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FOCUS AREA 4: POSTAL OPERATOR

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Introduction

Every country has an organization that provides postal services under a set of laws that define its role and obligations. This entity is typically the universal postal service provider, closely linked with the executive branch of government, and in most cases, operates either as a ministry-supervised agency, as a government-owned enterprise (also referred to as state-owned enterprise) or as partially or fully privatized enterprise. There are an increasing number of universal postal service providers that have taken this final step and have been privatized or currently hold a semi-privatized status with the Government maintaining a sizeable share of the organization. While its legal status may vary, the term 'universal postal service provider' denotes its obligation to provide universal postal service on behalf of the government. By providing universal postal services, these postal operators actively participate in the national process of economic development, particularly in developing countries.

The postal sector worldwide has undergone significant changes in recent years due to globalization, market liberalization, reductions in trade barriers, and customer evolution. These changes are driving efforts to redefine the role of postal regulators and operators, particularly the universal postal service provider.

Each country's postal environment has unique features that make it distinct. Addressing the sweeping, fast-paced changes in the postal sector requires understanding that changes are not propagated in the same way, with the same intensity, and at the same pace in all markets. Therefore, one size does not fit all. Some countries have taken 'one-off' measures that have disrupted the entire postal industry. These countries have not studied nationwide conditions or thought about 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 impact of these types of changes on the postal environment, pinpoint obstacles and drivers on the local market, and determine how long it will take for the envisioned reforms to produce desired effects.

To maintain and improve the active role of the universal postal service provider in economic systems, it is crucial to examine the internal and external structural changes occurring within their business models and across the postal market as a whole. Prompt reforms are essential while considering the current climate in each country. A comprehensive study and discussion process are vital to chart future courses of action. The level of governmental and public interest in the postal sector depends on how this process is handled.

Focus area 4 provides postal operators and policy-makers with organized guidelines to adapt to new trends such as sustainable development and digital transformation, two critical elements that are reshaping the business models of both incumbent and emerging competitors.

A reform program for the postal operator requires broad-based discussion at all levels of its workforce to overcome natural resistance. The goal is to raise awareness among employees, sensitizing them about obstacles, and thus facilitating seamless reform and operations. To properly perform its role, the universal postal service provider must assess and project its future services, including delivery conditions, quality standards, universal coverage, and comparison with other players in the postal market.

Of course, for postal operator to successfully adapt to evolving postal environment, it is critical that governments and policymakers have a thorough understanding of the changes these operators must undergo. This includes recognizing the operational, structural, and strategic shifts needed to compete in increasingly dynamic markets. Equally important is assessing whether the existing regulatory framework supports or hinders such adaptation. Regulations that were effective in the past today may impose constraints on innovation, diversification, or partnerships that are essential for modern postal operations. Policy-makers must evaluate whether adjustments to regulatory structures are necessary to enable universal postal service providers to modernize, remain competitive, and fulfill their universal service obligations effectively. Ensuring alignment between regulatory frameworks and operational realities is a fundamental step in any reform process.

Diversification strategies

Many countries are increasingly viewing postal operators as moving from state agencies to being more like commercial enterprises. Even more widely, the decline in volumes in letter mail has reduced the funds available within postal operators to meet the universal service obligation, consistent with UPU Acts. In addition, postal operators may be viewed as means to address other socially desirable and government needs as well as unmet consumer demand, such as offering basic financial services to segments of the population not served by the traditional banking sector. All these reasons have led postal operators to diversify their businesses beyond traditional postal services (i.e. delivering letters, advertising and print publications), or to consider doing so.

Potential economic benefits of diversification can be analyzed from two perspectives: the production side and the buyer side. On the production side, a postal operator already engaged in mail service, may have lower cost of providing the new service as well, leveraging existing infrastructure, expertise, or networks to reduce overall costs. On the buyer side, consumers and businesses may gain value by accessing diversified services. These benefits could include cost savings, greater convenience, or additional utility from the new offerings. Moreover, on both the production side and the buyer side, postal operator diversification into a new sector can make that sector more competitive, lowering prices and improving service quality for the new service. Whether these possibilities are likely is a question that postal operators' managers, regulators, and the public will have to assess if diversification is to be a part of postal reform, especially if initial external funding is required.

The presence of post offices and mail carriers throughout a country, especially in meeting that country's universal postal service obligations, suggests that the postal operator could meet similarly widespread social benefits. It is important to keep in mind that many of the same considerations for economic benefits still apply. It may be important to ensure that everyone in a country has access to basic banking, electronic government, or health care, but postal operators may have to demonstrate that they can do better than other institutions (commercial banks, public libraries, national health services) to make social benefits an important aspect of postal reform and enhance the role of the postal operator in national development. Opportunity cost also remains present, in that postal workers and facilities used to meet these social needs may not be available to provide traditional postal services, perhaps increasing additional financial support for the designated operator.

A potentially important concept to consider is complementarity. A postal operator may be able to participate in the digital transformation and offer financial and other diversified services to its customers in ways that support rather than compete with offerings from incumbents in other sectors where it finds it advantageous to participate. By identifying and exploiting complementarities, postal operators may create synergies that enhance the value of their services while fostering collaboration with potential competitors and gaining support from regulators. In such scenarios, these stakeholders may even become advocates for postal reform. Complementarity, however, is not necessary to make diversification worthwhile. Diversification can still be successful if the benefits of entry into new sectors by postal operators are sufficient and any potential negative effects are small and readily mitigated.

Focus Area 4 (postal operator) – modules

Focus area 4 centers on the postal operator (in certain contexts, the postal operator is referred to as the universal postal service provider) and the strategies for the postal operator to adapt to a rapidly changing technological and socio-economic landscape, to meet new market demands and respond to global trends.

This focus area includes module 4A on the designation, function and ownership of the universal postal service provider. This module defines the role and functions of the universal service provider and examines the different models of ownership and governance models for strategic adaptation to the current economic and political environment.

Modules 4B and 4C delve into the dynamic external environment in which the postal operators function. It highlights critical trends like sustainable development and digital transformation and explores the obstacles and growth drivers that shape their future progress. Module 4B concerns digital

transformation strategies for the postal operator and is structured around three primary segments: (i) digital transformation as a catalyst for sector reform; (ii) the core technical components for digital transformation and (iii) the core strategical components for digital transformation.

Module 4C turns to sustainable development and discusses strategies to mainstream sustainable development as a solution to persistent sectoral challenges after which it discusses various approaches and examples of implementing such strategies in relation to three main pillars of sustainability: environmental sustainability (Module 4.C2); social sustainability (4.C3) and economic and financial sustainability (4.C4). Finally, it presents the core steps to mainstream sustainable development and provides a high-level roadmap for pursuing sustainable development strategies and discusses their practical implication on the postal operator (4.C5). Finally, Module 4.C6 discusses the integration of some aspects of sustainable development and digital transformation under the “twin transition”.

As diversification plays a pivotal role in the strategic evolution of postal operators, module 4D explores the different strategies that can be pursued that can contribute to postal sector growth and relevance. As for other modules, following the PRP’s evidence-based approach, ensuring that diversification projects are grounded in data, research, and empirical analysis, and are well-prepared in accordance with the PRP’s results-based management which provides a structured framework for evaluating and implementing modernization strategies of the postal operators.

Focus area 4 (postal operator) consists of the following modules:

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| 4A | Designation, function and ownership of universal postal service provider |
| 4B | Digital transformation |
| 4C | Sustainable development of the postal operator |
| 4D | Diversification |
| 4E | Cost accounting |

In these modules, instead of the term “postal operator”, occasionally the terms “universal postal service provider” or “designated operator” are used, as appropriate. While in specific contexts, these terms can mean and refer to the same operator, in other contexts, they cannot be used interchangeably because of the specific use of the term in the relevant context.

Module 4A Designation, function and ownership of universal postal service provider

A designated operator (DO), or a universal service provider (USP), is an entity designated by a regulatory body to ensure the provision of essential services, like postal or telecommunication services, to all citizens within a specific area, often at an affordable price. This designation is crucial for maintaining access to vital services, particularly for vulnerable populations and those in remote or underserved areas.

The designation of a postal operator is a key aspect of the postal regulatory framework, aiming to ensure access to essential services across a country's territory. The obligations of the universal postal service are covered in focus area 3 (universal postal service).

4.A1 Definition and function of universal postal service provider

One of the most pivotal issues in framing a proposal for reshaping the postal sector revolves around the role of the provider of the universal postal service. Two distinct designations are often used interchangeably: "designated operator" and "universal postal service provider" as, in the far majority of cases, they apply to the very same entity, typically the incumbent post office.

The universal postal service provider is an entity that has been selected or appointed by the relevant competency authority to guarantee the provision of the requirements and conditions as defined in the universal postal service. The designated operator is designated by the national government to fulfill the obligations arising under the UPU Acts pursuant to article 2 of the Universal Postal Convention.

Article 2 (Universal Postal Convention) on the designation of the entity or entities responsible for fulfilling the obligations arising from adherence to the Convention

1 Member countries shall notify the International Bureau, within six months of the end of Congress, of the name and address of the governmental body responsible for overseeing postal affairs. Within six months of the end of Congress, member countries shall also provide the International Bureau with the name and address of the operator or operators officially designated to operate postal services and to fulfil the obligations arising from the Acts of the Union on their territory. Between Congresses, member countries shall notify the International Bureau of any changes in the governmental bodies as soon as possible. Any changes with regard to the officially designated operators shall also be notified to the International Bureau as soon as possible, and preferably at least three months prior to the entry into force of the change.

2 When a member country officially designates a new operator, it shall indicate the scope of the postal services that the latter will provide under the Acts of the Union, as well as the operator's geographical coverage on its territory.

The universal postal service and the obligations to be fulfilled arising under the UPU Acts includes providing access to postal service, even in remote areas, through a network of interconnected service points. While the UPU provides a framework for international cooperation, the implementation of postal services is governed by domestic legislation, which can specify additional obligations or grant exclusive rights to the designated operator. These obligations are connected through article 3 of the Universal Postal Convention, which provides that 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. 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.

In the context of the Postal Reform Guide, the term “universal postal service provider” is used as it is more strongly connected with the notions of the domestic postal service rather than the fulfillment of international treaty obligations. In this connection, it is important to consider that (1) the services within the scope of the application of national legal instruments and the UPU Acts are overlapping in their definition of basic postal service, for example through article 3 of the Universal Postal Convention and (2) that the obligations defined by the competent authority often specify alongside national postal service obligations, the obligations to perform the international postal service in the fulfillment of the obligations arising under the UPU Acts.

To fully appreciate the socio-economic impact of universal postal service providers, it is important to distinguish them from other postal service providers (such as private operators). Unlike universal postal service providers, private operators are governed mainly by market rules, and are not bound by the extensive obligations that accompany the provision of universal postal service. Moreover, the universal postal service provider's cost structure is quite different from that of private postal operators who can confine their service coverage to more lucrative areas whereas universal postal service providers must ensure comprehensive coverage.

Historically, most countries have chosen to maintain a single provider of the universal postal service. This approach is a hallmark that distinguishes postal services from other sectors with key differences: (i) other sectors, such as telecommunications and energy, do not impose such obligation on a single service operator; (ii) in many cases, universal service coverage in these sectors is ensured by different service operators on a region-by-region basis.

While models from other sectors represent a possibility that should not be discarded in the postal reform, the unique features of the postal sector, even in countries with more developed postal markets or postal reform efforts, should be considered. Accordingly, the postal sector's cost structure is dominated by high fixed costs, driven by its expansive delivery network (domestic and international) and labor-intensive operations. Maintaining a nationwide network of post offices, sorting centers, transport fleets, and last-mile delivery routes requires substantial fixed infrastructure and workforce expenses, regardless of volume. The postal sector still greatly benefits from economies of scale and density, and is highly dependent on human resources. This sets the postal sector apart from other sectors, such as telecom, which rely almost uniquely on technological infrastructure to deliver the service and able to exploit a distribution unit cost approaching zero.

Considering their central role in the postal sector, universal postal service providers are an important linchpin in any postal reform effort. Internal factors warranting special consideration include, without being limited to, their economic and financial stability, physical productivity, as well as universal service financing mechanisms, infrastructure modernization programmes, service coverage expansions, service modernization efforts, and human resource and management development. All these aspects are covered within this module.

Notwithstanding the above, in the context of the UPU there are member countries that have designated multiple operators to fulfill the obligations under the UPU Acts, for example Bosnia and Herzegovina or Kyrgyzstan. Similarly, at the national level, their competent authority may designate more than one operator to fulfill the universal postal service, for example on the basis of administrative jurisdictions or sub-national geographic conditions.

Overview of functions of the universal postal service providers

Fulfill the obligations underpinning the universal postal service (also known as the Universal Service Obligation (USO)): responsible for providing a universal postal service that is accessible to all citizens at affordable prices. This includes regular mail delivery and collection services across the entire territory, ensuring that even the most remote or rural areas are served.

Compliance with national and international standards: the universal service provider/ designated operator must adhere to the technical and operational standards established by the national standardization bodies, regulatory bodies, as well as the UPU, which facilitate interoperability and efficiency in international mail exchanges. This includes standardizing mail formats, delivery times, and tracking systems.

Ensure international cooperation: as designated operator, the universal service provider is obliged to fulfill the obligations arising from the UPU Acts and collaborate with their counterparts in other countries to ensure

smooth and secure international mail flows. This involves sharing information, respecting agreed-upon processes, and participating in joint initiatives to improve global postal services.

Ensure high levels of quality of service: universal postal service providers/ designated operators are expected to meet specific quality benchmarks set by the legislative bodies of government, administrative organs, including regulators, and the UPU, defining delivery times for local, national and international mail and reliability metrics. Regular reporting on quality of service performance and compliance with the established standard is part of the obligation.

Comply with financial reporting obligations: designated operators handle the settlement of accounts related to international mail exchanges, including terminal dues, which are payments made for the delivery of international mail in the destination country. They have to manage these financial transactions transparently and in accordance with UPU regulations.

Security and customs compliance: Ensuring the security of the mail is a critical obligation. Designated Operators must comply with international security standards to prevent the transport of prohibited items and collaborate with customs authorities to facilitate efficient clearance processes.

Innovation and development: universal postal service providers are encouraged to innovate and modernize postal services, incorporating new technologies and practices to meet evolving customer needs. This includes adopting electronic data interchange systems and exploring new service offerings (e.g. use of artificial intelligence, drone delivery, automation of sorting and mail processing; use of parcel lockers, etc.).

4.A2 Designation review procedures

The designation of a universal postal service provider involves selecting the entity to ensure the provision of essential or basic postal services as defined as the universal postal services as well as other ancillary (postal) services as part of the mandate. The designation review procedure typically involves an assessment of potential providers, considering their ability to meet the service obligations, and a designation period that allows for investment and review. In other cases, the legacy universal postal service provider may be maintained as the provider designated to fulfill the mandate in particular where the provider is subject to government oversight or part of government administration.

There are different reasons for regularly reviewing the designation of the universal postal service provider, including:

- (a) **Changing technologies:** advancements in technology, like the rise of digital communication, can impact the relevance of how the universal postal service is provided by the incumbent as well as other postal service providers. The adoption of automation, optimized routing technology, user interface platforms providing full traceability of items moving through the network, the adoption of artificial intelligence or other technologies, such as drones or electrical and low carbon emission vehicles, etc. could lead to more effective and efficient provision of postal and delivery services and may lead to the need to review the designation of the universal provider in favor of the provider that is most capable on providing on the requirements that underpin the universal postal service;
- (b) **Market developments:** increased competition in the market may lead to more options for consumers, potentially altering the need for a designated universal service provider, in particular in favor of the providers that cater the needs of the users of the postal service that are least provided by the market;
- (c) **Social needs:** shifting social needs and priorities may require adjustments to the definition of the requirements of the universal postal service and may subsequently impact the provider that is most capable of meeting those changing requirements;
- (d) **Financial sustainability:** ensuring the long-term sustainability of the universal postal service is crucial and the provider that is best placed to provide continued universal postal services at the lowest possible cost, including potential recourse to compensation and/or subsidies, is of importance in the regular review of the designation of the universal postal service provider.

In accordance with the principles evidence-based decision-making as outlined in the Postal Reform Plan (PRP), the review procedure for the designation of the universal postal service provider starts with

the gathering of all relevant information. The subsequent assessment should lead to a selection and ultimately a decision which formalizes the designation process.

4.A2.1 Information gathering

Information needs to be gathered from all postal service providers requesting detailed information on their existing postal products and services. There is a need to identify what postal service providers are operating at the local, regional and national level and which postal services are provided in each jurisdiction.

A critical aspect of this process is to gather information on the reasonable needs of postal service users.

The competent authority, such as the Ministry with supervision over the postal sector or the national regulatory authority, as applicable, may invite submissions from postal service providers who are interested in being considered as designated provider of the universal postal service in the State, and capable of providing all or part of the universal postal service for the designation period. In this connection, it is important that the submissions for being considered for designation are able to demonstrate in their submission their capacity and capability to provide the universal postal service.

In a bottom-up open competition process (such as described above) or in an assessment (top-down) procedure, information needs to be collected on past performance (either in the provision of the universal postal service or in the provision of postal services or in equivalent services).

In open and closed competition procedures, postal service providers should provide details of their proposed solution, which should include at a minimum the elements that are listed below. Similar information should also be considered in other designation procedures other than determined in an open or selected (closed) selection process:

- **Products and services:** the products and services within the scope of the universal postal service are defined by the legislative or regulatory oversight authorities. It is however important that a competitive process, that details of the universal postal service (including proposed products and services) which the postal service provider provides or proposes to provide to be able to verify and ascertain that those products and services indeed correspond to the definition of the universal postal service. In other words, the postal operator may specify, in detail, the catalogue of services it offers or intends to offer, including the specifications (weights, dimensions, identification, features, etc.), to determine observance with the regulatory requirements.
- **Postal network, equipment and other resources:** details of the proposed postal network, including systems and resources, which it intends to implement and operate (including an appropriate Business Continuity Plan that demonstrates how the continuity of the universal postal service will be ensured during periods of disruption). These details should demonstrate the postal service provider's capability to continuously provide the universal postal service and should include the necessary access and delivery arrangements for all postal service users. Such information should furthermore include details that demonstrate how the geographic location of access and delivery points and their proximity to citizens respond to the needs for the universal postal service.
- **Cost-efficient operations:** details should be provided to demonstrate how the service will be provided in a cost efficient manner, including details of operations management processes that will continuously oversee cost efficiency, fully recognizing that dedicated delivery networks of parcels and letters, where such items are separated, may have distinct differences in operations and costs. Details on the cost efficient operations are important for an assessment of the viability of the provision of the universal postal service with or without compensation as it directly affects the financial sustainability of the universal postal service provision.
- **Price:** where tariff requirements are established, for example in the postal law, information needs to be provided demonstrating that the postal service provider is in the financial capacity to meet such tariff requirements. Alternatively, the applicant would need to submit a proposal of cost-oriented tariffs that recognize furthermore the specific obligations that are set out in the

definition of the universal postal service, for example uniform tariff requirements as well as other affordability requirements.

- **Quality of service:** information demonstration that the postal service provider will meet the requirement for the universal postal service to be provided to the specified quality levels.
- **Other aspects:** information on the financial standing of the postal service provider and economic evidence demonstrating that the postal service provider is in a stable financial position and capable of ensuring continued provision of the universal postal service proposed for the entire designation period. Information on staffing and workers' conditions and protection are important as well.

4.A2.2 Assessment and selection

It is important that the competent authority, such as the Ministry with supervision over the postal sector or the national regulatory authority, assesses the extent to which the market for the provision of postal services is meeting the reasonable needs of postal service users. It may also be relevant to review and assess whether each of the universal postal services would be provided by the market without the designation of a universal service provider. Such an assessment should include, but is not limited to:

- (a) an assessment of the postal products and services provided by the current designated provider of the universal postal service (if any such operator is designated) and other postal service providers to ascertain the markets' capability to provide the universal postal service for the entire territory of the country and to the required levels of accessibility, quality and affordability, and;
- (b) an assessment of any potential negative impacts on the postal market resulting from not designating a provider (or more than one providers) of the universal postal service, including the possible actions which may be taken by the current provider(s) if no designation is applied.

Such an assessment is particularly relevant for the development of hypothetical non-USO scenarios, i.e. scenarios in which there is no defined requirements for the provision of the universal postal service, to identify the net-burden of these obligations, which may form the basis for the subsequent determination of compensation, if so required.

In an open competition or a closed selection procedure, the relevant authorities will need to review and assess all information gathered as part of its designation review process. Such information is provided, in good part, by the postal service providers as well as any other relevant information in the possession of the relevant competent authority.

There are many ways in which the assessment can be conducted, it could emphasize quantitative information, foresight projections or review historical evaluations, it should nonetheless at least include the following three criteria:

- (i) the solution which will best ensure the provision of the universal postal service covering the entire country with the least market distortion;
- (ii) the solution that best meets the reasonable needs of postal service users; and
- (iii) the solution which represents the most efficient and cost-effective or financially sustainable way to provide the universal postal service for the state.

National specific circumstances need to be taken into consideration, such as regional and cultural structures, socio-political realities which may involve levels of decentralization or the existence of special administrative regions as well as operational efficiency considerations. These circumstances could determine whether it would be appropriate to designate more than a single provider of the universal postal service. This decision could be made independent from the formal designation of an operator to fulfill the obligations arising under the UPU Acts.

Critical elements of the assessment and selection process involve a needs assessment (based on factors such as availability and affordability of essential services); provider evaluation (potential providers are evaluated on their capacity to meet the service requirements, network infrastructure, and

financial capacity); consultation (to gather relevant input from stakeholders, including potential providers); competitive process (in some cases) and the determination as to whether a single or multiple providers are required to meet the specific requirements for the universal postal service.

The table below summarizes the methods used to select an operator responsible for fulfilling the universal postal service.

Figure X: Methods used to select an operator responsible for fulfilling the universal postal service

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| <p>No designation</p> <p>In some countries there is no formal designation of the provider of the universal postal service. Reasons may be the existence of other (softer) instruments, such as a memorandum (or deed) of understanding between the government and the incumbent post office or the incumbent post office is under ownership of the government and provides reliable postal services that are fully meeting the universal postal service requirements even absent a formal designation. Consequently, without the formal designation, in most cases, the provider of the universal postal services, would find difficulty to access compensation for the provision of the universal postal service.</p> | <p>Closed selection</p> <p>A closed selection designation for a universal service provider means that a specific entity is chosen to fulfill the universal service obligation, typically without a competitive bidding process. This is often done when a government or regulatory body decides that a particular company is best suited to ensure universal access to essential services, like postal delivery or telecommunications, for all citizens. The designation of the universal postal service provider based on a closed selection may be the result of assessing the performance and capacity of more than one provider of the postal service. Different from an open competition, the closed selection procedure would not receive applications from interested providers of postal services. Reasons for a closed selection may include the maintenance of existing infrastructure and investment or to ensure service quality and stability.</p> |
| <p>Open competition</p> <p>In an open competition for designating a universal postal service provider, regulatory bodies invite postal service providers to bid for the responsibility of providing a universal postal service. This process ensures transparency and fairness in selecting a provider to fulfill the universal service obligation (USO), which guarantees access to essential services for all citizens, regardless of location or economic status.</p> <p>It is important that the process is governed by principles of objectivity, non-discrimination, and transparency to ensure a fair and impartial selection. The designation is typically subject to regular review to ensure that the chosen provider continues to meet the requirements. An open competition procedure may also be relevant for potential government subsidy or other arrangements for the compensation of the net-cost of the USO, in particular where the assessment process has considered cost-efficiency of the applications as part of the open competition process.</p> | <p>Legacy decision</p> <p>A legacy decision designation in the context of universal service providers refers to the existing designation of the entity as the provider of a universal postal service. This designation is not necessarily permanent and is subject to review, potentially leading to changes in the designated provider, the scope of the service, or the conditions of the designation.</p> <p>A legacy decision applies by default where the provider of the universal postal service is established, by law, as a governmental entity (e.g. governmental agency).</p> |

4.A2.3 Decision

Decisions designating a postal operator to fulfill the universal postal service can result from legislative processes by which the designation of the provider of the universal postal service is subject to the

adoption of a legislative act (in France for example¹). A national postal act can define the entity, such as the national post office, that is mandated to fulfill the universal postal service.

In other countries, the postal act, as adopted by the outcome of national legislative processes, does not specify the entity or entities to fulfill those obligations. The designation of the provider of the universal postal service may then be the outcome of a separate administrative procedure provider for in the postal act. The postal act may have a more permanent or long-term application than a decision on the designation of the universal postal service provider, with the latter being subject to periodic renewal. The designation could be qualified, i.e. based on the fulfillment of the obligations by the incumbent operator including the provision over the current or prior period in terms of the scope of services as well as level of performance in terms of customer satisfaction, complaints handling and quality of service.

To the extent that they exist as separate instruments, the postal act, the administrative decision and the concession contract are complementary and exhaustively address all relevant obligations, requirements, benefits and other conditions appropriate to the fulfillment of the universal postal service. The obligations are those that are addressed in Focus Area 3 of the Postal Reform Guide which covers the definition and scope of the universal postal service. The benefits could provide for compensation for the universal postal service, through funds or subsidies, or the exclusive rights to carry addressed postal items, otherwise known as the reserved area.

Concession

Concessions are an administrative instruction or an agreement by which a governmental body outsources all or part of the operation of an economic activity to a third party, which then bears the risk of that operation. Concessions are awarded by contracting entities for the purpose of meeting the requirements of several activities. Determination of the scope of activities for which the concession is principally intended can be based on an analysis of the requirements which the specific concession must meet, carried out by the contracting entity for the purposes of estimating the concession value and drawing up the concession award documents.

A postal operator's "concession" is linked to its obligation to fulfill the universal postal service in the country. A concession is a formal agreement granted by the government, essentially licensing the postal operator to provide a core set of postal services under specific conditions, including the provision of a universal postal service. This means the concession holder has a legally mandated obligation to ensure that certain postal services are available to everyone at affordable, uniform prices throughout the territory of the country.

4.A3 Ownership and governance of universal postal service provider, and key areas of modernization

Universal postal service provider can be either owned by the government or be private entities, with notable differences in their structure and governance. However, in addition to these external features, organizational culture is equally important and should be addressed in conjunction with other key areas of institutional modernization.

4.A3.1 Ownership structure and governance

While the legal status of a postal operator and whether it is government-owned or (partially) privatized does not directly affect the scope or funding of its obligations in relation to universal postal service, it does influence how freely a post can operate its business activities.

Unit within a ministerial department or an agency of government

¹ Loi n° 2010-123 du 9 février 2010 relative à l'entreprise publique La Poste et aux activités postales – according to which La Poste is designated as the provider of the universal postal service for a period of 15 years ending on 31 December 2025

In the past - and still today in many countries - universal postal service providers continue to operate as postal administrations, typically functioning as departments within a ministry that may also oversee communications, telecommunications, or transport.

From an operational perspective, these entities often lack proper accounting systems, operate under government-defined budgets, and frequently run at a loss. Yet their actual financial performance is difficult to assess due to the absence of rigorous cost accounting. Political interference is common, with politically appointed managers frequently at the helm. Financial incentives to generate sufficient revenue or control costs are generally weak, undermining efforts to deliver services on a financially sustainable basis.

The service network is usually fully owned and operated by the universal postal service provider, but it is often undercapitalized and poorly equipped. Retail outlets frequently lack even basic technology, reflecting chronic underinvestment driven by budgetary constraints and the structural rigidity of government-run organizations.

Moreover, in many cases, the same government department—or a closely affiliated division—is also responsible for regulating the universal postal service. This lack of institutional separation makes it difficult to ensure either fair and independent regulatory oversight or autonomous, commercially driven decision-making. As a result, regulatory neutrality is often compromised, and operational decisions may be unduly influenced by policy priorities.

Government-owned or controlled universal postal service providers (SOEs)

In many countries, universal postal service providers have been separated from ministerial departments or government agencies and established as independent entities, although ownership and control remain with the government. These entities may take the form of publicly owned legal bodies established by specific statutes or corporate entities organized under general corporate law.

They operate with a degree of autonomy as distinct organizations, rather than as components of government administration. However, depending on the provisions of the specific statutes, the conditions imposed on these entities, or the way in which government ownership is exercised, they may ultimately remain subject to government control. In terms of financing, they are generally less constrained by the government budgetary process and, in some cases, may even be able to raise funds through private capital markets—for instance, to support postal infrastructure development. Given that their purpose and activities—or large parts thereof—are of an economic nature, these universal postal service operators can be classified as state-owned enterprises (SOEs).

However, a mere legal transformation from a government bureaucracy into a state-owned enterprise operating on a commercial basis is not sufficient. It must be accompanied by a robust commercialization effort—embedding commercial objectives and practices into management and operations, and cultivating a business-oriented organizational culture.

In some cases, countries have adopted the SOE model as a transitional stage prior to establishing a fully autonomous universal postal service provider structured as a commercial private company. This staged approach allows for a gradual development of institutional capacity and operational maturity before entering a phase that requires greater flexibility and autonomy. Countries should carefully assess the organizational culture and the capacity of human resources to manage the challenges associated with transitioning to a more autonomous corporate model.

Privately owned universal postal service providers

In a few countries, universal postal service providers have been privatized—either fully, with no government-owned shares, or partially, with the government retaining a stake. This typically involves the transfer of ownership from the public to the private sector through the sale of shares.

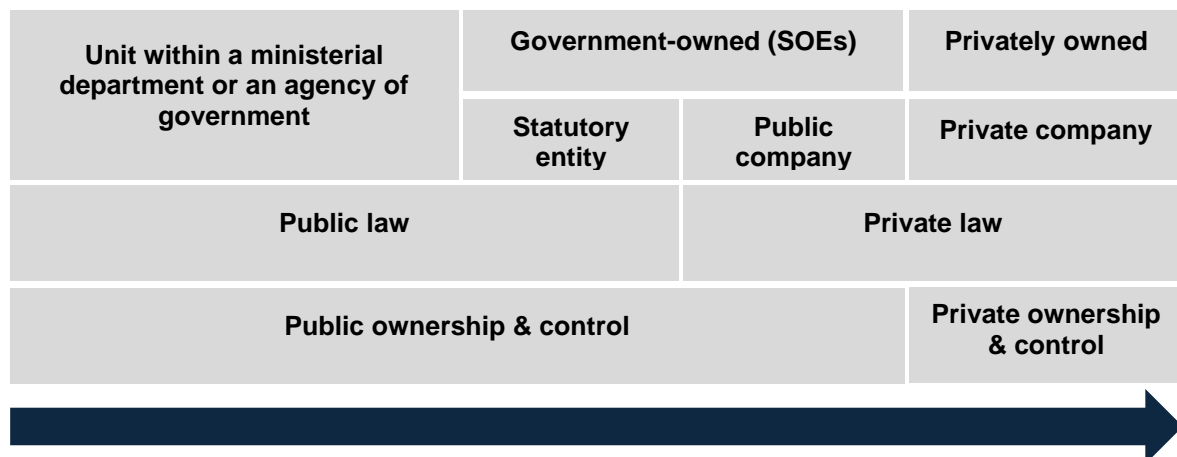
As private commercial entities, these universal postal service providers are able to compete with other private operators under comparable conditions. Privatization grants them greater operational and financial autonomy, aligned with clear commercial incentives such as profit generation and shareholder

returns. This enables them to pursue their objectives more effectively and respond with greater agility—including through access to market-based financing—to evolving technologies and changing market demands.

However, privatization is not always inherently beneficial. If pursued without sufficient preparation, it can undermine universal postal service provision. When a privatized provider prioritizes commercial interests, the guarantee of service to marginalized or underserved communities may weaken. This can result in the erosion of service standards overall—particularly in terms of access and affordability. In some cases, financial difficulties faced by privatized providers have even jeopardized the continuity of universal service itself.

To address these risks, a well-designed regulatory framework is essential. Such a framework should clearly define the scope and standards of universal service, specify the obligations and rights of the universal postal service provider, and be backed by robust enforcement mechanisms. Instruments such as management contracts or concession agreements can help ensure that universal service obligations are upheld even in a privatized environment.

Figure X: Ownership structure of universal postal service provider



Decision-making autonomy over operations, staffing, budgeting

Self-financing

Increased access to outside investment

Strategic alliances, joint ventures and acquisitions to increase vertical and horizontal reach

Increased productivity, manage to bottom line

Commercial focus

Market orientation

Depending on the legal model the country chooses for its universal postal service provider, the regulatory framework should, as far as possible, facilitate commercial, operational and financial decision-making so that it can provide the universal postal services entrusted to it by the state in a speedy, efficient manner and respond to the demands of the market and the changing technological environment.

Regardless of the ownership model, it is essential that the regulatory framework governing the universal postal service provider enables it to:

- Decide on and amend its organizational structure;
- Determine and implement its business and service provision strategy;

- Manage its personnel policy, including recruitment, remuneration, operational and geographical mobility, staff training;
- Decide on its pricing and discount policy within the limits set by the regulations governing basic postal service (universal postal service);
- Freely enter into contracts with suppliers;
- Manage its assets (lease, sell, assign, trade, etc.);
- Enter into agreements and partnerships with national or foreign operators or share infrastructure, optimize resources, provide services, etc.

In conclusion the choice of ownership and governance model for the universal postal service provider should reflect national priorities and market conditions. 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, as well as its market and the government's policy objectives. A flexible and enabling regulatory framework is vital to ensure that these operators can meet their universal service obligations while remaining competitive and responsive to evolving market demands.

The importance of laying the necessary legal, administrative, and economic foundations to enable the universal postal service provider to hold its ground in the face of increasingly intense and sometimes predatory competition cannot be overemphasized. Failure to do so could be detrimental to the government, customers, and the general population.

The challenge for universal postal service providers is to strike a balance between the commercial orientation of a modern postal enterprise with precise business and profit-making objectives and its public side, with high social responsibility, stemming from governmental obligations relating to the universal postal service – its *raison d'être*.

In the business world of universal postal service providers, these two dimensions are not contradictory but, rather, mutually complementary. The closer the universal postal service provider is to the public, the better its business prospects

4.A3.3 Organizational culture

Organizational culture refers to the collection of ideas, values, and norms shared by co-workers in any organization that shapes their attitudes and behaviors. Moreover, the role played by this culture is vital to the organization's success.

Any programme or project affecting the organizational culture must encompass 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 (sociocultural, professional, and educational background);
- rites and symbols (co-workers' attitudes towards one another, the workplace, etc.);
- communication (internal, external, formal, informal, top-down/ bottom-up, etc.);
- strategies (form, content, effectiveness, etc.);
- general management philosophy.

It is essential to understand that many cultures facilitate communication and the sharing of information and experiences. There is not just one culture but a series of constantly emerging subcultures as each organization member learns and adapts to the values and norms of each area during 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 several 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 when managing the organization as a whole. The universal postal service provider has its own organizational culture shaped mainly by the national culture, its position within the postal sector's regulatory framework, its public image, and many other factors embodied in its workers, their notions, and their positive and negative values.

For example, universal postal service providers in the red or whose service revenues do not cover their costs are generally more likely to distance themselves from their customers, since the organization's survival is not directly tied to their service quality. Typically, employees in such organizations feel that they are paid the same low wage whether they provide good or bad service. Thus, reform efforts will need to help change specific values and notions that hinder the development of the universal postal service provider while, at the same time, strengthening the positive values and notions making up the organizational culture.

The following illustrates a few of the notions and values that need to be changed. The list is for reference purposes only. It will need to be expanded or narrowed down according to the universal postal service provider's national context and organizational climate. Remembering that the success of reform efforts hinges on implementing necessary changes to the organizational culture is crucial. This long-term process takes time to bear fruit.

- Process-driven → Results-oriented

In the past, employees in postal services were trained to prioritize strict procedural compliance. In a reformed environment, staff must internalize a culture that values tangible results—such as service quality, customer satisfaction, and cost-effectiveness. This shift motivates employees to take ownership of outcomes, encourages initiative, and rewards performance over mere process adherence.

- Strict adherence to rules → Constantly evolving expectations

Postal staff often operated under rigid hierarchies and fixed rules. In a modernized universal postal service provider, employees must embrace a mindset of continuous learning and adaptability. Instead of “doing things the way they’ve always been done,” they are encouraged to anticipate changes, question outdated practices, and proactively adjust to evolving customer and market expectations.

- Users-centric service experience → Customer-centric service experience

Rather than viewing users as passive recipients of regulatory-mandated services, employees must recognize them as valued customers with diverse expectations. This cultural shift demands greater empathy, a service-oriented mindset, and attentiveness to customer feedback. Staff are empowered to move beyond routine service delivery and foster personalized, positive experiences that build trust and long-term customer loyalty.

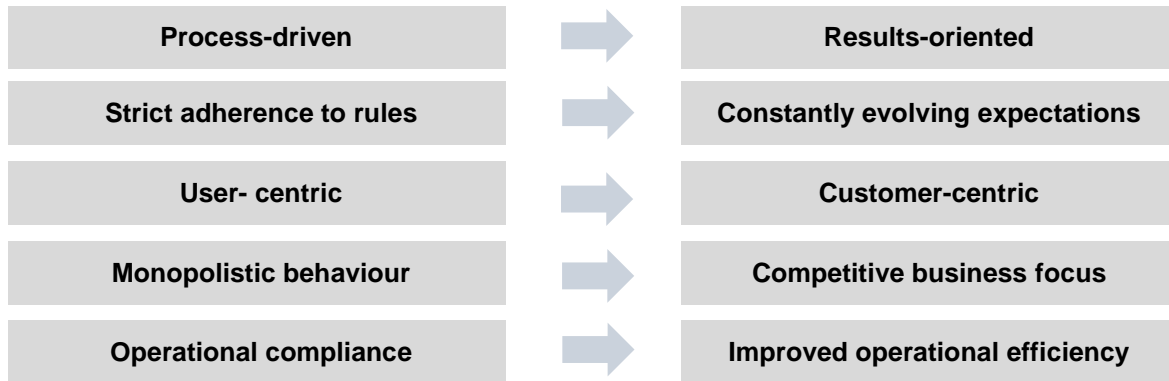
- Monopolistic behaviour → Competitive business focus

A legacy of monopoly often led to complacency among staff. In a competitive landscape, employees need to think like business professionals - focusing on efficiency, innovation, and differentiation. This entails being aware of competitors, identifying opportunities for service improvement, and contributing to the organization's viability through proactive engagement and entrepreneurial thinking.

- Operational compliance → Improved operational efficiency

Where once compliance meant simply following orders, today's postal employees must contribute to continuous improvement. This involves identifying bottlenecks, proposing innovations, and adopting new technologies. Efficiency becomes a shared value, not just a managerial goal, and staff are encouraged to take initiative in optimizing workflows and enhancing service delivery.

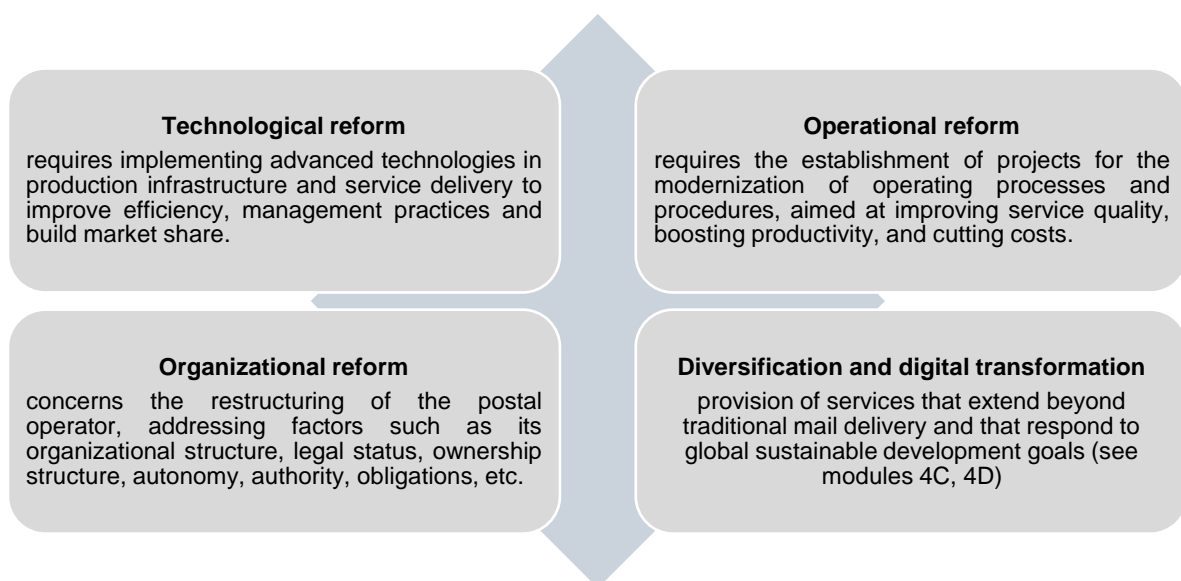
Figure X: Changes in the organizational culture



4.A3.4 Key areas of institutional modernization

To create a comprehensive modernization plan for postal services and the universal postal service provider, reforms must address four key areas – technological, commercial, operational, and organizational. These dimensions collectively shape the core business model and activities of the universal postal service provider.

Figure X. Framework for modernizing the universal postal service provider



This figure illustrates the interconnectedness of technological, commercial, operational, and organizational modernization strategies, demonstrating how these elements collectively contribute to devising a more resilient, competitive, and innovative universal postal service provider.

A critical component of modernizing the universal postal service provider involves the development and implementation of **a robust cost accounting system**. Such a system enables precise cost allocation across various services, distinguishing between universal postal services and competitive offerings. Its benefits include:

- **Financial Transparency:** By improving financial transparency of the universal postal service provider, cost accounting models help governments and regulators evaluate the cost of the universal service and other services, allowing them to make informed decisions on pricing, subsidies, and investments.
- **Compliance and Prevention of Cross-Subsidization:** The system also promotes compliance with regulatory requirements and prevents cross-subsidization between universal and non-universal services, ensuring a level playing field in competitive segments of the postal market.
- **Enhanced Decision-Making:** The system provides critical data for strategic planning, including tariff setting, investments, and operational efficiency improvements.

Cost accounting (Module 4E) is a fundamental tool for postal operators in both developed and developing countries. It supports the assessment of financial performance of the universal postal service provider, identifying inefficiencies and ensuring that pricing structures reflect the true cost of service delivery. In countries undergoing reform, the introduction or improvement of a cost accounting system is crucial for ensuring the long-term viability of the postal sector.

As universal postal service providers worldwide face challenges from digital transformation and declining mail volumes, diversification has become a key strategy for modernizing operators and their services. By expanding offerings beyond traditional mail delivery—such as financial services, logistics, and digital government services—operators can generate new revenue streams, enhance financial sustainability, and better meet evolving consumer needs.

Diversification offers significant benefits, including improved financial performance, greater operational efficiency, and increased social inclusion by providing essential services in underserved areas. However, it also entails risks, such as regulatory concerns over cross-subsidization, heightened competition from private-sector players, and operational complexities. Therefore, postal reform strategies must carefully assess market conditions and regulatory requirements to ensure that diversification supports long-term sustainability and broader reform objectives.

Case study: Ethiopia's Postal Reform

A compelling example of how growth factors come together in practice is Ethiopia with its comprehensive overhaul of its postal sector.

In 2020, Ethiopia embarked on a reform process aimed at revitalizing its postal services. This ambitious reform sought to restructure the postal institution to enhance its efficiency and innovative capacity. The reforms were multi-faceted, targeting improved resource allocation, fostering an environment conducive to private sector participation, and addressing critical vulnerabilities within the system.

Organizational Restructuring: Ethipost began its reform by conducting an internal assessment of its business units and support teams, identifying inefficiencies such as overlapping responsibilities and unclear reporting channels. Based on the findings, a recalibration plan was developed to streamline operations, align units with their business functions, and establish clear and effective reporting structures. This restructuring not only improved operational efficiency but also created a more focused organization capable of meeting strategic objectives.

Technology and Innovation: Key to Ethiopia's reform strategy was the adoption of a state-of-the-art Enterprise Resource Planning (ERP) system. By implementing modules for Finance (FICO), Human Capital Management (HCM), and Material Management (MM), the ERP system replaced traditional, outdated processes with modern, transparent, and efficient workflows. This shift optimized resource usage, reduced operational costs, and minimized risks of fraud and theft.

In addition, Ethipost began the process of complying with International Financial Reporting Standards (IFRS). This alignment with global financial reporting practices enhanced transparency and comparability, strengthening Ethipost's reputation among international stakeholders.

Outcomes: The reforms have yielded noticeable results, including exceeding profit targets and significantly improving employee morale. Ethipost introduced innovative services, rebranded its operations, and improved its visibility, thereby reinforcing its market presence. These achievements have also improved Ethipost's ranking in the UPU global ranking, further validating the success of its modernization efforts.

Alignment with National Strategies: Ethipost's reforms were not only internally focused but also aligned with Ethiopia's national development agenda, particularly the Digital Ethiopia 2025 strategy. Through partnerships with governmental and non-governmental organizations, Ethipost actively contributes to improving digital access and inclusion, ensuring that its modernization benefits the broader population.

This case study serves as a compelling testament to the potential of postal reforms to catalyze significant improvements in service delivery, operational efficiency, and financial health. Ethiopia's experience underscores the importance of a strategic, multifaceted approach to reform, one that embraces technological advancement, structural recalibration, and alignment with international standards.

4.A4 Postal modernization strategies

The business environment for universal postal service providers has undergone significant changes. The decline in letter-post income has been noticeable, dropping from 50% in 2005 to 32.2% in 2023, while revenues from parcel and logistics services have risen from 11% in 2005 to over 32.7% in 2023². This major shift has forced universal postal service providers to confront critical decisions regarding their business models, particularly concerning the delivery ecosystem. This includes implementing digital platforms for tracking goods and optimizing routes, as well as adopting flexible scheduling practices typical of last-mile delivery. Additionally, the growing significance of e-commerce in global trade is driven by two key trends: an aging population in some countries and the expanding middle class in other markets.

Moreover, failures to better integrate the postal sector into government development policy have reduced the visibility of its existing benefits to society and the economy, and restricted the reform of the postal service model to better meet national priorities. The result is often a deterioration in investment and service quality, increasingly limited service-offerings, and a lack of motivation on the part of the postal workforce, which altogether creates a pressing need for change.

Government efforts to balance the budget and limited investment funding are also key barriers to postal development. Maintaining a universal postal service with an increasingly large budget deficits puts more pressure on the public treasury and may pose risks for state financing of postal modernization efforts.

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 going to private enterprises instead of helping to defray the cost of providing essential postal services to remote areas, thus destabilizing the delicate financing mechanism established under the current postal service model.

The universal postal service provider's regulatory, business, organizational, and technological model needs to be adapted to these new phenomena. Faced with a rapidly changing postal environment, countries – such as the member states of the European Union; Japan, Malaysia, and Singapore in Asia; Australia and New Zealand in Oceania; and Brazil, Canada, and the United States of America in the Western Hemisphere – have spent years discussing and redesigning their service operating models to reconcile social objectives stemming from universal postal service obligations with corporate objectives

² These numbers are calculated based on available data and represent the average share of revenue by product (e.g., letter and parcel), but without applying a revenue-based weight. Consequently, these figures are derived as a simple average of the revenue shares of individual members.

driving postal business activities in a competitive environment. While such models are not necessarily identical, they have several core elements in common, such as:

Core elements of postal service modernization

- The gradual phasing out of the exclusive (or reserved) area and its replacement with other compensatory mechanisms;
- Guaranteed universal postal service financing by strong universal postal service providers;
- The separation of the postal administration into separate regulatory and operational functions, which were previously informed by the same administration of the universal postal service provider;
- The expansion of the scope and objective of the regulatory function to encompass the entire postal market and therefore extends beyond the oversight of the universal postal service provider;
- A clear vision of the obligations of the universal postal service provider with respect to the provision of universal access to basic postal services;
- 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.);
- 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;
- The introduction of cost-accounting principles, with separate cost determination for basic services, different universal postal services, and services open to competition;
- The updating of technology used in operating processes to strengthen the competitiveness of the designated operator (improving its speed, operating capacity, efficiency, and quality and lowering its costs);
- The expansion of service offerings to make better use of existing infrastructure;
- Uptake of technology across all services, primarily value-added services (automation, hybrid mail, e-commerce, integrated logistics services, financial services, and miscellaneous derivatives of different combinations of these services in value and supply chains);
- The modernization of administrative and production infrastructure.

In many countries, universal postal service providers have not yet been corporatized or transitioned into independent enterprises and instead they continue to function as administrations strongly linked to government ministries or as a government agency. Additionally, it is crucial to understand the regulatory aspects that underpin the heritage of past models and how to navigate them. However, the evolution of both public and private organizations is currently being impacted by two major global trends: sustainable development and digital transformation.

- **Sustainable development:** an increasing awareness of deteriorations in the natural environment (e.g., plastic waste, air pollution, climate change) and challenges related to people's quality of life (e.g., health, inequality, loneliness) is driving demand for more responsible and responsive service provision within the postal sector. This is visible through progressively strengthening environmental and social regulations; the sustainable development requirements imposed by business partners and investors; and demands by customers for services that generate positive impacts on the environment and communities. Mainstreaming sustainable development in postal reform is discussed in module 4C.
- **Digital Transformation:** the integration of technologies such as mobile technology, automation, AI, robotics, and data analytics into postal and logistics operations is driving efficiencies in the core letter and parcel business, as well as expanding the variety of services available to postal customers. The rise of a data-centric and platform economy has changed consumer interactions, as well as the delivery of essential services such as payment, banking, and government administration. This transformation has not only increased the speed of service provision but also raised clients' expectations around accessibility, security and quality of digitally-enabled postal services. Digital transformation as the catalyst for postal sector reform is analyzed in module 4B.

Module 4B Digital transformation

Digital transformation is one of the vital issues that postal operators must consider for their future development. Digital transformation is critical for aligning universal postal service providers' e-commerce strategy with government digital strategies and using the digital enablers to provide all citizens with simple, reliable digital access to postal services. This module discusses digital transformation as a catalyst for postal sector reform and delves into detail on the core components of digital transformation

4.B1 Digital transformation as a catalyst for sector reform

Approximately three decades ago, postal operators began to experience the impact of digital innovation - the gradual transition from paper-based communication to electronic communication brought forth the "e-substitution" phenomenon. In recent years, digital innovation has grown and diversified significantly. The process started by digitizing documents and objects and automating sorting centers. However, it has evolved into a holistic digital transformation of all postal processes and functions, from operations to customer service.

The recent revolution in information and communication technology has threatened traditional physical letter mail and message traffic. However, it has also presented postal operators with numerous new business opportunities, such as hybrid mail, e-commerce, and integrated logistics services. As a result, postal operators are shifting their investments from mail-centered to parcel- and recipient-centered value chains.

Accordingly, digital transformation in postal services refers to fully integrating digital technology into all aspects of operations. It entails reimagining organizational culture, management structures, and business models to harness new technologies—particularly artificial intelligence (AI), Internet of Things (IoT), cloud computing, and advanced analytics. It's important to stress that **digital transformation is not a one-time project but a continuous journey that requires strategic planning, investment, assessment of customer needs, and a willingness to adapt**. By embracing digital technologies, postal operators can better position themselves in a rapidly evolving market and deliver enhanced value to their customers.

When executed effectively, digital transformation can drive:

- **Greater Operational Efficiency:** automating tasks like sorting, tracking customer service, and forecasting to reduce cost and improve speed;
- **New Revenue Streams:** leveraging data assets to provide e-commerce services, digital financial services, or digital government services;
- **Digital inclusion:** expanding connectivity in underserved regions and offering digitally enabled services, bridging digital divides and promoting financial inclusion in rural or marginalized communities

Digital transformation also presents barriers that need to be tackled, such as legacy systems, which may hamper its successful deployment. However, digital transformation should align with broader sector reform efforts, modernizing postal operators to best serve customers and deliver on public policy objectives more effectively:

- **Policy Innovation:** Governments can embed forward-looking rules that encourage data sharing, automate Customs processes, and ensure fair competition between public postal operators and private logistics providers.
- **Customer-Centric Services:** With robust digital platforms, designated operators can best adapt and anticipate their customers' needs.

- **Cross-Sector Collaboration:** Digital postal services can link with other industries (financial services, telecommunication, local retail) to promote sustainable and inclusive socio-economic development.

4.B2 Core technical components for digital transformation

To integrate physical processes and objects more efficiently, postal operators require near real-time systems that can exploit new resources, such as information platforms, delivery management applications, and business intelligence platforms. However, digital transformation is not merely about adopting enabling technologies; it is also about establishing an innovative culture and business model with a clear roadmap that enables the efficacy of a particular technology.

Successful digital transformation requires some key technical components:

- **Digital Infrastructure:** e.g., Telecommunications assets, servers, secure cloud platforms, and resilient IT systems (Example: PT Pos Indonesia - Persero)
- **Automation & AI:** e.g., Robotics for sorting, machine learning for demand forecasting, chatbots for customer service.
- **Data & Analytics:** e.g., Predictive analytics guide strategic decisions, while data-sharing with policymakers fosters evidence-based regulation.
- **Integrated Platforms:** e.g., CRM, ERP, mobile apps, and specialized postal IT frameworks (e.g., UPU's IPS and CDS) for seamless transactions.
- **New Business Models:** e.g., Subscription-based logistics, on-demand deliveries, partnerships with startups.

Examples of digital solutions ³

Internet of Things platform, which allows to connect a diverse range of objects and devices, favoring inventory automation and on-demand delivery;

Mobile app to monitor and track on-demand parcel delivery with real-time notifications;

Chatbots for real-time customer service;

Geographic information system (GIS) for e.g., route optimization

4.B3 Core strategical components for digital transformation

It is important to note that technological development should be integrated into a well-planned strategy crafted by the universal postal service provider. The strategy should consider the following guiding pillars, which encompass assessment of current capabilities, desired vision for the future, monitoring of progress, risk management and stakeholder engagement at different levels:

- **Assessment of Capabilities** – Tools like the UPU's Digital Transformation Assessment (DTA) help operators identify obstacles, strengths and opportunities.
- **Vision and Roadmap** – A phased approach, linking corporate strategy with national digital policies.
- **Measuring and Refining Digital Progress.** It is necessary to establish:
 - **KPIs & Metrics:** Cost savings, digital revenue, user satisfaction, adoption rates, and EAD (Electronic Advance Data) quality for cross-border operations.

³ For a more comprehensive description of these examples, please check [here](#).

- **Continuous Improvement:** Real-time monitoring fosters agile decision-making. Feedback loops allow operators to modify services in response to consumer trends.
- **Risk Management and Resource Mobilization.** This area includes:
 - **Infrastructure Gaps:** Collaborations to deploy digital infrastructure in areas where private investment is low.
 - **Workforce Adaptation:** train employees in digital skills.
 - **Cybersecurity & Data Protection:** Compliance with national CERT guidelines and participation in UPU's ISAC.
- **Stakeholder Engagement** – Success hinges on close collaboration with regulators, tech providers, e-commerce companies, and the public. This ensures that new services align with public policy objective.

In addition, postal operators are increasingly seeking to partner with new types of innovators, including start-ups, to develop new capabilities. This collaboration enables start-ups to benefit from a postal operator know-how, infrastructure, and network. At the same time, the postal operator can identify best-in-class innovators early on and test their services in a 'real-life' environment. Specific initiatives such as hackathons, innovation centers, and specialized venture capital units foster such collaboration and stimulate the exploitation of existing resources through a collaborative effort or the creative exploration of new paths.

Case Study: Indonesia - Digital transformation of Pos Indonesia, resulting in digital and financial inclusion

Pos Indonesia began digitally connecting its post offices in 1996, with a creation of Technology and Information Systems Division to manage its intranet and connection of 31 post offices in Indonesia's major cities via satellite connectivity (VSAT) using closed private networks. 300 additional post offices were connected by 1999 and three years later, the company began digitalizing its internal systems with the introduction of online bill payments. By 2004, Pos Indonesia implemented an online remittances system, began offering digital financial accounts in 2006, and digitalized its postal delivery system a year later.

In 2020, Pos Indonesia underwent a new era in its digital transformation, shifting all of its post offices from closed networks to the Internet. By 2023, 4324 post offices were connected to the internet - a process that had been greatly facilitated by the growing availability of 4G connectivity across the archipelago. The Majority of post offices are now connected via 4G mobile broadband (88%) or Fibre Optic cables (10%). Meanwhile, only 2% of them are currently relying on VSAT internet connections, mainly those in the most remote, sparsely populated and least developed areas of the country. In 2020, the company also began migrating its IT infrastructure, businesses systems and operational support systems to the public cloud. As a result of this digital transformation, all of its end-to-end services are supported by web-technology including its courier service, logistic service, payment service, and remittances as well as all services that Pos Indonesia offers in partnership with other institutions. Similarly, all its internal supporting functions also run on web-based technology.

This progressive digital transformation and infrastructure upgrade has allowed Pos Indonesia to modernize its operations, seamlessly process digital transactions through both online and physical channels and launch, in 2021, inclusive digital payment services through a multi-channel model, contributing to greater financial, social and digital inclusion across Indonesia.

Along with the introduction of other services and platforms, this process has enabled Pos Indonesia to launch its PosPay platform, available as a mobile application and web platform which allows customers to pay for bills from over 1,000 service providers—including utilities, taxes, education fees, insurance, and loan installments—anytime and anywhere. Importantly, this service is not limited to smartphone users. Customers without smartphones or internet access can complete their transactions in person at over 4,300 digitally connected post offices or through USSD codes using basic mobile phones. The hybrid model not only ensures accessibility for less digitally connected populations but also enhances user trust by preserving the availability of face-to-face support through post office staff.

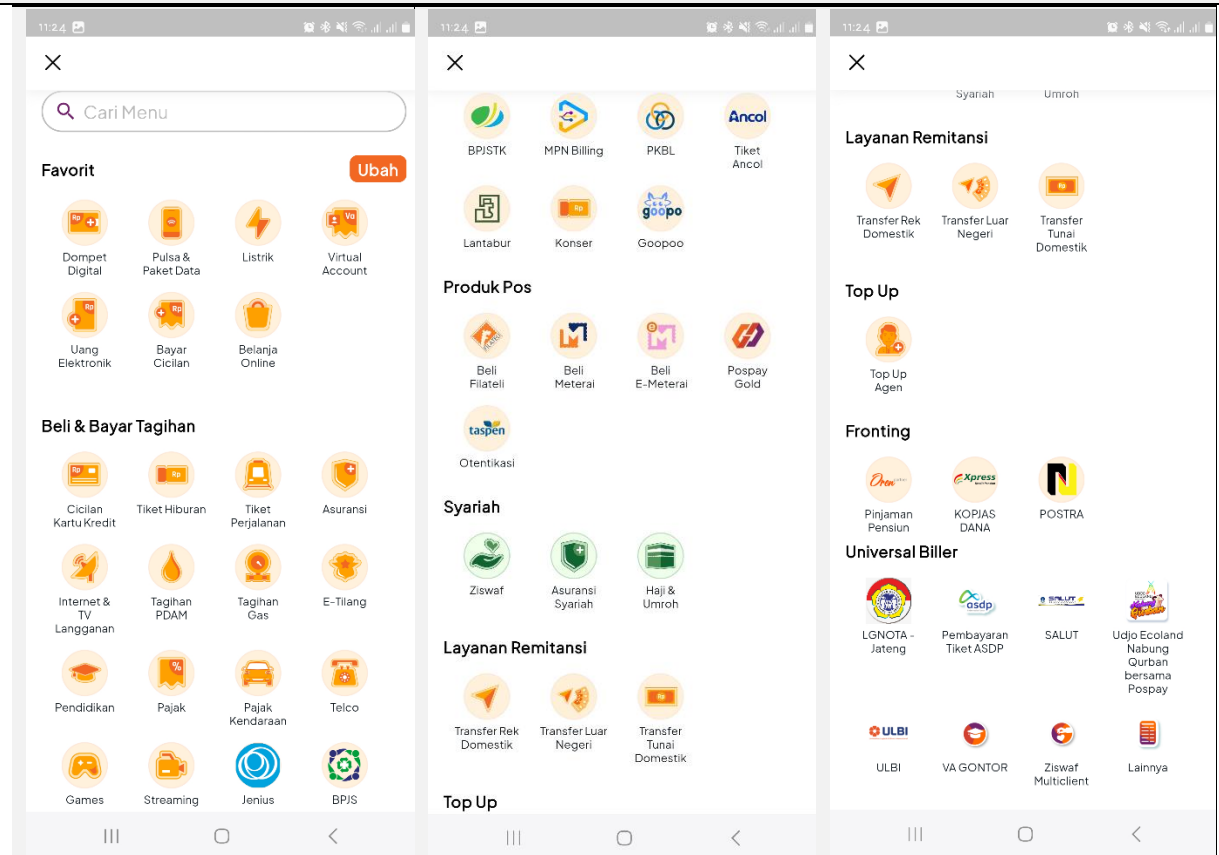
What makes PosPay particularly impactful is Pos Indonesia's strategic decision to focus on penetrating the market in smaller cities and rural areas where traditional financial service providers are largely absent. This strategy is only possible because of Pos Indonesia's legal obligation to fulfill the Universal Service Obligation, which ensures that its extensive network reaches even the most remote and underserved regions. By leveraging this legally mandated footprint, Pos Indonesia is uniquely positioned to promote financial inclusion on a national scale.

The platform's inclusive capabilities extend further through its remittance and money transfer services. Users can send money to anyone, regardless of whether the recipient has a bank account, and recipients can then collect

their funds in cash at the nearest post office. This is particularly impactful in rural areas, where unbanked populations are more prevalent. With over 6 million PosPay users and over 51 million Indonesians accessing digital financial services through physical service points, Pos Indonesia is playing a pivotal role in expanding financial access and reducing the digital divide.

Due to regulatory limitations, Pos Indonesia is not licensed to offer full banking services. However, it acts as a front-end partner for a range of banking and non-banking financial institutions. Through these partnerships, PosPay users gain access to credit, insurance, and investment products offered by third parties. Financial institutions, in turn, benefit from Pos Indonesia's vast physical reach and customer base, enabling them to serve remote and underserved areas they might not otherwise reach as well as reach customers using the PosPay app. This synergy between public infrastructure and private financial service providers demonstrates the power of the postal network in advancing national financial inclusion goals.

Figure X: Some of the payments available on Pos Indonesia's PosPay app



Module 4C Sustainable development

4.C1 Mainstreaming sustainable development as a solution to persistent sectoral challenges

As outlined in the UPU strategy 2026–2029, and noting the sectoral challenges, there is a need for designated operators to focus on: cost-saving innovations and new business models that increase the financial viability of postal operators; capital investments and partnerships to secure new postal technology; and expanding service offerings that foster national socio-economic growth and development. As will be illustrated below, mainstreaming sustainable development within postal operations is relevant to each of these goals, and can contribute to the broad objective of **future-proofing the core postal business**.

Sustainable development can be defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”.⁴ The 2030 Agenda for Sustainable Development,⁵ adopted by the 193 member states of the United Nations in 2015, outlines a comprehensive vision and framework for operationalizing sustainable development through a set of universal goals and associated practical targets. These 17 United Nations Sustainable Development Goals (SDGs)⁶ provide a valuable taxonomy for the different dimensions of sustainable development, and highlight the distinct yet interconnected priority areas (Figure X).

Figure X: The 17 United Nations Sustainable Development Goals (SDGs)



While governments and businesses typically make reference to “Sustainable Development”, the “United Nations Sustainable Development Goals”, or the SDGs, other commonly used terms include: “Corporate Social Responsibility” (CSR); “Environmental, Social, and Governance” (ESG), “Triple Bottom Line” (TBL), “Sustainable Business Practices”, “Corporate Citizenship”, “Ethical Business Practices”, and “Responsible Business Conduct” (RBC).

⁴ Our Common Future: Report of the World Commission on Environment and Development (WCED, 1987)

⁵ Transforming Our World: The 2030 Agenda for Sustainable Development (UN, 2015)

⁶ See <https://unstats.un.org/sdgs/indicators/indicators-list>

Many governments have incorporated the SDGs into their national development plans and sustainable development strategies⁷, emphasizing and reporting on the goals that are particularly important to their context. Similarly, businesses are integrating the SDGs into their strategies and operations, with support from initiatives such as the UN Global Compact⁸. It is therefore important for designated operators to be aware of the SDG priorities of both their government and also those businesses with a major presence at the national level; as these indicate potential new sources of partnerships, revenue and investment. This process can also help designated operators to anticipate emerging sustainable development regulations that may impact core postal operations, as well as the environmental and social standards that major business customers could require the designated operator to comply with.

The scope for advancing sustainable development within the postal sector is broader than environmental concerns, which are often the most visible. It encompasses a holistic vision that integrates environmental stewardship, social responsibility, and economic viability. This is further supported by Article 7 of the UPU Convention, which states that “Member countries and/or their designated operators shall adopt and implement a proactive sustainable development strategy focusing on environmental, social and economic action at all levels of postal operations and promote sustainable development awareness.”

There are a broad range of potential motivations for designated operators to integrate sustainable development principles within their postal reform process.

Building the case for mainstreaming sustainable development

When executed effectively, mainstreaming sustainable development can:

- Improve regulatory compliance: reducing legal, financial and reputational risks.
- Increase the visibility and relevance of the postal network to regulators and customers.
- Provide solutions for governments seeking to implement their social and environmental policies.
- Provide solutions for other sectors: health, education, waste, energy.
- Develop new partnerships: NGOs, UN agencies, Cleantech businesses, development banks.
- Reduce running costs through technical efficiencies.
- Diversify and grow revenue streams to offer new environmental, social and financial inclusion services.
- Secure external investment in core postal infrastructure.
- Increase the resilience of postal operations to disruption from extreme weather.
- Improve staff recruitment and retention through establishing clear social and environmental values for the organization, and developing opportunities for staff to upskill in related services.

However, it is important to note that the aspects of sustainable development that a particular designated operator may choose to focus on, and how these are put into practice, will vary depending upon the objectives of their postal strategy, the resources available, and the priorities of their national government and other stakeholders. For example, some designated operators may choose to focus their environmental sustainability efforts on developing new revenue-generating services to support the circular economy, through facilitating the sharing, repair, reuse and recycling of products. In contrast, other designated operators may focus their environmental efforts on implementing energy efficiencies that also reduce greenhouse gas (GHG) emissions from vehicles and buildings, and which ultimately help their government to deliver on its national climate commitments.

The networks managed by designated operators are often strategically well-placed to support sustainable development; particularly for social or environmental challenges that require infrastructure which extends over a broad geographic area, or that involve engaging with isolated communities. When combined with public trust in the designated officer, secure buildings and vehicles, and a significant digital capacity; these networks have the potential to be repurposed for use by other sectors (e.g.,

⁷ <https://sdgs.un.org/topics/national-sustainable-development-strategies>

⁸ <https://unglobalcompact.org/what-is-gc>

through partnerships with non-postal government ministries). Examples include: providing warnings to isolated or vulnerable people before extreme weather, supporting the safe collection and disposal of unwanted prescription medicines, using vehicle-mounted sensors to collect air-quality data, and field testing low-emission infrastructure for cleantech companies.

An important step towards developing such services is for designated operators to **meet with national sustainable development stakeholders** to: understand their needs, raise awareness about the range of postal assets that exist, and identify areas for collaboration and innovation. However, this opportunity comes with the caveat that such services should always be underpinned by a strong business case.

Sustainable development initiatives are often multi-functional, with a particular solution often leading to multiple social or environmental benefits. However, for the sake of clarity, it is useful to consider three broad dimensions:

- **Environmental:** Reducing the environmental impacts that arise from postal operations (waste reduction and management, efficient use of resources, location and maintenance of infrastructure); increasing operational resilience to weather-related shocks that are increasing in frequency; offering new environmental services (e.g., recycling for the manufacturing sector, and sale of renewable energy generated using postal buildings).
- **Social:** Reducing the negative social impacts that arise from postal operations (urban congestion, vehicle accidents, noise pollution); reacting to the needs of postal staff (health and safety, gender equality, safety, training, consultation); offering new social services to customers (e.g. medicine delivery, government administration).
- **Economic/financial:** Increasing the economic viability of postal operations, without generating negative environmental or social impacts; strengthening the broader national economy (e.g., dedicated postal services for SMEs, and banking solutions for people in remote locations); implementing ethical purchasing and investment decisions; innovating to develop economically viable environmental and social services; securing external capital from sustainability investors.

In the remaining parts of this module, each of these three dimensions is discussed in more detail, followed by recommendations on core steps for mainstreaming sustainable development in the context of postal reform.

4.C2 Environmental sustainability

The environmental pillar of sustainable development emphasizes: the responsible management of natural resources, reduction of pollution, conservation of biodiversity, and mitigation of climate change. The extraction and processing of material resources (such as fossil fuels, minerals and biomass) are major drivers of global declines in critical natural habitats and the continued rise in various types of pollution, notably global GHG emissions. To address these challenges, all sectors must focus on making more efficient use of existing resources, adopting less harmful methods of production and consumption, and seeking opportunities to reverse these negative trends within the broader economy and society.

The networks managed by designated operators have a significant negative impact on the environment, with over 1 million vehicles and 800,000 buildings; often powered, heated and cooled through the extensive use of fossil fuels. This physical infrastructure contributes both to GHG emissions (discussed extensively below), as well as air pollution that impacts human and environmental health. Considerable levels of waste paper and plastic are also generated, both through the pallets, containers and wraps used for bulk transportation of mail items, to the packaging of the parcels themselves (including labels, tape and bubble wrap). In addition, the development of new buildings can lead to the loss of natural habitats, while postal networks are also misused for the illicit trade in plants and animals⁹.

Postal reforms related to environmental sustainability may be both inward-looking (e.g., reducing negative environmental impacts from postal infrastructure, and increasing operational resilience to

⁹ <https://www.upu.int/en/universal-postal-union/outreach-campaigns/illicit-goods/illicit-trade-in-plants-and-wildlife>

weather-related shocks); and also outward looking (e.g. offering environmental services to other sectors, and supporting action by stakeholders across the postal value chain).

Postal operators often manage some of the most significant vehicle fleets at the national level, they may be a major national employer, and interact with large numbers of the public on a daily basis - this positions them as **powerful agents for change**. They can initiate substantial environmental improvements through their procurement decisions, and by supporting greater awareness and acceptance of clean technologies through the high visibility of their vehicles (Figure X). In particular, the growth in e-commerce opens up numerous opportunities for designated operators to advance environmental sustainability; negotiations with e-commerce business customers can result in more efficiently packed parcels (reduced volume), less packaging material, and an increase in the use of recycled materials. Many customers are also seeking environmentally-sensitive last mile delivery, as well as efficient processes for the return, re-use, or recycling of unwanted items.

Figure X. A vehicle operated by Swiss Post, advertising low-emission last-mile delivery.



A broad variety of environmental solutions have been deployed, with case studies and guidance accessible through: the UPU webpage¹⁰, designated operator publications, wider postal sector players (including restricted unions¹¹), and non-postal sector organizations¹². Key themes include: reduction of GHG emissions, resilient postal operations, energy efficiency, services for the circular economy^{13,14}, sustainable packaging solutions^{15,16}, environmental data collection¹⁷, and smart sustainable cities¹⁸.

Mainstreaming climate action (SDG 13) has become a sustainable development priority for many designated operators, and efforts typically focus on reducing GHG emissions (i.e. climate mitigation), but also include building capacity to adapt and recover from the impacts of extreme weather (i.e. climate resilience). Climate change presents a range of risks and opportunities for the postal sector, with implications for postal policy, strategy and operations.

¹⁰ <https://www.upu.int/en/Universal-Postal-Union/Activities/Sustainable-Development#environmental-sustainability>

¹¹ <https://www.posteurop.org/sustainability/>

¹² <https://www.itf-oecd.org/final-frontier-urban-logistics>

¹³ [Infrastructure for Circularity in the French Postal Sector](#)

¹⁴ <https://www.posti.com/en/-/15012025-Posti-Hanken-news>

¹⁵ <https://www.anpost.com/Sustainability/About-our-sustainable-packaging>

¹⁶ <https://press.bpost.be/bpost-is-the-first-market-player-to-offer-shipping-without-packaging-or-labels>

¹⁷ <https://www.youtube.com/watch?v=HJT6i1SqJg>

¹⁸ <https://bpostgroup.com/sustainability/our-initiatives/ecozone>

As with other sustainable development initiatives, there are **numerous motivations** for designated operators to engage in climate action. Immediate economic benefits can be achieved through improvements in energy efficiency; countering the rising operational costs, falling letter revenue, and volatility in fuel and electricity supplies that are common within the sector. Low-cost climate finance can also help to close the funding gap for core postal infrastructure. New postal services that support the transition to a low-emission economy can also help operators to diversify and increase their revenue streams, while improved sustainability performance strengthens the competitiveness of operators seeking to secure new business contracts, particularly in the context of e-commerce. In many cases, climate action by designated operators is driven by policy and regulation decisions that they must comply with (e.g. deadlines for the phase-out of new petrol and diesel vehicles¹⁹, or national emission reduction targets).

Importantly, mainstreaming climate action within postal operations improves the visibility of designated operators and helps to position them as forward-looking entities that can assist governments, businesses and international organizations in reaching their climate goals. For example, Royal Mail²⁰ has the largest delivery fleet in the UK, Swiss Post²¹ is partnering with the private sector to offer a nationwide fast charging network for electric vehicles, and PostNL²² ranks among the most sustainable companies in the world.

The 2015 Paris Agreement and subsequent reports of the Intergovernmental Panel on Climate Change (IPCC) provide clarity on the speed and scale of action needed to avoid catastrophic climate breakdown. The Paris Agreement, which is a legally binding international treaty on climate change adopted by 196 Parties, includes the goal of keeping global warming to well below 2°C while pursuing efforts to limit it to 1.5°C. Limiting global warming to between 1.5°C and 2°C will require a deep and rapid reduction in global GHG emissions by all sectors during this decade²³, involving significant investments within both the public and private sectors.

These global commitments have been operationalized by national governments through regulations, policies, and development plans; which seek to accelerate climate action by multiple sectors (notably transport, energy, construction, industry and finance). Financing climate action is a vital component of the global response to climate change, requiring investment from public and private sources. Annual global investments in climate action reached USD 850 billion in 2021, up from USD 364 billion in 2011. The key areas of focus are renewable energy (solar, wind power), low-carbon transportation, and energy efficiency (buildings, industries).

Public climate finance institutions typically offer grants for capacity building, and concessional loans with below-market rates that support climate mitigation and adaptation projects. These projects must align with the Paris Agreement and national climate frameworks, and can be used to subsequently mobilize private capital by demonstrating commercial viability. **Private climate finance** plays a dominant role in industrialized regions such as Europe and North America, targeting proven and profitable mitigation solutions such as renewable energy, low-carbon transport, and energy efficiency.

Key sources of climate finance

Public sector: Institutions such as the Green Climate Fund (GCF), Global Environment Facility (GEF), Climate Investment Funds (CIF), and multilateral development banks (MDBs) such as the World Bank and European Investment Bank (EIB). For example, this is the funding route followed by Correos de Costa Rica to finance solar PV and electric vehicles.

¹⁹ <https://www.europarl.europa.eu/topics/en/article/20221019STO44572/eu-ban-on-sale-of-new-petrol-and-diesel-cars-from-2035-explained>

²⁰ <https://www.posteurop.org/blog/royal-mail-strengthens-position-as-uks-largest-electric-delivery-fleet-with-6000th-electric-vehicle/>

²¹ <https://www.post.ch/en/about-us/media/press-releases/2024/powerup-an-e-charging-network-for-switzerland>

²² <https://www.postnl.nl/en/about-postnl/press-news/news/postnl-most-sustainable-logistics-e-commerce-operator-in-the-world/>

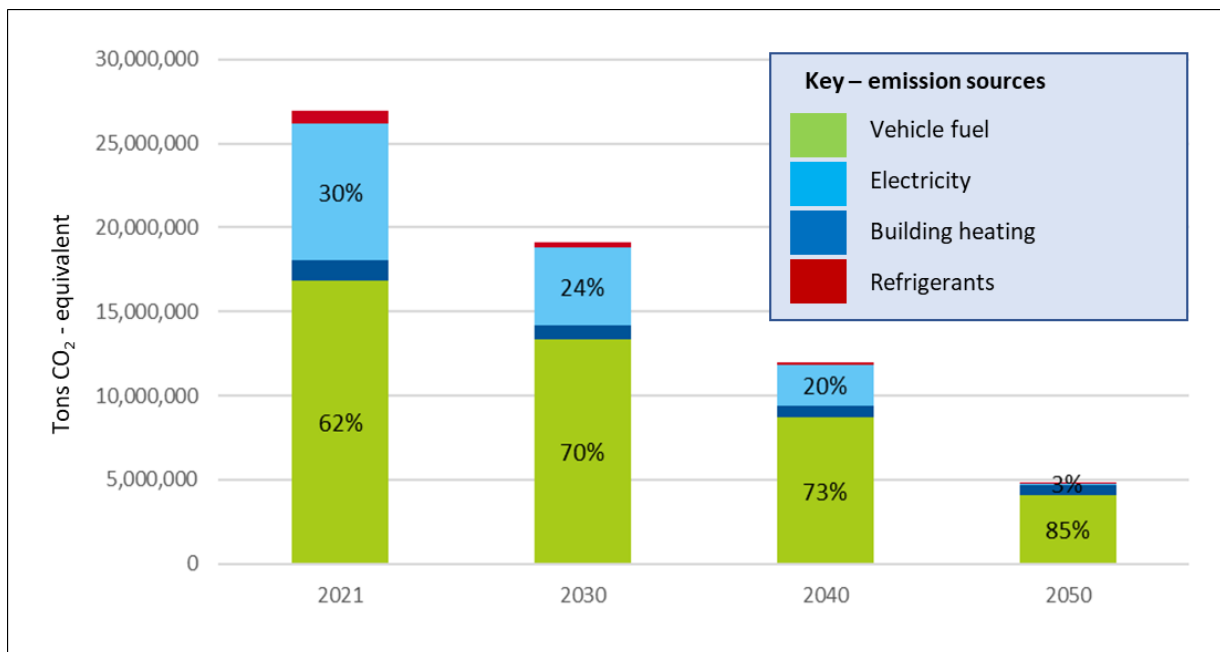
²³ Climate Change 2023: Synthesis Report. A Report of the Intergovernmental Panel on Climate Change. Contribution of Working Groups I, II and III to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change. IPCC, Geneva, Switzerland.

Private Sector: Corporations, commercial banks, and private investors; who fund climate projects, primarily in developed economies. For example, this is the funding route followed by Posten Norge, PostNL, and Le Groupe La Poste to upgrade vehicle fleets and improve the energy efficiency of postal buildings.

Recognizing the risks posed by climate change to the core postal business, the commitments made by national governments, and the significant opportunities for external investment into the sector; the UPU provides a range of support to designated operators for both mitigation and resilience. A key reference for this support is **Riyadh Congress resolution C 7/2023 on UPU climate action**, which established a voluntary collective global target for the reduction of greenhouse gas emissions by **designated** operators – an 85% reduction in scopes 1 and 2 emissions by 2050, against the 2021 baseline. This resolution also initiated the development of a formal UPU Climate Facility, with the goal of enabling adaptation to, and mitigation of, climate change through: increased access to climate finance, capacity building, technology transfer and supportive policies.

The basis of this global target is a 2023 study on the emission reductions that were considered technically feasible for the UPU network to achieve (Figure X). It concluded that minimal but widespread investment by designated operators in energy efficiency measures, and the purchase of electricity from renewable sources, would enable considerable progress in the short-term. More substantial infrastructure investments would be needed to reach the 2050 target, including: the electrification of a large proportion of the vehicle fleet, the broad-scale renovation of postal buildings, and significant direct investments in local renewable energy generation.

Figure X. Feasible global greenhouse (GHG) emissions for designated operators in 2030, 2040 and 2050, split by emission source. The expected reduction levels vary between countries and regions.



Many designated operators are already undertaking extensive mitigation action. Examples of operators with targets, roadmaps and mitigation in-place include: Austria Post²⁴, Correios Brazil²⁵; Deutsche Post²⁶, La Poste France²⁷, Japan Post²⁸, Pos Malaysia²⁹, Swiss Post³⁰, and Thailand Post³¹.

²⁴ <https://www.post.at/en/ir/c/corporate-sustainability>

²⁵ <https://www.correios.com.br/aceso-a-informacao/transparencia-e-governanca/sustentabilidade#>

²⁶ <https://www.deutschepost.de/en/n/nachhaltigkeit.html>

²⁷ <https://www.lapostegroupe.com/en/carbon-neutrality>

²⁸ https://www.japanpost.jp/en/ir/library/disclosure/2023/pdf/all_02.pdf

²⁹ <https://www.upu.int/en/publications/environment/greening-first-and-last-mile-delivery-infrastructure-in-malaysia>

³⁰ https://www.vorbild-energie-klima.admin.ch/vbe/en/home/akteure0/akteure/schweizerische_post.html

³¹ <https://www.parcelandpostaltechnologyinternational.com/features/exclusive-interview-thailand-post.html>

Climate mitigation activities by designated operators

- **Generating a baseline estimate for GHG emissions** from postal activities, enabling strategic targeting of effective mitigation measures.
- **Increasing customer choice about delivery locations reduces** failed delivery attempts.
- **Deploying a high-density of parcel lockers and other pick-up/drop-off points**, to enable customers to easily access them by foot or bicycle.
- **Consolidating last mile deliveries** between different logistics providers, reducing unnecessary vehicle emissions.
- **More efficient packing of delivery vehicles** reduces the number of vehicle journeys.
- **Electrification of the vehicle fleet and investment in charging infrastructure.**
- **Utilizing alternative fuels** such as biodiesel and compressed natural gas (CNG).
- **Optimizing vehicle routing and performance** (telematics).
- **Freight Modal Shift:** Switching from air to ground transportation typically reduces emissions.
- **Offering customers climate-neutral delivery options.**
- **Implementing energy efficiency measures for buildings (heating, cooling, lighting, building management, efficient computers and sorting machines).**
- **Purchase, or self-generation, of electricity from renewable sources.**
- **Providing recycling and efficient reverse logistics services** to other sectors.
- **Partnering with cleantech companies** to use postal networks as a test-bed for new climate technologies and solutions.
- **Reducing waste³² and increasing efficiency** across the postal delivery chain.
- **Engaging with online retailers and e-commerce platforms** e.g. to avoid “transporting air” by ensuring the size of packets and parcels is appropriate to their contents.

The UPU Climate Facility is a key resource for designated operators seeking to mainstream climate action through their postal reform process. It provides support for the development of projects, particularly in assisting designated operators to align their funding requirements with the financing interests of climate action institutions. It also offers bespoke training and facilitates access to tailored and affordable clean technology. Designated operators and national governments are also receiving policy support; developing innovative climate services may require operators to venture into new technical areas (energy, infrastructure, transport, and communications), while policymakers need to develop approaches that encourage a climate transition without imposing a restrictive regulatory burden and associated costs. Designated operators are invited to contact the UPU Climate Facility to request support.

Calculating the GHG emissions of postal operations is essential for: setting targets, securing funding for mitigation projects, and tracking progress over time. The International Bureau has developed a bespoke tool for this purpose - the Online Solution for Carbon Analysis and Reporting (OSCAR). OSCAR is a free tool that enables designated operators to measure, analyze and report on their carbon footprint³³.

The UPU also provides dedicated support for designated operators to improve the visibility of their climate commitments; operators have the opportunity to join a Climate Tier³⁴, and to participate in the

³² Waste reduction minimizes the amount of raw materials that need to be extracted (which is often energy intensive); and the use of landfill which generate methane emissions, a potent GHG.

³³ The tool provides each user with their individual carbon footprint and a detailed report on greenhouse gas emissions by scope, source or even product. For more information on OSCAR check [here](#).

³⁴ <https://www.upu.int/en/universal-postal-union/activities/sustainable-development/climate-action/climate-tiers>

UPU Postal Climate Transparency Action³⁵. Engagement with these initiatives also helps the International Bureau to provide designated operators with support that meets their particular capacities and priorities.

Climate resilience is a theme that has become a sustainable development priority for many designated operators. The increasing frequency and severity of extreme weather events such as floods, storms, and heatwaves is already damaging transport infrastructure, postal buildings and energy networks, delaying deliveries and risking the safety of postal workers. These impacts are not evenly distributed, tending to be most severe in developing countries and for isolated or vulnerable communities. Summaries of key risks are available at the regional³⁶ and national level³⁷. A more chaotic climate has direct and practical implications for decisions by designated operators on how to meet their universal service obligations, the procurement and maintenance of postal infrastructure, the design of critical resource supply chains, and the consultation and training of workers.

The UPU has already developed extensive guidance and training on disaster risk management³⁸, which should be used as the basis for improving the **resilience of postal networks** to climate disruption. However, as climate change accelerates, it may be necessary to undertake more regular disaster risk assessments, and to expand their scope to account for emerging climate threats. Effective actions may include: diversifying energy supplies (including through self-generation), as traditional supply chains may be undermined; climate-proofing existing and planned postal infrastructure, to make them more resilient to floods or strong winds, or to reduce the impact of high summer temperatures on postal staff; and ensuring new buildings and vehicles are easy to repair using local materials and businesses.

In addition to enhancing the resilience of postal networks to climate impacts, designated operators may have significant opportunities to contribute to the resilience of the wider community, and the broader region. These **resilience services** may include: conducting climate education and awareness-raising campaigns, environmental data collection, implementing early warning systems³⁹ on behalf of national governments, sharing self-generated electricity with local communities, supporting disaster recovery efforts, and offering critical services for displaced people e.g. through mobile post offices.

Designated operators that are interested in undertaking an analysis of the opportunities and risks related to climate resilience are encouraged to contact the International Bureau.

4.C3 Social sustainability

The social pillar of sustainable development focuses on improving the well-being of individuals and communities; which includes people's physical health, mental health, and their sense of fulfillment. It can involve supporting: health and education services; economic stability; fair access to resources; social relationships; participation in decision-making processes; and the protection of human rights. In global terms, ending poverty in all its forms everywhere (SDG 1) is acknowledged by the 2030 Agenda for Sustainable Development as the greatest global sustainability challenge, and underpins a broad range of other social sustainability goals (see the latest SDG report⁴⁰ for their current status). However, it should be noted that priority social sustainability goals vary between regions and countries.

The global network managed by designated operators can generate significant social impacts for: its 4.6 million staff⁴¹; the recipients of the 250 billion letters and parcels delivered each year; and the users of the diverse government administration, social and financial services that designated operators offer. Postal reforms related to social sustainability may be both inward-looking (e.g. improving staff training,

³⁵ <https://www.upu.int/en/universal-postal-union/activities/sustainable-development/climate-action/upu-postal-climate-transparency-action>

³⁶ <https://www.ipcc.ch/report/ar6/wg2/about/factsheets/>

³⁷ <https://climateknowledgeportal.worldbank.org/country-profiles>

³⁸ <https://www.upu.int/en/Universal-Postal-Union/Activities/Sustainable-Development/Disaster-Risk-Management#>

³⁹ <https://earlywarningsforall.org/site/early-warnings-all>

⁴⁰ <https://unstats.un.org/sdgs/report/2024/>

⁴¹ 2023 data from UPU Postal Statistics

or reducing the number of postal vehicles involved in road traffic accidents); and also outward looking (e.g. offering social services to other sectors, and supporting action by stakeholders across the postal value chain).

As a major employer, designated operators have a mixture of obligations, responsibilities and opportunities related to the wellbeing of postal staff. These include national regulations and policy commitments, as well as globally agreed priorities. For example, the 2030 Agenda for Sustainable Development, adopted by the 193 member states of the United Nations in 2015, includes the following sustainable development goals that are directly relevant to postal staff: Quality Education (SDG 4), Gender Equality (SDG 5), Decent Work and Economic Growth (SDG 8), and Reduced Inequality (SDG 10). Actions to support the wellbeing of postal staff have broader benefits for the designated operator, such as improving staff recruitment and retention through establishing strong and transparent social values for the organization.

Improving the wellbeing of postal staff

Employee training and development: Implement continuous learning programs to enhance employees' skills and knowledge, particularly in the context of anticipated changes to the needs of the postal sector and broader society⁴² e.g. big data analysis, software development and security, artificial intelligence, autonomous and electric vehicles, renewable energy.

Inclusive education opportunities: Provide equal access to training and development for all employees, including those from marginalized groups, to ensure everyone has the opportunity to advance.

Ensure that hiring, promotion, and pay practices are fair and unbiased. Implement policies that promote gender equality in leadership roles.

Inclusive policies: Develop and implement policies that promote the inclusion of all employees, regardless of their background. This includes providing accommodations for employees with disabilities.

Diverse workforce: Actively recruit and retain a diverse workforce. Promote diversity and inclusion training to create a more equitable workplace.

Supportive work environment: Create a workplace culture that supports work-life balance, such as offering parental leave and flexible working hours. Address and prevent harassment and discrimination.

Fair wages and conditions: Ensure that all employees receive fair wages and work in safe conditions. Provide benefits such as health insurance and retirement plans.

Job creation and innovation: Foster an environment that encourages broad staff involvement in innovation and entrepreneurship.

The UPU considers achieving **gender equality and empower all women and girls** (SDG 5) – to be a priority⁴³ for the postal sector; it is a cross-cutting sustainable development issue that enables the implementation of many other SDGs, and also affects the impact of all SDGs on women and girls. Achieving gender equality in the workplace will enable designated operators to attract and retain a broader talent base in order to tackle the diverse challenges faced by the postal service. Gender parity amongst decision-makers tends to lead to enhanced business outcomes⁴⁴; for the postal sector, this can help to ensure that services are designed to meet the needs of both men and women – maximizing the number of potential customers.

The UPU provides dedicated support for postal operators to mainstream gender equality, this includes guidance and webinars accessible from the UPU webpage⁴⁵. In addition, the International Bureau has created a new Trainpost course entitled “Gender mainstreaming and women’s empowerment in the postal sector”. This course is available to all UPU members, their designated operators and staff; addressing the fundamental principles of gender equality and mainstreaming. In addition to the gender-sensitive employment practices described above, it is essential to collect gender-disaggregated data in order to better understand existing barriers and to track progress over time.

⁴² see Future of Jobs Report 2025 (World Economic Forum)

⁴³ The UPU Abidjan Congress in 2021 unanimously approved resolution C 10/2021 (Gender equality and the empowerment of women at the UPU and in the postal sector).

⁴⁴ [The business case for change, ILO \(2019\)](#)

⁴⁵ <https://www.upu.int/en/Universal-Postal-Union/Activities/Sustainable-Development>

The extensive physical infrastructure of the postal network, particularly its vehicles, can generate both positive and **negative impacts for broader society**. Many of the positive impact are described in the paragraphs below on postal social services. Negative vehicle impacts range from nuisance to health and safety risks. For example, the growth in e-commerce has led to an increase in traffic congestion in many cities; impacting overall city mobility, air pollution and increasing noise disturbances in residential areas. The presence of greater numbers of delivery vehicles poses safety risks to pedestrians and other road users, particularly when they occupy public spaces such as kerbs and pavements.

Strategies for reducing negative social impacts from vehicle fleets

Improved training for delivery drivers

Electric vehicles to reduce local air pollution

Walking porters and driver helpers to improve delivery efficiency

Smaller vehicles like cargo bikes to reduce curb time

Deployment of urban micro depots to reduce the number of large vehicles

Parcel lockers and pick-up points to reduce failed delivery attempts

Consolidation of last mile deliveries between different logistics providers

A particular strength of the UPU is the obligation for all member countries to provide a universal postal service that guarantees the free circulation of postal items throughout the UPU network as well as access to high-quality and affordable basic postal services throughout the territories of the UPU member countries. National postal networks frequently cover vast geographic areas and maintain strong connections to customers at the community level through home delivery, post offices, and pick-up locations.

Through historic connections to government and regular interactions with customers, operators have also established a unique position of trust within many communities. This focus on broad accessibility and customer service places designated operators in a strong strategic position to offer a range of services that improve social inclusion and other aspects of wellbeing, and potentially help to offset some of the costs of meeting the universal service obligation (USO).

Offering postal social services has become a sustainable development priority for many designated operators. Postal social services as those that are explicitly designed to convey direct benefits to society, which are implemented regularly, reliably, and are broadly accessible. Key sustainable development challenges at the global level include reducing poverty and inequality, access to basic educational and health services, meeting the needs of an ageing population, and supporting an increasingly mobile society. These global challenges indicate opportunities for designated operators to innovate in their service provision, with the caveat that social priorities will vary between countries.

A key resource for designated operators is the **UPU Guide to Postal Social Services**, available for download from the UPU website⁴⁶. This includes: an introduction to key global societal challenges that are driving demand for social services, an overview of the social services currently offered by designated operators, interviews with experienced social service providers, and strategic considerations for developing viable social services. The annex includes case studies and a taxonomy of the types of social services that can be offered. These fall into six broad categories: health, education, community cohesion, government services, utilities and technology.

Examples of postal social services

Health and wellbeing: Home delivery of medicines, test-kits, and medical results; health data management; delivery of essential food and personal items for people with limited mobility; delivery of emergency aid, home checking for isolated or vulnerable people, communicate government health advice. The UPU has a dedicated

⁴⁶ <https://www.upu.int/en/Publications/Postal-Social-Services/UPU-Guide-to-Postal-Social-Services>

web-page⁴⁷ listing the activities of designated opportunities to support communities during COVID-19, as well as a dedicated facility⁴⁸ to fund health-related postal initiatives.

Education: Delivery of books and newspapers, sale of educational materials, events and training to improve digital and financial literacy.

Community cohesion, participation and inclusion: Public transport and ticket sales, services for homeless or displaced people, dedicated services for migrants, repurposing of postal buildings as community hubs.

Access to government administration: Social security and pension payments, requests for ID or license renewals, delivery of official documents to residences, support for voting, payment of fines or taxes.

Waste, recycling, energy, utilities: Collection of small/specialized materials for safe recycling such as unused medicines, mobile phones and batteries; supporting the circular economy for second hand items; utility sales and billing; supporting energy efficiency through advice and sales of related products and services.

Data and technology: Public internet and computer access, tablets and software for seniors, health and education data management, communicating government safety messages, physical infrastructure as a location for pollution sensors.

The motivations for a designated operator to offer new social services fall into two broad categories:

- **Direct benefits for the operator itself:** increased and diversified revenue, securing external investment into core postal infrastructure, building customer trust and loyalty, developing new partnerships with social development actors, and remaining relevant to the evolving needs of customers and governments.
- **Advancing social development within communities** as part of corporate social responsibility commitments (for commercial organizations), or to meet national policy obligations (as a government entity).

Key considerations for designated operators when developing new postal social services

Promote a culture of innovation, experimentation, and controlled risk-taking; that considers the changing needs of society as an opportunity for service innovation.

Be proactive in engaging with social development actors; to understand their needs, share resources, develop partnerships, and measure impact. These include NGO's, government ministries, worker representatives, and multilateral agencies.

Leverage existing services and relationships, when seeking rapid implementation.

Co-create new social services with postal workers and worker representatives, to make sure that full use is made of staff skills and community knowledge, and to ensure working conditions are enhanced rather than undermined.

Leverage digital technology. Designated operators are well-placed to help people connect to the internet, to offer hybrid physical-digital services, and to create new social services that are entirely digital. Social services should be integrated into postal digital transformation and e-commerce initiatives; to add value through repurposing digital infrastructure.

Include a business case within proposals for new postal social services, that defines the role and responsibility of the designated operator, expected revenue sources, and how these might change over time.

Use pilot projects to test demand for social services, and their viability.

Use social services as **an opportunity to build trust**, whilst also accounting for potential reputational risks.

Review the legal and regulatory implications from offering social services at an early stage, and establish contact with the relevant regulators.

Market bundles of services to distinct user groups such as families or older people, reinforcing the customer-centred focus of designated operators.

Be cautious about developing new social services if the quality of core services is poor.

Review the broad risks and opportunities from offering social services, and regularly update assessments to account for changing context.

⁴⁷ <https://www.upu.int/en/postal-solutions/covid19/postal-social-financial-and-trade-services-during-covid19>

⁴⁸ <https://www.upu.int/en/Partner-with-us/Where-we-need-your-support/Post4Health>

Overall, the social role of designated operators is not only part of their broader social function, but also includes new possibilities to explore unaddressed market segments; leveraging trust, reach and capillarity.

4.C4 Economic and financial sustainability

Ensuring the long-term viability of accessible and affordable postal services is central to the postal reform process, and related themes are discussed extensively within the different modules of this guide. However, while it is essential to pay strong attention to the economic performance of the designated operator, the topic of economic sustainability is much broader; covering interactions between economic, social and environmental factors.

The most critical consideration in assessing the economic performance of the designated 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 existing problems. Other essential factors are the strength and sustainability of its financial statements; its level of debt and, in particular, labor-related liabilities, including pension payments, where applicable; its annual level of investment; and its ongoing and envisioned development plans. It is also crucial to consider the appropriate ownership structure and governance (see Section 4.A3.1) to reduce excessive dependence on public financing in the face of limited government funds and conflicting priorities. Details on the strategies and metrics to evaluate economic and financial management can be found in Module 4.A4, and an extensive discussion on diversification can be found in Module 4D).

In the broader context of sustainable development, it is important that reforms aimed at increasing the economic viability of postal operations take the opportunity to support (and generate value from) the SDGs, while also taking steps to reduce the risk of negative environmental or social impacts. Best practice is therefore to integrate social and environmental sustainability considerations into major economic and financial decision points related to: procurement, employment, investment, infrastructure management, service diversification, and the approval of major projects.

Points where economic considerations intersect with social and environmental outcomes

Energy efficiency: Purchasing more energy-efficient technologies is often the most effective way to reduce GHG emissions, and usually leads to reduced operational costs.

Energy security: Investing in self-generated renewable electricity, and implementing energy efficiency measures, can increase electricity supply security and price stability.

Reducing waste: Designing for durability and recyclability, and avoiding the use of unnecessary packaging, can lower waste disposal costs.

Fair wages and good working conditions can attract more job applicants, enhance productivity, improve staff wellbeing, and reduce turnover.

Climate-resilient supply chains can reduce costs from disruption and improve competitiveness.

Innovation through sustainable technologies can open access to new markets.

Financial inclusion⁴⁹: Providing financial services to small businesses and low-income populations supports the broader economy, while generating revenue.

Sustainable development services can provide additional revenue, and

Transparent social and environmental commitments can improve brand reputation and customer loyalty, leading to increased sales.

⁴⁹ <https://www.upu.int/en/Publications/Financial-inclusion/Postal-networks-A-Platform-for-Financial-Inclusion-Enablement>

Investment decisions: Aligning financial investments (including by postal banks and pension funds) with corporate social and environmental values reduces reputational risks.

4.C5 Core steps to mainstream sustainable development

Many postal operators have developed dedicated publications and web-pages, that are designed to clearly communicate their particular approach to supporting sustainable development, e.g. Australia Post⁵⁰, Deutsche Post DHL⁵¹, Japan Post⁵², and Pos Malaysia⁵³.

Sustainable development strategies, or roadmaps, typically cover the following topics

Stakeholder engagement: The results of consulting with key postal and sustainable development stakeholders (including employees, the public, business customers, suppliers, investors, non-postal ministries, non-postal sectors, NGOs, and United Nations Agencies), to better understand their expectations of the designated operator, their sustainability challenges and need for support, as well as the resources they could make available for implementing the postal sustainable development strategy.

Materiality assessment: A ranking of the sustainable development issues that have a high potential impact on the ability of the designated operator to meet the objectives of its strategic plan. These may include risks to staff, buildings, and energy supplies arising from more extreme weather; as well as opportunities to better attract and retain staff, or to meet stakeholder demands for sustainable development services.

Vision and mission statement: The designated operator's high-level sustainable development values, priorities, objectives and commitments.

Sustainability goals and targets: Specific, measurable, and achievable goals and targets for priority areas; such as reducing GHG emissions, improving the energy efficiency of postal buildings, increasing the percentage of renewable energy used for postal operations, reducing the number of workplace accidents, improving the gender balance of senior management staff. These should be supported by a review of the baseline data, policies and practices that already exists.

Programmes of work: Specific activities that are designed to enable the designated operator to achieve its sustainability goals and targets.

Reporting, transparency and continuous improvement: Commitments to reporting on progress towards reaching sustainability goals and targets; these help to ensure the credibility of sustainable development commitments, and the ability of senior management to drive continuous improvement.

It is also important to periodically update the sustainable development strategy, to reflect new priorities, progress in achieving goals and targets; and the resulting implications for programmes of work. The opportunities and risks for the postal sector related to sustainable development are constantly changing; new regulations will emerge, stakeholder demands will shift, and innovations will reveal new ways to repurpose postal infrastructure.

It should be noted that although summarizing sustainable development activities within a dedicated publication or webpage can help to ensure a clear and common purpose at the organizational level; there is a risk that this implies that sustainable development is somehow separate to the main postal strategy, or to the day-to-day business of the designated operator. Best practice is therefore to integrate key elements of the sustainable development strategy, which may require modifications to the strategic plan's vision, mission, objectives, programmes and projects.

The sustainable development strategy may also include an outline of practical implications for the designated operator, covering themes such as:

⁵⁰ <https://auspost.com.au/about-us/corporate-responsibility>

⁵¹ <https://group.dhl.com/en/sustainability.html>

⁵² <https://www.japanpost.jp/en/csr/>

⁵³ <https://www.pos.com.my/sustainability>

- **Governance and Leadership:** Establishing a sustainability governance structure, and implementing a formal Environmental Management System (EMS).
- **Risk management:** Incorporating social and environmental regulations and reporting requirements within the organization's formal risk management system; introducing sustainability screening and safeguards for all new postal projects.
- **Building and fleet management:** Establishing baselines and targets for energy, water, and waste; installing sensors and analytical software.
- **Procurement:** Establishing minimum environmental and social standards for suppliers; including ethical sourcing, fair labor practices, and environmental stewardship.
- **Resource mobilization:** Incorporating impact investment (external sources of finance that seeks to achieve positive environmental or social outcomes) into the list of potential opportunities for financing core postal infrastructure.
- **Innovation and diversification:** Integrating the sustainable development challenges of governments into internal processes for business innovation.

4.C6 Twin transition

The twin transition, defined by the interplay between digital transformation and the drive for sustainable development, is rapidly reshaping the global landscape. As Artificial Intelligence continues to progress, it is anticipated to play a pivotal role in this significant co-evolution.

The convergence of artificial intelligence and sustainable development practices is leading to the emergence of innovative products and services that are transforming a variety of industries, notably the electric vehicle (EV) sector and autonomous driving. AI technologies are revolutionizing transportation by enabling electric vehicles to optimize energy use, extend battery lifespan, and enhance overall performance through the analysis of extensive data gathered from sensors and onboard systems. Furthermore, EVs are inherently more suitable for the development of advanced driver assistance systems (ADAS) and fully autonomous driving capabilities compared to traditional internal combustion engine (ICE) vehicles. This advantage stems from their simplified drivetrain, precise motor control, regenerative braking, lower center of gravity, and greater packaging flexibility.

The convergence of artificial intelligence (AI) and green trends is driving the emergence of new market segments. A prime example is the rise of the circular economy. These technologies play a crucial role in facilitating both forward and reverse processes within this framework, such as efficient waste management and resource recycling. For instance, AI enables advanced sorting mechanisms that separate materials with greater precision, thereby enhancing recycling rates and reducing waste. Similarly, predictive analytics powered by large language models (LLMs) can forecast the end-of-life of products, allowing companies to strategically plan for refurbishment and remanufacturing, ultimately extending product lifecycles and minimizing environmental impact. These innovations promote business models that are both environmentally-friendly, socially responsible, and economically viable, supporting the effective reuse and recycling of resources while ensuring profitability.

Postal operators are facing mounting pressure to make their supply chains more sustainable in order to meet climate commitments. These organizations are actively pursuing postal services that align with their environmental objectives, particularly through digital solutions that optimize delivery routes, anticipate delays, and minimize emissions. This is equally relevant in the realm of government procurement. Consequently, individual postal operators are challenged to address customer demands for both personalized and sustainable solutions while simultaneously improving operational efficiency to stay competitive.

At the same time, individual operators are faced with the challenge of accommodating the emergence of digital entrepreneurs and gig workers who are utilizing AI-powered platforms to create subscription-based services (such as meal kits and fashion boxes) and on-demand deliveries (including same-day grocery and pharmaceutical services). These innovative business models impose significant demands on postal services, necessitating affordability, personalization, real-time tracking, and environmentally-

friendly options. As a result, individual operators must rethink their service offerings to meet these evolving expectations.

For individual postal operators, the twin transition serves not only as a response to consumer demand but also as a catalyst for operational transformation through substantial investments in new digital and clean technologies, along with a shift in the mindset of senior management. By integrating the twin transition into their corporate strategies, larger operators are leveraging their financial strengths to invest in advanced infrastructure. This includes innovations such as autonomous driving systems for highways, green hydrogen trucks for long-distance transportation, and drones for last-mile delivery. Notable examples include UPS's ORION (On-Road Integrated Optimization and Navigation) software, which utilizes AI and machine learning to identify the most efficient delivery routes, and SingPost's smart logistics solutions, which employ IoT technologies to enhance logistics operations with features like real-time delivery tracking and automated parcel sorting. These technologies are effectively streamlining operations, reducing costs, and minimizing environmental impacts, enabling these operators to achieve a competitive advantage in both sustainable development and customer satisfaction.

Postal operators have the opportunity to capitalize on their existing infrastructure to address the gaps created by twin disparities, thereby providing vital services that may otherwise be unavailable. For example, the United States Postal Service (USPS) leases space for telecommunications infrastructure at 62 facilities, facilitating the implementation of renewable energy sources by allowing costs to be shared between postal operators and telecom companies. Furthermore, these operators can gather data on mobile spectrum usage and contribute to GIS that maps national mobile coverage, helping to identify underserved areas. Additionally, some operators have integrated IoT technologies and sensors into their fleets to collect environmental data—such as air quality and climate conditions—which is then shared with local governments to strengthen community climate resilience.

Other interesting examples include electronic waste management services established through collection points (Luxemburg Post), take-back services (Bpost), and infrastructure sharing that facilitates the storage, sorting, and transportation of e-waste (Australia Post). This approach not only supports underserved communities but also holds the potential to create new revenue streams.

The primary challenge for individual operators lies in ensuring the financial sustainability of their services, particularly as larger companies and new competitors increasingly dominate urban digital transformations. Strategic partnerships with government entities, NGOs, and private sector players are becoming essential in fostering rural development, promoting digital inclusion, and enhancing climate resilience. By engaging in these collaborations, individual postal operators can more effectively integrate into the wider digital and green transformations, ensuring they do not fall behind.

A collaborative approach is vital, as it guarantees that both large and small operators can reap the benefits of efficiency and sustainable development brought about by technological advancements. A twin transition approach does not just consider environmental aspects but also social risks and opportunities. . In this regard, inclusiveness is a key area where global cooperation within the postal sector is essential. The risk of 'twin disparity' — where digital and green services are concentrated in wealthier, urban areas — can be alleviated through such collaboration. By working together, postal operators can exchange best practices, pool resources, and ensure that rural and remote regions are not overlooked during this transition.

Role of digital technologies in advancing sustainable development within the postal sector

Role of digital technologies play a critical role in advancing sustainable development within the postal sector:

Optimized Logistics: AI-powered route planning reduces fuel consumption and emissions. Predictive analytics enable operators to minimize unnecessary trips.

Energy Efficiency: IoT-enabled systems monitor energy usage in facilities, supporting resource optimization. Smart meters and sensors help operators identify inefficiencies and adjust operations accordingly.

Sustainable Supply Chains: Blockchain enhances transparency, enabling ethical sourcing and circular economy practices. For example, traceable materials in packaging can ensure compliance with sustainability standards.

Policymakers have a vital role in fostering the twin transition through:

Incentive Programs: Offering subsidies for EV adoption, renewable energy integration, and digital infrastructure. Tax breaks and grants can encourage private-sector investment in these areas.

Standardization: Developing guidelines for interoperability and best practices across regions. Uniform standards ensure that all DOs can adopt new technologies effectively.

Collaboration Platforms: Strengthening global partnerships, such as those facilitated by the UPU, to share knowledge and resources. Regional cooperation can address disparities in technology access and expertise.

Twin Transition and socio-economic disparities:

Expanding Broadband Access: Leveraging postal networks to deliver digital connectivity in rural areas. This reduces the digital divide and promotes inclusive growth.

Promoting Social Inclusion: Offering affordable services tailored to underserved communities. Digital tools can enhance accessibility for people with disabilities or limited mobility.

Building Climate Resilience: Supporting vulnerable populations with education, disaster preparedness, and access to green technologies. For example, postal networks can distribute renewable energy kits or provide customers with digital early warnings regarding extreme weather events.

Module 4D Diversification

4.D1 Diversification: Definition, rationale and examples

Diversification is a major topic in discussions of postal reform. As explained in further detail below, diversification can be viewed as a way to take advantage of business opportunities, better serve customers, provide funds to support universal service, and meet broader social needs.

A first step in understanding diversification is to define the concept. Diversification in the postal sector refers to the provision by a postal operator of services that extend beyond traditional mail delivery. By this definition, financial services, access portals for electronic government services (e.g., licensing, tax collection), logistics (coordination of shipping, inventory and supply chains), and perhaps other services counts as diversification. This broader approach to service provision can not only enhances the operator's relevance but also contribute to meeting diverse consumer and societal needs. For instance, financial services can help address financial inclusion, while logistic services align with the growth of e-commerce.

4.D1.1 Definition

To understand the potential advantages and disadvantages of diversification, it is important to first define the term. Fundamentally, diversification refers to choices by firms in general, and postal operators here, to offer new products and services beyond their traditional offerings.

In the context of postal reform, diversification similarly refers to the introduction of new services added to those the postal operator traditionally provides. To make this definition more practical, it needs to be refined in two respects:

- **Narrowly defining core postal services:** For analytical purposes, diversification should relate to narrowly defined postal services, that is, the delivery of physical items from a sender to a receiver. This allows us to consider other activities, such as the provision of financial services, as forms of diversification, even if such services are already considered part of postal operations in some countries.
- **Distinguishing between regulated and competitive postal services:** In some countries, postal services may be divided into two broad categories. The first includes the delivery of letters, advertising, print publications and small parcels, that are often reserved for the postal operator under a monopoly or exclusive right. These services are typically subject to rate regulation by national postal regulatory authorities. The second category includes the delivery of parcels and perhaps express mail service, which is more likely offered in competition markets, with multiple competitors and whose rates may not be regulated. The provision by a postal operator of both reserved monopoly letter mail and parcel delivery in competition with other providers presents policy and stakeholder issues akin to non-postal services that may affect the development of overall postal reform.

For clarity and convenience, when discussing diversification in postal reform, we may refer to services provided through diversification as “new”, even though in many cases a postal operator may have already been providing them for some time. This distinction allows us to focus on the broader implications of diversification as a strategic choice in the context of evolving postal markets and reforms.

4.D1.2 Rationale

The extent to which it may generate more funding to support universal service and ease these financial pressures, potentially affecting support for postal reform and the postal operator’s contributions to national economic development, depends on whether the justification for diversification is related to business benefits or to addressing social needs.

Traditional letter-post volumes are declining as electronic alternatives increasingly replace them. This shift has been driven primarily by the rise of e-services, including e-government platforms and online account and payment management services—particularly those provided by banks, utilities, and other essential service providers. Revenues are falling, while the costs of maintaining infrastructure across the entire national territory remain largely fixed. As a result, postal operators are incurring growing deficits and have fewer funds available to support universal postal services. This, in turn, has increased the pressure to identify new funding sources.

Postal operators and the broader postal policy community may view diversification as a response to this challenge. By offering an opportunity to increase revenue, diversification presents a promising potential source of additional funding. If the revenue from diversified services exceeds the cost of providing them, the resulting net income can be used to support universal service and alleviate financial pressure. The extent to which diversification contributes to funding universal service depends on whether the rationale for diversification is rooted in sound business justification.

Another rationale for diversification lies in responding to social demand for services of public importance that postal operators can provide. Socially important services are often underserved or entirely absent in the market economy. Given their extensive national networks, postal operators are well-positioned to deliver essential social services that are important for public welfare but are not adequately offered by the market at an affordable cost. However, there are reasons these services are not provided by the market—chief among them being that they often incur higher costs than the revenues they generate. As such, offering these services may further exacerbate the financial challenges faced by postal operators.

Ultimately, the justification for diversification—and, by extension, support for the postal reform that accompanies it—depends on the sources of its benefits and the extent to which the associated risks and challenges can be effectively mitigated. These aspects will be explored in greater detail in Modules 4.D2 and 4.D3.

4.D1.3 Examples

Defined as the provision of services beyond basic mail delivery, diversification is a strategy pursued by many (although not all) postal operators around the globe. Financial services have become a particularly significant area of expansion, alongside other offerings such as logistics, e-governments portals, and digital transformation initiatives. While not universally adopted, these strategies demonstrate the varied paths that postal operators take to enhance their relevance, improve financial sustainability, and meet evolving customer needs.

This section provides concrete examples of diversification, which illustrate how different postal operators have tailored their services in an attempt to align with both market demands and broader social objectives. Four of many current examples are provided here below.

Examples of diversification

Role of digital technologies play a critical role in advancing sustainable development within the postal sector:

Brazil: Brazil's designated operator, Correios, provides numerous added services. These include logistics, mobile telephony, a variety of life and property insurance products, and financial intermediation for billing, payment and charity donations.⁵⁴

Rwanda: Its national postal operator, Iposita is a one-stop shop for many services. Customers can visit post offices to send mail, perform banking activities through Postal Financial Service (CCP), buy airtime and electricity, send or receive parcels, exchange money, access eGovernment services, pay health insurance, Government taxes, and many other services.⁵⁵

France: Among various added services, France's La Poste offers 'The Postman's Visit', for "creating connections and reassuring loved ones: When loved ones are geographically distant, busy with their daily obligations or when contact is reduced, maintaining human connection is essential for the health, morale and well-being of our seniors. Every week, the postman visits you at your home on the day of your choice and generally comes by in the morning to check on you and discuss topics that interest you". Such initiatives demonstrate how diversification can service social objectives while creating new niche services.⁵⁶

Japan: Its Post Group operates separate subsidiaries for banking and insurance, alongside its core postal services. Additionally, it has plans to expand its commercial real estate business.⁵⁷

4.D2 Sources of Benefits from Diversification

As briefly outlined in Section 4.D1.2, two key motives for diversification are to improve the financial position of the postal operator — often enabling it to generate additional funds to support universal service obligations—and to address social needs and advance government inclusion goals by providing essential services to those who would otherwise lack access to them. This section discusses the sources of the intended benefits of diversification in fulfilling these motives, as well as the necessary conditions for their realization.

⁵⁴ <https://www.correios.com.br/>

⁵⁵ <https://i-posita.rw/>

⁵⁶ <https://www.laposte.fr/services-seniors/visites-du-facteur>

⁵⁷ https://www.japanpost.jp/en/group/pdf/04_01.pdf

4.D2.1 Business and Economic Advantages

The primary economic rationale for diversification—particularly in relation to improving the financial position of the postal operator—would be that the postal operator can diversify into providing ‘new’ services (we use ‘new’ for the category of services), at lower cost or at higher value to consumers than can other businesses.

4.D2.1.1 Lower costs of providing new and postal services

The ability for a postal operator to provide new services at lower cost stems from ‘economies of scope’. Economies of scope, by definition, simply means that a single entity can provide two or more goods and services at a lower cost than could separate firms each providing one of those goods alone. An example would be a restaurant having economies of scope in serving both lunch and dinner, two separate goods from the viewpoint of both diners and restaurants, who are unlikely to find it viable to serve dinners at noon or lunches at night. A restaurant that already serves dinner has the kitchen equipment and eating services in place, so it is relatively inexpensive to provide lunch service, especially compared to a business that provides only lunches of similar quality.

In the same way, the postal operator benefiting from economies of scope can offer new services at competitive prices, while using the cost savings to finance its universal service obligation.

Economies of scope vs economies of scale

To understand what can generate ‘economies of scope’, it is useful to distinguish this term from a related concept of ‘economies of scale’. These two terms describe distinct phenomena. Economies of scale refer to the ability of a single firm to produce a given amount of a single good or service at lower cost than if the same output were produced by two or more producers. This cost advantage arises as production expands, spreading fixed costs over a larger volume of output. In contrast, the term ‘economies of scope’ refers to the ability of a single firm to produce two or more goods and services at lower cost than having different firms produce each of those goods separately. One can have economies of scope without economies of scale. A restaurant, for example, can provide both lunch and dinner, having economies of scope, even if it lacks economies of scale, due to size limitation. Similarly, in principle, a firm can have economies of scale, with average cost of producing a particular good or service falling, without necessarily having any cost advantage in providing other goods and services.

The challenge lies in identifying potential economies of scope relevant to postal diversification. One cannot assume that because a postal operator has economies of scale in mail delivery that it will also have economies of scope in providing new services. The most likely factor influencing the likelihood of economies of scope is the extent to which shared, fixed costs exist across both the core postal service and the new service. A particularly consequential source of such benefits is the ubiquitous networks of post offices and delivery systems that postal operators have.

Shared fixed costs are important because they enable joint supply efficiencies. If a postal operator incurs those costs to provide mail services, such as maintaining facilities or personnel, it need not incur those costs again to produce the new service, unlike other providers who would have to incur those fixed costs themselves. This distinguishes fixed costs from variable costs, which are typically specific to a single mail service or the new service and not something that could generate shared benefits across multiple services.

The restaurant example, with economies of scope across offering lunch service and dinner service, illustrates the importance of these components generating economies of scope. The fixed costs of providing the dining area and the food preparation equipment are shared across both the afternoon and evening, creating economies of scope. However, costs associated with lunch and dinner service, the cooking and service staff and the food itself, are variable and specific to the particular times of day (although individual workers can be present for both meals).

4.D2.1.2 Customer preference for buying new and postal services together

After cost savings, a second potential benefit of diversification for the public, and potentially for the postal operator and its policy community, is that consumers may find it convenient to obtain multiple services, besides postal services, at the post office. There may be economic benefits in bundling products, perhaps with joint pricing, depending on what customers desire from the postal operator. Even when bundled services are not offered at a discount, consumers may still prefer purchasing multiple services together at the post office due to the convenience and perceived efficiency of one-stop service.

For example, consumers may prefer to handle multiple everyday tasks—such as bill payments, financial services, or government-related administrative procedures—at the post office, alongside their regular use of postal services. This preference reflects a broader demand for convenience and one-stop service, particularly among those who value saving time or have limited access to digital alternatives. Building on this consumer tendency, postal operators can leverage bundling or joint pricing strategies to generate additional revenue. Even when prices are not lower than those of competing services, the ability to combine multiple essential services in a single visit can provide a competitive edge, enhancing the attractiveness and relevance of the postal network in people’s daily lives.

To pursue diversification with the aim of achieving the business and economic advantages discussed in this section, it is essential to carefully assess whether these benefits can be realized in practice. This includes examining whether economies of scope can genuinely be achieved between new and existing services, whether there is strong customer preference for the services introduced through diversification, and whether the costs of diversification might exceed the additional revenues generated—thereby undermining the original objective of creating a new and sustainable source of income. These potential risks and challenges will be discussed in more detail in Module 4.D3.

4.D2.2 Utilizing surplus resources resulting from the decline of the mail business

In many, if not most countries, letter volumes have fallen, largely driven by the widespread adoption of electronic forms of communication for personal and business correspondence, advertising, and bill payments. While increased parcel volumes may absorb much of the workforce employed and facilities used prior to the decline in mail volume, some capacity may still remain surplus.

In response to declining letter volumes and the resulting excess capacity, private businesses would typically reduce their workforces and facilities in order to cut costs and maintain profitability. However, for legal or policy reasons, postal operators may not be able to make such adjustments as they may be required to continue maintaining the certain level of post offices and other facilities. Most importantly, in order to provide universal services as postal operators, postal operators must retain a substantial portion of their workforce and infrastructure. As a result, they face inherent limitations in adjusting their scale flexibly in response to declining demand.

Diversification can enable postal operators to make productive use of surplus workforce and facilities by generating new sources of revenue. In doing so, it effectively allows the “fixed” costs—associated with workforce and infrastructure that cannot be easily scaled down for the reasons mentioned earlier—to be “shared” across both traditional and new services. In this sense, diversification can benefit from economies of scope.

4.D2.3 Transformational opportunities in management style

In many countries, postal operators are being encouraged to transform themselves from public sector agencies to a more entrepreneurial style of operation similar to a private business, if not being privatized in whole or in part. This transformation can include elements of change management and capacity building of the employees, including developing cultural shifts, increasing sustainability awareness, and improving agility.

Such transformation often requires a shift from traditional management practices to approaches that focus on innovation, agility, and market responsiveness. Diversification can serve as an opportunity to

attract more entrepreneurial-oriented managers by giving them a broader portfolio of services over which to demonstrate their ability to expand businesses and capitalize on market opportunities.

4.D2.4 Competition benefits

Another potential benefit from diversification arises from the opportunity to correct for market failures, most notably, the possibility that markets into which the postal operator can diversify are not competitive. These benefits arise from the added competition the postal operator can bring to the market for its new service.

The benefits of this added competition will be most significant when the market for the new service is not very competitive, with only a very few providers or perhaps, as just observed, none at all. In markets that are not competitive, prices will typically be substantially over cost. Quality of service, availability of different types of products, and innovation may be less than what competition can bring. Diversification into the new service by the postal operator could bring about improvements along all of these dimensions, especially if no one was providing the new service prior to the postal operator.

A caveat is that to the extent diversification introduces competition into the market—leading to lower prices, better quality, and more product options—it will benefit the postal operator only if it holds a competitive edge over other providers. In other words, the business and economic advantages discussed earlier must be present for diversification to be effective.

4.D2.5 Social benefits

Perhaps even more important to postal reform and policy are the potential social benefits that diversification might bring. Postal operators, through diversification, may be able to help satisfy policy expectations in their countries when socially important services are not provided to all in the markets into which they may diversify. A defining characteristic of postal operators is their mandate to provide universal services, a topic discussed extensively in Focus Area 3. Extending this mission, it seems a natural progression for postal operators to provide other essential social services that are viewed as important for public welfare but are inadequately provided by the economy at large at acceptable cost. This is particularly inviting where there are economies of scope and improved customer convenience. One compelling example is the extension of banking or e-government services to low-income or low-population areas of the country that traditional banks or private telecommunications carriers find unprofitable to serve. This role may be particularly important in emerging markets, where postal operators can reach underserved customer segments such as small businesses and farms, women, youth, government payment recipients, and others whose specific needs vary from country to country.

Expanding the role of the postal operator in providing social services may be an important component of building public and government support for postal reform. Governments may be able to take advantage of a postal operator's vast network and digital financial services to better serve citizens in remote or underserved areas. While such initiatives serve critical social goals, they may also require ongoing subsidies or other forms of governmental assistance. A balanced approach that aligns social objectives with fiscal sustainability will be key to the success of diversification postal reform efforts.

4.D3 Addressing Potential Challenges to Diversification

To help determine whether diversification is a viable business strategy for a postal operator and will be seen as contributing to the nation's economy, it is essential to evaluate not only its potential sources of benefits but also the associated risks and challenges. While diversification might enhance the financial sustainability of postal operators and broaden the scope of their contributions to a nation's economy, it

also introduces complexities that must be carefully considered. These risks, which depend on underlying economic and regulatory factors that vary across countries, can impact the success and public perception of diversification efforts. Thus, understanding and mitigating these risks is critical to ensuring that diversification supports broader postal reform objectives while safeguarding public trust and maintaining compliance with regulatory standards.

This section explores key issues that could influence the success of diversification. These issues are analyzed to highlight their implications for diversification and offer insights into policy strategies for mitigating potential disadvantages.

4.D3.1 Some limits to realizing diversification benefits

A first consideration here is potential limitations to whether diversification can actually deliver the business and economic advantages discussed in Section 4.D2.1—and, ultimately, whether it can fulfill one of the key motives for diversification: generating additional funding to support the universal service obligation.

The potential for generating additional funding is one of the most compelling business justifications for diversification by designated postal operators. However, the success of diversification hinges on the operator's ability to generate net revenues – revenues that exceed the costs of providing these new services.

Revenues vs net-revenue benefits

It is necessary to understand the crucial difference between *revenues* and *net revenues* or, as known in the private sector, *profits*. Net revenue (or profit) is the difference between revenues from new services and the cost of offering those services. Frequently, the challenge facing postal operators is described as the need to replace revenues lost because of the decline in demand for letter mail. Diversification is seen as a method for replacing that revenue. However, merely replacing revenue will leave a designated operator worse off if the cost of doing so exceeds those revenues. If a designated operator through diversification can add 100 million Euro at a cost of 75 million Euro, it will have positive net revenue of 25 million Euro that it can use to support universal services or otherwise improve its financial position. On the other hand, if adding that 100 million Euro would cost 130 million, the postal operator's financial position will be 30 million worse. It is therefore fundamental to analyze net revenue, and not just revenue, when considering diversification. This is why cost plays an important role in assessing the benefits of diversification, particularly when the new markets are highly competitive, implying revenues will be close to cost. Moreover, when the justification for diversification is expanded provision of socially important services, failure of revenues to cover cost will increase the need for additional funding support for the designated operator, even if these services generate significant additional revenue.

In a highly competitive market, it is difficult for revenues to substantially exceed costs—that is, to generate significant net revenue—even when the market is large and the potential for revenue generation appears high.

For the postal operator to generate net revenue from its diversified services, it will likely need to have unique advantages in providing these new services: economies of scope that enable cost savings as well as the ability to offer a convenient one-stop shopping, which can justify charging customers a premium for that convenience.

A compelling illustration of the relevance of economies of scope can be found even within the postal sector. One may inquire as to the magnitude of the economies of scope between mail delivery and parcel delivery (other than very small parcels). While the same delivery personnel and vehicles carry both mail and parcels, having to do both could result in needing additional personnel to service a given route. These costs are not necessarily shared. An indicator that the economies of scope between mail delivery and parcel delivery may not be inherently great is the presence in many countries of competitive parcel delivery companies that do not deliver mail. Shared costs between mail and parcel delivery may be more important in low-density, low-income areas where the costs of having vehicles and delivery personnel at all is essentially fixed relative to the small size of the market, creating economies of scope that make the postal carrier the most efficient and perhaps even sole provider of parcel delivery.

Similar considerations apply to diversified services outside of the postal sector. Recognizing that many postal operators around the globe provide financial services, time spent by workers in post offices on financial services may be time taken away from providing in-office postal services, potentially leading to either longer lines or the need to hire additional personnel. Similarly, providing space in post offices for financial services, e-government access, or other services may require additional space or lead to increased congestion, creating potential trade-offs for postal customers.

As with economies of scope, there may be limits to the benefits of providing bundled benefits to the postal operator's customers. The more services are available at post offices, the more personnel may be needed and the longer may be the lines, particularly in densely populated areas. Additionally, post offices themselves may need physical expansion to handle the larger amount of business. These costs could offset potential benefits of offering these additional services, making it crucial to determine whether and where these produce net benefits for postal operator, as discussed below. Moreover, to the extent that consumers benefit from being able to obtain postal services and banking or other bill payment services in the same location, competing entities such as banks or other retail stores may request permission to offer postal services as well. This could lead to further competition and regulatory considerations, underscoring the need for careful planning and analysis in diversification strategies.

A second consideration is potential limitations to whether diversification can increase competition in the markets a postal operator might enter. For diversification to stimulate competition, the postal operator must be able to provide services sustainably and compete effectively with private service providers in the market.

However, the postal operator, its regulator, and the policy community should ask why new entry has not happened. Absent legal restrictions on entry or abusive practices that inflate the cost of entry, the typical reason would be that revenues after entry, when the market would be more competitive with lower prices, would not be enough to cover the fixed and variable cost associated with the new service. Ultimately, this issue circles back to the earlier question of whether the postal operator has genuine business and economic advantages in the services targeted for diversification.

A third consideration is that diversification into socially beneficial services, while aligned with the policy expectations and the public mission of postal operators, is likely to increase their financial challenges. A fundamental reason why socially important services are often absent from the private economy is because they are not profitable at prices that the country deems appropriate. In that regard, these services are similar to universal postal services, particularly in regions with high operational costs, low or sparse populations, or relatively low average incomes, which make such services financially unsustainable. Therefore, postal operator diversification into a wider range of social services will likely increase their financial challenges, as these costs will be added to the increasing cost of meeting universal postal service obligations. The higher social benefit, the greater need for funding.

For example, providing banking and e-government services in remote areas may not generate sufficient revenue to cover costs – similar to some universal postal services. The fact that the private sector is not addressing these needs indicates that offering such services at socially acceptable prices may not be economically feasible. Greater financial support may be required, which in turn could spark debates over the justification and appropriate level of government aid and may ultimately slow down the pace of overall postal reform.

That said, considering the nationwide network of postal operators—particularly their comparative advantage in reaching underserved areas where private providers are often absent—they may be better positioned than private actors to deliver certain socially necessary services, even if such services do not generate net revenue. Therefore, it is essential to assess whether the services targeted for diversification are socially needed, whether postal operators are effective channels for delivering them, and whether the social benefits of providing such services—accounting for any necessary government aid—outweigh the associated costs.

The balance between the two will vary significantly across countries. In wealthier countries with well-established safety nets, diversification into social services may primarily target gaps in accessibility or convenience. By contrast, in low-income countries, postal operators may become critical providers of essential services, such as basic financial inclusion, in regions underserved by private firms. In these cases, the social justification for diversification is particularly strong, but it still requires thoughtful policy

interventions to address funding gaps. Mechanisms such as public-private partnerships, subsidies, or international development assistance may be necessary to ensure the financial sustainability of these expanded roles. Policymakers and operators must collaborate to design frameworks that prioritize social outcomes while safeguarding the financial health of postal services.

4.D3.2 Risks of market distortion

To help determine if diversification is a sound business strategy for a postal operator - and ultimately beneficial to society - it is important to consider the potential risks that the postal operator could exploit its monopolistic position in the regulated market to distort the competition in newly entered markets.

Letter mail is a common example of such a monopoly, often arising from the inability of competitors to replicate the scale of operations required to provide the service. This monopoly may be further protected by legal or regulatory restrictions that reserve that mail product exclusively for the postal operator, primarily as a means to help finance the provision of universal service. In some cases, governments also provide direct financial support to ensure the sustainability of universal service provision. Two concerns, discrimination and what is called 'cross-subsidization', are long standing concerns when regulated or state-supported enterprises diversify.

4.D3.2.1 Discrimination against unaffiliated competitors in new markets

A discrimination against unaffiliated competitors in the regulated mail market can create an artificial competitive advantage in the newly diversified market for the diversified affiliate.

Two examples in a country illustrate the potential for discrimination in markets involving monopolistic and competitive elements.

- **Telecommunications:** In the late 20th century, when long distance telephone service was a separate and increasingly competitive market, the dominant telephone company was accused of denying, delaying, or providing inferior access to its then monopoly-controlled local networks, which were essential for completing telephone calls. This behaviour led to extensive litigation, and ultimately structural separation, whereby monopoly local networks were prohibited from participating in the long-distance market. This separation remained in place until the advent of Internet-based telephone eliminated 'long distance' as a separate service and facilitated end-to-end competition in telephone service, including the 'last mile'.
- **Electricity:** A similar issue arose in the energy sector when electricity generation came to be regarded as competitive yet still required access to monopoly transmission networks. To prevent potential discrimination, electric utilities in regions that adopted competition were allowed to own both transmission and generation, but control over the transmission networks, including decisions regarding granting new competitors access to those networks, were placed in the hands of independent system operators. These independent operators were required to follow rules limiting the ability of existing generators to influence access decisions.

While discrimination has been a significant concern in the telecommunications and electricity markets, it appears to be less relevant in the context of postal operator diversification. For discrimination to occur, a postal operator would need to deliberately provide lower quality mail service just to its competitors in its new newly diversified markets. In general, this is either feasible—since mail service is unlikely to be essential for competitors' business operations, meaning that discrimination by the postal operator in the mail service market would not significantly undermine their competitiveness in the new market—or would be so blatant to be easily prevented by regulators and competition authorities.

4.D3.2.2 Cross-subsidization

A more significant concern affecting support for diversification is the potential for a practice known as 'cross-subsidization'. This occurs when the costs of providing diversified services are improperly allocated to the cost accounts for the regulated postal service, leading a regulator to approve rate

increase for that service. For example, the costs of labor time in postal offices that also provide financial service could be misattributed to the regulated mail service, thereby inflating its reported costs and justifying higher prices of mail service.

Direction of cross-subsidization

It may be useful to clarify how the direction of cross-subsidization affects whether such subsidization is harmful. As discussed below, subsidization flowing from postal customers to support diversified operations can be problematic because of higher rates to customers (to fund those subsidies) and distorting competitive efficiency in diversified markets. Effects are presumably different in the other direction. If diversification generates net revenues that flow to the postal side to support universal services, that “cross-subsidy” is presumably beneficial.

Cross-subsidization can have three harmful effects:

- (i) First, it can harm postal customers by raising rates for the regulated postal service, pushing prices closer to the monopoly level.
- (ii) Second, it gives the postal operator an artificial cost advantage in the market for diversified services, potentially limiting or preempting competition from more efficient or lower cost competitors.
- (iii) Third, these combined effects can engender strong opposition to postal reform from multiple stakeholders, including postal customers paying higher fees, competitors in the added markets facing more intense competition, and postal, sectoral, and general competition regulators who are tasked with addressing these distortions.

Cross-subsidization, if left unchecked, could undermine trust in the postal operator and derail the broader goal of diversification.

Effective policies can reduce the competitive concerns associated with cross-subsidy. The least restrictive option would be adoption of effective cost accounting rules. Such rules would require regulators to identify which costs are unique to the regulated and diversified parts of a postal operator’s business. The regulator would have to ensure that rates for regulated letter delivery and other regulated services were no greater than the costs that have been allocated to that side of the business through these rules. In doing so, a regulator would have to decide how much of the common costs of providing postal and diversified services—which can be an important part of benefits from economies of scope—to those groups of services.

A perhaps easier option is that instead of basing postage and delivery fees on nominal costs, regulators could set those fees to adjust over time on the basis of general inflation and expected productivity increases. This form of regulation, known as ‘price cap’ regulation, is employed in the US to set postage rates for ‘market-dominant’ services for which the US postal operator faces little or no competition. By making rates independent of cost, price cap regulation eliminates the direct incentive to charge diversified service costs to postal operations.

This, however, is not a complete solution. In practice, as the price cap mechanism inevitably leads postage rates to diverge significantly from costs, regulators will find it necessary to recalibrate prices every few years. These recalibrations could result in costs being passed on to customers. Moreover, at least in the US, price cap regulation has not stopped postal operator’s competitors in parcel markets from complaining to regulators that the postal operator’s postal delivery rates are unfairly low and do not make an appropriate contribution to the postal operator’s fixed cost.

Another approach to mitigating cross-subsidization, as evidenced by the Japanese diversification process, involves structural separation of operations. By establishing separate subsidiaries for mail services and diversified activities, with independent financial accounts and enforceable transfer pricing rules, regulators can reduce the risk of cross-subsidization. For example, this ensures that diversified subsidiaries pay market prices for services provided by the core postal operations, limiting opportunities to allocate costs improperly.

While structural separation may be effective in mitigating risks, it is not devoid of trade-offs. By segmenting operations in separate subsidiaries, opportunities for the fixed costs sharing or customer convenience benefits that often justify diversification may be lost. For example, requiring that a postal

operator offer financial services through separate staff and facilities would impede the ability of customers to reap the benefits of shopping for both mail and financial services at the same time.

A balanced approach to mitigating competitive concerns may involve combining regulatory mechanisms. For example, price cap regulation could be supplemented with clear accounting and reporting standards that enforce transparency in cost allocation, even within a single organizational structure. More broadly, effective cost accounting and some mechanism of disclosure might contribute to addressing this issue. Alternatively, structural separation could be designed with flexibility, allowing some shared facilities or services when justified by customer convenience and cost-efficiency, if these arrangements are transparently documented and fairly priced.

Mitigating competitive concerns requires a nuanced approach that balances the risks of cross-subsidization with the benefits of diversification. While price cap regulation and structural separation offer useful tools, they must be implemented thoughtfully to avoid unintended consequences, such as diminished economies of scope or customer convenience. Ultimately, a combination of regulatory mechanisms, tailored to the unique context of each country's postal system, is likely to offer the most effective solution. Robust oversight, transparency, and stakeholder engagement are critical to ensuring that these measures protect competition while supporting the broader goals of postal reform.

4.D3.3 Risk of state aid diverted from universal service obligation

Similar considerations may arise with state aid, that is, public funds used to support postal operations. A particular motivation for state aid to postal operators, as noted in Module X, is to help cover the cost of meeting otherwise unprofitable universal service obligations. State aid may become more important as net revenues from regulated services falls, for example, because customers turn to electronic alternatives to letter mail.

The latter possibility is why improper 'state aid' has been a concern in Europe as postal operations become more competitive. The concerns are similar to those associated with cross-subsidization, described above. The policy justification for this concern arises from the possibility that state aid can be diverted from supporting universal services to covering costs of diversified services. If so, more efficient competitors in the new market may be partly displaced or discouraged from participating if they must compete with a postal operator that can subsidize its new services with government support.

4.D3.4 Expanded regulatory oversight

As postal operators diversify their services beyond traditional mail delivery, they inevitably encounter expanded regulatory oversight. Diversification often leads operators into industries with established regulatory frameworks, introducing new legal, compliance, and operational challenges. This oversight comes from both sectoral regulators governing specific industries and general competition authorities concerned with maintaining fair market practices. While this added attention does not imply that diversification is inappropriate, it significantly broadens the regulatory landscape within which postal operators provide their services.

4.D3.4.1 Sectoral regulation

Many of the businesses that a postal operator may choose to diversify into will themselves have regulators. The introduction of sectoral regulation imposes additional compliance requirements, ranging from licensing and operational standards to reporting obligations and customer protection laws. While these requirements ensure accountability and competition, they also demand significant investments in expertise, technology, and administrative capacity.

For example, in providing financial services, postal operators may need to comply with anti-money laundering (AML) and know-your-customer (KYC) regulations, requiring the development of robust risk management frameworks and secure customer data handling systems. Similarly, engagement in telecommunications or energy sectors may require postal operators to meet technical, environmental, or data privacy standards specific to those industries.

Moreover, in sectors like financial services, telecommunications, or logistics, postal operators may need to establish dedicated compliance teams or hire external expertise to ensure adherence to sectoral laws and regulations. These requirements may require significant investment in administrative and technical capacity, particularly for operators that lack prior experience in diversified markets.

A relevant example is the case of PostePay, a subsidiary of the Italian postal operator Poste Italiane, which offers telecommunications services under the PosteMobile brand. In 2024, the Italian communications regulator AGCOM intervened following concerns about the company's compliance with telecom net neutrality and consumer protection rules. PostePay had introduced a limitation on data traffic for unlimited SIM cards included in fixed-network packages, leading to regulatory scrutiny. AGCOM launched a sanctioning procedure, citing violation of transparency obligations and unjustified restrictions on data speeds. To resolve the issue, PostePay proposed regulatory commitments, including improving contractual transparency, removing arbitrary traffic limitations, and enhancing consumer protections. These commitments were ultimately approved by AGCOM as part of a structured compliance framework. This case illustrates how diversification into telecommunications can trigger oversight from communications regulators, even for a postal operator.

Another example, the Bangladesh Post Office's (BPO) experience with its digital financial platform, Nagad, provides an illustrative case of how sectoral regulation can significantly shape the dynamics of diversification. The BPO does not fall under the Central Bank's scrutiny as it is regulated by Bangladesh Postal Act Amendment 2010 and will not be governed by Mobile Financial Service regulations. This distinction allows Nagad's customers to benefit from higher transaction limits, thereby granting Nagad a significant operational advantage. While Nagad has allowed the BPO to expand financial inclusion, particularly in rural areas, it has also sparked criticism from competitors who argue that such flexibility creates an uneven playing field and facilitates money laundering and terrorist financing.

Such examples highlight the dual-edged nature of sectoral regulation in the context of postal diversification. On the one hand, regulatory exemptions can accelerate the development of socially beneficial services, such as financial inclusion, by reducing barriers to entry for postal operators. On the other hand, the same exemptions or preferential treatment can distort competition, raising questions about long-term market sustainability.

4.D3.4.2 General competition authorities

Entry by postal operators into the provision of new services is likely to invite oversight and potential action from general competition authorities. Possible issues are detailed below, but in general these agencies are charged with ensuring that firms in general do not engage in collusion with competitors, mergers with competitors, or conduct that subverts competition without providing commensurate benefits to consumers and the economy as a whole. As has happened in some jurisdictions, competition authorities may actively oppose some diversification efforts and thus affect the direction of postal reform.

For example, in the mid-1980s, prior to the widespread availability of the Internet, the United States Postal Service (USPS), the universal postal service provider in the United States, proposed to provide a service that would process electronically delivered bills and other correspondence, print those, and deliver them in the mail. However, the Antitrust Division of the US Department of Justice, one of the national competition authorities, opposed this proposal. The primary concerns were that it risked allocating the costs of this service to general customers of postal services, thus distorting competition among other electronic communication companies. Moreover, USPS failed to demonstrate any unique benefits it could provide that would justify its entry into this market.

In addition, diversification efforts by postal operators are particularly likely to attract scrutiny from competition authorities regarding anticompetitive practices, such as discrimination, cross-subsidization, predatory pricing, or leveraging dominance in regulated postal services to gain inappropriate advantage in competitive markets.

Competition authorities will likely have to evaluate complaints from the postal operator's competitors in new services that the postal operator's affiliate has artificial advantages reflecting an abuse of the postal operator's dominance in mail. Whether or not these complaints have merit, the postal operator may have to devote attention and resources to deal with them. This may include:

- Demonstrating that cost allocations between regulated and diversified services are transparent and compliant with accounting rules.
- Addressing concerns that diversified operations receive artificial competitive advantages from shared infrastructure or state support intended for universal service obligations.
- Cooperating with lengthy investigations or audits, which may divert management focus from core operations and innovation.

Such scrutiny underscores the importance of maintaining rigorous internal controls and transparent reporting to preempt and address potential complaints effectively.

4.D3.4.3 Balancing expanded regulatory oversight with diversification goals

While expanded regulatory oversight presents challenges, it also ensures accountability, fairness, and alignment with public interest. With the broadened scope of a postal operator's activities comes the need for greater diligence in adhering to sectoral regulations and competition law. To navigate this landscape effectively, postal operators should:

- **Develop Strong Compliance Systems:** Postal operators should establish robust internal systems to ensure compliance with multiple regulatory regimes. This may include investing in legal and regulatory expertise across diversified sectors.
- **Enhance Transparency:** Clear and detailed reporting of cost allocations, revenue sources, and operational practices can reduce the likelihood of regulatory disputes and foster trust among stakeholders.
- **Engage Regulators Proactively:** Building relationships with both sectoral and competition authorities can help postal operators anticipate potential concerns and address them before they escalate into formal investigations.

Thus, by acknowledging and preparing for expanded regulatory oversight, postal operators can position themselves as responsible and competitive players in diversified markets, ensuring that their reforms contribute to sustainable growth, without compromising the fulfilment of the universal service obligation and more in general, legal or ethical standards.

4.D3.5 Other stakeholders and their interest

In addition to the sectoral and competition regulators mentioned earlier, diversification into new services is likely to attract the attention, support, or concern of various other stakeholders. When considering stakeholder interests, it is important to take into account not only the potential competitors in the newly entered markets but also the evolving interests of existing stakeholders.

4.D3.5.1 Competitors in new markets

A first group with a stake in postal reform created by diversification are competitors for the new services provided by a postal operator. As seen in the examples above, potential competitors could include commercial banks and fintech for financial services, telecommunications companies for electronic access and mobile telephony, and firms in sectors such as real estate, logistics, and other commercial

services companies. The composition of these competitors will vary depending on local economic factors, proximity to other countries, and trade policies. In some cases, competitors may be foreign, yet they may retain some ability to influence legislative and other policies related to postal reform.

It may be useful to keep in mind a possibility, perhaps theoretical, that competitors of sorts could also emerge from the public sector. For example, schools or libraries could appeal to their own geographic ubiquity to want to act as hubs for e-government access. Similarly, national health services may want to provide the kind of home visiting services some postal operators provide. These public agencies may want to influence the direction of postal reform and promote their own contributions to national economic development.

Competitors in new markets are likely to monitor closely how diversification affects their business and may raise concerns with sectoral or competition regulators if they foresee negative impacts. In some cases, they may actively oppose the inclusion of diversification in the postal reform agenda and seek to block or delay reform through all available means.

Such opposition from competitors is arguably inevitable. However, as discussed in Module 4.D4, reform strategies that take into account the complementarity between services offered by designated operators and those provided by incumbent competitors may help alleviate some of these concerns.

4.D3.5.2 Expanded interests of current stakeholders

Diversification may also affect the interest of current stakeholders in postal reform. On the positive side, current postal customers who appreciate additional services provided by the postal operator, either by postmen/postwomen or in post offices, may provide more support for the postal sector as they rely on it for a wider range of services. On the other hand, those concerned with building support for postal reform may want to be aware that customers might be more sensitive to postage increases if they believe the revenues are subsidizing diversified operations and distracting the postal operator's attention from core universal services.

Postal regulators may experience similar shifts in their interests and responsibilities. They may be charged with scrutinizing postal costs and revenues to prevent subsidies and thus have more complicated duties. Depending on the country's legal and regulatory framework, the postal regulator may also be charged with protecting competition, promoting efficient service provision, and ensuring that the postal operator meets standards consumers come to expect in the added diversified operations, as it already expects for traditional postal services.

Understanding how diversification affects these stakeholders is important in building support for postal reform. By addressing these concerns proactively, reform initiatives can build a more robust foundation for long-term success.

4.D4 The Potential Importance of Complementarity

A potentially important consideration for both enhancing the social and economic value of diversification, and for mitigating potential stakeholder opposition to postal reform that it might generate, is complementarity. By complementarity, we refer to the possibility that postal diversification could enhance the value and profitability of incumbent providers in sectors that the postal operator might enter. The concept of complementarity contrasts with 'substitutability'. If the designated operator's diversified services potentially substitute for the services incumbents in other sectors provide, those incumbents may view diversification as a competitive threat. This could make them more likely to try to impede rather than support efforts at postal reform to ensure the continued financial viability of the postal operator.

An example from the digital transformation of postal services illustrates complementarity. In the US and likely other countries, the postal operator (USPS) offers a service called 'Informed Delivery'.

Subscribers to this service receive an email from USPS in the morning informing them what mail is coming that day and what packages are in transit. This 'Informed Delivery' complements existing electronic communications services, making them more valuable to customers and thus to all providers of those services. Placing terminals in post offices that can access the Internet through all providers could be another example. These are in contrast to the postal operator itself providing the electronic networks for accessing postal information, or other services that incumbent communications firms could supply.

Another compelling example of complementarity is the opportunity for postal networks to support 5G deployment, addressing critical national digital infrastructure needs while creating new revenue streams. Postal operators, with their widespread physical networks, are uniquely positioned to serve as strategic partners for mobile network operators in deploying 5G technology.

Postal facilities can be leveraged to host 5G network components, such as small cells, fiber splice points, and edge computing nodes. Postal facilities, located in both urban and rural areas, provide an existing infrastructure base that can reduce deployment costs for telecom providers while generating lease revenues for the postal operator. This arrangement demonstrates the potential for postal operators to complement the efforts of telecommunications companies in expanding digital connectivity, particularly in underserved regions. Furthermore, such partnerships clearly align with national goals of advancing digital inclusion and supporting the digital economy, creating societal benefits that extend beyond immediate financial gains.

The financial sector offers related examples. A postal operator could make space in post offices available for automated teller or cash machines that provide access to services from multiple banks, for example, those participating in an interbank network. On the other hand, a postal operator that provides automated teller machines for only its own banking service might be viewed as a competitor to these banks. If so, those banks may be less likely to support postal reform efforts.

Complementarity may also be relevant for socially important services. Many countries are concerned with extending the concept of universal services from letter mail to digital communications. A postal operator could approach this by holding itself out as a potential provider of digital communications, as a substitute for others. It could alternatively position itself as a conduit between the intended beneficiaries of digital universal service programs and incumbent digital providers who would provide electronic access to those recipients. Under the former it potentially shrinks that scope below what it might be, while under the latter, the postal operator increases the scope and scale of incumbent provider services, potentially helping to make those incumbents allies in the pursuit of postal reform policies.

While complementarity may be helpful, it is not necessary for diversification. Benefits relating to cost savings, customer convenience, increased competition, and promotion of universal services more effectively may justify direct postal operator participation in sectors outside traditional mail. This will be especially so if any potential concerns relating to state aid, cross-subsidization, and political opposition to postal reform are small or easily mitigated.

4.D5 Considerations for Implementing Diversification

Providing specific recommendations for postal operators and national governments on the design and implementation of diversification initiatives is challenging due to highly context-dependent nature of these efforts. The advantages of diversification – whether to promote economic development or meet social needs, and the factors determining the effect of diversification on promoting postal reform, will differ significantly among countries and possibly even among regions within a single country. Because the most important considerations will be specific to a country, it is difficult to go beyond the general concepts described in this module.

Nevertheless, despite these variations, certain guiding principles can help postal operators and regulators make informed decisions about diversification. Gathering and analyzing relevant, country-specific information is crucial. This includes understanding the demand for proposed services,

assessing the operator's capacity to deliver them efficiently, evaluating potential financial and operational risks, and determining how diversification aligns with national development goals and regulatory requirements.

Diversification and postal business strategy

Diversification plays a pivotal role in the strategic evolution of postal operators. Postal operators are increasingly required to adapt to market dynamics, often expanding beyond traditional postal services, and pursue business viability. A structured approach to strategic planning and operational modernization is necessary to support new business models.

The decision to diversify must align with the broader reform strategies of postal operators, ensuring that new service offerings strengthen business viability rather than compromise core postal services. As postal operators face growing pressure from market liberalization, digitalization, and evolving consumer demands to assess the postal operator's existing business model, regulatory constraints, and future market opportunities, ensuring that diversification aligns with long-term postal reform objectives.

4.D5.1 Economic viability

Assessing economic viability is a critical first step in determining whether a diversification initiative is feasible and sustainable given the operator's market (country-specific) conditions, resources, and goals. This initial stage involves evaluating customer demand, cost structures, and the competitive landscape to identify opportunities where the operator has a clear advantage. A well-grounded and data-driven understanding of these economic factors ensures that diversification efforts are not only financially justifiable but also strategically aligned with the operator's long-term objectives.

4.D5.1.1 Customer demand and business potential

A threshold question for any business wanting to enter a new market is whether there is sufficient demand for the product. This also applies to added services from the postal operator. Is there an untapped demand for financial services, mobile communications, logistics services, or the numerous other possibilities that some postal operators already provide or could provide? If so, diversification can be successful; if not it could be a costly failure that impedes postal reform. Postal operators and the postal policy community in one country should note that the presence of diversified services in another country need not imply that offering them will be successful and financially justified in their country.

4.D5.1.2 Cost analysis

Cost analysis is a critical component in evaluating the feasibility of diversification initiatives. An important driver for diversification is the potential for a designated operator to offer additional services at a lower cost than others. This advantage can stem from the operator's ability to leverage existing resources, such as infrastructure, workforce, and operational networks, to reduce the marginal costs of providing new services. However, the potential for these cost savings will vary across markets and services, requiring careful evaluation.

A crucial consideration in cost analysis is 'opportunity cost', that is, the value of the postal services that may not be provided if labor, post office space, or other factors are used to provide the new services. On the other hand, genuinely shared costs can offer substantial advantages that justify diversification. After identifying those services where there is sufficient demand to justify designated operator diversification, the potential for cost savings for that operator in a particular country should be carefully evaluated. For example, using underutilized post office space to deliver financial services can enhance the operator's revenue streams without imposing additional fixed costs.

To ensure successful diversification, cost analysis should at least include:

- **Detailed Cost Allocation:** Clearly distinguish between shared costs, incremental costs, and opportunity costs to avoid misallocation that could undermine financial sustainability.
- **Service-Specific Evaluation:** Analyze cost structures on a service-by-service basis, as the potential for cost savings will depend on the specific characteristics of each market and service.
- **Country-Specific Context:** Consider local factors, such as labor costs, infrastructure availability, and existing market conditions, as these will influence the operator's cost advantages.

4.D6.1.3 The potential to increase competition

A further justification for diversification is if postal operator provision of a new service will make the market for that service more competitive. The benefits to customers of that service through lower prices and to the country as a contribution to national economic development can make enhanced competition an important engine for postal reform. In non-competitive markets, postal operators and their regulators will need to understand why other businesses have not decided to enter the market under consideration. The intensity of existing competition and the reasons for reluctance of other businesses to provide the service in question will be a function of local market and cost factors that should be assessed.

4.D5.3 Social imperatives

An important justification for diversification is that the postal operator may be able to exploit its ubiquitous presence in a country to provide other services that meet social needs, whether or not they are profitable.

Three considerations in assessing this justification in a country are important.

- The first is similar to the customer and business question above, but phrased in terms of social values rather than economic demand: How substantial is the need for services that address those social values? For example, in some countries access to banks, communications services, electronic government, or other socially important services may be so broad that the postal operator lacks much to add. In many, if not most other countries, and in parts of wealthy countries, that need may be substantial, and the postal operator may have a great deal to offer.
- Second, assessing the need will entail an assessment of whether other government agencies, ministries, or programs already address those needs. For example, public libraries may provide access to electronic government services, or commercial banks might be subsidized to serve parts of the public that otherwise would be unable to afford to maintain accounts, make payments, or obtain loans.
- Third, because meeting these social needs when they are unprofitable requires additional funding from either higher rates for some mail services or additional funding from the government, diversification on social grounds will depend on the willingness of a government. Consequently, the willingness of the regulator and government to support higher rates for those mail services or provide other funding to support social services will be crucial.

4.D6.4 Institutional and regulatory readiness

Economic and social conditions are not the only factors affecting the success of diversification and its contribution to postal reform. National legal, regulatory and political conditions play an equally important role. This section discusses the legal and regulatory environment and the need to build political support to navigate these complexities effectively.

4.D6.4.1 Legal conditions

Understanding the legal framework within which the postal operator functions is critical for designing a potential diversification strategy. Both statutory authority and regulatory support are critical factors that influence the success of diversification efforts.

- **Statutory Authority:** A threshold question for diversification is whether existing laws allow the postal operator to diversify. Laws may restrict what the designated operator can provide. If it wants to diversify beyond post services, postal laws may define whether and how such offerings can be made, how they must be priced, and set other conditions. Depending on the business the postal operator wants to enter, laws and legal permissions pertaining to that new business may apply, for example, financial laws affecting entities that offer banking services. These laws also may delegate authority to make these decisions to the national postal regulatory authority.
- **Regulatory Support:** Relevant laws and ministerial authorities may imply that relevant permissions and conditions for diversification are set by the national postal regulator. The level of discretion the national postal regulator has regarding permissions and conditions will be set by the laws that create and empower the regulator and general laws regarding how regulations are adopted. The courts may play a role in interpreting laws to determine how authority is defined and allocated between regulators, ministries, and legislatures. Legal and constitutional traditions play an important role, and these also vary across countries. Types of diversification permissible in one country may not be feasible in another. (See Focus Area 2 for more on the role of regulations for postal reform).

4.D6.4.2 Building political support

Laws and regulations are not fixed. Current laws can be amended or repealed, and new laws can be adopted. Similar change can take place before regulators empowered to set the terms and conditions for diversification. Policies affecting diversification, on both business and social grounds, are dynamic. They can depend on several political factors in the country, in addition to those alluded to above where funding is required to support diversification to promote the country's social values. Where diversification can be designed to complement rather than compete with incumbent offerings, political support for postal reform may be enhanced. This political support can be further strengthened when diversification is aligned with national economic development goals or framed as a response to unmet social needs, even in the face of opposition from competitors or other stakeholders.

- **Alignment with national economic development:** This depends on the ability of the postal operator to make a clear business or social case for diversification, and connect those benefits to national economic development. For example, if diversification allows a postal operator to reduce the cost of providing new services, offer customers opportunities they would not have otherwise, or increase competition in previously uncompetitive or unserved markets, those benefits could be incorporated into making a case that diversification promotes national economic development. To the extent development goals are not economic but reflect social values, such as access to basic financial or government services, political support for diversification and postal reform generally could be boosted.
- **Influence of competitors:** Diversification adds new stakeholders to the policy context for postal reform. Among those new stakeholders, as discussed above, will be competitors to the postal operator in the added markets. These competitors may oppose postal operator entry into their markets, especially if it involves pursuing profitable businesses. These competitors may use claims of potential cross-subsidization to support opposition to diversification. Postal operators who wish to diversify may need to respond to such criticisms. Depending on their political influence in the country's legislative and regulatory institutions, competitors may be able to inhibit diversification, even where it is justified on business or social grounds and weaken the general case for postal reform.

4.D6.5 The need for local expertise

The above discussion in this section shows that applying principles to evaluate the case for diversification depends crucially on local market, social, and legal, and political conditions. Effective diversification will require a wide variety of business and institutional expertise. The designated operator will have to acquire such knowledge through hiring experts, as permanent employees or on a part-time basis, in the markets and services in which they want to diversify and in building legal and political cases for such diversification. The cost of this expertise is itself a cost of diversification that should be incorporated into a diversification decision.

4.D6.6 Considerations for specific sectors

One can identify types of services that have been the focus of diversification by postal operators. These each raise particular questions regarding the benefits and risks discussed above. Outlining those questions may be useful in assessing the merits of diversification that postal operators and their regulators may consider and illustrate some of the observations above.

4.D6.6.1 Commercial services

Commercial services include services provided to businesses to help them carry out their operations. Among the commercial services provided or considered by postal operators are logistics and real estate. The primary benefit of diversification in this category lies in enhanced buyer convenience, giving businesses rather than customers the opportunity to obtain these services while arranging for the sending and receiving of documents and parcels.

Economies of scope are possible as well, although identifying shared fixed costs between mail services and other commercial offerings, such as logistics, can be challenging. Moreover, other firms are likely to be already providing these commercial services, so postal operators who choose to diversify into commercial services may become subject to competition law challenges.

4D6.6.2 Financial services & financial inclusion

Financial services encompass a wide range of offerings, including payments, savings, insurance, and lending services. While many postal operators offer financial services, their structures and portfolio of financial products and services vary. According to the UPU's Global Panorama on Postal Financial Inclusion (2023, with reported data for 2021), 84% of responding countries provide some type of postal financial service, reflecting the near-universal role of postal networks in financial service provision. However, regional differences in financial service offerings are significant as the extent and nature of these services depend on regional factors, including on regulatory landscape, infrastructure, and customer demand.

Many postal operators, such as PostFinance in Switzerland, Japan Post Bank in Japan, and La Banque Postale in France, have spun off their financial services into separate banking subsidiaries, likely due to regulatory frameworks and risk management considerations. In contrast, Poste Italiane in Italy stands out as a designated postal operator that directly provides financial services through BancoPosta, offering a wide range of banking products, including the full suite of checking accounts, payment cards, and mortgage lending services. In some countries, for example, Indonesia and Botswana, postal operators also directly provide financial services, though typically on a more limited scale, focusing on remittances, bill payments, and basic savings services rather than full-fledged banking operations.

Undoubtedly, one of the key strengths of postal financial services is their reach into rural and underserved areas. Four out of five post office branches worldwide are located in rural areas, where they often serve as the only financial access point for communities lacking traditional banking infrastructure. This geographical reach makes postal operators instrumental in financial inclusion effort, particularly for pensioners and other vulnerable populations, who make up a significant portion of postal banking customers.

Partnerships have also become a critical driver of financial service expansion, particularly for more complex financial products. Many postal operators collaborate with banks, mobile network operators, and fintech firms to offer co-branded services, which might help them to overcome regulatory hurdles resulting from diversification into other areas (see Section 4.D3.4. Expanded regulatory oversight).

In terms of take-up, the global number of postal financial accounts has surged by 20%, growing from 1.96 billion in 2016 to 2.38 billion in 2021, reflecting the growing reliance on postal financial services worldwide. While revenue contributions from financial services vary by country, the median share of postal operator revenues from financial services is 19%, with the legal status of the service provider (i.e. department or subsidiary of the postal ministry, licensed postal bank, or other) influencing revenue generation.

These insights highlight the increasing role of postal operators in financial inclusion, particularly in regions with limited banking penetration, and reinforce the potential of financial services as an element of diversification strategy for postal operators worldwide.

The primary benefit of diversification into financial services lies in customer convenience. Customers who frequently use postal and banking services in person can save time and effort by combining what would otherwise be separate trips and transactions into a single trip, leveraging also on customers' trust to postal service. This advantage is particularly valuable for in-person services in regions where alternative options may be limited or less accessible.

For financial services customers, postal operators represent an important link and point of access for a wide segment of underserved citizens/customer groups, particularly in emerging markets. These underserved segments include micro, small, and medium enterprises (MSMEs), women, youth, smallholder farmers, government employees, and recipients of government payment disbursements. Additionally, other underserved groups may vary by country, depending on local demographics and socio-economic factors. The postal operators play a critical role in supporting government regulators to advance national financial inclusion goals through the enablement of access to the financial system for the underserved postal customers through postal digital financial services and solutions. When the postal operators diversify their digital financial services offerings to cover digital payments, digital savings, microfinance and inclusive insurance, they are advancing financial inclusion by offering important choices for the underserved postal customers to enhance their livelihoods and social economic development.

A key consideration when diversifying into financial services is the early adoption of digital financial solutions, as most modern services are highly automated and technology-driven. The unique brick-and-mortar infrastructure of post offices alone will not be sufficient to meet people's needs and expectations or remain competitive. In many African communities, for instance, payment services without mobile or e-wallet access are unlikely to succeed. Some good examples of Digital Financial Services (DFS) drive can be found in Switzerland (Postfinance) or more broadly through government-driven initiatives in countries like India and Jordan.

Furthermore, some of the key postal financial inclusion recommendations that should be taken in consideration as part of the diversification assessment planning exercise are as follows:

- To elevate the prospect role of the Post in delivering on national Financial Inclusion priorities and how effectively can the post become a key stakeholder among the national financial inclusion actors.
- To facilitate the dialogue between the postal operators with the Postal regulators on the need to deliver the required enabling Digital Financial Services regulations that will support financial inclusion and postal diversification.
- To promote the need for collaboration among postal operators and the wider national DFS ecosystem stakeholders on the need to drive national DFS solutions through the Post to enhance national financial inclusion priorities.
- To seek to enhance postal DFS capabilities and DFS readiness levels through partnerships and knowledge transfer collaboration to better serve the underserved citizens/customers.

- To focus on delivering customer-segment-specific DFS products and solutions that meet the needs of underserved postal segments, with a focus on mobile solutions aligned with the financial literacy levels in the domestic market.
- To promote and enable DFS government-to-citizen (G2C) payment solutions to be channeled and delivered through the postal networks to support digital financial education and financial inclusion.
- To launch financial literacy, capacity-building programs and DFS educational initiatives through the postal networks, targeting specific excluded postal customer segments in support of national financial inclusion goals.
- To constantly seek and apply global DFS best practices models to advance digital & financial inclusion. (For additional insights on postal financial inclusion best practices, please refer to the UPU publication: Postal Networks: A Platform for Financial Inclusion⁵⁸).

Economies of scope may be a less obvious justification, as providing financial services requires added staff and office space, particularly in person. One cannot assume that the current deployment of postal clerks and post office space will be adequate, although they could be available because of declining mail volumes but may not be allowed to provide financial related services as it is the case in many countries as for example in Europe. For postal operators to provide banking services additional staff has to be hired or certified/trained. Claims that reputation and trust are economies of scope based on fixed, shared costs have some appeal, but they could be construed as cross-subsidies, since good reputations are to some extent the result of payments made by customers and state subsidies to make service reliable.

Diversification into financial services, especially to the extent of becoming a full-service bank, will also bring the postal operator within the scope of financial regulation whereas referred above the postal staff may be excluded by law to provide banking services as well which means that new staff, or existing staff has to be exclusively handling banking services, no other postal services with additionally physical separation. Falling under the jurisdiction of financial regulators, postal operators will need to comply with a wide array of new rules and requirements that go beyond traditional postal regulation. These additional obligations could add complexity to operations and require a careful evaluation of the risks and benefits associated with this form of diversification.

4.D6.6.3 Government services

Postal operators have been and, in many respects, continue to be the means by which the public interacts with the government. Licenses, tax returns, passports, and other services are delivered through the mail. Greece has recently required taxpayers to communicate with the government electronically. Extending this by diversifying postal operations to include electronic government services (“e-government”) is inviting. Other telecommunications carriers, however, could facilitate e-government as well. Diversification may be most beneficial when there is little competition in relevant telecommunications markets, or where such services are not otherwise available.

Digital financial services, as discussed earlier, can enhance government services provided by postal operators, and can greatly enhance financial inclusion in hard-to-reach places particularly in rural areas. By integrating recurring payment solutions with various G2C services, postal digital financial services can foster economic empowerment, improve livelihoods for underserved communities and advance national financial inclusion goals and priorities.

Postal operators should actively engage with government ministries, NGOs, multilateral agencies and the private sector to better understand their needs, and to encourage the use of postal infrastructure for achieving their social development goals.

⁵⁸ <https://www.upu.int/en/publications/financial-inclusion/postal-networks-a-platform-for-financial-inclusion-enablement>

4.D7 Key Guidelines and Recommendations: Diversification

To enhance the likelihood that diversification meets expectations and supports postal reform, postal reform and regulators should follow these key guidelines:

1. **Identify and leverage shared fixed costs and customers convenience opportunities.** Building a robust business case for diversification and using it to promote postal reform requires effective communication to and with stakeholders. Diversification is most likely to benefit the postal operator and the public when the postal operator has unique advantages, such as the ability to provide new services at lower cost than competitors or offering customers additional value by bundling new services with postal services. A thorough business case would explore how the existing infrastructure, products, services, expertise and partnerships of postal operators create cost or convenience advantages in the provision of new services.
2. **Acknowledge the added complexity in building support for postal reform.** Diversification introduces many new stakeholders into postal reform. These include customers of the new services, sector-specific regulators and other policy makers with authority over the entered sectors, and most importantly, competitors of the postal operator in its new businesses. In addition, current stakeholders, such as postal service customers and their regulators, may have different views regarding the designated postal operator's expanded role. Some of these changes may facilitate the prospects for postal reform, while others may create challenges. How this added complexity manifests itself will depend on local economic, legal, political and social factors.
3. **Justify the postal operator's role in providing social services and promoting social inclusion.** Apart from economic or business considerations, postal diversification can help meet important social needs, such as providing services to underserved populations. Policymakers should assess where such services are needed, consider whether other entities already address these needs, and assess whether the postal operator's involvement would add value.
4. **Consider adopting price cap regulation.** If postage rates and other regulated fees are tied directly to costs, postal operators risk being accused of shifting new service costs to the postal side of the business and having them covered through higher postage and fees. While not perfect over the long term, setting rates and fees with adjustments for inflation and expected productivity can alleviate these concerns.
5. **Evaluate the use of separate subsidiaries for diversified operations.** To address concerns about cross-subsidization, postal operators could provide diversified services through independent subsidiaries with separate financial accounts. However, this approach requires careful consideration, as strict separation might hinder economies of scope and reduce customer convenience; key factors in successful diversification.
6. **Recognize the limitations of diversification in addressing the USO funding gaps.** Diversification alone is unlikely to resolve funding challenges associated with the Universal Service Obligation and the funding gap created by the decline in letter volumes. The viability of diversification as a funding source depends on specific circumstances, such as the competitiveness of the new market and cost advantages. Hence, other means of funding, as discussed in Focus Area 3, will remain necessary.
7. **Seek opportunities to complement existing incumbent offerings.** A postal operator may find it possible to exploit its advantages in having widespread locations and universal service expertise in ways that aim to complement, rather than compete with, existing offerings in sectors such as digital communications or financial services. Where exploiting complementarity is feasible, collaboration with ministries, NGOs, multilateral agencies, or private entities can also support social development objectives and reinforce the case for postal reform.
8. **Develop and utilize necessary local business and policy expertise.** Effective diversification depends on a deep understanding of local market, social, legal, and political conditions. Postal operators must invest in acquiring the necessary business, regulatory, and institutional expertise. The costs of developing this expertise should be factored into the overall assessment of diversification viability.

Module 4E Cost Accounting

Cost accounting is a fundamental branch of accounting that focuses on capturing, classifying, analyzing, and allocating costs associated with the production of goods or the delivery of services. It serves as an internal management tool designed to support planning, control, and decision-making.

In the postal sector, cost accounting is an essential tool for driving improvement and ensuring the operational sustainability of postal operators. Amid growing pressures from market liberalization, digital substitution, and - particularly for universal postal service providers - the obligation to provide a universal postal service, it becomes imperative for operators to accurately measure the costs of service provision, improve efficiency, set appropriate pricing strategies, and optimize resource utilization.

Furthermore, cost accounting provides a critical foundation for regulatory interventions. For regulators and policymakers, robust cost accounting systems are essential for identifying and preventing anti-competitive practices such as cross-subsidization, assessing the financial burden of universal service provision, and setting cost-oriented tariffs that reflect economic reality.

This module does not aim to provide a comprehensive theoretical or technical guide to cost accounting, as such content is more appropriately covered by existing academic and professional resources. Instead, it focuses on key considerations related to cost accounting in the context of postal sector reform – namely, its objectives and the requirement for achieving them.

4.E1 Objectives of Cost Accounting within Postal Operators

From the operational point of view, a cost accounting system provides the postal operator with an extremely important tool for making various business management decisions, such as:

- **Measure the costs of services or activities**

A cost accounting system allows postal operators to systematically capture and allocate both direct and indirect costs to specific services or operational activities. By identifying the various cost components involved in different processes—such as delivery, sorting, or customer service—operators can better understand how resources are consumed. This clarity enables more accurate internal reporting, supports cost transparency, and lays the foundation for effective performance management across the organization.

- **Measure the profitability of services, in different markets or customer groups**

Understanding the profitability of services by customer group helps postal operators tailor their offerings more effectively. By comparing the revenues generated with the associated costs for different user segments – such as individual customers, small businesses, or bulk mailers – postal operators can identify which groups are more financially viable. This insight supports better customer segmentation, marketing focus, and contract negotiation, ultimately improving financial outcomes and aligning services with organizational goals.

- **Calculate the extent to which each of the different services contributes to overall performance**

A well-functioning cost accounting system enables postal operators to assess how individual services contribute to the organization's overall financial performance. By comparing the revenue and cost of each service, operators can determine which offerings are most supportive of sustainability and growth. This information helps guide decisions around service expansion, redesign, or potential discontinuation, and ensures that strategic priorities are aligned with operational realities.

- **Inform an optimum pricing strategy**

Reliable cost information is essential for setting appropriate and sustainable pricing strategies. A cost accounting system provides the necessary financial data to determine whether current prices reflect the underlying cost of providing services. This enables postal operators to design pricing structures that are both competitive and cost-reflective, helping to ensure long-term financial viability while meeting customer and regulatory expectations.

- **Optimize the allocation of resources**

By providing detailed insights into how resources are used across services and departments, cost accounting helps managers allocate personnel, equipment, infrastructure, and budget more efficiently. Identifying areas of overuse or underutilization allows for the redeployment of resources where they can add the most value. This contributes to increased productivity, improved service delivery, and better alignment of resource use with organizational priorities.

- **Improve efficiency and rationalize infrastructure costs**

Cost accounting helps identify inefficiencies and unnecessary expenditures within operational and infrastructure-related processes. By examining how costs accumulate across various functions and locations, postal operators can find opportunities to streamline workflows, consolidate facilities, and improve logistics. This supports efforts to reduce waste, lower operational costs, and ensure that infrastructure investments are justified by actual service needs and performance metrics.

From the regulatory point of view, the cost accounting system put in place should provide sufficient information to:

- **Inform a pricing policy in light of regulatory pricing requirements**

A reliable cost accounting system enables regulators to assess whether postal tariffs are aligned with the principles of cost-orientation and affordability. This is particularly important for services under universal service obligations (USO) or in reserved areas, where prices must reflect actual costs while remaining accessible to users. Transparent cost data allows regulators to verify that tariffs are neither excessive nor unsustainably low, ensuring a balanced approach to pricing that supports both users and providers.

- **Prevent anti-competitive practices such as cross-subsidization**

Effective cost accounting makes it possible to allocate costs accurately between different services and market segments. This transparency helps detect whether revenues from reserved or regulated services are being used to unfairly support competitive offerings. By clearly separating the cost structures of different services, regulators can identify and address potential cross-subsidization practices, thereby promoting fair competition and protecting market integrity.

- **Assess the costs of service provision, especially for universal postal service**

A key regulatory function is to understand the actual cost of fulfilling the universal service obligation. A comprehensive cost accounting system provides the necessary data to estimate how much it costs to provide basic postal services under defined quality and accessibility standards. This includes accounting for delivery to remote areas or maintaining post offices with low traffic. Knowing these costs is essential to assessing efficiency and sustainability in USO provision.

- **Determine the appropriate level of compensation for universal service provision, and ensure sustainable USO financing**

When the provision of universal postal services results in a financial burden, cost accounting enables a transparent basis for calculating compensation. Regulators and policymakers need access to accurate cost data to evaluate whether the compensation mechanism – whether through public funding, sectoral contributions, or other means – is justified and proportionate. This ensures that the financing of USO is fair, transparent, and sustainable over the long term.

In relation to a postal operator's fulfillment of international treaty obligations as a designated operator of a UPU member country, the cost accounting system in place provides:

– **A reference for setting remuneration for international postal services**

A cost accounting system furnishes regulators and operators with transparent data on the actual costs incurred in handling international postal items. In addition to domestic tariffs, reliable delivery cost data can serve as a benchmark for establishing terminal dues and other remuneration mechanisms between member countries, thereby supporting equitable compensation that reflects operational realities.

Analytical Accounting Model

In collaboration with the Postal Union of the Americas, Spain and Portugal (PUASP), a regional union founded under Article 8 of the UPU Constitution, the UPU is offering its member countries with an Analytical Accounting Model – including practical case application – which is accessible on the UPU website: www.upu.int/en/prp

The analytical model provides transparency into the costs of postal services, including the universal postal service, and thereby offers support to member countries and their designated operators for the various applications (regulatory oversight or business management applications) as outlined in this section.

4.E2 Basic Requirements for the Implementation of a Robust Cost Accounting System

A robust cost accounting system serves as the financial compass that guides the postal operator toward profitability by accurately tracking, analyzing, and controlling costs. A number of key requirements need to be fulfilled to achieve this outcome, including the establishment of comprehensive and clear accounting methodologies, the availability of supporting systems and the capacity to implement the accounting system.

4.E2.1 Establishment of comprehensive and clear accounting methodologies

A well-designed cost accounting system depends on sound methodologies to ensure that financial data accurately reflect the organization's underlying economic activities. It is essential to establish a clear, consistent, and transparent framework for cost identification, classification, and allocation. The established methodologies should be thoroughly documented to ensure consistency in application over time and to facilitate internal review, external audit, and regulatory compliance.

The following are key elements that should be incorporated into such accounting methodologies:

1) Core Costing Principles

Establishing a reliable cost accounting system begins with adherence to a set of foundational principles that ensure cost information is accurate, objective, and fit for both internal decision-making and external regulatory compliance. The following principles form the foundation of any robust cost accounting methodology:

- Causality

Costs and revenues should be attributed in accordance with the activities that generate them. Causality is the fundamental principle of cost accounting. It holds that costs (and revenues) must be assigned based on the actual activities or resource consumption that caused them. This principle ensures that cost allocation reflects economic reality, allowing organizations to understand which activities or services drive costs. For example, in a postal operator, delivery-related costs such as vehicle use, fuel, or labor should be attributed specifically to delivery services—not arbitrarily spread across unrelated services.

- Objectivity

Allocations and apportionments should be based on objectively measurable data and verifiable criteria. The principle of objectivity requires that cost allocation methods be grounded in factual evidence rather than speculative estimates or unsupported assumptions. Allocation bases—such as time spent, floor space used, or volume of items handled—must be clearly measurable, traceable, and justifiable. Adhering to this principle enhances the credibility of cost reports and reinforces transparency in both internal evaluations and external regulatory audits.

- Consistency

Costing methodologies and allocation rules should be applied consistently over time. Consistency ensures that cost information remains comparable from one period to the next, enabling trend analysis, performance monitoring, and regulatory assessment. While methodologies may evolve, any change should be documented, justified, and communicated clearly. Without consistency, shifts in cost data could be misinterpreted as operational changes rather than methodological ones. This principle is especially important in regulated industries, where cost trends affect pricing, compensation claims, and public accountability.

- Transparency

Costing methods, assumptions, and results should be clearly documented and accessible for review. Transparency requires that all aspects of the cost accounting system—including cost structures, allocation methods, and underlying assumptions—be well documented and open to internal and external scrutiny. This promotes accountability and allows regulators, auditors, and management to verify how costs were calculated and whether they align with established principles.

2) Cost Objects and Cost Drivers

To ensure meaningful cost analysis, cost objects—such as specific products, services, customer segments, or organizational units—must be clearly defined. Cost drivers, which are measurable factors that cause costs to change (e.g., number of deliveries, kilometers traveled, mail volume processed), must also be identified and aligned with the underlying operational activities. A robust system links each cost to a driver, ensuring allocations are relevant, traceable, and support both internal decision-making and regulatory reporting.

3) Cost Classification

Effective cost classification is essential for designing a robust cost accounting system. Among the various classification dimensions, traceability to cost objects and cost behavior in relation to activity levels are particularly critical for cost allocation. These two factors directly affect how accurately and fairly costs are assigned to products, services, or operational units.

Traceability to Cost Objects – How easily can a cost be linked to a specific product, service, or activity?

- Direct Costs

Direct costs can be clearly and exclusively traced to a specific cost object (e.g., a service line, product, or business unit). These are the easiest to allocate, as they require no apportionment or

estimation. Their traceability supports high accuracy and transparency in costing and pricing decisions. The more costs that can be classified as direct, the more defensible and credible the cost model becomes.

- Indirect Costs

Indirect costs cannot be directly linked to a single cost object. Instead, they are shared across multiple products or services and must be allocated using a rational and justifiable basis. These costs require careful selection of allocation bases and methodologies. Poor allocation of indirect costs can lead to distorted service costing, hidden cross-subsidies, or regulatory non-compliance. Identifying appropriate cost drivers and maintaining objectivity in apportionment is therefore essential.

- Common Costs

Common costs are a subset of indirect costs that arise from resources jointly used by multiple cost objects, but which cannot be meaningfully separated among them (e.g., senior management salaries, general IT systems, corporate headquarters). Unlike indirect costs tied to a functional department, common costs are truly non-attributable without an allocation key. Because of their diffuse nature, allocating common costs requires especially transparent, consistent, and well-justified methodologies to avoid arbitrary distribution or unintended cost distortion across services.

Cost Behavior with Activity Level – How does the cost change as output or service volume changes?

- Fixed Costs

Fixed costs remain unchanged in total across a relevant range of activity, regardless of changes in output volume. They should be allocated based on long-term planning assumptions or average usage over time.

- Variable Costs

Variable costs fluctuate directly in proportion to the level of activity or service output. These costs should be allocated using actual activity data (e.g., number of items processed or distance traveled). This enables more precise marginal costing, supports incremental pricing decisions, and allows for accurate tracking of operational efficiency.

4) Valuation Basis and Cost Allocation Methodologies

A variety of cost allocation methods may be applied depending on the nature of the costs, regulatory requirements, and the strategic objectives of the organization. Clear and well-documented rules must govern how overheads and shared costs are assigned to cost objects to ensure accuracy and transparency.

Valuation Basis

When designing a cost accounting system, organizations must choose an appropriate valuation basis—typically either Historical Cost Accounting (HCA) or Current Cost Accounting (CCA)—based on the relative importance of consistency, comparability, and economic realism.

- HCA allocates costs based on historical values, such as the original acquisition cost of assets. It offers consistency over time and facilitates tracking and auditing. However, its major limitation is that it does not account for inflation or changing market conditions, which can reduce the relevance of cost data over time.
- CCA, by contrast, reflects the current replacement or market cost of assets and inputs, offering a more up-to-date and economically realistic perspective. While this improves decision-making accuracy in dynamic environments, it introduces subjectivity in valuation and adds complexity to implementation.

Cost Allocation Methodologies

- Fully Allocated Costing (FAC)

FAC allocates all costs—both direct and indirect—to services or products using defined allocation bases, such as Activity-Based Costing (ABC)⁵⁹, usage surveys, revenue shares, or price-based markups. The goal is to ensure that no costs remain unassigned, thereby supporting full cost recovery and transparency.

- Marginal Costing (MC)

MC calculates the cost of producing one additional unit of output. It includes only direct variable costs and excludes fixed, joint, and common costs, which must be recovered through separate markups. This method is useful for short-term pricing and regulatory floor pricing but insufficient for full cost recovery on its own.

- Stand-Alone Costing (SAC)

SAC estimates the total cost of providing a service as if it were offered independently of all other services. It includes direct variable costs, direct fixed costs, and all common and joint costs related to the service. SAC is often used in regulatory contexts to establish price ceilings and test for potential cross-subsidization or market abuse.

- Long-Run Average Incremental Costing (LRAIC)

LRAIC calculates the average cost of a long-term increase in output, incorporating both variable and fixed costs that change with production volume. This forward-looking approach is widely used in regulated industries to set cost-oriented access prices and inform sustainable pricing strategies over time.

4.E2.2 Sound data management systems

Reliable and Consistent Data Collection Mechanisms

A reliable cost accounting system depends on accurate, timely, and consistent data inputs—such as labor hours, output volumes, facility usage, and overhead allocations. These data must be gathered through coordinated and integrated processes across finance, operations, logistics, and human resources. Inconsistencies, delays, or gaps in data collection can significantly undermine the credibility and usefulness of cost calculations, leading to flawed managerial decisions or regulatory non-compliance.

IT Infrastructure and System Integration

Modern cost accounting relies on a robust IT infrastructure capable of capturing, processing, and reporting large volumes of complex data across organizational functions. Integration with enterprise resource planning (ERP), financial, and operational systems ensures real-time data availability, reduces errors from manual input, and supports traceability. A scalable, secure, and well-maintained IT system also enables advanced capabilities such as forecasting, scenario analysis, and historical cost comparisons—enhancing the strategic value of the cost accounting system.

Data Integrity and Regular Audit

⁵⁹ Activity-Based Costing (ABC) is a cost accounting approach focused on matching costs with the activities that generate them. It is based on three core principles: 1) Products consume activities, Activities—not products—consume resources, and 3) Activities are not necessarily driven by production volume. Unlike traditional costing systems that allocate costs to broad cost centres (e.g., manufacturing, marketing, finance), ABC assigns both direct and indirect costs to specific activities. This provides a more accurate picture of cost causation.

To maintain the accuracy and credibility of cost information, data management processes should be subject to regular internal audits and quality assurance reviews. These audits help detect inconsistencies, validate data integrity, and ensure that data collection methods, system controls, and access protocols are in line with organizational policies and regulatory requirements.

4.E2.3 Organizational Capacity and Skilled Personnel

An effective cost accounting system requires a dedicated team with the necessary expertise in accounting principles, costing methodologies, financial analysis, and data interpretation. Personnel should not only understand technical cost allocation methods but also be capable of translating cost data into actionable insights for strategic and operational decision-making.

Continuous training, capacity-building programs, and knowledge-sharing across departments – particularly finance, operations, and planning – are essential to ensure consistent understanding and application of cost accounting practices. Cross-functional collaboration enhances the accuracy of data inputs and fosters a holistic approach to cost management.

A lack of internal capacity often leads to underutilization of the system, inaccurate reporting, or misinterpretation of cost information, which can result in poor decision-making and reduced organizational efficiency. Therefore, sustained investment in human capital and organizational knowledge is a prerequisite for maximizing the value of a cost accounting system.

4.E2.4 Regulatory Accounts

For regulatory purposes, the competent regulatory authority may require postal operators to prepare and submit regulatory accounts. These requirements must be supported by a legitimate institutional framework, including clear guidance on the scope, structure, and level of detail required in the preparation and submission of such accounts. The establishment of the institutional framework governing regulatory accounting will be discussed separately in Module 2X.

This section, therefore, focuses on selected issues arising from the preparation and submission of regulatory accounts.

1) Separation of accounts

For regulatory purposes—whether for tariff regulation, competition oversight, or compensation related to universal service provision—regulatory accounts must be structured to reflect distinct market segments (i.e., “business units”). To ensure regulatory clarity and accountability, it is essential to have a comprehensive list of business units comprising all products and services. They serve as cost objects and become the basis for cost measurement in the context of regulatory accounting.

The business units should be classified according to whether the services fall under the universal service obligation, whether they belong to the reserved area, and whether they are subject to actual market competition. Business units may be categorized as following:

- Reserved services
- Non-reserved postal services that fall under the universal service obligation:
 - without actual competition
 - with effective competition
- Services outside the scope of universal service:
 - without actual competition
 - with effective competition

In addition, a sound regulatory accounting framework requires detailed knowledge of internal transfer prices and allocation keys, which are used to distribute shared or common costs between services. These mechanisms are critical for ensuring cost transparency, avoiding cross-subsidization, and enabling fair competition.

2) Scope of regulatory accounts⁶⁰

The scope of regulatory accounts must be defined in a way that effectively serves regulatory objectives. This may include capturing all relevant activities that contribute to the provision of postal services—both within and outside the scope of the universal service obligation.

A wide range of activities support the provision of the universal service, and many of these activities may also contribute to the delivery of non-universal services. When such activities are shared across service types, the scope of regulatory accounts should be extended to cover all related products and services, regardless of whether they fall under the universal service definition.

The primary rationale for this approach is to prevent inappropriate cross-subsidisation between universal and non-universal services. The most effective way to ensure that universal service products are allocated a fair share of revenues and costs—compared to non-universal services—is to apply an integrated and consistent cost accounting methodology to all activities supporting universal service provision. These activities are typically performed within a common, integrated network that handles the collection, sorting, transportation, and delivery of various mail types. This shared infrastructure is often referred to as the "USP network."

Depending on the national regulatory framework, authorities may face legal limitations on requiring the inclusion of non-universal services in regulatory reporting. However, where permitted by domestic law, the scope of regulatory financial reporting should encompass all activities shared by both universal and non-universal services.

Furthermore, some postal operators operate within complex corporate structures, which may complicate the definition of what should be included in regulatory accounts. For instance, the USP network may be utilized by multiple business units or legal entities within the USP group (e.g., by separate subsidiaries). Alternatively, the business unit or entity operating the USP network may also provide centrally shared services such as procurement, finance, or vehicle fleets. In all such cases, the "totality principle" should apply—defining the "Regulated Business" as the sum of all activities contributing to the provision of universal service products. The Regulated Business is a regulatory construct that may transcend formal business unit boundaries or legal entities within the USP group. A key challenge in applying this concept is to appropriately exclude activities and operations unrelated to the USP network.

3) Regulatory accounts vs. internal management accounts⁶¹

A cost accounting system serves both internal management purposes and external regulatory objectives. However, significant variation in the level of granularity and application of cost accounting policies may lead to situations where methodologies developed for internal purposes conflict with those required by the regulatory authority.

If the regulatory authority is not empowered to intervene at a sufficiently detailed level—particularly regarding cost allocation rules applied to regulatory accounts—there is a risk that postal operators may adopt methodologies that primarily serve its own interests. For example, a postal operator could allocate a disproportionate share of costs to regulated universal service products while minimizing allocations to competitive, non-regulated products, thus facilitating inappropriate cross-subsidization.

To mitigate such risks, it is essential that the regulatory authority establish methodological principles that define high-level accounting and costing rules. Within this defined framework, postal operators

⁶⁰ This section draws upon the ERGP's Common Position on Cost Allocation Rules (ERGP (12) 28 Rev. 1), specifically pages 13–14.

⁶¹ This section draws upon the ERGP's Common Position on Cost Allocation Rules (ERGP (12) 28 Rev. 1), specifically pages 17–18.

should be responsible for developing appropriate and practicable regulatory accounting methodologies that align with both operational realities and regulatory requirements.

A set of broad principles should guide the framework against which compliance is assessed. These overarching standards are fundamental in any regulatory reporting context and typically include the principles of completeness, accuracy, objectivity, causality, equivalence, consistency, and materiality. Together, these principles help ensure that regulatory accounts are reliable, transparent, and suitable for effective oversight and sound policy-making.

4) Content of regulatory accounts

To provide sufficient information for the regulatory objectives outlined in Section x.x.x, the regulatory accounts submitted to the regulatory authority should include the following components:

- A performance commentary explaining key trends and significant events affecting the operator's products and services, including volumes and associated revenues.
- Disclosure of any significant adjustments made in preparing the regulatory accounts, including the impact of changes in accounting policies, methodologies, or estimation techniques.
- A comprehensive explanation of the basis of preparation of the regulatory accounts, including a clear description of the key regulatory accounting policies adopted, such as the recognition of revenue and costs, capitalization, depreciation and amortization policies, the cost basis and cost allocation methodologies, the basis and calculation of the cost of capital, and the rules and internal pricing mechanisms applied to intra-group or internal transactions.
- Disaggregated regulatory accounts by business segments.
- A reconciliation between the statutory financial accounts and the regulatory accounts.
- A signed statement from the executive management of the operator, acknowledging responsibility for the preparation of the regulatory accounts and confirming their compliance with the applicable regulatory requirements.
- A report and opinion by a competent and independent body (e.g., external auditor or regulatory auditor), certifying the preparation of the regulatory accounts and their compliance with the relevant regulatory framework.

However, the specific content of regulatory accounts may vary significantly depending on each country's legal and institutional context—such as the powers granted to the regulatory authority, the objectives of regulation, the specific characteristics of the national postal sector, and other sectoral considerations. Therefore, a one-size-fits-all approach is neither realistic nor appropriate when defining the required content of regulatory accounts.

5) Audit of regulatory accounts

Regulatory accounts must be audited by an independent auditor to ensure their quality, objectivity, and credibility. The audit may be conducted by a certified external auditor, an auditor from the state audit office, the regulatory authority itself, or a qualified external contractor. The selected auditor should possess both financial audit and legal expertise to perform the review to a high standard.

To ensure independence, appropriate safeguards must be implemented in a manner proportionate to the audit's expected costs and benefits. If the company's statutory financial auditor is also responsible for auditing the regulatory accounts, additional measures must be taken to preserve impartiality and maintain trust. These may include a peer review by a separate independent auditor or the establishment of clear internal separation ("Chinese walls") between the respective audit functions.

Audits must be conducted in accordance with applicable auditing standards and the relevant regulatory framework. Any deviations from these standards should be clearly disclosed and justified.

