it will need to look at certain areas as the basis for improving its efficiency and productivity. The top management of the official postal operator should be continuously asking itself the following questions to prevent any relaxation of efforts in pursuit of its business objectives:

♦ How up-to-date is the technology used in the service delivery process?
♦ What are the obstacles to integration in each phase of operations?
♦ How well trained is the workforce compared with the competition?
♦ What are the market risks?
♦ What administrative problems are engendered by the current production process?
♦ Is the enterprise gaining or losing value?

1.2.2. Postal business areas

The business activities engaged in by the official postal operator may include various product lines, as part of the service portfolio available to its customers. Postal products can be classified in “families” as a way of targeting sales efforts and facilitating regular evaluations of the products available to postal customers.

The following is a suggested classification scheme for this purpose.

<table>
<thead>
<tr>
<th>FAMILY</th>
<th>PRODUCT AND SERVICE LINE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Messages</td>
<td>Letters, telegrams, faxes</td>
</tr>
<tr>
<td>Parcels</td>
<td>Express mail, ordinary mail</td>
</tr>
<tr>
<td>Direct marketing</td>
<td>Printed matter, direct mail advertising, business reply mail, COD service</td>
</tr>
<tr>
<td>Financial services</td>
<td>Money orders, cheques, bill payment service, savings</td>
</tr>
<tr>
<td>Convenience items</td>
<td>Philately, envelopes, third-party products, etc.</td>
</tr>
</tbody>
</table>

This type of market segmentation is a way of visualizing the performance of each product, setting priorities for promotional efforts on a particular market and facilitating marketing activities.

There is no need for separate flows in operating processes for postal products and services. A shared operating process can cut costs and optimize the use of resources, while respecting the individual features and requirements of each product and service.
There has been some fluctuation in activity in the message service segment of the postal market. Even threatened by the Internet, this market segment has still managed to grow at an average rate of 2.3% a year. However, some countries have seen a fall-off in the volume of letter mail in the wake of the growing numbers of small and medium-sized private service operators penetrating the domestic market. This means that, firstly, there is a market for letter mail service and, secondly, that the official operator is losing market share to the competition.

Their importance to the postal industry should make so-called “letter mail” products the main focus of service offerings. Each country will need to decide whether all or part of such services should be reserved for the official postal operator, establishing the conditions, limits and features of this postal business area.

The need for affordable pricing to ensure the accessibility of universal postal service requires an in-depth study of ways and means of making service delivery economically viable. This, in turn, will require a methodical evaluation of the current universal postal service financing system compared with a reserved service area.

The official operator also needs to focus on the parcel segment, to strengthen the viability of mailing, transportation and delivery services for postal parcels. Greater versatility and the availability of more shipping options are guaranteed to improve its competitiveness in this niche market. Factors such as capacity, weight, packaging, flow dispersion and the number of transfer or transshipment points are all elements which need to be taken into account in the preliminary cost analysis for this service.

Such efforts make sense in today’s postal environment, in which there are no longer any national boundaries as far as postal service operators are concerned, particularly in the letter mail and parcel segments of the postal market. Customer needs for faster, safer, higher quality service have been the driving force in the emergence of postal megabusinesses, which generally offer global service for certain specific types of products whose domestic markets have been opened up to competition. Thus, globalization is a fact of life, and public postal operators need to be especially well prepared to meet this challenge.

1.2.3. Customer needs

Postal service operators, particularly those operating under close government supervision, tend to develop services without “listening” to their market. They speculate as to market needs for a particular type of service, develop the service, do little (if any) advertising and then cannot understand why its useful life is cut short.
The best way to succeed with a new service is by conducting market research, which is one of the most important foundations for decision-making processes.

The studies and evaluations conducted as part of the market research process require collecting the following types of data:

- quantitative and qualitative market data based on facts and their interpretation;
- data on market behaviour and its impact on sales and profits;
- customer opinions on the postal enterprise, its products, workforce, policies and competency;
- studies of market trends, taking into account the global marketplace, successful products and differences in product quality and pricing;
- suggestions with respect to the new product and market from suppliers, sellers and consumers, consolidated through market research to produce aggregated data on the rationale for launching the product, market trends and the need to expand the product line and take advantage of available production capacity;
- data on seasonal factors;
- data on market area potential and expected sales by product, region, area, period and corresponding purchasing potential.

Market research by the postal operator on a product about to be launched on the market should help answer the following types of questions.

a) Marketing issues:
- Is there a market for the new product?
- How big is the market for the product?
- What basic, operational and commercial features should the product have?
- How much competition is there for the product?
- What market segment is being targeted and can be penetrated by the product?
- At what price should it be sold?

b) Operational issues:
- Does the postal operator have the capacity to deliver the service as designed?
- What is its production cost?
- Can it meet a specified standard of quality?
c) Operational and human resource-related issues:
   ♦ Is there trained labour available for this production process?

d) Marketing and human resource-related issues:
   ♦ Is there a trained sales force for the new product or service?

e) Marketing and financial issues:
   ♦ What sales volume is needed to recoup the original investment in the product?

f) Operational and financial issues for top management:
   ♦ Do the expected benefits of the product justify necessary investments?

This set of questions is an example of the effective integration of different organizational units and factors in the process of launching a new product onto the market.

It is important that the study process also include an examination of the situation of all major competitors.

The next step after establishing the product’s acceptance is to frame a marketing policy and settle all issues with respect to product pricing and discounts (for bulk, longer delivery times, pre-sorting, etc.)

Hybrid mail is a solution designed to meet changing customer needs and preferences on the present and future information and communications technology market. In addition to hybrid mail, there are interacting flows in the e-service area within and between the business to business (B2B), business to consumer (B2C) and other segments which can be exploited by the official postal operator. The factors to be taken into account in this technology-driven area include:

✓ likely changes in technology;
✓ any research centres, institutes and universities which are or may be involved;
✓ existing technological research programmes;
✓ potential economies of scale;
✓ critical needs for skilled labour;
✓ capital costs of market entry.
In short, satisfying customer needs means gaining an understanding of such needs through market research and study and being prepared to meet identified needs.

1.2.4. The postal product and production process

The next step after establishing the acceptability of the product to be launched onto the market and examining other existing products is to standardize the production line. The official operator’s postal service operating process is graphically depicted in the following flow chart illustrating the different stages of the basic mail acceptance, sorting and delivery process.

**GENERIC MAIL FLOW CHART**

The following factors will need to be taken into account for a more thorough evaluation of service operating conditions:

a) Operating facility
   - Location and corresponding advantages
   - Size
   - Safeguards against strikes, sabotage, fire etc.
   - Pleasant work environment
   - Maintenance of buildings and machinery

b) Facilities and equipment
   - Extent of use
   - Are they used properly? Are they modern and state of the art?
   - Are they in good condition?
   - Preventive maintenance programme
♦ Corrective maintenance
♦ Level of spending on maintenance
♦ Occupational safety and security measures

c) Production process
♦ Productivity index
♦ Usage of installed capacity
♦ In-plant layout

The study of these factors is followed by an effort to adapt the process flow to modern-day realities, to improve service operating conditions.

Technological development should be an integral part of an ongoing, well synchronized planning and reform process. It makes no sense to invest in digital processing technology or automatic sorting equipment if the country does not even have a postcode system. Nor do such investments make any sense without a sufficient volume of mail to justify such expenditures from an economic standpoint.

Thus, the satisfaction of market needs requires the promotion of investment in appropriate technology (tracking, on-line payment services, hybrid mail, Internet access, etc) suited to prevailing conditions.

UPU technical cooperation activities in this area are underpinned by a number of countries ready to help set priorities, design operational structures and share information and technology. Countries which have not yet mastered this type of technology should avoid trying to develop their own solutions. There are many options already tried and tested by postal operators in other countries ready and willing to share their knowledge and experience, offering good solutions for countries in need within the framework of UPU programmes, preventing an unnecessary waste of time, money and effort.

1.2.5. Inputs and outputs

The official postal operator requires a number of inputs for service operation and the conduct of its business activities.

There is a whole list of required operating equipment for the performance of various types of work (chairs, mail opening tables, mail sorting tables, carts, stacking equipment, etc.) Buildings must also meet certain physical requirements to create a productive work environment.
Available resources need to be focused on operating processes for service delivery by the postal operator. It makes no sense to have good administrative processes if there are inadequate resources for service operation. Operations should get top priority in the allocation of resources by the postal operator.

Thus, governments must ensure the availability of needed investment funds enabling the official postal operator to expand and build market share to turn it into a self-sustaining enterprise. Both the government and the official postal operator need to realize that human resources are the main factors of production and engines of development and, thus, their most important asset.

Accordingly, postal workers must be properly prepared and trained to perform their assigned tasks to minimize the risk of losses of investment capital. An assessment of the postal operator’s human resource management system should examine the following factors:

♦ attitudes towards and the importance attributed by senior management to the human factor in the organization;
♦ the effectiveness of recruitment, screening and hiring programmes and of training and promotion programmes;
♦ the turnover rate;
♦ the absentee rate;
♦ the magnitude and types of worker grievances;
♦ promotion prospects and the job ladder and wage scale:
  ♦ benefit package;
  ♦ existence of appropriate replacements for key job positions;
  ♦ organizational climate and heath;
  ♦ knowledge, attitudes and behaviour with respect to policy guidelines;
  ♦ worker training and skills;
  ♦ training and skills of sales personnel.

As a rule, the level of inputs should be commensurate with the level of output. An excess of inputs in general and of human resources in particular raises operating costs and lowers productivity, compromises process safety, requires closer supervision and causes duplications of effort.

It is best to have just enough well prepared, productive, well-paid workers.
1.2.6. Business focus

The goal is to motivate and prepare the official postal operator to rise to the challenge of doing business in a competitive marketplace with a view to making its operations self-sustaining, while continuing to ensure the provision of the universal postal service.

The success of efforts by the official postal operator to improve service quality, build market share, increase revenues and better satisfy customer needs, while continuing to provide universal postal service, should boost its self-confidence and its value in the eyes of the public.

This is a “fail-safe” approach to strengthening the official postal operator and improving its competitiveness and responsiveness to change and its ability to adapt to its surrounding environment and to take on and meet the challenges it needs to face in the public interest.

1.3. THE SERVICE OPERATING FUNCTION

1.3.1. Focus of the postal operator

Every country has an organization in charge of providing postal service governed by a specific legal framework establishing its duties and responsibilities.

In the new emerging postal environment, it is vital that legislation governing the postal operator give it a certain amount of operational flexibility, or enough freedom of action to enable it to compete with private operators on the postal market on a level playing field. This same legislation will also need to define universal postal services and the scope of the reserved service area for financing the cost of the universal postal service.

Ineffective legislation hampering the development of the official postal operator will create service operating deficits representing a drain on the public treasury, weakening and eventually preventing the official operator from fulfilling its universal postal service obligations. The competition is always looking to take advantage of any situation paralyzing the official operator in order to dominate the market.

Regardless of whether or not there is a regulatory body, the official operator must have challenging yet realistic and attainable business goals acknowledging its independent business management authority. The legal framework governing the postal operator will be a key factor in its success.
As mentioned earlier in this section, the government must enact legislation for the official postal operator in keeping with national constitutional provisions enabling it to compete with private service operators on the postal market on an equal footing. In other words, insofar as possible, the official postal operator should be governed by private rather than public law, like the laws governing its private competitors.

1.3.2. Performance of the official operator on the postal market

Goals set for the official postal operator should be dynamic and time-specific. Targets with respect to service delivery conditions should be public knowledge so that the general public can help monitor compliance and come to realize the importance of the postal operator’s aspirations and needs.

Each country’s official postal operator is part of a global network with which it needs to maintain operational ties. It also has a domestic service network unparalleled by that of any other postal operator. As a result, private service operators end up using the official operator’s infrastructure network, which gives it real competitive advantages. The social interest of bringing people together and/or providing the country with efficient and effective communications services notwithstanding, the operation of universal postal services must be predicated on an appropriate system of compensation to ensure the viability of service delivery.

The question of how to secure necessary funding without raising the cost to the consumer will need to be explored in-depth. There is no standard formula for success, only a short list of suggested options, each of which has its advantages and disadvantages, as discussed at length in Module II of the Guide dealing specifically with the universal postal service. Examples include:

♦ direct government subsidies;
♦ contributions payable by the postal service industry;
♦ Reserved services operated under an exclusive franchise;
♦ income generated by profit-making operations in postal business areas open to competition.

The government will need to pay special attention to international postal services. Operational structures for the handling of international parcels in general and express mail in particular will need to be strengthened in order to provide high quality service. Official postal operators are losing ground on the international market due to poor quality service in other countries, which is causing customers to turn to their competitors despite their higher prices.
In such case, there are three losers, namely the official postal operator in the country of origin (which loses customers), the official operator in the country of destination (which loses income from terminal dues and credibility) and the customer, who is forced to pay more for an equivalent service to that provided by the public postal operator. The prices and standards of quality of the official postal operator serve as benchmarks for other service operators. Thus, the better the quality of the services provided by the official operator, the better for the general public.

1.3.3. Enabling environment for fulfilling the function of the official postal operator

In order for the official operator to properly perform its role, it needs to know where it is at and the focus of its future plans. A comprehensive assessment of the nature of its services, service delivery conditions, standards of quality, service coverage, the current state of universal access to postal service, the players on the postal market and of how well it knows itself is an important step in its development.

A reform programme for the official postal operator will require broad-based discussions at all levels of its workforce to overcome any natural opposition. The goal is to raise awareness and to sensitize and appease all employees with a view to overcoming any obstacles. The best approach for ensuring a successful outcome is transparency.

The government, which has the main responsibility for laying the necessary groundwork for social integration, to bring the nation together, will need to work through its various cabinet ministries to help reshape the official postal operator to function in a competitive environment as described in this Guide. This is not simply a task for the supervisory ministry for the postal sector, but one for all cabinet ministries to work towards together.

A special effort must be made to build awareness of the importance of enacting enabling legislation as the basis for the postal reform process. The existence of a regulatory agency will ensure that conditions on the postal market are in keeping with the provisions of such legislation.
CHAPTER 2. REFORMING AND DEVELOPING THE OFFICIAL POSTAL OPERATOR

2.1. ASSESSMENT

The sustainable development of any organization is predicated on a knowledge of its surrounding environment, of changes affecting the organization, of the needs of the various players in such environment and, last but not least, of its strengths and weaknesses in meeting such needs. Thus, the first step in the development of the official postal operator is an assessment of its current status, including a “SWOT” analysis, or an assessment of existing strengths, weaknesses, opportunities and threats.

This requires a series of studies to establish current conditions on the postal market and the relative position of the official operator compared with other market operators. A more comprehensive assessment means a more clearly defined and better organized effort to help put the official operator on the path to development.

The objective of any assessment is to evaluate the past and present state of a particular phenomenon, in this case, the postal market and the official postal operator. Thus, the goal at this stage is not to speculate as to the future, which is a task better left for the prospective analysis discussed in section 2.2 below and for the planning process. Accordingly, this phase of work does not include projections and forecasts.

2.1.1. Research on the postal market, needs and trends

Each country’s postal market has its own unique features shaped by the activities of its official postal operator and by economic, social, geographic, technological, political and legal factors.

A clear understanding of these factors is essential for an assessment of consumer needs, market potential, favorable and unfavorable service operating conditions, regional differences, different business areas and of trends with a positive and negative impact on the future of each such area.

Market research is an ongoing, unending process. In-depth market research helps strengthen the official postal operator’s market management culture (competitor intelligence) which, in turn, helps it frame sounder strategies and build better relations with all parties impacting on its performance.
The following pages contain basic guidance for compiling quantitative data (physical volumes and values) and qualitative information on the domestic postal market. These general guidelines are presented for reference purposes only and, where necessary, must be adapted to specific conditions in each country.

➢ **Step 1 – Demarcation of business areas**

Current service offerings by the official postal operator are designed to satisfy consumer needs, which basically involve:

- communications;
- the movement of goods and merchandise;
- financial transactions;
- sales of other postal-related products.

The addition of specific qualities and features to these basic needs shapes the types of products and services developed by the official postal operator. Thus, a communications need may be met by a telegram, letter, printed matter, an EMS item or even a parcel. Though the basic need is the same, each of these services, with its specific qualities and features, satisfies different groups of consumers, broken down into market segments or subsegments. This breakdown of so-called “business areas” facilitates dealings with each market.

The core business areas on the postal market are:

- **Messages**
  This includes letters (domestic and international), postcards, registered letters and telegrams, as well as envelopes, aerogrammes and related products (communications).

- **Direct marketing**
  This includes all types of printed matter, business reply mail and non-priority items containing other business advertising and promotional materials (communications).

- **Parcels**
  This includes non-priority parcels weighing up to 30 kg, packaging materials, adhesive tape and other related products (physical movement of goods and merchandise).
Express mail service
This includes premium (door-to-door) super-fast delivery service for envelopes and parcels referred to as domestic and international express mail service and other products (physical movement of goods and merchandise / communications).

Financial services
This includes funds transfer services such as money orders, third-party payment processing services for sending and receiving payments and other postal financial products (financial transactions).

Philately and convenience items
This includes sales of products not directly related to the postal operator’s own core business areas, such as philatelic products and other products marketed through the postal network.

These core business areas can be expanded to include other areas such as retail government services, integrated logistics, etc. Likewise, where necessary, they can be further subdivided for a better understanding of niche markets with similar features.

However, the process of unbundling or segmenting the business activities of the official postal operator is best approached in phases, beginning with the collection of more aggregate data. Once this aggregated data has been successfully analyzed, it can then be broken down in a second round of studies and analyses.

The output from this step is a table showing the different business areas in that particular country, the products and services included in each area and the definition of each corresponding product or service, as illustrated in the example provided below. Insofar as possible, the terminology used should be consistent with standard market usage. For example, giro is a money order in postal terms and a funds transfer in banking terms. This thoroughness will facilitate the collection and processing of competitor intelligence in steps 8 and 9.
The package of products and services depicted in this table must represent a minimum of 80% of the assessed value of the market in question and, together, must account for at least 80% of the earnings of the official postal operator.

**Step 2 – Mapping of customer segments**

The postal market is divided into two main blocks. The first is that of individuals requesting products and services primarily through the post office network. This consumer group makes up the retail segment of the postal market, which can be broken down by income bracket. This type of breakdown will need to be made only if this market segment shows signs of any income elasticity. For example, looking at the message service market, it may be necessary to ascertain which income brackets use a particular product more frequently for purposes of developing better marketing strategies. This type of breakdown should not be made based on arbitrary or random subdivisions.

Wherever possible, income brackets should be used that are established by the national (official) census bureau to facilitate cross-tabulations of statistical data and analyses of study findings. We suggest that the first market analysis performed include only a generic retail/household/individual category, breaking down this data in ensuing phases of the study process.

<table>
<thead>
<tr>
<th>Business area</th>
<th>Products and services</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Messages</td>
<td>Domestic letters</td>
<td>Current, personal correspondence weighing up to 2 kg</td>
</tr>
<tr>
<td></td>
<td>International letters</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Telegrams</td>
<td></td>
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<tr>
<td></td>
<td>Printed matter</td>
<td></td>
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<tr>
<td></td>
<td>Business reply mail</td>
<td></td>
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<tr>
<td>Direct marketing</td>
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</table>
The second block is that of businesses requesting products and services through post offices, as well as through special customer service units or arrangements. This block represents the wholesale segment, which can be broken down by branch of industry or type of institution. The breakdown of this market segment will depend on the focus of niche targeting efforts. Thus, the breakdown of the letter mail segment will not necessarily be the same as that of the parcels segment, since power companies, for example, while large consumers of message services, make very little use of parcel service. Likewise, the study of the message segment may necessitate breaking down the “financial institutions” category into banks, credit card companies, insurance firms, pension funds and collection agencies. Wherever possible, standard industrial and organizational classifications should be used established by official research institutes or market research companies active in a particular country.

We suggest that the first market analysis performed include only the customer categories indicated below, tailored to country conditions and the business area in question (messages, direct marketing, parcels, express mail service, financial services, philately and convenience services), breaking down or consolidating the proposed classifications as applicable.

| Public utilities                  | Power companies  |
|                                  | Water and sewerage companies |
|                                  | Conventional telephone companies |
|                                  | Cellular telephone companies |
|                                  | Cable television companies |
| Other public service enterprises  | Gas, electronic locator services, etc. |
| Financial institutions           | Banks |
|                                  | Credit card companies |
|                                  | Insurance companies, pension funds |
| Other financial institutions     | Brokerage firms, collection agencies, etc |
| Government agencies and related organizations (not included in previous categories) | Social security administration |
|                                  | Judicial authorities and notary offices |
|                                  | Legislative bodies and political parties |
|                                  | Government offices (national, provincial and local) |
| Other                           | Transit authorities |
|                                  | Police departments |
|                                  | Other organizations not included in any previous categories |
| Other                           | Hospitals and clinics |
|                                  | Religious and charitable organizations |
|                                  | Educational institutions |
|                                  | Newspapers, magazines, publishing and graphic design firms |
| Other                           | Businesses and industries not included in any previous categories |

**Step 3 – Breakdown of market areas**

The analyses of business areas (step 1) and customer segments (step 2) are followed by a breakdown and study of market areas.
This type of study is important, for example, in evaluating the performance of competitors compared with that of the official postal operator, to establish their strengths in servicing specific areas and customers and in providing specific services.

The market can be broken down by provinces, departments or cities, depending on the concentration of demand for postal products and services.

The most representative areas will need to be broken down as far as the city level, while the least representative areas may need to be consolidated into blocks of more than one province or department. There is no specific rule for establishing the number of market areas.

However, in general, the study will need to target those market areas which, together, account for more than 80% of total revenues (all segments combined).

The table on the next page illustrates how to establish market areas and when to subdivide a particular area.

**Figure 1 – Postal market of country “X”**
The international market will need to be regarded as a separate market area and, where necessary, may be divided into blocks of countries.

Being as this analysis precedes actual field studies, the premise is that the income earned by the official postal operator from sales of its products and services represents the potential of each market area. However, in the case of other available data on the market potential of each province (data on GDP or another index establishing the relative size of the economy of each province), this latter information should be used instead of income data, which is more a reflection of the efficiency of the official operator in tapping a given market. However, considering how hard it can be to compile data on these external indicators, the example presented above uses income from mailing services as a yardstick for this purpose.

In this example, country X has 4 provinces. Province B has the largest concentration of income. Together, provinces A and B represent 88.2% of the “market” of country X. Cities B1, B2 and A1, in that order, all warrant consideration as separate market areas, whose income figures set them apart from the rest of their respective area.
Step 4 – Configuration of supply (competition)

Step 4 involves the configuration of market supply based on answers to the following main questions:

- What private operators are active in the country?
- What is their annual income? Are there published or otherwise available balance sheets?
- In what types of business activities are they engaged?
- What products are they offering?
- In what areas are they active?
- Who are their main customers?
- Which services are used by such customers and in what numbers?
- What is the size and location of their retail service structure?
- What transportation and delivery infrastructure do they have (what is their daily delivery capacity, how many workers do they have, how many vehicles do they own)?
- What are their expansion and investment plans for the market in question?

The following questions with respect to their product and service offerings will also need to be answered:

- What is their price structure?
- What are the comparative advantages or disadvantages of their products and services vis-à-vis equivalent products or services offered by the official postal operator?
- What delivery or turn-around times are promised to their customers for different types of services?

This data will need to be aggregated by business area, customer segment and market area to facilitate its analysis. It is also important to be aware of indirect competition from substitute products and services and of internal structures set up by businesses to provide services comparable to those offered by the official postal operator.

Step 5 – Characterizing of postal service features

The supply (competition) analysis conducted in step 4 will need to be rounded out by an effort to diagram the main features of the various products and services offered on the postal market most valued by customers.
This diagramming process will facilitate the comparative study engendered by question b in the second block of questions under step 4 (on comparative advantages and disadvantages). The following is a partial list of features to be studied from both the customer standpoint and that of the competition. The purpose of this exercise is to confirm deficiencies in service offerings by the official postal operator with respect to the types of features valued by customers, compared with services offered by the competition. This list of features will need to be tailored to local market characteristics and dynamics.

<table>
<thead>
<tr>
<th>BUSINESS AREA</th>
<th>FEATURE</th>
</tr>
</thead>
</table>
| Messages and direct marketing |  ❖ Service image, brand or reputation  
                          |  ❖ Price                                                                   |
|                             |  ❖ Speed (faster delivery or compliance with guaranteed delivery times)   |
|                             |  ❖ Regularity (consistent delivery times)                                 |
|                             |  ❖ Security (against loss and tampering)                                 |
|                             |  ❖ Coverage of mailing service                                           |
|                             |  ❖ Coverage of home delivery service                                     |
|                             |  ❖ Supplemental services (registration, tracking, etc.)                   |
|                             |  ❖ Related products (envelopes, post cards, etc.)                         |
| Parcels / Express mail      |  ❖ Service image, brand or reputation                                    |
|                             |  ❖ Price                                                                  |
|                             |  ❖ Speed (express mail: faster delivery)                                 |
|                             |  ❖ Speed (parcels: compliance with guaranteed delivery times)             |
|                             |  ❖ Speed (prompt clearance through customs)                              |
|                             |  ❖ Regularity (consistent delivery times)                                 |
|                             |  ❖ Security (against loss, damage and tampering)                         |
|                             |  ❖ Information (tracking)                                                |
|                             |  ❖ Payment facilities (credit, COD, etc.)                                |
|                             |  ❖ Insurance of content                                                  |
|                             |  ❖ Customized services for contract customers                            |
|                             |  ❖ Pick-up service                                                       |
|                             |  ❖ Coverage of mailing service                                           |
|                             |  ❖ Coverage of home delivery service                                     |
|                             |  ❖ Related products (different size and shape boxes, tape, etc.)          |
| Financial services          |  ❖ Service image, brand or reputation                                    |
|                             |  ❖ Price                                                                  |
|                             |  ❖ Speed (faster turn-around time)                                        |
|                             |  ❖ Service coverage                                                      |
Step 6 – Planning of data collection activities

Steps 1 through 5 established guidelines for the organized compilation of market data and intelligence. Step 6 establishes the types of tools to be developed for the conduct of internal and outside studies.

Most importantly:

♦ Designate a team of workers to assist with data collection efforts;
♦ Establish how data collection activities are to be carried out (by an in-house team or contractor);
♦ Establish the sources of information for each study topic (in-house, outside, field or secondary sources);
♦ Develop a master plan for all envisioned studies establishing work schedules, procedures (interviews, questionnaires, counts, etc.), data collection sites, officials in charge, etc.;
♦ Develop interviewing guides and questionnaires, data collection forms, procedural manuals for conducting research and miscellaneous supporting materials;
♦ Identify the software to be used for data processing purposes;
♦ Establish the types of reports to be produced from the study data.

Step 7 – Conduct of in-house data collection activities

As the major player on the postal market, there are various types of data which need to be collected from internal units within the official postal operator, including information on the following factors:

♦ Trends in traffic volume and income generated by product and service offerings in its different business areas (at a minimum, for the last 5 years);
♦ Prices and rates charged for products and services included in the different business areas established under step 1;
Breakdown of traffic volume and income by weight and/or value;

Breakdown of traffic volume (mailing and delivery service) and income in each market area established in step 3;

Breakdown of the volume of mail exchanged by the market areas established in step 3;

Breakdown of traffic volume and income for each customer segment established in step 2, by business area;

Breakdown of the retail network in each market area, by city;

Qualitative evaluation of the features established in step 5 for each product or service

As the market research progresses, it may become necessary to compile other types of in-house data and perform other studies.

**Step 8 – Collection and study of data from secondary sources**

Step 7 involved the compilation of in-house data in the possession of the official postal operator. However, a more complete picture of the postal market requires an examination of data on other postal operators which, in most cases, is not directly accessible.

This makes it necessary to resort to various so-called “secondary” sources such as those outlined below:

- Government statistics on the population of each city/market area, the breakdown of per capita income, the number of dwellings and businesses, GDP by economic sector, schools, hospitals, banks, etc.;

- Annual publications reporting on the performance and relative size and scale of the country’s largest businesses in different sectors of economic activity;

- Budgets of government agencies and institutions, particularly the budget item for postal and related services;

- Published balance sheets, to establish the income of each postal operator;
♦ The number of water, sewerage and power customers. The number of customers/subscribers for fixed and cellular telephone service, cable television service, etc.;

♦ The number of active cheque accounts, current credit cards, pension fund accounts, etc.;

♦ Promotional and advertizing materials from specialized marketing firms;

♦ Rate schedules, websites and in-house publications of other service operators on the postal market.

Obviously, this is only a partial list of possible secondary sources designed to show how to collect market intelligence indirectly, by means of comparisons and extrapolations.

Other sources and indicators can be used to supplement market analyses and calculations of the volume and value of business on each market. Continuous refinements of study data and field research can also provide valuable information for targeted outputs.

➤ **Step 9 – Conduct of field research**

The top priority if not the sole purpose of field research is to collect qualitative information on the behaviour of consumers and competitors exposing new trends in their habits, preferences, strategies and attitudes.

Field research methods include direct observation, individual or group interviews and telephone, mail or on-line surveys.

Field research in the form of opinion polls is designed to evaluate different facets of the relations of postal operators with their customers— including both individual and business customers – to assess the importance of different factors valued by customers in their contacts with the postal organization. These surveys will need to re-examine the features outlined in step 5, to adjust the relative importance of identified shortfalls in service delivery by the official postal operator upwards or downwards compared with other service operators.
Though used somewhat less frequently for this purposes, field research can also help collect information and data on the volume and value of business transactions conducted or sums invested by a given organization in using the different products and services included in each business area established in step 1. This will require an appropriate size sample and the proper targeting of respondents in a position to supply such information. The information produced by this sample survey can serve as basis for extrapolating this data for the economic sector represented by the surveyed organizations using the macroeconomic indicators compiled in step 8.

**Step 10 – Consolidation of collected data**

Once all previous steps have been completed, the collected study data will need to be tabulated and charted, testing the consistency of corresponding figures and qualitative information through cross checks and further confirmations of corresponding data.

For guidance purposes, the following general models for the tabulation of study data are broken down into four instructional units: market size, prices, retail service coverage and competitiveness.

**Step 10.1. Market size**

**TABLE 1 – Market size by business area**

<table>
<thead>
<tr>
<th>Business area</th>
<th>Annual volume (N°)</th>
<th>%</th>
<th>Annual value ($)</th>
<th>%</th>
<th>Share of market volume (%)</th>
<th>Share of market value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Messages</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Direct marketing</td>
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<tr>
<td>Parcels</td>
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<tr>
<td>Express mail</td>
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<td></td>
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<tr>
<td>Financial services</td>
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<tr>
<td>Philately and products</td>
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<tr>
<td><strong>Total</strong></td>
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</tbody>
</table>

This table consolidates data on the size of the postal market in terms of the volume (numbers of items, products or transactions) and value of business and on the market share of the official postal operator.
The data presented in this table is the sum of the data produced by individual studies of all postal operators in all business and market areas. For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, type of customer, products and services or market area.

**TABLE 2 – Market size by type of customer**

<table>
<thead>
<tr>
<th>Type of customer</th>
<th>Annual volume (N°)</th>
<th>%</th>
<th>Annual value ($)</th>
<th>%</th>
<th>Share of market volume (%)</th>
<th>Share of market value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Individuals</td>
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<td></td>
</tr>
<tr>
<td>Wholesale</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Public utilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Financial institutions</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Government agencies and ...............</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
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<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
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<td></td>
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</tr>
</tbody>
</table>

For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, business area, products and services or market area. As indicated earlier, the individual customer segment can be broken down by income bracket.

**TABLE 3 – Market size by area**

<table>
<thead>
<tr>
<th>Market areas</th>
<th>Annual volume (N°)</th>
<th>%</th>
<th>Annual value ($)</th>
<th>%</th>
<th>Share of market volume (%)</th>
<th>Share of market value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Area 2</td>
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<tr>
<td>Area 3</td>
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<tr>
<td>Area 4</td>
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<td>Area n</td>
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<tr>
<td><strong>Total</strong></td>
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</tr>
</tbody>
</table>
For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, customer segment, products and services or business area. Foreign countries are to be considered as one or more market areas.

- Step 10.2. Prices

**TABLE 4 – Price comparison by postal operator**

<table>
<thead>
<tr>
<th>Business areas / Products</th>
<th>Operators – Average price</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Messages</td>
<td></td>
</tr>
<tr>
<td>Domestic letter mail</td>
<td></td>
</tr>
<tr>
<td>International letter mail</td>
<td></td>
</tr>
<tr>
<td>....</td>
<td></td>
</tr>
<tr>
<td>Direct marketing</td>
<td></td>
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<td>....</td>
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<tr>
<td>Parcels</td>
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<td>....</td>
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<tr>
<td>Express mail</td>
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<td>....</td>
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<tr>
<td>Financial services</td>
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<tr>
<td>....</td>
<td></td>
</tr>
<tr>
<td>Philately and products</td>
<td></td>
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<tr>
<td>....</td>
<td></td>
</tr>
</tbody>
</table>

Remember that any and all price comparisons are to be based on the value delivered to the customer, as per table 6. In other words, in principle, a lower price is not a competitive advantage unless the characteristics and features offered to the customer are comparable.
Step 10.3. Retail service coverage

**TABLE 5 – Retail service coverage**

<table>
<thead>
<tr>
<th>Market areas</th>
<th>Operators – Number of retail facilities</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>A</td>
</tr>
<tr>
<td>Area 1</td>
<td></td>
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<tr>
<td>Area 2</td>
<td></td>
</tr>
<tr>
<td>Area 3</td>
<td></td>
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<tr>
<td>Area 4</td>
<td></td>
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<tr>
<td>....</td>
<td></td>
</tr>
<tr>
<td>Area n</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

Step 10.4. Competitiveness

**TABLE 6 – Comparative advantages and disadvantages**

<table>
<thead>
<tr>
<th>Operator</th>
<th>BUSINESS AREA: Message service</th>
<th>PRODUCT/SERVICE: Domestic letter mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Comparable service</td>
<td>Advantage</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
</tr>
<tr>
<td>....</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The Advantage/Disadvantage columns position postal operators with respect to the features established in step 5 and the product/service in question. In step 11, this comparison is cross-referenced with the consumer preferences established through the field research conducted in step 9 to determine the real magnitude of any comparative advantages and disadvantages.

Step 11 – Data analysis

The analysis conducted in this step is designed to add value judgments to the consolidated study data through appropriate permutations, cross references and evaluations to draw preliminary conclusions from the study process.
This is the time to highlight existing strengths, weaknesses, opportunities and threats to facilitate the framing of sound strategies for reforming the official postal operator.

This step in the study process is designed to identify higher and lower value business areas, better and worse positioned competitors, more and less attractive market areas, the product and service characteristics and features most and least valued by corresponding customers, the types of customers regarded as larger or smaller consumers of a particular service and market-related barriers to the building of market share by the official operator, adding comments and drawing conclusions which are not obvious from an examination of the data presented in the tables developed in step 10.

2.1.2. Regulation of service operation on the postal market

The second issue to be studied as part of the strategic assessment conducted as the basis for designing a reform programme for the official postal operator has to do with the legislation governing the official operator and, in particular, regulations governing service operation on the postal market.

This requires a baseline study for the charting of existing legislation, distinguishing between core issues and issues relating to the extent of the autonomy enjoyed by the official operator to efficiently and effectively manage necessary resources for fulfilling its social mission.

**Figure 2 – Core Issues and Related Issues**
The next step after the compiling of existing legislation is an assessment of the situation of the official postal operator under each such instrument compared with that of other operators on the postal market. The purpose is to pinpoint positive and negative elements of the current legal framework for the postal market as the basis for the framing of appropriate strategies as part of the planning phase.

The examination of core issues should address the following points relating to the postal market:

✓ What is the scope of postal regulations?
✓ Which operators fall within and outside the scope of these regulations?
✓ Is market entry by new operators subject to licensing, registration or any other requirements?
✓ Is there a clear definition of universal postal service?
✓ Is there a separation of universal postal service operating functions and postal regulatory functions?
✓ Is there a clear delineation of the reserved service area to which the official postal operator holds exclusive rights?
✓ Are there any legal restrictions on the activities of the official postal operator in any business or service area?
✓ Is there any additional government compensation for the universal postal service obligations imposed on the official postal operator?
✓ Are there any regulations establishing consumer rights and the responsibilities of postal operators in the face of such rights?
✓ Are established legal mechanisms effectively applied and/or enforced in practice?

It should also address the following points with respect to the organization, status and powers of the official postal operator:

✓ Is it owned by the government or privately owned?
✓ In terms of its legal status, is the official postal operator a ministerial department, a government enterprise, a government-controlled corporation or a privately-controlled corporation?
✓ Where applicable, to which cabinet ministry is the official postal operator attached?
✓ How are the prices of services provided by the official operator set and by whom are they approved?
What types of organizations enjoy franking privileges?
How and by whom are the official operator’s investment policies and plans approved?
Are labour relations between the official postal operator and its workforce governed by the same rules as in the private sector?
To what rules is the official operator subject with respect to matters such as worker compensation, hiring and firing practices and disciplinary procedures?
Does the official postal operator have budgetary and financial autonomy for managing its income and expenditures?
To what rules is the official operator subject in matters such as contracting and procurements of goods and services?
Is the customs treatment of the official postal operator the same as that of other operators on the postal market?

These and other issues will need to be explored to pinpoint opportunities and identify regulatory constraints undermining the performance of the official postal operator and hampering market development.

2.1.3. Competitive strength of the official postal operator

The third phase of the strategic assessment includes an evaluation of the competitive strength of the official postal operator on the postal market, in the face of customer needs, projected trends and the existing legal environment.

A number of questions will need to be answered as part of this process, namely:

Are product and service offerings by the official operator responsive to customer needs and consistent with those of other postal operators?
What percentage of the population is covered by retail and home delivery services in geographic terms?
What is the condition of postal service delivery infrastructure, including postal facilities, equipment and technology? Is current capacity commensurate with demand?
What standards of quality and productivity have been achieved by the official postal operator?
Is the number and deployment of management and operational personnel in line with demand under the current human resource management system? Are workers properly motivated, prepared and trained to perform better and be more productive?
The following is an outline of the steps to be followed in positioning the official operator on the postal market and in the existing legal environment. This outline is presented for guidance purposes only and will need to be tailored to the situation in each country.

➢ **Step 1 – Performance of current product and service offerings**

The goal in this step is to compile information on the following points with respect to each product/service:

- Its design and a brief description of how it functions (service delivery, operation and payment);
- Quality assurances;
- Current standard of quality achieved;
- Volume marketed and income earned, at a minimum, for the last five years;
- Share of total income for the last five reporting periods;
- Average annual growth rate for the previous period;
- Average price and price by type of product/service (standard price range);
- Specific commercial, operational and technological constraints hampering efforts to boost sales of the product or service in question, if any;
- High-demand market areas;
- Major customers.

The current product and service offerings evaluated in this step of the study process should account for at least 80% of the income of the postal operator.

The evaluation should pinpoint strengths and weaknesses to be addressed as part of the planning process.
Step 2 – Retail and product and service operation infrastructure

The goal in this step is to gather information on the official postal operator’s retail service and mail sorting, transportation and delivery infrastructure, including data on its current physical condition, level of technological development, geographic coverage and ability to meet current demand.

At a minimum, the assessment of retail service infrastructure should generate the types of data illustrated in table 7 below.

TABLE 7 – Geographic coverage of the retail network

<table>
<thead>
<tr>
<th>Population groups (1) (number of inhabitants)</th>
<th>Number of offices</th>
<th>Existing population (1)</th>
<th>Population served</th>
<th>Population not served</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>N°</td>
<td>%</td>
<td>Inhabitants per office</td>
</tr>
<tr>
<td>Up to 500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>501 to 1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>1,001 to 2,000</td>
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<tr>
<td>2,001 to 5,000</td>
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<td>5,001 to 10,000</td>
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<tr>
<td>Total</td>
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</tr>
</tbody>
</table>

(1) Current population data should be taken directly from the last published census for the smallest statistical unit for which census data is available (i.e. at the district, sector, ward or similar level) to help tie each office to the specific population group served.

The “number of inhabitants per office” indicator obtained by dividing column 3 by column 2 will help assess the balance of the retail network within the geographic area served by the official operator.

Other relevant study issues include office operating hours, customer flow per work shift, the degree of automation of retail service operations and the quantity, physical condition and technological level of corresponding equipment (franking machines, scales, computers, counters, cash registers etc.) The evaluation of mail sorting operations will need to examine mail processing facilities, including both mail sorting and ground and air transportation facilities, providing data on:
♦ the size of facilities (in square meters);
♦ their location;
♦ environmental conditions;
♦ the quantity, physical condition and technological level of corresponding equipment (letter sorting machines, mail carts, mail bags, containers, tables, etc.);
♦ daily production capacity, by work shift;
♦ operating schedules;
♦ the existence and use of postcodes in mail sorting operations;
♦ organization;
♦ major problems encountered in this stage of the process.

At a minimum, the assessment of mail delivery infrastructure should generate the types of data illustrated in table 8 below.

**TABLE 8 – Geographic coverage of home delivery service**

<table>
<thead>
<tr>
<th>Population groups (1) (number of inhabitants)</th>
<th>Number of letter carriers or mail districts</th>
<th>Existing dwellings (1)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number of dwellings serviced</td>
<td>Dwellings not serviced</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>N°</td>
<td>%</td>
<td>Number per carrier</td>
<td>N°</td>
</tr>
<tr>
<td>Up to 500</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>501 to 1,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1,001 to 2,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2,001 to 5,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5,001 to 10,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>....</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(1) The total number of existing dwellings should be taken directly from the last published census for the smallest statistical unit for which census data is available (i.e. at the district, sector, ward or similar level) to help tie the number of dwellings to the specific population group served.
In general, the “number per letter carrier” indicator obtained by dividing column 3 by column 2 is a good assessment of the balance in the assignment of dwelling units to each letter carrier for different population groups.

The study of home delivery service should also assess:

- the frequency of mail deliveries (once, twice or three times a week, etc.);
- the quantity, physical condition and technological level of corresponding equipment (sorting frames, bicycles, pouches, uniforms, etc.);
- the motor vehicle fleet;
- total daily delivery capacity;
- the existence and use of postcodes for mail delivery purposes;
- the location of delivery units (existence of separate units);
- the percentage of undeliverable and returned items;
- the types of items for which home delivery service is available;
- major problems encountered in this stage of the process.

This assessment should also produce data on the percentage of mail delivered by each delivery mode (home delivery, post office boxes and general delivery), the daily productivity of each letter carrier and the number of post office boxes and their breakdown by market area or population group (similar to the breakdown in table 8).

The assessment of the transportation network should examine:

- the locations serviced, resources used, operating arrangement (in-house or contract carriers) and capacity of regular domestic ground and air transportation networks;
- the make-up of the in-house vehicle fleet (numbers and types of vehicles), their manufacturing dates and their usage (operational or administrative);
- The locations serviced, resources used, operating arrangement (in-house or contract carriers) and capacity of the regular urban ground transportation network used for mail collection, office provisioning and home delivery purposes;
- the major problems encountered in this stage of the process.
Step 3 – Administrative organization and structure

The goal in this case is to evaluate the official postal operator’s internal organization and structure. The questions posed in this step will examine central and regional administrative structures in terms of their functions and macroactivities, channels of communication, decision-making processes, organization chart and lines of authority, skills profiles for key positions, physical facilities and technology. This study should pinpoint perceived strengths and weaknesses.

Step 4 – Human resources

This step is designed to compile information on the status of the official postal operator’s human resources, specifically as regards the following subsystems.

**FIGURE 3 – HUMAN RESOURCE MANAGEMENT SYSTEM**

<table>
<thead>
<tr>
<th>Supply</th>
<th>Deployment</th>
<th>Retention</th>
<th>Development</th>
<th>Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recruitment</td>
<td>HR planning and deployment</td>
<td>Salaries</td>
<td>Technical and administrative training</td>
<td></td>
</tr>
<tr>
<td>Selection</td>
<td></td>
<td>Benefits</td>
<td></td>
<td>Advanced training</td>
</tr>
<tr>
<td></td>
<td>Career development</td>
<td>Performance evaluation</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The first analysis to be conducted as part of this step refers to the deployment and average salary of postal workers, with corresponding study data to be tabulated as illustrated in table 9 below.
Another important breakdown has to do with the seniority (length of service) of postal workers by type of position, as illustrated in the following example.

**TABLE 10 – Length of service by job position**

<table>
<thead>
<tr>
<th>Job position</th>
<th>Up to 1 year</th>
<th>1 to 5 years</th>
<th>5 to 10 years</th>
<th>10 to 20 years</th>
<th>Over 20 years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter carrier</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerk</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>....</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The data in this table can be supplemented by a breakdown of personnel in each job position by age and gender.

It is also important to look at the educational level of workers in key positions within the organization based on the breakdown in table 11 below.

**TABLE 11 – Educational level by job position**

<table>
<thead>
<tr>
<th>Job position</th>
<th>Primary education</th>
<th>Secondary education</th>
<th>Higher education</th>
</tr>
</thead>
<tbody>
<tr>
<td>Letter carrier</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clerk</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>....</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Answers to the following questions can also furnish important information:

- Are there specific job and career ladders and salary scales for the workforce of the official postal operator or is it subject to the same general rules applicable to other government agencies?
- How are workers recruited and selected by the official postal operator?
- Is this process conducted internally or is some outside agency involved?
- What types of fringe benefits are enjoyed by official postal operator personnel?
- What is the required length of service for retirement for different categories of personnel?
- What is the length of the work week?
- Are there different work shifts? What are they and what job positions are involved?

Training processes:

- Do they include all personnel?
- How often are they conducted?
- Are there specific annual budget appropriations for this purpose? How large?
- Are they conducted in-house or outsourced?
- Are there individual performance evaluation processes in place?
- Is the organizational climate conducive to building self-esteem and strengthening worker productivity? Are there regular studies of this factor?

Other studies will need to be conducted to pinpoint strengths and weaknesses in service operation, according to conditions in each country.

2.1.4. Economic performance

The economic objective of any business enterprise is to make a profit. In private enterprises, making a profit means satisfying business owners or corporation shareholders. Public enterprises or government-controlled corporations are not always overtly profit-seeking enterprises, though profit-taking is essential for financing necessary investments for the modernization and expansion of their services.
In the specific case of postal organizations, many of which are departments within central government structures or cabinet ministries, more often than not, the economic objective is “to keep spending within authorized budget ceilings.” This objective, though not explicitly stated, causes them to disregard earnings and, worse yet, can eventually lead to slippages in income.

This, in turn, requires the government to provide necessary financing for operating expenses, to step up budgetary controls and to cut back or cut off investment funding, weakening the operations and market position of these official postal operators.

A clear assessment of the situation in each country requires an examination of the relationship of the official postal operator with the government agencies involved in its economic-financial management. This, in turn, requires answers to the following questions with regard to the extent of the autonomy enjoyed by the official postal operator in this area.

- Does the official postal operator have its own budget or is it included in the budget of some other government agency?
- Are internally-generated funds, or income from sales and international accounts, allocated directly to the official postal operator or deposited in the general government account?
- Which government agency approves the budget for the official postal operator?
- Are expenditures of approved budget funds authorized on an annual, monthly or case-by-case basis or, in other words, for each procurement?
- Does the government contribute in any way to the financing of its operating and investment costs?
- Is the official postal operator included in any government development or investment plan?
- Are the official postal operator’s accounting practices the same as those used by other private enterprises?
- Was the chart of accounts designed specifically for the official postal operator or is it the same as that used by all government agencies?
- Are fixed assets picked up as assets of the official postal operator or included on the balance sheet of some other agency?

2.1.4.1. Economic-financial performance

Once these questions are answered, the next step is the consolidation of economic performance data for the last 5 years.
### TABLE 12 – Economic performance

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>Year 5</th>
<th>Year 4</th>
<th>Year 3</th>
<th>Year 2</th>
<th>Year 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>INCOME</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales of services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Messages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parcels</td>
<td></td>
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</tr>
<tr>
<td>Express mail</td>
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<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Products and philately</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International accounts</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Government funding</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personnel and related costs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe benefits</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies and commodities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other supplies</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>International</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PROFIT/LOSS</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In addition to providing a breakdown of income and expenditures, the data compiled in table 12 is a good basis for establishing trends throughout the study period, as illustrated in the following figures.
This type of pie chart can be used to graphically depict the breakdown of income and expenditures or the breakdown of any subgroup of these two items. Such a breakdown helps establish the relative share of different income or expense categories in total profits or losses, in order of their importance, and allows for the tracking of these figures over different time periods.

This type of graph is better suited for showing trends in income or expenditures over a given time horizon, clearly depicting growing, stable and shrinking cost and income items.
This same source also produces many other types of data and findings, such as the pattern and breakdown of investment, government funding and annual profit or loss.

Financial statements (mainly balance sheets and profit and loss statements) are another useful source of information and the basis for so-called “balance sheet analyses”. Such analyses are possible only if the official postal operator has its own internal assets and manages its economic resources independently.

A balance sheet analysis is a powerful research tool in evaluating the past and present economic-financial soundness of the official postal operator and making forecasts. It provides an impartial assessment of the performance of management personnel and can measure liquidity, or the volume of liquid assets or available resources.

Actually, the information drawn from a balance sheet analysis is highly time-sensitive, since it is categorically tied to the organization’s financial performance for a particular reporting period, which makes it necessary to examine several consecutive fiscal years, normally a three to five year period, to establish whether there is a consistent pattern in its financial situation and, if so, to forecast its future financial performance.

A balance sheet analysis uses the following three main types of ratios:

❖ **Liquidity**

Quick or acid-test ratio (ratio of liquid assets to current liabilities, where liquid assets equal cash on hand and in banks + short-term assets);

Current or working capital ratio (ratio of current assets to current liabilities);

Solvency ratio (ratio of current plus long-term assets to current plus long-term liabilities).

❖ **Capital structure or security**

Debt ratio (ratio of total liabilities to liquid assets, where total liabilities equal current plus long-term liabilities);

Fixed capital ratio (ratio of fixed to total assets).
❖ Profitability

Earning power (ratio of operating income to operating assets);

Income from sales (ratio of liquid to gross operating income).

This analysis can be expanded to include countless other ratios, depending on the specific situation in each country and the necessary level of analytical detail. Any organization can be in excellent economic-financial shape, with a large proportion of internally-generated funding, and yet, at a given moment, find itself short of funds for the settlement of its debts.

This latter factor – the availability of sufficient funds for the settlement of outstanding debts – determines the organization’s financial standing or creditworthiness. The liquidity ratios outlined above can be used to assess the official postal operator's creditworthiness.

2.1.5. Experiences of other postal operators

Another important step in this phase of the assessment is a comparison of the official operator with postal operators in other countries with similar features, mostly in terms of geographic, social and cultural factors.

Such a comparison will provide additional information on previous studies, successes and failures and their causes and effects and on strengths or weaknesses in the design and implementation of specific strategies.

Obviously, depending on the subject, it may be necessary to expand the scope of this study to fairly different postal operators in search of examples of excellence which, in many cases, are non existent in neighbouring or comparable countries. Technological development, legal reform and similar programmes often require abstractions based on more sophisticated models which, obviously, will need to be tailored to local conditions such as market size, cultural factors, economic conditions, etc.

The following question is an example of this type of comparison:

✓ What conditions present in country X enable it to outperform the official operator in this country:
in terms of productivity;
☒ in terms of quality;
☒ in terms of its economic performance?

The search for examples of excellence should also include best practices.

This concludes the assessment phase designed to clarify the current position of the official postal operator in the surrounding postal environment, which can be rounded out by an evaluation of examples of excellence.

The data furnished by the assessment will also need to be supplemented by information on ongoing projects by the official postal operator, focusing on those initiatives expected to have a real impact on its position. Smaller scale, one-off projects can be evaluated at another time, in another context.

Studies of selected projects should include a brief description of each project, an outline of its objectives, cost data and information on targeted outcomes.

2.2. PROSPECTIVE ANALYSIS (FUTURE TRENDS AND PROJECTIONS)

The second phase is that of exploratory research on the future of the postal organization based on alternative scenarios, trends and projections. This is referred to as prospective analysis.

2.2.1. Market trends

The steps outlined in section 2.1.1. are designed to assess the current state of demand on the nation’s postal market. Up to this point, no attempt has been made to look at the future of each product/service.

An evaluation of macro and micro environmental factors is a good basis for predicting future market behaviour. This type of information is essential in designing strategies and activities designed to help the official postal operator capitalize on the expected growth or contraction of different business areas or products/services as part of its planning process, as a way of boosting demand. Product and service offerings on the postal market are affected by countless different factors, including economic, demographic, social, technological and quality-related factors.
As discussed in chapter 1, GDP growth, population growth, per capita income, the exchange rate, the geographic distribution of the nationwide population, trends in migration, the literacy rate, the Internet and e-commerce, postal regulations, privatization, the activities of other service operators, cultural habits etc. are all examples of outside factors affecting the extent of the usage of postal services.

Internal factors affecting service usage include the image and reputation of the official postal operator, the quality of its services compared with those of the competition and good market communication. Studies conducted by the UPU and specialized agencies offer general guidance in this area, which will need to be tailored to the postal market of each country, as illustrated below:

**Figure 4 – Market trends by business area**

<table>
<thead>
<tr>
<th>Business area</th>
<th>Trend</th>
</tr>
</thead>
<tbody>
<tr>
<td>Messages</td>
<td>Letters</td>
</tr>
<tr>
<td></td>
<td>Telegrams</td>
</tr>
<tr>
<td>Direct marketing</td>
<td></td>
</tr>
<tr>
<td>Parcels</td>
<td></td>
</tr>
<tr>
<td>Express mail</td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
</tr>
</tbody>
</table>

With the variety of different factors at play, it is important to focus on those with the greatest effect on the postal market, to help project growth in each business area or product/service over the forecasting period.

In any event, the calculation of annual growth rates is not a deterministic process by any means, since it deals with future behaviour. In other words, however refined the study data may be, there is always a possibility of error. Yearly repetitions of this exercise can reduce but not altogether eliminate the margin of error.

One way of minimizing this problem is by working with two or three different scenarios involving different sets of assumptions and alternatives. As such assumptions are borne out, a specific course of action is taken as the planning process unfolds.

The following table consolidates data on annual market growth rates by business area. The figures in this table are expressed as percentages and may be either positive or negative. The tabulated data can be broken down by product/service.
TABLE 13 – Projected annual rate of growth in market volume

<table>
<thead>
<tr>
<th>SEGMENTS</th>
<th>YEAR 0</th>
<th>YEAR 1</th>
<th>YEAR 2</th>
<th>YEAR 3</th>
<th>YEAR 4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Messages</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct marketing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parcels</td>
<td></td>
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<tr>
<td>Express mail</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Products &amp; convenience</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

These growth rates can be applied to the consolidated data on market volume presented in table 1 to calculate the annual market volume by business area for each year of the forecasting period. In the event of the availability of contextual data suggesting a rise or fall in average prices on the postal market during the forecasting period, use a breakdown similar to table 7 to calculate trends in this variable.

This exercise should not consider annual inflation. The rise or fall in prices alluded to above should refer only to real rates. These projections of average annual prices and market volume can be used to construct the following table for each envisioned scenario.

TABLE 14 – Market projections by business area

<table>
<thead>
<tr>
<th>YEAR</th>
<th>BUSINESS AREAS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Messages</td>
</tr>
<tr>
<td></td>
<td>Direct marketing</td>
</tr>
<tr>
<td></td>
<td>Parcels</td>
</tr>
<tr>
<td></td>
<td>Express mail</td>
</tr>
<tr>
<td></td>
<td>Financial services</td>
</tr>
<tr>
<td></td>
<td>Products &amp; convenience</td>
</tr>
<tr>
<td>1</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>3</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
<tr>
<td>5</td>
<td>N</td>
</tr>
<tr>
<td></td>
<td>$</td>
</tr>
</tbody>
</table>
2.2.2. Forecasting economic performance

The economic performance of the official postal operator as reflected in the aggregated data presented in table 12 will need to be projected over the same five-year period as the projections of market size discussed in the previous section.

The basic assumption underpinning this preliminary forecast is the perpetuation of the current situation throughout the forecasting period, with the addition of certain known impact factors. This is what is referred to as the baseline performance projection.

In making this type of projection, the following factors need to be taken into account for purposes of estimating future income:

♦ sales of services;
♦ projected annual GDP growth rate according to official published figures;
♦ average annual rate hike for the last five-year period, adjusted for the average annual inflation rate for that same period;
♦ international accounts;
♦ average annual rate, calculated based on reported figures for the last five years recorded in table 12;
♦ other;
♦ projected annual GDP growth rate according to official published figures;
♦ government funding;
♦ estimated deficit, or the difference between the projected total figure for all other income categories and projected total expenditures for the year in question.

Projections of expenditures will need to consider the following factors:

♦ personnel and fringe benefits
♦ anticipated annual wage hikes;
♦ expansion in staff strength (new hiring);
♦ retirement;
♦ supplies and commodities, transportation, services and taxes;

♦ projected annual GDP growth rate according to official published figures;

♦ investments;

♦ average annual rate calculated based on reported figures for the last five years recorded in table 12.

These projections will need to be refined based on information on other specific factors or phenomena affecting all or part of a particular income or cost item (such as a change in tax liabilities beginning in some future year). Since the baseline projection needs to be expressed in constant terms or, in other words, based entirely on real fluctuations, all price-related data will have to be adjusted for the reported average annual inflation rate at the country level. Such a measure will prevent a misleading comparison of nominal values, which are often contaminated by illusory price hikes. This observation applies to both income and cost items.

The data produced by the baseline performance projection is aggregated as illustrated in table 12.

2.2.3. Alternative scenarios

Forecasts of market size and economic performance for the next five years can help clearly establish trends in the market share of the official postal operator and patterns in the funding of its expenditures and investments under an initial baseline scenario which, essentially, perpetuates current conditions and assumptions with respect to the operation of the nation’s postal market.

The next task is to develop as many alternative scenarios as necessary for evaluating theories with respect to deteriorations or improvements in operating conditions on the postal market from the standpoint of the official operator. This is a simple procedure in which critical assumptions and variables are grouped according to expectations with respect to the future course of development of the simulated scenario.

The selection and evaluation of the behaviour of each such variable and assumption is not a one-man job, but requires the involvement of executives and specialists in different areas and with different skills mixes.
The model presented below illustrates one such set of assumptions and variables and their potential estimated impact. Again, these assumptions and variables will need to be tailored to conditions in each country. It is not recommended that they be used “as is,” without first making necessary adaptations.

2.2.3.1. Legal framework

The following table is an illustration of a sample analysis of different possible scenarios. The factors considered and the timing of corresponding changes will need to be tailored to conditions at the country level.

**TABLE 15 – Scenario 1 – Changes in the legal framework (sample data)**

<table>
<thead>
<tr>
<th>Assumptions and variables</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 1</td>
</tr>
<tr>
<td>Ownership</td>
<td>100% government-owned</td>
</tr>
<tr>
<td>Separation of regulatory</td>
<td>No</td>
</tr>
<tr>
<td>functions</td>
<td></td>
</tr>
<tr>
<td>Legal status</td>
<td>Cabinet ministry department</td>
</tr>
<tr>
<td></td>
<td>Government enterprise</td>
</tr>
<tr>
<td>Assets</td>
<td>Tied to the ministry</td>
</tr>
<tr>
<td></td>
<td>Independent</td>
</tr>
<tr>
<td>Universal public service</td>
<td>No universal postal service</td>
</tr>
<tr>
<td></td>
<td>obligation</td>
</tr>
<tr>
<td></td>
<td>Expanded universal postal</td>
</tr>
<tr>
<td></td>
<td>service obligation</td>
</tr>
<tr>
<td>Reserved service area</td>
<td>Monopoly</td>
</tr>
<tr>
<td></td>
<td>Government compensation</td>
</tr>
<tr>
<td></td>
<td>for universal postal service</td>
</tr>
<tr>
<td></td>
<td>(reserved area)</td>
</tr>
<tr>
<td>Franking privileges</td>
<td>Numerous</td>
</tr>
<tr>
<td></td>
<td>Eliminated</td>
</tr>
<tr>
<td>Degree of administrative</td>
<td>Low</td>
</tr>
<tr>
<td>autonomy</td>
<td>Moderate</td>
</tr>
<tr>
<td>Labour relations</td>
<td>Civil service system</td>
</tr>
<tr>
<td></td>
<td>Same as private firms</td>
</tr>
<tr>
<td>Pricing policy</td>
<td>Price controls and subsidies</td>
</tr>
<tr>
<td></td>
<td>Market prices with no</td>
</tr>
<tr>
<td></td>
<td>subsidies</td>
</tr>
</tbody>
</table>

Each factor added to the benchmark scenarios will need to be defined and mapped out in detail in discussions with interested stakeholders (government reform and oversight agencies, executives, etc.)

2.2.3.2. Market management by the official postal operator

There are two approaches to the construction of alternative market management scenarios for the official postal operator.
The first approach is to calculate income for different market segments based on an evaluation of specific projects. The targeted outcome from such projects and their projected maturation dates will affect future income. The consolidation of data on the effects of these projects and on trends in market size for the forecasting period is a good basis for evaluating progress in building market share. The disadvantage of this approach is that it precipitates certain planning activities whose commencement is somewhat premature at this stage. The planning process, which is discussed at length in chapter 3 of this module, is based on more complete information.

The second approach, which is the approach taken in this Guide, provides for the simulation of trends in prices and market share over the forecasting period for purposes of the construction of alternative scenarios. These simulations should be based on the position of the official operator vis-à-vis market trends and that of the competition, according to previous studies discussed earlier in this chapter. The data for each alternative or benchmark scenario will need to be aggregated based on the model presented in table 16 below.

**TABLE 16 – Calculations of projected trends in prices and in the market share of the official postal operator (sample data)**

<table>
<thead>
<tr>
<th>BENCHMARK SCENARIO 1</th>
<th>Period</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions and variables</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Messages</td>
<td>Market share</td>
<td>40%</td>
<td>62%</td>
<td>65%</td>
<td>66%</td>
<td>67%</td>
</tr>
<tr>
<td></td>
<td>Price trends</td>
<td>+ 13%</td>
<td>+ 15%</td>
<td>+ 9%</td>
<td>+ 5%</td>
<td>–</td>
</tr>
<tr>
<td>Direct marketing</td>
<td>Market share</td>
<td>30%</td>
<td>38%</td>
<td>45%</td>
<td>58%</td>
<td>70%</td>
</tr>
<tr>
<td></td>
<td>Price trends</td>
<td>+ 10%</td>
<td>+ 10%</td>
<td>+ 3%</td>
<td>+ 3%</td>
<td>+ 3%</td>
</tr>
<tr>
<td>Parcels</td>
<td>Market share</td>
<td>2%</td>
<td>5%</td>
<td>15%</td>
<td>20%</td>
<td>28%</td>
</tr>
<tr>
<td></td>
<td>Price trends</td>
<td>+ 5%</td>
<td>+ 5%</td>
<td>–</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td>Express mail</td>
<td>Market share</td>
<td>10%</td>
<td>16%</td>
<td>26%</td>
<td>30%</td>
<td>38%</td>
</tr>
<tr>
<td></td>
<td>Price trends</td>
<td>15%</td>
<td>10%</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>...</td>
<td>Market share</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>3%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>Price trends</td>
<td>- 5%</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>15%</td>
</tr>
</tbody>
</table>

These projections of market share and price movements represent targets to be attained under each benchmark scenario, impacting on the economic performance of the official postal operator. Obviously, these figures depend on a series of conditions and package of projects and activities to be designed and studied in-depth as part of the planning process, when one such scenario is chosen as the basis for future planning.
In general, this phase of work can identify new business opportunities and changes in supply-side conditions (more offices, changes in operating hours, etc.) and in the form of existing services associated with each benchmark scenario designed to add value (invoicing, turn-around times, operating process, etc.)

2.2.3.3. Operational and technological development of the official postal operator

The third facet of the prospective analysis involves the construction of benchmark scenarios with respect to the future operating environment of the official postal operator or, in other words, the conditions which need to be present in its operating platform for the attainment of each of the benchmark scenarios contemplated in the previous section on market management.

This requires the quantification of needed changes in infrastructure, levels of service and in the physical and human resources used in furtherance of each established market management “target”.

The following questions all address relevant issues.

- How many offices will be opened in each year of the forecasting period?
- What is the policy for expanding the retail network (offices owned outright, franchises, partnerships, etc.)?
- How many offices will be built and/or remodelled during the forecasting period?
- What types of new technology (equipment and/or systems) will be incorporated into retail service operating processes during the forecasting period? At what rate / in what numbers?
- At what rate will home delivery service be expanded? What percentage of the population and of mail traffic is targeted for home delivery service in each year of the forecasting period?
- What is the targeted level of productivity?
- What are the targeted standards of quality?
- How much mail traffic will be processed in each year of the forecasting period?
- What types of improvements are needed in mail processing facilities?
- What types of new technology (equipment and/or systems) will be incorporated into mail sorting and delivery processes during the forecasting period? At what rate / in what numbers?
- What is the policy with respect to long haul (ground or air) and urban
transportation service (in-house vehicle fleet or outsourcing)? How many vehicles will be purchased?

These sample questions are linked to the different alternative scenarios constructed in section 2.2.3.2. The resulting data can be tabulated as illustrated below.

**TABLE 17 – Development of the official postal operator (sample data)**

<table>
<thead>
<tr>
<th>Assumptions and variables</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 1</td>
</tr>
<tr>
<td>Establishment of new personally operated offices</td>
<td>6</td>
</tr>
<tr>
<td>Remodelled post offices (total m²)</td>
<td>750 m²</td>
</tr>
<tr>
<td>Cities with over 10,000 inhabitants served by post</td>
<td>60%</td>
</tr>
<tr>
<td>Automated counter services (%)</td>
<td>2%</td>
</tr>
<tr>
<td>Population with home delivery service (%)</td>
<td>8%</td>
</tr>
<tr>
<td>On-time delivery (%)</td>
<td>6%</td>
</tr>
<tr>
<td>Productivity per worker per year</td>
<td>12,000 items</td>
</tr>
<tr>
<td>Tracking</td>
<td>No</td>
</tr>
<tr>
<td>Consolidation of sorting facilities</td>
<td>No</td>
</tr>
<tr>
<td>Expansion of the processing centre (m²)</td>
<td>–</td>
</tr>
<tr>
<td>Corporate network (points)</td>
<td>-</td>
</tr>
<tr>
<td>Manpower training (hours/year)</td>
<td>25</td>
</tr>
<tr>
<td>Retirement (number of workers)</td>
<td>76</td>
</tr>
<tr>
<td>Pay raises (%)</td>
<td>+ 5%</td>
</tr>
</tbody>
</table>
2.2.3.4. Performance of the official postal operator

The alternative scenarios constructed in the previous sections are interrelated while, at the same time, producing different levels of income, spending and investment. The table presented below should be used to aggregate the data reflecting decisions and forecasts associated with each set of interdependent alternative scenarios.

**TABLE 18 – Economic performance – Linked to Scenario 1**

<table>
<thead>
<tr>
<th>ITEMS</th>
<th>Period</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Year 5</td>
</tr>
<tr>
<td><strong>INCOME</strong></td>
<td></td>
</tr>
<tr>
<td>Sales of services</td>
<td></td>
</tr>
<tr>
<td>_MESSAGES</td>
<td></td>
</tr>
<tr>
<td>Direct marketing</td>
<td></td>
</tr>
<tr>
<td>Parcels</td>
<td></td>
</tr>
<tr>
<td>Express mail</td>
<td></td>
</tr>
<tr>
<td>Financial services</td>
<td></td>
</tr>
<tr>
<td>Products and philately</td>
<td></td>
</tr>
<tr>
<td>International accounts</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
</tr>
<tr>
<td>Government funding</td>
<td></td>
</tr>
<tr>
<td><strong>EXPENDITURES</strong></td>
<td></td>
</tr>
<tr>
<td>Personnel and related costs</td>
<td></td>
</tr>
<tr>
<td>Salaries</td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td></td>
</tr>
<tr>
<td>Supplies and commodities</td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td></td>
</tr>
<tr>
<td>Other supplies</td>
<td></td>
</tr>
<tr>
<td>Transportation</td>
<td></td>
</tr>
<tr>
<td>Domestic</td>
<td></td>
</tr>
<tr>
<td>International</td>
<td></td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td>Property</td>
<td></td>
</tr>
<tr>
<td>Equipment</td>
<td></td>
</tr>
<tr>
<td><strong>PROFIT (LOSS)</strong></td>
<td></td>
</tr>
</tbody>
</table>
The construction of these scenarios is still not really part of the planning process per se, being as there are no in-depth analyses of proposed strategies, nor is there a position on which scenario should be expanded on by the government and top management. The exercises and studies conducted up to this point simply evaluate the behaviour of a set of variables identified by the organization as desirable, possible and probable choices. This concludes the prospective analysis, whose purpose is limited to making predictions with respect to the future.

2.3. CATALYSTS FOR REFORMING THE OFFICIAL POSTAL OPERATOR

Customer expectations with respect to quality of service, market liberalization processes, the emergence (and substitution effect) of e-services and the increasing use of technology have been transforming the global postal market.

Today’s new realities are pressuring postal services to adapt their market operating strategies, particularly with respect to resource allocation and improvements in quality of service. New competitors and substitute products are putting pressure on long-standing postal monopolies. All official postal operators are facing numerous challenges in trying to hold onto their market share.

The slow but steady liberalization of the European postal market has already produced a number of important new trends, including pressure on prices and heightened competition in the communications segment (business mail, hybrid mail, fax and e-mail/EDI) as well as the physical delivery segment (special delivery service for airmail and surface mail, EMS, parcels, freight service, contract logistics services and air freight), with a clear distinction between telecommunications and postal services.

The following factors need to be taken into consideration in building on the strengths of official postal operators.

❖ Installed capacity
The official postal operator, unlike any of its competitors, must have sufficient operating capacity to process large volumes of message and parcel traffic in all parts of the country, while easily absorbing any fluctuations in demand stemming from changes in the pattern of market demand.
❖ **Logistics integration**
The official postal operator must develop an integrated network with all necessary facilities (physical and transportation) and resources (physical and human) for fulfilling its mandate, both on the domestic and on the international market. This is a key point and pivotal to its ability to attract and retain customers.

❖ **Technological development**
In general, the official operator must invest in improving the quality and productivity of its production processes, to put it at a vantage point with respect to the postal services of other countries and in a clearly better position than its competitors on the domestic market. This competitive edge is essential to cut costs and to attract and hold onto new business and customers.

❖ **Branched operating infrastructure**
One of the most important strengths of the official operator compared with its competitors is its branched infrastructure network. Its direct control of an extensive, branched retail and delivery network reinforces its other strategic strength, namely that of logistics integration.

❖ **Extensive logistics expertise**
The need to deal with very different sets of circumstances in conducting large-scale operations and servicing retail customers has helped the official postal operator develop a unique logistics capacity and expertise for synchronizing appropriate resources and processes for both small-scale, highly dispersed operations in areas with low population density and for large-scale, highly concentrated operations in large urban population centres. This is a key strength to be built on by the official postal operator to give it an advantage over its competitors, who tend to focus on specific types of customers, shipments or areas.

❖ **Skilled labour**
The development of an organizational culture built on a commitment to customer service and excellence in service delivery has enabled the official postal operator to attract and retain skilled professionals at both the operational and the management levels to carry out its mandate.

❖ **Investment capacity**
Annual surpluses generated by the official postal operator need to be ploughed back into modernizing its infrastructure and services to give it comparative advantages over its competitors. In practice, this means reconditioned post offices, an updated vehicle fleet, more automated and technology-driven processes and greater customer satisfaction.
❖ **Competitive prices**  
The prices charged by the official operator need to be competitive, not only by international standards, but with prices charged by its competitors for services subject to competition. The efficient management of the official postal operator is an incentive for other market participants to charge fairer prices.

❖ **Image**  
Though it may take time to build such an image, a reputation for reliability, efficiency and quality is a definite plus in comparisons with the competition.

By the same token, official postal operators will need to address the following and other weaknesses.

❖ **Overhead costs**  
The need for the official postal operator to maintain a presence in all areas and a regular ground and air transportation network and to provide daily home delivery service to most households around the country requires a pattern of rather heavy spending, which is viable only with a large volume of business. Sudden reductions in traffic volume can seriously threaten the stability of this model. Likewise, the need to take on new long-term obligations without counterpart funding or offsetting income can further heighten its vulnerability. These uncontainable overhead costs need to be offset by a steady growth in mail traffic, attracted by the various strengths discussed above.

❖ **Obligation to service all markets**  
Unlike other enterprises with the ability to choose the markets on which they wish to do business and to stay out of those in which they have no interest, the official operator in charge of providing universal postal service has an obligation to serve the entire population, without distinction, by providing service to all areas of the country, whether operating at a profit or at a loss. This puts the official postal operator at a disadvantage compared with the competition, in that its prices must cover the cost of these cross-subsidies. Thus, it is extremely important to clearly establish the need for compensatory government financing.
The reform package discussed in Module I can be divided into the following four work fronts:

**The first work front** involves the development of a regulatory framework for the postal sector establishing the scope of the privileges to be granted to the official postal operator to enable it to meet its universal postal service obligations, the envisaged pattern of competition within the postal sector, through laxer or more stringent regulations, and appropriate mechanisms for ensuring the smooth operation of the basic (and universal) postal services entrusted to the official postal operator.

**The second work front** has to do with business or enterprise reform. It involves acquainting the official operator with market principles and strengthening key areas such as finance, marketing and strategic planning. The strengthening of these functions through training, the hiring of experienced professionals, etc. should enable the official operator to improve service quality and become financially self-sustaining and more market-oriented, which are *sine qua non* conditions for its independent management.

**The third work front** involves the choice of an institutional model for the official postal operator, addressing issues relating to:

- possible outside involvement in its management and ownership, partnership-building, etc.;
- the legal status of the official operator which, in turn, is directly related to the extent of its autonomy and its appropriate legal standing;
- the financing of its assets and operations (public and private);
- rate-setting authority.

**The fourth and last work front** refers to necessary technological reforms for the incorporation of new technological breakthroughs into the official postal operator’s production platform as a way of improving quality of service and cutting costs to strengthen its competitiveness.

A discussion of these factors studied in the various stages of the assessment process is essential to ensure that the design of the new postal service model is conducive to the development of an appropriate legal environment, with government backstopping and the engagement of its workforce, as outlined in the following sections.
2.3.1 Legal environment

As discussed earlier in this chapter and at greater length in Module I, the sustainable development of the postal market and the official postal operator is contingent on the existence of modern legislation eliminating any special privileges or conditions undermining its competitiveness and the quality of service rendered to different customer segments. In this same spirit, postal legislation should guarantee:

♦ the separation of market regulatory powers and functions from powers and functions relating to the operation of the universal postal service;

♦ market wide coverage of regulatory activities;

♦ the clear and objective definition, mapping and delineation of universal postal services;

♦ clear provisions with respect to the obligations and autonomy of the official postal operator and other service operators subject to regulation;

♦ compensation for the universal postal service obligations vested in the official postal operator;

♦ the legal standing of the official postal operator as a corporate entity;

♦ the elimination of legal barriers preventing the official postal operator from competing with other service operators on an equal footing.

2.3.2 Government backing of the official postal operator

No reform programme based solely on the internal efforts of the official postal operator can expect to make very much headway. Government decision-makers will need to be involved in all stages of the discussion process engaged as part of the quest for a new model for the nation’s postal sector.

Sensitizing government stakeholders to the need for reform through a continuing communication, engagement and information-sharing process will build the necessary political will to ensure the success of efforts to strengthen the postal sector as a whole and the official postal operator in particular.

This awareness-building process will need to bear in mind the following pivotal issues, as the focal point of corresponding discussions.
♦ Regular universal postal service helps bring the country together through communications, linking small communities to large cities and to the rest of the world. However, the operation of postal services in these locations holds no interest for private service operators.

♦ The official postal operator can consume precious government budget funds covering deficits engendered by an inefficient organizational structure. It can either continue to be a direct or indirect drain on the government, or it can utilize its capacity to energize other related sectors of economic activity.

♦ Despite new breakthroughs in technology, the postal sector is not an industry in decline. On the contrary, modern technology is affording countless new opportunities for it to heighten its appeal and expand its growth potential.

Thus, the postal sector must be officially placed on the list of government priorities, as an integral part of national development plans.

2.3.3. Involvement and engagement of the postal workforce

Labour intensive / human resources as a strategic factor / unions / cultural changes / new labour relations.

2.3.3.1. Managing change

A deep-seated reform programme will invariably engender different types of uncertainties and insecurities on the part of all interested stakeholders, both in government and within the postal workforce. The success of the entire reform effort hinges on the proper management of envisaged changes to ensure their acceptance by the postal workforce.

Figure 5 graphically illustrates the phases which a typical individual goes through as part of a reform process, particularly in a business environment.
Powerful, clear communications and more involvement in discussions of envisaged changes in the official postal operator tend to reduce the intensity of the reaction and the time spent by workers in each behavioural phase. Likewise, less involvement and less powerful and transparent communications make it that much more difficult to make the transition from one phase to the next. Mismanaged reform processes with no provisions for engaging the workforce and for dealing with its fear of the unknown often make good ideas unworkable. It is vital for the official postal operator and, more importantly, for officials heading up reform programmes to pay special attention to the communication and participation factors.

2.3.3.2. Organizational culture

Organizational culture is the collection of ideas, values and norms shared by co-workers in any organization which shape their attitudes and behaviour. Moreover, the role played by this culture is vital to the organization’s success.

Any programme or project affecting the organizational culture must encompass each and every component of the organization, from human relations and the organizational structure to the decision-making process.

The organization needs to take into account so-called “cultural symptoms”, such as:

- executive profiles (personal values, professional training and field of expertise, charisma etc.);
- worker profiles (socio-cultural, professional, educational background);
- rites and symbols (attitudes of co-workers towards each other, the
workplace, etc.);
• communications (internal, external, formal, informal, top-down/bottom-up, etc.);
• strategies (form, content, effectiveness, etc.);
• the general management philosophy.

It is important to understand that communications and the sharing of information and experiences are facilitated by many different cultures. There is not just one culture but, rather, a series of constantly emerging subcultures as each member of the organization learns and adapts to the values and norms typical of each area in the course of his or her work. The fact that there are these different subcultures does not rule out the existence of an organizational culture. Imagine a single focal point (the corporate culture) nurturing and sustaining a number of different branches (the specific culture of each area within the organization).

The unique features of each part of an organization must be taken into account in managing the organization as a whole. The official postal operator has its own organizational culture shaped mainly by the nation’s culture, its position in the central government structure, its public image and an infinite number of other factors embodied in its workers, their notions and their positive and negative values.

For example, postal operators in the red or whose income from sales of services is not used to cover their expenses are generally more prone to distance themselves from their customers, since the survival of the organization is not directly tied to service quality considerations.

As a rule, the attitude of their workers is that they are paid the same low wage whether they give good or bad service. Thus, reform efforts will need to help change certain values and notions hindering the development of the official postal operator while, at the same time, strengthening the positive values and notions making up the organizational culture.

Figure 6 illustrates a few of the types of notions and values which will need to be changed.

The list depicted in this figure is for reference purposes only and will need to be expanded or narrowed according to the surrounding nationwide environment and organizational climate of the official postal operator. It is important to keep in mind that the success of reform efforts hinges on the institution of needed changes in the organizational culture, which is a long-term process which takes time to produce results.
2.3.4. Strategic positioning

A decision to reform the official postal operator requires the selection and approval of one of the baseline scenarios constructed in section 2.2. by its supervisory agencies as the basis for the designing of strategies, projects and activities for achieving the proposed vision. This phase, which precedes the actual planning phase, is referred to as strategic positioning. It correlates studies of “probable” and “possible” future scenarios as the basis for formulating viable plans in keeping with the prevailing internal and external philosophy. This correlation of study data sets general priorities for future action.
This choice begins the planning process discussed in chapter 3.
CHAPTER 3. DEVELOPMENT PLANS AND PROGRAMMES

3.1. FORMULATION OF DEVELOPMENT PLANS

This chapter addresses specific issues relating to the preparation, formulation and implementation of the development plan for the official postal operator.

Some of the points addressed are designed to alert users of this Guide to the types of obstacles which may need to be overcome. Others represent suggested approaches for ensuring the effectiveness and productiveness of the efforts of the strategic planning team.

3.1.1 Development plans for the official postal operator

Meeting future challenges requires a well engineered strategic planning effort on the part of the official postal operator to help it visualize the course of action it needs to follow in accomplishing this task, overcoming the usual obstacles hindering planning processes.

1. Stepped-up pace of change – Changes in normal postal business conditions are discernible through the actions of competitors and new customer needs. Escalations in competition and heightened demands by these stakeholders are speeding up the process of change. In such an environment, a sound strategy is an absolute must.

2. Planning for the longer term – The concept of short and long-term varies according to an organization’s sphere of operation. Oil and steel companies, for example, plan for visibly longer time horizons than does a service provider like the official postal operator.

3. Anticipating events – Change in general and, in particular, acceleration in the pace of change does not happen by chance. It is a product of the impact of current changes in the global environment with powerful effects on virtually every country in the world, creating an explosive chain reaction gradually affecting all sectors of economic activity. Those organizations best able to clearly visualize the future impact of such changes on their business operations and to take appropriate measures early on to try and control undesirable situations are improving their chances for success.
4. **Lucrative/loss-making enterprises** – A profit or loss is the product of a strategic plan formulated at some point in the past and of ensuing operations implementing such plan. Just as the current success of an enterprise is planned in the past, a lack of planning may have contributed to its current problems or failings. Thus, strategically speaking, it is important to guarantee the postal operator’s future profit-making potential as a way of ensuring the viability of the delivery and financing of universal postal service.

Strategic planning by the official postal operator means establishing the types of measures which need to be taken to ensure that its future situation is different from its previous situation. A great deal of time and effort is wasted due to the lack of a modern, well structured organization with results-oriented management practices.

The framing of a development plan visualizing and outlining the sequence of envisaged activities is essential to the future of the official postal operator. This development plan will need to address factors such as quality of service, service offerings, rates, customers, suppliers, revenues, technology, investments, costs, the market, human resources and all the building blocks of the postal business system.

3.1.2 **Stakeholders in business planning processes**

Strategic planning is not confined to any one unit, area or individual within the official postal operator. It is the product of a joint effort by the entire workforce, with the whole process headed up directly by the senior executive or general manager of the official postal operator responsible for organizing, coordinating and synchronizing team efforts, in line with the following concepts.

**A) Participatory Planning**

The main benefit of planning lies, not in its output, but in the planning process per se. Thus, the leader’s role is not simply to frame plans, but also to facilitate the planning process. This means engaging all members of the organization, from the general manager on down to its newest employee. The strategic planning process is a product of the efforts of representatives of all areas of the organization.
B) SYNCHRONIZED PLANNING
All elements involved must be considered as interdependent variables or factors, since no one part or area of the official postal operator can be efficiently planned as a separate element.

C) INTEGRATED PLANNING
All levels of the management structure of the official postal operator must be mobilized in preparation for the strategic planning process and their activities must be consistent with planning efforts. All ensuing efforts and activities must be directly in line with established targets.

D) ONGOING PLANNING
This is essential to the success of any planning process. The effectiveness of all plans gradually diminishes in time.

A well engineered participatory planning process is more deeply rooted, preventing individualistic behaviour, which is quite common with changes in an organization’s leadership. This is not only true of the postal operator. It happens in all organizations, including private organizations.

3.2. BUILDING BLOCKS OF A STRATEGIC PLAN

This chapter is designed to provide guidance for organizing the strategic planning process. Its goal is to outline the steps to the successful framing of a workable plan and the achievement of targeted outcomes by the official postal operator.

3.2.1 The basics

Dealing with a governmental body and business enterprise, successful strategic planning designed to strengthen the competitiveness and ensure the survival of the official postal operator is predicated on an in-depth knowledge of its organizational structure and of the many outside influences at play, engendered by changes in the surrounding political, economic, social and technological environment.

As a rule, the government has multi-year plans for all spheres of activity recapping national policies and spelling out its courses of action, in line with the broad outlines of policies with respect to national infrastructure and government spending.
More specifically, government planning for the postal sector should prepare the official postal operator to meet its universal postal service obligations. However, a lack of government planning does not necessarily rule out the development of a strategic plan for the official postal operator.

The official operator travelled a specific path in reaching its present position, which needs to be carefully evaluated as the basis for charting its future course of action. This assessment needs to look at its strengths and weaknesses, as well as at the opportunities and threats present in its surrounding environment (see chapter 1).

The following figure graphically illustrates the process of assessing its current situation and charting its future courses of action.

This assessment is the basis for establishing its vision, mission, purposes (objectives), programmes, projects, sub-projects and activities, along with corresponding monitoring, supervision and evaluation procedures.
3.2.2 Development of a strategic plan

The following flowchart illustrates the process of developing a strategic plan and shaping its objectives.

The **assessment** – the first technical phase of the strategic planning process discussed in chapters 1 and 2 – involves the collection of internal (strengths and weaknesses) and external (macro- and microenvironmental threats) environmental data, constantly endeavouring to correlate this data with the organization per se and its business operations. The focus is not yet on the future in this early phase of the process.

The **prospective analysis** – the second technical phase of the strategic planning process discussed in chapter 2 – involves the construction and analysis of “possible” and “probable” alternative future scenarios. These scenarios need to visualize the organization’s strategic position from two perspectives, namely the institutional and the business perspective. This phase includes the establishment of megatrends (with a significant impact 5 or more years down the road) and contextual variables (with a significant impact over the next 5 years).

The **formulation** phase refers to the development of core competencies and the closing of “gaps” detected as part of projects, programmes and activities and corresponding course corrections. This phase includes the development of a preliminary budget, simulating income, expenditures and investments engendered by established strategies, projects, programmes and activities.

The **approval** phase involves the discussion and approval of data and documents produced through the efforts of personnel at all levels of the organization by its top management and by the unit heading up the strategic planning process. As part of this process, top management will endorse or revise the proposed approach and officially approve the strategic plan.
The **in-depth analysis** refers to the framing of a development plan for a specific time period such as five years, for example, with provisions for the yearly start-up of scheduled projects and activities. This document will spell out the persons in charge, indicators, deadlines, phases, values and targeted outcomes for all so-called “corporate” initiatives. This process is repeated for the framing of tactical and operational plans clearly establishing the “what”, “who”, “how”, “where”, “how much”, “when” and “by when” for all envisaged initiatives.

The **implementation** phase per se follows the dissemination of the plan and the engagement of all areas and individuals involved, who will regularly supply data and receive reports on the projects and activities for which they are accountable.

The **monitoring and evaluation** phase, while scheduled at the end of the planning cycle to provide feedback for the following cycle, should really be an ongoing activity throughout the entire planning process, to be conducted at the established intervals for each type of monitoring mechanism and as necessary, to re-evaluate or to step up or slow down the implementation of a particular strategy or initiative.

### 3.2.3 Objectives, strategies and actions

A strategic plan involves a sequence of clearly defined viable, quantifiable, measurable actions.

There are a number of issues which can be used as benchmarks in helping to ensure the successful crafting of a strategic plan. A few examples of these benchmark issues are outlined below.

<table>
<thead>
<tr>
<th>FINANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>◆ Ability to secure low-cost, long-term capital</td>
</tr>
<tr>
<td>◆ Ability to secure short-term capital</td>
</tr>
<tr>
<td>◆ Ability to maximize the value of investments</td>
</tr>
<tr>
<td>◆ Ability to take risks with measurable returns</td>
</tr>
</tbody>
</table>
### GENERAL MANAGEMENT

- Ability to provide continued high-level management
- Development of future leaders and managers
- Development of a sound organizational structure
- Development based on long-term planning
- Development of new quantitative, technical decision-making tools
- Assurance of better judgment and of the use of more creativity and imagination in decision-making processes
- Ability to use information technology as a problem-solving tool
- Ability to recognize new needs and opportunities for products and services
- Ability to promote administrative practices conducive to sustainable development

### MARKETING

- Ability to collect market intelligence
- Development of a broad customer base
- Establishment of an efficient network of marketing channels
- Ability to attract lucrative new business
- Assurance of creative advertising and sales promotion campaigns
- Effective use of pricing (discount policies, credit, warranties, installment sales, compensation)
- Promotion of close cooperation by the Operations, Marketing and Finance areas
- Revitalization of the sales structure
- Improvement of customer service
- Development of new products and services for new markets
- Expansion of sales of current products on new markets
- Product diversification through partnership-building
- Use of creativity in designing new products and services
- Ability to build market share

### OPERATIONS

- Improve delivery of current services
- Improve service quality control procedures
- Develop effective policies for acquiring new technology and replacing operating equipment
- Develop an efficient layout for mail sorting centres
- Establish a well-engineered mail delivery service structure
- Develop better inventory control and stocking procedures (for mail bags, labels, baskets, seals, etc.)
- Computerize production facilities
- Strengthen the claim processing system
- Strengthen the performance of operational personnel
- Optimize operating facilities (ergonomics, lighting, effective flow management, etc.)
3.2.3.1 Investments and performance

The implementation of any plan involves a number of technical, administrative and financial factors. All sources and uses of funds need to be clearly defined. Sources of funding include internally generated investment funds, government financing and funding from domestic and international lenders.

All prospective lenders base their decision on whether to provide financing on an appraisal and on the content of the proposed project. Though traditional financial performance measurements may not always be enough to guarantee sound company and business management, these are the economic indicators used in macroeconomic analysis. Financial management techniques offer a number of tools for evaluating efficiency in this area, including:

❖ **Return on investment**
Ratio of operating income to total company assets reflects the company’s ability to generate profits with a given amount of investment. This indicator is used both to evaluate the company’s operating profits (or losses) as a whole and to evaluate expected returns on future investments.

❖ **Cash flow**
A projection of cash flow for a given future period quantifies the changes the company hopes to make in its major financial statement accounts in terms of the sources and uses of its funds, primarily in terms of present value.
❖ Contribution margin

Difference between income from control units such as a product line or sales affiliate and variable costs for a given period helps establish the contribution of a particular unit within the organization to covering overhead expenses and generating profits.

All planning data and corresponding projections should fit into the following categories:

♦ Operational performance data;
♦ Economic performance data;
♦ Organizational image.

Insofar as possible, all findings should be quantified and presented in table and graph form, as in the following example.

3.2.4 Formulation phase of the strategic planning process

All planning should be the product of a creative, participatory process geared to the following needs:

♦ The establishment of mutually compatible objectives and challenges;
♦ Compatibility with internal funding;
♦ Compatibility with conditions in the surrounding environment;
♦ A positive cost-benefit ratio;
♦ An organization-wide commitment to quality;
♦ The freedom to make some mistakes;
♦ An awareness of what is realistic and unrealistic, while constantly striving to achieve the impossible.

Planning processes must set priorities and gradually implement envisaged actions. They should focus on the long term, while providing for the implementation of short and medium-term activities. Resulting plans must have built-in flexibility allowing for their modification, updating and adaptation.

Technically, long-term planning covers periods of 5 or more years, medium-term planning covers period of anywhere from 1 to 5 years and short-term planning is for periods of up to one year. In other words, planning processes establish an organization-wide policy turning what would otherwise be “one-off” projects and activities into a systems approach to the attainment of established objectives. Long-term planning is the foundation for business activity.

The formulation phase of the strategic planning process includes the development of a vision, mission statement, objectives, programmes, projects, sub-projects and activities.

3.2.4.1 Vision

An organization’s vision is what it is looking to be. It establishes the broad outlines of the strategic plan to be developed and implemented by the organization.

An organization’s vision should be shaped by the good judgment and general consensus of its leadership. The following is a list of suggested considerations to be taken into account in shaping an organization’s vision.

♦ The organization’s vision should be clearly defined.
♦ It should establish and respect individual rights.
♦ It should be centered around the organization’s main focuses: major customers/public, workers and suppliers.
♦ The organization needs to build market share and generate profits by improving customer perceptions of its product and service offerings.
♦ The organization needs to develop a results-oriented performance culture.
The following is an example of the vision of an official postal operator.

**"We see the Postal Service":**

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>operating at the global level;</td>
</tr>
<tr>
<td>B</td>
<td>as a major service operator on the international postal market;</td>
</tr>
<tr>
<td>C</td>
<td>as the leader in all domestic market segments in which it is active;</td>
</tr>
<tr>
<td>D</td>
<td>expanding its business operations;</td>
</tr>
<tr>
<td>E</td>
<td>as an efficient, dynamic enterprise;</td>
</tr>
<tr>
<td>F</td>
<td>making regular innovations in its services;</td>
</tr>
<tr>
<td>G</td>
<td>constantly adding technological value to its products and services;</td>
</tr>
<tr>
<td>H</td>
<td>as highly competitive in each and every one of its business areas;</td>
</tr>
<tr>
<td>I</td>
<td>with a social conscience, making an important contribution to society;</td>
</tr>
<tr>
<td>J</td>
<td>as responsive to stockholder expectations with respect to returns on their investments;</td>
</tr>
<tr>
<td>K</td>
<td>with a strong organizational image;</td>
</tr>
<tr>
<td>L</td>
<td>with a good work environment meeting the needs of its workers;</td>
</tr>
<tr>
<td>M</td>
<td>as an advocate for the environment;</td>
</tr>
<tr>
<td>N</td>
<td>as a business which is continually learning.</td>
</tr>
</tbody>
</table>

### 3.2.4.2 Mission

The official postal operator’s **mission** is its “raison d’être.” It determines the type of business activities engaged in by the postal enterprise, the reason for its existence and the types of operations it should focus on in the future. The official postal operator’s mission statement is the basis for establishing necessary macro strategies and macro policies, determines the thrust of its operations and sets boundaries for establishing an appropriate strategic position. To this end, the mission statement must meet reasonable, rational criteria, which need to be:

- enterprising enough to have an impact on organizational behaviour;
- focused more on satisfying customer needs than on the features of service offerings;
- reflective of the organization’s core competencies;
- intelligible;
- realistic;
- flexible;
- motivating.
There are a number of important considerations which should be taken into account by the strategic planning team in charge of shaping the organization’s mission, as outlined below:

❖ It should not be confined strictly to an explanation of what is being done, since such mission statements fail to meet their main objective of engendering decisions in favour of change.

❖ It should not be tied directly to product and service offerings, which seriously limits its scope.

❖ The planning team should avoid overly short and objective definitions, which could undermine their clarity and interfere with their understanding. Nor should it establish overly broad definitions, which could be hard to assimilate.

❖ It should not establish a permanent slogan for the organization, which may eventually need to be changed in line with changing conditions in the internal and outside environment. The goal is not only to define the organization’s mission, but to be prepared to redefine it whenever necessary, as part of an ongoing observation and thought process.

The following are examples of the mission statements of postal operators in different countries.

“The business is to move mail, merchandise and print information around the country and around the globe. We also provide other products and services in a market-oriented environment. We are committed to satisfying customer needs, offer challenging career opportunities and provide a solid return on investments.”

“Our objective is to establish, manage and operate public postal service infrastructure, engage in any and all follow-up, related or ancillary activities and provide financial services.”

“To bring together individuals and organizations around the country and around the world, ensuring the satisfaction of their postal service needs.”
3.2.4.3 Objectives

Objectives are quantitative goals or targets to be met through the efforts of the entire business organization, with established performance deadlines and specific officials in charge of their attainment. The objectives of any given organization must meet the following requirements:

- They must be clear and clearly communicated, understood and accepted.
- They must be specific, measurable, realistic and challenging.
- Their linkages and interaction should be briefly outlined.
- They must be sufficiently in step with internal and outside factors affecting the organization.
- There must be an adequate monitoring and evaluation system in place.
- There must be set priorities for their attainment.

The implication is that the main characteristics of an organization’s objectives should be in keeping with the need for them to be:

- Hierarchized – showing top priorities versus secondary objectives, etc. and how these priorities are set.
- Quantitative – quantifiable and measurable.
- Realistic – the product of studies of surrounding threats and opportunities and of the organization’s strengths, weaknesses and resources, rather than of the notions or preferences of interested individuals.
- Consistent – mutually coherent and interrelated.
- Clear, understandable and written – It is easier to carry out plans with clear objectives which can be easily understood by all interested officials.
- Clearly communicated – The purpose and substance of an organization’s objectives need to be clearly communicated to all parties directly or indirectly involved in their accomplishment.
Motivating – An organization’s objectives need to help create a motivating environment to achieve the full impact of the strategies to be implemented by the work team.

Practical – They need to identify likely beneficiaries.

Decisive – They need to shed light on the basic decisions involved in their attainment.

Operational – They need to outline the basic steps in their attainment.

3.2.4.4 Programmes

Programmes are synchronized packages of projects and activities with homogeneous overall objectives. They reflect what the organization hopes to accomplish from a corporate perspective and target its efforts and resources over the course of a given time period.

The main purpose of programmes is to coordinate projects with common goals and objectives.

3.2.4.5 Projects

Projects (and sub-projects) are works with established start-up and completion dates, a general coordinator or manager, a pre-established end result and necessary earmarked funding for their implementation.

Project preparation gives managers a way of establishing and implementing action plans to be conducted by the organization with a view to the achievement of targeted outcomes identified as part of the strategic planning process.

In general, a project has two main phases:

- **Phase 1:** Design; and
- **Phase 2:** Implementation.

The main steps in the project design phase are as follows:

- Assessment of the target problem;
- Study of the surrounding environment;
- Establishment of project objectives;
- Establishment of project evaluation criteria and parameters;
- Conduct of necessary feasibility studies (strategic, marketing, technical and economic-financial feasibility studies);
- Negotiation and establishment of necessary resources;
- Designation of the project team;
- Resource planning and allocation.

The output from this phase is a project proposal and implementation plan. The main issues to be addressed in the project implementation phase are:

- the use of available resources according to plan;
- the supervision of work by the project team;
- the management and monitoring of project activities;
- the final evaluation of completed works.

The following figure graphically illustrates the different project phases.

3.2.4.6 Sub-projects

Sub-projects involve a variety of specific, explicit, finite, time-phased activities contributing to the implementation of a given project component to which they are attached.
3.2.4.7 Actions

**Actions** refer to the implementation of a decision for purposes of the achievement of a specific, pre-established outcome. Actions are pivotal to the execution of sub-projects and projects.

**EXAMPLE:**

The following figure graphically illustrates the basic relationship between these concepts.

![Programme → Project → Sub-Project Diagram](image)

### 3.2.5 Approval

The next phase of the strategic planning process after the formulation phase (establishing the vision, mission, objectives, programmes, projects, sub-projects and actions) is the **approval** phase.
The **approval** phase involves two main processes, namely:

I. the internal institutionalization process; and
II. external institutionalization of the strategic plan.

### I. The internal institutionalization process

Planning requires preliminary preparation at basically all levels of the official postal operator.

Communications, awareness-building and information activities and motivational, participatory and interfacing efforts will all need to be stepped up immediately prior to the beginning of the planning process, under the leadership of the official postal operator’s general management.

Resistance to change has very little to do with the size of the organization per se. It depends on the mindset of its members. In general, it stems from two main factors, namely success and fear.

A successful organization does not acknowledge or see any need for change, which could cause it to eventually become obsolete. (Such organizations are doing well and have no wish to change their future plans.)

As far as fear is concerned, people resist change out of a fear of losing their power, or of being forced to leave their “comfort zone”. There is a definite fear of the unknown. Underlying the reasons for resistance to change is the placement of personal interests before those of the organization.

Dealing with pockets of resistance requires effective action on the organizational culture.

As a rule, the following types of situations are likely to engender a certain resistance to change:

- a general perception that the corresponding cost-benefit ratio is unfavourable;
- a lack of confidence on the part of the workforce in the organization per se and in its real interest in making changes;
- a lack of confidence in the organization’s ability to effectively implement required activities and patterns of behaviour.

Possible approaches to minimizing resistance to change include:
♦ advance and continuing training with respect to the types of activities involved in the process of change;
♦ establishment of appropriate channels of communication to underscore and explain the need for change and the rationale for the entire reform process;
♦ effective, mass participation by the postal workforce in the planning process, creating an environment conducive to the sharing of ideas;
♦ establishment of a clear organization-wide information system;
♦ organization of information activities with respect to planning efforts.

The best way to overcome or minimize resistance to change is to ensure that the workforce understands the nature of the strategic planning process and receives extensive training in procedures for the development and implementation of strategic plans.

II. External institutionalization

All elements of the strategic planning process must be in line with government policy guidelines, international agreements in general and, more specifically, the underlying principles of the UPU’s global strategy as established at Union Congresses, as well as with public needs, wants and priorities since, in the final analysis, the main beneficiary of all such planning efforts should be the general public.

All planning documents and the established action plan will need to be formally submitted to relevant government agencies (the supervisory ministry for the postal sector, the Ministry of Planning, the Ministry of Finance, the regulatory agency and any other agencies which could be helpful in implementing the plan).

An executive summary of the plan should clearly illustrate the consistency of envisaged activities by the postal organization with government policy guidelines.

Rounding out the internal planning process, the organization’s general management will need to explain the procedures, objectives, projects and sub-projects forming an integral part of its plans to interested government officials.

Engaging the government and earning its trust to ensure the successful implementation of organization-wide plans is crucial to the attainment of its objectives. The next step after reaching a consensus on the broad outlines of an action plan and its approval by the government is its implementation, striving to meet established schedules and to achieve targeted outcomes.
3.2.6 In-depth analysis

The approval phase of the strategic planning process is followed by an in-depth analysis. This phase is devoted to the framing of yearly tactical, operational and follow-up plans.

The strategic planning process needs to take into account the entire organization, not just one part. Thus, it is technically incorrect to talk about:

“strategic operations planning” or “strategic human resource planning.”

These are examples of tactical (not strategic) planning for a clearly defined part of the organization. While such plans do address strategic issues, they do not encompass the organization as a whole and, accordingly, are referred to as tactical plans.

Tactical postal operations planning, for example, deals with the tactical planning of mail delivery, sorting, transportation and routing operations.

Tactical marketing plans have to do with markets, sales and customer service.

Tactical human resource planning involves human resource management, skills development and manpower training.

Tactical financial planning has to do with financial management, financial services, budgeting and costs.

There are countless examples of other types of tactical plans (dealing with technology, logistics, management, quality, etc.), depending on the scale of the organization in question.

Business plans are especially important in endeavouring to launch a new product or service.

The crafting of business plans complements the strategic planning process. Business plans are highly specific plans addressing the following types of issues:

- Business analysis
  - Business features
  - Driving forces
  - Key success factors
- Market size
- Commercial business design
- Operational design and resource requirements
- Feasibility study
- Calculation of monthly sales volume
- Calculation of sales value
- Overhead costs
- Investments
- Break-even point
- Final evaluation

The following figure illustrates the different levels of planning discussed above (the strategic, tactical and operations levels) and corresponding linkages and indicates the implementation period for each type of plan.

**3.2.7 Implementation**

The approval of strategic plans and corresponding programmes, projects and sub-projects and the framing of applicable tactical and operational plans is followed by the implementation phase per se, once all such documents have been duly disseminated and all interested areas and stakeholders have been duly engaged, each of which will furnish and receive regular information on the projects and activities within its sphere of responsibility.
3.3. MONITORING AND EVALUATION OF THE STRATEGIC PLANNING PROCESS

The purpose of the monitoring and evaluation function throughout the planning process is to scrutinize performance based on comparisons of actual results against targeted outcomes, particularly with respect to the organization's objectives, challenges, strategies and policies.

The monitoring and evaluation function is designed to ensure that actual performance is on par with established standards.

Monitoring is a management function using comparisons with established standards to measure and evaluate the performance and outcomes of specific actions as a way of providing feedback for decision-makers, to enable them to turn around or strengthen performance or to intervene in specific management functions to ensure that ensuing outcomes meet established targets, challenges and objectives.

The following figure is a general outline of the monitoring and evaluation function.
3.3.1 Information requirements for monitoring and evaluation

Part of the monitoring and evaluation phase of the planning process involves establishing the types of information required as the basis for monitoring activities.

➢ Types of required information

Information requirements for monitoring and evaluation of the strategic planning process include, without being limited to, the following types of data:

♦ quantitative data on the timing of activities;
♦ data establishing the dates of all events (information, reports, tables, actions, etc.);
♦ data on promised and actual values;
data on the application of these values;
♦ data on the size of the workforce;
♦ measurements of the quality of work.

➤ **Data collection and reporting intervals**

Data collection, processing and reporting intervals basically depend on the type of activity in question. In the postal sector:

♦ Strategic monitoring data involving top management should be collected or reported monthly;
♦ Tactical monitoring (management) data should be collected or reported weekly or bimonthly;
♦ Operational monitoring data should be collected or reported daily and tabulated on a weekly basis.

➤ **Quality of information**

The form, channels of communication, timing, timeliness, precision and content of monitoring and evaluation data are all important factors. Such data must meet the following criteria:

♦ Strategic monitoring (top management) data requires a low level of disaggregation and high level of aggregation;
♦ Tactical monitoring (management) data requires a medium level of disaggregation and high level of aggregation;
♦ Operational monitoring data requires a high level of disaggregation.

➤ **Sources of information**

There are basically two types of sources of information:

♦ Internal sources – including data supplied by activity managers and users of monitoring and evaluation systems (internal clients);
♦ Outside sources – including data furnished by the outside public, independent audits, the press and outside supervisory agencies.
Data managers

Each action contemplated in a given plan must have a coordinator in charge of its implementation and monitoring. This coordinator is also the primary source of information on the progress of all activities for which he (or she) is responsible. The individual in charge of coordinating each group of activities is responsible for aggregating and forwarding corresponding data to his (or her) superior by the prescribed deadline. Thus, there clearly needs to be an established chain of command for planning purposes.

3.3.2 Phases of the monitoring and evaluation process

Information is an essential input for monitoring and evaluation and the foundation for decision-making, as graphically illustrated below.

A) Development of measurement and evaluation models

Such models are based on established objectives, challenges, goals, strategies, policies, projects, standards and procedures and used as the foundation for comparisons of targeted outcomes, which may be tangible or intangible, explicit or implicit and quantitative, qualitative and/or time-driven.
B) Performance measurement

The performance measurement and evaluation process establishes and chooses what to measure and then measures it based on quantitative, qualitative and time-driven criteria. These criteria need to be coherent, homogeneous and well integrated, so as not to distort the monitoring of planning activities.

C) Comparison of performance against expectations

An indicative table containing performance data and comparing it against expectations is a good basis for the visualization of the progress of corresponding actions and a good supporting tool for top management, other levels of management, activity coordinators and other collaborators.

In general, there are four possible findings from such a comparison:

♦ Performance meets or exceeds expectations;
♦ Performance almost meets expectations, with deviations from the original plan;
♦ Performance exceeds expectations, with deviations from the original plan;
♦ Performance is far beyond expectations.

D) Remedial action

It is important to take special measures to prevent significant deviations from the original plan or, in some cases, to reinforce positive outcomes.

The monitoring and evaluation system must:

♦ Focus on core issues to avoid wasting time and inflating costs;
♦ Be transparent, to facilitate its understanding and acceptance by the members of the organization;
♦ Be stringent and precise and, at the same time, have a certain built-in flexibility, in light of the imprecise, changeable nature of the postal environment;
♦ Be realistic and workable, to generate accurate, objective data to facilitate decision-making and further efforts to successfully implement the strategic planning process;
♦ Engender a positive cost-benefit ratio;
♦ Be responsive and provide for the implementation quick-acting remedial measures, which requires that it be underpinned by specific, clear, well-defined monitoring models;
♦ Be objective, triggering appropriate corrective or strengthening measures.

3.4. GENERAL GUIDANCE

The goal of this final section of Module 4 is to provide some useful guidance for the design and implementation of strategic plans. For consistency purposes, it also includes a glossary providing standard definitions of the main terms used in the discussion.

3.4.1 Recommendations for project management

Project managers should keep in mind that, if a project for which they are responsible is not properly prepared and conducted, it could cause problems in the implementation of the organization’s strategic plan.

The following recommendations for project managers are designed to help them improve their job performance.

♦ Focus on targeted project outcomes.
♦ Be flexible, within reason.
♦ Engage senior management to secure necessary support for project preparation and implementation.
♦ Ensure there is an adequate, realistic information system.
♦ Stay in direct contact with all individuals involved in the project.
♦ Ensure a balanced distribution of work among corresponding collaborators.
♦ Keep project expenditures at reasonable levels, spending only what is absolutely necessary.
♦ Stay realistic and avoid being overly optimistic or pessimistic.
♦ Encourage criticism and discussions by interested co-workers with respect to the progress of the project.
♦ Stay consistent with previous positions and decisions.
♦ Remember that the project is a system and must always be regarded as such.
3.4.2 Determinants of a successful project

The success of any given project and of corresponding project activities hinges on the following factors:

- Compliance with established deadlines;
- Compliance with pre-established cost estimates;
- Attainment of targeted technical standards of quality;
- Satisfaction of feasibility requirements;
- Attainment of financial stability during project implementation and after its completion;
- Continued operational stability of business activities;
- Continued financial stability;
- Higher or, at a minimum, stable earning power;
- Better or, at a minimum, continued exploitation of business opportunities.

3.4.3 Generally accepted concepts and terminology

The following glossary of planning terminology is designed to help promote a good general understanding of corresponding concepts.

a) Megatrends
Megatrends are designed to show patterns of change in determinant and critical variables for the survival, growth and profitability of a given business, product or service. They should be used as the basis for strategic decision-making for time horizons of between five and ten years.

b) Contextual analysis
A contextual analysis is designed to show patterns of change in determinant and critical variables for the survival, growth and profitability of a given business, product or service. It should be used as the basis for strategic decision-making for time horizons of up to five years.
c) **Mission**  
The mission statement defines the organization’s current and potential “raisons d’être”, or the purposes for its existence. It articulates what the organization stands for and the scope of its operations. It should be expressed in terms of the satisfaction of needs and of market demand and expectations rather than of specific products or services offered by the organization.

d) **Vision**  
The vision sums up the aspirations, ideas, expectations, ambitions and “dreams” of those in charge of making decisions on the organization’s future business operations, products or services. It establishes a time horizon and provides guidance for competition management. It needs to be clear and objective and to articulate how the organization’s strategies perceive its business operations, products and services over the years.

e) **Core competencies**  
Skills and technology enabling an organization to offer its customers a particular benefit.

f) **Values**  
Values are attitudes and behaviour underpinning basic strategic decisions.

g) **Policies**  
Policies are parameters or guidelines used in decision-making. They establish levels of authority, value sets and/or floor and ceiling limits and the scope of strategies and actions in furtherance of established goals and objectives.

h) **Strategic assessment**  
An analysis of the internal and outside environment as the basis for the framing of corporate and sector strategies.

i) **Prospective analysis**  
A study of the variables and data collected as part of the strategic assessment for the construction of alternative scenarios and the detection of future opportunities and threats throughout the forecasting period, identifying core competencies to be developed or strengthened and setting priorities for future action.
j) **Strategic positioning**
Evaluation of the competitive position of the business, product or service in question in the competitive domain for purposes of setting strategic objectives, framing necessary strategies (programmes, projects and actions) for the attainment of such objectives, formulating policies relating to such strategies and establishing necessary operating guidelines.

k) **Strategic objectives**
Objectives are fully quantifiable, measurable targets with established deadlines to be continuously pursued by the organization representing changes in the status quo.

l) **Programmes**
Packages of synchronized projects and activities summing up the organization’s corporate plans and aspirations for a given time period.

m) **Projects**
Packages of finite, time-phased activities utilizing any and all types of resources to make major changes in the status of an administrative process or procedure within the organization.

n) **Sub-projects**
Packages of finite, time-phased activities contributing, in part, to the implementation of a given project.

o) **Action plan**
A package of common elements of different projects relating to a specific matter (human resources, operations, marketing, etc.)

p) **Actions**
Elements of a continuing effort or project contemplated in an action plan designed to improve performance or generate a particular outcome without making any major changes in established methods or processes and without systematically addressing the problem in question.
MODULE V

Postal Regulation
GUIDE TO POSTAL REFORM

Module V
Regulation

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Introduction

The delivery of nationwide postal services and the operation of the domestic postal market require that government have necessary mechanisms to ensure:

- due and proper delivery of the basic or universal postal services to which all segments of the population are rightfully entitled;
- compliance with the provisions of legislation governing postal activities, particularly with respect to the reserved service area;
- healthy competition on the postal market.

For years, the lack of regulations in the postal sector has hampered market development and, in some countries, has actually undermined the viability of the universal postal service operator. The public postal operator is required to ensure nationwide universal service, while private operators confine themselves strictly to lucrative market segments, with no special demands placed on their operations, which often forces the public service provider to operate at a loss.

It is the public postal operator which has been behind postal regulatory efforts in a number of countries, as it has striven to make government officials aware of the need for regulation. Such efforts have been most successful in countries whose governments are already regulating other industries, such as the telecommunications, transportation and power sectors.

However, for the most part, the issue of regulation has arisen as part of new trends driving trade in services, particularly over the course of the last two decades of the twentieth century.

It is not the intent of this module to go into detail addressing or explaining the technical, historic and political factors behind the implementation of postal regulations at the local or international levels since, first, the main purpose of this Guide is to provide users with practical work tools and, secondly, because the driving forces behind this process are as varied as are prevailing conditions at the country and regional levels.

Accordingly, this module focuses on certain basics which, hopefully, will be helpful to any countries which may need to mount their own postal regulatory efforts. Despite a growing trend to separate operational and regulatory functions, there are still comparatively few theoretical references on the issue of postal regulation.
However, a series of noteworthy international training activities by the Universal Postal Union over the last few years, along with the publication of certain reference materials and the conduct of several international forums in this area are helping to build common ground for the development of an appropriate frame of reference for the establishment of clear, realistic policies with respect to postal regulation.

With ongoing activities within the UPU and the various studies currently in progress, in a few months time, we expect to be able to add to the content of this module based on new approaches and experiences in this area.
CHAPTER 1. GOVERNMENT AND REGULATION

1.1. PUBLIC SERVICES AND REGULATION

1.1.1. Exercise of the constitutional powers of government

“Public services” are a core element of national societal models. The population of any nation should have access to high-quality public services as a way of promoting social and economic cohesiveness, improving the quality of life and ensuring full and complete exercise of the basic rights which should be recognized under national constitutional provisions.

Both the executive and the legislative branches of government play an essential role in this process, with the power to embody changes dictated by developments in the surrounding environment in new legislation and regulations.

A nation’s citizens have a right to public services and the government has a duty to ensure the operation of such services through the establishment of service providers and the enactment of governing legislation in keeping with conditions in the surrounding environment.

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<th>PUBLIC SERVICES</th>
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<td>Social, economic and geographic cohesiveness</td>
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<td>Legislation and regulations</td>
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The governments of all countries have public service obligations and fulfill such obligations by establishing appropriate institutions and operating procedures. However, in time, most legal and regulatory instruments become obsolete in the face of change.
In most countries, government intervention began in the most lucrative public service industries in response to pressure from private competition, as in the case of the telecommunications and power industries, in which we find the earliest examples of government regulation.

There was little interest and investment in social sectors or industries without any value-added products and services, resulting in a steady deterioration in such services.

Nor was any attempt made at the time to regulate these services. Accordingly, the government saw no need to make any decisions with regard to these sectors until they were already in crisis. Many countries have considered only the social dimension of postal service, despite its potential as a driving force in the new economy.

Countries around the world are coming to realize the extent of the deterioration in universal postal service and are interested in finding ways of strengthening the universal postal service operator and of mounting sweeping reform programmes addressing the issue of postal regulation.

1.1.2. Changes in public services

Changes and refinements in the concept of public service, as well as in the actual services to be ensured by government in a climate of competition from private enterprise have made it necessary to think long and hard about the ways and means of delivering such services.

Thus, each country needs to decide which services should continue to be provided directly by government and which could potentially be outsourced to private contractors.

As part of this decision-making process, countries need to address the problem of how to disengage themselves from certain public services, if such services are indeed in the public interest, and how to keep proper control in the event of the outsourcing of these services to continue to ensure the fulfillment of governmental universal service obligations.

Governments are beginning to discover that the only way to establish a proper framework for the operation of public services in the new global environment is by enacting appropriate legislation ensuring the fulfillment of their obligations and defining the responsibilities of different market operators.
A lack of appropriate legislation and regulations governing market operations is detrimental to both government and the general public since, sooner or later, the population will be left without any public services, forcing the government to come up with new solutions at a considerable political as well as financial cost.

Globalization is playing an important role in shaping the government’s perception of public services. Pressure from private enterprise to enter a market traditionally reserved for public service operators is making it increasingly difficult for it to fulfill its responsibility to ensure the continuity of universal services.

The phenomenon of competition on an unregulated postal market is nothing new, particularly in certain countries in which local and foreign private firms have penetrated the domestic market, taking advantage of obsolete laws and regulations.

In many countries, this phenomenon, combined with the existence of extremely traditional public service management models whose operation hinged mainly on political leverage, left little room for the mounting of timely, effective reform efforts, resulting in the gradual debilitation of the public postal operator.

The best way to help solve problems in the postal sector of any given country is through the enactment of legislation by its national government, exercising its regulatory authority, which is ultimately responsible for the provision of universal postal service.

This process is graphically illustrated in the following figure.
1.1.3 Responsibility for maintaining universal service

Free market principles such as profit-taking, for example, can jeopardize the pursuit of social goals such as ensuring that all segments of the population have access to high-quality basic services. This means that the government will need to intervene to ensure equal access to universal postal service.

The term and the concept of universal postal service are defined in the Acts of the Universal Postal Union, in keeping with the substantive nature of this issue. This was discussed at length in Module II of the Guide and will be addressed later in this module. Thus, we are not going to delve any further into conceptual issues at this time. However, it is important to underscore the essential role played by government in ensuring the provision of universal postal service as a basic human right, regardless of any economic considerations affecting service operation on the postal market.

The premise that, faced with the prospect of the debilitation of the public service operator, the consumer public, including both businesses and individuals, will simply accept this new reality and turn to private service operators is clearly refuted by the facts. There are clear cases of countries in which the government has had to overturn strategic decisions and spend enormous sums on restoring postal services.

Each and every country needs to realize that the continued operation of its postal market without proper regulation could gradually wear down the public postal operator until reaching a critical situation, causing a breakdown in service delivery, at an enormous cost to the national treasury, which would be forced to permanently take over the financing of universal service costs, as has already occurred in a number of cases.

Thus, before things go too far, it is crucial to lay the necessary groundwork for the government to exercise its regulatory authority over the postal industry, which is especially important right now, to ensure the continued fulfillment of its postal service obligations.

---

**GOVERNMENT MUST ENSURE UNIVERSAL POSTAL SERVICE AS AN ESSENTIAL PUBLIC SERVICE IN THE NATIONAL INTEREST:**

1. For all segments of the population, in all parts of the country, at affordable prices;
2. Regulating all facets of service operation and service delivery conditions;
3. At the same time, ensuring healthy competition on the postal market.

Accordingly, government must guarantee universal postal service delivery to the entire population.
Thus, the country’s regulatory authorities must strive to protect the right of communication, guided by the underlying principle that everyone has the same right of access to postal service, regardless of their geographic location or economic or social status.

All segments of society need to realize the importance of sound government decision-making as the basis for issuing appropriate regulations ensuring the provision of universal postal service and to understand that universal service delivery requires investment and funding to meet corresponding needs.

Thus, investment programmes at country level are essential to bring universal service in line with new breakthroughs in technology, help diversify the business activities of the universal service operator and modernize logistics processes through the technological development of corresponding facilities.

1.2. REGULATION AS PART OF THE POSTAL REFORM PROCESS

1.2.1 The regulator’s role in national development policy

The government normally gives top priority to mounting modernization programmes for the public sector requiring major investments designed to help create wealth and promote all forms of nationwide economic, social and cultural development.

Development programmes for the postal sector need to be designed and planned in such a way as to fit into development plans for the nation’s infrastructure sectors.
The regulatory authority needs to work with the government in fulfilling its social and economic responsibilities, as well as with the public – with both businesses and individuals – which is entitled to assurances of necessary safeguards for continued access to universal postal service.

Thus, the functions of regulation and of regulatory authorities are to:

♦ protect consumer interests and meet customer needs;
♦ protect the public’s right to high-quality service;
♦ ensure the mounting of efforts designed to modernize service and improve service quality.

The role of regulation as a vehicle for the attainment of government objectives is illustrated in the following figure.

1.2.2. Exogenous factors

The shape and scope of the postal sector, like other essential service sectors, has changed dramatically over the past few years.

New breakthroughs in technology have had a particularly strong impact on conventional postal communications and, together with other factors, are revolutionizing today’s postal services. This new technology, which was originally viewed by some as a threat to the postal sector, has opened up a whole new range of possibilities for the postal industry, and many countries and public postal operators have recognized and capitalized on this fact to modernize and adapt their services to meet the needs of today’s new information and communications society.
This issue has already been discussed in Module I of the Guide. However, it is interesting how the global communications environment has changed so rapidly and become so complex that governments have had to make decisions on technical issues requiring studies going far beyond mere policy assessments.

Exercising its regulatory authority allows government to do its job in protecting the rights of all segments of the nation’s population while, at the same time, honouring its commitments. Regulation of the postal market through the enactment of laws and regulations enables the public to exercise its right to universal service meeting reasonable standards of access, regularity, security and quality.

### POSTAL REGULATION – EXOGENOUS FACTORS

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**Within this environment, government must guarantee universal postal service as an engine of social, economic and geographic cohesiveness.**

#### 1.2.3. Separation of service operation and regulatory functions

In many countries, regulation, in the strictest sense of the term, was typically a task performed by the postal service operator and, in those countries lacking a more developed regulatory framework, the service operator had both operational and regulatory functions.

However, such a system has proven to be ineffective. Not only is it impractical to have the public postal operator act as both the judge and the party at interest, so to speak, but the traditional postal service operator has neither the authority nor the necessary tools to oversee the entire postal industry.

In today’s environment with the postal market opened to private enterprise, postal service models have been moving towards the separation of regulatory and operational functions, with consistent market regulation to guarantee all market operators legal security and the enforcement of established ground rules for the operation of postal services.
Regulation must also ensure the effective interplay of market forces to create a state of equilibrium guaranteeing the smooth operation of the postal market, equal market access and the enforcement of corresponding ground rules while, at the same time, fostering geographic and social cohesiveness by ensuring the delivery of high-quality universal postal service.

1.3. FULFILLMENT OF GOVERNMENTAL OBLIGATIONS

1.3.1. Implementation of legal mandates under the postal act

Postal regulation must provide interested stakeholders with legal security by clearly establishing their rights and obligations.

Postal regulation begins with the enactment of legislation by the national government, exercising its authority over postal affairs. The postal act should include provisions addressing sectorwide problems and laying the foundation for the smooth operation of the postal market and for protecting the public interest by ensuring the delivery of universal postal service.

Regulatory instruments in turn must be consistent with the thrust of the provisions of the postal act. Their purpose is to implement the provisions of postal legislation, clearly delineate the scope of postal services and establish the rights and obligations of postal operators and the guarantees afforded service users.
Other matters which can also be regulated under the provisions and in keeping with the spirit of the postal act include:

♦ the licensing system for service operation established under the postal act;
♦ the service pricing system established under the postal act;
♦ the formal agreement governing the delivery of universal postal service by the official operator;
♦ the organizational structure of the regulatory body.

The advantage of rule-making through the issuance of government regulations is the flexibility of this process compared with formalities for the enactment of new legislation. However, this issue will need to be further explored in the light of actual conditions in each country, obviously, based on corresponding policy decisions. In any event, key decisions pertaining to the regulatory management of the postal market, service operation and the organization of the postal sector are best approved under the provisions of duly enacted legislation to ensure their continued effectiveness.

**IMPLEMENTATION OF THE REGULATORY MODEL UNDER THE POSTAL ACT**

☐ **THE POSTAL ACT SHOULD ESTABLISH:**
  - The legal status of the regulatory body;
  - Its affiliation (ministry, independent agency, multisectoral commission);
  - Its funding;
  - Its responsibilities, powers and authority.
1.3.2. Development of the nationwide postal industry

One of the main reasons for the debilitation of the universal postal service operator in certain countries is its negligible impact on national development efforts and a general ignorance of the potentiality of postal service as a driver of national economic growth.

Module I of the Guide explains how postal service has the potential to help strengthen the national economy, trade and competitiveness. It is up to the public postal operator to convince top government officials of the essential role of postal service.
Once reform efforts for re-energizing the postal sector in line with national development plans are under way, it will be up to the regulatory agency to take advantage of the enabling environment created by the postal act to strengthen the public postal operator’s contribution to nationwide economic development efforts and help it expand its postal service operations and activities in related business areas.

**FUNCTIONS OF GOVERNMENT**

- **ENSURE** effective universal postal service delivery.
- **MONITOR** compliance by the universal postal service operator with requirements associated with exogenous factors.
- **ENSURE** the technological and economic development of universal postal service to meet exogenous requirements.
- **ESTABLISH** investment programmes for the technological and economic development of universal postal service.
- **SUPPORT** investment policies for the postal sector.
- **ENSURE** transparency and the enforcement of market rules.
CHAPTER 2. SETTING UP THE REGULATORY STRUCTURE

2.1. DECISIONS ON POSTAL REGULATION AND IMPLEMENTING PROCEDURES

Once government has made the decision to establish an appropriate regulatory framework for postal service through the enactment of applicable legislation, it is up to designated officials to take necessary measures for setting up a regulatory structure.

The functions and other facets of the regulatory agency can be mapped out in the provisions of applicable legislation and assigned to specific units within its organizational structure, as established by its statutory rules. However, practical issues associated with postal regulatory functions are best addressed in a regulatory instrument, which is generally more flexible and can be implemented more quickly and, thus, better suited to today’s rapidly changing postal environment.

In choosing to get involved in postal affairs and deciding to establish a regulatory agency for the postal sector, the government will need to conduct a series of preliminary studies as the basis for a more objective assessment of prevailing conditions in the nation’s postal industry and in the international postal environment.

It will need to examine the inherent and external features of postal services as the basis for the framing of legislation considering both medium and long-term trends. Naturally, it will also need to know what the public thinks about different postal-related issues.

Thus, it is important to heighten government awareness of the need to reform the postal sector, since the very first steps in this direction will require certain minor investments to fund the above-mentioned studies.

The legal framework for postal regulation is graphically outlined in the figure presented on the next page.
Regulatory mechanisms

- **CONSTITUTION** – Gives the government exclusive authority to enact legislation governing basic rights and essential public services.
- **POSTAL ACT** – Governs core issues within the postal sector, establishes a national regulatory authority and assigns it specific powers and functions.
- **IMPLEMENTING REGULATIONS** – Expand on the core issues contemplated in the postal act.
  
  May be in the form of:
  - government decrees;
  - executive (ministerial) orders;
  - rulings (by other agencies or by the regulatory authority).

Regulatory agency

- Created by the postal act or other legislation.
- Functionally and legally separate from the postal service operator.
- Assignment of assets and specification of its sources of funding (in the case of an independent agency).
- Regulatory agencies without independent legal status are to be funded by budget appropriations for the area or unit of the ministry with which they are affiliated.

The first step after establishing the process to be followed by the government in setting up the regulatory authority is to map out certain core issues, as illustrated below.

2.2. PRACTICAL MATTERS: WAYS AND MEANS

2.2.1. Affiliation

The decision with respect to the affiliation of the regulatory agency will depend on conditions in each country. Whatever the decision, it must be realistic and objective. There are some who believe that the regulator should be an independent government agency. There are good arguments to be made for this case from the standpoint of transparency, for example.
However, from a practical point of view, this regulatory model requires finding the right formula for government intervention in overseeing the postal sector to guarantee universal service delivery.

The debate over the issue of the affiliation of the regulatory agency also revolves around the advisability of its attachment to a particular cabinet ministry, of putting postal regulatory functions in the hands of other public service regulators or of establishing a special unit within the governmental apparatus for this purpose.

Each of these three options has been implemented in one country or another, and experience shows that all three have their advantages and their drawbacks. Clearly, the more autonomy enjoyed by the postal regulator, the better it can do its job. Experience has also shown that the disadvantage of having the postal regulatory authority operate as part of a telecommunications regulator, for example, is that it often tries to take the same approach to the postal sector, despite its unique features and different universal service criteria.

2.2.2. Legal status

This issue is closely related to the issue of the affiliation of the postal regulator and, as such, depends on the unique circumstances in each country. Postal regulatory functions could be carried out by an independent agency with separate assets and legal standing, a decentralized government agency or a central government body such as a cabinet ministry or other type of governmental unit.

In any event, the national regulatory authority must be functionally and legally separate from the designated universal postal service operator under the postal act, since it is responsible for overseeing the universal service operator as well as other postal service operators.

2.2.3. Financing

The national regulatory authority should strive to be financially self-sustaining. Regardless of its legal status, anticipated expenses and necessary income for covering such expenses will need to be clearly spelled out either in an independent budget or as part of a consolidated budget (in the case of an agency without independent legal status and with no autonomy). The ideal situation is a national regulatory authority which does not require any government funding or, in other words, which is not a burden on the public treasury.
The process of establishing a national regulatory authority, whether in the form of an independent agency or as a central government unit, must include an assignment of assets and a specification of all sources of funding to help ensure its smooth operation and effective performance, including but not limited to:

- income from fees for regulatory services;
- operating income and revenues;
- income and revenues from holdings in other organizations (in the case of independent agencies);
- any and all other allocated funding.

2.3 REGULATORY FUNCTIONS

The functions of the national regulatory authority are primarily fourfold, focusing on the postal market, universal postal service, system integrity and international relations.

2.3.1. Market-related functions

The regulator is in charge of regulating the postal market, not to limit its operation in any way but, on the contrary, to ensure compliance with established ground rules to give licenced service operators access to the market. Where applicable, it must also ensure that competitors do not infringe on the service area reserved for the universal postal service operator while, at the same time, making sure that these service operators are able to exercise their right to enter nonreserved areas to promote free competition and prevent unfair practices.

Up-to-date, in-depth information on supply and demand for postal products and services on the postal services market and the communication of information on applicable legislation and regulations and on the rights and obligations of each and every player on the postal market to interested stakeholders (customers, service operators and business in general) will help strengthen the postal market.

Market research by the postal regulator on the following and other related issues is essential to provide guidance for the exercise of its postal regulatory functions:

- the extent of the development of the nation’s postal industry;
- nationwide postal service needs;
♦ quantitative and qualitative characteristics of demand for postal service;
♦ economic, operational and labour-related data on postal operators;
♦ the level of technological development of service operators;
♦ an analysis of the current legal framework for the nation’s postal sector, including provisions with respect to competition and consumers;
♦ the technical and economic viability of postal service enterprises;
♦ the quality of postal services rendered by the public operator;
♦ universal postal service standards;
♦ the scope of universal postal services rendered by the official postal operator;
♦ supply and demand for universal services;
♦ standards of quality and prices on the postal market;
♦ the level of investment in the postal sector;
♦ development plans and the level of investment by the universal service operator.

The performance of these (domestic and international) studies by the national regulatory authority is a way of keeping abreast of market trends to continuously strengthen and update its knowledge and expertise.

As far as universal postal service is concerned, the national regulatory authority also needs to be knowledgeable of basic present and future consumer needs with respect to postal service to enable it to continually adapt its work in line with changing public needs.

In exercising its regulatory functions, the postal regulator will need to measure the quality and efficiency of:
– universal postal service delivery by the public postal operator; and
– the operation of postal services open to competition.

The postal regulator and, by extension, the general public should be aware of the actual quality of universal service offerings, measured against standards of quality established under corresponding regulations. The regulator should also inform the public as to the quality of different classes of service offered by different service operators doing business on the postal market.

This issue is discussed at length in Module II of the Guide, which is devoted specifically to universal postal service.
2.3.2 Universal postal service-related functions

One of the main roles of the regulator is to ensure fulfillment of the government’s obligations to society, the general public and international organizations, on its behalf.

As we know, universal postal services are basic postal services whose provision is to be guaranteed by government to all segments of the population in all parts of the country on a continuing basis, at affordable prices, subject to specific standards of quality.

Service delivery conditions will need to be monitored by the national regulatory authority in each country. The public operator charged by the government with providing universal postal service is duty bound to adhere to certain basic principles with respect to service delivery, according to which:

♦ all customers must be treated equally and offered the exact same services;
♦ there can be no discrimination against any customers in the delivery of universal postal service; and
♦ service delivery may not be disrupted or suspended under any circumstances, except in cases of force majeure.

The regulator is responsible for issuing regulations establishing specific service delivery conditions for universal postal services. Specifications with respect to service delivery conditions should address factors such as:

− accessibility;
− speed and reliability;
− security;
− accountability.

In addition to supervising and monitoring compliance with service delivery conditions, the regulatory functions of the postal regulatory authority include the administration of pricing policies for service offerings on the postal market, including:

− universal postal services provided by the public postal operator; and
− services open competition, provided by all postal operators, including the public operator.
In exercising its regulatory functions and authority under the postal act, the postal regulator may establish what it considers to be the most appropriate pricing system under conditions on the postal market in that country. In implementing pricing policy for the postal sector, the regulator may choose to use multiple and mixed pricing schemes in line with the legal framework for service operation, as outlined below.

- **Price control.** Under this pricing mechanism, the regulatory authority sets the prices of service offerings. This mechanism is generally used for reserved postal services operated under an exclusive franchise by the public operator.

- **Monitored free market pricing.** Free market prices for services open to competition, subject to supervision by the regulatory authority and government intervention on the postal market in cases of abuse or unfair practices. This type of pricing mechanism can be used for all non-reserved universal postal services open to competition and, thus, is applicable to services rendered by the public postal operator as well as private operators. In the event of the need for intervention by the postal regulator, it may decide to impose price control measures on these services.

- **Free market pricing.** Applicable to all services other than universal postal services. Prices are set by the free play of market forces.

These postal service pricing mechanisms and practices are the basis for the regulation of service operators by the postal regulator, according to the types of services rendered. The provisions of corresponding regulations will establish information disclosure requirements for postal service operators, as well as corresponding reporting procedures, intervals, locations and media.

The pricing of universal postal services and services falling within the reserved service area should not be confused with price protection for the reserved service area.

Price protection is one of the three main elements delineating the reserved service area, along with class of service and item weight. It establishes a floor price which private operators are required to charge for their services which, in many cases, is expressed as a specific number of times the rate charged for a given weight step of a particular reserved service. Thus, the floor price for domestic and international mail service for a letter weighing 20 or 50 grammes, which falls within the reserved service area, is typically set at 3, 5 or more times the applicable rate charged by the public postal operator.
In cases where the regulator is required to intervene in setting prices for reserved services or universal postal services, such prices must be commensurate with the cost of corresponding services which, in turn, must be a reflection of the stringent application of sound economic criteria in corresponding service operating processes to ensure that each such process is designed for maximum efficiency and productivity, while meeting applicable universal service obligations under domestic postal legislation and regulations.

It will be extremely hard to continue to defend unrealistic pricing practices for universal postal services in the current and future postal environment, both for political and social reasons. It is up to the government and the regulatory authority to establish economically viable pricing schemes to ensure that governmental obligations do not become a drain on the national treasury.

The regulator must ensure compliance with the service area reserved for the universal postal service operator under legal instruments designed to ensure universal postal service financing. Any encroachment on the reserved service area by other postal operators will undermine universal service financing, causing the established system to malfunction and undermining its efficiency.

Accordingly, the regulatory agency will need to effectively administer the licensing system for postal operators offering non-reserved postal services, which means taking harsh measures under the penalty provisions of corresponding legislation against any service operator violating established operating regulations.

The regulator will need to monitor universal postal service delivery from the standpoint of three factors, namely: price, quality and access.

The responsibilities of the regulatory agency should include monitoring compliance with regulations establishing specifications for service delivery conditions with respect to access facilities and standards of quality for universal postal service.

The regulator will need to work with the public postal operator to set annual targets for improving service quality in terms of delivery time and reliability based on the established universal postal service development plan.

To this end, it is recommended that the government and the universal postal service operator draw up a formal agreement embodying the service delivery conditions established in laws and regulations governing the operation of universal postal services.

This agreement is a warranty for both parties.
On one hand, the government can rest assured that minimum requirements for the provision of universal postal service by the public postal operator are clearly and specifically defined and, thus, enforceable. On the other hand, it guarantees the universal postal service operator that existing ground rules will not be changed in mid-course by politically motivated decisions, thereby ensuring its financial stability.

As far as access facilities for universal postal service are concerned, the regulator must ensure compliance with established requirements with respect to service access, checking to ensure that customer facilities providing access to the postal service network meet established targets and specifications for the public postal operator.

In the past, the concept of access to universal services referred specifically to the establishment of a post office in each community, ignoring the existence of mail boxes, mail collection points, post office boxes and other such facilities. However, the global economic situation, new breakthroughs in technology and the need to make more effective use of existing resources have redefined this concept, with many postal administrations now using a variety of different mechanisms to provide public access to universal postal service.

The regulatory agency will need to make a study of universal postal service needs, broken down into the following two phases:

**I - Postal market assessment and survey**

This study will familiarize the regulatory authority with the delivery of nationwide universal postal service and government obligations with respect to different types of service offerings, service coverage, access facilities, unmet needs, standards of quality demanded by consumers etc. It also includes an assessment of the postal market, projections of future market trends and the conduct of environmental impact assessments required under current legislation.

**II – Analysis of the technical and economic soundness of the universal postal service operator**

Based on the study conducted in phase I, the government will need to analyze the technical soundness and financial stability of the public postal operator charged with the delivery of universal postal service, examining its internal structure, resources and organizational culture, its financial, operational and technological requirements and the necessary level of investment to enable it to fulfill its universal postal service mandate, meeting established conditions and obligations under existing legislation and regulations.
An objective assessment of universal postal service needs and of the specific characteristics of the public postal operator is a good basis for effective decision-making on requirements for the delivery of universal postal service meeting specific standards with respect to their cost, quality and price.

### REQUIRED SERVICE DELIVERY CONDITIONS AND OBLIGATIONS OF THE UNIVERSAL POSTAL SERVICE OPERATOR

- Frequency
- Continuity
- Regularity and security
- Accessibility
- Speed and reliability
- Equity and nondiscriminatory treatment

- Information
- Claims
- Reliability
- Affordability
- Connectivity
- Network coverage
- Flexibility

### OTHER PUBLIC SERVICE OBLIGATIONS UNDER SPECIAL CIRCUMSTANCES

Compliance with these requirements and obligations is monitored by the regulatory agency.

#### 2.3.3. Functions designed to ensure system integrity

The operation of nationwide postal service is not an isolated endeavour. According to the provisions of the Universal Postal Convention, such operations are part of an international network uniting nations around the world into a so-called “single postal territory”. Thus, the postal regulator must ensure that corresponding infrastructure and service delivery conditions meet international standards binding on signatories of the UPU Acts and specific service agreements.

The regulator must also ensure compliance with established security standards binding on the service operator. Security standards for postal services are designed to protect the physical integrity of items entrusted to the care of a particular service operator and prevent problems stemming from acts of terrorism, drug trafficking and similar scourges not necessarily related to service delivery per se.

Regulations governing postal operators must require stringently controlled procedures eliminating or, at least, minimizing any risks endangering mail items, postal workers, customers and the general public. Accordingly, the regulator must guarantee the continuity of postal service to prevent the postal operator, for whatever reason, from eliminating any services which it has an obligation to the government to make available to the public.
This requires effective supervision on the part of the postal regulator to protect the integrity of postal service.

### 2.3.4. Functions pertaining to the conduct of international relations

The government has an obligation to conduct international relations according to applicable public policy.

In the postal sector, as in other similar sectors, a country’s representation in international organizations hinges directly on decisions taken by its national government. The members of intergovernmental organizations are sovereign nations.

Thus, such organizations normally require delegates attending their meetings to be duly accredited representatives of their respective governments.

In the specific case of the Universal Postal Union, only delegates to Union Congresses are required to hold plenipotentiary powers to make commitments on behalf of their respective country. Postal regulators as well as public universal postal service operators should be actively involved in the work of standing Union bodies and of the different project teams in charge of periodic or ongoing Union activities.

It is essential that typical operational matters continue to be handled by the public postal operator, being as the resolution of these technical issues is pivotal to the continuity of international postal service.

The following outline of the responsibilities of the postal regulator with respect to the conduct of international relations is drawn from the experiences of selected countries with a functioning regulatory agency. All efforts in this respect should be coordinated with the public postal operator and the national government. The duties of the regulatory agency in the area of international relations include:

- framing general international postal policies and strategies;
- making certain that national government budgets include appropriations for membership dues payable to the postal organizations with which the country is affiliated and making regular payments of dues and honouring all corresponding commitments to such organizations;
♦ making arrangements with appropriate government officials to secure necessary powers for attending the Congresses of postal organizations;

♦ establishing proper channels and mechanisms for ensuring the consistency of the positions of delegates attending international meetings;

♦ establishing contacts within the ministry of foreign affairs for the framing of action strategies for the attendance of international Congresses by country delegations and the signature of corresponding Acts;

♦ making contacts in different government agencies conducting international economic negotiations to prevent the postal industry from being hurt by decisions taken at other levels of the central government, particularly with regard to issues involving the World Trade Organization and trade agreements, which negotiations often lead to agreements liable to impact directly on postal service. Such matters may fall directly within the sphere of competence of the legal, technical and economic staffs of the postal regulatory agency, which would require proper coordination with these internal units.

All these issues will need to be addressed in applicable regulations, both for transparency purposes and for the due and proper performance of corresponding regulatory functions.

2.3.5. Summary of the general functions of the regulatory agency

The following is a non-exhaustive list of specific functions which could be assigned to the regulatory agency. The actual functions of such agency will depend mainly on its powers and responsibilities under existing postal legislation.

♦ Make recommendations to the government on universal postal service development policy;

♦ Recommend policies with respect to international postal communications to be followed in dealings with international postal organizations and with agencies and organizations in other countries;

♦ Serve as the body legally authorized to make preparations for and conduct trade talks and negotiations liable to affect the postal sector;

♦ Ensure service delivery by the universal postal service operator pursuant to the provisions of applicable legislation and corresponding implementing regulations;
♦ Establish the cost of universal postal service delivery by the public postal operator;

♦ Establish a market pricing policy, set and, where applicable, control the prices of reserved services operated by the public universal postal service operator and monitor compliance by private postal operators with the reserved service area;

♦ Monitor prices for other postal services (under a monitored free market pricing system);

♦ Settle disputes between postal service operators and their customers;

♦ Settle disputes between the public universal postal service operator and other postal operators over infringements of the reserved service area, the adequacy or inadequacy of customer service warranties and access to the public postal network;

♦ Maintain a register of postal operators containing relevant data on holders of general and special government licences and any corresponding modifications;

♦ Issue appropriate licences to private operators seeking to offer postal services open to competition and closely monitor compliance by these service operators with applicable rules and regulations;

♦ Make decisions on possible damage to the public universal postal service operator caused by the actions of other service operators;

♦ Conduct inspections and institute proceedings for the imposition of sanctions for violations of postal legislation and regulations. Regulatory agency personnel conducting inspections of service operators shall have official standing for purposes of soliciting any necessary assistance for the performance of their duties from other government departments and agencies;

♦ Impose sanctions for violations of postal legislation and regulations;

♦ Assess the quality of universal postal services rendered by the public postal operator;

♦ Monitor discussions and legal decisions in other areas liable to affect the postal sector.
ESTABLISHMENT OF THE REGULATORY AGENCY

### PRELIMINARY STUDIES FOR THE ENACTMENT OF THE POSTAL ACT AND THE CREATION OF THE REGULATORY AGENCY

- **Keep abreast of current developments in the nationwide and international postal industry.**
- **Establish the causes of changes in the nationwide and international postal environment (legal, economic, social, technological …)***
- **Anticipate future trends in the nationwide and international postal industry.**
- **Predict future trends in specific quantitative variables relating to the postal industry and postal market.**
- **Establish standards of quality likely to be deemed acceptable by postal service customers.**
- **Sound out public opinion on different postal services.**

### FORM

- **Can be an independent agency with legal standing apart from that of the central government or a governmental unit without independent legal standing.**
- **In either case, it must be functionally and legally independent of the postal operator/operators.**

### AFFILIATION

- **Cabinet Ministry**
- **Independent government agency specifically for the postal sector**
- **Multisectional independent government agency**

### SYSTEM OF FINANCING

Regardless of the legal status of the regulatory body:

- **Establish expected operating costs.**
- **Establish expected internal income generation from the performance of its functions.**
- **Establish alternative financing mechanisms.**

**Objective: Financial self-sufficiency**
### POTENTIAL SOURCES OF FINANCING

- Government Funding
- Income from fees for regulatory services
- Operating income and revenues from regulatory activities
- Income and revenues from holdings in other organizations (in the case of an independent legal entity)

### MAIN FUNCTIONS

- Make recommendations to the government on postal regulatory policy.
- Ensure universal postal service delivery under conditions established in postal regulations with respect to service access, quality and price.
- Establish the cost of universal postal service delivery by the public postal operator.
- Ensure compliance with the service area reserved for the universal postal service operator.
- Monitor or, where applicable, set prices for services rendered by the universal postal service operator.
- Make recommendations on the nation’s international postal policy.
- Settle disputes between postal service operators and customers.
- Settle disputes between different postal operators.
- Maintain a register of postal operators.
- Issue appropriate licences to private operators seeking to offer postal services open to competition.
- Conduct inspections and impose sanctions.
- Monitor the enactment of legislation liable to affect the postal sector.

#### 2.4 ORGANIZATIONAL STRUCTURE OF THE REGULATORY AGENCY

As discussed earlier, the organizational structure of the regulatory agency is dependent on a number of different policy factors at the individual country level and needs to be established in the bill presented to the legislature under the provisions of the postal act. The authority to organize the postal regulatory structure is vested in the government, as part of its regulatory functions.
The regulatory structure should be organized according to the nature and special technical characteristics of its various functions, which will require the establishment of specialized functional units based on available resources. The following paragraphs outline possible areas of the regulatory agency and describe some of their duties:

❖ **Legal area**: This unit could be in charge of framing regulations, conducting legal studies and rendering legal opinions. It could also be responsible for processing customer claims and complaints, settling disputes between different postal operators and resolving other legal issues, as well as for handling alleged violations of postal legislation and regulations. Another important function of this unit is to regularly monitor legislation in other sectors of activity liable to affect postal service.

*Main duties:*

- Drafts proposed legislation and regulations according to guidelines established by the postal oversight authority (draft legislation, decrees, ministerial orders, rulings and similar instruments);
- Conducts administrative proceedings for the sanctioning of companies allegedly violating postal legislation and regulations;
- Settles any postal-related claims filed by postal operators or customers;
- Renders requested legal opinions on postal matters;
- Examines and make recommendations on consumer, customer and service-related legislation and regulations liable to directly or indirectly impact the postal sector.

❖ **Economic and financial area**: This unit handles matters pertaining to universal postal service costs, postal rates and income from service operation. It would also be in charge of cost planning and income management for the regulatory agency.

*Main duties:*

- Calculates fees payable by postal service providers for the operation of postal services;
- Administers the Universal Postal Service compensation fund, where applicable;
- Studies and reports on the prices of reserved services and universal postal services;
- Studies and reports on universal postal service costs and the cost accounting system used by the universal postal service operator;
- Handles all matters pertaining to the income and expenditures of
the regulatory agency (budget estimates and implementation);

❖ Studies and reports on any other economic and financial matters pertaining to the postal sector.

❖ **Technical area:** This unit is in charge of postal development plans and programmes, service quality measurements and technical studies of postal service operations. It is essential that this unit be staffed with experts in postal affairs, since the smooth operation of established regulatory mechanisms hinges on the technical studies conducted and criteria established by this unit.

*Main duties:*

❖ Monitors the quality of postal service in general and, more specifically, of the universal postal services entrusted to the official postal operator;

❖ Conducts postal market research;

❖ Develops programmes for expanding, improving and continuously modernizing the postal network maintained by the universal service operator;

❖ Studies conditions in the postal environment and the market shares of postal operators;

❖ Maintains a register of postal enterprises.

❖ **Inspection area:** This unit makes inspections of postal service operators to monitor compliance with postal legislation and regulations. As discussed earlier, inspection personnel must have special nationwide powers and sufficient authority enabling them to carry out their assigned duties. This issue will need to be clearly addressed in postal legislation.

*Main duties:*

❖ Conducts inspections and audits of postal enterprises operating on the postal market;

❖ Inspects and monitors universal postal service delivery by the public postal operator;

❖ Makes inspections of all postal market operators and monitors their compliance with postal legislation and regulations.
❖ **Register of service operators:** This area is responsible for systematically overseeing the operation of the licensing system and for regularly updating corresponding data to enable the other areas to monitor compliance with service delivery conditions.

The register of postal operators could be maintained as part of the duties of the technical area.

*Main duties:*
- Arranges for the licensing of private postal operators;
- Regularly updates the register of postal enterprises;
- Issues certificates with respect to the status of postal operators recorded in the register of postal enterprises;
- Studies, analyzes and draws conclusions with respect to the data generated by the register of postal enterprises (increase in the number of postal operators, growth in the number of operators in certain niche markets etc.)

❖ **International area:** Foreign policy and international relations. The work of this unit is vital in dealings with international organizations. The conduct of matters of state should not be confused with the specifically technical matters to be handed by the universal postal service operator. Thus, it is vital for this unit to establish good channels of communication with the universal postal service operator to regularly work together on matters involving relations with international organizations. This area could also be in charge of domestic relations with other government agencies or private organizations.

*The main duties* of this unit with respect to the conduct of international relations were outlined earlier in this module in section 2.3.4.

The work of the regulatory agency can be rounded out by studies outsourced to firms specializing in postal affairs. Market research by outside experts and measurements of service quality are especially important.
PROPOSED AREAS OF THE REGULATORY AGENCY

LEGAL
- Regulation
- Legal opinions
- Conduct of administrative proceedings
- Analysis of the domestic and international regulatory framework

ECONOMIC
- Cost of universal service
- Regulator income/costs
- Prices of postal services
- Procedures

TECHNICAL
- Market research
- Quality of service measurements

INSPECTION
- Monitoring and inspection

REGISTER
- Maintenance of the register of postal operators

INTERNATIONAL
- International relations
CHAPTER 3. REGULATORY INSTRUMENTS

3.1. POSTAL SERVICE REGULATIONS

3.1.1. Regulation of the postal industry

The passage of a postal act establishing a basic policy framework for the postal sector affords legal security for the regulatory system governing the delivery of postal service. By setting basic ground rules for the postal sector, the postal act provides legal security for all market participants.

Enforcement of the postal act requires the framing of regulations implementing its provisions and articulating established mandates in more detail and more practical terms. Postal regulations need to spell out specific service delivery conditions and requirements, the obligations of service operators and corresponding customer guarantees.

The duties of the national regulatory authority should be carried out according to the provisions of the postal act and its implementing regulations. This latter regulatory instrument should be a versatile tool, which can be regularly updated to embody and reflect changes engendered by new trends in postal service.

3.1.2. Services to be governed by postal regulations issued under the postal act

Regulations for the postal industry should govern all services defined by the government as postal in nature, regulating the operation of reserved services as well as services open to competition through various means, via the regulatory authority, in the latter case, distinguishing between basic universal services and other postal services.

The postal service regulations should define the services and corresponding activities falling under its provisions to clearly distinguish postal services from other types of economic activities which, in some cases, may share or pool their domestic infrastructure and operating facilities or technology. At a minimum, these regulations should define and govern the following types of services and activities:

- The collection, acceptance, sorting, processing, forwarding, transportation, distribution and delivery of postal items, with the guarantees and conditions established thereunder;

- Any and all other similar activities engaged in under international agreements binding on that country expressly defined by the government as postal in nature.
A postal item is any item whose physical and technical specifications allow for it to be carried by the postal network according to the classification system established under the postal service regulations.

- Definition of postal services and classes of service

The postal service regulations must define each and every phase of postal service, including the collection, acceptance, sorting, processing, transportation, distribution and delivery of postal items.

The main classes of nationwide postal service and the types of services included under the concept of universal postal service should be established in the postal act, with all other services other than so-called “basic” services recognized by law as constituting postal services to be defined under the postal service regulations, including special postal services, express mail or specialized courier services, value-added postal services and electronic postal services or so-called “e-services.”

3.1.3. Customer rights and obligations

The postal service regulations issued under the postal act must clearly define the concept of “postal service customer” and establish customer guarantees and rights with respect to postal services.

- Customer rights

❖ Postal operators must fully guarantee the confidentiality and inviolability of postal communications, compliance with non-disclosure obligations, the satisfaction of operational postal network security requirements established under postal regulations with respect to the transporting of hazardous substances and the prevention of drug trafficking, acts of terrorism and other such scourges, and compliance with environmental protection policy.

❖ Postal operators engaged in the delivery of postal service must guarantee certain basic principles such as:

a) postal secrecy and the inviolability of postal communications;

b) protection of the dignity and personal and family privacy of their customers and the full exercise of their rights;
c) the neutrality and confidentiality of postal service;

d) equal treatment for postal service customers under comparable conditions;

e) protection against any and all forms of discrimination on political, religious, ideological, ethnic or other grounds.

In addition, postal operators will guarantee the following **customer rights** with respect to the delivery of postal service:

a) protection against any health and safety risks;

b) the disclosure of relevant postal service-related information, particularly with respect to general service delivery conditions, service access, quality assurances, postal rates and the handling of claims, to facilitate the effective use of postal services;

c) compensation for non-compliance with service delivery conditions established under postal regulations;

d) postal communications service in keeping with the obligations of the public postal operator;

e) good service quality and availability, both for the universal postal service and for all other services.

- **Customer obligations**

Postal service customers must comply with bans against the mailing of prohibited items under applicable regulations. Customers are responsible for the packaging of mail items, the accuracy of information with respect to their content, and the payment of applicable charges.

- **Obligations and responsibilities of postal operators**

The protection of customer rights imposes certain obligations and responsibilities on corresponding postal operators, in keeping with the following principles.
a) **Confidentiality of postal items.** This principle has to do with the content of postal items and unconditionally bans postal operators and their employees from disclosing any information whatsoever with respect to the existence of a postal item, the type of item involved, the attendant circumstances with respect to such item, or the name or address of the sender or addressee, except at their specific request or at the request of their legal representatives or attorneys or in compliance with a court order.

b) **Inviolability of postal items.** Postal items are inviolable, or guaranteed against tampering. Examples of tampering include the arbitrary or unlawful detention, deliberate misrouting, opening, theft, destruction, wrongful withholding or concealment of mail items and, in general, any breach of trust affecting their safekeeping. The inviolability of letter mail (correspondence) is a right generally protected under national constitutional provisions.

c) **Ownership of postal items.** Until such time as they are delivered to the addressee, mail items remain the property of the sender, who may recover them or make changes in their address information against the payment of corresponding charges or fees, so long as necessary tracing efforts do not interfere with normal postal service operations.
3.2 THE UNIVERSAL POSTAL SERVICE PLANS AND PROGRAMMES AND FORMALIZATION OF AGREEMENTS WITH THE OFFICIAL POSTAL OPERATOR

The delivery of the universal postal service is subject to compliance with legally established conditions and with any conditions spelled out by the government in the universal postal service development plan. Clearly, the government must approve and back this development plan in order for the public postal operator to fulfill its function.
The universal postal service operator has already been discussed at length in Module IV of the Guide.

The delivery of universal postal service is subject to the provisions of postal legislation and the negotiated terms and conditions of the service agreement entered into by the government with the public postal operator. This agreement should contain guidance for the expansion and development of universal postal service.

The signature of a formal service agreement, or plan, by the government and the public postal operator is not something which is done systematically. However, a clear definition of the universal postal service obligations of both parties can prevent misunderstandings, which could be detrimental to both the public operator and to service delivery per se.

A service agreement can:

♦ clearly define the obligations of the government and the public postal operator;
♦ ensure the sustainability of the postal organization and the satisfaction of its investment needs;
♦ ensure the continuity of universal postal service;
♦ require payment of universal postal service costs;
♦ establish pricing and price control provisions;
♦ determine the density of the postal network and control service quality;
♦ meet customer and public needs;
♦ spell out corresponding responsibilities.
3.3 OPERATION OF THE RESERVED SERVICE AREA

The subject of the exclusive rights of the public postal operator to operate certain universal postal services referred to as "reserved services", "the reserved service area" or "the reserved market segment" is discussed in detail in Module II. However, the role of the regulator in protecting and monitoring compliance with this reserved area, which is vital for the financing of universal postal service, is important and relevant to the discussion presented in this module.

In addition to a reserved service area, some countries have other universal postal service financing mechanisms such as a universal postal service compensation fund, grants of special or exclusive rights and, in certain cases, government funding.

According to the experiences of countries with well developed postal markets and industries, the most effective mechanism is that of a reserved service area. The government funding option is becoming increasingly impractical. However, the final decision on this matter hinges on the situation in each country and will need to be clearly spelled out in the national postal act.

As explained earlier in this module, the most important point is that the government take responsibility for ensuring the operation of universal postal service, which requires transparent decision making to protect service delivery and, thus, guarantee corresponding financing.

The government needs to compensate the official postal operator for the economic cost of providing universal postal service through:

- An exclusive franchise for the operation of reserved services;
- The granting of special or exclusive rights;
- The creation of a compensation fund;
- Direct government funding under national budget appropriations established by law.
3.4 PRICING SYSTEM

Government assurances of high quality, affordable universal postal service spelled out in the provisions of the postal act require the establishment of a pricing system for different types of services. The public service orientation of universal postal service operations requires some control over corresponding rate-setting mechanisms by the regulatory authority.

The involvement of the postal regulator in the pricing of universal postal services was already discussed in the section of chapter 2 of this module dealing with the functions of the regulatory authority. This section of the module simply touches on the issue of the type of pricing system to be established under the provisions of postal regulations.

Intervention by the national regulatory authority is pivotal and decisive in the pricing of the reserved services provided by the universal postal service operator, which means instituting a system for the approval of these prices by the postal regulator, in keeping with the restriction of rights entailed by the establishment of any sort of monopoly.

Moreover, the government may also intervene in the setting of price caps on non-reserved universal services provided by the public postal operator, via the regulatory authority.

Accordingly, the recommended configuration of the pricing system for postal services is as follows:

❖ **Prices for reserved services**
   Price control system, with the regulator charged with ensuring affordable prices, seeing to the implementation of cost-cutting measures and exacting improvements in the efficiency and productivity of the public postal operator in the delivery of reserved services.

❖ **Prices for non-reserved universal postal services**
   Monitored free market prices, with the regulator authorized to intervene on the market and to set floor and ceiling prices.

This monitored free market pricing system should not be confused with the price protection for the reserved service area discussed earlier in this module.

This pricing system applies to universal postal services not included in the reserved service area. The regulator may decide to impose price controls on any such monitored services where warranted by market conditions.
In no event may such prices be set below the established floor value designed to protect the reserved service area.

❖ Prices for all other postal services

The prices of all other services may be set by the free play of market forces, subject to compliance with regulations with respect to the reserved service area. Accordingly, such prices must begin at or above the established floor price designed to protect the reserved service area.

3.5 CUSTOMS CLEARANCE POLICY

It is crucial that the special or exclusive rights granted to the universal postal service operator include the right to priority customs clearance for items falling within the scope of its universal service obligations.

The purpose of establishing this type of privilege has nothing to do with the service operator per se but, rather, with its public service orientation, the public interest and, ultimately, the good of the businesses and individuals using its services.

Thus, mail items falling within the scope of the universal postal services rendered by the public postal operator are given priority over other items for customs clearance purposes. Whether or not this privilege is embodied in customs regulations, it is important that this special, exclusive right enjoyed only by the postal operator designated by the government to provide universal service be expressly recognized in the postal act passed by the national legislature.
Accordingly, as the government representative for postal affairs, the regulatory agency will need to take a leadership role in working with the customs authorities to ensure that all necessary measures are taken to expedite customs formalities for mail items included in the concept of universal postal service and monitor compliance with regulations governing the operation of the reserved service area.

In many countries, expeditious customs clearance is not always possible, due to the enormous volume of inbound and outbound international mail traffic within the reserved service area.

### 3.6 LICENCES

#### 3.6.1. Need for service-operating licences

The issue of the licensing of postal service operators is especially important in the face of the need to properly oversee the delivery of postal services by private operators as part of efforts to effectively organize the postal sector and ensure the smooth operation of clear market rules.

As discussed earlier in this chapter, there are certain basic rules with respect to citizens’ rights in general and consumer rights in particular whose enforcement needs to be monitored by the postal regulator to prevent the abuse or exploitation of postal service customers.

The Universal Postal Union has been conducting studies directly related to the issue of licensing which have produced extremely interesting information on licensing practices around the world.

Such studies show a number of developing countries using some sort of licensing system, though the names given to such systems and the types of procedures used may differ from country to country.

The following general conclusions can be drawn with respect to this issue.

- The establishment of a countrywide licensing system is tied directly to the existence of a regulatory agency or to market regulatory management efforts.
- Where licensing systems do exist, corresponding regulations are an integral part of the regulatory framework for the postal sector.
- There are many different administrative procedures for the registration of service operators.
♦ In many countries, licensing authority is vested in the regulatory agency.
♦ Regulations with respect to the obligations of different service operators are fairly similar.

It is recommended that postal service operators be licenced according to the type of services to be rendered, with postal services other than universal services requiring a general government licence and non-reserved universal services requiring a special government licence.

This, in turn, will require the establishment of a register of postal service enterprises to be maintained by the regulatory authority.

This register would be accessible to the public and governed by applicable regulations. It should contain pertinent data on holders of general and special government licences and information on any relevant modifications. Without exception, the operation of all corresponding postal services would be contingent on the recording of the service operator in question in the register of postal operators, subject to the satisfaction of applicable licensing requirements.

3.6.2. Licensing requirements

Licensing requirements for domestic postal service operators will need to be clearly spelled out in corresponding regulations. Such requirements should be designed to provide necessary assurances for the protection of universal postal service and of postal customers and their rights.

Suggested requirements to be met by prospective service operators include:

♦ proof of their economic soundness;
♦ proof of their ability to fulfill their obligations;
♦ appropriate qualifications and practical experience with the operation of postal services;
♦ certification of their agreement to abide by basic postal communication principles as set forth in the terms and conditions of the licensing agreement;
♦ certification of their agreement to fully respect the service area reserved for the official universal postal service operator;
♦ the furnishing of performance and back-up guarantees for claims and compensation.

Obviously, these requirements will need to be further examined in the light of the existing legal system in each country.
The following is an outline of practical guidelines for the development of regulations for a hypothetical licensing system governing the issuance of so-called “general licences” for services other than the universal postal service and “special licences” for non-reserved universal postal services.

**Licences for POSTAL SERVICES OTHER THAN THE UNIVERSAL POSTAL SERVICE**

- **Scope and conditions**
  - A general licence should be required for the operation of all postal services not included in governmental universal postal service obligations.
  - The issuing of these general licences should be duly regulated, with applicants obliged to meet certain basic requirements for the operation of postal services, as well as other requirements established under applicable regulations.
  - Basic requirements for the operation of postal services include compliance with the principle of the inviolability of letter mail, compliance with non-disclosure requirements and postal network security requirements under postal legislation and regulations with respect to the transporting of hazardous substances and the prevention of drug trafficking, acts of terrorism and other scourges, and compliance with environmental protection policy.
  - Non-disclosure requirements include an obligation to protect the confidentiality of personal communications and of any and all transmitted or stored data and customer privacy rights.
  - Parties seeking to operate postal services other than universal postal services must advise the regulatory authority of their interest, expressly agreeing to abide by the provisions of postal legislation and furnishing all necessary information to clearly delineate the scope of corresponding service offerings.
  - All relevant data on general licence holders is to be recorded in the general register of postal service enterprises.
  - Prospective service providers may not commence business until the corresponding licence has been officially issued and ordered recorded in the aforesaid register by the prescribed deadline under postal regulations.
The existence of a general operating licence is established by the licence certificate and corresponding entry in the register of service providers.

**Licences for UNIVERSAL POSTAL SERVICES**

- **Scope and conditions**
  - A special LICENCE should be required for the operation of any non-reserved universal postal services.
  
  The issuing of special licences should be duly regulated and subject to the presentation by corresponding applicants of proof of compliance with requirements for the operation of postal services and of their satisfaction of all conditions established under postal legislation and any other conditions which may be established in the public interest.

  - Applicants must also agree to meet the following obligations:
    - Mandatory public service obligations under postal legislation;
    - Voluntary universal postal service obligations, to be spelled out in service offerings to customers;
    - An obligation not to infringe on any special or exclusive rights or on the service area reserved for the universal postal service operator in the course of their own service operations.

  - Parties interested in operating any universal postal services not reserved for the official universal postal service operator must submit an application to the postal regulatory authority, accompanied by all required documentation. As part of the application, they must agree, in writing, to meet all conditions established under existing postal legislation.
3.7. RATIFICATION OF THE UNIVERSAL POSTAL CONVENTION AND OTHER UPU ACTS

Last but not least, this module addresses the issue of the role of the regulatory agency in implementing necessary instruments and procedures for the ratification of the Universal Postal Convention and other UPU Acts signed by that country.

According to article 1, chapter 1, title I, of the Constitution of the Universal Postal Union, together, the member countries of the UPU represent "a single postal territory for the reciprocal exchange of letter-post items" in which they are guaranteed "freedom of transit."

Moreover, UPU member countries have agreed to ensure that universal postal service operators offer prescribed services and that such services meet prescribed standards of quality.

The UPU is governed by its Constitution, which is its organic act, by General Regulations containing provisions for implementing the Constitution and ensuring its smooth operation, and by the Universal Postal Convention, which contains general rules governing postal services. Compliance with the provisions of these Union Acts is mandatory for all member countries.

As members of the UPU, postal administrations have certain rights and responsibilities with respect to the management of postal services. The ratification of UPU Acts refers to the procedure through which member countries incorporate mandatory provisions of such Acts into their own domestic legislation.
Under the current legal systems in most nations, upon ratification, the obligations incurred by member countries under the provisions of UPU Acts become binding pursuant to applicable constitutional provisions with respect to the signature of international treaties.

Some countries encounter problems in endeavouring to ratify Union Acts due to complications arising in connection with the passage of corresponding legislation. In such cases, the postal regulator will need to establish appropriate mechanisms to ensure that this obligation can be met within the prescribed time frame.

Incidentally, Acts of UPU Congresses which are not ratified by a particular member country are still binding on that country by virtue of their signature by its plenipotentiary representatives to the Congress. Acts signed by UPU member countries are binding international treaties.
ADMINISTRATIVE AND CRIMINAL SANCTIONS UNDER POSTAL REGULATIONS

"MODEL"
**ADMINISTRATIVE PROCEDURE**

- **Inspection functions and sanctioning authority**

The responsibilities of the regulatory authority include the inspection of postal services governed by the postal act and the imposition of applicable sanctions.

Postal inspection personnel attached to the regulatory agency must have recognized official standing for the exercise of their authority and for soliciting necessary assistance from government security forces and law enforcement agencies through appropriate government channels.

Owners or managers of service operations or activities falling under the scope of the postal act are to be required to give inspection personnel on official business access to their premises, to any facilities and equipment used in the course of their service operations or activities and to any documents which they are required to maintain by law.

- **Liability**

The following parties will be held accountable for violations of postal legislation and regulations under administrative law:

  a) Violations committed in the course of service operation under a corresponding licence agreement: the individual or corporate owner.

  b) Violations committed in the course of service operation without a corresponding licence when such licence is required by law: the individual or legal entity engaging in the activity in question and, as an accessory, the party using the facilities or equipment or in possession of corresponding postal items.

  c) In all other cases: the individuals or legal entities committing the specific acts constituting violations of postal regulations.

  d) The trademark holder will be held jointly and severally responsible for violations committed in the course of the operation of postal services using a specific trademark if discovered to have acted in concert with the corresponding offender.

- **Classification of violations**

Violations of postal service regulations should be classified as major, serious or minor, according to their nature. Examples of major violations include:
a) violations of universal postal service delivery conditions severely undermining such service;

b) the unauthorized operation of postal services reserved for the universal postal service operator undermining the universal postal service financing system;

c) the unlicensed operation of postal services open to competition or the operation of services other than those permitted under the corresponding licence, to the detriment of universal postal service;

d) the nonpayment of pecuniary liabilities funding the postal service licensing system budget under conditions seriously interfering with the satisfaction of basic requirements under the corresponding postal act or undermining the delivery of universal postal service;

e) violations of special or exclusive rights granted to the universal postal service operator;

f) the acceptance of letter mail items falling within the scope of the reserved service area and their subsequent delivery to individuals or legal entities other than the universal postal service operator, where such operations are liable to undermine the delivery of universal postal service;

g) refusing to submit to inspections and obstructing or resisting government inspection activities;

h) the use of identification marks by other service operators likely to be confused with those marks whose use is reserved for the universal service operator. This includes the use of labels, advertisements, symbols, date stamps or imprints liable to be confused with those used by the universal postal service operator.

i) conduct designed to perpetrate postage fraud schemes;

j) the commission of two or more serious violations within a one-year period.

Examples of serious violations include:

a) the violations referred to in subsections a) through i) above, in the absence of attendant circumstances warranting their classification as major violations;
b) the mere public offering of any reserved postal services;

c) the commission of two or more minor offences within a one-year period.

Examples of minor violations include:

a) refusing to supply or convey information whose disclosure or submission is required under postal service regulations at the request of the national regulatory authority, by the prescribed deadline;

b) non-compliance by the service operator with rules governing the treatment of consumers and customers under consumer protection regulations;

c) any and all other violations of obligations imposed on service operators or customers under current postal legislation and regulations designed to ensure the due and proper delivery of postal services.

➢ Sanctions

In general, the aforesaid violations are punishable by fines in varying amounts, depending on their classification as major, serious or minor violations.

The amount of the prescribed fine for a particular violation may be incremental, within a specified range of values, and set according to guidelines established under the penalty provisions of domestic legislation, in keeping with the special characteristics of the activity in question and its social or economic ramifications. Fines imposed for any of the above-mentioned major violations involving activities requiring a government-issued licence may be accompanied by accessory penalties such as the sealing off of corresponding premises, the seizure of vehicles or equipment or the shutting down of the facilities in question pending the obtention of a proper operating licence.

The circumstances surrounding the commission of a major violation may warrant revocation of the offender’s service operating licence.

The country’s postal act must grant government the appropriate authority to issue executive orders adjusting the value of established fines according to fluctuations in the consumer price index.
In addition to prescribed fines for certain major violations, the corresponding offender may be barred from operating any postal services for a specified period of time, effective as of the date of the imposition of such sanctions.

➢ Preventive measures

The above-mentioned violations may give rise to the implementation of preventive measures. The appropriate administrative agency for deciding cases of alleged violations of postal legislation and regulations may take any interim measures considered necessary to ensure the enforceability of its ensuing decision, prevent such violations from continuing and protect the public welfare, at any time, based on the issuance of a reasoned decision to such effect.

The agency instituting the corresponding proceedings or the investigating authority may take necessary preventive measures in emergency situations in which their implementation cannot be postponed.

Examples of interim measures include the retention of postal items for purposes of their inspection, the temporary shutdown of facilities used in the conduct of corresponding activities or the impounding of corresponding equipment. In cases where the party charged with the violation is an unlicenced service operator, preventive measures shutting down and impounding corresponding facilities and equipment will remain in effect until the proceedings are concluded. In any event, any and all such interim measures should be commensurate with the objectives of their implementation.

➢ Compensation for damages

The imposition of administrative sanctions under a country’s postal act is without prejudice to the right of the universal postal service operator to seek compensation for corresponding damages.

➢ Proceedings for the imposition of sanctions. Governing principles

Proceedings for the imposition of administrative sanctions should be governed by domestic legislation and general rules of administrative procedure, as well as by the following principles.

❖ Procedural due process

1. Exercise of the government’s sanctioning authority is subject to the conduct of a legal or other prescribed proceeding.
2. Procedures governing the imposition of administrative sanctions should break down corresponding proceedings into an investigatory and a penalty phase, each of which is to be conducted by a different agency.

3. No sanctions may be imposed without the conduct of an appropriate proceeding.

❖ Rights of alleged offenders

All alleged offenders have the following rights under proceedings for the imposition of administrative sanctions:

1. The right to be informed of the acts of which they are being accused, the violations allegedly engendered by their actions and applicable sanctions, the identity of the investigating authority and competent sanctioning authority and the legal provision establishing such authority;

2. The right to submit pleadings and to use any and all appropriate legitimate means to defend themselves under current legislation;

3. All other rights recognized by applicable legislation.

❖ Preventive measures

The appropriate authority may take preventive measures to ensure the enforceability of its final ruling based on a reasoned decision to such effect.

❖ Presumption of innocence

1. Proceedings for the imposition of administrative sanctions are to presume an absence of any liability under administrative law until proven otherwise.

2. The national regulatory authority is bound by proven facts embodied in final criminal court decisions in substantiating administrative proceedings for the imposition of sanctions.

3. Facts established by postal inspection personnel with recognized official standing recorded in a notarized instrument meeting applicable legal requirements have probative value, without prejudice to any evidence produced or furnished by alleged offenders in defense of their corresponding rights or interests.
4. The national regulatory authority will produce or admit sufficient evidence to establish the facts and any potential liability, at its own initiative or on a motion by the alleged offender. The only evidence which may be declared inadmissible is that whose relationship to the facts under investigation is such that it can have no bearing on the final decision rendered with respect to the alleged offender.

❖ Decision

1. The decision concluding the proceeding must be well founded and must resolve all pending issues.

2. The decision may not admit any facts other than those established in the course of the proceeding, regardless of other judicial findings.

3. The decision will become final upon the exhaustion of all corresponding administrative remedies. Where necessary, specific preventive measures may be taken to ensure its enforceability until such time as it becomes final.

4. Under no circumstances may administrative sanctions of a pecuniary or other nature include the imposition of a prison sentence, either directly or as an accessory penalty.

5. The value of applicable fines must be set high enough to ensure that it is not more cost-effective to commit the violations in question than to comply with corresponding provisions of postal legislation and regulations.

❖ Incremental sanctions

Legislation governing the sanctions system and decisions handed down by the competent sanctioning authority must ensure that any and all sanctions imposed are commensurate with the seriousness of the violation committed by the offender, bearing in mind the following incremental sanction guidelines, among other factors:

A) the existence of intent or of a pattern of behaviour;

B) the nature of the injury or injuries caused;

C) recidivism, or the commission of more than one violation of the same nature within a one-year period according to final decisions handed down by the appropriate authority.
Double jeopardy

The same acts or facts already subject to criminal or administrative sanctions may not be punished twice, where the alleged offender, the facts and the merits of the cases in question are identical.

Statute of limitations

The statute of limitations for bringing action for alleged violations and for the imposition of corresponding sanctions will be established under the postal act. As a guideline, the institution of administrative proceedings could be statute-barred after three years in the case of major violations, after two years in the case of serious violations and after six months in the case of minor violations. Likewise, the imposition of sanctions could be statute-barred after three years for major violations, after two years for serious violations and after one year for minor violations.

The statute of limitations for bringing action begins to run as of the date of the commission of the violation and is tolled by the institution of corresponding proceedings and the issue of a summons, resuming in the event of the suspension of such proceedings for a period of over one month for reasons not attributable to the alleged offender.

The statute of limitations for the imposition of sanctions begins to run as of the day following the date on which the decision imposing the sanction becomes final and is tolled by the institution of the enforcement proceeding, resuming in the event of the suspension of such proceeding for a period of over one month for reasons not attributable to the offender.

In cases of continuing offences, the statute of limitations begins to run as of the date of the termination of the course of conduct or of the last act of the offence.

Sanctioning authority

The authority to impose sanctions will be vested in agencies attached to the national regulatory authority according to the nature of the violation in question.

Decisions by such agencies are appealable to the competent authority in such matters.

CRIMINAL PROCEDURE

The procedure for the prosecution of criminal offences should be
established in applicable criminal statutes. Alternatively, the postal act should establish corresponding felonies and misdemeanours.

Without exception, all such offences are to be tried and punished by competent criminal courts, without prejudice to the filing of a complaint by the national regulatory authority or authorized personnel.

Felonies and misdemeanours should be defined and classified in applicable legislation, which should also establish corresponding criminal sanctions.

➢ **Definition of postal offences**

Postal offences are acts, actions or omissions characterized as such by law. Examples of postal offences include:

- Mail tampering;
- Violation of professional postal secrecy requirements;
- Unlawful operation of mail service;
- Conveyance of prohibited items;
- Counterfeiting of postage stamps or postage payment imprints;
- Use of counterfeit stamps or postage payment imprints;
- Unlawful use of postage stamps and postage payment imprints;
- Removal of cancellation stamps or marks
- Abuse of power and authority by postal employees.

❖ **Mail tampering**

Anyone tampering with letter mail or other postal items is punishable by imprisonment for a term of from six (6) months to two (2) years and payment of a fine. These same penalties apply to anyone who wrongfully discards, retains, appropriates, conceals or destroys letter mail or postal items belonging to others.

❖ **Violation of professional postal secrecy requirements**

Any postal employee disclosing information or data with respect to postal service customers is punishable by imprisonment for a term of from six (6) months to two (2) years and payment of a fine.
❖ **Operation of unlicenced postal services**
Anyone engaging in any type of postal service operations without proper authorization from the national regulatory authority is punishable by imprisonment for a term of from six (6) months to three (3) years and payment of a fine.

In the case of corporations, the legal representative will be held accountable for its actions.

❖ **Violation of the reserved service area or of special or exclusive rights held by the universal postal service operator**
Anyone violating the reserved service area or any special or exclusive rights held by the universal postal service operator is punishable by imprisonment for a term of from one (1) to five (5) years and payment of a fine. In the case of corporations, the legal representative will be held accountable for such violations.

❖ **Conveyance of prohibited items**
Anyone seeking, arranging for or permitting the conveyance of items banned under postal legislation and regulations is punishable by imprisonment for a term of from six (6) months to two (2) years and/or payment of an applicable fine.

❖ **Counterfeiting of postage stamps or postage payment imprints**
Anyone counterfeiting, manufacturing or tampering with postage stamps or postage payment imprints is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

❖ **Use of counterfeit postage stamps or postage payment imprints**
Anyone purchasing, selling, supplying, using or recycling counterfeit postage stamps or postage payment imprints is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

❖ **Unlawful use of postage stamps and postage payment imprints**
Anyone unlawfully using postage stamps or postage meters for personal gain or for the benefit of another party is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

❖ **Removal of cancellation stamps or marks**
Anyone removing cancellation stamps or marks from bona fide postage stamps or postage payment imprints for falsification purposes or for purposes of their reuse is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

❖ **Abuse of power or authority by postal employees**
Anyone who, through deceit, concealment or any other fraudulent means, unjustly enriches himself or causes harm to any class of mail service in the course of the performance of his or her work is punishable by imprisonment for a term of from six (6) months to three (3) years and/or payment of an applicable fine.

Without exception, all defendants are to be treated in accordance with established legal principles and are entitled to all guarantees afforded under the domestic criminal justice system.
MODULE VI

Financing Postal Reform
# GUIDE TO POSTAL REFORM

## Module VI

**Financing Postal Reform**

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Introduction

This sixth and final module of the Guide to Postal Reform is a tool rounding out the process shaped in the five previous modules which many of you will be apt to consider a prerequisite for undertaking any comprehensive reform effort, since the rationale for such a reform programme, the types of reforms to be instituted and the conditions and tools for programme implementation will all need to be carefully thought out, selected and organized before obtaining necessary funding.

Since this Guide is based on a publication prepared in the Latin American region, the names of some of the financing agencies discussed are specific to this area. However, all postal administrations are urged to develop a list of financing agencies in their respective region as part of their sector reform efforts.

As explained in previous modules, in most cases, an across-the-board reform programme for the postal sector and public postal operator is the only way to ensure nationwide universal postal service. However, though this is really the only solution, governments generally do not have the funding needed to mount such an effort. As a result, some governments are tempted to look for alternatives which, under certain circumstances, are liable to seriously undermine the stability of the public postal operator.

Thus, access to financing facilities is pivotal to the success of any postal reform effort. It is the only way to invest in necessary physical and human resources for carrying out the action plan for instituting envisaged reforms.

The term “financing facilities” is used in the plural to underscore the need for multiple sources of financing from all parties involved in the development of the postal sector and with a stake in the attainment of this goal, including the government, public or private lenders and the universal postal service operator. However, universal postal service operators in financial straits may be fully or partially exempted from contributing to the funding of such an endeavour.

In addition to financing multi-year investment programmes, governments will need to look for a way to free up funding in amounts commensurate with their political will to effectively implement envisaged postal reform projects. Access to economic resources for financing public service reform, modernization and development programmes is of the utmost importance in all developing countries.

In fact, in many countries around the world, there has been very little, if any, investment in the postal sector in the last three decades, which has driven public postal operators into their current weakened state precisely at one of the most critical times in their history, with the opening up of postal markets by liberalization processes, mounting competition and a stagnation or decline in mail volume, their traditional occupation, in all major business segments.
Accordingly, national government officials and managers of universal service operators must be sensitized to the need to finance inescapable postal reforms and familiarized with the types of mechanisms through which this can be accomplished.

The first part of this module addressing the issue of “financing postal reform” discusses necessary prerequisites for ensuring the successful outcome of reform efforts and provides important information to help facilitate access to lending agencies.

The second part of the module positions the postal sector for access to the financial market, on which the financing of development projects in other competing national infrastructure sectors means a high degree of selectivity and prospective lenders need to be made aware of the specificity of approaches to postal reform and the economic and social interest of such a reform effort.
CHAPTER 1. GROUNDS FOR FINANCING INVESTMENTS IN THE POSTAL SECTOR

1.1 NEED FOR DEVELOPMENT OF THE POSTAL SECTOR

1.1.1. Public service orientation

The postal sector is especially important to the national economy. As an economic activity with a public service orientation it helps drive the economy and strengthen the country’s competitiveness. As an essential public service clothed with a public interest, it helps promote social integration at both the individual and the community level. A modern, dynamic postal sector helps strengthen economic, social and cultural ties between different segments of a nation’s population.

The main challenge facing governments around the world is to spur economic growth as a way of creating wealth, augmenting reserves and boosting investment. Economic growth means a larger variety of tangible and intangible goods and services which, in turn, promotes the public welfare.

Investments in modern infrastructure play a pivotal role in promoting national economic growth and development during the transition process to a market economy.

Investments in the development of the postal sector earmarked specifically for infrastructure rehabilitation and the construction of new infrastructure make sense only if they have a positive impact on countrywide economic and social factors, particularly in terms of:

♦ improving income and productivity levels;
♦ creating jobs;
♦ providing access to information;
♦ improving the quality of life;
♦ reducing poverty.

1.1.2. Development of the postal sector

Postal reform is a hot topic. However, such a task is far from easy, given the many different options available and the lack of a single, infallible model. Thus, each country will need to fashion its own postal reform programme according to its unique characteristics and special circumstances.
Postal reform efforts must be in touch with the surrounding environment in each country. Strategies framed by corresponding officials must be responsive to stakeholder needs, including the needs of both postal customers and operators, and in keeping with new developments in technology.

Economic globalization and the globalization of trade are modern phenomena of transcendental importance. The openness of today’s global economy is a fact of life which cannot be ignored by government or business managers. This phenomenon is creating countless new opportunities, but taking advantage of them will require deep-seated improvements in existing infrastructure, legislation, management practices and operating procedures.

In the face of recent developments, the postal sector, which engages in business and industrial activities, will need to adapt to and align itself with existing ways and means of expanding and helping such activities flourish.

1.2 NATIONAL POLITICAL WILL

1.2.1. Sector policy and postal reform plans

The macroeconomic environment is not the only factor involved in the creation of necessary postal profitability dynamics. Postal reform requires changes in current patterns of behaviour with specific social and economic implications. One could say that postal reform should be considered as both a legal and structural reform process since, in a competitive environment, the government is definitely interested in pinpointing the strengths and weaknesses of existing legislation and working to modernize it through the establishment of a proper legal and regulatory framework.

The government will also need to find ways of giving public service enterprises more flexibility and autonomy, to strengthen their efficiency, their inventiveness and their ability to deal with mounting competition.

By freeing public service enterprises from the shackles of obsolete management practices, legal and structural reform programmes can help postal services meet today’s new economic challenges. While the marketplace is clearly the driving force in this type of change, it also requires clear political signals. The types of reforms decided on by the government will depend on a variety of different factors, including but not limited to:

- the situation of the public postal operator and its future goals;
- the competition facing the public operator in charge of fulfilling governmental universal service obligations;
- their effects on nationwide employment and economic development.
While new legislation may give the postal service the necessary autonomy to mount its own reform programme, the government will need to back up modernization efforts by the public postal operator to enable it to meet the challenges facing it in the surrounding postal environment.

Thus, the postal sector must adjust to changes such as heightened competition from private enterprise, market liberalization and the emergence of new technology-driven services. This issue has already been discussed at length in previous modules.

A look at the surrounding postal environment and at recent trends in market liberalization driven by government suggests that, in the near future, postal services or specific postal activities may no longer be engaged in solely by public operators.

Improvements in the efficiency of government enterprises require better management practices and less control by their government owners. Thus, the strategy of government enterprises is shaped largely by the real political will of the national government.

1.2.2. Legal framework

As discussed in Module III of the Guide, the legal framework governing the operation of postal services has changed dramatically over the past few decades. The general trend has been to grant the public postal operator more independence and autonomy from a business management standpoint.

In essence, this means establishing a new regulatory framework to:

♦ free the postal operator from political and other noncommercial obligations;
♦ establish a clear timetable for the effective implementation of necessary measures;
♦ settle issues pertaining to the legal framework for service operation on the postal market;
♦ develop market regulations establishing clear ground rules.

The challenge is to regulate the market without hampering its development and to establish effective supervisory and monitoring tools by creating a sound regulatory framework in line with market conditions. To a large extent, shifts in the strategy of the public postal operator will be shaped by future regulatory activities. This presupposes the existence of a government strategy for the postal sector based on sound planning and on considerations of consistency and stability.
The goal is to keep pace with new developments in the surrounding economic environment and resulting changes in market needs.

Accordingly, in this context, it is important to:

♦ clarify ties between government agencies and the public universal postal service operator;
♦ establish an independent management body;
♦ revise regulations with respect to its supervision;
♦ define and establish the universal postal service financing system;
♦ consider customer interests and needs;
♦ pass enabling legislation establishing its public service mandates.

1.2.3. National development plans

After decades of being left out of national development plans, the postal sector is in difficult straits in the wake of market liberalization and the cut-throat competition unleashed by this process. The fact of the matter is that governments have been giving priority to other sectors which, they believed, would help maximize GDP growth and create jobs. As a result, development plans have been targeted primarily at export-oriented sectors (agriculture, fishing, raw materials) and infrastructure sectors (power, transportation, ports, telecommunications, etc.)

In contrast, the postal sector, which is an important part of a nation’s infrastructure network but generally not a good source of needed foreign exchange for the national economy, has reaped no benefit from national development efforts.

This fact notwithstanding, postal services in a number of countries have gone ahead with their own independent reform plans. However, without the integrated approach made possible by their incorporation into national development plans, these reform efforts have generally failed to produce envisaged benefits and, in some cases, have actually been counterproductive. Nor were they able to obtain needed funding.

The lack of government policies shoring up postal reform efforts has created chronic weaknesses in the postal sector in general and in the public universal postal service operator in particular, which is forced to shoulder heavy obligations, while facing tough competition from private service operators for lucrative urban postal services.
Thus, it is vital to convince government to include the postal service sector in general and the universal postal service operator in particular in national development plans. This would give it the priority status it needs to attract investments in needed infrastructure, primarily by giving it access to international development financing.

1.2.4. Shoring up the universal service operator

The public postal operator’s public service mandate and the fact that it is subject to government supervision in no way diminish the importance of its meeting established standards of profitability and efficiency.

Postal reforms are shaped by the need to sustain and expand affordable, high-quality universal service. To this end, it is important to prevent the promotion of free competition in certain segments of the postal market from creating disparities between postal customers and hindering efforts by the public operator to meet its public service obligations.

Over the last few years, the postal industry has had to deal with new types of changes engendered by heightened competition from different sources, in the wake of the increasingly clear-cut segmentation of business needs, growing market liberalization, the impact of new breakthroughs in technology and economic globalization.

These changes pose a dual challenge to the postal sector, requiring it to reconcile the traditional public service orientation of postal services in line with public expectations with the operation of postal business activities in a free market economy.

Faced with competition on deregulated markets, at the same time, the public postal operator is subject to special universal postal service delivery conditions establishing specific obligations with respect to access facilities, standards of quality and service pricing. The financing of these universal postal service obligations imposed on the public postal operator requires appropriate legal instruments regulating service operation on the postal market. One option is the establishment of compensatory fees or charges to cover the service delivery costs borne by the universal postal service operator.

As indicated in Modules II and III of this Guide, any discussion of universal postal service obligations should explore the issue of the establishment of a reserved service area as a means of financing service delivery costs. The only other option is the development of an alternative, less reliable, financing mechanism such as financial transfers, access fees, the creation of a compensation fund etc.
1.3 OUTSIDE ASSISTANCE

The current situation in the postal sector requires heavy reliance on outside assistance, including technical assistance for the preparation and implementation of reform programmes (UPU, restricted postal unions, technical cooperation etc.), as well as financing per se (financial institutions).

1.3.1. Role of international organizations in the postal sector

National postal authorities can and should turn to international organizations in charge of heading up and coordinating postal development efforts, such as the UPU at the worldwide level and restricted postal unions at the regionwide level. Such organizations also help further the goals and policies of member governments.

The main objective of UPU operations is the establishment of international service delivery standards and action policies and strategies through its permanent bodies, namely the Congress, the Postal Operations Council, the Council of Administration and the International Bureau. Special teams of countries interested in helping to advance specific issues and objectives carry out projects and programmes under the aegis of its so-called “action groups.”

UPU action groups include the Postal Development Action Group (PDAG), which specifically supports and promotes postal reform programmes and projects, the Postal Security Action Group (PSAG), the Technical Cooperation Action Group (TCAG) and the Terminal Dues Action Group (TDAG).

Thus, postal reform was given high priority in postal strategies framed at the UPU’s Seoul (1994) and Beijing (1999) Congresses. The commitment to postal reform embodied in these documents laid the groundwork for the implementation of postal development mechanisms as part of technical cooperation activities conducted by the UPU and restricted postal unions.

An informal ad hoc group on horizontal cooperation was formed in April of 2002 to look into and expedite implementation of an information sharing, coordination and horizontal cooperation system to strengthen the operations of the various bodies involved in UPU technical cooperation activities.

The UPU’s technical cooperation activities are paralleled by the operations of its Postal Development Action Group (PDAG), as outlined in the following paragraphs.
1.3.2. The UPU PDAG

The Postal Development Action Group (PDAG) was formed in 1991 in the wake of a decision passed by the 1989 Union Congress in Washington D.C. Its fourteen original members have since swollen to 27, including five from the region of the Americas (Brazil, Canada, the United States of America, Mexico and Uruguay).

According to its mission statement, the role of the PDAG is to “assist postal administrations in their efforts to obtain funding from international organizations”.

Its main objectives are to:

a) raise awareness of the need for postal reform in today’s rapidly changing environment;

b) facilitate access by postal operators and their governments to multilateral lending agencies;

c) spread information on the benefits of postal reform.

The PDAG’s slogan is “postal development is a good investment”. Its work revolves around the organization of conferences to discuss its thoughts and studies, the dissemination of assembled documentation and cooperation with international financial institutions.

The PDAG has developed a close working relationship with a number of lending agencies to procure needed investment funds for postal development efforts in different parts of the world, including the World Bank, the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the Asian Development Bank (AsDB), the Islamic Development Bank (IsDB), the IBRD, the EBRD and other multilateral regional and subregional development financing agencies.

An agreement entered into by the UPU and the World Bank in April of 2001 calls for the two organizations to join forces to expedite and strengthen postal sector modernization efforts in developing and halfway countries by:

♦ holding discussions at regular intervals;

♦ improving the production and sharing of information on postal reform and modernization;

♦ working together to prepare pilot postal projects for implementation at the country level;

♦ deploying personnel.
To this end, a permanent channel of communication has been established between the PDAG and the World Bank Group’s Global Information and Communication Technologies Department (GICT).

The PDAG plays a major role in the work of the UPU, championing the need to create an enabling environment for postal reform, investment and modernization in developing countries. One of the prerequisites is access to essential outside funding from multilateral development banks which, in turn, requires close cooperation and good coordination by the national government, the public postal operator and corresponding investors.

1.3.3. Multilateral development financing agencies

Multilateral development banks (IDB, AfDB, AsDB, IsDB, EIB etc.) are highly important sources of funding for national development programmes. All such institutions are owned by their member countries.

Development banks get their funding from two sources:

♦ Financial markets, through bond issues;
♦ Ordinary capital (including callable and paid-in capital and reserves), plus special funds (special operations and trust funds) earmarked for specific projects, which can be used to finance loans extended to economically less developed countries on concessionary terms.

These banking institutions use available resources to provide loans and technical assistance services. They also take part in numerous cofinancing arrangements with other multilateral (World Bank), bilateral and private institutions, as well as in inter-agency lending. The agreement entered into by the UPU Postal Development Action Group with the World Bank (major multilateral financial institution), establishes guidelines for joint operations by the two organizations in support of projects for:

♦ conducting baseline studies for charting the course of postal reform efforts;
♦ modernizing the public UPS operator;
♦ modernizing the postal sector, developing value added services and assimilating new technology (hybrid mail service and electronic mail service);
♦ providing postal financial services;
♦ using public access facilities as so-called “community communication centres”.

All such financial institutions work directly with governments and not with postal operators. Thus, it is up to the government to openly express an interest in reforming the postal sector and modernizing the public postal operator through official spokespersons in touch with the international banking community. Normally, the minister of finance or national planning minister is in charge of dealing with multilateral lending agencies.

1.3.4. Other international organizations

The United Nations Development Programme (UNDP) is the UN’s global development network. It promotes change and provides countries with needed information, experience and resources to improve their standard of living. It helps developing countries mobilize and use international aid more effectively, particularly by bringing together donor and recipient countries, the public and private sectors, and decision-makers and users of programme funding.

In the wake of the decisions taken at the Millennium Summit, the UNDP is devoting its efforts to helping countries develop and share new approaches to issues such as:

♦ democracy-building;
♦ poverty alleviation;
♦ crisis prevention;
♦ energy-related and environmental issues;
♦ information and communications technology;
♦ HIV/AIDS.

This new thrust of UNDP policy is making it increasingly difficult to get approval for a one-off project falling outside the scope of its main objectives and focuses. However, the sole responsibility for framing national development plans and establishing which of their objectives require UNDP assistance rests with the government. Thus, postal policy-makers in each country must remain steadfast in their efforts to convince government to take an interest in postal projects and incorporate them into national development programmes.
CHAPTER 2. POSTAL SECTOR FINANCING

2.1 FINANCING FACILITIES

2.1.1. Preparations for postal reform

Postal reform is a three-pronged process involving regulation, institution-building and market organization. As a whole, envisaged reforms should be designed to strengthen the capacity and autonomy of the public postal operator and regulatory authority. This means changes in the current organizational structure of the postal market, which will require a restructuring effort with a view to the establishment of new market rules and regulations.

Preparatory work is crucial to the framing of a well-thought-out plan of action for presentation to prospective sources of financing. In most cases, the work involved in the preparatory phases of reform programmes require the services of experts affiliated with postal enterprises and consulting firms, who will need to be paid at the going market rate. Thus, the first step is to secure necessary funding for preparatory work and baseline studies such as:

♦ postal market studies;
♦ the drafting of proposed legislation for the establishment of an appropriate domestic legal framework;
♦ the definition and mapping of nationwide universal postal services;
♦ the development of cost models for the public postal operator;
♦ assessments of service operation on the postal market;
♦ the framing of a development plan for the public postal operator.

As a rule, lenders are reluctant to finance studies which are not part of a comprehensive sector reform plan. Their rationale is that it is up to the government to make this initial financial effort as evidence of a real commitment on its part to modernize the postal sector.

Another option is to call on a postal operator in an industrialized country to furnish the local public operator with experts in a particular area, which can help cut costs.

Preparatory work is vital to establishing the economic, social or legal viability of envisaged investment plans for the development of the public postal operator.
Technical studies and specialized analyses are tools for substantiating and backing up loan applications presented to prospective lenders. It is common knowledge that lenders will only consider investment projects supported by these types of reports.

From time to time, certain financial institutions will provide necessary funding under framework agreements whose introductory provisions specifically require this type of preparatory work as a prerequisite for pursuing their main objectives.

2.1.2. Development of the universal postal service operator

The government’s main focus should be the universal postal service operator, as the major stakeholder in the postal sector. In fact, the universal service obligations imposed on this postal operator necessitate that it be accorded special treatment as part of the reform process.

The development of the universal postal service operator entails large investments. It also entails revamping its organizational structure, reshaping its organizational culture, reconfiguring its service network, strengthening its facilities and equipment and training its workforce. Module IV of the Guide discusses the development of the universal postal service operator at length.

Often, international development bank financing alone cannot meet all funding needs. Thus, though somewhat more expensive, it may be necessary to resort to commercial bank lending. Obviously, development bank financing brings with it many undeniable advantages in terms of best practices and experience, as well as the services of experts and consultants.

Again, the importance of the supporting role played by government in facilitating access to different sources of financing cannot be overemphasized.

2.2 SOURCES OF FINANCING

If this Guide is to serve its purpose as a practical tool, we need to take a closer look at different possible sources of financing.

The main sources of financing are multilateral banks, chief among which is the World Bank. Examples of regional and subregional development banks include the Inter-American Development Bank and the Central American Bank for Economic Integration.
These types of organizations typically provide financing on concessionary terms against government guarantees. Commercial banks are a second possible source of financing.

2.2.1. **Multilateral banks**

2.2.1.1. **The World Bank Group**

Formed in 1944, the World Bank Group consists of five closely affiliated institutions, namely the International Bank for Reconstruction and Development (IBRD) and its subsidiaries, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA) and the International Centre for the Settlement of Investment Disputes (ICSID).

Its mission is to fight poverty by producing sustainable benefits, help nations achieve self-sufficiency and manage their environment to harness corresponding resources, share knowledge and build capacity.

The World Bank Group belongs to its 184 member countries, whose views and interests are represented on its Board of Governors and Board of Directors. Its member countries are shareholders with final decision-making authority.

The Bank has its headquarters in Washington, D.C., with offices in 67 countries. It is the world’s main source of development assistance. It maintains an active presence in more than a hundred countries and has been involved in more than twenty (20) postal reform projects in different countries around the world.

The UPU’S Postal Development Action Group (PDAG) and the World Bank have been working together closely since signing a letter of intent for the conduct of joint operations in April of 2001.

The Global Information and Communication Technologies Department (GICT) within the World Bank, staffed by a total of 8,000 employees, is manned by a small team of some 25 telecommunications and 2 postal experts with limited operating capacity.

**How the World Bank operates**

Most importantly, the World Bank works directly with governments, not with postal operators. Thus, as indicated earlier, the government will need to articulate its interest in mounting a postal reform effort through its official spokespersons (planning – finance ministers).
Bank officials are sent to the host country to frame sector policies and reform plans in conjunction with the national government. In order to create an enabling environment, the government will need to develop a sector strategy, among other things, establishing the scope of universal postal service, the market structure and rules of competition.

The guidance provided by the Bank has to do mainly with the implementation of the sector strategy, legislation and regulations, the coordination of reform efforts, private sector participation and the elimination of investment barriers.

➢ **Phases of Bank involvement**

Once the government has officially expressed its intent to reform the postal sector, it can make arrangements with the Bank for the organization of a project identification mission to assess its current situation, which is followed by a round of talks on the broad outlines of the envisaged project.

In order for postal reform projects to be considered by the Bank, they must be an integral part of more comprehensive government projects (such as public sector reform or telecommunications sector reform projects for example), with a systematic, quantitative study approach for better assessing the potential role of the postal sector in driving the national economy.

➢ **Current position of the World Bank**

Right now, the Bank is involved in close to twenty projects affecting the postal sector, most of which are in the African region. The majority of ongoing projects are joint projects for the postal and telecommunications sectors started up as many as ten years ago. For most of this time, the World Bank has been primarily targeting communications services. More recently, for the past three years, it has begun to take a more active interest in the postal sector per se.
Breakdown of IBRD and IDA lending in any given region, by sector of activity (sample breakdown)

![Pie chart showing breakdown of IBRD and IDA lending](image)

Source: Annual Report 2001, World Bank (fiscal years)

2.2.1.2 Inter-American Development Bank (IDB)

- The IDB is an example of a regional development bank for the Latin American and Caribbean region. A look at the operations of this organization can provide important guidance applicable to other regions.

- The IDB is the main source of multilateral financing for economic and social development and institutional strengthening projects in Latin America and the Caribbean.

- The IDB has its headquarters in Washington, D.C., with offices in all member countries, as well as in Paris and Tokyo.

- Address of IDB headquarters
  Inter-American Development Bank
  1300 New York Avenue, NW
  Washington, DC 20577
  United States of America
  + (1) 202-623-1000

- The IDB provides loans and technical assistance using funding supplied by member countries and by bond issues on financial markets around the world. It is also involved in a number of cofinancing arrangements with other multilateral, bilateral and private lending agencies.
Structure of the IDB

IDB Group

Inter-American Development Bank (IDB)

IDB economic and social development and institutional strengthening projects in Latin America and the Caribbean include structural and sectoral reform programmes, emergency operations in response to natural disasters and financial crises and government and private investment assistance. The Bank is owned by its 46 member countries consisting of 26 borrowing countries and 20 non-borrowing countries including the United States, Japan and Canada, 16 European countries and Israel. It will only finance projects for member Latin American and Caribbean nations.

Inter-American Investment Corporation (IIC)

An independent institution promoting the creation and modernization of small and medium-size businesses in Latin America and the Caribbean.

(37 member countries)

Multilateral Investment Fund (MIF)

Administered by the IDB, the MIF is the main source of private development funding in Latin America and the Caribbean. The MIF funds pilot projects for the implementation of institutional, legal and regulatory reforms, manpower training and micro-enterprise and small business development.

Breakdown of IDB lending for 1961-2000

IDB-financed projects in the postal sector

Postal reform projects should be submitted directly to the Bank’s “Sustainable Development – State and Civil Society” Department.

1) Sustainable development

♦ Frames strategies and policies for strategic development sectors and provides supporting services for the Bank’s project teams.

♦ Generates and disseminates information to ensure that lessons learned from previous experiences are drawn on for the preparation of new projects.

♦ Develops and maintains contacts with all corresponding partners.

The five main focus areas of this department are:

♦ Environment and natural resources.

♦ Human resources and social development.

♦ Government and civil society: Assists regional departments with the identification and implementation of projects pertaining directly to the modernization of government, the promotion and consolidation of the rule of law and the strengthening of civil society.

♦ Infrastructure, financial markets and private enterprise.

♦ Information technology for development.
The IDB project cycle

1. Programming
   - Discussions of possible economic and social development needs in the borrowing country.

2. Identification
   - Submission of an official request by the government to consider specific operations for Bank financing. At this point, the Bank and the borrower will identify targeted issues and develop a project preparation strategy (3 to 12 months).

3. Preparation
   - Delineation of the project scope in greater detail, establishing its components and costs and performing other necessary studies.

4. Analysis and development
   - The Bank assesses the project’s financial and technical feasibility and the borrower’s ability to implement the project according to corresponding plans, forecasts and estimates.

5. Negotiation and approval
   - Negotiations between the borrower and the Bank on the terms of lending and the conditions of contract. Approval by the Bank’s Board of Executive Directors. Project execution can begin as soon as the loan is approved.

6. Execution and supervision
   - While the borrower is responsible for project execution, the Bank oversees the process to ensure compliance with prescribed deadlines and procedures.

7. Evaluation
   - Studies established strategies, guidelines and procedures to ensure they are in keeping with Bank objectives and mandates. Evaluates projects to assess their impact.

1 to 2 years

Supervision and Evaluation Office (independent from the Bank, reporting directly to the Board of Executive Directors)
2.2.1.3 Central American Bank for Economic Integration (CABEI)

Created in the mid 1960s, the Central American Bank for Economic Integration is the development finance institution and integration organization for the Central American subregion. It helps promote national economic growth and development with equity, supporting employment and job programmes and projects designed to boost productivity and competitiveness with a view to strengthening human development indicators.

The CABEI is headquartered in Tegucigalpa, Honduras, with offices in each of its member countries (Costa Rica, El Salvador, Guatemala, Nicaragua and Honduras). The Bank also has four members from outside the region, namely Argentina, Colombia, Mexico and Taiwan.

The CABEI is headed up by a Board of Governors. Operational and management authority is vested in a nine-member Board of Directors which sets Bank policy and approves its budget. The President of the Bank serves as its legal representative.
As of December of 1998, the CABEI had USD 500 million in capital reserves and USD 80 million in net revenues, with a loan portfolio of approximately USD 2.1 billion. These figures demonstrate the strength of the CABEI as a Central American financial institution.

The CABEI has financed numerous projects in different sectors of activity, including:

- telecommunications;
- power;
- infrastructure and transportation;
- social sectors: urban development, poverty alleviation, health, environment.

The CABEI has built a solid working relationship with international financial institutions over the course of the nearly forty years it has been in existence, which is a major advantage in appraising regional businesses. A solid knowledge of prevailing business practices and market dynamics and access to company data are equally important factors.

The CABEI appraises projects based on the following yardsticks:

- study of the business applying for financing: market experience, profile of the competition, economic and financial standing;
- study of the project presented for financing: project objective, market-related, financial, technical, economic and political factors;
- study of corresponding guarantees;
- business/project analysis.

The CABEI serves as a financial and technical consultant in the project development and study process to help attract international financial institutions to the Central American subregion. Moreover, its experience in the region and its financial contacts put it in the best position to offer sound, project-specific, financial advisory services guaranteeing prospective lenders a sure profit under both direct financing and cofinancing arrangements.
As a Central American multilateral lending agency, the CABEI specializes in raising and allocating outside complementary financing to supplement internal sources of funding for activities promoting the sustainable development and integration of the Central American subregion.

2.2.2. Multilateral lending criteria

As discussed with respect to the World Bank, the IDB and the CABEI, nowadays, the lending criteria of multilateral banks are extremely similar to those of commercial lenders as far as profitability and productivity are concerned, making it that much more essential to establish the potentially important role of the public postal operator in driving nationwide economic and social development processes.

Countrywide postal reform requires a comprehensive, sector-wide reform programme addressing the legal framework, postal services, the public postal operator and its infrastructure which, in turn, requires extremely active government involvement, with a steadfast commitment to fully modernize the nation’s postal sector.

The goal of development banks providing financing for local initiatives is to help further sector policy objectives and the objectives of national development plans. In the postal sector, this requires the separation of operational and regulatory functions to gradually open up the postal market to competition while, at the same time, maintaining high-quality universal postal service.

The most sensible approach is that of the corporate model, which looks at considerations of efficiency and profitability from a long-term perspective. This is the best way to promote investments designed to ensure sustainable development.

More specifically, investments in capital goods (in computer processing equipment, computerized work stations and, in general, in the use of postal technology) generate incremental benefits associated with resulting productivity gains. Since returns on investment are crucial to financial backers (investors), postal projects need to generate good returns in order for them to even be considered. Thus, top priority should be given to investments whose technology-driven components produce the most immediate benefits.
2.2.3. Commercial bank lending

In addition to public financing available from multilateral banks, another important source of financing is commercial bank lending.

However, in order to attract private capital, lenders need to be certain that the government can guarantee the establishment of a new, stable legal framework for the postal sector, with regulatory instruments designed to promote participation and investment by the private sector. Thus, the role of government is to strengthen competitiveness and the operation of markets open to private service providers.

Accordingly, even more so than in the case of public finance, private funding is to be earmarked solely for investments in capital goods generating incremental income and, as a result, large returns on corresponding investments.

2.2.4. Outline of multilateral banks

The table presented on the following pages is an outline of basic data on selected multilateral banking institutions, describing their objectives, main focus areas, lending instruments and typical eligibility criteria. The following sections of the module delve deeper into requirements and procedures for the obtention of outside financing, providing important guidance for national governments.
<table>
<thead>
<tr>
<th>Banks</th>
<th>Main objectives</th>
<th>Main focus areas</th>
<th>Lending instruments</th>
<th>Eligibility criteria and miscellaneous information</th>
</tr>
</thead>
</table>
| World Bank (WB)               | • Help the poorest countries and segments of the population fight poverty to achieve lasting results.  
• Help people help themselves and protect the environment by supplying funding, sharing information, building capacity and forging public-private partnerships. |                                                                                  | • Leading source of development assistance                                           |                                                     |
| Global Information and Commu-  | • Play an important role in promoting technological development and facilitating access to information and communications technology in developing countries. | • The GICT is in charge of all projects involving the postal sector.              |                                                                                     |                                                     |
| nication Technologies Depart-  |                                                                                  |                                                                                  |                                                                                     |                                                     |
| ment (GICT)                    |                                                                                  |                                                                                  |                                                                                     |                                                     |
| Inter-American Development    | • Expedite economic and social development efforts in Latin America and the Caribbean.  
• Use internally generated funds to finance development efforts in borrowing countries. | • Credit, industry, multisectoral reform planning, science and technology, social sectors, transportation. | • Loans  
• Technical assistance  
• Guarantees  
• Cofinancing arrangements with other multilateral, bilateral and private institutions | • Oldest and largest multilateral regional development bank.  
• Project cycle = identification of potential sources of financing, appraisal, execution. |
| Bank (IDB)                    |                                                                                  |                                                                                  |                                                                                     |                                                     |
|                               | • Supplement private investment.  
• Furnish technical cooperation for the preparation, financing and implementation of development plans and projects. | • Current lending priorities include poverty alleviation and social equity, modernization and integration and environmental protection. |                                                                                     |                                                     |
<table>
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<th><strong>Caribbean Development Bank (CDB)</strong></th>
<th><strong>Central American Bank for Economic Integration (CABEI)</strong></th>
</tr>
</thead>
</table>
| • Help promote balanced economic growth and development in member Caribbean nations.  
• Promote economic cooperation and integration by Caribbean nations, with top priority on meeting pressing needs in less developed regional countries. | • Help the public and private sectors of Central American countries obtain outside funding to promote regional development. |
| • Transportation, communications, social services, miscellaneous sectors of activity, environment, human resource development, etc. | • Bank operations are centred around three strategic areas:  
1) development impact;  
2) integration, financial viability;  
3) organizational modernization. |
| • Loans, grants, action programmes, technical assistance in securing financing | • Top priority areas for future operations include productive sectors, infrastructure, human development and environmental sustainability. |

The CDB generally requires that loan applicants use competitive bidding procedures for the selection of contractors, that engineering drawings and specifications be produced by parties other than contractors and, where appropriate, that loan applicants use independent consulting engineers. Only under special circumstances does the CDB require that loan proceeds, investments and other financial aid be used solely for procurements of goods and services produced in member countries. In the case of direct loan recipients other than member governments, where necessary, the CDB may require a guarantee from the member government or other applicable authority.

CABEI guidelines for the allocation of funding = guarantees
- Cofinancing facility = 100 to 150% of approved loans
- Public sector: government guarantee
- Financial intermediation loans: institutional guarantee
- Cofinanced loans. Financing of up to 50% of total project costs. At least 25% can be financed with financial intermediary or CABEI funding, with the remaining 25% covered by the investor.
- Public sector projects. Will finance up to 90% of the total investment cost or more, in special cases.
| Andean Development Corporation (ADC) | • Promote sustainable development and regional integration by raising necessary funding to provide the public and private sectors of member countries with various financial services. | • Infrastructure (51%)  
• Transportation (18%)  
• Power (20%)  
• Telecommunications (7%)  
• Development banking (16%)  
• Commercial banking (12%)  
• Manufacturing (7%)  
• The ADC is a competitive, customer service-oriented financial institution with a social conscience. | • Short, medium and long-term loans  
• Technical cooperation  
• Guarantees  
• Capital investment in businesses and investment funds | Financial and related services for:  
• Governments of member countries  
• Public and private institutions  
• Businesses  
• Joint ventures in member countries |
| --- | --- | --- | --- | --- |
| African, Caribbean and Pacific Group (ACP) | • Poverty alleviation and eradication.  
• Sustainable development and gradual integration of ACP countries into the global economy.  
• The cooperation framework and policy guidelines are established based on the specific circumstances of each country and are designed to promote ownership of economic and social reforms and participation by private stakeholders and civil society in the development process. | • Most focus areas are discretionary and include the communications and transportation sectors and the development of information and communications technology. | • Financial assistance to:  
Ⅲ ACP countries, regional or inter-State organizations  
Ⅲ Joint bodies formed by ACP and EU countries  
Ⅲ Public or semi-public national and/or regional agencies  
Ⅲ Local governments or departments and corresponding financial institutions  
Ⅲ Development banks, firms, businesses and other private operators  
Ⅲ The ACP Group or EU financial interme-diaries supply financing and promote and finance private investment in ACP countries.  
Ⅲ Decentralized cooperation agencies. | ACP and EU countries are jointly responsible for:  
establishing guidelines for financial cooperation within the framework of joint agencies;  
• indicative planning;  
• project and programme appraisal;  
ensuring equal treatment of bidders and contractors;  
monitoring and evaluating project and programme performance and impact;  
ensuring efficient, effective, prompt project and programme implementation. |
2.3 REQUIREMENTS

2.3.1. New breakthroughs in technology

The public postal operator will need to face new competition engendered, not only by the deregulation of postal services but by changes in the conduct of postal business activities requiring a major modernization and development effort on its part.

Today’s new information society is revolutionizing communications facilities. The risks to postal services engendered by new breakthroughs in technology are more palpable than ever.

Thus, postal services must adapt to the explosion in new information and communications facilities and new forms of trade to continue to effectively meet their obligations, capitalizing on any and all new opportunities presenting themselves, which requires improvements in their management practices and organizational structure, as well as in the availability of investment funds.

The public postal operator needs to take immediate steps to diversify both its domestic and international operations. In order for postal services to pursue this objective, they need to raise necessary funding through domestic or international banking institutions.

The public postal operator can and must serve as an important engine of global development to meet the needs of today’s new information and communications society.

2.3.2. Components of postal plans and projects

Multilateral banks in general and the World Bank in particular are taking a special interest in the postal sector, in the belief that the public postal operator can and should serve as an effective poverty-fighting vehicle and engine of nationwide economic and social development.

However, substantiating this basic premise with exact figures presents a problem. It is not easy to assess the economic impact of the postal sector. Thus, it is important to back up proposed projects with as much data as possible reflecting their expected economic effects on the postal sector in general and on the public postal operator in particular.
While development banks typically provide long-term financing based on somewhat more flexible lending criteria than commercial banks, nowadays, the general trend is to select projects based on profitability criteria, in the face of the scarcity and high cost of financing in times of crisis, as has recently been the case in a number of countries and regions around the world.

Profitability is established by strategic productivity criteria serving as the basis for corresponding investments. The goal is to select projects based on their income-generating potential. Thus, the return-on-investment criterion typically used in connection with private business investments is also applicable in this case.

The larger the productive capacity of a modernization project and the resultant loan repayment capacity, the more likely it is to be accepted and approved. What financial decision makers with loan approval authority are looking for from a loan is quality and competitiveness, through proven efficiency. As a result, appraisals of modernization and development projects have come to be based on commercial lending criteria.

2.3.3. Features of public postal operators

The universal postal service operator cannot use its universal service obligations as justification for operating at a loss. The only way it can effectively meet its obligations is by achieving long-term, sustainable, economic self-sufficiency. Thus, in order to make a profit, the public postal operator must resort to typical corporate management practices.

Accordingly, it needs to offer products and services accepted by the market and, thus, defined and developed based on specific market research.

The public postal operator will need to be completely refashioned into a market-driven, customer-oriented organization with streamlined yet accurate measurement tools for evaluating management decisions allowing it to build a rapid response capability.

An example of one such basic tool is a cost accounting system to help better assess the contribution of each type of service (letter mail, parcels, financial services) to its overall performance and to furnish cost and price data on its various product and service offerings.
2.4 PROCEDURES

This is the most operative part of the module and, as such, is designed to provide specific information with respect to the form and substance of procedures for the obtention of outside financing and corresponding supporting players in this process.

2.4.1. Assistance from the UPU, PDAG and restricted postal unions

The willingness of the UPU and restricted postal unions to help countries access outside financing is largely explained by the strategic importance attributed by these organizations to postal reform efforts.

The supporting services and guidance offered by the PDAG to expedite formalities and the financing of postal reform programmes are centred around the sharing of information and country experiences. The PDAG will also help boost stakeholder interest in a given project, targeting its efforts at governments, postal operators and prospective lenders.

Information is the basic platform for action. The UPU furnishes relevant information in the form of miscellaneous reports and guides, as well as through its website (www.upu.int).

The procedural model developed by the PDAG back in 1996 outlines the different stages of the search for funding for postal reform efforts and corresponding projects.

2.4.2. Summary of necessary steps to outside funding

The steps outlined below for the obtention of needed funding are simply general guidelines for establishing the combination of factors facilitating access to international organization financing. Thus, each country will need to make necessary adaptations in line with its own unique set of circumstances.

➢ Step 1: Reform required

Is postal reform required in your country? The best way to answer this question is to make a study of:

♦ trends on the domestic postal market;
♦ customer needs;
♦ financial performance;
♦ quality of service;
♦ business management practices.
The need for postal reform may be broached either by the public postal operator or by the government. It may also be dictated by the enactment of new legislation (directives, etc.).

- **Step 2: Secure government support**

Postal reform entails changes in legislation and regulations which cannot be made without involving the government. This raises the need to enlist the support of the appropriate cabinet ministry or ministries.

- **Step 3: Produce a business case**

It is important to develop a business case describing the goals and objectives of the reform effort to help government officials and funding agencies better understand project needs and to sensitize them to the impact of such a project on the nation’s economy as a whole. This project profile is crucial in initial talks with interested organizations.

- **Step 4: Identify funding agencies**

It is important to identify and properly classify funding agencies according to their characteristics.

In general, there are two main categories of funding agencies:

- Agencies providing loans earmarked primarily for actual reform programmes (commercial agreements);
  
  *Example: banks*

- Agencies providing grants earmarked primarily for studies into the types of reforms to be implemented (technical assistance).
  
  *Example: governments of industrialized countries, EU*

- **Step 5: Lobby funding and technical cooperation agencies**

It is wise to seek advice from the following sources in order to approach prospective funding agencies with sound arguments from the outset:
the UPU PDAG;
♦ the UPU International Bureau;
♦ the UPU Regional Adviser;
♦ the UNDP.

It is important to be well informed as to the goals and programmes of local offices of all international funding agencies and to compile all available information which can help facilitate the development of a project profile.

This information should be used as the basis for mapping out the best approach to corresponding funding agencies.

➢ **Step 6: Develop a study approach**

The funding agency will explain the procedures it wants the country to follow during the initial round of talks. It will require the country to take certain measures in order to be eligible for financing. The country can use these requirements as guidelines for the development of a study approach.

➢ **Step 7: Appraisal study**

An appraisal study is an in-depth study involving:

♦ a detailed assessment of service operation;
♦ the setting of objectives and timetables for development efforts;
♦ the identification of necessary investment areas.

This study is based on the original business case or project profile developed in step 3 and finalized in step 6. In theory, the funding agency should already have agreed to finance the project prior to the completion of this study.

➢ **Step 8: Submit a request for funding**

✓ demonstrate that approved funding will be duly and properly invested;
where applicable, provide loan repayment guarantees (specify sources of income);

demonstrate an ability to make organizational changes or rate adjustments and to launch or make changes in certain products;

furnish evidence of the return on investment (ROI);

provide reasonably accurate estimates of the costs of attaining established goals and objectives;

provide a time schedule;

list all references consulted and persons contacted in conducting the studies accompanying the request for funding.

These submissions should be prepared in conjunction with appropriate national government officials who, in this way, will be more inclined to support postal reform efforts.

The proposal should provide information on:

- the general environment in the target sector, its legal framework, its organizational structure, existing services, human resources and financial analyses;
- the project rationale, or the project’s connection with the national development plan, any previous assistance and its impact, the current situation and problem to be addressed and the envisaged end-of-project status;
- project objectives: envisaged benefits and necessary activities;
- the responsibilities and obligations of all interested parties;
- monitoring and oversight mechanisms.

Other important elements:

- work plan;
- duties of consultants;
- envisaged training courses and equipment;
- country contributions in species and kind;
- other infusions and sources of funds.

It is suggested that the loan proposal focus on the economic aspect of project objectives, which is a determining factor for the financial backer looking for the attainment of such objectives to produce a return on its investment.
All corresponding data, information and analyses are to be presented on the standard forms used by financial institutions to assess a project’s economic feasibility.

In sum, the proposed postal reform project could begin to grow on the nation’s top government decision-makers as they are sensitized by public postal officials to the importance of addressing the new challenges and opportunities presented by current trends in market liberalization and competition.

Thus, the postal reform project will include an assessment of the current situation, a description of envisaged project activities and an outline of targeted outcomes. It will be presented for government approval prior to its submission to corresponding funding agencies. The most advisable course of action to help ensure project approval is to seek out the opinion and assistance of UPU support structures such as the Regional Adviser and UPU experts and, where applicable, validation by the UPU International Bureau and restricted postal unions.

The different stages of this process are recapped in the following figure.
The following annexes contain standard forms for the compilation of necessary data for conducting a pre-appraisal study.
PRE-APPRAISAL STUDY

✧ COUNTRY

✧ Information supplied by (name of office manager)

✧ Date
### Socioeconomic Data

<table>
<thead>
<tr>
<th>Area</th>
<th>Population</th>
<th>Population density</th>
<th>Average annual population growth</th>
<th>GNP per capita (in US dollars)</th>
<th>Change in GNP</th>
<th>Global GNP (in billions of US dollars)</th>
<th>Inflation rate</th>
<th>Illiteracy rate</th>
<th>Unemployment rate</th>
<th>Number of</th>
<th>Population of the capital city</th>
<th>% working population/% GNP</th>
<th>Agriculture</th>
<th>Industry</th>
<th>Trade</th>
<th>Service industries</th>
<th>Foreign trade</th>
<th>Imports</th>
<th>Exports</th>
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</table>
### INFORMATION ON DEVELOPMENT OR ADJUSTMENT PLANS

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<thead>
<tr>
<th>National development plan:</th>
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<tr>
<td></td>
<td>no</td>
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<th>Effective date:</th>
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<table>
<thead>
<tr>
<th>Funding agencies:</th>
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<tr>
<th>Is the postal service included in this national development plan?</th>
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<tr>
<th>Structural adjustment programmes for government enterprises</th>
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<td>yes</td>
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<th>Is the Postal Service included in these programmes?</th>
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<tr>
<th>Structural adjustment programmes for government enterprises</th>
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<th>Funding agencies:</th>
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</tbody>
</table>
STATUS OF THE POSTAL ENTERPRISE

- Name

- Current legal status (attach a copy of its bylaws, where possible)

- Advantages of its current status (outline briefly)

- Disadvantages of its current status (outline briefly)

- Is there an ongoing project designed to change its current status?
  - yes
  - no

- If so, to change its status to what?

- Status of the project:
## TRANSACTIONS ON BEHALF OF OTHER AGENCIES

### Telecommunications

<table>
<thead>
<tr>
<th>Service</th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Telephone</td>
<td></td>
</tr>
<tr>
<td>¡ Collection</td>
<td>-----------------------</td>
<td>-----------------------</td>
</tr>
<tr>
<td></td>
<td>Payment</td>
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</tbody>
</table>

### Other services rendered

(describe and indicate the amount of revenue)

<table>
<thead>
<tr>
<th>Service</th>
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<tbody>
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<td>¡ Payment</td>
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<table>
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<th>Service</th>
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<th>Service</th>
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<tr>
<td>¡ Payment</td>
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</tr>
</tbody>
</table>
ADDITIONAL INFORMATION ON THE RESTRUCTURING PROJECT

Aside from the change in legal status, will the envisaged restructuring project affect:

✧ its financial independence?
   
   ➔

✧ service organization?
   
   ➔

✧ its workforce?
   
   ➔

✧ the number of post offices?
   
   ➔

Will the restructuring project require:

✧ funding for its implementation?
   
   ➔

✧ a special compensation package in case of lay-offs?
   
   ➔

✧ investments:
   ☐ in equipment?
   ☐ in buildings?

Previously contacted organizations (World Bank, etc.) and results of these contacts:

➔

➔

➔
Provide an organization chart of the Postal Service including:

- general headquarters;
- regional or departmental headquarters;
- post offices;
- related services.
### TRENDS IN STAFFING LEVELS

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of senior managers</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Number of middle managers</td>
<td></td>
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</tr>
<tr>
<td>Number of line staff positions</td>
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<tr>
<td>Number of support staff positions</td>
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<td><strong>TOTAL</strong></td>
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<tr>
<td>Number of new employees</td>
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<tr>
<td>Number of:</td>
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<td></td>
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<tr>
<td>- retired employees</td>
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<td></td>
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<tr>
<td>- deceased employees</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- resignations</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>- lay-offs</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Percentage</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Number of postal workers per 100 inhabitants</td>
<td></td>
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</tr>
</tbody>
</table>

- **Staff Regulations**
  (attach all pertinent documents and indicate any negative factors)
GUIDE TO POSTAL REFORM  MODULE VI – FINANCING POSTAL REFORM  50 OF 75

- **Hiring procedures**
  (attach all pertinent documents)

- **Promotion procedures**
  (describe customary promotion procedures in the postal sector)

- **Compensation systems**
  - salaries
  - bonuses

  Indicate advertized salaries in the private sector for comparable positions for comparison purposes:

- **Training:**
  - Initial training (duration, by type of position)
  - Follow-up training (How is such training organized?)
MANAGEMENT SYSTEM

Accounting system
- Management accounting
- Business accounting

Budget
- Budgeting and budget implementation procedures

Cash management
- Describe cash management procedures

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MANAGEMENT AUDITING

❖ Guidelines for management audits

❖ Internal auditing
## RATE-SETTING

Can the postal administration independently set its own rates?  
- yes
- no

If not, indicate the prescribed procedure for obtaining a rate increase.

<table>
<thead>
<tr>
<th>LETTERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic rate, first weight step</td>
</tr>
<tr>
<td>Ratio postage rate/GNP</td>
</tr>
</tbody>
</table>

| International rate, first weight step (including airmail surcharge) | 1999 | 2000 | 2001 | 2002 | 2003 |
| Registration charge | | | | | |

### EMS

<table>
<thead>
<tr>
<th>Domestic rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rate for the first weight step</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>International EMS rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zones:</td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
</tbody>
</table>

| Post office box rental fee | 1999 | 2000 | 2001 | 2002 | 2003 |

<table>
<thead>
<tr>
<th>Money order fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>国内 (最低)</td>
</tr>
<tr>
<td>国际 (最低)</td>
</tr>
</tbody>
</table>
COMPETITION

- **International courier firms and parcel services** (use a separate sheet for each firm)
  - Firm name
  - Legal status
  - Number of offices nationwide
  - Staff size – managers (including overseas managers)
  - Number of vehicles
  - Rates
  - Sales volume
  - Number of items:
    - international (inbound items)
    - domestic (outbound items)
  - Market share
  - Projected trends

- **Domestic courier firms**
  (use a separate sheet for each firm)
  - Firm name
  - Number of offices
  - Staff size
  - Number of vehicles
  - Rates
  - Sales volume
  - Number of domestic items
  - Market share
MARKETING SYSTEM

Mail service

◇ Describe the current organization and policy.

◇ Indicate whether:

• there is a marketing department at headquarters level in charge of the framing of marketing policy.

• there are any decentralized units (at what level).

◇ Are there ongoing customer relations (i.e. customer files, contract rates, etc.)?

Financial services

◇ Describe the current organization and policy.

◇ Indicate whether there is a special marketing department for the promotion of financial products.
## ORGANIZATION OF POSTAL SERVICE OPERATIONS

### Mail

<table>
<thead>
<tr>
<th>Number of mailing locations</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Collection boxes in post offices</td>
<td></td>
</tr>
<tr>
<td>Curbside collection boxes</td>
<td></td>
</tr>
<tr>
<td>Pick-up service for large mailers</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Organization of mail delivery service</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of sorting centres</td>
<td></td>
</tr>
<tr>
<td>Number of routes</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Mail transportation</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Types of transportation media</td>
<td></td>
</tr>
<tr>
<td>Number of mail vehicles</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Delivery</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Delivery by mail carrier: number of carriers</td>
<td></td>
</tr>
<tr>
<td>Delivery to post office boxes:</td>
<td></td>
</tr>
<tr>
<td>• total number of post office boxes</td>
<td></td>
</tr>
<tr>
<td>• number of rented boxes</td>
<td></td>
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<tr>
<td>Other delivery methods</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Post office network</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of post offices:</td>
<td></td>
</tr>
<tr>
<td>• main post offices</td>
<td></td>
</tr>
<tr>
<td>• branch post offices</td>
<td></td>
</tr>
<tr>
<td>Number of post offices in urban areas (areas with a population of over 5000 inhabitants)</td>
<td></td>
</tr>
<tr>
<td>Number of post offices in rural areas</td>
<td></td>
</tr>
<tr>
<td>Number of areas not served by post offices</td>
<td></td>
</tr>
</tbody>
</table>
# TRENDS IN MAIL VOLUME (*)

<table>
<thead>
<tr>
<th></th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
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<tbody>
<tr>
<td><strong>Domestic mail volume</strong></td>
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<tr>
<td>Letters</td>
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<tr>
<td>Packets</td>
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<tr>
<td>Parcels</td>
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<tr>
<td><strong>International mail volume</strong></td>
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<tr>
<td><strong>Outbound</strong></td>
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<tr>
<td>Letters</td>
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<td>Packets</td>
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<td>Parcels</td>
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<tr>
<td><strong>Inbound</strong></td>
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<td>Letters</td>
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<td>Parcels</td>
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<tr>
<td><strong>EMS</strong></td>
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<td>Postal revenues (in local currency)</td>
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<td>Value of terminal dues collected (in local currency)</td>
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(*) Figures are rounded off to the nearest thousand.
## TRENDS IN POSTAL FINANCIAL SERVICES

### 1. MONEY ORDERS

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<td><strong>International (and equivalent) service</strong></td>
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<td>Money orders issued</td>
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<td>• Fees</td>
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<td>Money orders paid</td>
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### 2. GIRO SERVICE (CCP)

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<td>Revenues</td>
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<td>Fees collected from account holders</td>
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<tr>
<td>Other revenues</td>
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Are giro services computerized?

Number of counters equipped with terminals linked to postal giro centres

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<td>• Personnel</td>
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<tr>
<td>• Other expenses</td>
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<tr>
<td><strong>Operating expenses for post offices</strong></td>
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<tr>
<td>• Personnel</td>
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<tr>
<td>• Other expenses</td>
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Are these expenses itemized?

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<tr>
<td><strong>Proceeds from investments of funds deposited in giro accounts</strong></td>
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<tr>
<td><strong>Institution in which these funds are deposited or types of investments</strong></td>
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<tr>
<td><strong>Value of funds invested during the year</strong></td>
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<tr>
<td><strong>Interest rate paid</strong></td>
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<tr>
<td><strong>Value of income for the fiscal year</strong></td>
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</table>

| **Market share of giro service** |      |      |      |      |      |
### SAVINGS BANK

**Bank name**

---

**Legal status**

- Is the savings bank an independent establishment?

---

- Is the savings bank part of the postal administration?

---

Are account management services computerized?

---

**Number of windows equipped with terminals linked to the savings centre**

---

### 3. SAVINGS BANK

<table>
<thead>
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<th></th>
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<td>31 December</td>
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<td>Total deposits at 31</td>
<td></td>
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<tr>
<td>December (or the last</td>
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<td>accounting period)¹</td>
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<td>before compounding</td>
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<td>Total compounded</td>
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<td>interest due account</td>
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<tr>
<td>holders for the year</td>
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<tr>
<td>(or the last accounting</td>
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<td>period)</td>
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<td>Total new accounts</td>
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<td>for the year (or the</td>
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<tr>
<td>last accounting period)</td>
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<tr>
<td>Total deposits (not</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>including new accounts)</td>
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<tr>
<td>Total number of</td>
<td></td>
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<tr>
<td>repayments, including</td>
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<tr>
<td>full repayments</td>
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¹ Specify the accounting period
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<th>2003</th>
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<td>Total value of repayments, including full repayments</td>
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<td>Savings bank operating costs (excluding payments of interest)</td>
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<td>Savings bank internal administrative costs:</td>
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<td>• Personnel</td>
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<td></td>
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<tr>
<td>• Other expenses</td>
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<td>Postal Service administrative costs allocable to the savings bank:</td>
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<td>• Personnel</td>
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<tr>
<td>• Other expenses</td>
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<tr>
<td>Does the savings bank pay the postal administration for its services?</td>
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<tr>
<td>Proceeds from investments of savings bank capital</td>
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<td>Value of capital investments for the year (or fiscal year)</td>
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<td>Interest rate paid on these investments</td>
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<td>Value of returns on capital investments for the fiscal year</td>
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<td>Other savings bank revenues</td>
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<tr>
<td>Fees collected from depositors</td>
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<td>Miscellaneous revenues</td>
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<td>Nominal interest rate promised to account holders (indicate the advertised interest rate in percentage terms, describing the loyalty bonus system, if any)</td>
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<td>Market share of the savings bank</td>
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### FINANCIAL POSITION OF THE POSTAL SERVICE

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<td>• Other products</td>
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<td>• Interest paid to savings bank depositors</td>
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<td>• Other expenses</td>
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## FUNDS FLOW

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## Resources

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## BALANCE SHEET

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DEBT

➢ Specify the type and value of short and long-term debts.

FINANCIAL CLAIMS

➢ Specify the type and amount of claims.