

# Postal Reform Guide

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# Integrated Postal Reform and Development Plan (IPDP) – An instrument of cooperation for postal sector modernization

It is the responsibility of the authorities of the country in question to implement the IPDP actions recommended to enable the sector to modernize in line with the commitments made. As a master plan, the IPDP is also an important element in mobilizing internal and external resources to finance the recommended activities. This guide is one of the tools developed within the framework of the IPDP methodology; it is intended as a primary reference source for supporting governments in adapting their postal sector to reflect changing market trends.

## Reasons for creating an integrated plan for postal sector modernization

Reform and modernization of the postal sector, based on postal market development, sector trends and rapid technological development.

An innovative focus on technical assistance and cooperation that meets the needs arising from the postal sector's current environment.

A structured, systematic and integrated master plan is necessary to achieve postal sector development.

Capitalizing fully on the significant work achieved in cooperation with multilateral financing institutions and drawing on global expertise in formulating postal sector modernization plans.

The clear need to ensure the commitment of national authorities in supporting reform and guaranteeing the viability of postal sector development.

## One of the objectives of the UPU is to support the modernization and development of the postal sector through cooperation. To this end, it carries out various actions:

Working with governments and other sector stakeholders to give appropriate direction on postal modernization and development projects.

Supporting country projects through regional development plans, the Quality of Service Fund and other similar initiatives.

Capitalizing on the UPU's contacts and specialized knowledge to gain the support of multilateral development institutions.

Integrating regional and national efforts into coherent joint action.

## Features of the IPDP approach

The **commitment of the national government** is required, through the ministry responsible for postal services. The solution must take account of all of the operators within the market, so that the principal problems faced by the postal sector can be resolved.

Work is carried out by a **multidisciplinary national team**, which is supported by experts in postal reform.

All of the national team members take part in a **training programme** in order to acquire the necessary knowledge of postal activities.

**Various scenarios for the definition of a universal postal service** are analyzed and proposed, including the forms of funding that would enable it to be self-sustaining.

The proposals for both the universal postal service and postal sector public policies are presented to the **national authorities** and other stakeholders.

## IPDP components

### Defining the universal postal service:

basic, affordable, good quality postal services that the state guarantees to citizens throughout the entire country.

### Public policy in the postal sector:

definition of the vision and short and long-term government strategy to fulfil obligations and achieve modernization and development of the postal sector, as well as ensuring its contribution to economic growth and development of the country.

**Legal framework:** modernization of the legal and administrative instruments that provide the necessary conditions to guarantee that all stakeholders participate legally in national postal activities and, in particular, ensure that the rights of postal service consumers are protected.

**Modernizing services and the designated operator:** restructuring of the designated operator to provide more efficient and modern postal services.

## IPDP stages

**PREPARATION.** Remote contact with national authorities to ensure their commitment to the process; formation of the national team; compilation and analysis of basic data and drawing up of a detailed timetable for the process.

**KNOWLEDGE BUILDING.** In this first stage, the work is carried out within the country, with the principal goal of enabling all the people involved in the national discussions on developing the IPDP to acquire the necessary knowledge of postal activities and therefore ensure effective contributions.

**FORMULATION.** At this stage, an action plan is drawn up, covering the whole process from implementation to postal sector reform. The situation that requires reform is assessed at this stage. The actions set out in the IPDP approach will take into account the universal postal service, sector policy, the legal framework, and modernization of services. The formulation stage includes production of the IPDP document that will be presented to national authorities.

**PRESENTATION.** This stage includes the formal presentation of the postal sector modernization plan to senior government authorities. The plan is also presented to other sector stakeholders, and in particular to the planning and public finance services that will be part of the national IPDP formulation team.

## IPDP CHARACTERISTICS

It is a **master plan**, which serves as a roadmap to guide the modernization of the sector.

It is **national**, taking all those involved in the national postal sector into account.

It is **specific**, as it is adapted to the current situation of the country's postal sector, based on multidisciplinary analysis carried out by the national team comprising various government departments.

It is **integrated**, as it is designed to guarantee that all aspects are included, in order to ensure the short, medium and long-term development of postal activities.

It is **flexible**, as its methodology facilitates adaptation to each specific situation and it is designed and coordinated in conjunction with all stakeholders, each of which is able to contribute to postal sector modernization.



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# Postal Reform Guide





# Module I

## Bases of Postal Reform



# Introduction

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

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

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

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

Postal reform and sustainable development have been acknowledged as priority objectives for the Universal Postal Union since the Bucharest Congress. In this sense, the Istanbul World Postal Strategy (IWPS), adopted by the Istanbul Congress, establishes that postal reform is a key activity for fostering market and sector functioning, as provided for in IWPS goal 3. The IWPS provides that, with a strong physical network and diversified and integrated modern products and services, the postal sector is theoretically ready to function effectively. IWPS goal 3 aims to overcome the issues hampering the sector's growth, such as regulatory barriers and lack of market knowledge, as well as larger environmental, social and economic concerns.

Thus the importance of reform and modernization concerns the different stakeholders of the postal world. As guarantors of the universal postal service, governments will have to define policies of reform allowing the adoption of the means necessary to promote the transformation of postal structures.

Designated operators for their part will have to apply modern management policies allowing them to participate appropriately in an increasingly competitive market. As a result of their action programmes, the restricted unions will be able to collaborate actively in postal reform and development processes, and the different UPU bodies will have to introduce joint actions to facilitate this important IWPS goal.

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



# The postal sector and national development

## 1.1

### International postal organizations

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

With 192 member countries, the UPU is the leading international forum for cooperation among designated operators and postal regulators and does its utmost to ensure the continued existence of an integrated international postal service network. To this end, it plays the role of an advisory and mediatory body, a contact group and a technical assistance service provider. It sets rules for international exchanges of mail and makes recommendations designed to help boost the volume of mail traffic and improve service quality for postal service customers.

As a specialized United Nations agency, the UPU does not intervene directly in the internal affairs of its member countries. However, through the commitment of all its member countries to providing a set of basic, mandatory postal services, it has been striving since its foundation to enforce the principle of a "single postal territory" to ensure the smooth operation of the world's largest mail delivery network.

Countries voluntarily choose to become members of the UPU, whose operations are managed at the highest levels of the organization, governed by the UPU Constitution and its derivative instruments, the General Regulations, the Universal Postal Convention, the Postal Payment Services Agreement, and their respective regulations.

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

- **Access to postal services, and to the universal postal service in particular:** the UPU and its member countries are to promote broad-based, non-discriminatory access to postal services, throughout the national territory in the case of the universal service;
- **Single postal territory:** together, the member countries of the UPU form a global network for the free circulation of mail in accordance with international law and the domestic legislation of each member country;
- **Shared decision making:** the Union's decisions are made by its member countries within the framework of the Universal Postal Congress and the UPU Councils;
- **Compliance with Union decisions:** all member countries are bound to comply and monitor compliance with decisions taken by the UPU membership and, where necessary, include international laws governing postal services in their domestic legislation;
- **International cooperation:** all member countries have agreed to work together for the improvement and development of postal services;
- **Quality of service:** implementation of joint efforts to continuously improve service quality as one of the Union's main priorities.

At the regional level, restricted postal unions are working towards goals and objectives extremely similar to those of the UPU but specific to a particular geographic or language-speaking area. Collaboration between the UPU and the various restricted unions is of vital importance for the development of postal services in the different parts of the world.

The current restricted unions include the Association of Postal and Telecommunications Operators of Portuguese-Speaking Countries and Territories (AICEP), the Arab Permanent Postal Commission (APPC), the Asian-Pacific Postal Union (APPU), the Baltic Postal Union (BPU), the European Conference of Postal and Telecommunications Administrations (CEPT), the Conference of Posts and Telecommunications of Central Africa (COPTAC), the Caribbean Postal Union (CPU), the Communications Regulators' Association of Southern Africa (CRASA), the Postal Union for the Mediterranean (PUMed), the Nordic Postal Union (NPU), the Pan African Postal Union (PAPU), the Association of European Public Postal Operators (POSTEUROP), the Postal Union of the Americas, Spain and Portugal (PUASP), the Regional Commonwealth for Communications (RCC), the Southern Africa Postal Operators Association (SAPOA), and the West African Postal Conference (WAPCO).

## 1.2

### The postal environment and the need for change

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

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

### 1.2.1

#### *Brief history of the postal sector and recent challenges*

Historically, in the majority of countries, postal services were run directly by the government, serving the public under a rather extensive government monopoly. In addition to generating revenue for the State, this monopoly was often aimed at controlling communications. Unchallenged by competition for a long time, postal services were generally run without paying much attention to the needs of customers, who were considered users or mere recipients of services.

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

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

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

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

It should be emphasized, however, that the postal monopoly in most countries did not include the entire postal sector, as segments such as parcels, where the transport and delivery could also be provided by private operators, were not included in the reserved area.

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

In many developing countries, the public operator ceased to develop at the same rate as society as a whole, and quality of service, both in terms of speed and coverage, was seriously compromised as a result. At the same time, the growth in bulk mail volumes created a demand that was often covered by private, often informal, firms. As these firms provided service solely to major customers, they were able to charge lower prices than the public operator, which also had to bear the costs associated with the universal service. This situation served only to further compromise the financial position of the official Post.

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

The government-owned postal services of certain countries reacted positively to the actions of these private service providers, embracing a new, more customer-driven operating strategy and endeavouring to develop a more streamlined,

market-oriented organizational structure. However, many postal organizations were still government agencies, making it difficult for them to operate with the necessary degree of administrative flexibility and autonomy required to meet the challenges posed by the growing demand for postal service in an increasingly competitive environment.

The postal service operating model was based entirely on the concept of a national territory in which the market area was defined by national geographic boundaries. The globalization of trade and economic integration has created a whole new approach to postal service, in which the postal sector takes on the pivotal role of infrastructure provider for the conduct of business in a world in which manufacturers and consumers are often physically separated by large distances.

Postal reform in the European Union (EU) resulted in the creation of a single postal market throughout the EU, and in former official Posts becoming autonomous, market-oriented postal businesses, which, no longer facing geographical constraints, were able to establish themselves on the territory of other countries with high demand for international postal services, and to compete with the designated operators of those countries. Posts in other regions followed this example, establishing themselves in the world's main postal markets.

The rapid development of new information technologies has affected the postal sector in a number of ways. On the one hand, these technologies have substituted mail, which is now referred to as "physical" mail. First the fax, and subsequently the e-mail and other forms of electronic messaging, together with a reduction in telecommunication costs, have resulted in dwindling letter-based correspondence and postal transactions.

On the other hand, these new technologies have allowed the postal sector to improve quality and customer service and to rationalize costs. Postal operations are now largely based on these technologies.

Globalization and the development of e-commerce have transformed the international postal sector. Significantly fewer documents are being sent as a result of the sharp decline in letter-based correspondence. Demand for the transport of goods, however, has risen sharply, which has resulted in a change in the type of international items being sent. Commercial parcels have risen to the fore, and the importance of Customs-Post relations and home delivery has increased as a result.

E-commerce is a dynamic, rapidly changing sector. New technologies allow music, videos and books to be downloaded, which previously accounted for a large portion of the items shipped.

A similar trend has been prevalent at the domestic level, although developing countries are clearly lagging behind.

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

The postal sector is far from disappearing, but is undergoing major transformation. Parcels constitute the lion's share of the items shipped, which, at the international level, calls for increased efficiency and cooperation with Customs and other authorities involved in the process. Increased investment is required at the national level, as well as changes in working methods to ensure the timely delivery of items, which is a very important e-commerce requirement.

## 1.2.2

### *Major market trends in the postal sector*

According to data compiled by the "Post 2005" study conducted under a joint Universal Postal Union/World Bank project mounted in 1995, designated operators processed approximately 496 billion letter-mail items and 5 billion parcels in 1997, producing approximately 200 billion USD in revenues. In 2015, some 320 billion letter-mail items and 8 billion parcels were processed, generating 344 billion USD in revenues. The study projected that the volume of letter mail and parcels would grow at average annual rates of 2.4% and 5%, respectively, so it clearly failed to take into account the impact that new technologies would have on the postal sector.

According to the statistics for the last few years, letter-mail volumes have declined considerably. This negative trend has, however, slowed down, and parcel volumes have continued to grow. Despite new communications technologies, letter-mail volumes continue to be significant, although small packets constitute a considerable portion thereof.

There is an opposite effect in the parcels sector, where both domestic and international parcel traffic has grown significantly with the advent of e-commerce.

In another UPU/World Bank study (Redirecting Mail: Postal Sector Reform, 1996), world-wide traffic patterns for domestic letter mail according to the type of sender showed a large portion of this type of mail originating with organizations and bound for individual house-holds, as illustrated by the figures in the following table:

Origin/ Destination	Private individuals	Businesses/ institutions	Total
Private individuals	10%	60%	70%
Businesses/ institutions	5%	25%	30%
<b>Total</b>	<b>15%</b>	<b>85%</b>	<b>100%</b>

The volume generated by organizations has increased since this study, to the detriment of that generated by private individuals.

Thus, the worldwide postal industry is undergoing major structural adjustments with the advent of new information technologies, which have changed consumer behaviour. Though the postal service's share of the communications market may be shrinking, the goods transport market has grown, with delivery of products to end-consumers. This shows that, rather than abruptly and completely replacing postal service, the use of new technologies can coexist with postal activities, engendering complementarities.

UPU statistics show that the negative letter-mail trend has halted. The number of letter-mail items processed each year is decreasing, but their weight is increasing. At the end of the last century, the global letter-mail average was 40 items per kilogramme, while for 2017, the number of items per kilogramme was estimated at seven.

The effect of the Internet and its various ramifications is the latest challenge facing the postal sector. The impact on the postal sector is now beyond discussion, but the extent of the impact is open to debate. In brief, there are various positions on this issue, all of which have to do with the role of the designated operator in today's new postal environment with stepped-up business activity, direct competition, technological competition and the increasing globalization of postal service operations.

The first position is that postal services are necessary at the worldwide level and that, while mail volumes will continue to decline, they will eventually stabilize, regardless of the expansion of telecommunications services in general and of electronic applications in particular. It accepts the fact that the postal sector's share of the communications market is destined to shrink with the plethora of emerging new technologies. However, it maintains that not everyone has access to these new technologies, which is why there is no real threat to postal services, which, on the contrary, have an important advantage over other communications media, namely their extensive retail and delivery network. In this context, the universal postal service assumes increased importance.

The second position is that postal services can expect to lose business, not only due to the increasingly lower cost of other communications media but also because private service operators are more responsive to market needs. Moreover, underinvestment by postal services has made them incapable of absorbing the growing volume of mail traffic, and designated operators are simply not economically sustainable without exclusive monopoly rights.

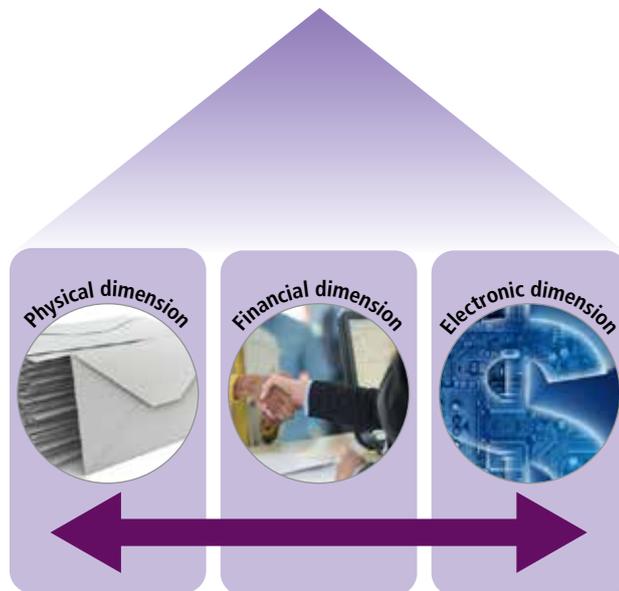
A third position is that the Post complements new technologies, giving rise to new postal services. Postal services assume increased importance as a result of this complementarity, as can be seen by e-commerce, where postal services are an essential part of the cycle, responsible for the end-delivery of the item.

This opportunity also gives rise to major challenges, as traditional modes of delivery are no longer sufficient to cover the needs of today's society. Posts need to reinvent themselves by restructuring their outdated letter-based networks, as well as their working and marketing strategies.

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

Thus, right now, the postal sector is up against a similar situation to that of the past, giving rise to new predictions of its growing obsolescence and eventual extinction. In fact, a number of designated operators are already beginning to take a stand with the launch of a new e-postal services platform.

It is important to note that the current postal service is based on three dimensions – physical, financial and electronic – allowing designated operators to provide services in line with customer needs.



The current postal service is based on three dimensions

The physical dimension, which is undergoing constant change in an effort to cater for the delivery of heavier items, and not merely for letters, continues to be an important pillar.

The financial dimension allows designated operators to provide services that complement physical services, utilizing the extensive postal network to provide financial services and facilitate the financial inclusion of the population.

The electronic dimension, which is becoming increasingly important by the day, allows designated operators to improve the quality of their services and provide modern services in line with society's needs.

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

Just as physical infrastructure forms a gigantic platform for the operation of different types of postal services, today's new digital infrastructure provides a foundation for the operation of different types of services, including both existing and completely new services.

Financial services enable the establishment or expansion of an entire service line, including electronic fund transfer services, bill payment services, pension and postal money order payment services, etc.

Without going into all the possibilities afforded by this new type of infrastructure, the following is an outline of a few of the major potential areas of the new services:

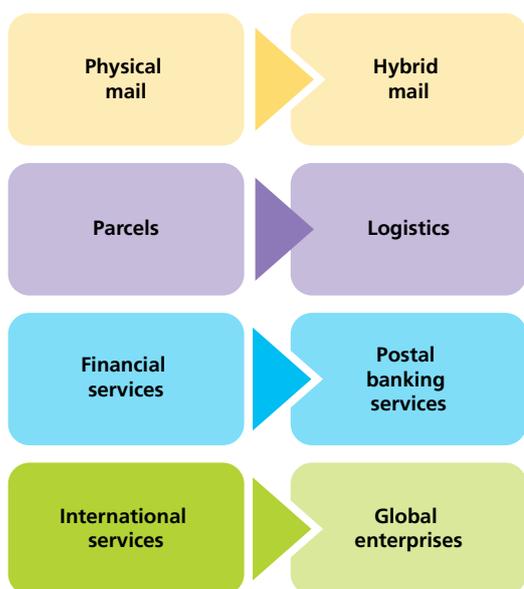
- a. **Logistics services**, offering a solution for large customers requiring better merchandise delivery service (for products and parts) between internal units or to outside parties (representatives, middlemen, consumers) using physical postal service infrastructure and resources.
- b. **Certification services**, bringing the credibility of the postal service into virtual reality, authenticating currently vulnerable messages and transactions whose authenticity may need to be established for legal purposes.
- c. **Messaging services**, developing a whole new line of communications services, including, but not limited to, hybrid mail, which gives postal operators the possibility of developing digital customer interfaces, offering value added services (customized printing, enveloping, delivery confirmation) in addition to physical mail delivery service per se.

This physical, financial and electronic infrastructure is not configured separately but, rather, interconnected to take advantage of all the benefits of a grid.

Their configuration as separate networks would fail to tap into their synergy, turning them into mere conventional resources incapable of creating any key market differentials.

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

However, there are new developments every day in the debate over the future of the postal sector in the face of the threat posed by new technology, and there are already signs of a growing consensus around the need for a clear change in market management practices within the postal sector. The box below depicts some of these suggested changes, which should not, however, be construed as confined solely to the specific market segments in question.



Together or separately, the market segments depicted above reflect the effects of change on three basic aspects of postal service:

- a. **Integration:** postal services are less and less confined to a nation's political boundaries and increasingly part of a global market place;
- b. **Diversification:** a more intensive use of technology in combination with existing postal infrastructure affords new possibilities for service delivery, improving the use of existing operating capacity and helping to build market share;

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

Diversification of services is an important aspect that should be taken into account by designated operators that have achieved good financial results. The following data, extracted from the 2016 annual reports of the designated operators concerned, looks at the share of income from letter-mail service in the total revenues of designated operators in selected countries:

Countries	Share of total revenues
Finland	34%
France	47%
United Kingdom	44%
Netherlands	55%
Germany	17%
Italy	12%

It can be seen from these examples that, even in countries with a rather aggressive strategy for the geographical expansion and diversification of postal services, letter mail still accounts for a large share of total revenues, except in those cases in which the designated operator has been transformed into a shipping or financial company.

Diversification of services can be a means of generating new revenue, but the new services will be viable only if the designated operator enjoys a good reputation as a provider of quality basic services.

### 1.2.3

#### *Major institutional trends in the postal sector*

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

The European Union's progress in devising a new model is noteworthy. It has made a formal decision to regard Europe as a single postal territory, turning what was previously international into domestic mail traffic, with free competition among postal operators. The main underlying principles of the proposed new model are outlined in EU Directives 97/67/CE, 2000/39/CE and 2008/6/CE, establishing an internal postal market and referring to the opening up of postal services to competition and the timing of efforts to implement the proposed changes, including the separation of operational

and regulatory functions, with the latter being performed by an independent body. This reflects the cautiousness with which the European market has been opened up to competition. The first tangible step in this direction dates back to 1992, with the publication of the so-called Green Book (finalized 31 December 2012).

Thus, the European Union has already taken concrete measures to open up the European postal market to heightened competition within 20 years of the publication of the Green Book.

The following are the most relevant aspects of European postal legislation:

### **Universal service**

Ensure that the general public are permanently provided with a postal service of a specified quality anywhere in their country at an affordable price and, as such, ensure that contact and access points are able to cope with the needs of their users and that universal service is guaranteed at least five working days a week (including one collection and one delivery per day).

Each EU country must ensure that universal service provision meets the following requirements:

- a service guaranteeing compliance with the essential requirements;
- an identical service to users under comparable conditions;
- available without any form of discrimination;
- no interruptions or stoppages except in exceptional circumstances;
- evolving in response to technical, economic and social developments and to the needs of users.

### **Competition**

The directive prohibits national governments from granting or maintaining any exclusive or special rights to establish or provide postal services.

### **Licensing**

EU countries can set up authorization procedures, including individual licences to ensure that postal services comply with the essential requirements (including confidentiality of correspondence and network security when transporting dangerous goods) and that universal service is provided.

### **Pricing**

Prices for each of the services comprising universal service must be:

- affordable and permit all users, independent of geographical location, and, in the light of specific national conditions, to access the service;
- cost-oriented and give incentives to provide an efficient universal service.

### **Quality of service**

Service standards for universal service must be set and published in order to guarantee a postal service of good quality. Standards focus on delivery times and on the regularity and reliability of services.

For services operating between EU countries, the directive requires that:

- 85% of postal items of the fastest standard category be delivered within three days after the date of posting; and
- 97% within five days after the date of posting.

EU countries are required to take a number of measures, including:

- laying down quality standards for national mail and ensuring that they are compatible with those laid down for services between EU countries;
- notifying their quality standards for national services to the European Commission, which will publish them in the same manner as the standards for services between EU countries;
- ensuring transparent, simple and inexpensive complaint procedures are put in place by all postal service providers.

## National regulatory authorities

Every EU country must designate one or more national regulatory authorities that are legally separate from, and operationally independent of, the postal operators. Where postal services remain under state control or ownership, regulatory functions must be structurally separated from activities associated with ownership or control.

One aspect underpinning the European postal market is the elimination of all reserved service areas.

It is important to note that the European experience has involved a shift from national monopoly-based markets with varying levels of regulation to a liberalized market with the same level of regulation.

The case of the European Union is a good example of a cautious approach to the liberalization of the postal market.

There are countries which have suffered sorely from the shock waves produced by haphazard market liberalization without any advance planning and without considering the needs of the designated operator responsible for providing the universal postal service to all segments of the population. The most visible consequence of the current combination of new trends in the postal environment has been the wave of acquisitions and alliance-building by postal operators around the world.

Government and private enterprises in European nations in particular have made acquisitions or formed partnerships among themselves or with private service operators to help enable them to more aggressively exploit specific market segments, such as international express mail service.

Certain designated operators have sought to form alliances with other designated operators considered vital to the establishment of worldwide partnerships in certain service areas.

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

Although there is no clear trend towards development of a single, worldwide model for the postal sector, which, moreover, would be inadvisable in the face of differences in prevailing conditions at the country and region-wide level, the member countries of the Universal Postal Union have already forged a consensus around a number of principles, as outlined below.

**a. Separation of regulatory and operational functions:** A postal market with multiple service operators requires the establishment of sanctioning, regulatory, supervisory and arbitration functions encompassing all such operators. Historically, governments have ignored the existence of any operators other than government-run postal services, with

their regulatory activities targeted solely at the official postal service rather than at the postal market as a whole. The growing complexity of the postal market requires that governments regulate all operators on such market, primarily to protect consumer/user rights and interests.

- b. Universal access to postal service:** This is a core issue having to do with the physical accessibility and affordability for the general public of a package of basic services ensured by the government. Right now, coverage indicators for postal services are satisfactory but, with the opening up of the postal sector to competition and the reduction in volumes resulting from technological substitution, there is a risk that these indicators could deteriorate if governments fail to take proper measures to safe-guard and build on their progress in this area.
- c. Coexistence of public and private interests:** More and more, government-controlled enterprises are operating side by side with private firms within the postal sector. In some cases they are competing with each other while, in others, they are entering into agreements and forming alliances. However, they will need to continue to discharge different responsibilities and obligations and to play different roles in the postal sector, as defined by legal instruments, under the supervision of a market regulatory agency.
- d. Competition:** Phasing in of competition and phasing out of monopolies. As previously discussed, this should be a methodical process to enable the designated operator in particular to prepare itself to do business on a free market. The reason for caution is not to protect the corporate interests of the designated operator, but to continue to ensure access to the universal services provided by such operator. The unique characteristics of universal postal services require a transition period to enable the designated operator to complete necessary restructuring efforts to transform it into a modern, streamlined, technology-driven service provider capable of turning a profit on lucrative, competitive markets to finance the provision of the universal postal service, or able to identify other financing mechanisms.
- e. Modernization of government-owned postal operators:** This refers to the need for the restructuring and commercialization of traditional, government-run postal services to give them a market-oriented focus. At this point, there is no worldwide trend to privatize government postal enterprises, although there are successful examples in this regard. On the contrary, rather than privatizing postal services in general, governments are choosing to give them more administrative autonomy and management expertise to help make them more results-oriented.

- f. **Technology:** Heavy investment in the modernization of operational infrastructure and the incorporation of new technologies is needed, not only to boost productivity and quality of service but also to strengthen and develop new services for postal customers and improve working conditions for postal employees.
- g. **Regional integration and globalization:** This allows both official and private postal operators to expand their operations across national boundaries onto regional and global markets. While, on the one hand, this trend opens up new markets for a country's postal operators, on the other hand, it also opens the door for foreign service operators to penetrate the domestic market in the most lucrative market segments.  
  
This new market dimension will require postal operators to break away from variable models (i.e. alliance-building with a particular service operator for the provision of the universal service and competition with that same operator for services for which they are both competing) and develop new management skills (for the formulation of a market strategy and the development of new services for example).
- h. **Environmental responsibility:** Postal services generate a considerable carbon footprint, and postal operators need to respond by introducing environmentally friendly working methods and technologies.

Poor quality postal services discourage customers from turning to the designated operator to meet their demand for communications services and supporting services for business and financial transactions. To avoid having to deal with poor service quality, customers may look for alternatives available within the postal sector, turning to other service operators competing directly with the designated operator.

Under certain circumstances, customers will look for alternatives outside the postal sector, replacing postal services with other comparable services, in some cases, gaining quality and price advantages.

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

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

Such a drop in mail traffic would undermine the economic and financial position of the official postal operator left with a dwindling volume of income to finance its operating costs, producing increasingly large deficits. The financial management of the designated operator in charge of providing universal access to postal service is much different from that of other service operators. Whereas designated operators arose in response to public policy requirements, such as provision of the universal service, private operators, whose interests are solely profit-oriented, are flexible and responsive enough to adjust their cost basis in line with corresponding calculations and decisions when confronted by adverse market conditions reducing incoming revenues. With no universal postal service obligations to fulfil, private operators can choose to exit unprofitable markets, close down retail outlets, focus solely on corporate customers, and discontinue any services failing to provide targeted economic returns.

## 1.2.4

### *Need for change in the postal sector*

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

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

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

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

The next link in the chain of effects is under-investment in the designated operator. The government, as the owner/manager, in many countries provides necessary funding for balancing the budget and ensuring the economic and financial viability of the universal postal service operator, though it has been gradually cutting back on the volume of such funding.

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

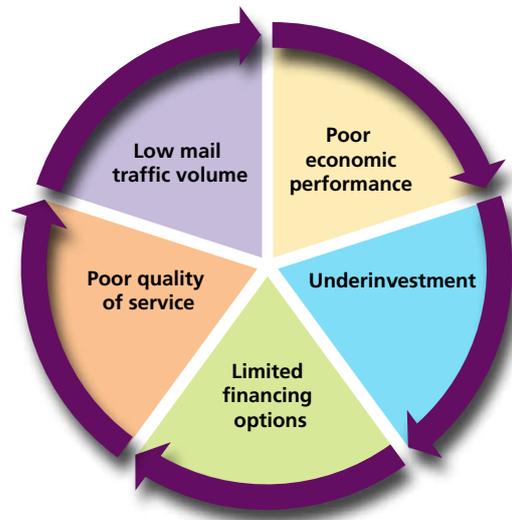
It is a well-known fact that haphazard allocations of investment funds only affect cost trends, without having the necessary counterpart effect on income trends. Rather than solving the problem, ill-advised investments could widen the designated operator's income-spending gap, requiring increasingly larger subsidies from governments generally attempting to deal with dwindling tax revenues and higher priority needs in areas such as health, security, education, etc. As a result, there is little prospect of the perpetuation of this model.

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

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

Thus, under-investment precludes the renovation, rehabilitation and expansion of existing infrastructure and the streamlining of operating methods and procedures, thereby fuelling the deterioration in service quality.

The following diagram graphically illustrates the vicious circle which can undermine the quality of postal service.



This type of vicious circle can continue indefinitely, spiralling downward until creating a crisis in the domestic postal sector, eventually drawing the attention of government officials responsible for ensuring the delivery of universal postal service to the general public.

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

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

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

## 1.3

### Major underlying principles and concepts relating to postal service

Though an important presence in everyone's daily life, most people are ignorant of the scope of the postal sector and the full range of services it provides.

Its most common symbols, namely the post office and the mail carrier, are opposite ends of a long, intricate process providing secure service between senders and addressees. Thus, it is important to keep in mind the true nature of this industry, whose scale alone explains the scope and complexity of the postal sector.

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

### 1.3.1

#### *The postal industry*

According to statistical data for 2015 released by the Universal Postal Union (UPU), the letter-mail segment of the worldwide postal market accounts for 320 billion mail items a year, including 317 billion domestic mail items and 3 billion international mail items. The parcels segment of the worldwide postal market accounts for a total of approximately 8 billion items.

To ensure the smooth flow of this mail traffic, postal administrations around the world have formed an interconnected network of over 690,000 permanent post office facilities. These outlets and other administrative and operational units are staffed by some 5.3 million workers.

This infrastructure network produces approximately 340 billion USD a year in revenues, of which 41% is generated by letter-mail services, 21% by parcel and logistics services, 16% by financial services and 22% by other services.

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

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

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

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

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

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

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

As discussed earlier, countries around the world are in different stages of liberalizing their postal markets. Certain countries have completely eliminated their postal monopoly, whereas others have not yet made any progress in this direction. Other countries, following the example set by the European Union, are gradually opening up their postal markets, though it is not completely clear whether their goal is full market liberalization and, if so, whether this can be achieved.

Thus far, while there have been a number of successful privatizations, the trend is apparently to keep the official postal service under government control, though with different types of management systems.

The postal sector is closely tied to the global and domestic economy, which is one of the main determining factors in mail volumes, which increase when the economy grows and decline when it shrinks.

### 1.3.2

#### *Postal services*

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

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

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

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

Furthermore, throughout its history, the postal service has been able to incorporate technological breakthroughs into its operating procedures and service offerings which, rather than making postal services obsolete, have given postal operators new opportunities to improve their efficiency, expand access to their services and introduce new services. Thus, postal services can be viewed as an important infrastructure network for the effective exercise of the right of communication, not only by virtue of the very nature of postal service, but also as a gateway to new innovations in communications media for those segments of the population without access to services such as the Internet.

Postal services are not a monolithic block. On the contrary, they are broken down into different areas with different customer, market, product and service profiles. Their common denominator is their shared infrastructure forming an extensive nationwide network highly interconnected with a vast worldwide network. The following outline of some of the major lines of services included in the broad spectrum of available postal services is a good illustration of this concept.

- **Traditional mail service:** This refers to regular delivery services for items such as letters and printed matter. Since the content of such items lends itself to digital communications media, these services are already feeling the effects of competition from existing media (such as telephone, fax, e-mail, EDI, etc.) and, in the future, will likely be facing competition from other media.
- **Parcel service:** This is a delivery service for items for which there is no technology capable of replacing conventional transportation service. With the growth in international trade in general and e-commerce in particular, this market segment is expanding and attracting investment by large-scale private operators around the globe and so-called courier services, as well as by airlines and road carriers.
- **Express mail service:** This is a high value-added rapid delivery service for documents and goods in which mailed items are tracked from their point of origin to their final delivery point. It aims to be the most rapid of the physical postal services.
- **Integrated logistics services:** These are services which aim to meet customers' logistics requirements, including the stages preceding and following the physical transmission of goods and documents.

- **Hybrid mail service:** These are processes combining physical mail delivery and electronic messaging technology. The basic process consists of the computer generation of letter mail, its transmission over data exchange networks to postal operators, and the conversion of the electronic data into physical mail items through remote printing. This process is convenient and offers a good cost-benefit ratio for users and operators alike.
- **Retail services:** Until recently, this was considered a mere stage of the postal production process. Now, it is a major segment of the postal market. Traditionally viewed solely as a service network for attracting items to feed the mail stream, nowadays, service points are run like a store chain, offering services not directly related to the carriage of mail per se.
- **Financial services:** This includes a broad spectrum of financial services drawing on the extensive postal infrastructure network, the most sophisticated of which are so-called postal banking services in which postal services play an important role as low-cost banking service providers and constitute an important tool for financial inclusion. Such services include not only simple deposit-taking and savings and cheque account management services, but also credit facilities for individual borrowers, as well as bill payment services for utility (water, gas, electric and telephone) companies, fund transfers, pension and annuity payment services, etc.
- **Electronic services:** These services encompass e-postal services, postal electronic registered mail, the electronic postal certification mark and the electronic post box.

### 1.3.3

#### Government obligations

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

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

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

Factor	Past	Present
Monopoly	Full (for letter mail)	Increasingly limited and viewed negatively
Operators	Single (for letter mail)	Multiple
Competition	Almost non-existent	High
Customers	Without rights	Exigent
Innovation	Almost non-existent	Fast-moving
Management	Empirical	Professional
Technology	Minimal	Necessary and pivotal
Challenges	Operational	Strategic
Quality of service	Of little importance	Essential

Thus, this new view of postal issues requires the establishment of a regulatory framework reconciling the public service, social and business facets of postal services. Despite radical changes in the postal environment, the regulatory frameworks for many of the world's designated operators are relics of the past, complete anachronisms and out of touch with today's new realities.

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

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

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

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

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

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

### 1.3.4

#### *Universal postal services*

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

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

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

The world postal strategies, adopted by the Bucharest (2004), Geneva (2008) and Doha (2012) Congresses of the Universal Postal Union, confirmed the vital importance of the universal postal service and, among other things, expressed the wish that more countries would define the universal postal service in their legislation, applying criteria and rules concerning access, content and quality of the universal postal service, thereby reducing the level of postal exclusion. One of the goals of the Istanbul World Postal Strategy (IWPS), adopted by the 2016 Universal Postal Congress, is to foster market and sector functioning by defining and developing the universal postal obligation.

There continues to be urgent need to strengthen the universal postal service in developing countries, many of which are yet to have access to quality postal services. For their part, the industrialized countries are engaged in intense discussions as private, and certain designated, operators are seeking to reduce the scope of the universal postal service.

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

Thus, one of the main tasks of government is to define the scope and characteristics of the universal postal service regarding its accessibility, geographic and demographic coverage, quality and price. The Universal Postal Convention provides that such definition must take account of the needs of the general public and of national conditions.

### 1.3.5

#### *Universal access to postal service and competition*

At the beginning of the discussion process at the country level with respect to the need to regulate or set conditions for the provision of universal postal service, unfortunately, a great deal of time is wasted debating the issue of universal access versus competition, with certain groups viewing, and even seeking to block, any initiatives designed to promote universal access as an attempt to undercut the free market system.

Accordingly, it is vital for any discussion of the issue of expanding universal access to postal service to be approached from the standpoint of the need for government to fulfil its incontrovertible obligations, which need not preclude competition, since, in practice, competition is a reality in almost all countries.

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

Factor	Country "A"	Country "B"	Country "C"
Geography	Unfavourable	Mixed	Favourable
Population	Heterogeneous	Intermediate	Homogeneous
Per capita income	Low	Medium	High
Concentration of income	High	Medium	Low
Political climate	Unstable	Intermediate	Stable
Legal model	Unstable	Intermediate	Stable
School enrolment ratio	Low	Medium	High
Social needs	Primary	Secondary	Tertiary
Emphasis	Universal access	Balance	Competition

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

- a. **Specificity:** The right mix is one which is specific to a particular country or region, in line with similarities in such factors.
- b. **Versatility:** This allows for the rebalancing of the universal access-competition equation in line with progress in national economic and social development efforts.
- c. **Objectivity:** Quantitative analytical data for use as the basis for decision making at policy levels of government.

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

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

## 1.4

### Role of the postal sector in the national development process

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

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

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

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

#### 1.4.1

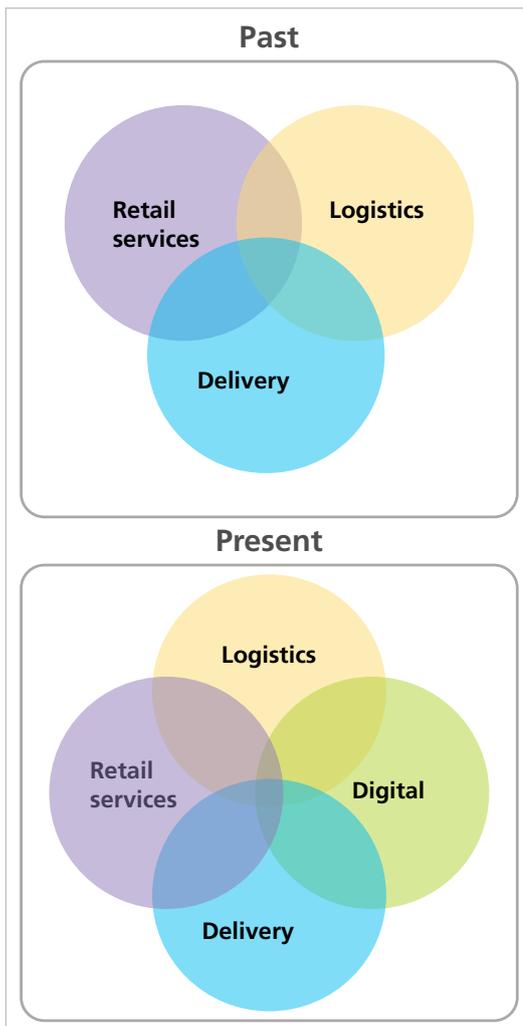
### Communications infrastructure and postal communications

Social relationships have grown increasingly complex in the wake of social development and of breakthroughs in technology, in which time and space are no longer barriers to the interaction of different social agents in the broadest sense of the term.

Communications media are currently affecting all domestic cultural, political, social and economic relations, as basic infrastructure for today's modern social organizations. The Internet is a good example, as the basis for a host of business and other activities. It is safe to say that, without modern communications technology, such businesses could not exist.

Businesses, the main generators of mail traffic, are constantly finding new ways of meeting their communications needs.

This is changing the mix of installed infrastructure in the postal sector, as illustrated in the following figure:



In short, the development of new information technology has helped reconfigure production infrastructure in the postal sector, which has taken advantage of the new opportunities afforded by such technology to:

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

## 1.4.2

### *Contribution to economic and social development*

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

Anyone unfamiliar with postal processes could easily underestimate the nationwide importance of postal services, which is only logical since, in many cases, the public does not realize that, behind a mail box or post office, is a whole series of units (offices, operations centres, vehicles, etc.) interconnected in an intricate network, as required for service delivery purposes.

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

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

- b. The combination of poor health conditions and an uninformed public in a specific area of another country was creating high child mortality rates. The local population had very little income, requiring that it spend all its free time on income-producing activities, making formal education projects unfeasible. Partnering with the designated operator, the government was able to use local mail carriers to conduct an information and education campaign targeted specifically at the population of that area, which visibly reduced the severity of the aforesaid problems.
- c. In most cases, export procedures in developing countries are extremely complex, bureaucratic and costly, making them inaccessible to many small and medium-sized businesses. The result is a high concentration of exports in a small number of specific products, manufacturers and regions, making such countries more vulnerable to international economic risks. The government of one such country decided to facilitate its exports by introducing a system of export incentives for micro, small and medium-sized enterprises (MSMEs).
- d. To accomplish this, it simplified export procedures for MSMEs, which were conducted by the designated operator, which was not only put in charge of shipping merchandise, but of all customs formalities. As a result, local craftsmen and small businesses in remote areas without prior access to the international market were soon exporting their products.
- e. In yet another country, public school students were repeatedly forced to wait for their government-furnished textbooks, whose delivery was generally delayed. To solve this problem, the official postal operator took over all necessary logistics services to ensure the on-time delivery of textbooks, whereupon all public school students began receiving their books before the beginning of the school year.
- f. Internet service coverage in developing countries is still limited due to a combination of circumstances, such as low-density telephone networks, the high cost of telephone service, the limited number of service providers, the high price of computers and low income levels. To overcome these serious structural constraints, the government of one particular country approved a project designed by its designated operator calling for the installation of public Internet booths in post office facilities, giving the public free access to both e-mail and Internet service.

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

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

Module IV of the Guide discusses the main conditions for turning the designated operator into an efficient service provider that is able and preparing it to follow a comprehensive development strategy to enable it to survive the increasingly powerful shocks associated with today's new global postal environment.



# Postal sector reform

## 2.1

### Characteristics of postal reform

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

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

### 2.1.1

#### *Stakeholders in postal reform processes*

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

### National government

The most important stakeholder is the government, which has the ultimate responsibility for ensuring that the country has a well organized, quality postal service geared to nationwide needs.

In line with its organizational responsibilities in the postal sector, the government should play a leadership role in the postal reform process, as the public service orientation of the postal sector in general, and of universal postal service in particular, requires that a task as important as postal reform be handled by the same party responsible for dealing with and reconciling all the complicated issues at stake within the postal sector.

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

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

### The supervisory ministry and other ministries

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

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

Another such ministry is the ministry of finance in charge of administering public funds. Some designated operators have the authority to manage their own income and spending, while in other cases, where the designated operator is operating at a loss, the responsibility for its financial management is vested in the ministry of finance.

There are also entities within the executive devoted to the modernization of government. Such entities often operate at the ministerial level or at a level extremely close to major national decision-making centres.

The importance of government goes beyond the immediate need to raise funding to finance reform efforts. Sensitizing and engaging all areas of government is an important step forward in shaping an internal vision within the executive in which the postal sector is regarded as an integral part of the nation's infrastructure and, as such, as warranting inclusion in national development programmes.

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

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

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

## The designated operator

Logically, the leading role in postal reform efforts goes to the postal operator designated to provide the universal postal service and to fulfil the government's commitments with respect to international postal treaties. The designated operator is generally attached directly to the executive, either as an agency operating under the direct supervision of a ministry or as a government enterprise or other type of legal entity. For purposes of clarity, regardless of its actual legal status, this postal operator is referred to throughout the Guide as the "designated operator", with the term "designated" referring to its government mandate to provide universal postal service.

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

## The postal workforce

The involvement of postal workers who, in most countries, are organized into unions or trade associations is a must in any reform process. In some designated operators, labour is a driving force for change while, in others, it will try and block any sector reform movement, largely out of a fear that such reforms could mean a loss of jobs or other drawbacks for postal workers. While the involvement of the employees of private operators would be desirable, it is difficult to achieve as they are rarely organized into unions or trade associations within the postal sector.

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

## The legislature

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

## The postal regulator

Some countries already have a government entity tasked with regulating provision of the country's postal services. Such entities were often created, however, without legal instruments providing for the entire sector, so their authority is limited to the designated operator. They may be a department of the supervisory ministry, or a separate administrative body. When such entities exist, their involvement is important, as they are charged with ensuring that postal services are provided in accordance with the existing legal framework, and with protecting user/customer rights within the postal sector.

## Special interest groups

While the legislature is the main institution representing the public interest, the intricacy of modern society has given rise to a variety of different groups and interests, which are also represented by organizations working on behalf of specific status groups, classes, other groups, minorities, etc.

Thus, the public is also represented by organizations endeavouring to protect the special interests of different groups, which must be heard and whose concerns must be aired. In other words, there is a broad spectrum of special interest groups representing postal customers and consumers, as well as business and industry players. This type of social representation is playing an increasingly important role in the democracy-building process, making it necessary to also engage such groups in postal reform efforts.

## Private operators

Although private operators pertain to the category described above, they warrant separate consideration owing to their importance. In a number of countries, a large portion of the postal market is in the hands of private operators, and in others their market share is increasing by the day, particularly with the disappearance of the traditional postal monopoly (areas reserved for the designated operator). They are dominant in the express mail services segment, and they exercise considerable lobbying power, so failure to include them in the postal reform process could spell the downfall of any legislative proposal to which they are opposed. Consequently, it is important that associations of private operators be involved in the reform process, and that their concerns be addressed.

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

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

## 2.1.2

### *Main objectives of postal reform*

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

It is quite common, in time, for ongoing activities under reform programmes mounted without a clearly established frame of reference to get off track with respect to the original goals of the reform effort. It is also common for such efforts to get bogged down in lengthy discussions in which the end goals of the reform programme are relegated to secondary importance, with most of the time spent talking about the means to the end.

Thus, the first step, before developing any new models, should be a broad-based discussion in search of answers to core questions such as the following.

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

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

The optimal model is one in which each stakeholder is able to express its point of view with respect to such questions.

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

#### **Demarcation**

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

#### **Commitment**

A clear commitment to modernize and develop the postal sector. There are cases of postal reform efforts whose objectives are not focussed on the postal sector per se, but on goals and targets outside the postal sector, which poses a serious risk of harm and setbacks for postal services.

#### **Adaptation**

Help the postal sector adapt to changing social, political and economic realities to enable it to offer products and services which the public considers as valid options for meeting its needs and, thus, as practical engines of nationwide social and economic change.

#### **Development**

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

#### **Expansion of universal access**

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

#### **Organization**

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

## Financing

By definition, universal services are not generally profit-making activities and must have a clearly defined source of financing. This issue is becoming increasingly important in the face of efforts to expand universal service coverage.

## Planning

Postal reform efforts are difficult to undertake and complete within the framework of a short-term programme, given the complex and comprehensive nature of reform processes, requiring a long-range vision, with intermediate stages and well-defined interim goals and objectives for monitoring the progress of work and, depending on the extent of the consensus reached by corresponding stakeholders, possibly a phased approach, in line with reform prospects at a particular point in time.

## Designated operator

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

In developing countries, the designated operator generally faces major economic problems, such as increasing operational losses. As a result, new governments or administrations often mistakenly ask the following question: What needs to be done to strengthen the designated operator?

They should, however, be asking the following question: What needs to be done to provide quality postal services to the entire population? The designated operator is very important in that it is the government's main tool for improving postal services, which, together with private operators, constitutes the country's postal services offering.

The reform should have more ambitious goals than merely transforming the designated operator.

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

1. **Ensure universal access to postal service:** recognize the widespread coverage of postal services, which must be sustained and, more importantly, expanded, by broadening access and extending service into areas where it is currently unavailable;
2. **Find the right balance between universal coverage and competition:** promote universal access to postal service while at the same time helping the public reap the benefits of an environment in which private operators competing for a larger market share offer increasingly high quality services at lower prices;
3. **Promote new service development:** breakthroughs in technology and the rapid growth of other sectors of the economy are going to require new types of supporting postal services for other economic activities, providing new solutions better geared to society's needs;
4. **Strengthen the role of the postal sector as an instrument of economic and social development:** recognize the postal sector as an important part of the nation's infrastructure and its physical network as a means of expediting business activities throughout the country, particularly in national development hubs. It also represents an important vehicle of social and financial inclusion, primarily by providing access to information activities, educational and cultural initiatives, and, where applicable, financial services;
5. **Ensure self-sustaining universal postal service:** this establishes the need for reform efforts to preserve the system's self-financing capacity, which rules out the implementation of any models undermining the financial stability of the designated operator or requiring the use of additional tax revenues to sustain essential nation-wide services;
6. **Strengthen the role of the postal sector as an interactive channel of communication between government and society:** recognize the postal sector and, more specifically, the universal service operator's extensive retail and delivery network as an important vehicle for expanding the government's sphere of operation and implementing public policy, particularly in areas not served by other government agencies, programmes and initiatives;
7. **Restructure the designated operator:** recognize the need for deep-seated structural changes in the designated operator to vest it with the basic qualities needed to improve its performance on the postal market in the wake of the reform effort;
8. **Prepare the postal sector for international integration:** study the ongoing deep-seated structural changes taking place within the international postal community, and commit to preparing the country to consciously and actively make a place for itself in a new global postal environment;

### 2.1.3

#### *Political conditions for postal reform*

9. **Strengthen the regulatory role of government:** openly shoulder governmental responsibilities to govern the postal sector, first by establishing a regulatory framework and subsequently by discharging its natural regulatory functions;
10. **Promote job creation:** understand the importance of employment to the public-at-large and recognize that laying the groundwork for development of the postal sector also means taking specific measures to help create new jobs and prevent job insecurity.

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

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

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

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

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

- a. **National development plans:** including postal issues in national development plans and policies, showing that the postal sector is considered important to the nation's progress, an integral part of the national infrastructure, and that its development helps foster the nationwide development process;
- b. **Funding:** allocating funding for sector reform work (studies, research, seminars, technical services, etc.);
- c. **Technical resources:** forming a group of high-level experts to perform technical studies, analyses and planning and design work for postal reform programmes and entering into agreements with domestic and international agencies and organizations in a position to provide technical cooperation services for corresponding reform programmes.
- d. **Legal backing:** issuing executive orders, decrees, etc. providing a basic framework for legal reform efforts.

It is a well-known fact that most governments give top priority to compelling social issues (health, education, security, etc.) and, as a result, tend to put off addressing postal issues.

Thus, it is vital to convince government officials that the postal sector has great potential as a support system for government efforts to tackle social problems. There are countless examples of countries around the globe in which the postal service is a major link in the government assistance and social service chain.

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

The designated operator is another stakeholder whose political will is essential in any reform process. In most cases, it is the main driving force behind the reform effort, as the party most directly affected by the changes taking place in the postal sector, including growing competition, a more exigent clientele, the new challenges raised by modern technology, and the increasing globalization of postal service operations. It is often the designated operator which will ask the executive and the legislature to make structural

changes in the postal sector, whose understanding of conditions in the countrywide and worldwide postal industry gives it the necessary standing to attempt to sensitize national government officials to the need for a sector-wide restructuring effort.

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

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

## 2.1.4

### *Technical conditions for postal reform*

Once the necessary political conditions are in place, the focus should turn to laying the proper technical groundwork to try and ensure the highest possible level of analytical study and professionalism in the technical aspects of sector reform work.

The first step should be the establishment of a macro-schedule to map out the main phases of work over the envisaged time frame. It is rather difficult to establish a detailed work schedule from the very outset, with all relevant information for the specification of each and every task. However, it is possible to establish a basic timetable showing the main phases of work to be completed over the envisaged time period, along with a rough draft of a critical path analysis.

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

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

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

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

Without this baseline data, it is impossible to develop an approach which can effectively meet postal reform objectives. The closer the baseline data is to reality, the greater the likelihood of coming up with a proposal geared to development needs in the postal sector. Section 3.1.4 in chapter 3 of this module contains examples of pertinent questions for assessing the status of postal services provided by a given designated operator as the basis for a better insight into market issues.

The second type of study, after assessing the status of postal services and the postal market, is an in-depth analysis of the domestic legal environment surrounding the postal sector to establish the legal possibilities and constraints which need to be addressed in developing a new sectoral model. However, this does not mean to say that the current legal environment is nothing more than a starting point for sector reform work whose direction needs to be charted based on an existing scenario.

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

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

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

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

### 2.1.5

#### *Unique features of reform processes in developing countries*

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

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

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

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

All of this has a negative effect on the revenues of the designated operator, making it impossible for it to cover its fixed infrastructure costs. Moreover, the salaries paid by the designated operator to its staff are below market rate, and its employees have no access to training and career development resources, which significantly weakens the ability of the designated operator to attract professionals with good technical qualifications and the average skills mix of its workforce.

Turnover rates are generally high and the frequent lack of human resource policies hinders efforts to build a professional management staff, with many managers mere political appointees without the proper skills for their particular position or any visible personal commitment to the plans and objectives of the designated operator.

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

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

There are a number of international experiences along these lines which have still not produced any tangible benefits for society or the government, as a result of which privatizations have been reversed and concessions have been withdrawn. The findings emerging in such cases are showing that these types of measures have helped neither postal services nor the designated operator nor the general public. In other cases, reform efforts are interrupted by political changes, disrupting long-term projects and programmes vital to sustainable structural reforms in the postal sector.

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

## 2.2

### Focuses and scope of postal reform processes

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Postal reform processes involve the synchronization of many different elements. In other words, the officials heading up the reform effort will need to address a series of internal factors within the postal sector. It is important that such an effort be well coordinated from all standpoints to help ensure its short-, medium- and long-term sustainability.

A number of developing countries have had experiences with postal reform programmes addressing one or more isolated factors which were not as successful as expected. The reason for this has to do with the type of approach taken by such programmes, marked by "one-off" or isolated activities ignoring linkages between different parts of the whole.

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

#### 2.2.1

##### *Legal framework for the postal sector*

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

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

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

Each country has its own specific legal system, which is made up of legal instruments (such as the country's constitution and legislation) and administrative instruments (such as decrees and regulations). The legal instruments should include the most important legal precepts, while less important, more operationally oriented matters in constant flux are governed by lower ranking instruments.

There are two major advantages of such an approach. The first has to do with the longevity of so-called "senior" legislation, which should focus mainly on setting goals and establishing basic principles and guidelines. The second has to do with so-called "subordinate" instruments which, while mutable by nature, follow guidelines established in "senior" instruments.

In any event, for guidance purposes, the main objective of the legal framework should be to lay the necessary institutional foundation for the long-term sustainable development of the postal sector in furtherance of national economic and social development efforts.

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

- mail traffic volume (by type of item);
- average number of mail items per person per year;
- percentage of the population with access to the universal postal service (for the receipt and sending of postal items);
- quality of service;
- productivity of the designated operator;
- service prices and rates;
- economic and financial performance of the designated operator.

In the final analysis, the main targeted outcome in any postal reform process is the development of the postal sector for the benefit of the country's population, the achievement of which requires answers to a number of key questions, as outlined below.

### Universal postal service

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

### Government

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

### Designated operator

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

### Other operators

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

### Customers/consumers

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

### Postal regulator

- Who regulates the postal sector? What is its legal status and position vis-à-vis the public administration?
- What is the scope of the sector's regulation?
- How does the regulator participate in the monitoring of universal postal service expenditure and in setting the mechanism for financing the universal postal service?

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

### Customers/consumers

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

### Government

- Establish its accountability with respect to the postal sector.
- Ensure provision of the universal postal service.
- Protect the consumer public.
- Support the regulatory function and the regulator.

### Designated operator

- Know which services to provide, expected levels of service quality, where to provide service and how to gradually expand service.
- Identify clear, secure sources of universal postal service funding.
- Commit to modernization and corporatization.
- Clearly define its performance objective.

### Other operators

- Clearly delineate their sphere of operation.
- Establish clear postal market rules for implementing plans and making investments.
- Ensure free enterprise within their established sphere of operation.
- Define their contribution to the mechanism for financing the universal postal service.
- Ensure legal clarity.

### Postal regulator

- Clearly delineate its sphere of operation.
- Establish a disciplinary regime to allow it to fulfil its mission.
- Define its contribution to the mechanism for financing the universal postal service.

Working out these issues with the level of precision outlined in the preceding text boxes as part of the postal reform process will help establish clear ground rules of vital importance to all corresponding stakeholders, providing the institutional stability required for the sustainable development of the postal sector.

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

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

## 2.2.2

### *Development of a regulatory function*

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

Some countries continue to have no regulatory function, but in the majority of countries it is an integral part of their operations, fully developed as a function separate from operational matters. In certain countries, however, the regulatory function does not enjoy the legal support or independence needed for it to achieve its objectives.

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

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

Thus, there are two important concepts at play: the type of market, and regulation.

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

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

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

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

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

- a. to protect and defend customer/consumer interests;**
- b. to coordinate relations between postal operators;**
- a. to uphold government obligations and promote sector development.**

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

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

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

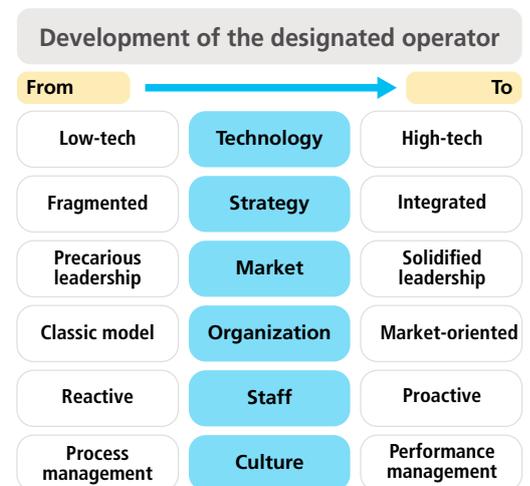
### 2.2.3

#### *Development of the designated operator*

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

At the international level, almost all countries have chosen a model with a single operator in charge of providing the universal postal service. This is a hallmark of the postal sector, setting it apart from other sectors such as telecommunications, in which certain models promote universal access based on different service operators with separate geographic target operating areas. Experiences with the privatization of the designated operator are rare and found in only a handful of countries. Even in such cases, the same operator, though privatized, still has sole responsibility for providing universal postal service.

The following figure recaps the main guidelines for the development of the designated operator as an important linchpin in expanding universal access to postal service:



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



# The postal reform process

## 3.1

### Key factors in the reform process

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

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

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

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

### 3.1.1

#### *Conceptual model*

#### 1. Who are we?

Conceptualizes and specifies the aims and boundaries of the postal sector.

#### 2. Where are we?

A clear, objective, conclusive assessment of the status of the postal sector.

#### 3. Where are we heading?

The new proposed target situation for them postal sector.

#### 4. How are we going to get there?

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

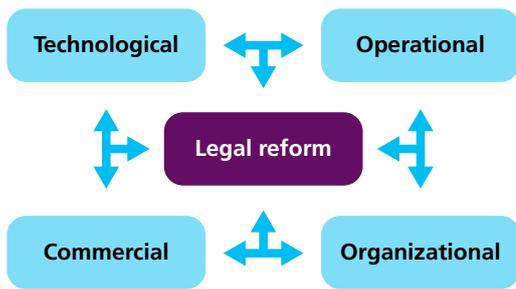
#### 5. When do we get there?

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

The main benefits of this joint exercise are:

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

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



- **Legal reform:** involvement in efforts to establish a new legal framework embracing the market as a whole and its various components (services, customers, designated operator, private operators and regulatory agency).
- **Organizational reform:** restructuring of the designated operator, addressing factors such as its organizational structure, legal status, ownership structure, autonomy, authority, obligations, etc.
- **Commercial reform:** commercialization of the business practices of different areas of the designated operator, incorporating concepts such as quality of service, a market and customer service orientation, information systems, the development and provision of new services, etc.
- **Operational reform:** establishment of projects for the modernization of operating processes and procedures with a view to improving service quality, boosting productivity and cutting costs.
- **Technological reform:** intensive use of technology in production infrastructure and service delivery to help increase efficiency, improve management practices and build market share.

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

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

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

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

- Promotion of universal access to postal service:** What percentage of the population has a post office close to home?  
What percentage of the population has home delivery service?
- Objective of postal service:** What services are being provided?
- Objective of universal postal service:** What package of services is included in the government's universal postal service obligations?
- Quality of service:** What are the standards of quality?  
How well does the operator meet these standards of quality?
- Funding of the designated operator:** What sources of finance are available to ensure the modernization and funding of the designated operator?
- Modernization of postal services:** How up to date are postal services?  
How much innovation has there been in this area?
- Technological innovation:** How up to date is the technology used by the designated operator?  
How has it acquired such technology?
- Competition among postal operators:** How many operators are there?  
Which services are they competing for?  
How is the competition?
- Protection of user interests:** Have the rights of users-customers been established?  
How are they being protected?

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

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

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

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

This piecemeal vision is fertile ground for emotional defences of special interests and personal viewpoints which, by nature, are virtually always incompatible.

If this were not the case, a special postal reform effort would be unnecessary, and all developments within the sector would be consensual and spontaneous.

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

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

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

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

In general, this calls for two sets of documents:

- a. Preliminary technical studies:** analyses, research studies, appraisals and other studies of a highly technical nature reflecting existing sector-wide problems and justifying the need for postal reform. The main requirements for this type of data are objectivity, precision and reliability.
- b. Information materials:** reports, documents, summations and other materials providing outsiders with a good basic understanding of the postal sector and existing problems. The requirements for such materials include a clear presentation, simplicity and objectivity.

The absence of either of these sets of documents could jeopardize the success of political consciousness-raising and government awareness-building efforts. A lack of information materials (type "b" documents), for example, would complicate dealings between postal experts and national government officials, with the risk of this creating misunderstandings since, in most countries, the government is perceived as distancing itself from the designated operator. Moreover, many countries do not have separate postal operators and regulators and postal service providers do not always have spokespersons they can count on in dealing with the government.

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

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

### 3.1.2

#### *Sensitizing government officials and building political will*

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

- a. the extent of universal postal service coverage;
- b. the economic-financial soundness of the designated operator;
- c. the productivity of the designated operator;
- d. quality of service;
- e. the extent of competition;
- f. an assessment of the strengths, weaknesses, opportunities and threats for the postal sector and the designated operator;
- g. comparative international yardsticks and data.

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

The standard indicators used in such comparisons are outlined in the following table:

Variable	Country	Country 1	Country 2	.....	Country n
Trends in total traffic volume					
Trends in traffic volume per person per year					
Trends in traffic volume per postal worker per year					
Number of postal workers per capita					
Number of residents per post office					
Percentage of the population served by post offices					
Percentage of the population with home delivery service					
Adjusted basic letter rate					
Standards of quality					
Economic performance of the designated operator					

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

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

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

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

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

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

While certain groups may be willing to get involved in postal affairs of their own volition, others may consistently refuse to deal with such issues, either on ideological grounds or for reasons of special interests. Despite the potential for resistance and differences of opinion, it is essential to establish and maintain a channel of communication and dialogue with stakeholders providing for a two-way flow of information, criticism, suggestions and comments. Participation in a postal reform process is not simply a series of random or fortuitous acts.

It should be an organized and well-managed process, with established objectives and mechanisms and designated managers.

It is also important to bear in mind that the stakeholders in a postal reform process include a wide spectrum of different players with very different, if not opposing, interests. Thus, good participation management means pinpointing the main interests of each party concerned so as to properly balance such interests.

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

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

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

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

- a. Members of Congress who, as "antennas" or "feelers" for the general public, are usually concerned with issues such as:
  - › shutdowns of post offices;
  - › layoffs;
  - › price and rate increases;
  - › privatization of postal services;
  - › private investment in the designated operator;
  - › quality of service;
  - › access to services.
- b. Postal workers (including trade unions):
  - › layoffs;
  - › pay cuts;
  - › cuts in benefits;
  - › privatization of services;
  - › restructuring of the designated operator;
  - › job security.
- c. Private operators:
  - › nationalization of postal services;
  - › universal service obligations and payments of financial contributions;
  - › competition from the designated operator;
  - › cross-subsidization;
  - › expansion of monopolies;
  - › prices and rates charged by the designated operator;
  - › access to the designated operator's mail delivery network.

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

The aim of this section of the Guide is not to delve into the technical characteristics of such a communications programme, but merely to outline a few of its core elements, as depicted in the following table:

Topic	Target audience			
	Workers	General public	Congress	Others
Concerns				
Message				
When to communicate				
How to communicate				
Type of tool				
Schedule				
Specific channel of communication				
Indicators				

The communications programme may call for the use of different tools for different target audiences. This particular issue is not addressed in the Guide. What is relevant, here, is the importance of good communications with the internal audience within the designated operator (workers and trade unions), not only for the progress of reform efforts, but also for day-to-day postal service operations. This target group warrants special attention, considering the large numbers of individuals involved, all of whom have serious concerns with respect to their job security and benefits and their future career prospects.

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

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

### Questions with respect to the market

- What is the total nationwide volume of mail traffic (in postal items)?
- What is the mail traffic volume per person per year?
- What is the breakdown of mail traffic by type of item?
- What is the share of different operators in the total traffic volume?
- What are the trends in these variables over the past few years?
- What are the projected future trends in these variables?
- Is there a reserved area for the designated operator or some other type of exclusive franchise?
- To what extent are reserved area rights enforced?

### Questions with respect to the universal postal service

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

### Questions with respect to the designated operator

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

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

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

The availability of different types of data generally varies quite a bit. Certain types of data are considered classic indicators and, as such, are readily available.

Other types of data may be non-existent and may need to be developed, which could require inputs of specialized technical resources.

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

### 3.1.4

#### *Role of the designated operator*

Among postal reform issues, one of the most pivotal issues to be addressed in the framing of a proposal for reshaping the postal sector has to do with the role of the designated operator. Its characterization as "designated", in itself, sets it apart from other operators on the postal market. Moreover, the term "designated" refers to two rather different concepts, namely to the party charged with providing the universal postal service and fulfilling the government's commitments with respect to international postal treaties.

As far as its ownership is concerned, the operator is owned by the government, which holds, if not all, then at least enough shares to ensure effective government control. Until recently, the term "public" was used for operators owned by the government. Certain designated operators, however, have made their capital available to the general public by listing on the stock exchange, and are referred to in this context as "public enterprises", so care should be taken not to confuse these terms. Most postal operators in developing countries fit the definition of government ownership. From an organizational standpoint, they can range from central government departments to government agencies and enterprises with independent legal status.

There are a few examples of "private" designated operators, in which the government has no share. In such cases, the government has concluded a management or concession agreement stipulating that the company granted the concession has the obligation of providing postal services, including the universal service, the cost of which may, in certain cases, be reimbursed. This concession is time-limited and the government retains the right to "designate" another "designated operator".

As for the nature of its services, a designated operator is responsible for providing the universal postal service, while private service operators are governed solely by market rules, with none of the obligations imposed on the designated operator. In developing countries and around the world, the designated operator not only provides universal postal services per se, but also offers other services open to competition as a source of financing.

As used in this Guide, the term designated operator refers to the postal operator mandated to provide the universal postal service and, as such, required to provide access to postal service (even in remote areas) through a network of interconnected service points. The designated operator's cost structure is quite different from that of other postal operators with the ability to confine their service coverage to more lucrative areas.

There is a case to be made for the fact that other sectors of the economy, such as the telecommunications and power sectors, which also involve universal service obligations, do not impose such obligations on a single service operator. In many cases, universal service coverage in these sectors is ensured by different service operators on a region-by-region basis. While certainly a possibility which should not be discarded in the postal sector, and which for political or geographical reasons is already a reality in certain countries, such an option is not widespread, even in countries with a more developed postal market or in a more advanced stage of postal reform. The postal sector has unique features, such as an integrated physical (domestic and international) network management system, the need for high volume and a cost structure setting it apart from other sectors of the economy and precluding the direct transposition of models used in other areas.

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

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

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

## 3.2

### Design and implementation of the reform process

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

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

### 3.2.1

#### Postal reform issues

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

Important issues to be addressed include:

- **extent of universal service coverage:** how much emphasis is to be placed on expanding universal access to postal service.
- **cost of universal service:** lower-cost versus higher-cost service delivery options.
- **universal service financing:** no, limited or large infusions of government funding to finance the provision of universal postal service.

- **extent of competition:** how much competition is envisaged in the postal sector.
- **ownership of the public operator:** a government-owned versus a mixed or private operator.
- **separation of regulatory and operational functions:** extent of the separation of these two functions.
- **autonomy of the regulatory agency:** how much power is to be vested in the regulatory authority for the postal sector.
- **autonomy of the designated operator:** how much administrative autonomy is to be granted to the designated operator.
- **modernization of the designated operator:** how much emphasis is to be placed on modernizing the universal postal service provider.
- **regulation of the postal sector:** how much regulation is envisaged in the postal sector.
- **regional-international integration:** how much emphasis is to be placed on facilitating domestic market integration with regional and international markets.

These concepts are graphically illustrated in the following figure:

–	Extent of universal postal service coverage	+
–	Cost of universal service	+
–	Government financing of universal service	+
–	Extent of competition	+
–	Ownership of the designated operator	+
–	Autonomy of the regulatory agency	+
–	Autonomy of the designated operator	+
–	Modernization of the designated operator	+
–	Regulation of the postal sector	+
–	Separation of regulatory – operational functions	+
–	Regional – international integration	+

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

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

### 3.2.2

#### *Organization of the reform process*

The reform process should be based on a full-scale study of prevailing conditions in the postal sector, including historical data, comparisons, international benchmarks and the framing of proposals for discussion and eventual approval.

In general, in-depth studies of the following issues should be included as part of this process:

1. **International postal environment:** studies designed to establish and describe the international environment surrounding the operation of postal services around the world, examining historical patterns of change to date and trends in selected countries, including but not limited to the following elements:
    - a. a study of historical patterns of change on the worldwide postal market, including major postal products and services and trends in mail traffic;
    - b. an assessment of the impact of the development of new types of communications technology on the postal market;
    - c. a study establishing and describing the extent of the use of technology;
    - d. a performance evaluation of operational, economic and market management factors;
    - e. a cross-country study of reforms in the regulatory/institutional framework for the postal sector exposing possible trends and showing the different models used in this connection;
    - f. an outline of major postal product and service offerings showing trends with respect to their expansion and/or elimination and corresponding standards of quality;
    - g. a study of the market share of the designated operator and private operators, broken down by types of services;
    - h. an examination of the accepted definition of the concept of universal service and of how it has evolved over the years;
    - i. a study of economic-financial compensation mechanisms for the provision of universal postal service;
    - j. a description of outreach activities in which postal operators carry out government programmes, with an outline of corresponding payment or compensation mechanisms;
    - k. a description of the characteristics of the designated operator, identifying the factors ensuring its economic-financial stability as service provider;
    - l. a description of the regulatory agency, including its characteristics, powers, structure, representativeness and source of funding and the regulatory mechanisms in place and in the implementation phase;
  - m. a description of the major private operators on the postal market, establishing their target market segment and geographic breakdown, the type of services rendered and their relationship with the regulatory agency and designated operator;
  - n. a description of the designated operator, at a minimum, establishing its target market, business structure, ownership structure, economic-financial and operational indicators, legal status, degree of autonomy, powers, obligations and relationship with the regulatory agency and private operators.
2. **Domestic postal environment:** studies designed to establish and describe the extent of the satisfaction of domestic postal market needs, examining supply and demand for existing products and services, broken down into as much detail as possible, including but not limited to the following elements:
    - a. a description of existing product and service offerings by the designated operator and by private service operators, including an examination of corresponding supply and demand data and of their respective market shares;
    - b. a study of historical trends in products and services, broken down into as much detail as possible, and an examination of annual qualitative and quantitative projections of demand for postal services, at a minimum, broken down by type of service, customer and geographic area;
    - c. a description of complementary products and services competing with or crowding out offerings by operators currently active on that market;
    - d. a study of trends in the lifespan of each product and service in the face of economic and technological developments and changes in any other variables affecting the launching of each such product/service onto the market;
    - e. a study of postal service customer/user profiles, broken down by product and service, income bracket, location, legal status, the extent of their usage of postal products and services, etc.;
    - f. an outline and analysis of the designated operator and private operators offering postal products and services, establishing their target market segments, their respective market shares, expansionary and/or contractionary market trends, etc.;

- g. a definition of the concept of universal postal service, at a minimum establishing the types of core services included in this concept, their geographic and demographic coverage, the regularity of mail collection and home delivery service, the business hours of retail outlets, standards of quality with respect to delivery time, reliability and security, and corresponding enforcement and compliance monitoring mechanisms;
- h. a study of the economic-financial feasibility of providing self-sustaining universal postal services;
- i. a study of different tried and tested universal postal service financing options, including specific data with respect to their economic-financial impact, scope, historical performance and implementation mechanisms;
- j. a look at postal services to be opened up to competition from different postal operators, specifying all necessary standards and regulations for service operation, monitoring and supervisory purposes.

3. **Legal issues:** conduct of studies designed to establish and describe the current legal framework and drafting of necessary legislation institutionalizing the structural reform process in the nation's postal sector. Necessary steps for the accomplishment of this task include, without being limited to, the following:
- a. identification and analysis of current legal and administrative instruments governing the postal sector;
  - b. study of the content of these legal and administrative instruments, checking for any inconsistencies;
  - c. design of a regulatory mechanism for the postal sector, at a minimum including the regulatory agency, its characteristics, powers, structure, representative capacity, source of funding and regulatory mechanisms;
  - d. description of necessary standards and regulations for the operation of postal services;
  - e. indication of necessary legislative amendments for full and effective operation of the nationwide postal market;
  - f. drafting of necessary legal instruments for the implementation of envisaged reforms.

### 3.2.3

#### *Learning from experience*

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

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

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

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

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

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

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

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

These mindsets are outlined in the following table:

Factor	Success	Failure
Action	Proactive	Reactive
Focus	Sector structure	Sector-wide conditions
Vision	Long-range	Short-range
Approach	Integrated; systematic	Piecemeal
Objectives	Sector-specific	Beyond the sector
Political climate	Stable	Unstable
Leadership	Strong commitment	Little commitment
Designated operator staff	Highly engaged	Little involvement
Transparency	Strong	Weak
Technical know-how	Strong	Weak
Reform financing	Certain	Uncertain
Institutionalization	Within the existing legal model	Outside the legal model
Universal service	Main objective	Secondary objective
Designated operator	Strengthened	Weakened
Universal service financing	Secured	Not addressed
Quality	Main objective	Not addressed
Management of the designated operator	Modernized	No change
Public involvement	Strong	Limited

Both the Universal Postal Union and certain restricted unions have technical cooperation mechanisms providing invaluable access to an extensive database on postal reform.

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

## 3.3

### Evaluation

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

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

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

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

### 3.3.1

#### Evaluation of the reform process

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

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

Example:

#### Objective 1: Expand universal access to postal service

Benchmark	Year 1	Year 2	Year 3	.....	Year n
Percentage of the population served by a post office					
Percentage of the population with home delivery service					

#### Objective 2: Help make the universal service operator economically and financially self-sustaining

Benchmark	Year 1	Year 2	Year 3	.....	Year n
Economic and financial performance of the designated operator					
Spending on modernization and expansion					
Amount of the subsidy received by the designated operator					

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

### 3.3.2

#### Establishment of performance indicators

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

These qualifications are to be borne in mind in examining the following outline of performance benchmarks.

Benchmark	Year 1	Year 2	Year 3	.....	Year n
Total volume					
Volume per person					
Volume per worker					
Postal workers per capita					
Average number of hours of training per worker					
Number of days the designated operator was shut down by strikes					
Number of residents per post office					
Percentage of the population served by a post office					
Percentage of the population with home delivery service					
Percentage of the market represented by reserved services					
Market share of the designated operator					
Basic letter rate					
Quality of service					
Percentage of lost mail items					
Average percentage of manually sorted items					
Economic and financial performance of the designated operator					
Spending on modernization and expansion					
Amount of the subsidy received by the designated operator					
Spending on modernization and expansion					
Amount of the subsidy received by the designated operator					

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

- **simplicity:** clear understanding of their import;
- **objectivity:** can be evaluated in a non-subjective manner;

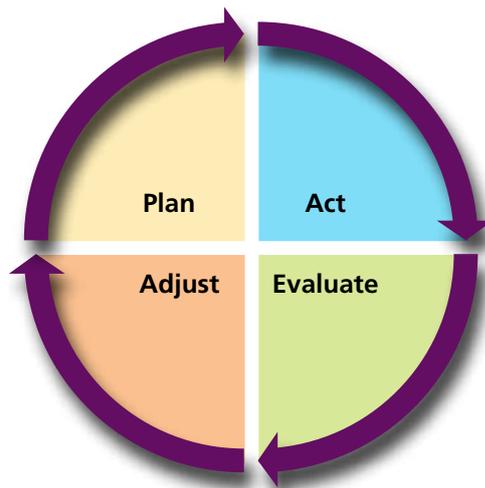
- **credibility:** reliable sources and means of verification;
- **execution:** feasible sources and means of verification;
- **timeliness:** can be verified in a timely fashion for decision-making purposes;
- **comparison:** good basis for comparative benchmarking.

### 3.3.3

#### *Acting on evaluation data*

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

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



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

To prevent the consensus achieved as of the date of the passage of corresponding legislation from breaking down, it is essential to establish a frame of reference for the pursuit of reform efforts. As work continues, there could be a need for further studies, unanticipated technical design work, additional follow-up projects or, in short, countless situations requiring decision-making, monitoring and management efforts.

Postponing such activities could jeopardize compliance with established deadlines and the attainment of targeted outcomes. It also runs the risk of thwarting the attainment of envisaged benefits for the postal sector and, more importantly, for the general public.

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

- **Line of authority:** clearly identifying those in charge of heading up follow-through efforts;
- **Decision-making model:** showing the types of situations requiring decisions, as well as the different decision-making levels involved;
- **Action plan:** establishing procedures for the pursuit of work under normal circumstances and in emergency situations;
- **Evaluation reports:** establishing the content, timing and recipients of regular data on the progress of work;
- **Other mechanisms:** capabilities and processes for conducting necessary follow-up studies, analyses and projects underpinning the pursuit of postal reform efforts from a technical and political standpoint.



**Module II**  
The Universal Postal Service



# Introduction

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

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

The World Postal Strategies adopted by subsequent Universal Postal Congresses maintained the universal postal service as one of the core elements of the UPU's action plan, with increasing importance assigned to issues involving universal postal service quality, as well as access and security.

The most recent Universal Postal Congress adopted the Istanbul World Postal Strategy (IWPS). Goal 3 on fostering market and sector functioning includes a focus on the universal service obligation. In fact, programme 1 under goal 3 makes recommendations to designated operators, governments/regulators and UPU bodies in terms of their respective roles in that area.

At the same time, the current UPU mission considers universal postal services as one of the cornerstones of the postal service:

UPU mission: To stimulate the lasting development of efficient and accessible universal postal services of quality in order to facilitate communication between the inhabitants of the world by:

- guaranteeing the free circulation of postal items over a single postal territory composed of interconnected networks;
- encouraging the adoption of fair common standards and the use of technology;
- ensuring cooperation and interaction among stakeholders;
- promoting effective technical cooperation;
- ensuring the satisfaction of customers' changing needs.

The main goal of the founders of the UPU – in defining a single postal territory and the obligation to offer certain basic services – remains embodied in the concept of the inalienable human right to send and receive mail.

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

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

One of the main problems in a number of countries is government's difficulty in understanding the difference between domestic public services and public services stemming from commitments made under international treaties.

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

In contrast, in the case of postal services, governments are required to maintain a nation-wide universal postal service network. Unfortunately, in many cases, national development plans and sector programmes include no provisions for maintaining and upgrading that postal network.

Thus, it is important to make governments aware of the need to set clear rules for the continuing operation of universal postal services and to put forward specific plans enabling them to measure compliance with this obligation.

For obvious reasons, the task of sensitizing national government officials to these needs has fallen on the traditional universal postal service operator, whose fundamental purpose is the provision of this service.

In many countries, the ability of the traditional universal postal service operator to fulfil its responsibilities was ensured primarily through government funding of the countrywide postal network, with government subsidizing all or part of its operations and/or maintaining a monopoly to protect basic postal services. Moreover, the operator faced less pressure in terms of quality and speed, and this helped keep costs lower than at present.

The situation began to radically change in the late 1980s under the influence of various key factors: competition from private enterprise; the effects of globalization; systematic changes in government policy driven by corporatization processes; urban development leading to much larger cities; and the global economic crisis.

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

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

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

Thanks to international developments in postal regulation and the universal postal service and countless consciousness-raising measures targeted at government officials, many governments have come to recognize the need to establish a legal framework for the postal sector.

However, in order to take deep-seated, lasting measures to turn around the current situation in certain countries, stakeholders directly involved in these matters need a specific, simple tool to help them craft a plan for the implementation of the universal postal service as part of a broader-based reform process.

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

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

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

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

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

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

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

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

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



**Section I**  
Underlying principles of  
the Universal Postal Service





# Principles of the universal postal service

## I 1.1

### Definition

To begin with, it is necessary to fully grasp the meaning and scope of the concept of "universal postal service," the focus of this module, examined in depth on the following pages of the guide, for a clearer understanding of this concept and to promote its effective implementation.

According to the general definition of this concept:

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

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

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

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

Furthermore, according to this definition, the universal services to be guaranteed by the government are basic services to be provided under specific conditions meeting a given standard of quality, at prices which are affordable for all segments of the population.

It is important to be clear, from the outset, that the concept of universal service refers to the availability of essential postal services affording a level of postal communication promoting social cohesion and bringing together people and communities, as an integral part of the quality of life in modern society.

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

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

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

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

## I 1.2

### Legal precepts

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

Thus, governments have taken on the responsibility for protecting basic human rights, one of which is the right of communication, which involves different forms of communication such as postal services.

Regardless of whether the constitution explicitly or tacitly refers to postal service, in addition to guaranteeing the inviolability of the mail and respect for the privacy of customer/user information, governments have traditionally reserved for themselves the exclusive right to engage in certain strategic activities or operate certain public services as a way to monitor and oversee their delivery and development.

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

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

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

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

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

Finally, article 25, which addresses the right to a proper standard of living, also relates to postal service in establishing a person's right to the assurance of necessary social services.

The pertinent portions of the text of this article are reproduced below.

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

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

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

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

Thus, the existence of a single postal territory is vital to the concept of the universal postal service, as discussed later in this module.

# The public

## 12.1

### Public services

In general, a country's political constitution and institutional framework expressly allow for government oversight of domestic markets for goods and services.

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

A service is considered public when it is rendered in the public interest. A public service is usually provided by government, as the entity that organizes community resources. In cases where, for budgetary or other reasons, the public service is provided by a private company, the conditions of the service are subject to government control and regulation.

Public services have changed in today's modern world and global market economy. Social development requires increasingly large infusions of government funding for the provision of public services, which are getting harder and harder to come by due to financial constraints. Health, education and security are still given top priority.

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

There is a large private presence in the high-income express mail segment of the postal market open to free competition, with limited-coverage service networks confined to more lucrative geographic areas. However, in developing countries, private companies also participate in the delivery of basic services.

As far as basic services are concerned, the reserved area – which includes some services and the universal service obligation in all geographic areas, including remote or hard-to-reach areas – requires more stringent controls to guard against cream-skimming in more lucrative service areas such as densely populated urban areas with high concentrations of business and industry.

Looking ahead to the immediate future, market conditions require a clear, nationwide, sector development policy and more transparent regulations as a basis for the development of the postal sector so as to continue to ensure universal access to basic postal services.

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

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

## I 2.2

### Government obligations

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

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

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

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

## I 2.3

### National development

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

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

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

Postal services in these countries are a fundamental part of the commercial invoicing system for transactions between different businesses and between businesses and individuals, moving enormous sums of money in payment of outstanding invoices and keeping the economy going. An efficient postal service thus helps improve the efficiency of the economic system, keeping costs down and operating as an engine of competitiveness for such countries.

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

In such cases, a special effort by government to ensure the fulfilment of its universal postal service obligations and ensuing postal reforms can turn this vicious circle around into a so-called "virtuous" circle of high-quality service, greater use of the Post, higher revenues and stepped-up investment, in which postal services end up buttressing national development efforts. Postal service has enormous growth potential. More developed economies with high GDP (gross domestic product) also have higher postal revenues.

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

Private international courier and delivery services confine their operations to key urban areas, charging higher rates for the services offered. Their contributions to the local economy are limited, and any earnings and other economic benefits are exported to their overseas headquarters.

Low-quality postal service may force consumers and businesses to hire their own couriers or to personally go to the bank to get a simple financial statement and, in general, to waste more time and money. Thus, efficient universal postal service capitalizing on the well-documented economies of scale engendered by the collection, processing and delivery of mail enables domestic consumers and businesses to meet crucial basic communications and small package delivery needs as effectively and economically as possible. Accordingly, postal service also helps promote the development of a key sector of activity, namely the domestic business sector.



# Universal Postal Convention

## I 3.1

### Universal Postal Service Network

Through the provision of the domestic postal service, nationwide communications needs can be met by a country's own infrastructure and resources. Service access and coverage and general standards of quality are contingent upon factors which can be controlled at the country level.

Thus, the availability of necessary services to satisfy such needs hinges on a combination of sound national policy decisions with respect to such services; legislation governing market organization; and the human, physical and economic resources enabling service operation at the nationwide level.

However, meeting communications needs involving other countries is another thing entirely and requires the operation of the international postal service. There are factors and situations at play at the international level which cannot be controlled by any one country: these are operations that require countries to work together.

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

Together, designated operators of all UPU member countries represent a fully globalized mail service, with interconnected networks and mailstreams using each country's domestic infrastructure. Thus, the UPU has formed a worldwide postal service network which, in effect, is really a network of networks.

This worldwide network of domestic networks carries over 328 billion physical mail items a year, operates over 690,000 retail offices serving the public and has a full-time workforce of over 5.2 million employees. This global universal postal service network utilizes a combination of different human, physical, economic and technological resources to ensure the smooth flow of letters, messages and printed matter via the letter-post service; goods via the parcel-post service; and funds through postal financial or payment services.

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

## I 3.2

### Rules common to countries

#### I 3.2.1

#### *Nature of country obligations*

The Universal Postal Convention is an international treaty. It forms part of the Acts of the Union and regulates the international postal service.

The basic obligations embodied in the Universal Postal Convention are set by the Union's member countries at the Universal Postal Congress, attended by government plenipotentiaries. Congress is the supreme body of the UPU and normally meets every four years.

UPU member countries attending this worldwide congress discuss and agree on rules and regulatory issues pertaining to postal service, and their plenipotentiaries sign the Universal Postal Convention and other specific agreements.

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

The Constitution is the UPU's basic act containing its organic rules, while the Universal Postal Convention establishes common rules with respect to postal services. The UPU Constitution, the UPU General Regulations, the Universal Postal Convention and the Postal Payment Services Agreement are international treaties.

Operational aspects are set out in the Regulations to the Universal Postal Convention, which are approved by the Postal Operations Council, a UPU body meeting semi-annually and made up of 40 countries elected by the Universal Postal Congress on the basis of geographical representation and level of development.

### 13.2.2

#### *Universal service and the UPU*

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

#### **Article 1**

##### **Scope and objectives of the Union**

1. The countries adopting this Constitution shall comprise, under the title of the Universal Postal Union, a single postal territory for the reciprocal exchange of postal items. Freedom of transit shall be guaranteed throughout the entire territory of the Union, subject to the conditions specified in the Acts of the Union.
2. The aim of the Union shall be to secure the organization and improvement of the postal services and to promote in this sphere the development of international collaboration.

Thus, the formation of a single postal territory with each country agreeing to the incorporation of its sovereign territory and existing postal service network, and undertaking to provide international items similar treatment to that given to domestic items, laid the foundation for the provision of the universal postal service to all segments of society.

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

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

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

### 13.2.3

#### *Universal postal service obligations under the UPU Convention*

New developments in the global environment and the transformation of public services, as well as trends in globalization, liberalization and free competition, have engendered the need for certain provisions of the Universal Postal Convention to be made more explicit, particularly with respect to the universality of the postal services established by the UPU.

The interest displayed by private enterprise in getting involved in postal services and the reduction in the area reserved for designated operators are, in some cases, jeopardizing continuing assurances of service delivery to all segments of the population in all geographic areas.

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

In many countries, this radical change in the postal environment triggered a positive reaction to the need for modernization, enabling designated operators to transform themselves into commercial business enterprises with the objective of generating enough income and high enough returns to ensure their financial viability and future development. These reforms have helped them maintain, and in many cases strengthen, their market position.

This trend towards the modernization and commercialization of postal services should not affect the social and cultural role played by postal service in the everyday lives of people and communities. Indeed, their modernization generates additional resources, leading to increased efficiency and improved service to all areas, including those that seem less lucrative. Here, it is important to remember that the postal service is a network of service points and needs to be evaluated as such. The assessment of profitability must be based on all service points, not a single point on the network. So-called unprofitable points in fact strengthen the network.

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

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

## Article 3

### Universal Postal Service

1. In order to support the concept of the single postal territory of the Union, member countries shall ensure that all users/customers enjoy the right to a universal postal service involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.
2. With this aim in view, member countries shall set forth, within the framework of their national postal legislation or by other customary means, the scope of the postal services offered and the requirement for quality and affordable prices, taking into account both the needs of the population and their national conditions.
3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service.
4. Member countries shall ensure that the universal postal service is provided on a viable basis, thus guaranteeing its sustainability.

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

The article specifies the basic services to be provided in all member countries, that is, the services included under the concept of universal postal service and established under article 17 of the Convention. It also sets specific conditions for the provision of universal postal services, stipulating that such services must have continuity, be of good quality and be offered at affordable prices for all segments of the population. These provisions supplement previous commitments, explicitly making the government responsible for the establishment of the universal postal service under domestic legislation in line with the provisions of the Universal Postal Convention and with local needs and circumstances.

The article stipulates that the national legal framework of member countries has to reflect this commitment, complying with the general rules embodied in the Universal Postal Convention, and specifically in articles 3 and 17 with respect to the universal postal service.

The provisions of article 3 further require member countries to ensure that the operator designated for that purpose truly provides the universal postal services under the conditions set.

### 13.2.4

#### *Basic services*

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

The complete text of article 17 (Basic services) of the Universal Postal Convention approved by the Istanbul Congress is reproduced below.

## **Article 17**

### **Basic services**

1. Member countries shall ensure that their designated operators accept, handle, convey and deliver letter-post items.
2. Letter-post items containing only documents are:
  - 2.1 priority items and non-priority items, up to 2 kilogrammes;
  - 2.2 letters, postcards and printed papers, up to 2 kilogrammes;
  - 2.3 items for the blind, up to 7 kilogrammes;
  - 2.4 special bags containing newspapers, periodicals, books and similar printed documentation for the same addressee at the same address called "M bags", up to 30 kilogrammes.
3. Letter-post items containing goods are:
  - 3.1 priority and non-priority small packets, up to 2 kilogrammes.
4. Letter-post items shall be classified on the basis of both the speed of treatment of the items and the contents of the items in accordance with the Regulations.
5. Within the classification systems referred to in 4, letter-post items may also be classified on the basis of their format as small letters (P), large letters (G), bulky letters (E) or small packets (E). The size and weight limits are specified in the Regulations.
6. Higher weight limits than those indicated in paragraph 2 apply optionally for certain letter-post item categories under the conditions specified in the Regulations.
7. Member countries shall also ensure that their designated operators accept, handle, convey and deliver parcel-post items up to 20 kilogrammes.
8. Weight limits higher than 20 kilogrammes apply optionally for certain parcel-post items under the conditions specified in the Regulations.

## I 3.3

### Action-oriented government decisions

Universal Postal Convention provisions with respect to basic services have been adapted, expanded and refined in line with changes in the postal environment and market needs. The current text of the article reproduced above is based on decisions taken by UPU member countries at the 2016 Istanbul Congress.

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

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

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

In short, the basic services established under article 17 of the Universal Postal Convention are mandatory core services which member countries have agreed to include in their legal definition of nationwide universal postal service.

In addition to decisions taken by member countries at Universal Postal Congresses with respect to the Universal Postal Convention, Congress also adopts the World Postal Strategy to steer the Union over the next four years. The World Postal Strategy sets out the activities to be carried out by member countries through their governments, designated operators, the International Bureau and other UPU bodies.

The Istanbul World Postal Strategy defines the strategic directions for the 2017–2020 period. It comprises three main goals:

- Improve the interoperability of network infrastructure;
- Ensure sustainable and modern products;
- Foster market and sector functioning.

Starting with the 1999 Beijing Congress, successive Congresses have set objectives related to the universal postal service. Goal 3 (Foster market and sector functioning) of the IWPS explains:

"With a strong physical network and diversified and integrated modern products and services, the postal sector is theoretically ready to function effectively. However, regulatory bottlenecks, lack of market knowledge, and larger environmental, social and economic concerns can hinder the growth of the sector. Goal 3 of the IWPS therefore aims to address these issues through its activities on the universal service obligation, policy and regulation, market and sectoral information, sustainable development, and capacity development."

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

### **Goal 3 – Foster market and sector functioning**

With a strong physical network and diversified and integrated modern products and services, the postal sector is theoretically ready to function effectively. However, regulatory bottlenecks, lack of market knowledge, and larger environmental, social and economic concerns can hinder the growth of the sector. Goal 3 of the IWPS therefore aims to address these issues through its activities on the universal service obligation, policy and regulation, market and sectoral information, sustainable development, and capacity development.

#### **Programme 1 – Universal service obligation**

- Related activities: Acts of the Union.
- Recommended roles:
  - › Operators: Fulfil the USO and implement operations in line with the Acts and national laws;
  - › Governments/regulators: Define the appropriate USO for today's realities; control and evaluate the fulfilment of the existing USO;
  - › UPU bodies: Contribute to the debate by bringing expertise and experience; propose changes to the Acts to bring them in line with emerging operational realities.

#### **Programme 2 – Policy, regulation and strategy**

- Related activities: Strategy, Acts of the Union, governance, reform.
- Recommended roles:
  - › Operators: Advocate a wider postal sector role in society to government; contribute to and implement strategies, reforms, policies and regulations;
  - › Governments/regulators: Play a leadership role in developing policies, regulations and strategies to reform and transform the sector; generate investor confidence and trust;
  - › UPU bodies: Develop, raise awareness of, implement and monitor strategies, and adopt improved structures and decision-making processes in line with changing environmental and market needs; speed up change in policies and regulations to respond to changing environmental and market needs.

#### **Programme 3 – Market and sectoral information**

- Related activities: Statistics, economic and market studies, knowledge and information management.
- Recommended roles:
  - › Operators: Facilitate the exchange and provision of data to contribute to improving operational efficiency and market response and development;
  - › Governments/regulators: Encourage and support the exchange and provision of data with the UPU; provide and publicize appropriate data in line with customer needs;
  - › UPU bodies: Consolidate and analyze data; present relevant topics to support more informed decision making in line with changing market requirements and needs.

#### **Programme 4 – Sustainable development**

- Related activities: Sustainable development (social, economic, environmental), financial inclusion, disaster and risk reduction.
- Recommended roles:
  - › Operators: Contribute to achieving sustainable development;
  - › Governments/regulators: Invest in and support initiatives to promote sustainable development and inclusion; recognize the role of the postal sector in contributing towards the UN 2030 Sustainable Development Agenda;
  - › UPU bodies: Engage in monitoring, awareness-raising and resource mobilization activities in the area of sustainable development.

#### **Programme 5 – Capacity development**

- Related activities: Training, seminars and workshops, capacity building.
- Recommended roles:
  - › Operators: Participate in and implement best practices;
  - › Governments/regulators: Invest in and support initiatives to promote capacity development;
  - › UPU bodies: Develop, raise awareness of and implement capacity development initiatives in line with stakeholder needs.

**SECTION II**  
Determining the Universal Postal Service





# Implementation of the Universal Postal Service

## II 1.1

### Need to determine the Universal Postal Service

The definition of the universal postal service presented in section I outlines the main characteristics of the service.

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

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

## II 1.2

### What to determine

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

**a. Included services**

The specific type or class of service included in the government's universal postal service obligation.

**b. Service delivery conditions**

The specific form in which included services are to be offered to all members of the population.

**c. Service financing and operation**

The responsibility of government to ensure service delivery under economic conditions allowing for the sustainable financing of corresponding operations.

At a minimum, the country's international obligations under the Universal Postal Convention and its Regulations serve as the starting point for the mapping out of these three elements. The country will then need to make decisions on the types of services and conditions to be added to these obligations.

The starting point for country decisions with respect to the classes of service to be included under the concept of universal postal service is letter mail and parcels up to 20 kilogrammes in weight. The basic considerations in establishing service delivery conditions are accessibility, speed, reliability, security and accountability for claims ensuring an acceptable standard of quality. Decisions with respect to service financing must ensure that the service operator has sufficient long-term sustainable income to cover service delivery costs and finance regular investments in its modernization and development.

## I 1.3

### The decision-making process

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

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

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

## II 1.3.1

### *Assessment of the status of nationwide postal services*

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

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

## II 1.3.2

### *Decision making by the national government*

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

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

## II 1.3.3

### *Decision making by national congress*

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

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

## II 1.3.4

### *Implementation of universal postal services and the established legal framework*

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

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

The pace of decision making by the national government and national congress will depend on the availability of required information and the promptness with which necessary studies are conducted.

# Status of nationwide postal services

## II 2.1

### Nationwide geo-political and socio-economic conditions

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

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

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

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

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

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

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

The status of these public utility services can also be expressed in the form of development indicators, such as the percentage of the population with electricity service, the percentage of the population with a safe water supply, and the number of fixed telephone lines per 100 inhabitants.

The level of development of business and industry and the main types of business and industrial activities engaged in by the nation's population are especially important considerations for postal service purposes. Figures for GDP, per capita income and other national economic development indicators are all important study data.

Table No. 1 contains a sample list of important national geopolitical and socio-economic data.

**Table No. 1 – General country data**

Geo-political data		Infrastructure		Socio-economic data	
Surface area	Km2	Drinking water	No. of customers	Literacy	(%)
Geopolitical organization	Capital Provinces, departments Municipalities Villages, hamlets	Electricity	No. of customers	Life expectancy	(Years)
Population (Most recent census data)	No. of inhabitants	Telephone	No. of land lines No. of cellular lines	Poverty rate	(%)
Breakdown by:	Gender Age Income bracket Occupation	Connectivity	(Internet service)	Per capita income	(USD per year)
Population density	Inhab. per km2	Airports		Gross domestic product	(GDP in USD)
Population	Urban (%) Rural (%)	Ports		GDP growth rate	(%) last 5 years
Working population	(#) and/or (%)	Railroads	Kms	GDP growth rate Latin America	(%)
Major cities	(5 to 8) and population	Refineries	(Oil)	Major types of production and exports	
Nationwide number of households		Road network	Kms	Exports – year	(USD)
Average household size				Imports – year	(USD)
				Foreign direct investment	(USD)
				Inflation rate	(%) last 5 years
				Devaluation rate	(%) last 5 years
				Unemployment rate	(%) last 5 years
				Legal minimum wage	monthly (USD)
				Exchange rate	local currency per 1 USD

## II 2.2

### Status of postal services

#### II 2.2.1

##### *Legal instruments*

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

Regardless of whether or not existing legislation has been updated in response to the country's social and economic needs, it is important to be sufficiently familiar with legal instruments governing the operation of postal services. Service delivery and market organization are both contingent on the legal framework established for the postal service. It is also important to be acquainted with administrative instruments, regulations and decrees, etc., applicable to the postal sector, as well as with other related legal instruments affecting postal service, such as constitutional provisions and regulations related to consumer protection, competition, customs, and transportation services.

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

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

- **Postal activities and services.** The rendering of postal services involves a variety of different operations, such as receiving, sorting, transportation and delivery. The text of legislation or corresponding implementing regulations often includes provisions to this effect, specifying the types of operations regarded as postal-related and the types of services legally defined as constituting postal activities and, thus, subject to specific operating conditions.
- **Classification of postal services.** Legislation governing postal or mail services normally distinguishes between different classes of service and may tacitly or explicitly establish a service classification system according to the content of mail items, their delivery time or geographic destination or, in some cases, the customer segment. Postal services are most often classified according to the content of mail items and their delivery time or priority. In general, postal services are used for a variety of reasons involving considerations such as content, speed, weight, form of delivery and destination and should be classified accordingly.
- **Government obligations.** The law may directly and expressly or indirectly and implicitly establish the government's obligations with respect to the provision of postal services. In the case of a total or partial monopoly, the law generally makes the official postal operator responsible for fulfilling the government's obligations, specifying the postal services to be provided by such operator. Such services include mandatory domestic and international services. Moreover, the designated operator – that is, the operator responsible for fulfilling the universal service and other commitments under-taken by the government – is named.

National legislation needs to stipulate the government body responsible for setting public postal policy. Generally, this falls to the supervisory ministry for the postal sector.

- **Compliance with international obligations.** The postal legislation of all UPU member countries includes provisions requiring the fulfilment of their obligations under international postal treaties and delegating the task of meeting such obligations to the designated operator. United Nations member countries incur postal service obligations as members of the UPU and, as the case may be, of a regional postal organization (restricted union).

## Postal market

- **Service operating system.** In the past, postal legislation generally established a full monopoly for letter post, with a single nationwide public or state-owned operator. Over the last few decades, a changing market has led to a shift in services and in service delivery practices, to meet new needs. Thus, postal legislation has gradually been amended to open up the postal sector to private enterprise, either through full liberalization or a reduced reserved area for the designated operator.

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

- **Regulatory system.** Current market conditions and competition have made it necessary to separate government regulatory functions from operational matters. Such regulatory functions are assigned to a government entity, which may come under the supervisory ministry for the postal sector. This regulatory body may oversee solely the postal sector, or it might be a multi-sector regulator.

Regulatory functions normally include the power to issue implementing regulations under existing legislation and to further sector policy and plans. It is also up to the regulatory body to ensure the continued fulfilment of government obligations and to control the services furnished by the designated operator, as well as the prices – for the universal postal services, or for all services.

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

One of the root causes of the difficult economic situation faced by designated operators is the non-compliance with laws and the lack of effective enforcement mechanisms.

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

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

For some time now, the importance of market knowledge has been stressed in the postal business. However, quantitative and qualitative information and data on supply and demand for postal services still need to be studied more methodically.

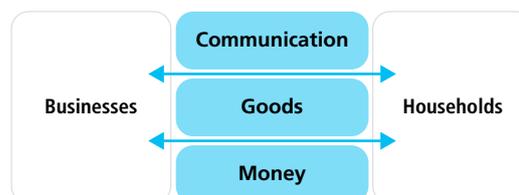
In some cases, information on the magnitude of effective demand for postal services is limited at best. We may know what percentage of the market is serviced by the designated operator, but information on demand for basic postal services and on the volume of such items is extremely limited at best.

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

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

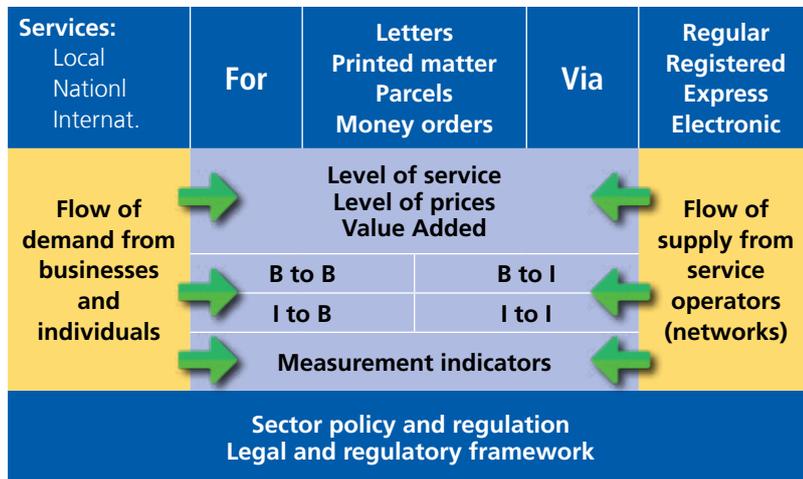
Figure No. 2 graphically illustrates the position of the postal service in modern market economies and its pivotal role in linking buyers and sellers, expediting business transactions and filling purchase orders. At the highest level, mail service brings together businesses and consumers for trade and communication purposes.

**Figure No. 2 – Postal services and the economy**



Nowadays, postal activities are a product of the interplay of a mix of different market-related factors with supply and demand for postal services, as illustrated in figure No. 3 below. On one side are demand-generating **customers**, in the form of businesses and individuals, with their corresponding needs and expectations. On the other side are supply-generating **service providers** in the form of postal operators, with their service facilities and networks.

**Figure No. 3 – Interactions between different market forces**



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

The last factor in the mix has to do with the legal conditions at the country level and within the postal sector governing the interplay of all market activity flows. These market dynamics produce specific levels of service at different levels of development, which can be quantified through specific measurements. The flows depicted in figure No. 3 produce business-to-business (B2B), business-to-individual (B2I), individual-to-business (I2B) and individual-to-individual (I2I) service interfaces representing specific shares of total mail volume. Most mail is generated by businesses (over 90% of total mail volume) and addressed to individuals (over 70% of total mail volume).

Quantitative data on the annual volume and value of business, expressed in terms of the number of items and their local currency value, is especially important for an assessment of the domestic postal market. Figures on the value of business should also be expressed in U.S. dollars for purposes of making cross-country comparisons.

Postal market data must be sufficiently disaggregated to show patterns and trends in different types, classes or categories of service. In general, postal market services are broken down according to their specific features and operating conditions, as outlined in the following text box.

<b>Postal line of business:</b>	Regular or traditional mail services and specialized express mail or courier services
<b>Destination of mail items:</b>	Local Domestic International
<b>Type of customer (major market segments):</b>	Businesses, including government departments Individuals
<b>Public utilities</b>	This sector includes water and sewerage, power, gas, refuse collection and telephone service
<b>Financial sector</b>	This sector includes banks (cheque and savings accounts and credit services), debit cards, commercial finance companies (vehicles, appliances, etc.), pension funds and insurance companies
<b>Publishing sector</b>	Publishing industry. Newspapers, magazines, books, etc.
<b>Business and industry</b>	Businesses in general
<b>Government</b>	Different central and provincial government offices and agencies

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

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

- **General benchmarks.** The general belief is that close to 90% of mail traffic is generated by businesses (business mail) and approximately 10% by individuals.
- **Estimates of key mail flows.** The economic sectors generating the largest volumes of mail on the postal markets of many developing countries are the residential public utilities sector (water, power, telephone companies, etc.) and the financial sector (banks, credit cards, pension funds, etc.).

In the case of public utilities, data on the number of power and water connections or customers and the number of fixed and cellular telephone lines produces reasonably accurate figures on monthly and annual invoicing volume. The supervisory authorities for the financial sector can provide data on the number of active cheque accounts in the banking system, the number of credit cards issued, the number of pension fund accounts, etc., for calculating mail volume based on mailing schedules for statements and other information.

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

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

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

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

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

The importance of this business segment of the postal market cannot be overstated. In fact, with the high price of such services, despite the relatively small volume of items involved, they still represent the highest-value business segment of the postal market.

While the high price of both international and domestic express mail and courier services is common knowledge, precise figures on their share of market value are not always available.

The rough country figures presented in table No. 4 illustrate the importance of courier or express mail services in terms of their value.

**Table No. 4**

	Yearly volume millions of items	Yearly value millions of USD
<b>Regular mail</b>	<b>400</b>	<b>70</b>
<b>Express mail – courier service</b>	<b>40</b>	<b>130</b>
Domestic	33	30
International	7	100
<b>TOTAL</b>	<b>440</b>	<b>200</b>

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

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

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

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

## II 2.2.3

### *Service delivery*

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

Knowing how postal service consumers (customers, users, recipients) obtain and receive services from the various postal operators, including the designated operator, is crucial in assessing the status of postal services. This requires a basic knowledge of and information on actual operating conditions in the postal sector, primarily with respect to postal products offered as part of the basic services available to both individual and business clients.

Over the last 20 or 25 years, in many parts of the world, both formal and informal private operators have appeared on the postal market, furnishing all types of mail services, with and without proper authorization, which has had an effect on the situation of the postal service. The market share of these private operators has been steadily growing, invariably at the expense and to the detriment of the designated operator, which has, in turn, lost market share, often as a result of practices shirking competition rules.

In such cases, regardless of the constraints it has faced, the designated operator has continued to grapple with its government obligations and to offer loss-making services under conditions where declining revenues and cutbacks in investment and working capital have weakened its competitive strength, reduced its market share, tightened its geographic and demographic service coverage and eroded service quality.

Moreover, large multinational firms have penetrated local markets. These companies participate in the most lucrative segment – the express and courier segment – focusing on international operations. Domestic courier operations are furnished by large numbers of highly profitable local firms with limited service coverage areas.

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

In general, postal service customers have seen courier firms as private service enterprises offering rapid, modern, high-price, high-quality delivery service, making no distinction between international or local firms or between large or small enterprises. In contrast, the designated operator is associated with inefficiency, government red tape and slow, unreliable service, and is regarded as out of touch with modern times. However – and typically in developing countries – private operators furnishing regular domestic mail service have had the greatest impact on the designated operator. This group includes a surprisingly large proliferation of formal and informal businesses.

There are also large numbers of casual or temporary service operators continuously entering and exiting the postal market, in line with available business opportunities.

The problems faced by the designated operator are mounting and becoming increasingly serious in the face of private service operators confining their business activities to large urban areas where, with a limited customer base, large mailers and no organizational requirements, retail offices, service networks or technology needs, they are able to do business with remarkably low operating costs impossible to match by a designated operator, even when functioning at optimal productivity and efficiency. This often results in predatory pricing and unfair competition.

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

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

- **Designated operator.** These insights into the services rendered by private postal operators is a good starting point for addressing the operations and the financial and market situation of the designated operator.
- **Market share of the designated operator.** The market position of the designated operator hinges mainly on the share of demand it services in terms of mail volume and its share of invoicing value for regular and express mail service for letters, printed matter and parcels. Available data from the designated operator, broken down by market segment and services, should provide figures on its annual business volume (in numbers of items) and value and its market share for:

<b>Regular mail service</b>	Letters, printed matter, parcels a) <i>domestic</i> b) <i>international</i>
<b>Express mail service</b>	Letters (documents), printed matter, packages (parcels) a) <i>domestic</i> b) <i>international</i>

Annex 1 contains a sample breakdown of data on the market share of the designated operator of a hypothetical country similar to and in line with the breakdown of market data discussed in section 2.2.2 above. There are other essential factors which also need to be considered, such as image and credibility, although it is hard to find any measurements of these variables. The coverage and status of service in rural and other remote areas in which the postal service may be a symbol of the government's presence in such areas should also be given special consideration in assessing the needs of local communities.

- **Service operation by the designated operator.** Without exception, the designated operator is always entrusted with the provision of mandatory postal services and the **fulfilment** of country obligations under the Universal Postal Convention.

The efficiency with which these services are rendered depends on the level of development of the service operator in question, as reflected in the availability of infrastructure, technology and human, material and financial resources for maintaining a service network offering a specific level of coverage and quality. The level of development of the designated operator also determines its capacity and efficiency in meeting demand and fighting competition.

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

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

- › the number of items processed per postal worker per year;
- › the daily number of items delivered per mail carrier, in urban areas, rural areas and at the countrywide level;
- › the number of homes with home delivery;
- › annual revenues, costs and profits per postal worker;
- › mail delivery times in urban areas, rural areas and at the countrywide level;
- › the volume of mail (%) delivered on time;
- › mail theft, loss and tampering rates as a percentage of the volume of mail processed per year;
- › complaint and claim reporting rates and average response time for claims

Geo-political and socio-economic country data will also need to be used to calculate other service indicators for the postal network maintained by the designated operator, such as:

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

Annex 2 contains examples of selected indicators for use in comparisons with industrialized countries at the subregional, regional and worldwide levels.

- **Financial and administrative situation of the designated operator.** The most important 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 10 years, or five years minimum. Its deficit, or the degree to which spending and investment are covered by incoming revenues, and trends in these figures are important indicators of its economic situation and of any existing problems.

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

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

## II 2.3

### Local needs and postal reform

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

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

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

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

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

Country needs for essential postal services, whether referred to as basic services or as the universal postal service, are going to require technology-driven services, as dictated by the activities of business clients and individual customers. Poor, remote communities need postal services to offer legitimate solutions for overcoming existing obstacles to the provision of core services, and technology opens doors which had previously been closed to them.

Another extremely important need in many areas is to overcome weaknesses in parcel service. Despite the impressive growth in parcel service with the advent of e-commerce and other types of business technology, the postal services of many countries have neglected this market segment, while other service operators or carriers have strengthened their market position, at the expense of this postal product.

E-commerce and Internet sales are now areas of vital importance. Indeed, the postal landscape has changed. Firstly, letters and printed paper volumes have declined, amid the boom of items containing goods – whether small packets or parcels. Worldwide package flows are growing and will no doubt continue to grow. Secondly, at the Universal Postal Congress in Beijing (1999), UPU member countries specifically decided to include parcel service as a basic postal service, that is, a core universal postal service.

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

# Determining the universal postal services

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

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

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

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

## 11 3.1

### Appropriate legal framework for the universal postal service

As explained in section I in discussing the underlying principles of universal postal service, the government's universal postal service obligations cannot be vaguely or loosely defined, left open to interpretation or expressed in unrealistic terms, without proper mechanisms to facilitate their fulfilment.

Government universal postal service obligations stem from tangible countrywide needs. All segments of society, including both businesses and individuals, require postal communication services for the pursuit of business and social activities. UPU member countries have agreed to meet such obligations in signing the Universal Postal Convention, which lays the foundation for providing universal access to postal service.

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

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

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

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

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

Table No. 5 is a list of the core elements of the universal postal service to be explicitly addressed in the text of the postal act.

## Table No. 5

### Core elements of Universal Postal Service to be addressed in the postal act

- Definition of universal postal service
- Determination of corresponding services
- Service delivery conditions and considerations
- Guidance for the establishment of service delivery conditions
- Regulatory authority
- Financing of universal postal service obligations and the reserved service area
- Pricing system
- Publication of service performance standards
- Service operation
- Accounting procedures
- Formalization of the obligations of the designated operator

A satisfactory outcome from country decision making with respect to universal postal service depends on the consistency with which other elements of the legal framework for the effective implementation of policy decisions help provide for service delivery and the fulfilment of governmental obligations.

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

Annex 2, table 2.1, outlines the core issues which need to be coherently addressed in the legal framework for the postal sector. This annex, entitled "Appropriate legal framework for universal postal service", is a model or frame of reference for fitting and reconciling provisions for the establishment of nationwide universal postal service with other elements of the postal act.

Thus, under this model, the law begins by acknowledging the public service orientation of postal services and establishes what is meant by such services, the types of activities involved, and the classes of service included under this concept. The law then goes on to establish the government's postal service obligations, defining what is meant by the universal postal service, the services included in the government's universal postal service obligations, service delivery conditions and the universal postal service financing mechanism.

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

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

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

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

In line with the obligations incurred by UPU member countries under the Universal Postal Convention, the starting point or minimum level of service should be the basic services established by the Convention, namely letter mail and parcel services, allowing decision-makers to focus on the types of additional services to be included as mandatory postal services to be guaranteed and maintained by the government.

Industrialized and developing countries around the world also include under this concept postal financial services consisting mainly of simple financial payment services (making payments to third parties, receiving payments from third parties, transfers, remittances, money orders, etc.) and, in some cases, savings services.

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

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

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

Table No. 6 is an outline of the classes of services to be considered for inclusion in government universal postal service obligations. Bear in mind that all UPU countries have an obligation to provide a mandatory minimum level of universal postal service consisting of basic letter mail and parcel service, as defined in the Universal Postal Convention. Letter mail consists of all types of current, personal communications, including receipts, bills and business papers and documents normally carried by the designated operator and its service network in sealed envelopes.

"Other postal services" refer to all classes of special postal services other than basic services, such as registered mail service, COD service, insurance service for letter mail, etc.

**Table No. 6 – Universal postal services**

<b>Core universal postal services</b>	<p>Basic postal services (art. 17, UPU Convention)</p> <ul style="list-style-type: none"> <li>• <i>Letter-post items</i> <ul style="list-style-type: none"> <li>- priority items and non-priority items, up to 2 kg</li> <li>- letters, postcards, printed papers and small packets, up to 2 kg</li> <li>- items for the blind, up to 7 kg</li> <li>- special bags ("M bags"), up to 30 kg</li> </ul> </li> <li>• <i>Parcels</i> <ul style="list-style-type: none"> <li>parcels, up to 20 kg</li> </ul> </li> </ul>
<b>Mandatory supplementary services</b>	<ul style="list-style-type: none"> <li>• Registration service for outbound priority and airmail letter-post items</li> <li>• Registration service for all inbound letter-post items</li> </ul>
<b>Supplementary services including both mandatory and optional features</b>	<ul style="list-style-type: none"> <li>• <i>International business reply service (IBRS)</i>: All member countries are obliged to operate the IBRS "return" service</li> <li>• <i>International reply coupon (IRC) service</i>: These coupons can be exchanged for postage in all member countries, but their sale is optional</li> <li>• <i>Advice of delivery for registered letter mail, parcels and insured items</i>: All member countries must fulfil the advice of delivery service for inbound items. However, member countries may choose whether or not to offer the advice of delivery service for outbound items</li> </ul>
<b>Optional supplementary services</b>	<ul style="list-style-type: none"> <li>• <i>Other postal services</i></li> <li>• <i>Postal financial services postaux</i> <ul style="list-style-type: none"> <li>- payments to third parties</li> <li>- transfers, remittances, postal cheques, etc.</li> </ul> </li> <li>• Savings, etc</li> </ul>

## II 3.3

### Service delivery conditions

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

Under the provisions of the Universal Postal Convention, countries are committed to providing a basic package of services defined as mandatory core services. Moreover, in undertaking such commitment, they agreed that this package of core service offerings or basic postal services should consist of high-quality, continuing, affordable services on the whole of their territory.

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

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

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

As in the case of all decisions pertaining to the mapping of universal postal service, country decisions with respect to service delivery conditions must be based on studies and information on the situation of the postal sector and must consider the needs and requirements of the general public and the surrounding environment.

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

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

The inclusion of parcel service in the universal postal service package with the same service performance criteria as for letter-mail service (letters, printed papers, etc.) has added yet another major challenge to the list of problems being dealt with by designated operators in a number of countries. This requirement imposed under the Universal Postal Convention and agreed to by the governments of UPU member countries necessitates a special, extra operational effort on the part of the designated operator.

In some developing countries, postal parcel service is extremely underdeveloped, with very little attention having been paid to this type of service by designated operators until recently. Postal service operations in this area have been confined mainly to inbound parcel traffic from other countries subject to time-consuming, outdated, obsolete customs regulations and formalities and operating procedures. Those developing countries whose designated operator does offer domestic parcel service report a negligible business volume. As a result, processing facilities and information and experience relating to this product and market are extremely limited.

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

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

## II 3.3.1

### Access

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

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

- post offices or retail outlets operated directly by the postal service or by contractors;
- collection boxes;
- processing centres (mail sorting and operations centres);
- transportation systems (ground transportation, air transportation, etc.) operated directly by the postal service or by contractors;
- the mail delivery network (mail carriers, poste restante, parcel lockers and post office boxes).

The accessibility of universal postal service to the general public can be expressed in terms of its geographic and demographic coverage and the regularity of retail, mail transportation and delivery services, all of which are pivotal issues on which the government will need to make decisions specifically affecting service delivery conditions.

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

## II 3.3.2

### *Speed and reliability*

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

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

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

- *Regularity of retail service*  
Office hours for the mailing of postal items or the use of universal postal services. Number of days a week and number of hours a day the public has access to counter services.
- *Regularity of home delivery service*  
Access to home delivery service. Number of days a week on which home delivery service is provided. This also includes the regularity of delivery service to post office boxes.
- *Regularity of mail transportation service*  
Regularity of mail transportation service to and from a particular location. In the case of villages and rural areas, it is essential that mail transportation service schedules coincide with existing passenger and freight transportation schedules in such areas to make sure that postal service is a legitimate service option for local residents.

Whatever the situation in any given country, decisions with respect to the accessibility of universal postal service are of paramount importance, owing to their direct effect on the operational and economic viability of the postal network. Decisions on the geographic and demographic coverage of universal postal service will determine the extent of the postal network, while decisions on service operating schedules and the regularity of service will determine the complexity and cost of corresponding operations.

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

A delivery standard is a prescribed time frame for the delivery of mail items from the time the items are posted or handed over to the designated operator.

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

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

**Table No. 7**

Year	Delivery standard	Compliance rate (%)
2018	3 days	90% of mail volume
2019	2 days	95% of mail volume
2020	1 day	85% of mail volume
2021	1 day	95% of mail volume
2022	1 day	98% of mail volume

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

### II 3.3.3

#### *Security*

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

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

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

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

### II 3.3.4

#### *Accountability for claims, complaints and inquiries*

This refers to the obligation to respond to requests for information, complaints or claims from customers in relation to the universal postal service at any point of the service network. This factor is measured and expressed as a number of events or percentage of mail volume.

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

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

### II 3.3.5

#### *Customer satisfaction*

Customer satisfaction is the product of an acceptable level of service access and proper compliance with quality of service standards with respect to speed, reliability, security and accountability.

Since universal postal service involves different classes of service, customer satisfaction should be measured both on a service-by-service basis and as a whole.

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

### II 3.3.6

#### *Price*

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

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

The general practice is to charge uniform prices, applying an equalization principle for basic services. Under this type of pricing system, service to more lucrative (lower cost) geographic areas offsets the cost of service to less profitable areas, making it possible to charge uniform prices. In addition to this financial rationale, there is a political rationale for such equalization: the same treatment should be given to all inhabitants, whether they live in cities or in rural and marginalized areas.

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



# Postal service development

## 11 4.1

### Legal mandates

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

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

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

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

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

## 11 4.2

### Development of regulations

Without further development of the provisions of legislation under implementing regulations, it would be extremely hard to enforce the law, particularly in the current postal environment ruled by private competition and business interests. It would be a serious mistake to underestimate the importance of this matter, which could jeopardize the achievement of targeted outcomes and weaken the political will to strengthen postal service embodied in the postal act.

The development of implementing regulations under the postal act is a strategic issue far too broad to cover in this discussion, particularly in the light of the different circumstances in each country.

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

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

## II 4.2.1

### *Regulation of service delivery conditions*

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

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

Table No. 8 is an example of a blueprint for a hypothetical regulation setting standards with respect to service access.

The universal postal service development plan will need to include elements such as development objectives, strategies, projects and economic studies. Economic studies should include estimates of projected benefits and corresponding investment and financing requirements. This plan, to be discussed and jointly agreed on with the designated operator, covering a three- or five-year period, with annual reviews and adjustments, should serve as a type of "field guide" for implementation of the government's universal postal service development policy, with the designated operator in charge of carrying it out and the regulatory authority or regulator in charge of monitoring compliance.

In establishing this development plan, the government is committing itself to the furtherance of specific objectives and the attainment of tangible outcomes through its designated operator and regulator. Accordingly, it will need to know the operational, technical and economic capacity of both entities to follow through with the plan.

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

**Table No. 8 – Hypothetical standards for the delivery of letter-mail items and parcels**

Local area population	Type of delivery service		Deliveries per week	
	Urban	Rural	Urban	Rural
≤ 500	In-office	In-office	3	3
500 to 3,000	In-office	Community mailboxes	4	3
3,000 to 10,000	Home	Community mailboxes	5	4
10,000 to 50,000	Home	Community mailboxes	5	5
> 50,000	Home	Community mailboxes	5	5

## II 4.2.2

### *Development plans*

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

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

## II 4.2.3

### *Performance monitoring and measurement*

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

However, the monitoring process cannot impose constraints on the designated operator or heavy economic and operational burdens on the regulator. The success of monitoring efforts hinges on the establishment of simple, practical measurement mechanisms allowing for sound, effective supervision and evaluation, without creating additional expenses or interfering with the activities of the postal operator or the operations of the regulator in performing its functions. The regulatory process should also provide effective supervisory mechanisms enabling the regulator

## Operational development

to detect any situations or actions on the part of service operators other than the designated operator undermining, violating or threatening to violate universal postal service standards and regulations. Timely measures against events and situations violating the provisions of universal postal service legislation and regulations can forestall the need to resolve deeper problems, particularly in the case of encroachments on the reserved service area for the financing of the universal postal service. Prices for reserved services warrant special attention, since price protection for the products offered by the designated operator does not automatically rule out their being undermined by unfair practices, which are not always easy to detect. Thus, the monitoring and surveillance of market prices require clear rules and foresight.

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

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

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

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

It will also be necessary to periodically measure compliance with specifications for access facilities, physical infrastructure, post offices, mailboxes, etc., including checks of the regularity of mail acceptance, delivery and transportation.

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

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

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

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

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

In certain developing countries, the designated operator in this reserved service area is servicing only a small portion of total market demand, and it would be unfortunate if it were unable to build the operating capacity needed to meet its obligations. Such countries urgently need to take immediate action to implement a phased development programme designed to transform the designated operator into the kind of service operator required by today's society. The designated operator cannot afford to wait for this change to occur spontaneously, through the operation of the law. On the contrary, it needs to begin this operational development process even before the postal act is passed by Congress.

The success of this operational development effort lies largely in the commitment and will of the postal service staff to foster needed internal changes. The government cannot possibly unilaterally achieve a positive outcome without the support of the postal workforce.

The government and the regulatory authority should, at the same time, help further this process through sector policies designed to bolster the designated operator and its specific development plans, in line with the provisions of the postal act and its implementing regulations.

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

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

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

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

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

Any service development plan for the designated operator must include at least three of the following types of operational development projects:

- Modernization of letter-mail processing procedures – letters and printed matter:
  - › organization of mail sorting and delivery operations – automated sorting and code marking of items deposited by large mailers;
  - › reconfiguration and expansion of the postal network;
  - › reconfiguration of the transportation network.
- Establishment of a modern parcel service.
- Establishment of modern postal financial services.

- Modernization of supporting administrative procedures for the provision of postal service:
  - › ICT-driven financial, business and management procedures.

In addition to the need for investment funds, the implementation of these types of large-scale programmes with specialized technical components requires other strategic resources such as technical know-how, experience and appropriate postal technology. The need to carry out such programmes in relatively short periods of time will require designated operators to use every possible means at their disposal to secure these resources, such as business arrangements for the sharing of information and experience, consulting services, management and operating agreements, and strategic alliances.

## ANNEX 1 – Example Country N

**Table 1.1. Postal market data**

	<b>VOLUME</b> Millions of items/year	<b>VALUE</b> Millions of USD/year
<b>Traditional mail service</b>	<b>45.0</b>	<b>11.0</b>
Domestic mail	41.0	8.1
Businesses <sup>1</sup>	38.0	7.3
Individuals	3.0	0.8
International mail <sup>2</sup>	4.0	2.9
Businesses	3.0	2.2
Individuals	1.0	0.7
<b>Express mail – courier service</b>	<b>3.0</b>	<b>13.0</b>
Domestic courier service	2.2	3.0
Businesses	1.7	2.2
Individuals	0.5	0.8
International courier service	0.8	10.0
Businesses	0.7	8.5
Individuals	0.1	1.5
<b>TOTAL MARKET</b>	<b>48.0</b>	<b>24.0</b>

<sup>1</sup> Data on domestic business mail service (all types of business concerns and government entities) is broken down by sector of activity in table 1.2 on the next page.

<sup>2</sup> This refers to traditional outbound international mail service to other countries.

## ANNEX 1 – Example Country N

**Table 1.2.** Data on traditional domestic mail service to the business segment of the postal market

	<b>VOLUME</b> Millions of items/year	<b>VALUE</b> Millions of USD/year
<b>DOMESTIC BUSINESS MAIL SERVICE</b>	<b>38.0</b>	<b>7.3</b>
<b>PUBLIC UTILITIES</b>	<b>23.0</b>	<b>3.5</b>
Telephone – Fixed and cellular lines	9.0	1.4
Electricity	8.0	1.2
Water	6.0	0.9
<b>FINANCIAL SECTOR</b>	<b>9.0</b>	<b>2.0</b>
Banks – Cheque accounts	4.0	0.9
Banks – Credit cards	3.5	0.8
Loans – Home loans, etc.	0.5	0.1
Pension funds, insurance, etc.	1.0	0.2
<b>PUBLISHING SECTOR</b>	<b>0.5</b>	<b>0.2</b>
<b>BUSINESS AND INDUSTRY</b>	<b>2.5</b>	<b>0.6</b>
<b>GOVERNMENT</b>	<b>3.0</b>	<b>1.0</b>

**Table 1.3.** Market share of the designated operator

	<b>VOLUME</b> Billions of items/year	<b>%</b>	<b>VALUE</b> Millions of USD/year	<b>%</b>
<b>TRADITIONAL MAIL</b>	<b>9.9</b>			
DOMESTIC MAIL	9.8			
Businesses				
Public utilities (1.0)				
Financial sector (1.5)				
Other sectors (2.0)				
Individuals				
INTERNATIONAL MAIL	0.035			
Businesses				
Individuals				
PARCELS				
<b>DOMESTIC PARCELS</b>	<b>0.09</b>	-		-
<b>INTERNATIONAL PARCELS</b>	<b>0.001</b>			
<b>TOTAL DESIGNATED OPERATOR</b>	<b>9.9</b>			
<b>AVERAGE MULTIPLIER FOR TOTAL MARKET</b>	<b>6.5</b>			
<b>TOTAL POSTAL MARKET</b>	<b>64.4</b>			
<b>AVERAGE MARKET SHARE</b>	<b>15.4%</b>			

## ANNEX 2 – Example Country N

**Table 2.1. Appropriate legal framework for the universal postal service**

<b>Legal nature</b>	Postal services are essential public services
<b>Postal services</b>	Mail receiving, sorting, transportation and delivery operations for the provision of basic postal services or traditional mail service, as well as for express mail or courier services  Specification of the unique features of express mail service
<b>Universal postal service</b>	Includes basic letter mail (letters, printed matter, etc.) and postal parcel service, as well as postal financial services
<b>Universal postal service delivery conditions</b>	Guidance with respect to standards of quality and accessibility and general criteria with respect to geographic and demographic service coverage. Gives the regulator the authority to issue implementing regulations under the postal act
<b>Universal postal service financing</b>	Reserved service area for regular mail service for letters and printed matter weighing up to 500 grammes. Prices charged for letter-mail items and printed matter by service operators other than the designated operator must be at least five times the rate charged by the designated operator for the first weight step of domestic letter mail
<b>Market rules for postal service operation</b>	Operation of basic services included in the reserved service area by the designated operator under a direct, exclusive franchise  Operation of non-reserved basic services under a licensing arrangement against payment of financial compensation  Operation of express mail or courier service under a licensing arrangement against payment of financial compensation
<b>Treatment of the designated operator</b>	Legal status of a government enterprise governed by private law, with the same freedoms as its private competitors. Government assistance for partnership building, transfers of technology and adequate investment
<b>Regulatory system</b>	Creation of an autonomous regulatory body or a unit within the regulatory agency for a related industry with the authority to issue implementing regulations under the postal act and to oversee and supervise market participants
<b>Penalty provisions</b>	Study and characterization of violations and offences relating to the delivery and use of postal services, establishing administrative sanctions and civil and criminal penalties

ANNEX 3

**Data collection guide for an assessment of nationwide universal postal service**

**PART 1  
General country data**

- 1.1** Area \_\_\_\_\_ square kilometres
- 1.2** Population \_\_\_\_\_ inhabitants  
Working population \_\_\_\_\_ %
- 1.3** Distribution of the population  
Urban \_\_\_\_\_ %  
Rural \_\_\_\_\_ %
- 1.4.** Population density \_\_\_\_\_ inhab/km2  
Urban \_\_\_\_\_ inhab/km2  
Rural \_\_\_\_\_ inhab/km2
- 1.5** Literacy rate \_\_\_\_\_ %
- 1.6** Life expectancy \_\_\_\_\_ years
- 1.7** Poverty rate \_\_\_\_\_ %  
Absolute poverty rate (indigence) \_\_\_\_\_ %
- 1.8** Geo-political organization (subdivision) of the country \_\_\_\_\_  
Number of each type of subdivision \_\_\_\_\_  
Total number of towns and villages or human settlements \_\_\_\_\_  
Number of households \_\_\_\_\_
- 1.9** Major cities (10 largest cities).  
Population of each city

Name	Population	Name	Population
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

- 1.10** Telephone service  
Number of fixed and cellular telephone lines \_\_\_\_\_
- 1.11** Electric power service  
Number of customer connections nationwide \_\_\_\_\_
- 1.12** Percentage of households with \_\_\_\_\_ %.
- 1.13** Water supply  
Number of customer connections nationwide \_\_\_\_\_
- 1.14** Percentage of households with piped water \_\_\_\_\_ %.
- 1.15** Roads \_\_\_\_\_
- 1.16** Ports and airports \_\_\_\_\_
- 1.17** Per capita income (USD) \_\_\_\_\_
- 1.18** Gross domestic product (millions of USD) \_\_\_\_\_
- 1.19** Economic growth rate (%)  
for the last 5 years \_\_\_\_\_  
Projection for next year \_\_\_\_\_
- 1.20** Yearly imports (millions of USD) \_\_\_\_\_
- 1.21** Yearly exports (millions of USD) \_\_\_\_\_
- 1.22** Leading exports \_\_\_\_\_
- 1.23** Inflation rate for the last 5 years \_\_\_\_\_  
Projection for next year \_\_\_\_\_
- 1.24** Devaluation rate for the last 3 years \_\_\_\_\_  
Projection for next year \_\_\_\_\_
- 1.25** Unemployment rate for the last 3 years \_\_\_\_\_  
Projection for next year \_\_\_\_\_
- 1.26** Legal minimum wage (USD per month) \_\_\_\_\_
- 1.27** Exchange rate per U.S. dollar \_\_\_\_\_

## ANNEX 3

### PART 2.

#### Legal framework for the postal sector

##### 2.1. CURRENT LEGISLATION

- 2.1.1. Postal or postal service act or acts
- Date(s) passed
- 2.1.2. Core content of legislation
- List a maximum of 5 major legal precepts established under each piece of current legislation

##### 2.2. DEFINITION OF POSTAL SERVICES IN EXISTING LEGISLATION

- 2.2.1. According to the nation's constitution, what is the role played by government in the provision of public services in general and postal service in particular?
- 2.2.2. How is postal or mail service defined under current legislation?
- What is the legal nature of postal services?
  - What classes of services are included in postal service?
- 2.2.3. Are there special classifications of service?
- 2.2.4. How are the obligations incurred under the Universal Postal Convention embodied in domestic legislation?
- 2.2.5. What was the last Universal Postal Convention ratified in accordance with domestic legislation?

##### 2.3. UNIVERSAL POSTAL SERVICE

- Contemplation of universal postal service in current legislation
- Included services under current legislation
- System of universal postal service financing under existing legislation
  - Effectiveness of the financing mechanism
  - Long-term sustainability
- Regulations governing service delivery conditions and standards of quality for the universal postal service

##### 2.4. SERVICE OPERATING SYSTEM

- 2.4.1. Extent of the monopoly
- Total or partial monopoly with exclusive rights to service operation
  - Method of establishing exclusive rights or reserved services
  - Deregulated services or services open to free competition
- 2.4.2. Service operating arrangement
- Licences, with exclusive franchises
  - Licences, with free competition
  - Licensing conditions and requirements
- 2.4.3. Treatment of the designated operator (DO)
- Scope of its postal service obligations
  - Types of authorizations held by the DO and way in which they are issued
  - Forms of compensation for its service obligations
  - Compliance by private postal operators with market rules for service operation
  - Provisions for compliance monitoring and penalty provisions for enforcement purposes
  - Legal status of the DO under current legislation
- 2.4.4. *Service performance monitoring system*
- Authority to exercise regulatory powers
  - Extent of the separation of regulatory functions and operational matters
  - Stage of development of regulations governing the DO and private operators
  - Monitoring procedures for the operations of the DO
  - Price control provisions
  - Penalty provisions

## ANNEX 3

**PART 3.  
Postal market****3.1 BREAKDOWN OF ANNUAL DEMAND FOR POSTAL SERVICE**

- 3.1.1 Traditional regular mail service**  
(Record the volume of items in one column and the value of business in another column, expressed in USD)
- 3.1.1.1 Public utilities sector (business segment – domestic mail)
- 3.1.1.1.1 Power
- 3.1.1.1.2 Water
- 3.1.1.1.3 Telephone (fixed and cellular)
- 3.1.1.1.4 Gas
- 3.1.1.1.5 Refuse collection
- 3.1.1.1.6 Other
- 3.1.1.2 Financial sector (business segment – domestic mail)
- 3.1.1.2.1 Banks. Cheque accounts
- 3.1.1.2.2 Banks. Credit cards
- 3.1.1.2.3 Banks. Savings
- 3.1.1.2.4 Mortgage loans
- 3.1.1.2.5 Commercial credit (vehicles, etc.)
- 3.1.1.2.6 Pension funds (statements)
- 3.1.1.2.7 Insurance companies
- 3.1.1.3 Publishing industry (businesses)
- 3.1.1.4 Industry (business segment – domestic mail)
- 3.1.1.5 Business (business segment – domestic mail)
- 3.1.1.6 Government (business segment – domestic mail)
- 3.1.1.6.1 Central
- 3.1.1.6.2 Provincial
- 3.1.1.6.3 Municipal
- 3.1.1.7 Traditional individual mail traffic  
(individuals segment – domestic mail)
- 3.1.1.8 Traditional international mail service  
(businesses and individuals – international mail)
- 3.1.1.8.1 Outbound
- 3.1.1.8.2 Inbound (not including the value of these items)

- 3.1.2 Express mail or courier service**  
(Includes express mail service for letter-mail items and postal parcels. Record the yearly volume of items and their USD value in two separate columns.)

- 3.1.2.1 Domestic express mail service
- 3.1.2.1.1 Businesses
- 3.1.2.1.2 Individuals
- 3.1.2.2 International express mail service  
(outbound items)
- 3.1.2.2.1 Businesses
- 3.1.2.2.2 Individuals

In the absence of official figures or market surveys, this data will need to be estimated. As far as public utilities are concerned, country data on the number of customers with power and water service connections and telephone lines provides very close approximations of the yearly volume of mail traffic. Likewise, the supervisory agency for the financial sector has general information on the number of active cheque accounts, the number of credit cards issued, etc., which can be used as the basis for estimating the number of mail items containing statements of account, credit card bills, loan statements, etc., on a monthly basis or at other intervals.

Estimates for business, industry and government will need to be based on sound criteria for approximating the volume of such mail traffic. Business and industry generate a large volume of invoicing items, as well as regular written communications and promotional and advertising materials.

**3.2. MARKET SHARE OF THE DESIGNATED OPERATOR**

Provide data on the annual volume and value of business by the designated operator, expressed in terms of the volume of mail items processed and their USD value, using the same format as for the breakdown of market demand under item 3.1 above.

Calculate its share of market volume and value.

## ANNEX 3

### 3.3. SUPPLY OF SERVICES

#### 3.3.1. Traditional mail service (provided otherwise than by the designated operator)

- Domestic service
  - Number of urban and nationwide service operators
  - Breakdown of the domestic market share of major firms
  - Daily and annual operating volume (capacity) of leading service operators (number of items)
  - Monthly invoicing value (USD)
  - Level of technological development of leading service operators
  - Product prices. Level of price competition
  - Quality of service. Standard of quality. Delivery standards
  - Business and competitive practices. Confirm whether there are any instances of predatory pricing and unfair competition affecting the DO in particular
- Traditional international mail service

Provide the same data as for domestic service. International mail service should be broken down into outbound and inbound mail traffic. Indicate whether there are any remailing operations and consolidators.

#### 3.3.2. Express mail or courier service

Provide the same breakdown as in item 3.3.1, bearing in mind that domestic service operators may be in both the traditional mail business and the express mail or courier business. Also keep in mind the special case of multinational firms furnishing international delivery service, providing data on their service offerings and share of the nation's postal market. Examine the level of technological development of domestic and international courier firms and investments made by multinational courier companies in the country.

## PART 4.

### Designated operator

#### 4.1. TYPE OF ORGANIZATION

- Legal status and governing law
- Degree of administrative and financial autonomy
- Applicable procurement procedures for goods and services
- Applicable labour legislation

#### 4.2. ORGANIZATIONAL STRUCTURE

- Centralized management. Regional headquarters
- Number of workers. Size of its administrative and operational staff. Size of its operational staff as a percentage of the total workforce. Number of mail carriers. Academic educational level of postal workers. Average age of postal workers. Average number of years employed (seniority)

#### 4.3. BUSINESS OPERATIONS

- Business areas. Share of each business area in business volume, income, and profits or losses
- Main product lines in each business area

#### 4.4. SERVICE OPERATING PROCESSES

- Traditional mail service
  - Types of operating processes. Use of technology, etc., in major cities
  - Installed daily operating capacity for mail sorting and delivery operations. Percentage of installed capacity currently in use
  - Daily and annual volume of business
  - Productivity. Number of items processed per worker per year
- Express mail service
- Other business areas

## ANNEX 3

## 4.5. ECONOMIC PERFORMANCE

- Volume of business (last five years)

	Millions of items per year				
	2013	2014	2015	2016	2017
Mail – letters and printed matter					
Mail – parcels					
<b>TOTAL MAIL</b>					
Courier service – documents and packages					
<b>Total</b>					

	Millions of USD				
	2013	2014	2015	2016	2017
Income					
Expenditures					
<b>PROFIT/LOSS</b>					

## 4.6. INFRASTRUCTURE

- Number of offices operated directly by the postal service
- Number of offices operated by contractors
- Number of other types of offices, if any
- Number of post office boxes
- Number of collection boxes (kerbside, inside buildings)
- Number of main sorting centres
- Number of satellite sorting centres
- Number of vehicles owned directly and/or by contractors
- Number of motorcycles
- Number of bicycles
- IT capacity
  - In operating processes using specialized postal technology
  - In operating processes using general computer technology
  - In administrative processes

## 4.7. SERVICE DELIVERY CONDITIONS

## 4.7.1. Postal network coverage – Mailing service

- Total number of domestic postal network offices
- Total number of communities with postal service

- Total population of serviced communities
- Percentage of the nationwide population with mailing service

## 4.7.2. Postal network coverage – Delivery service

- Total number of domestic postal network offices providing home delivery service, including special types of home delivery service (on-site community mailboxes)
- Total number of communities with home delivery service
- Total population of serviced communities
- Percentage of the nationwide population with home delivery service

## 4.7.3. Regularity of service

- Standards for the regularity of mail transportation service outside large cities. Regularity of mail collection and transportation service in small and medium-size communities
- Formal or informal standards for operating hours for retail offices in large and intermediate-size cities and small towns and villages. Number of days a week and hours a day. Permanent and mobile post offices. Offices operated directly by the postal service and by contractors
- Formal or informal standards for mail collection from kerbside collection boxes and mailboxes inside buildings
- Where applicable, standards with respect to maximum distances between dwellings and the nearest post office or point of service. Maximum service area in square kilometres per full-service office. Maximum number of inhabitants per full-service office

## 4.7.4. Speed

- DO mail delivery standards for different classes of service and locations
- Indicate delivery standards in hours or days and the percentage of mail delivered on time
- Indicate any guidelines and criteria and any targets established by the DO or the regulatory agency
- Method of informing customers of the DO's obligations in terms of mail delivery time
- Rate of compliance with corresponding obligations. Reliability

## ANNEX 3

- 4.7.5. Security of operating processes
- Standards and indicators for mail theft, losses and mail tampering. Other irregularities
  - Postal security system. Available security resources and assistance
- 4.7.6. Claim reporting system
- Intake facilities for complaints and claims
  - Established response times
  - Monitoring and tracking of response and settlement times
- 4.7.7. Parcel service
- Domestic business volume. Volume of inbound and outbound international parcels
  - Domestic and international parcel traffic as a share of estimated market volume
  - Operating processes. Mail processing, sorting and delivery facilities
  - Delivery standard for domestic parcels. Delivery standard for inbound international parcels
  - Streamlining of customs formalities for inbound international parcels. Adequacy of technical and IT facilities and standards
  - Business vision and vision of the DO's parcel service obligations as part of its nationwide universal postal service obligations

### PART 5.

#### Preliminary general proposal

- 5.1 What services do you feel need to be included in the nationwide universal postal service in addition to the mandatory core services required under the Universal Postal Convention?
- 5.2 Thus, what services, in your opinion, should be included in nationwide universal postal service?
- 5.3 At a minimum, what percentage of the population should have access to the universal postal services specified under item 5.2 above? Within what time frame should this universal service target be met and at what rate of progress?
- 5.4 According to your answer to the previous question, with what regularity should universal postal service home delivery service be offered in small villages and hamlets?
- 5.5 What delivery standards should be established for cities, at the nationwide level and for rural areas in connection with the provision of the universal postal service? What percentage of mail volume should meet these standards? Indicate envisioned trends in delivery standards and the percentage of on-time deliveries.
- 5.6 How do you propose framing sector policy to facilitate the development of the nationwide universal postal service and the domestic postal industry? Present three or four proposed sector policy statements with respect to the legal framework and the postal market, the designated operator and investments in its modernization and development, the focus of postal regulations, the role of the postal sector in promoting national development, and the involvement of private enterprise.
- 5.7 How would you propose financing the nationwide universal postal service to ensure the sustainability of investments in its modernization and development, without any outside funding of service operations, under a reserved service area model in which the DO holds exclusive rights to corresponding reserved services? How would this reserved area be legally defined, by class of service, item weight and support price?
- 5.8 What type of legal framework for service operation on the postal market would be engendered by your proposed financing mechanism? What types of sanctions would be required by this financing mechanism to ensure compliance with the reserved area?
- 5.9 Could you frame a proposal for postal reform based on universal postal service financing needs? What form would such a proposal take?



**SECTION III**  
Universal postal service financing





# Universal postal service costs

## III 1.1

### The importance of universal postal service financing

There is currently a wide range of available options for financing the universal postal service. However, the choice of a financing mechanism should be based on certain fundamental principles grounded in conditions at the country level.

The delivery of the universal postal service is an obligation whose fulfilment must be guaranteed by the government, which will need to ensure the availability of funding for maintaining universal postal services and the existence of corresponding financing mechanisms.

The purpose of this module is not to delve into all the economic mechanisms for financing the universal postal service, but simply to outline a few simple, practical steps for accomplishing this task.

Moreover, regardless of the choice of a universal postal service financing mechanism, as a rule, there are certain policy decisions which need to be made before undertaking the framing of an action strategy.

There are ongoing discussions all over the world with respect to the best financing methods for this purpose. However, available options are more limited in many developing countries, where the characteristics of the postal market and, more importantly, problems in enforcing existing rules and regulations, either due to the absence of regulatory agencies or, in many cases, due to the weaknesses of existing regulatory structures, rule out the use of economic financing models subject to external control procedures.

In industrialized countries with mature regulatory frameworks, discussions primarily revolve around the extension of the universal service, as needs are considered to have already been covered. In addition, decisions to commercialize – and at times fully privatize – designated operators are in the interest of reducing the costs of the universal postal service, especially those related to geographic coverage.

In developing countries, the situation is very different: the universal postal service is not yet a reality for all. It is therefore important not to try to extrapolate from discussions taking place in other regions with very different realities.

What is important is the fact that, in all countries, even in the most progressive countries, government clearly needs to play a leading role in this area and to make necessary decisions in its capacity as the guarantor of the universal postal service. Such decisions will serve as the foundation for ensuring the continuity of universal postal service subject to established service performance criteria.

Thus, the issue of universal postal service financing is tied in with both economic and political considerations and, in both cases, not everyone will necessarily be happy with ensuing decisions. However, it is also clear that what is important is to have a system providing long-term stability while simple enough so that it can be effectively implemented without the need for too many controls.

One thought to be kept in mind throughout this process is that the best financing method is one which, while ensuring the delivery of the universal postal service, also gives the designated operator enough freedom of action to expedite its own internal development, for the benefit of all interested stakeholders.

## III 1.2

### Cost assessment criteria

The best way to treat economic issues is with caution, based on a careful consideration of conditions at the local level.

More specifically, in addressing economic issues pertaining to the universal postal service, it is important to neither overreach nor underreach in terms of service targets, given the direct impact of either extreme on the cost and economic feasibility of service delivery. It is equally important to bear in mind the environment surrounding the operation of the proposed services. In the case of the universal postal service in developing countries, serious weaknesses exist in the organization of the designated operator and in existing rules governing the operation of the postal market.

A common question raised by government officials and other stakeholders in discussing decisions with

respect to the universal postal service is: "How much does the universal postal service cost?" The preparation of a timely, accurate response to this question requires sound cost assessment criteria accepted by the economic authorities, as well as a clear definition of universal postal service costs.

Thus, universal postal service costs are to be construed as:

The total cost to the designated operator of providing the services included in its universal postal service obligations

This simple criterion and approach to the costs of the universal postal service has helped many industrialized and developing countries accurately assess the economic and financial needs engendered by the provision of the universal postal service. All related costs must be taken into account, namely the fixed and variable and direct and indirect costs of all services included in the government's universal postal service obligations, as well as the cost of conducting corresponding operating, business and administrative processes in all geographic areas.

Occasionally, certain facets and characteristics of the universal postal service can cause confusion. The universal postal service is often mistakenly equated with postal services rendered in high-cost geographic areas, such as low-traffic rural areas or low-income or marginalized population centres. This same error is also made in addressing its costs, producing flawed proposals. In such cases, calculations of universal postal service economic requirements take into account only the cost of service operation in certain remote areas or low-income communities and nothing else, understating the need for income and investment and limiting the future expansion of the service network.

In some countries, looking at the market share of the designated operator and weaknesses in service delivery conditions, the total present costs of the designated operator do not even come close to accurately reflecting the cost of providing an acceptable level of universal postal service in line with nationwide needs. Thus, it is important to bear in mind the need to consider both the current costs of the operator and the estimated costs of a given projected level of the universal postal service.

In approaching the study of universal postal service costs, bear in mind that costs **are a controllable factor of production** and, as such, proper cost management and control is not only a necessity, but a requirement for the operation of the universal postal service. Thus, universal postal service costs are tied both to required service delivery conditions and to established productivity and efficiency targets for the designated operator.

For years, terminal dues rates for international mail have been gradually moving closer to actual costs and country-specific rates, making sound cost management and control an absolute necessity. As a result, UPU countries have agreed to use cost-accounting systems.

### III 1.3

## Cost calculations

Cost calculations required to determine the universal postal service should consider the following cost factors:

- **Total present cost of basic services:** This is the present cost of operating the current service network, which is considered the baseline scenario, according to the current geographic coverage of the postal network and the regularity of corresponding services.
- **Total cost of the projected level of universal postal service (recommended):** This includes present costs, plus the estimated cost of adding services, extending the postal network, stepping up the frequency of service and offering a given level of quality with a specific, normally much larger, operating capacity.
- **Estimated value of investments and amortization costs:** Based on 5- and 10-year indicative universal postal service development plans.
- **Calculations of prices and market value:** Calculations of prices, market value and the projected share of the universal postal service operator in different areas of postal service to estimate the value of future income for financing the operation and development of the universal postal service.

The so-called **total cost** approach is a simple method and good way of ensuring sound decision making. There are other equally good approaches, but they are somewhat more complicated, with more requirements. Examples include the standard allocated cost, net avoided cost and entry pricing approaches, among others. However, since these other approaches require a number of conditions which simply do not exist in most developing countries, it makes no sense to delve into theoretic explanations of what may well be irrelevant methods and procedures.

### III 1.4

## Future challenges

In the future, costs and timely, accurate cost data are going to be crucial to universal postal service management, both for the designated operator and for the regulatory authority.

The designated operator must not only successfully meet service delivery conditions imposed on it under the postal act and its implementing regulations and enforced by the regulator and its customers. It must also cope with the surrounding postal environment and with current trends towards growing market liberalization, stronger competition, the more intensive use of technology and increasing product substitution, requiring highly specialized and professional management practices, as well as high levels of productivity and efficiency.

The requirements imposed by postal legislation present a permanent challenge to the designated operator to successfully manage opposing factors, such as the need to expand the postal network to keep pace with nationwide population growth, higher standards of quality, wage hikes and, in general, rising costs in the face of expected future trends – such as shrinking revenues owing to declining mail volumes as a result of electronic substitution (mainly invoicing systems) and falling prices in response to pressure from competition.

All this requires the effective management of efforts to promote technological development and strengthen productivity, efficiency and the added value of postal services. Inadequate technical and strategic management could throw off all corresponding forecasts.



# Modes of financing

## III 2.1

### Factors shaping financing decisions

If the focal point of the legal framework for the postal sector is the treatment of the issue of the nationwide universal postal service, the core issue to be decided with respect to the universal postal service is the means of financing governmental universal postal service obligations. This decision is pivotal, as the basis for the establishment of market rules for the operation of postal services. It is a decision affecting private business interests and, in some cases, could become a political decision, undermining the resolve to meet country needs. It determines the limits to be set on private enterprise in postal business segments open to free competition.

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In developing countries, one may find competing operators with very different interests. While the designated operator is rooted in public policy and established for the purpose of providing the universal postal service, private operators are naturally strictly profit-based.

The private sector would prefer that there be no restrictions whatsoever on conducting business in the postal sector. It would also prefer that it not be required to pay compensation for the right to operate a strategic, essential public service for the country, and it has no interest in operating in less lucrative geographic areas which could cause it losses or lower its profits.

Accordingly, from a strictly business standpoint, a system of market organization with a legal framework imposing certain restrictions designed to ensure the fulfilment of governmental universal postal service obligations will produce opposing positions and pressures. However, as discussed, setting conditions with respect to the universal postal service also means looking at available options from a political perspective. All decisions cannot be based solely on economic considerations. There is always a political decision to be made and, whatever such decision may be, it will not necessarily be neutral.

The financing of the nationwide universal postal service can be made easier or more complicated by a series of factors which, for the most part, can be adapted to meet existing needs, such as:

- **Level of development of the designated operator:** Strong or extremely strong designated operators like those found in industrialized countries facilitate the financing of the universal postal service and postal reform processes. In contrast, weak or very weak operators are not in a position to finance the universal postal service sustainably. This is a vicious circle in that, as the designated operator grows steadily weaker, the universal postal service also weakens – an important reason for mounting reform efforts with a view to the long-term strengthening of the designated operator, to facilitate the implementation of an appropriate service financing mechanism.
- **Organization of postal market operations:** Both developing and industrialized countries with modern market rules and a reserved service area for the designated operator have succeeded in expanding postal services and ensuring the long-term financial self-sufficiency of the designated operator.

The lack of modern postal legislation and regulations and the unenforceability of weak rules and regulations governing operations on the postal market impose serious constraints on the provision of the universal postal service.

In addition to these factors, there are other considerations which need to be taken into account in making decisions with respect to the financing of the universal postal service.

## III 2.2

### Financing mechanisms

- **Other influencing factors:**

- *Investment.* Lack of investment and a limited internal cash generation capacity at the national government level.
- *Technology.* Serious technological underdevelopment with respect to the use of postal, information and communications technology.
- *Regulatory function.* Limited, if any, exercise of government regulatory functions.
- *Level of national development.* Higher levels of national development bolstered by infrastructure factors such as postal services help provide better insights into existing needs and pressure to create an enabling environment.

In the current and future postal environment based on a market economy, globalization and market liberalization, the situation of national postal administrations of both industrialized and developing countries is extremely different from what it was 15, 30 or 40 years ago, making economic models developed decades ago ineffective and obsolete.

It is extremely common for governments to find themselves without any available funding to allocate to the financing of the universal postal service. Their main argument is that they do not even have enough funds to meet more compelling social development needs in the areas of health, education, security, etc., while postal services are business operations which should be self-sustaining.

Government needs to rid itself of all avoidable economic burdens, which means eliminating allocations of national budget funds to cover postal service operating deficits as soon as possible. Thus, it is looking to establish a viable, sustainable self-financing mechanism for the essential services whose delivery it is duty-bound to ensure.

In theory, there is a wide array of possible universal postal service financing models. However, from a practical point of view and in the light of conditions at the country level and the global environment, it would be pointless to take the time to expand on common models whose effective implementation and successful performance is a remote possibility at best. Past experience in both industrialized and developing countries has shown in case after case that **the most successful universal postal service financing model is a financing model based on funding generated by the operation of reserved services clearly specified and legally protected** under a legal framework for the organization of the postal market, complemented by continuing reform efforts targeting the designated operator, postal services and the sector in general.

Historically, the public postal service was financed under a government-held monopoly. This postal monopoly consisted in a group of reserved postal services provided directly by the government. Generally, the reserved area was limited to letter mail. Postal monopolies have been gradually shrinking in many countries, with the introduction of limits on weight or customer pricing, and with the liberalization of services such as international outbound mail. This has been the result of pressure from private sector companies wanting a share in the postal market.

The biggest change was the liberalization of the value-added express, or courier, services.

Some industrialized countries established financing models with letter-mail service designated as a reserved area, in all cases with price protection provisions to prevent predatory pricing by private competitors. Floor prices set for private service operators were three to five times the rate charged by the designated operator.

At the centre of such models in the case of all industrialized countries was a strong designated operator with a dominant market position for letter mail (a 90% to 100% market share) and an ongoing investment programme.

In developing countries the situation was different. Faced with a lack of investment, most designated operators became obsolete, and private operators stepped up to meet the needs of a changing society – and those of large mailers in particular. This new competition was not accompanied by corresponding changes to the legal framework, which in most cases did not provide adequate mechanisms to protect the postal monopoly. The result was an ineffectual reserved area.

Even today, many countries still have a reserved area for the designated operator, but an enabling environment needs to be set up to ensure its continued viability, sustained mainly by:

- postal legislation and regulations ensuring that the model is strictly adhered to;
- rapid development of the designated operator and its postal services through reform processes laying the groundwork for the institution of sound business practices and for ongoing investment and technological development programmes.

In most cases, at least temporarily, the reserved area combined with price protection model may need to be underpinned by infusions of government funding until the postal operator reaches the break-even point and a surplus position, pending the completion of preliminary investment projects.

The following paragraphs outline the features of the three main financing models: government funding, industry funding and reserved service area.

## MODEL 1 – GOVERNMENT FUNDING

In this model, the government is responsible for covering any deficit related to the operation of the universal postal service. This financing mechanism is difficult to implement in the face of limited government funds and conflicting priorities. It has been used by designated operators in industrialized countries without much success. The long-term sustainability of this mode of financing is doubtful.

However, it could be used in the early stages of reform processes and during transition periods to temporarily bolster development and modernization programmes and projects. It could also be used as an alternative source of funding for the designated operator in unforeseen emergency situations. It is unsuitable for resolving productivity, efficiency and competitiveness issues and inconsistent with the goal of building an independent, business-driven, financially self-sufficient operator.

While it could be regarded as a payment system for the rendering of mandatory services whose delivery is incumbent upon the government, this financing model tends to require increasing government funding to keep pace with rising costs. Without supporting legislation, this model does not provide long-term security and is constantly subject to changes in political leadership.

However, the experience of industrialized countries that have completely eliminated the reserved area should not be overlooked. In some cases, aware that the universal postal service might not be financially self-sufficient, governments have established management contracts through which they may subsidize the universal postal service as a whole, or provide financial support for a given service so that the operator can keep rates down in line with public policy.

Whatever the case may be, funds are not provided to designated operators indiscriminately. The government may provide financial support for certain services, but only on the basis of:

- cost accounting showing the real cost of providing the universal postal service;
- efficient monitoring by the regulator confirming the fulfilment of the universal service obligation.

## MODEL 2 – INDUSTRY FUNDING

Under this financing model, private postal operators pay taxes or fees for the right to operate postal services. Such levies may take the form of fixed or variable sums payable to the designated operator, the universal postal service regulator, universal postal service development funds, etc., subject to different payment terms and conditions.

This model is used in the telecommunications sector and generally involves the creation of a fund for the universal service. Its enforcement is both difficult and costly to control and is easily evaded. A requirement to make payments to a competing service provider is not something welcomed by other postal operators or by customers, as it is seen as yet another tax burden.

In any case, this model requires the regulatory body to monitor private operators in terms of their revenue, and the designated operator in the fulfilment of its universal service obligation.

## MODEL 3 – RESERVED SERVICE AREA

A reserved service area is a specific segment of the country's postal market (i.e. covering specific services or products) for which the designated operator holds an exclusive franchise as the basis for the effective, sustainable financing of this public service whose provision is to be guaranteed by the government.

The reserved area must be clearly and specifically delineated in terms of three core elements, namely class of service, item weight and price protection. These three basic elements for the delineation and establishment of a reserved service area must be jointly and simultaneously embodied in the decision establishing this model. The absence of any one of these three elements would make its delineation incomplete and undermine its effective implementation on the postal market.

**a. Class of service.** In establishing a reserved service area, the government will need to decide what class or classes of postal service are to be furnished solely and exclusively by the official postal operator.

Normally, the reserved service area includes basic postal services for letter-mail items owing to their importance and volume and the availability of national market data on trends in this type of mail traffic. Letter-mail items are items containing letters and printed matter, with letters construed to mean any and all personal and business communications, including bills, receipts, business papers and documents, and printed matter construed to mean any and all types of printed materials.

The actual number of services included in the reserved area will depend on country needs for the assurance of sufficient revenues to cover all universal postal service delivery costs. The volume and monetary value of such services are quantified separately and as a whole, in real terms, based on national postal market data as the basis for establishing the necessary scope of the reserved service area.

**b. Item weight.** The decision delineating the reserved service area must be extremely precise in order to minimize any overstatement and understatement; this requires specifying the weight limits of included items. The individual and aggregate data resulting from the specification of each included class of service and corresponding item weight limit will allow for an accurate assessment of the value of the postal market segment to be reserved for the designated operator under an exclusive franchise to ensure the generation of sufficient revenues for the sustainable financing of the nationwide universal postal service.

Looking at postal service operations in countries with a reserved service area, we find that the size of the reserved area varies according to the maturity of the postal market and the level of development of the designated operator. Indeed, the size of the reserved area is, without exception, inversely proportional to the level of development of the designated operator and the maturity of the postal market: a more modern, high-tech, highly developed designated operator and more mature postal market require a smaller reserved service area and vice versa.

**c. Price protection for reserved services.**

Service operating conditions on the postal market require price protection for services reserved for the designated operator to ensure the effective exercise of its exclusive rights to that market segment and minimize its vulnerability to potential unfair competition and predatory pricing by other postal service operators.

To this end, regulations delineating the reserved service area will need to establish a specific floor price for postal services furnished by private operators.

This floor price is to be explicitly spelled out in a provision setting the minimum price to be charged by other postal operators for their services at a specific number of times (3, 5 or 10 times) the price charged by the designated operator for that service or item.

This prevents other postal operators from encroaching on the market segment reserved for the designated operator with similar or disguised services.

Defining and establishing the reserved service area in terms of these three core elements can help ensure the simple, effective, sustainable operation of the universal postal service financing model. A reserved service area can be established for a limited or indefinite time period. In either case, the legal instrument will need to be flexible enough to enable the government and the regulatory authority to adapt its provisions to changing universal postal service needs and trends on the postal market.

An adjustable, temporary reserved area can help motivate the designated operator to speed up its efforts to improve and expand service; reduce costs; and improve its productivity, efficiency and service quality. However, any such adjustments must be in keeping with the law, to ensure that they do not undermine or jeopardize the viability and sustainability of universal postal service financing in any way. This financing mechanism also requires the conscientious implementation of plans and projects for the modernization and development of universal postal services.

It should be noted that support for this funding model is fading. In the current economy, monopolies are not viewed favourably, and "reserved area" is in fact a euphemism for monopoly, which is often seen as a way of guaranteeing funding for an inefficient government entity.

In industrialized countries where the postal market has been liberalized, the designated operator has maintained a dominant market position on the basis of its reliability and good public image. At any rate, in developing countries, monopolies are not realistic, mainly because of the inefficiency of designated operators. Moreover – and this must be stressed – there is no point in enshrining a reserved area in legislation if mechanisms are not in place to ensure compliance. Where governments face serious security or health problems, for example, they cannot be expected to dedicate time and resources to pursuing illegal private operators.

One thing is clear: whatever funding model is chosen, the funding should only be used to finance the universal postal service, and not all activities of the designated operator.

As a side note, some countries have had problems with misinterpretations of the difference between the concepts of the universal postal service and a reserved service area. This module has dwelt at length on the concept of the universal postal service, its binding force as far as government is concerned, and the obligation incurred by signatories of the Universal Postal Convention to clearly define and map out universal postal services under the provisions of domestic legislation. Thus, universal postal service is a specific government obligation to the general public with respect to the provision of postal services.

The concept of a reserved service area is another thing entirely. It refers to a financing mechanism under which, as explained earlier in this section, a specific segment of the postal service market is reserved for the designated operator under an exclusive franchise to ensure necessary funding for the fulfilment of the universal service obligations. The reserved area should not be equated with the basic postal services to be guaranteed by the government.

#### Services reserved for the designated operator

Class of service

Item weight

Price protection

## III 2.3

### Decisions on universal postal service financing

The objective of decision making with respect to a sustainable universal postal service financing mechanism is to establish exactly how the government can be absolutely certain of ensuring the generation of necessary revenues to cover the cost of the universal postal service, which is also the basis for ensuring the fulfilment of its service delivery obligations.

The following is a list of sine qua non conditions for sound decision making with respect to this issue.

- a. Studies and data on nationwide postal activities and current legislation and operations. Projected legislation and operations for legal reform purposes and for the restructuring of the postal sector for the establishment of nationwide universal postal service.
- b. Quantitative and qualitative data and studies on service supply and demand on the nation's postal market. Breakdown of data on the value and volume of the postal market by class of service, customer segment, etc.
- c. Studies and data on the operational development status and financial situation of the designated operator and data on its level of development and modernization requirements. Development and business plans for the designated operator.
- d. Studies and data on projected universal postal service costs at the country level. Cost estimation model.

Armed with this data, the government could estimate funding needs for a minimum of 10 years as the basis for designing a proposed financing model for discussion and eventual approval.

Since socio-economic conditions in many developing countries and prevailing conditions in the postal sector make universal postal service financing based on government funding or contributions from private operators complicated, but not impossible, a few remarks on the decision-making process for the establishment of a universal postal service financing mechanism based on the so-called "reserved area" model would appear to be in order.

The main foundation for economic studies of the "reserved area" universal postal service financing model is, on the one hand, market data and studies, total nationwide universal postal service cost data and a corresponding cost estimation model and, on the other hand, cost calculations for projected universal postal services for the first and last years of the 10 year development plan and market data establishing the share of the market for basic letter-mail service (letters and printed matter) generating sufficient revenues to cover such costs. Costs include operating costs as well as the amortization cost of investments under the development plan. Based on these guidelines, the task of deciding on a universal postal service financing model can be summed up in the following sequence of activities and operations:

- Collection of data on the postal sector, market and designated operator; the universal postal service cost estimation model; and current and projected costs.
- Consultations on necessary studies with government, designated operator and regulatory agency officials involved in the economic study process for the delineation of the reserved service area.
- Conduct of technical studies to establish the scope of the necessary reserved service area.
- Articulation and substantiation of the findings from the aforesaid technical studies.
- Drafting of legal provisions establishing and delineating the reserved area and defining its three core elements, namely: a) class of service; b) item weight; and c) price protection.
- Submission of the financing model to the parties in charge of approving all corresponding work and making official decisions.

In deciding on the universal postal service financial mechanism, government officials and law-makers need to be mindful of their specific responsibility to discharge governmental obligations to ensure the long-term sustainability of universal postal service. Financing is a quantitative factor and, as such, needs to be expressed in specific terms, or in terms of income, cost and market value, volume, etc. Sound, objective decision making requires simulations and projections of specific scenarios based on all available data.

They also need to be aware of the need to promptly dispel the doubts and relieve the outside pressure likely to be engendered by a decision-making process on a matter as important to the legal framework for the postal sector and the provision of universal postal service as the choice of a sustainable service financing mechanism. Examples of common factors hampering such decision-making processes include:

- movements to deregulate postal services;
- pressure from private interests claiming that such decisions could stifle private initiative and investment;
- the viability of the designated operator and its ability to overcome major problems by stepping up modernization efforts.

The deregulation of service industries in general and of postal services in particular is a reality in many countries but needs to be accomplished through a carefully planned, well-organized process. Deregulation in developing countries cannot be allowed to attack the legal system and basic human rights.

Though postal reform efforts have made faster progress and been more effective in industrialized countries as part of comprehensive reform processes with provisions for the regulation, restructuring and modernization of the designated operator, where service operation on the postal market is well organized and subject to supervision, this does not mean that efforts to raise developing countries to this same level need not consider the future consequences of such an undertaking.

To ensure good results, the most advisable course of action for developing countries is to capitalize on direct experiences and best practices. The challenge of ensuring the long-term, sustainable financing of nationwide universal postal service is too important to be left to chance, and to trial and error. The industrialized countries offer obvious handy examples of the successful use of a reserved service area and price protection, with strict rules and regulations for the effective enforcement of these exclusive rights.

In evaluating experiences from elsewhere, it is necessary to first understand the context in which those experiences took place, so as to avoid applying the same measures in a completely different situation. For example, in the European Union, liberalization was a gradual process over a period of 20 years, during which it moved from strict monopolies and no regulation to a European postal market with strong regulators. In developing countries, it is not uncommon to find a totally open postal sector, either de facto or de jure, with no or virtually no regulation. Thus, whereas the European Union sought to improve its postal services through competition, such competition in developing countries did not lead to better service for citizens – hence the need for a difference approach.

Establishing a reserved area in a country with fully liberalized postal services, de jure or de facto, is practically impossible. In the European Union, the market was opened up through legislative measures; however, the reverse is impossible, since the market problems found in developing countries cannot be solved through legislation. The idea that the enactment of a law would clear the reserved area of all private operators is not realistic, given the legal and human implications, and a reluctance by authorities to enforce such a law.

Lastly, the need to dispel doubts with respect to the viability of the designated operator and its internal capacity to transform itself into a modern organization with sufficient operating capacity to meet demand for the universal postal service will require a completely objective assessment of its actual situation. The designated operator could come up with convincing proposals for practical, feasible reform and modernization programmes, along with corresponding action and business plans. The government needs to be aware of all short- and long-term development plans, business plans and investment needs.

Thus, the government and the designated operator have a number of convenient, viable options, depending on the situation in each particular country. Reform and modernization programmes for the designated operator can be bolstered by advisory service, consulting service, management and operating agreements with designated operators in other countries, with which the operator in question could also form alliances and joint ventures and enter into other business arrangements for the operation of postal services. The issue of the development of the designated operator is discussed at length in module IV of the guide.



**Module III**  
Legal framework for postal reform



# Introduction

I

The basic tasks involved in regulating postal activities focus on the following aspects:

- Ensuring the adequate provision of the basic postal services or universal service to which all the country's inhabitants should be entitled.
- Guaranteeing compliance with the rules governing postal activities in order to maintain healthy market competition.

II

In developing and least developed countries and throughout the world, resources are scarce and in some cases there is extreme poverty.

In this context, postal services are not considered to be a fundamental right and are not included in national development plans. Instead they are side-lined in favour of more immediate basic infrastructural needs such as electricity, sanitation and water supply, and telecommunications services, which contribute rapidly to the growth of national GDP.

This neglect of the sector and its low visibility among the authorities of the region's countries has resulted in outdated and disorganized postal regulations, a lack of investment in the sector and an absence of effective regulators. This in turn has led to the uncontrolled growth of unofficial operators in profitable market niches and made it difficult or impossible for the population to access basic postal services.

This situation has led to a vicious circle which affects the delivery of postal services. Their poor quality means that consumers either seek alternatives or are forced to pay high prices for added-value services provided by private enterprises.

Furthermore, this situation leads to a reduction in the designated operator's postal traffic, a deteriorating economic and financial situation, a lack of investment, high costs and low quality, thus closing the vicious circle in which the only winners are the unofficial or "shady" operators who avoid all administrative, tax, employment or social security obligations.

In this context, the biggest losers are the public, left with either no access to basic postal services, or only to unaffordable and/or poor quality services, and businesses which, for similar reasons, are opting in many of the region's countries to provide their own services, thereby distorting what is already a disorganized and inefficient market. Furthermore, taxpayers often fund the inefficient service of designated operators that do not even manage to break even financially.

Another major loser is the designated operator itself; trapped in this vicious circle, it is a minor operator in terms of postal volumes and revenue, offering low-quality services and lacking the financial resources to invest. Finally, there is the state, which is burdened with financing the designated operator year after year, often with increasingly large amounts. In return, it receives a costly, poor quality service with a bad public image, in which there is a lack of investment. Consequently, the state loses any potential benefits that the postal network, as the national infrastructure network with the widest coverage, might generate for the country.

This combination of a disorganized postal sector, open, unofficial, deregulated markets and a weak designated operator prevents the state from offering its citizens even the minimum basic services.

Faced with this situation, the government customarily responds with unilateral, partial regulatory reforms in one or more of its ministerial departments, without either full government consensus or the participation of the various sector players.

These circumstances, combined with a lack of knowledge of the sector, its low priority for the government, the lack of technical backing and partial nature of reforms which fail to address most of the influential aspects of a sector as complex as the Post, has consigned most of the regulatory reform efforts to failure and obscurity.

The purpose of this module is to serve as a tool to enable the countries that have decided to reform their regulatory framework to do so more successfully.

The module is divided into six chapters, the first of which is intended to demonstrate to the reader the economic and social importance to the countries of a public postal service infrastructure forming a single network that links all points of the region.

This chapter also refers to the international commitments undertaken by the countries of the region when their plenipotentiary delegates signed the Acts of the Universal Postal Union. Finally, it reviews the situation in the postal sector.

Chapter two addresses the state of the regulatory framework in Latin America, taking into account the body of experience gained from the various reform studies carried out in the region. It also contains guidelines for beginning the regulatory framework reform process and, for countries choosing to undertake an integrated reform process, recommendations for the incorporation of this process.

Chapter three contains regulatory recommendations, describes the type of content that should not be omitted from any postal law, and proposes a model postal law structure. This focuses on market regulation, the universal postal service and other general provisions necessary for drafting a legal text aimed at organizing the sector. It also includes suggested texts for the development of the postal law regulations.

Chapter four contains recommendations for countries wishing to regularize their cost accounting obligations. It sets out the objectives to pursue, prerequisites, and the areas which should be regulated.

Finally, chapters five and six include suggested arrangements for the postal regulator, covering aspects such as legal models, regulatory recommendations to guarantee its independence and operational arrangements and, finally, recommendations on the organization of the designated operator.

At the end of this module, some of the points raised in the preceding chapters will be covered in various annexes.

# General remarks about the postal sector

## 1.1

### Public service and basic rights

Traditionally, the postal sector has been identified as a public or basic service provided by the state for its citizens. Thus, the scope of the state's regulations was limited to the postal services provided by the public postal service.

However, this public service concept has been broken down into a number of sub-concepts which specify the state's responsibilities in this area.

A sub-concept that has developed from the general principle of public service is that of a universal service that is more limited and specific than was traditionally the case.

The universal service is that part of the public services which the state is responsible for guaranteeing. However, in the postal sector, the idea arose that all postal services must be **guaranteed by the state**. Taken to the extreme, this would mean that high added-value courier and express mail services should also be covered by the state guarantee.

However, the universal service concept guarantees only those services which the state considers to be basic public services, which the market alone would not provide. The state understands these basic services as constituting a **minimum standard** of service to which the whole population is entitled.

The postal sector was one of the last to incorporate this universal service concept, thus following a regulatory model already adopted in other sectors of activity, such as energy and telecommunications.

Under the universal service concept, the state is obliged to **define in concrete, quantifiable terms** the services it covers, service delivery conditions, their cost and the sustainable financing mechanisms that will cover this cost.

Unlike other, non-universal public services, postal services, conditions of delivery and financing have to **evolve over time**. To this end, the state has to undertake to carry out a periodical review of the universal postal service obligations for which it is responsible and establish plans to improve the delivery of these services.

The universal postal service concept is dynamic and must be updated in line with developments in communications in general. It should support countries' socio-economic development, thus ensuring a modern postal infrastructure that is adequate to meet the needs of individuals and businesses and promotes social inclusion and national integration.

A key element of the universal service concept is a movement away from the traditional concept of the state's general obligation to cover any shortfall, replacing it with the new idea that only the **deficit in services classified as universal** will be covered, and only while there are shortcomings, rather than indefinitely.

The concepts of public service and universal service are complementary, rather than interchangeable.

**PUBLIC POSTAL SERVICE:** The postal service is a public service of general interest which states, in their public service capacity, are responsible for REGULATING and SUPERVISING.

**UNIVERSAL POSTAL SERVICE:** The state is obliged to GUARANTEE provision of the part of the postal services regarded as a basic requirement for the population, and to define the conditions of service delivery and funding arrangements.

Therefore, in addition to being a public service, the postal service is a fundamental citizen's right; it is included in most national constitutions and must be guaranteed by the state.

Although postal activities have been affected by technological substitution in interpersonal communications, they continue to play a fundamental role, where there are large areas with no alternative to postal services as a means of communication.

The Universal Declaration of Human Rights, adopted by the United Nations General Assembly in its resolution 217 A (III), of 10 December 1948, recognizes in article 25 that "Everyone has the right to a standard of living adequate for the well-being of himself and his family (...) and necessary social services". This includes postal communications.

Similarly, article 12 of the Declaration establishes that "No one shall be subjected to arbitrary interference with his (...) correspondence", While article 19 clearly states the right to communication: "Everyone has the right to freedom of opinion and expression; this right includes freedom to hold opinions without interference and to seek, receive and impart information and ideas through any media and regardless of frontiers."

In most of the countries, governments are interested in the public services that generate the most revenue (energy, telecommunications, etc.) and those directly connected with the basic needs of the population (water and sewage networks, etc.). They ignore the postal sector, which they do not consider to be an essential need. This attitude leads to a phenomenon known as the **"invisibility of the postal sector"**.

It is important in this connection to highlight and raise awareness of the extensive coverage of the public postal service, which is a major asset. It is unique, particularly in developing countries, and may constitute a country's biggest logistical network, reaching most remote areas and rural areas as well as the most disadvantaged sections of the population (women and children), distributing educational material and/or essential medical supplies.

Rather than disappearing in the current context of new technologies, this physical network and infrastructure are undergoing a transformation, providing essential tools for the development of logistical and financial services and access to new technology.

It offers a **uniquely dense network** for carrying messages, goods and money throughout the country and abroad for citizens and businesses.

A QUALITY POSTAL INFRASTRUCTURE able to guarantee basic services for the population creates unsurpassed synergies for delivering new supplementary or added-value services in the market, thereby generating additional revenue for the designated operator and reducing dependence on state subsidies.

An adequate PUBLIC POSTAL NETWORK serves as a PLATFORM for offering new financial, logistical and telecommunications activities, diversifying the range of products available at counters, cooperating with the public authorities and forging public/private collaborations with other postal operators. This new scenario is changing the face of traditional public operators.

The postal service is particularly important for rural centres of population in Latin America, given that rural poverty is a major problem for this region, leading to migration from rural to urban areas. This causes depopulation in the former, while increasing social pressure in towns and cities.

A network infrastructure, such as that provided by the postal sector, can help mitigate this problem by developing rural areas and boosting their communication services, improving and expanding access to information and increasing trade in goods transported via the postal service.

## 1.2

### Economic and social benefits

## Social benefits

### Territorial cohesion

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Facilitates closer **product distribution networks** for businesses, reducing depopulation by encouraging inhabitants to remain in the region.

### Social inclusion

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Provides **government services** via a universal postal network which reaches rural areas and places that are difficult to access (delivery of medicines, school books and library books, licensing formalities, health insurance, pension payments, licences, etc.), delivery and receipt of official documents, tax payments.

### Access to fundamental rights

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The public postal network's contribution to sustainable development goals:

- Eradicate extreme poverty and hunger
- Achieve universal primary education
- Promote gender equality and empower women
- Universal health coverage
- Clean energy in developing countries
- Reduce the digital divide and promote innovation and entrepreneurship
- Ensure environmental sustainability

## Economic benefits

### Increase in GDP

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There is a link between greater postal activity and an increase in the country's GDP.

### Investment and employment

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Promoting international trade, particularly exports. This new channel for marketing and distributing goods generates investment opportunities in a globalized world, which in turn leads to increased employment.

### Synergy with other activities

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Generating SYNERGIES with other sectors of economic activity (logistics, financial services, transport and telecommunications sectors).

Offering services not provided by the private sector, such as telecommunications services, (Internet access points, telephone and other electronic communications services), bridging the digital divide and contributing to increased Internet penetration in the country.

Providing postal financial services in rural or remote regions (services that are not profitable for financial entities), thereby promoting countrywide territorial and economic cohesion and competitiveness and reducing social exclusion.

Another interesting example is the experience of some countries that have implemented an electronic payments network based on the UPU's IFS network. This network has proven its value as an important channel for attracting remittances to developing countries with large numbers of emigrants.

## 1.3

### International commitments

As well as being a fundamental right of all citizens, the universal postal service is an international commitment made by member countries of the aforementioned international bodies (the UPU, the restricted unions).

Countries belonging to the UN system make a commitment to postal service provision by having the Acts of Congress of the Universal Postal Union signed by plenipotentiary representatives at the four-yearly UPU Congress.

Once signed, these Acts become authentic international treaties that become binding on the signatory member countries when they enter into force, irrespective of the individual country's internal ratification process.

It should also be pointed out that even if the UPU Acts of Congress are not ratified, owing to complications in the member country's legislative process, the country concerned is still bound by the plenipotentiary representative's signature at Congress.

For all the above reasons, countries are obliged to reform their legal framework in line with the international commitments undertaken.

Consequently, before international commitments are formalized by plenipotentiary representatives, countries must check for any incompatibilities between domestic legislation (especially the constitution) and the international postal treaties or agreements to be signed.

## 1.4

### Regulatory environment

Postal sector regulations should reflect and take into account changes in the environment.

In a constantly changing postal sector, the regulatory framework should adapt, rather than remaining static.

The regulatory framework should be aware of and adapt to changes in the environment.

Some of the changes in the way the sector is regulated and understood are set out below.

#### 1. Transformation of the market:

- Reduction in traditional mail volumes (substitution effect – mobile phones, e-mail, social networks, digital marketing, e-billing and electronic notification)
- Increase in express mail and courier volumes
- Increase in parcel-post volumes connected with e-commerce
- Increased competition and narrowing of margins in the parcels and courier market
- Increased competition from other operators, redistributing demand between a greater number of agents
- Alliances and cooperation (collaboration agreements, joint ventures) between designated operators and between designated and private operators
- Mergers and acquisitions between operators
- Globalization of the economy. Meeting the needs of major customers such as multinationals can promote postal operators' international expansion
- Tendency for businesses to subcontract non-essential activities, thereby increasing demand for postal services (inverse and direct logistics, database management, advertising, etc.).

*Related publications available on the UPU website ([www.upu.int](http://www.upu.int)):*

- *Market research on international letter-mail, express mail service items and light-weight parcels" (2010)*
- *"Evaluating the development of postal electronic services" (2013)*

## 2. Operational changes:

- Diversification of the offer and sources of revenue (financial services, telecommunications, logistics, collaboration with public authorities, optimization of the post office network's service portfolio).
- Adaptation of operational structures to e-commerce (marketplace or website for handling mail dispatches for SMEs, self-service parcel collection points).
- Incorporation of new technologies into postal activities
- Globalization of activities (own resources or jointly with other operators)
- Corporatization/Privatization: Business structure and changes to public ownership
- Reduction of operating costs by:
  - › outsourcing offices and acceptance points in traditional services (drop points or outsourced service points – petrol stations, pharmacies, etc.);
  - › restructuring the mail processing and transport network and reducing the number of handling and sorting centres;
  - › generating volumes to facilitate automation;
  - › optimizing delivery routes.
- Increased flexibility in labour costs (temporary contracts, part-time working, outsourcing of services, piece work) and introduction of absentee monitoring systems.
- The use of IT in acceptance, sorting, routes and delivery.
- Information management systems and cost accounting.

*Related publications available on the UPU website ([www.upu.int](http://www.upu.int)):*

- *Global Panorama on Postal Financial Inclusion" (2013)*
- *"ICTs, new services and transformation of the Post" (2010), including seven case studies on the incorporation of new technologies by postal operators.*

## 3. Regulatory changes:

- Gradual liberalization of the postal market, conditional on the financial sustainability of the UPS.
- Redefinition of reserved services, scheduling and setting conditions for the achievement of operational and quality of service results.
- Strict monitoring systems for conditions of basic postal service provision
- Control of basic service prices
- Relaxation of the legal framework for the designated operator and monitoring of the achievement of objectives
- Creation of specialized independent regulators

*Related publications available from the UPU:*

- *"Practical Guide to Postal Sector Regulation" (2014)*



# Regulatory aspects of the postal reform process

## 2.1

### Background to the regulatory framework

It should first be pointed out that these states do not have a postal sector policy setting out guidelines to be followed. This absence of a policy for the postal sector indicates a lack of interest on the part of governments, most of which do not include such a policy in their national development plans.

The failure to include the sector in national development plans impedes access to the investment and financing needed for all aspects of modernization (operational, technological and regulatory). The sector's aforementioned lack of visibility and the regulatory situation in developing countries give cause for concern: the legal provisions governing postal activities have not been comprehensively updated, and the current legislation is disorganized, with the different regulations (customs, tax, transport, postal) scattered throughout the text. This disorganization results in a notable lack of legal clarity.

First of all, most of the regulations apply exclusively to the activities of the designated operator and do not regulate the postal market as a whole. Regulations of this kind date back to a time when the designated operator was the only operator in the market. Circumstances have now changed considerably, with the entry of private operators, particularly in profitable market niches.

The postal activities of private operators are only partly regulated, and in many cases the regulations cover the customs aspect only.

It should also be pointed out that the regulations are limited to letter post, leaving the parcels sector almost totally unregulated.

This situation is particularly serious since, according to various studies conducted in the region, the majority of designated operators account for less than 10% of the total postal market in terms of mail volumes, and much less in terms of market revenue.

At the same time, in the case of Latin America, where postal regulations are largely obsolete and inadequate, greater attention is given to regulating and controlling working procedures than to defining postal operators' obligations in respect of access (acceptance and home delivery) and postal service pricing and quality. In this situation, it is not possible either to determine the quality of the country's postal sector or to set progressive goals for improvement to benefit service users. Furthermore, it constitutes unwarranted interference in the way operators conduct their activities, while the state should focus on monitoring performance levels set for access, quality and pricing.

A more worrying consequence of the situation described above is that postal regulations do not generally recognize either the universal postal service concept or the state's obligation to guarantee it.

As a result, the state does not know, and has not defined, which basic services should be guaranteed to the whole population, the minimum conditions for providing them, in terms of access, quality and pricing and, lastly, the stable financing conditions required for their adequate provision.

This means that neither the region's population nor its businesses are guaranteed adequate access to basic letter-post services or the transportation of parcels and goods.

## General diagnosis of postal sector

### Regulatory framework

- Postal sector excluded from national development plans
- Lack of postal sector policy
- Outdated, disorganized and inadequate regulations
- Regulation of the designated operator but not of the market
- Letter post the only regulated service; parcel post and courier service excluded from regulations
- Operational working processes are subject to regulation, but access and quality targets are not

### Postal regulator

- Regulators are the exception rather than the rule
- Public operators exercise regulatory functions
- Regulatory functions dispersed (Customs, supervisory ministry, ministry of planning)
- Regulators lack adequate resources

### Universal postal service (UPS)

- Universal postal service concept not included
- Basic postal services and conditions of service provision not specified
- No improvement targets or objectives set
- Conditions for the sustainable financing of the universal postal service not defined

### Designated operator

- Lacks managerial autonomy
- Exercises regulatory functions
- Limited opportunity to develop the network by introducing new services and forging alliances with other operators
- Lack of investment and deteriorating quality
- Decrease in activity and revenue

According to studies carried out, a large part of the population – in some cases more than 50% – has either no access to these basic services (acceptance and delivery) or only to services of very low quality. Consequently, in order to send documents or goods they have to rely on private operators that charge very high prices, thus excluding a significant percentage of individuals and businesses in these countries from access to a basic right.

Many of the countries have responded to this situation of disorganization, obsolete, outdated regulations and lack of postal market knowledge by initiating processes to reform the legal framework for the postal sector.

To assist these countries with decision-making, the UPU and the restricted unions have provided various tools which may prove useful to the countries as a whole. These include orientation guides and manuals to facilitate the setting of criteria and guidelines for developing new regulatory frameworks for the postal sector.

The experiences of the postal sector reform process shared by various countries of the region highlight the importance of postal regulation.

The "Practical Guide to Postal Regulation" (June 2014) is a tool providing guidance and technical support. It is aimed at the countries of the Latin American region and in particular their national authorities for postal sector regulation.

Although this guide will mainly benefit the countries that have begun a methodical, integrated process of postal sector reform, its use is also recommended for any country wishing to amend its postal regulatory framework without undertaking an integrated sector reform process.

Nevertheless, whether or not it is part of an integrated reform process, the reform of the regulatory framework should not be undertaken without a minimum of technical support to justify the project, as well as sufficient political backing and the participation of the various sector players to defend it.

It is also important to remember that isolated initiatives without technical support or political backing (of which there are many examples) have been unsuccessful. Furthermore, in the absence of qualified regulators, many of these reforms were initiated by the designated operators themselves. This gave rise to misgivings and doubts on the part of other postal sector players as to their neutrality, thus causing the reforms to fail.

## 2.2

### Reform of the regulatory framework

In the light of the diagnosis regulatory framework examined in the previous point, the countries of the region view its reform as essential

As we have already seen, this reform can be carried out within or outside the context of integrated postal sector reform, following the methodology defined by postal entities.

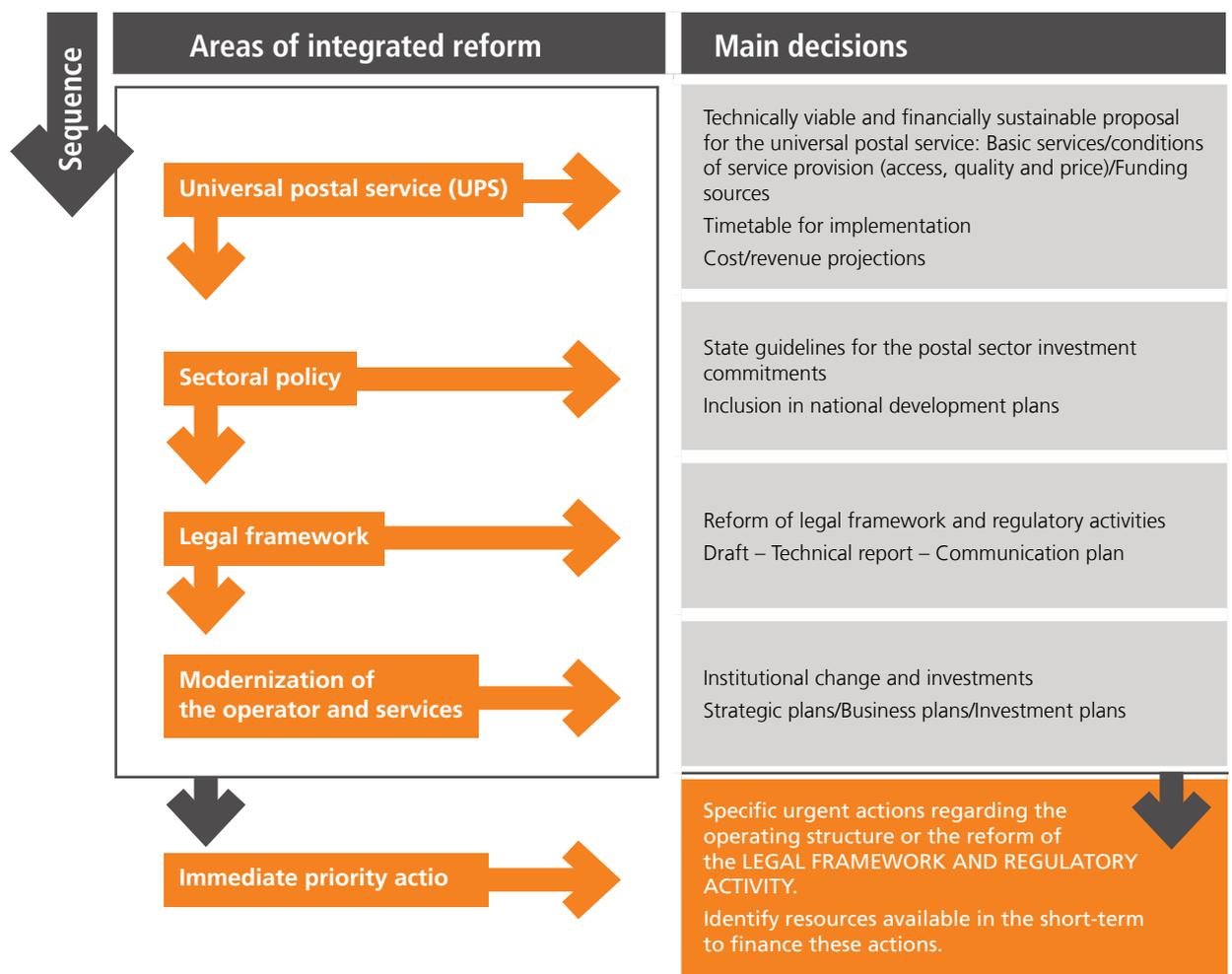
If the regulatory framework is reformed as part of an organized, integrated postal sector reform process, various aspects of the postal sector (market-related, operational, financial and legal) will be addressed.

The integrated reform process has the characteristics of a country project, since it involves an entire sector of the national economy, in this case the postal sector. It is conducted in an organized way, following a methodical sequence, and involves all sector players (national inter-institutional team). The integrated, organized reform of the postal sector addresses the reform of the regulatory framework at the appropriate time.

The integrated reform process, which includes the reform of the regulatory framework, is based on a methodology known as the integrated postal reform and development plan (IPDP), in which a diagnosis is made and actions recommended for four areas of postal sector reform: the universal postal service, sectoral policy, the legal framework and the reform of the operator and services.

There is an additional area for actions to be taken immediately. The diagnosis and actions for each of these areas should be carried out in an organized, integrated way, so that input and support from areas addressed earlier can be used subsequently.

Once the universal postal service, which the state can and must guarantee, has been defined, the government will be in a position to establish a national postal sector policy and to propose to the legislature an appropriate legal framework to allow the postal service to make an effective contribution to the country's development. Within this favourable legal environment, investment and the use of technology will enable services and operations to be modernized.



The UPU has prepared manuals and guides for countries to use as methodological tools for starting and developing the integrated postal sector reform process, including the reform of the regulatory framework:

- Guide to the formulation of integrated postal reform and development plans (May 2007)
- Manual for the preparation of the universal postal service proposal (December 2010)
- Guide to the development of sector policies (March 2011)
- Practical guide to postal regulation (June 2014)

As well as preparing a working methodology for integrated postal sector reform, the UPU supports its implementation in countries requesting assistance by providing a group of experts from the region (trainers) specializing in the area of reform.

Before embarking on this UPU collaborative reform process, it is important first to obtain a formal commitment from the government of the country, and also to designate a national coordinator and a project team to implement the reform proposals with the support of trainers specializing in the use of the relevant methodology.

# Guidelines for developing a regulatory framework for the Post

## 3.1

### General remarks

The regulation of the postal industry shares some similarities with that of other network-based industries, such as electricity, gas, water and telecommunications.

Rather than being a single concept, it should evolve in terms of market maturity and the level of competition. Regulation is a dynamic process, evolving to keep pace with market development and technological changes

## 3.1.1

### *Principle of minimum regulatory intervention*

One of the main recommendations for addressing the tendency towards state intervention in the postal market is for regulation to be limited to what is strictly necessary. This is known as a policy of "deregulation".

This does not mean there is no regulation, but that it is kept to the absolute essentials, with no market intervention, except to regulate aspects that the market cannot manage itself. In order to apply the principle of minimum regulatory intervention, taking into account the various diagnoses on the regulatory framework in some of the region's countries, it is specifically recommended that countries identify the aspects of their current national regulations governing the designated postal operator's operational processes that should be removed from the legal framework, leaving them in the hands of the operators. These could then be compiled in internal operational manuals, which could easily be amended.

#### **Observations on the principle of minimum regulatory intervention**

- Regulation is always necessary, but should be restricted to a subsidiary, complementary market role, covering only the essentials.
- Regulation should promote and support the market, but not replace it.
- Excessive regulation that replaces the market should be changed so that it is complementary to it.
- In the worst case, the regulator tends to act as a "shadow" manager of the operators it regulates.

## 3.1.2

### *Principle of regulatory asymmetry*

Under traditional postal regulations, all postal sub-markets are governed in the same way.

#### **The regulator should, at a minimum, make a distinction between two types of regulatory situation or postal submarket**

- **Basic postal service market:** This market, also known as the traditional postal service market, covers conventional postal services using a transport network, with a stable distribution system and extensive outreach.
- **Express mail and courier market:** This market comprises high added-value postal services, the most important aspects of which are delivery times, quality, security and specific dispatch features. They use a fairly dense transport and distribution network able to adapt to the specific needs of each case.

Basic postal services are those guaranteed by the state to the whole population. Given its responsibility in this regard, greater control and intervention is needed.

Therefore, the level of regulation needs to be greater, covering all aspects guaranteeing service accessibility, quality and affordability, and including targets and performance measurement indicators.

However, far less stringent regulation is needed in markets which the state is not responsible for guaranteeing, such as the express mail and courier segments, or any other market which does not provide basic services.

In these markets, the state's role should be limited to guaranteeing fair competition between operators, regulating their ability to obtain operator status and ensuring the observance of basic rights applying to all postal items (inviolability and confidentiality of postal items, data protection, prohibited items) and compliance with general regulations (customs, consumer and health regulations). Obligations with regard to accessibility, quality or price are not included, as these are not basic public services.

## 3.2

### Structure of the postal law

The first step in developing a regulatory framework is to draft a postal sector regulation with legal status.

This law should incorporate a technical report including a diagnosis of the situation in the postal sector based on studies, the economic and social impact on the country of failure to amend the regulations, and the technical and financial justification for the project.

It is important to point out that the structure of the postal law should include an explanatory statement or preamble setting out the purpose of the law, its importance in the reorganization of the sector and, finally, a brief description of its contents. All these aspects will be discussed in greater detail in later sections.

## 3.3

### General provisions of the postal law

The law should include a paragraph on general provisions in order to focus the project. This section should include at least the following aspects:

#### **Aims and objectives of the law**

Suggested aims and objectives for organizing the country's postal services and/or guaranteeing basic postal services.

#### **Scope of application**

For reasons of legal clarity, countries are advised to include the parties subject to the law. Normally, this includes natural or legal persons, whether public or private, national or foreign, providing the country's postal services.

#### **Legal status of postal services**

It is important to define the status of the postal services as public services or services of general interest, or any other equivalent used in other regulated economic sectors (energy, telecommunications) in each country. Since this point can have important legal repercussions, it is important to clarify it in the law.

#### **Classification of postal services**

A postal service classification system should be established to allow a better understanding of the concepts embodied in the law.

This classification should separate universal from non-universal postal services, indicating in the former case which are reserved services and which are not.

Within the non-universal services category, it should be specified that these services include those classed as express or courier.

In order to distinguish between the two segments of activity and avoid deprecation of the basic services market (universal postal service) by the express and courier markets, the regulatory framework should include the minimum conditions and criteria that this market must meet. For example, express and courier operators might include specified added values in their service offering (delivery, collection, and/or hand delivery obligation), track and trace, confirmation of delivery) and a minimum price for providing these services (e.g. five or six times the price of the basic service provided by the designated operator).

## 3.4

### General postal service rules

#### 3.4.1

##### Postal service user rights

### General definitions

To provide greater legal certainty, it is important to include terms used in the draft law itself.

### Prohibited items

It is important to list items prohibited from circulation within the postal network. If they are defined in the law, they should be open to regulatory developments so that the list can be amended more easily. Countries should also take into account article 18 of the UPU Convention, which lists items prohibited in international exchanges between Universal Postal Union member countries.

#### » *Ownership of postal items*

The right of ownership means express recognition that items are the property of the sender until they are delivered to the addressee. Therefore, the sender can request a change to the address of destination or the forwarding of items that do not reach the addressee. It also has implications as to the rightful claimant in the event of an incident involving a mail item.

#### » *Information on the postal service*

Countries should include the user's right to information in the law, under the section on basic rights, expressly stating that this includes the right to be informed of the conditions of service provision offered by postal operators (e.g. rates, delivery times, procedures for claiming compensation).

#### » *Proper treatment of inquiries by postal services*

The right to submit inquiries concerning any postal service to operators and to receive a response from them: this should include circumstances likely to give rise to inquiries, the time limit for a response, and an appeal body in case the user does not accept the resolution of the inquiry.

#### » *General rights of consumers and users*

The law should include a reference to the fact that the general regulations on consumer and user rights apply to postal service users.

#### 1. Description of rights

It is important for the postal law to include a specific section on the basic rights of all postal users. These rights become binding obligations on operators.

##### » *Inviolability of postal items*

The right to inviolability consists in prohibiting the arbitrary or unlawful withholding and retention of postal items or their intentional misrouting, opening, removal, retention or concealment and, in general, any shortcomings in their safekeeping.

##### » *Confidentiality of postal items*

The right to confidentiality consists in guaranteeing that no information concerning the contents, existence, class, address, or any other external aspect of postal items will be provided to third parties.

#### 2. Limits

It is also advisable to include in this law the regulations on exceptions to basic rights such as the inviolability and confidentiality of postal items. Exceptions could include express consent given by the sender, due legal authorization, or specific procedures involving customs or health authorities.

The instances and scope of intervention by the postal regulator's own inspectors should also be regulated.

## 3.4.2

### *Obtaining postal operator status*

Any law which regulates the postal sector should include the conditions for becoming a postal operator. This law should include at least the following elements:

#### **General conditions for obtaining operator status**

The postal law should specify the type of qualification (authorization, licence, etc.) required to provide postal services and the criteria for the granting of this right (technical, economic, financial, administrative).

The law should establish a validity period for these authorizations, after which they must be renewed. These measures will ensure greater control of the market.

#### **Public register of postal operators**

The market is dynamic and controls are needed on operators, the services they provide, the geographical area of activity, the administrative and operational infrastructure (acceptance, sorting, transport and delivery), mail volumes handled, billing and revenue, and human resource issues. The register is the ideal tool for this purpose and for market information.

#### **Postal operators' obligations**

It is advisable to include in the postal law a list of obligations that postal operators must fulfil in the provision of their services.

For example, at a minimum, the law could oblige postal operators to:

- provide services under the conditions authorized by the licence-holder;
- guarantee postal service user rights;
- fulfil regulatory requirements and allow the regulator to carry out its oversight activities;
- provide the regulator with information requested for statistical purposes.

This last obligation is important, as it gives the regulator a better understanding and greater control of the postal market. Therefore, it is appropriate for the law to state expressly the obligation on all operators to supply the regulator with operational and financial information (for statistical and market research purposes).

This information should be submitted when authorization is granted and thereafter as required.

The law should specify which taxes postal operators have to pay for the right to provide postal services. Provision should be included for updating these postal fees or taxes, the most common being:

- a fee to fund the universal postal service
- a fee to fund the postal regulator's activities
- a certification fee for postal service provision

The law should include the elements considered necessary under each country's legal framework for the creation of these taxes (taxable events, taxable persons, taxable base, amount to be paid, payment schedule, extensions, other elements), leaving procedural aspects (models for payment of taxes or fees, method and place of filing) to be covered in the development of the regulations.

## 3.4.3

### *Price regulation*

Procedures for postal service price controls should be tailored to the type of postal service involved:

#### **1. Basic postal services (universal postal service)**

These services are subject to state price control, as they are basic services which should be guaranteed to the whole population at affordable prices.

Under article 3.1 of the Universal Postal Convention, member states are obliged to provide the services included in the universal postal service (basic services provided by the state) at affordable prices.

Therefore, the postal law should establish a price control procedure for basic services, in order to ensure that prices remain affordable.

The law can specify the following aspects:

- a. **Affordability:** Criteria that the regulator can use to determine an affordable price (evolution of the price index; price comparison with other operators in the region, corrected for purchasing power (purchasing power parity).  
  
In countries where designated operators use cost accounting (see Chapter V), a reduction coefficient can be applied to the projected rate of price increase as an incentive for business cost efficiency (e.g. inflation rate (CPI) x cost savings).
- b. **Scheduling of price controls:** time frame for setting prices (annual, multiannual).
- c. **Type of control:** ex ante (price proposal justified by the operator and subsequently authorized by the regulator) or ex post (control by regulator after notification of prices).
- d. **Price types:**

**Fixed price:** This is the maximum level of state control and is normally used for basic services reserved for the designated operator responsible for delivering the universal postal service. These services require greater control by the regulator, since they are not provided on a competitive basis.

The usual arrangement in this case is for the regulator to establish fixed prices at regular intervals (yearly or multiannually), as proposed by the designated operator.

**Maximum price (price cap):** This can be used for all basic services (reserved or competitive), thus allowing the postal operator greater room for manoeuvre in managing its business.

**Minimum and maximum price (range of prices):** This pricing system is very unusual and is normally used by regulators establishing minimum prices to avoid anti-dumping practices.

## 2. **Non-basic postal services (non-universal services)**

These services are not subject to specific state price control, since they are added-value services provided by the market, and their universal provision is not covered by the state guarantee. Freedom to set prices is therefore the norm for these services.

Although these services are not subject to direct state price control, this does not rule out any general controls that may exist in the country with regard to competition (predatory pricing, alliances or any other anti-competitive pricing).

## 3. **General price control procedures for all services**

Checking that all operators guarantee price transparency by providing users with comprehensive, up-to-date information on the price of the services they offer (web, offices, regulator).

## 4. **Exemptions from payment for postal services**

Finally, the law should include any exemptions from payment for postal services that the country may have granted in international conventions.

In such cases, rights granted under the UPU Convention which exempt senders from payment should be expressly mentioned.

## 3.5

### Universal postal service rules

Delivery of the universal postal service is at the heart of any law regulating the postal service. Any reform of the regulatory framework has to have as its core the universal postal service itself.

It is important to remember that all UPU member countries are obliged to include the universal postal service in their national legislation.

#### Universal Postal Convention (Acts of the Istanbul Congress 2016 – 2021)

##### Article 3 Universal postal service

1. In order to support the concept of the single postal territory of the Union, **member countries shall ensure that all users/customers enjoy the right to a universal postal service** involving the permanent provision of quality basic postal services at all points in their territory, at affordable prices.
2. With this aim in view, member countries shall set forth, **within the framework of their national postal legislation** or by other customary means, **the scope of the postal services offered and the requirement for quality and affordable prices**, taking into account both the needs of the population and their national conditions.
3. Member countries shall ensure that the offers of postal services and quality standards will be achieved by the operators responsible for providing the universal postal service.
4. Member countries shall **ensure that the universal postal service is provided on a viable basis, thus guaranteeing its sustainability**.

## 3.5.1

### *Concept and scope of the universal postal service*

The universal postal service can be defined as an accessible, affordable, quality service as defined above, which, given its importance for the citizen and for national integration and development, the state must guarantee to provide to the whole population countrywide on an uninterrupted basis.

The provision of these services should be mandatory, permanent and sustainably financed.

Whichever definition the country chooses, at least the following elements should be included:

- They must be basic postal services which the state is obliged to guarantee within the framework of international agreements and conventions.
- The state must guarantee their delivery to the whole population, wherever they live.
- There must be a permanent guarantee of accessibility, affordability, quality and sustainable funding.

Services and conditions of service provision to be included in the universal postal service are not fixed, but should **evolve over time**.

To this end, provision should be made for periodically reviewing this regulatory framework and the state's universal postal service obligations, and for putting in place plans to improve service delivery.

## 3.5.2

### *Universal postal services to be included*

In deciding which services the law will include as basic services guaranteed by the state (universal postal service), the country should take into account the international commitments undertaken by the country (international conventions, particularly the UPU Convention, and performance standards), socio-economic and national cultural policies, specific societal needs, the current service situation and, above all, the financial/economic and operational viability of providing these services. There is nothing worse than a law that includes as basic services those that are inadequate in terms of quality and accessibility.

#### **Minimum services to be included under universal postal services**

The state has to guarantee, at a minimum, the following basic services:

- Letters, postcards, printed matter and small packets up to 2 kg (article 17.22 of the UPU Convention).
- Items for the blind, weighing up to 7 kg (article 17.23 of the UPU Convention).
- M bags up to 30 kg (article 17.24 of the UPU Convention)
- Parcels weighing up to 20 kg (article 17.7 of the UPU Convention).

Given that these services do not include expedited or added-value services, limiting criteria should be set for them in the regulatory framework.

#### **Scalable services**

Services which the state regards as necessary for its citizens can be added to the basic minimum letter-post and parcels services.

However, the state must always justify the need to provide its citizens with these additional services and carry out preliminary studies to guarantee the **financial sustainability and technical feasibility** of ensuring that they are of good quality and accessible to its citizens.

States that have chosen to extend the range of services they wish to guarantee through the designated operator have included certain financial services (basic money orders) or specific basic telecommunications services which the market is unable to guarantee in some remote or rural parts of the territory.

## **Changes to basic services**

The text of the law should include the option for the government to include new services within the regulations.

## 3.5.3

### *Conditions of universal postal service provision*

#### 1. **General remarks**

The law should not be limited to setting out the basic services it will guarantee to its population, but should also specify the conditions in which these services will be delivered.

Firstly, the postal law should define "service delivery conditions". The following table sets out the aspects of delivery conditions that should be expressly regulated in the postal law.

Conditions of basic postal service provision should be understood as including the following elements, at a minimum:

- Access to acceptance and delivery of postal items
- Reliable and on-time delivery of postal items
- Treatment of user inquiries
- Secure processing of postal items
- Information about services

The inclusion in the text of the postal law of the general objectives for each of these aspects is recommended.

It is strongly recommended that the law should defer the phased timetable for the fulfilment of these objectives until the regulations have been developed, since the objectives for each of these service delivery conditions cannot be set out in vague, general terms, but must be specific and quantifiable, which will increase the likelihood of the need for amendments.

Given that the conditions for universal postal service provision should be clearly established, and also that they should evolve gradually as and when interim goals are achieved, it is always advisable to avoid including them in a law, in which the processes for amendment are inevitably lengthier and less flexible than in the case of a regulation.

Furthermore, the technical and financial basis for defining each of the objectives and the schedule for their fulfilment should be available when work begins on developing the regulatory framework, subject to approval between the state and the designated operator of the timetable for formalizing an investment and basic service development plan. This plan should set out the investments, time limits and financing needed for its implementation.

## 2. Access to posting and delivery of postal items

The postal law should specify the designated operator's basic obligation to provide an acceptance and delivery network which guarantees geographical coverage of basic services for the whole population, throughout the national territory. This is a basic, irrevocable state obligation.

As well as the designated operator's basic obligation to guarantee comprehensive coverage of basic services throughout the territory (universal postal service), the regulatory framework should specify the following points concerning access to acceptance and delivery of postal items (universal postal service).

- Procedure for the acceptance of postal items
- Acceptance points (post offices, rural postmen, mailboxes, etc.)
- Frequency of opening (number of days of the week) of acceptance points
- Opening times of acceptance points
- Weekly frequency and form of delivery of basic postal items (door-to-door, post offices boxes, other delivery points)

It may be advisable to mention expressly the option for the designated operator responsible for providing the universal postal service to **outsource parts of the service to third parties.**

The outsourcing option is appropriate mainly when service points need to be increased and the designated operator does not have the resources to invest at the appropriate time. Outsourcing is also recommended when the designated operator has to install post offices in locations where the demand for postal services is low.

It is also desirable in the case of potentially loss-making services for the law to allow and encourage the participation of other public entities (e.g. prefectures or other municipal bodies) able to provide services for and on behalf of the designated operator.

As has been mentioned repeatedly, consideration should be given to which elements of the aspects mentioned above will be governed by the postal law and which will depend on the development of the regulations, taking into account both the importance of the content and the possibility of amendments to it.

It is important for the regulatory framework to establish a phased timetable for the geographical coverage of basic services (access, acceptance and delivery). It is advisable to set out this timetable in detail when developing the regulations.

## 3. Delivery times and reliability

The law regulating the postal sector must state that the designated operator has an obligation to deliver basic postal items within specified delivery times. In practice, most countries set delivery time objectives for basic letter-post items only.

For the reasons we have given, it is advisable to establish specific delivery times when developing the regulations.

Delivery time targets established in the regulatory framework for basic postal services (UPS) should define the number of days between posting or acceptance of items and delivery to the addressee (J + number of days) according to their origin and destination.

This objective should also include an indicator of reliability, i.e. the percentage of items delivered within this time frame.

#### 4. Treatment of inquiries

The law governing the postal sector should establish the designated operator's obligation to comply with the general principles for the treatment of inquiries concerning basic postal items (universal postal service).

These objectives may be established as the number of days from the time an inquiry is lodged to the time the inquirer receives a response.

#### 5. Secure processing of postal items

The law governing the postal sector should establish the designated operator's obligation to comply with the general principles for the treatment of inquiries concerning basic postal items (universal postal service).

A specific targets that should be included when developing the regulations is the number of incidents (loss, damage or theft of items) per number of dispatches per year. It would be advisable to set one target for letter post and another for parcels (the latter being more stringent).

#### 6. Information on postal services

The law should include the general principle of the designated obligation to inform users about basic postal services (UPS). Specifically, the designated operator should, at a minimum, be obliged to provide visible, up-to-date information on opening hours and days and on conditions of service provision throughout its network.

For the reasons already mentioned, these objectives should be set out in specific terms when the regulations of the law are being developed.

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Since universal postal service provision is an obligation which must be guaranteed by the state, the latter will also be responsible for guaranteeing its sustainable financing. Therefore, financing needs should be based on the total cost of the universal service obligations imposed by the state on the designated operator.

Although these are the traditional sources of funding for the universal postal service obligations, some countries finance them by levying surcharges on the amount they charge postal operators for their services. In such cases, the universal postal service is ultimately financed by the postal service users themselves.

A noteworthy example is that of Peru, where state funding is prohibited, there is no possibility of funding from the country's public treasury, no industry funding and no reserved area, since monopolies are totally suppressed under Peru's Constitution. Consequently, funding for basic postal services have to come from investments and the internal resources of the designated operator (SERPOST).

### Reserved service area

#### *Defining elements of the reserved service area*

If the law includes an area reserved for the designated operator, it must define this area, including the following elements:

- Reserved postal services
- Weight limit
- Price protection system
- System for monitoring compliance with the reserved area

## 3.5.4

### *Universal postal service financing conditions*

The most common sources of universal postal service financing are:

- the granting of a reserved services area to the designated operator
- industry funding
- state funding

## Constituents of the reserved area

### Services

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In general terms, the reserved services are the basic letter-post services (normally ordinary letters).

Countries should indicate whether the reserve area covers domestic and international services. This is essential in Developing Countries, owing to the importance of international mail to the designated operator.

These services are reserved because they generate the highest volumes, and thus have the greatest potential for producing revenue.

### Weight limit

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The law should specify the weight limit for the services it regards as reserved.

The usual practice is to include a weight limit covering most of these services. Normally, 90% of letter-post items fall within the 50g weight limit.

A higher weight band can be included and progressively reduced.

### Price protection

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This protects the designated operator's reserved area by allowing other operators to provide the same services only if the price they offer is a multiple of at least  $x$  (e.g. three or five) of the price offered by the designated operator.

This protection system has proved a very useful and easily controllable way of avoiding predatory pricing by competitors.

At present, not only are the areas reserved by law in most of the region's countries vague and ambiguous but, according to specialized studies carried out, they are not respected by private operators or overseen by the regulator.

### Amendment of the reserved area

It is recommended that the law should grant the government the power to regulate the reserved area so that any necessary amendments and adjustments can be carried out, through the Ministry in charge of postal affairs, in line with universal postal service financing requirements and market developments.

The regulatory body will be able to limit the reserved services granted to the operator responsible for delivering the universal postal service provided the provision of this service is not affected.

### Transitional arrangements for the introduction of the reserved area

The entry into operation of the reserved area could be conditional on the designated operator having the technical capability to take responsibility for it, while ensuring minimum standards of quality.

The legislator should take into account the worst-case scenario, in which services are reserved for an operator that lacks the technical and financial capacity to ensure their accessibility and adequate quality..

### Industry funding

One of the options commonly adopted is the provision of funding for the universal postal service by private postal operators.

For this option, the postal law specifies:

- which operators are obliged to contribute to universal postal service funding;
- the percentage of gross annual revenue they should contribute;
- the possibility of reviewing this percentage;
- the body responsible and the procedure for collecting the contributions

It may be decided under the regulatory framework that the contributions should be assigned to a fund managed by an independent body. These contributions can be in proportion to the level of operating revenue which the provision of postal services generates for each operator.

As this is a sensitive aspect of negotiations with associations of private postal operators, it is very important to provide technical justification for the funding and also to justify its economic impact.

It should be pointed out that these contributions are only part of the funding arrangements; in cases where private operators do not contribute, other sources of financing should be boosted by extending the reserved area or increasing direct contributions from the state.

However, this should be regarded as a transitional strategy, to be used with a view to scaling down the operators' contribution if funding requirements decrease.

Similarly, the intended use of these contributions should be made public and able to be audited by all the operators making financial contributions to the fund.

### State contribution

This funding should be described in the text of the law as supplementary to the sources of financing mentioned above.

In other words, the state should finance the cost of the universal postal service obligations that have not been covered by the designated operator's own funds and by any contributions from private operators.

This funding should be a temporary measure while the designated operator is developing financial self-sustainability.

A distinction should be made between universal postal service funding and financing for initial investment projects, intended solely for the fulfilment of the designated operator's investment, modernization and service improvement plan.

Another, much-discussed method of universal postal service funding is the financing of services by the users themselves.

This takes the form of a charge added to the final price of the service, which operators collect on behalf of the state. These funds, earmarked exclusively for financing the universal postal service obligations, are then transferred to the state.

## 3.5.5

### *Designated operator providing the universal postal service*

The law should expressly include the following:

- The designation of the postal operator mandated by the state to provide the universal postal service.

Since the universal postal service is a natural monopoly, particularly in the postal delivery phase, the cost and pricing applied to this service are more competitive if it is provided by a single operator, rather than several. Bearing this in mind, there are no cases anywhere in the world of the simultaneous use of more than one operator with a mandate to provide the universal postal service.

Notwithstanding the options available to any state in deciding which operator will be responsible for universal postal service provision, almost every country has entrusted the delivery of the universal postal service to the designated operator.

- The designated operator is mandated to fulfil the universal postal service obligations set out in the law, and any other obligation arising from international conventions or agreements signed by the country in respect of postal service provision.
- Designation by law means that the operator is entered automatically in the public register of postal operators for the provision of postal services within the scope of the universal postal service, as well as any other postal services, as decided by the country.

The law should also include the special rights assigned to the designated operator by virtue of its status. Generally, the postal law grants the operator the following special rights:

- Preferential clearance through Customs of universal postal service items;
- Exemption from any taxes levied on activities relating to the universal postal service;
- Exclusive rights to the use of the name "Correos" and of symbols identifying the designated operator or the nature of the services it provides;
- The distribution of stamps or other means of prepayment;
- The right to install mailboxes on streets and public premises;
- The use of premises managed by the country's rail network, ports and airports for forwarding postal items included in the universal postal service;
- The right to park its vehicles in locations close to its operational units and collection points.

## 3.6

### Final provisions

Postal laws normally set aside a final section for:

- revoking provisions that are incompatible with the postal law;
- including temporary provisions allowing the transition from the old to the new legal situation to be embodied in the law;
- establishing the validity date (entry into force) of the legal provisions.

It is also advisable to make use of these final provisions to include elements such as:

- **The ratification of international commitments entered into by countries in relation to postal services.**

In some of the region's countries, the postal addressing system is either inadequate or non-existent. Since this problem affects the quality of postal activities and the automation of operational processes, it would be desirable to incorporate into the law the obligation to set out rules for the national addressing system.

These rules should, at a minimum, establish the obligation for streets and buildings to have a single, uniform, publicly recognized name, with street names clearly indicated on signs.

#### **Collaboration between postal and customs authorities.**

The law should include the obligation for postal and customs authorities to cooperate within their areas of responsibility. It might be useful also to oblige the two bodies to sign a collaboration agreement covering the relevant period. To ensure that national interests are duly taken into account, this agreement could include provisions for annual high-level strategy meetings and a permanent Post-Customs contact committee to hold regular

management meetings to ensure ongoing operational coordination between the two bodies.

## 3.7

### Developing the postal law regulations

When drafting the postal law, it is advisable to establish criteria for deciding what content should be included in the development of the regulations.

This is a matter of some importance, bearing in mind that the higher a regulation is in the hierarchy, the more difficult it will be to amend it.

It will be up to each country to decide, based on urgency and importance, which type of provision calls for legislation, and which can be covered in the regulations. However, there are criteria for distributing the provisions within the regulatory framework:

- Details (amounts, time frames) subject to frequent amendment
- Administrative procedures that might be amended periodically (authorizations, inquiries, etc.)

Examples of areas to be covered in the development of the regulations:

- administrative authorizations and the register of designated operators
- user protection arrangements
- conditions of universal postal service provision
- universal postal service financing and accounting conditions (see chapter V)
- philatelic issues

# New postal regulatory functions: cost accounting

## 4.1

### Aim of the regulation on accounting obligations

The regulation concerning the designated operator's accounting obligations is a key element in determining the cost of basic services for letters or packets.

This regulation will also show what part of the cost corresponds to the acceptance, transport, sorting and delivery elements of these basic postal services.

Cost accounting is an excellent management tool for operators and regulators alike.

#### Aims of cost accounting

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

- show the actual cost of services so that an appropriate pricing framework can be established;
- indicate the cost of universal postal service provision.

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

Based on the 2004 Bucharest Congress, the UPU has approved decisions relating to the purpose and objectives of cost accounting, the strategy for its implementation in the designated operators of member countries, and an assessment of the actions taken.

The UPU stresses some of the benefits of introducing a cost accounting system, namely to "calculate the unit cost of products or services", "verify that tariffs cover costs", "contribute to an optimum pricing policy", "calculate customer profitability", "measure the performance of post offices", "rationalize structure costs", "establish the cost of the public service", "measure the cost of the universal service", "calculate the cost of terminal dues", "optimize the allocation of budgetary resources" and "assist with strategic management decision-making".

## 4.2

### Prerequisites for putting a cost accounting system in place

Before deciding to implement a cost accounting system, the following prerequisites must be met:

#### 1. The designated operator must have a reliable information management system

In order to put in place a cost accounting system with certain guarantees, the operator must **already** have reliable information management systems for the following crucial areas:

- Financial accounting: Audited and verified
- Billing and collection system (breakdown of revenue). Detailed breakdown of revenue generated by each product or service.
- Statistics on volumes of items accepted and distributed (Statistics). This is one of the essential drivers or elements for cost allocation and for calculating revenue and unit costs.
- Personnel database. Bearing in mind that personnel costs usually represent between 70% and 80% of total costs in our sector, data on the number of staff working for the operator, their remuneration and their position in the different cost centres is one of the key factors in cost accounting.
- Inventory of assets/investments. Statement of assets (buildings, machinery, vehicles, etc.), their position in the different cost centres, valuation and depreciation of each asset.
- International accounts (import and export). Costs for international items sent are significantly affected by terminal dues. International items represent a very high percentage of the designated operator's total volume of dispatches.

Based on decisions concerning cost accounting taken at the Bucharest Congress, the UPU launched a programme to enable postal operators to implement the system. The results were not successful, owing to the unreliability of the personnel responsible for feeding these systems and, in particular, the lack of "reliable, up-to-date data".

#### **Basic requirement for the implementation of a cost accounting system**

- The designated operator must have sound data management systems containing reliable, up-to-date information. This is a prerequisite for the implementation of a cost accounting system.
- These data management systems should be audited to ascertain their situation, condition and possibilities for improvement, as well as their suitability for incorporation into the cost accounting system. This audit should be treated as a priority by member countries.
- If this prerequisite is omitted, any actions carried out are likely to be unsuccessful.

## **2. Defining the scope of the universal postal service**

This is an essential requirement only when one of the aims of implementing a cost accounting system is to ascertain the overall cost of the universal postal service or the unit cost of each of the basic services (universal postal service), or when there are regulatory responsibilities in respect of authorizing the prices of these services.

It is essential for any of these aims to map out in advance a clear and precise demarcation of the services included in the universal postal service.

Only the basic postal services (universal postal service) are likely to receive state funding, since the state is obliged to provide them in non-market conditions. For this reason, it is important to define these services and to know their cost so that financing can be provided for them.

In addition to the above recommendations and those made by the UPU, it may be advisable, depending on the situation of the designated operators in the region, to avoid developing highly complex applications, as these are time-consuming and resource-intensive in terms of both initial investment and recurring costs.

## **4.3**

### Aspects of cost accounting to be regulated

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In the previous sections we have seen the importance and benefits of having a cost accounting system, and the requirements for its implementation. The next section focuses on the regulatory framework needed to develop such a system.

## Regulation of the cost accounting system

The regulatory framework should ensure the correct application of the rules and criteria for cost accounting and the separation of accounts, as well as the time frame within which the designated operator should make the cost accounting available, once the financial accounting has been closed.

It is essential that the accounting rules make it mandatory to separate the accounts, at least into two main blocks: a) universal services b) non-universal services.

The accounting regulations should also specify the methodology for calculating the unit cost of the services and the revenue they generate.

If the regulator opts for a more widespread calculation system (the ABC or activity-based costs system), the regulations should specify at least the following points:

- The cost accounting system to be applied by the postal operator with a description of the system and its objectives.
- The applicable accounting principles (e.g. causality, objectivity, disaggregability or reconciliation of cost accounting with financial accounting).
- Cost centres and services which should be subject to disaggregated analytical procedures.
- It is advisable to limit the number of cost centres and to establish four main groups of services for which disaggregation is mandatory: 1) universal services; 2) non-universal services; 3) non-postal services; 4) other services
- Procedures for allocating assets, revenue and expenditure:
  - › Determination of *revenue and expenditure*
  - › Allocation of revenue to "cost centres"
  - › Allocation of costs from "cost centres" to *activities*
  - › Allocation of activities to *services*
  - › Allocation of costs and *revenue* to the *margin account*.

As has already been mentioned, it is a basic requirement of the cost allocation process for the designated operator to have reliable data management systems and statistics enabling the use of "drivers" or criteria to distribute costs between cost centres, activities and, finally, services.

Cost accounting requires accurate bookkeeping and separation of accounts, duly audited by a specialized, reputable firm that is independent of the designated operator.

There are two questions to be decided in each country's regulations:

- a. whether the designated operator itself is to perform the independent audit and have it validated subsequently by the regulator; or
- b. whether the regulator will be directly responsible for carrying out this audit.

In the more usual case, in which the regulations oblige the designated operator to audit the correct application of the rules governing cost accounting and the separation of accounts, as well as to estimate the cost of the universal postal service, it should fall to the regulator to carry out the final validation.

The regulations should specify the procedure for validating the audit and the deadlines for sending the regulator the following information:

- Accounting documents (detailed description). The regulations should include the option for the designated operator to specify what documentation it considers should be protected by commercial and industrial secrecy.
- Independent audits validating compliance with the regulations governing cost accounting.
- Estimate of the cost of the universal postal service (broken down for each service).

Finally, the regulations should include the procedure for validation by the regulator, either directly or through a specialized firm, of the cost accounting and the cost of the universal postal service.

It might be advisable in this connection to be able to issue an administrative resolution formalizing the procedure.

Finally, it should be mentioned that some European Union countries, as well as regulating cost accounting obligations, draft a specific regulation incorporating a methodology for calculating the net service cost, i.e. the cost of the part of the total universal postal service expenditure that they consider should be financed, rather than the cost of the universal postal service as described thus far.



# Legal framework for the postal regulator

## 5.1

### Separation of the regulatory and operational functions

This section is intended for the few countries in which regulatory functions and postal service operations are still carried out by the same body, and also for countries which assign market regulation functions (authorizing other operators to provide certain services, price authorization, management of the register of designated operators) to the designated operator.

It is important for these countries to be aware that this legal anomaly, which can only be explained by historical reasons, should be removed from their regulations.

In the current scenario, which sees a large number of operators interacting, the application of the same ground rules must be guaranteed to all. Therefore, it is essential for the operational and regulatory functions to be fulfilled by legally separate bodies.

Almost all the international players (the UPU, the World Bank and the OECD) and regional organizations with views on the matter support the separation of the postal service's operational and regulatory functions.

### Benefits of the separation of functions for the state

#### Postal regulator

Better supports its objective of protecting the customer or user.

Strengthens the perception of neutrality among the various operators.

Enables the universal postal service and public service obligations to be effectively guaranteed.

#### Designated operator

Releases material and human resources previously assigned to regulatory functions

Enables it to assume corporate status, whereby it can manage itself without bureaucracy and adopt a "culture of competence" and a customer/user-focused approach in delivering its services.

#### Users

Provides greater protection and impartial service.

Better protection of basic services.

#### Market

Creates a better balance between designated and private postal operators.

Avoids situations in which the regulating body becomes both "judge and jury".

Helps ensure fair competition and equal opportunities among the different economic operators.

## 5.2

### Choosing a legal model

#### 5.2.1

##### *Unit within a ministerial department*

The UPU does not recommend a specific model for the regulator. The legal model for the regulator should be based on operating costs, the importance of the tasks to be carried out, the experts required and the speed with which decisions need to be made. As these factors vary from one country to another, there is no single formula to apply.

Taking into account these advantages and disadvantages, each country must decide for itself whether to entrust postal regulation to an authority responsible for a number of sectors at once, or to a body solely responsible for the postal sector.

When a regulatory body is set up for the first time, the usual practice is to create regulatory administrative units within the structure of a ministerial department (general directorate, subdirectorate, etc.).

There are two types of unit:

- a.1) A postal regulatory unit within the department to which the designated operator reports**
- a.2) A postal regulatory unit within a department to which the designated operator does not report**

Regulator model a.1) is questionable, since the designated operator's operational decisions and those concerning postal market regulation would both be taken by the same authority. This could compromise the perception of impartiality which is essential for any market regulator.

These are the postal regulator models most widely used at present, given the importance and ongoing, complex nature of the work involved in postal regulation; however, there is a growing trend towards the adoption of another model, outside the structure and administrative strictures of a ministerial department, namely an independent regulator.

Countries that have recently abandoned the ministerial regulator model and moved towards agencies or independent regulatory authorities include some European countries.

France chose to create a postal regulator in the form of a Directorate General of Posts and Telecommunications (*Dirección General de Correos y Telecomunicaciones*) in 1989. This first phase was followed by the creation of an independent regulator, with greater legal and financial autonomy.

#### 5.2.2

##### *Independent regulator*

Following recommendations made by various international institutions (the OECD, the World Bank, the European Union) many countries have taken the step of transforming their traditional regulators, set up within the hierarchical administrative system of a ministry, into independent regulatory bodies.

However, the decision to move towards an independent regulator also involves choosing another kind of model, which presents both advantages and drawbacks. The models available to countries opting for an independent regulator are described below:

##### **b.1) Postal regulator**

The exclusively postal regulator is a model that tends to be dismissed on the grounds of its cost and the lack of synergies with other sectors of activity.

In October 2011, the United Kingdom and Spain were the last European Union members to discard the exclusively postal regulator model in favour of communications regulator and multisectoral regulator models respectively.

##### **b.2) Communications regulator**

In this model, an independent regulator combines regulatory functions for telecommunications or electronic communications and the postal sector.

### b.3) Multisectoral regulator

This model includes European Union countries in which the postal regulatory bodies also have jurisdiction over the energy and gas sectors, or also regulate road transport.

For example, Germany's Agencia Federal de Redes (Federal Networks Agency) combines the regulatory functions for energy, telecommunications, the postal sector and the railways.

### b.4) Regulator for multisectoral activities and competition

This type of regulator, for example, Spain's *Comisión Nacional de los Mercados y la Competencia* (National Commission for Markets and Competition), is unusual, since the regulator for competition and the sector regulator are normally separate, independent bodies.

Most of the developing countries undertake partial regulatory functions – basically price control – geared to the exclusive control of the designated operator through non-specialized units that are hierarchically part of ministerial structures.

## 5.3

### Recommendations concerning the postal regulator's independence

The creation of an independent postal regulator as an entity with a legal personality distinct from that of the state is only a first step in ensuring the regulator's full, true operational independence.

When the government decides to create an independent regulator for the postal sector, we should keep in mind the goal of increasing the regulator's level of operational independence. The objective in this connection is to develop a regulatory framework for the regulator which protects it from interference in the exercise of its functions and emphasizes its neutral position vis-à-vis the postal market.

The annex contains a table setting out regulatory recommendations and indicators to bear in mind to strengthen the postal regulator's operational independence.

## 5.4

### Operating framework for the postal regulator

#### 5.4.1

#### *Attachment to a ministry*

Despite regulatory bodies having independence and autonomy in decision-making, it may be mandatory, for the purposes of state administrative organization, for them to be attached to a ministry.

This does not mean that they receive instructions, or that they are subject to any control or to the principle of administrative hierarchy.

To avoid compromising the regulator's image of impartiality, it is advisable to avoid attaching the regulator to a ministry that also supervises the economic interests of the designated operator. This is to prevent the phenomenon known as "regulatory capture".

## 5.4.2

### *Legal personality and own capital resources*

The regulatory framework should acknowledge the independent regulatory body's own legal personality, separate from that of the state, and should specify its extent.

Since they have a separate legal personality, these regulatory bodies should have their own capital and liquid assets. In addition, the material and human resources transferred to them by the state for the fulfilment of their functions should be specified.

In defining their organizational structure, these independent regulators should be aware of the following points:

- They can acquire, lease out and dispose of their own assets and manage their own capital autonomously.
- They should have their own accounting service, managing not only the expenditure budget (as was the case when they were part of the structure of a ministry), but also the revenue budget.
- They are able to obtain their own resources, manage their revenue and have at their disposal more comprehensive and more detailed accounting information.
- They should plan their liquidity requirements and manage surpluses.

## 5.4.3

### *Organizational structure*

The management structure is normally determined by the regulatory framework, but this should allow regulators freedom to decide on this structure for themselves.

The postal regulator's status should guarantee its autonomy and independence, the degree of which will depend on its ability to be self-governing (choosing the members of its decision-making bodies), to self-organize (setting its organizational rules) and to perform its own functions independently, among other things.

### **Management structure**

The board-type management structure can be made up of a chairperson and a number of board members. If the postal regulator is part of a multisectoral body, it is usual for each board member to represent one of the regulated sectors.

In any case, it is important to state clearly that the members of this management structure should be individuals of recognized professional competence in the postal and market regulation sectors and must have appeared before parliament or the legislature. Their selection should be based on technical knowledge and ability. This will ensure that the regulator is professional and free of political bias.

In order to strengthen its operational independence, the regulatory framework should stipulate that these offices should be elected for a non-renewable period which exceeds the length of a legislative term. The purpose of this is to ensure disassociation from political control, as its functions must be performed with total commitment and be subject to the government's rules on incompatible activities.

### **Management structure**

The regulatory framework of the postal regulator's management structure will depend on whether the regulator model chosen is exclusively postal, communications or multisectoral.

This regulatory framework can sometimes even specify the regulator's internal organization. In these cases, it is important to have separate economic, legal and technical areas and for the management and coordination of the regulator's legal status to be assigned to a person in the postal regulatory unit with overall responsibility, such as the manager or secretary-general.

## 5.4.4

### *Human resources*

The regulation of the postal sector is a complex, demanding task for the regulatory bodies. In many cases these bodies are recently created, which inevitably means that their experience is limited.

The need for specialized staff has led the postal sector regulatory bodies to select professionals from the personnel of the designated operator. This decision is justified on the grounds of the knowledge, experience and length of service in the postal market of employees who work or have worked for the designated operator. This is a decisive factor in the successful creation of a regulatory body for the postal market.

It should be stressed in this connection that even if a postal regulator has been assigned adequate powers to regulate the postal market, unless it is given sufficient financial, material and human resources, it will be weak and therefore unable to ensure the proper execution of its duties.

Therefore, it is essential that the regulator's regulatory framework specify its autonomy to select and recruit qualified personnel with specific knowledge of the sector (legal, economic, marketing, competition law).

Special attention should be paid in this connection to the phenomenon of poaching, by postal sector businesses, of staff recruited to carry out postal market regulatory functions. To avoid this phenomenon, known as the "revolving door", it may be advisable to include contractual clauses (for employees) or regulatory requirements (for officials) preventing the regulatory body's personnel, at least for a specified period, from working in sectors relating to the postal sector which the personnel have helped regulate, and on which they hold inside information.

As well as the recruitment and selection of personnel, the regulator should have the capacity to manage human resources (hiring and firing staff, geographical and operational mobility, remuneration, disciplinary action, etc.).

## 5.4.5

### *Sources of funding*

Sufficient funding should be available within the regulatory framework to enable the postal regulator to carry out its functions adequately.

When the regulator's financing strategy is defined and transferred to the regulatory framework, it is advisable to carry out simulations and projections of the regulator's potential revenue and costs, taking into account the various sources of funding in order to maintain a balance between them.

The postal regulator normally obtains funding from the following sources:

- Taxes levied to finance the postal regulator's activities
- Direct state transfers
- Penalty payments and fines
- Capital assets and securities

## **Taxes financing the postal regulator's activities**

Financing from internal resources or market funding will ensure greater operational independence, provided the bulk of this funding does not come from a single, dominant operator (public or private).

These taxes should identify the taxable entities (normally all the operators entered in the register of postal operators), their taxable base (entry and renewal of postal authorization in the register), rate (fixed sum or variable amount based on a percentage of revenue), payment schedule (normally annual).

Also, although this is of little significance in practical terms, the regulatory framework should include a fee for granting certification to offset the cost of certifying that operators are entered in the register of postal operators.

## **Direct state transfers**

Together with levies on industry, these transfers are the main source of funding for regulatory activities.

There should be a balance between the two sources of funding.

## **Revenue from penalty payments and fines**

This source of funding can lead to conflict, since it might give the impression that the inspection and penalty system is being strengthened in order to procure an economic benefit for the regulator.

However, it might be worth including this source of funding.

## **Capital assets and securities**

These are usually included as a source of funding, since it is possible in theory to obtain financing from capital. However, in reality, this is treated as a residual source.



# Legal framework for the designated operator

## 6.1

### Legal model

The various forms that can be adopted are as follows:

#### Unit within a ministerial department

If the country decides to keep the public postal service as an integrated unit attached to a ministry (not recommended), it is important for the regulatory framework to exploit all the legal possibilities to afford it greater managerial flexibility:

- Delegation of the ministerial official's powers to the head of the postal unit.
- As far as possible, the ministerial official should control only actual results compared with expected results, rather than every decision taken.

#### Public enterprise

An assessment should be made of the risks involved in moving directly from being a unit within a ministry to becoming part of a commercial enterprise. A transitional stage enabling the designated operator's managers to familiarize themselves with commercial practices may be advisable.

Some countries have adopted this intermediate, transitional model before becoming designated operators within commercial companies. This will enable them to achieve a greater level of maturity gradually, before moving on to a phase of greater flexibility and autonomy.

Countries should take into consideration the level of maturity of an organization's culture and the capacity of its human resources to meet the challenges involved in the transition to a corporate model with greater autonomy. Although there is no single model, there are different degrees of operational and financial management flexibility and independence, in terms of the level of autonomy granted in each country and its specific legal framework for this type of body (autonomy as regards personnel, finances, organization, recruitment and price approval).

## Commercial company

This is the most appropriate legal model, and is being gradually adopted in most of the countries. It allows competition with private operators under similar conditions, gives the designated operator its own legal personality, separate from that of the state, and allows it greater autonomy to achieve its objectives.

## 6.2

### Operational arrangements

Depending on the legal model the country chooses for its designated operator, 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.

As we have already mentioned in the previous point, the designated operator is advised in any case to have the legal status of a commercial enterprise, rather than a public administration.

Similarly, ever since the 1989 Washington Congress, the Universal Postal Union has recommended that the legal status of its designated operators should allow them greater managerial and financial autonomy.

The degree of flexibility of the legal model chosen should be based on the extent to which the operator can determine its own staff policy, organizational autonomy to establish its business structure, financial autonomy and, finally, managerial autonomy to establish its service provision strategy.

Efforts should be made, particularly in the case of markets open to competition, to ensure that the regulatory framework boosts the designated operator's business management capacity and that the training process is stepped up to keep abreast of the competition from other operators.

The designated operator's regulatory framework should enable it to:

- decide on and amend its organizational structure;
- determine its business and service provision strategy;
- determine its personnel policy (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.); and
- enter into agreements and partnerships with national or foreign operators or share infrastructure, optimize resources, provide services, etc.

# Guide to content to be included in the postal law

## Justification

- Brief description of the need to approve the law (diagnosis of the country's postal sector situation)
- International obligations entered into by the country
- The draft law relating to the country's postal sector reform process
- Brief description of the content of the law

## General provisions

- Aims and objectives of the law
- Legal status of postal services
- Classification of postal services
- Definitions of postal terminology used in the law
- Items prohibited from circulation within the postal network

## Basic rights of postal service users

- Confidentiality and inviolability of postal items
- Limits
- Ownership of postal items
- Right to information
- Treatment of inquiries

## Postal market system

### Obtaining postal operator status

- Licences and authorizations
- Renewal
- Conditions of authorization or licensing
- Fees and updates
- Public register of postal operators

### Tariffs

- Universal postal service (reserved and non-reserved)
- Non-universal services
- Exemptions from payment

## Violations and penalties

- Competition and procedures
- Type of administrative violation (very serious, serious, minor)
- Penalty types and rates
- Limitation period for violations and administrative penalties
- Precautionary measure

## Universal postal service system

### Definition and services

- Definition
- Services included

### Service delivery conditions

- Acceptance obligations
- Delivery obligations
- Delivery time and reliability objectives
- Inquiry treatment objectives
- Postal item security objectives
- User information objectives

### Financing conditions

- Reserved area (if the country opts for a reserve margin)
- State contribution
- Funds for financing the universal postal service
- Operators' contribution

### Designation of operator to provide the universal postal service

- Designation (term and grounds for termination)
- Obligations of designated operator
- Special rights of designated operator

### Final provisions

- Exemption provisions
- Ratification of international acts
- Validity

# Guide to the content of the postal regulator's regulatory framework

## **Justification**

- Diagnosis of the existing situation (absence of postal regulator, dispersal of regulatory functions, incomplete regulatory functions, etc.)
- Importance of the regulatory function for driving forward and organizing the postal sector
- Brief description of content

## **Creation and legal status**

- Creation and affiliation
- Independence and autonomy
- Legal status

## **Structure and organization**

- Organizational structure (directorate, management)
- Allocation of functions
- Status of the organization's personnel

## **Functions and responsibilities**

- Mission and functions
- Responsibilities (recruitment, personnel management, etc.)
- Working procedures
- Resources for decisions taken by the regulator

## **Funding**

- Own sources of funding
- State funding

## **Final provisions**

- Exemption provisions
- Validity

# Recommendations concerning the operational independence of the postal regulator

## Declaration of the regulator's independence

- Specific provision with the force of law declaring the independence of the organization and its members.
- The capacity to act, in pursuance of its objectives, with organizational and operational autonomy and full independence from public authorities and market operators.
- Its own legal personality separate from that of the state.
- Can be attached to a ministry, but not under its supervision or control.

## Attachment to a ministry

- The regulatory body should not be attached to the ministry responsible for the management, appointments or lodging of shares of the designated operator.

## Appointment and removal of members

- Conditions of appointment stipulated in advance and approved by parliament.
- Appointment by the government and not by an official of the ministry to which the regulator is attached.
- Establishment of a non-renewable term of office for the management bodies, which exceeds a parliamentary term (political disassociation).
- Specific grounds for removal.

## Independence of members

- Certify the independence of its members, substantiating their lack of financial, political or personal interests in the sector.
- The chair, board members, directors and employees who retain the right to reserve or restore professional relations or economic benefits with entities within the regulated market should notify the regulator's governing body accordingly, as board members are obliged to disclose this fact.
- Members should be individuals of recognized standing and professional competence accredited by parliament or the legislature.
- Periodic monitoring should be carried out by an elected democratic body such as parliament, to ensure their impartiality and enhance their credibility.

## Commitment and incompatibility

- Directors should be fully committed to carrying out their duties and subject to the rules on incompatibility.
- Directors should receive financial compensation for refraining from carrying out private professional activities relating to the regulated sector

## Board meetings

- Members of the government and senior public officials may not attend board meetings.
- Neither staff members nor members of the governing bodies may seek or accept instructions from any public or private body.

## Regulatory advisers

- Advisers or administrators from the supervisory ministry or the postal regulator may not sit on the designated operator's management board.

## Decision-making

- Transparency in the decision-making process (objective, predetermined rules setting out responsibilities)
- Make decisions publicly, giving clear reasons for them.
- Important decisions should be taken by a collective body.
- Ensure that decisions can be revised or suspended through legal channels only and not by other administrative bodies.



**Module IV**  
Development of the Designated Operator  
and Universal Postal Service



# Introduction

The postal sector has been going through major changes over the past several years.

Globalization, market liberalization, reductions in trade barriers, new technology and expansion programmes by major postal market operators are only a few examples of the types of change driving efforts to redefine the role of postal regulators and operators, and of the designated operator in particular.

Necessary reforms should be made quickly while acknowledging that it is impossible to make any changes without clearly understanding their ramifications in the prevailing climate in each country. A study and discussion process is important as a way of charting future courses of action. The degree of governmental and public interest in the postal sector hinges on the proper handling of this process.

Every country's postal environment has certain features that make it unique. In addressing the sweeping, fast-paced changes currently under way in the postal sector, it is important to bear in mind that not all such changes are propagated in the same way, with the same intensity and at the same pace on all markets. Some countries have chosen to take "one-off" measures, which have thrown the entire postal industry into disarray, causing visible harm to the entire population. These countries opted to forego an in-depth study of nationwide conditions and careful thought and reflection on the best options for meeting their future goals. One of the main tasks of country leaders in charge of instituting reform processes is to understand the magnitude of the impact of these types of change on the postal environment, pinpoint current and potential future obstacles and drivers on the local market, and determine how long it will take for the effects of envisioned reforms to be felt.

This module is designed to bolster national efforts to study existing conditions with a view to developing sound alternatives for restructuring the postal sector and the universal postal service operator.

Chapter 1 discusses the foundations for the development of the designated operator. The object is to assess the capacity of the designated operator, in the face of existing threats and opportunities in the surrounding environment, to frame strategies designed to consolidate its strengths and minimize the effects of its weaknesses.

Chapter 2 discusses the process of reforming the designated operator in the light of the internal and external environment (the postal market and postal sector) at the country level. The targeted output is an up-to-date, specific assessment of the designated operator and its targeted market and the development of alternative scenarios for use in the planning process discussed in chapter 3.



# 1

## Foundations for development of the designated operator

An organization is not an isolated entity. Many different factors can significantly affect market behaviour, management performance and satisfaction of market needs. Thus, it is essential for a business organization to understand and position itself with respect to different scenarios in order to successfully compete within its sphere of activity.

This chapter discusses these conditions and criteria for expanding the organization and its service operating function with a view to promoting self-sustainable development driven by sound business policies and guidelines.

The need for more information, faster communications and closer contact is creating new social attitudes and customs with powerful effects on consumer behaviour.

**In general, people are looking for time-saving amenities designed for convenience and, thus, for improving their quality of life.**

In the postal environment, as people and nations are brought closer together, this is creating a growing need to reconcile business and social interests. On the one hand, the designated operator needs to engage in business activities designed to ensure its sustainable development while, on the other hand, it cannot lose sight of its role as a so-called "national integrator" responsible for engendering and promoting social cohesion and integration at the countrywide level.

Defining and creating the necessary conditions for the establishment of the universal postal service is the responsibility of the government, which must also lay the foundations for its sustainability as part of a broad-based nationwide social programme. The designated operator is responsible for providing the universal postal service in accordance with the defined conditions, while the regulator ensures that those conditions are met. Public demand for goods and services, combined with the need to expand business and trade, is creating a thirst for knowledge with respect to the rights of all segments of society to have access to services whose provision is incumbent upon the government.

### 1.1

#### Surrounding environment

This section looks at how society influences businesses in general and postal operators in particular.

In today's new business climate, customers do not always settle for what companies are offering. They are generally looking for low-cost, customized solutions tailored to their needs.

This poses a major challenge to the designated operator, particularly in the light of its social responsibilities arising from its universal postal service obligations.

#### 1.1.1

##### *Society and the economic model*

Any sort of change has an impact on society. The first reaction to change is one of scepticism, and a "conviction" that it is merely a passing phase. In time, the change may become an integral part of people's lives. As a rule, organizations able to adapt to change and capitalize on opportunities presenting themselves in the surrounding environment, while dodging potential threats, will survive and prosper. This often means changing their business focus, revising their strategies, assimilating new technology and reshaping their organizational structure to enable them to position themselves more advantageously on the market.

### *The postal sector and conditions in the surrounding environment*

The situation outlined above has prompted discussion on the need to revise current regulatory, business, organizational and technological models for the postal sector in countries around the world.

Policymakers and government officials in many countries feel that the solution to the current situation in the postal sector is the same as for other sectors, such as the telecommunications, transportation and power sectors. This view is based on the premise that market liberalization alone should satisfy public demand, given the interest expressed by private enterprise in engaging in lucrative postal business activities.

However, decision makers often tend to overlook the need to also provide access to services in remote communities at reasonable prices and subject to reasonable delivery conditions. There are more than enough examples of experiences which demonstrate that this approach is a departure from the principle of universal service coverage endorsed by UPU member countries at Union Congresses.

Moreover, the lack of provisions for including the postal sector in government development policy has made the current postal service model obsolete before its time, resulting in a deterioration in service quality, increasingly limited service offerings and a lack of motivation on the part of the postal workforce, and creating a pressing need for change.

Due to the attachment of designated operators to cabinet ministries in charge of matters which, in many cases, have very little to do with postal affairs (security, police, justice, transportation and public works, etc.) and decision making problems stemming from their lack of autonomy or legal standing, government has spent very little time on discussions of postal affairs, relegating postal sector priorities to secondary importance.

Government efforts to balance the budget and limited investment funding are also to blame. Keeping a postal service going with increasingly large budget deficits puts more pressure on the public treasury and the taxpaying public.

The elimination of the postal monopoly without establishing any compensatory mechanisms has further aggravated this problem, with a large part of the revenues generated by lucrative postal business activities going to private enterprises instead of helping to defray the cost of providing basic postal services to remote areas, thus destabilizing the delicate financing mechanism established under the current postal service model.

At the same time, the recent revolution in information and telecommunications technology, while threatening traditional, physical letter mail and message traffic, has also presented the designated operator with countless new business opportunities, such as hybrid mail, e-commerce and integrated logistics services. This same technology has also given rise to a new, more sensible, better informed and more sophisticated, yet more demanding, consumer public.

Clearly, the regulatory, business, organizational and technological model for the designated operator needs to be adapted to these new phenomena. Faced with a whole new 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 in an effort to reconcile social objectives stemming from universal postal service obligations with corporate objectives driving postal business activities in a competitive environment. While such models are not necessarily identical, they have a number of core elements in common, such as:

- i **the gradual phasing out of the postal monopoly and its replacement with other compensatory mechanisms;**
- ii **guaranteed universal postal service financing by strong designated operators;**
- iii **the separation of regulatory and operational functions which were traditionally performed by the designated operator;**
- iv **the expansion of the scope and objective of the regulatory function to encompass the entire postal market;**
- v **a clear vision of the obligations of the designated operator with respect to the provision of universal access to basic postal services;**
- vi **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.);**
- vii **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;**
- viii **the introduction of cost-accounting principles, with separate cost determination for basic services, different universal postal services and services open to competition;**

- ix **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);**
- x **the expansion of service offerings to make better use of existing infrastructure;**
- xi **the updating of technology across all services, especially value-added services (hybrid mail, e-commerce, integrated logistics services, financial services and miscellaneous derivatives of different combinations of these services in value and supply chains);**
- xii **the modernization of administrative and production infrastructure.**

In many countries, designated operators have not yet risen to the level of an independent enterprise, continuing to operate as a department within a cabinet ministry, dependent on the operations of slow-moving government bureaucracies, which is a far cry from the economic principles driving the business operations and commercial practices of a modern postal enterprise.

### 1.1.3

#### *Challenges faced by the designated operator*

In the face of the current postal environment, it is important for each country to find ways and means of promoting the sustainable development of its postal sector for the public good by strengthening its designated operator, whose mission is to serve all segments of the population by providing the universal postal service, and laying the foundations for the participation of private service operators on the postal market subject to proper oversight and regulation.

The figure below sums up the challenges faced by the designated operator in adapting to today's new postal environment and the core elements of the postal reform process which need to be

addressed in developing an appropriate new domestic postal service model.

The reform process should be implemented in phases, with clearly defined but not necessarily sequentially arranged objectives, some of which will need to be pursued simultaneously.

As part of this process, it will be necessary to:

- a. raise government awareness of the need for a new postal service model;
- b. establish an agenda for discussing postal-related legal issues, including:
  - › the shaping and assignment of regulatory and operational functions;
  - › the definition of the universal postal service;
  - › the characterization of services and operators targeted by regulatory activities;
  - › the development of universal postal service financing mechanisms (reserved areas, allocations of government funding, tax waivers, etc.);
  - › the definition of the legal status and functions of the designated operator;
  - › other related issues (franking privileges, consumer rights, etc.);
- c. develop an agenda for the discussion of organizational, marketing and operational models for the designated operator, including:
  - › the study and definition of concepts and objectives for updating service and product lines, including the incorporation of new postal technology responsive to customer needs;
  - › the study and identification of new technology to be incorporated into postal production and business management processes;
  - › the development of a new organizational model for the designated operator;
  - › the framing of human resource development, training and motivational strategies for the designated operator.



## 1.2

### Growth factors

The development of the designated operator is a multi-phase process. These phases are interrelated, and the successful completion of each is an engine of growth.

This chapter discusses the concept of corporatization, postal business activities, customer demand, postal products and services and their production process, inputs and linkages with targeted outputs, and the business focus of the designated operator.

### 1.2.1

#### Concept of corporatization

The period of duration of a postal enterprise is perpetual to ensure continued service delivery, which helps foster social acceptance. From an organizational standpoint, an enterprise is a legally constituted, organized collection of commodities, equipment, assets and human resources designed to produce goods and services. The economic profit motive is a product of its corporate nature and of the commercial orientation of its business activities.

The concept of corporatization is relevant to all postal organizations, whether or not they are actually referred to as corporations. Historically, postal organizations have evolved from government offices into commercial enterprises and corporations, as illustrated in the following figure:

Ministry or department	Enterprise	Corporation
<ul style="list-style-type: none"> <li>Attached to government</li> <li>Few if any commercial practices</li> <li>Poor quality of service</li> </ul>	<ul style="list-style-type: none"> <li>Some autonomy</li> <li>Sound commercial practices</li> <li>Better quality of service</li> </ul>	<ul style="list-style-type: none"> <li>Full autonomy</li> <li>Full commercial practices</li> <li>High quality of service</li> </ul>

To ensure their operational flexibility, designated operators require more autonomy. There is more than one approach to accomplishing this. Each country must decide on the type of organization best suited to local conditions and needs, to its market and to the government's policy objectives.

The importance of laying the necessary legal, administrative and economic foundations to enable the designated operator to hold its ground in the face of increasingly strong and sometimes predatory competition cannot be overemphasized. Failure to do so could be detrimental to the government, the consumer public and the general population.

The challenge for designated operators is to strike a balance between the commercial orientation of a modern postal enterprise with clear business and profit-making objectives and its other side, that of an enterprise with a high social consciousness and a public responsibility, including governmental obligations relating to the universal postal service – its *raison d'être*. In the business world of designated operators, these two dimensions are not contradictory but, rather, mutually complementary. The closer the designated operator is to the public, the better its business prospects, particularly at this time when the Internet is beginning to generate business in which the designated operator can serve as a logistics service provider in transactions between buyers and sellers for the physical delivery of merchandise purchased online.

The designated operator must serve all segments of society. To do this, it will need to look at certain areas as the basis for improving its efficiency and productivity.

The top management of the designated operator should be continuously asking itself the following questions in pursuit of its business objectives:

- **How up-to-date is the technology used in the service delivery process?**
- **What are the obstacles to integration in each phase of operations?**
- **How well trained is the workforce compared with the competition?**
- **What are the market risks?**
- **What administrative problems does the current production process engender?**
- **Is the enterprise gaining or losing value?**

## 1.2.2

### Postal business areas

The business activities engaged in by the designated operator may include various product lines, as part of the service portfolio available to its customers. Postal products can be classified in "families" as a way of targeting sales efforts and facilitating regular evaluations of the products available to postal customers.

The following is a suggested classification scheme for this purpose:

Family	Product and service line
Messages	Letters, postcards
Express mail	EMS (documents and goods)
Parcels	Express mail, ordinary mail
Direct marketing	Printed matter, direct mail advertising, business reply mail, COD service
Financial services	Money orders, cheques, bill payment service, savings
Products	Philately, envelopes, third-party products, etc.
Electronic services	Digital certification, electronic mailboxes, etc.

This type of market segmentation is a way of visualizing the performance of each product, setting priorities for promotional efforts on a particular market and facilitating marketing activities.

There is no need for separate flows in operating processes for postal products and services. A shared operating process can cut costs and optimize the use of resources, while respecting the individual features and requirements of each product and service.

There has been some fluctuation in activity in the message service segment of the postal market. Seriously under threat from the Internet and related applications, this segment has contracted at an average rate of 3.3% per year. Some countries have also seen a fall-off in the volume of letter mail owing to the growing number of private operators present on the market. This means that in addition to the market shrinking, the designated operator is losing market share to the competition.

The importance of so-called "letter mail" products to the postal industry should make them the focus of service offerings. Each country will need to decide whether all or part of such services should be reserved, where applicable, for the designated operator, establishing the conditions, limits and features of this postal business area.

The need for affordable pricing to ensure the accessibility of universal postal services requires an in-depth study of ways and means of making service delivery economically viable. This, in turn, will require a methodical evaluation of the current universal postal service financing system.

The designated operator also needs to focus on the parcel segment, to strengthen the viability of mailing, transportation and delivery services for postal parcels. Greater versatility and the availability of more shipping and delivery options are guaranteed to improve its competitiveness in this niche market. Factors such as capacity, weight, packaging, flow dispersion and the number of transfer or transshipment points are all elements that need to be taken into account in the preliminary cost analysis for this service.

Such efforts make sense in today's postal environment, in which there are no longer any national boundaries as far as postal service operators are concerned, particularly in the letter mail and parcel segments of the postal market. Customer needs for faster, safer, higher-quality services have been driving the emergence of postal mega-businesses, which generally offer global services for certain specific types of products whose domestic markets have been opened up to competition. Thus, globalization is a fact, and public postal operators need to be especially well prepared to meet this challenge.

## 1.2.3

### Customer needs

Designated operators, particularly those operating under close government supervision, tend to develop services without "listening" to their market. They speculate as to market needs for a particular type of service, develop the service, do little (if any) advertising and then cannot understand why its useful life is cut short.

The best way to succeed with a new service is by conducting market research, which is one of the most important foundations for decision making processes.

The studies and evaluations conducted as part of the market research process require the collection of the following types of data:

- **Quantitative and qualitative market data based on facts and their interpretation;**
- **Data on market behaviour and its impact on sales and profits;**
- **Customer opinions on the postal enterprise, its products, workforce, policies and competency;**
- **Studies of market trends, taking into account the global marketplace, successful products, and differences in product quality and pricing;**
- **Suggestions with respect to the new product and market from suppliers, sellers and consumers, consolidated through market research to produce aggregated data on the rationale for launching the product, market trends, and the need to expand the product line and take advantage of available production capacity;**
- **Data on seasonal factors;**
- **Data on market area potential and expected sales by product, region, area, period and corresponding purchasing potential.**

Market research by the designated operator on a product about to be launched on the market should help answer the following types of questions.

**a. Marketing issues:**

- › **Is there a market for the new product?**
- › **How big is the market for the product?**
- › **What basic, operational and commercial features should the product have?**
- › **How much competition is there for the product?**
- › **What market segment is being targeted and can be penetrated by the product?**
- › **At what price should it be sold?**

**b. Operational issues:**

- › **Does the postal operator have the capacity to deliver the service as designed?**
- › **What is its production cost?**
- › **Can it meet a specified standard of quality?**

**c. Operational and human resource-related issues:**

- › **Is there trained labour available for this production process?**

**d. Marketing and human resource-related issues:**

- › **Is there a trained sales force for the new product or service?**

**e. Marketing and financial issues:**

- › **What sales volume is needed to recoup the original investment in the product?**

**f. Operational and financial issues for top management:**

- › **Do the expected benefits of the product justify necessary investment?**

This set of questions is an example of the effective integration of different organizational units and factors in the process of launching a new product onto the market.

It is important that the study process also include an examination of the situation of all major competitors.

The next step after establishing the product's acceptance is to frame a marketing policy and settle all issues with respect to product pricing and discounts (for bulk, longer delivery times, presorting, etc.).

Hybrid mail is a solution designed to meet changing customer needs and is an indication of how postal operators are adopting new information and communications technology. In addition to hybrid mail, there are new electronic postal services in the business-to-business (B2B), business-to-consumer (B2C) and other segments, which can be exploited by the designated operator. The factors to be taken into account in this technology-driven area include:

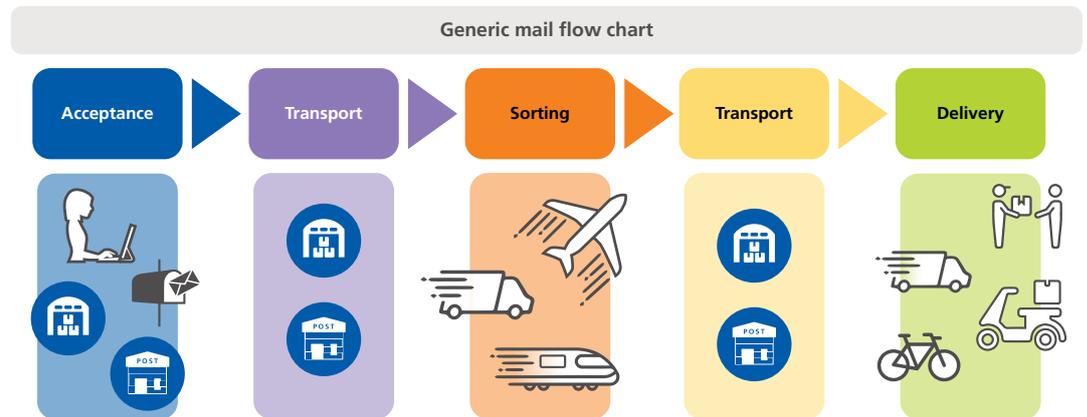
- changes in technology;
- any research centres, institutes and universities which are or may be involved;
- existing technological research programmes;
- potential economies of scale;
- the extent of skilled labour requirements;
- capital costs of market entry.

In short, satisfying customer needs means gaining an understanding of such needs through market research and study and being prepared to meet identified needs.

## 1.2.4

### *The postal product and production process*

The next step after establishing the acceptability of the product to be launched onto the market and examining other existing products is to standardize the production line. The designated operator's postal service operating process is graphically depicted in the following flow chart illustrating the different stages of the basic mail acceptance, sorting and delivery process.



**The following factors will need to be taken into account for a more thorough evaluation of service operating conditions:**

- a. **Operating facility**
  - › **Location and corresponding advantages**
  - › **Size (capacity)**
  - › **Safeguards against strikes, sabotage, fire, etc.**
  - › **Pleasant work environment**
  - › **Maintenance of buildings and machinery**
- b. **Facilities and equipment**
  - › **Extent of use**
  - › **Are they used properly? Are they modern and state-of-the-art?**
  - › **Are they in good condition?**
  - › **Preventive maintenance programme**
  - › **Corrective maintenance**
  - › **Level of spending on maintenance**
  - › **Occupational safety and security measures**
- c. **Production process**
  - › **Productivity index**
  - › **Usage of installed capacity**
  - › **In-plant layout**

The study of these factors is followed by an effort to adapt the process flow to modern-day realities, to improve service operating conditions.

Technological development should be an integral part of any ongoing, well synchronized planning and reform process. It makes no sense to invest in digital processing technology or automatic sorting equipment if the country does not even have a postcode system. Nor do such investments make any sense without a sufficient volume of mail to justify such expenditure from an economic standpoint.

Thus, the satisfaction of market needs requires the promotion of investment in appropriate technology (track and trace, online payment services, hybrid mail, financial and electronic postal services, etc.) suited to prevailing conditions.

UPU technical cooperation activities in this area are underpinned by a number of countries ready to help set priorities, design operational structures and share information and technology. Designated operators which have not yet mastered this type of technology should avoid trying to develop their own solutions. Designated operators in other countries have already tried and tested a number of different options and are ready and willing to share their knowledge and experience. This could help to prevent the unnecessary wastage of time, money and effort.

## 1.2.5

### *Inputs and outputs*

The designated operator requires a number of inputs for service operation and the conduct of its business activities.

There is a whole list of required operating equipment for the performance of various types of work (chairs, mail-opening tables, mail sorting tables, carts, stacking equipment, etc.) Buildings must also meet certain physical requirements to create a productive work environment.

Available resources need to be focused on operating processes for service delivery by the designated operator.

A common mistake is to have modern, state-of-the-art administrative equipment while lacking the necessary operating equipment. Operations should get top priority in the allocation of resources by the designated operator.

Thus, governments must ensure the availability of the investment funds required for the designated operator to expand and build market share with a view to becoming a self-sustaining enterprise. Both the government and the designated operator need to realize that human resources are the main factors of production and engines of development and, thus, their most important asset.

Accordingly, postal workers must be properly prepared and trained to perform their assigned tasks to minimize the risk of investment capital loss. An assessment of the postal operator's human resource management system should examine the following factors:

- **Attitudes towards, and the importance attached by senior management to, the human factor in the organization;**
- **The effectiveness of recruitment, screening and hiring programmes and of training and promotion programmes;**
- **The legal status of postal workers (are they civil servants?);**
- **The turnover rate;**
- **The absentee rate;**
- **The magnitude and types of worker grievances;**
- **Promotion prospects, the job ladder and wage scale;**
- **Benefit package;**
- **Existence of appropriate replacements for key job positions;**
- **Organizational climate and health;**
- **Knowledge, attitudes and behaviour with respect to policy guidelines;**
- **Worker training and skills;**
- **Training and skills of sales personnel.**

As a rule, the level of inputs should be commensurate with the level of output. An excess of inputs in general and of human resources in particular raises operating costs and lowers productivity, compromises process safety, requires closer supervision, and causes duplications of effort.

It is best to have just enough well-prepared, productive, well-paid workers.

## 1.2.6

### *Business focus*

The goal is to motivate and prepare the designated operator to rise to the challenge of doing business in a competitive marketplace with a view to making its operations self-sustaining, while continuing to ensure the provision of the universal postal service.

The success of efforts by the designated operator to improve service quality, build market share, increase revenues and better satisfy customer needs, while continuing to provide the universal postal service, should boost its self-confidence and its value in the eyes of the public.

This is a "fail-safe" approach to strengthening the designated operator and improving its competitiveness, its responsiveness to change, and its ability to adapt to its surrounding environment and take on and meet the challenges it must face in the public interest.

## 1.3

### Service operation

#### 1.3.1

##### *Focus of the designated operator*

Every country has an organization in charge of providing postal services governed by a specific legal framework that establishes its duties and responsibilities.

In the emerging postal environment, it is vital that legislation governing the designated operator give it a certain amount of operational flexibility, or enough freedom of action to enable it to compete with operators on the postal market on a level playing field. This same legislation will also need to define universal postal services and, if applicable, the scope of the reserved service area financing the cost of the universal postal service.

Ineffective legislation hampering the development of the designated operator will create service operating deficits representing a drain on the public treasury, weakening and eventually preventing the designated operator from fulfilling its universal postal service obligations. The competition is always looking to take advantage of any opportunity to paralyse the designated operator in order to dominate the market, sometimes to the detriment of postal customers.

The existence of a regulatory body is fundamental, but even if there is not one, challenging yet realistic and attainable business goals must still be set for the designated operator while acknowledging its independent business management authority. The legal framework governing the postal operator will be a key factor in its success.

The government must enact legislation for the designated operator in keeping with national constitutional provisions enabling it to compete on an equal footing with private service operators on the postal market. Simply put, the designated operator should be governed by private rather than public law, like the laws governing its private competitors.

#### 1.3.2

##### *Performance of the designated operator on the postal market*

Goals set for the designated operator should be dynamic and time-specific. Targets with respect to service delivery conditions should be public knowledge so that the public can help monitor compliance and come to realize the importance of the postal operator's aspirations and needs.

Each country's designated operator is part of a global network with which it needs to maintain operational ties. It also has a domestic service network unparalleled by that of any other postal operator. As a result, it is not uncommon for private service operators to occasionally use the infrastructure network of designated operators, giving the latter genuine competitive advantages. The social interest of bringing people together and providing the country with efficient and effective communications services notwithstanding, the operation of universal postal services must be predicated on an appropriate system of compensation to ensure the viability of service delivery.

The question of how to secure necessary funding without raising the cost to the consumer will need to be explored in depth. There is no standard formula for success, only a short list of suggested options, each of which has its advantages and disadvantages, as discussed at length in module II of the guide dealing specifically with the universal postal service. Examples include:

- **direct government subsidies;**
- **contributions payable by the postal service industry;**
- **reserved services operated under an exclusive franchise;**
- **income generated by profit-making operations in postal business areas open to competition.**

The government will need to pay special attention to international postal services. Operational structures for the handling of international express items will need to provide a high-quality service. Designated operators are losing customers that send international items due to the poor quality of the services provided by designated operators in other countries, which is causing customers to turn to competitors despite higher prices.

In such cases, there are three losers, namely the designated operator in the country of origin (which loses customers), the designated operator in the country of destination (which loses credibility and income from terminal dues and delivery fees) and the customer, who is forced to pay more for an equivalent service to that provided by the designated operator. The prices and standards of quality of the designated operator serve as benchmarks for other service operators. Thus, the better the quality of the services provided by the designated operator, the better for the general public.

### 1.3.3

#### *Enabling environment for fulfilling the function of the designated operator*

In order for the designated operator to properly perform its role, it needs to take stock of where it is and in what direction it is heading. An important step in this regard is to comprehensively assess its services, including the delivery conditions, quality standards, coverage and universality of those services; its self-awareness; and other players on the postal market.

A reform programme for the designated operator will require broad-based discussion at all levels of its workforce to overcome any natural opposition. The goal is to raise awareness and to sensitize and appease all employees with a view to overcoming any obstacles. The best approach for ensuring a successful outcome is transparency.

The government, which has the main responsibility for laying the necessary groundwork for social integration, to bring the nation together, will need to work through its various cabinet ministries and government bodies to help reshape the designated operator to function in a competitive environment as described in this guide. This is not simply a task for the ministry responsible for the postal sector, but one for all cabinet ministries to work towards together.

A special effort must be made to build awareness of the importance of enacting enabling legislation as the basis for the postal reform process. The existence of a regulatory agency will ensure that conditions on the postal market are in keeping with the provisions of such legislation.

# Reforming and developing the designated operator

## 2.1

### Assessment

The sustainable development of any organization is predicated on a knowledge of its surrounding environment, of changes affecting the organization, of the needs of the various players in such an environment and, last but not least, of its strengths and weaknesses in meeting such needs. Thus, the first step in the development of the designated operator is an assessment of its status, including an analysis of its current strengths, weaknesses, opportunities and threats (SWOT analysis).

This requires a series of studies to establish current conditions on the postal market and the relative position of the designated operator compared with other market operators. A more comprehensive assessment means a more clearly defined and better-organized effort to help put the designated operator on the path to development.

The objective of any assessment is to evaluate the past and present state of a particular phenomenon, in this case, the postal market and the designated operator. Thus, the goal at this stage is not to speculate as to the future, which is a task better left for the prospective analysis discussed in section 2.2 below and for the planning process. Accordingly, this phase of work does not include projections and forecasts.

Market research is an ongoing, unending process. In-depth market research helps strengthen the designated operator's market management culture (competitor intelligence) which, in turn, helps it frame sounder strategies and build better relations with all parties influencing its performance.

The following pages contain basic guidance for compiling quantitative data (physical volumes and values) and qualitative information on the domestic postal market. These general guidelines are presented for reference purposes only and, where necessary, must be adapted to specific conditions in each country.

### Step 1 – Demarcation of business areas

Current service offerings by the designated operator are designed to satisfy consumer needs, which basically involve:

- communications;
- the movement of goods and merchandise;
- financial transactions;
- sales of other postal-related products.

The addition of specific qualities and features to these basic needs shapes the types of products and services developed by the designated operator. Thus, a communications need may be met by a letter, printed matter, an EMS item or even a parcel. Though the basic need is the same, each of these services, with its specific qualities and features, satisfies different groups of consumers, broken down into market segments or sub-segments. This breakdown of so-called "business areas" facilitates dealings with each market.

### 2.1.1

#### *Research on the postal market, needs and trends*

Each country's postal market has its own unique features shaped by the activities of its designated operator and by economic, social, geographic, technological, political and legal factors.

A clear understanding of these factors is essential for an assessment of consumer needs, market potential, favourable and unfavourable service operating conditions, regional differences, different business areas, and trends with a positive and negative impact on the future of each such area.

The core business areas on the postal market are:

**Messages:** This includes letters (domestic and international), postcards and registered letters, as well as envelopes, aerogrammes and related products (communications).

**Direct marketing:** This includes all types of printed matter, business reply mail and non-priority items containing other business advertising and promotional, political or humanitarian materials (communications).

**Parcels:** This includes non-priority parcels weighing up to 30 kg, packaging materials, adhesive tape and other related products (physical movement of goods and merchandise).

**Express mail service:** This includes premium (door-to-door) urgent delivery services for envelopes and parcels, referred to as domestic and international express mail service, and other products (physical movement of goods and merchandise/communications).

**Financial services:** This includes funds transfer services such as money orders, third-party payment processing services for sending and receiving payments, and other postal financial products (financial transactions).

**Philately and convenience items:** This includes sales of products not directly related to the postal operator's own core business areas, such as philatelic products and other products marketed through the postal network.

These core business areas can be expanded to include other areas such as retail government services, integrated logistics, electronic postal services and so on. Likewise, where necessary, they can be further subdivided for a better understanding of niche markets with similar features.

However, the process of unbundling or segmenting the business activities of the designated operator is best approached in phases, beginning with the collection of more aggregate data which, once successfully analyzed, can be broken down during a second round of studies and analyses.

The output from this step is a table showing the different business areas in that particular country, the products and services included in each area and the definition of each corresponding product or service, as illustrated in the example provided below. Insofar as possible, the terminology used should be consistent with standard market usage. For example, giro is a "money order" in postal terms and a "funds transfer" in banking terms. This thoroughness will facilitate the collection and processing of competitor intelligence in steps 8 and 9.

Business area	Products and services	Definition
Messages	Domestic letters	Current, personal correspondence weighing up to 2 kg
	International letters	.....
	.....	.....
Direct marketing	Printed matter	.....
	Business reply mail	.....
	.....	.....
.....	.....	.....

The package of products and services depicted in this table must represent a minimum of 80% of the assessed value of the market in question and, together, must account for at least 80% of the earnings of the designated operator.

## Step 2 – Mapping out of customer segments

The postal market is divided into two main blocks. The first is that of individuals requesting products and services primarily through the post office network. This consumer group makes up the retail segment of the postal market, which can be broken down by income bracket. This type of breakdown will be necessary only if this market segment shows signs of any income elasticity. For example, looking at the message service market, it may be necessary to ascertain which income brackets use a particular product more frequently for the purpose of developing better marketing strategies. This type of breakdown should not be made based on arbitrary or random subdivisions.

Wherever possible, income brackets established by the national (official) census bureau should be used to facilitate cross-tabulations of statistical data and analyses of study findings. We suggest that the first market analysis include only a generic retail/household/individual category, breaking down this data in ensuing phases of the study process.

The second block is that of businesses requesting products and services through post offices, as well as through special customer service units or arrangements.

This block represents the wholesale segment, which can be broken down by branch of industry or type of institution. The breakdown of this market segment will depend on the focus of niche targeting efforts. Thus, the breakdown of the letter-mail segment will not necessarily be the same as that of the parcels segment, since power companies, for example, while large consumers of message services, make very little use of parcel services. Likewise, the study of the message segment may necessitate breaking down the "financial institutions" category into banks, credit card companies, insurance firms, pension funds and collection agencies. Wherever possible, standard industrial and organizational classifications established by the official research institutes or market research companies of the country in question should be used.

We suggest that the first market analysis include only the customer categories indicated below, tailored to country conditions and the business area in question (messages, direct marketing, parcels, express mail service, financial services, philately and convenience services), breaking down or consolidating the proposed classifications as applicable.

<b>Public utilities</b>	Power companies
	Water and sewerage companies
	Gas supply companies
	Conventional telephone companies
	Cellular telephone companies
<b>Other public service enterprises</b>	Cellular telephone, electronic locator services, etc.
<b>Financial institutions</b>	Banks
	Credit card companies
	Insurance companies, pension funds
<b>Other financial institutions</b>	Brokerage firms, collection agencies, etc.
<b>Government agencies and related organizations (not included in previous categories)</b>	Social security administration
	Judicial authorities and notary offices
	Legislative bodies and political parties
	Government offices (national, provincial and local)
<b>Other</b>	Transit authorities
	Police departments
	Other organizations not included in any previous categories
<b>Other</b>	Hospitals and clinics
	Religious and charitable organizations
	Educational institutions, universities
<b>Other</b>	Newspapers, magazines, publishing and graphic design firms
	Businesses and industries not included in any previous categories

### Step 3 – Breakdown of market areas

The analyses of business areas (step 1) and customer segments (step 2) are followed by a break-down and study of market areas.

This type of study is important, for example, in evaluating the performance of competitors compared with that of the designated operator, to establish their strengths in servicing specific areas and customers and in providing specific services.

The market can be broken down by province, department or city, depending on the concentration of demand for postal products and services.

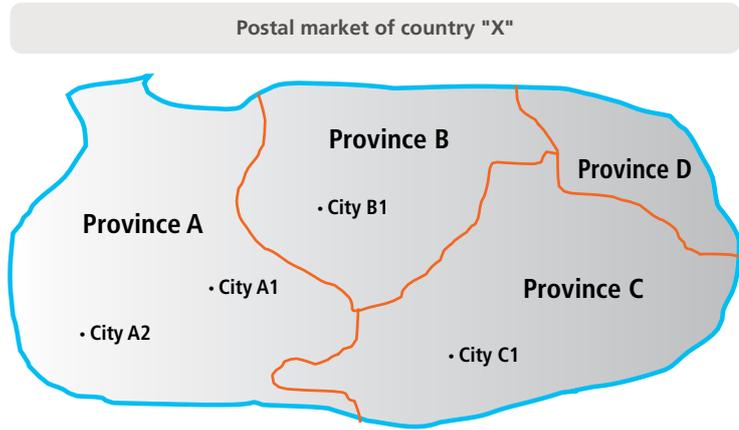
The most representative areas will need to be broken down as far as the city level, while the least representative areas may need to be consolidated into blocks of more than one province or department. There is no specific rule for establishing the number of market areas.

However, in general, the study will need to target those market areas which, together, account for more than 80% of total revenue (all segments combined).

The table below illustrates how to establish market areas and when to subdivide a particular area.

The international market will need to be regarded as a separate area and, where necessary, may be divided into blocks of countries.

Being as this analysis precedes actual field studies, the premise is that the income earned by the designated operator from sales of its products and services represents the potential of each market area. However, in the case of other available data on the



Market area	Province or department	City	Revenue from mailing services	Share of provincial or departmental revenue	Cumulative share of total revenue
1	A	A1	55,000	55.0%	16.2%
		A2	30,000	30.0%	25.0%
		A3	10,000	10.0%	27.9%
		Other	5,000	5.0%	29.4%
<b>Subtotal 1</b>			<b>100,000</b>	<b>100%</b>	<b>29.4%</b>
2	B	B1	110,000	55.0%	61.8%
		B2	68,000	34.0%	81.8%
		B3	20,000	10.0%	87.6%
		Other	2,000	1.0%	88.2%
<b>Subtotal 2</b>			<b>200,000</b>	<b>100%</b>	<b>88.2%</b>
3	C and D	C1	15,000	37.5%	92.6%
		C2	10,000	25.0%	95.6%
		D1	10,000	25.0%	98.5%
		Other	5,000	12.5%	100.0%
<b>Subtotal 3</b>			<b>40,000</b>	<b>100%</b>	<b>100.0%</b>
<b>Grand total</b>			<b>340,000</b>		

market potential of each province (data on GDP or another index establishing the relative size of the economy of each province), this latter information should be used instead of income data, as it better reflects the efficiency of the designated operator in tapping a given market. Considering how difficult it can be to compile data on these external indicators, the example presented above uses income from mailing services as a yardstick for this purpose.

In this example, country X has four provinces. Province B has the largest concentration of income. Together, provinces A and B represent 88.2% of the "market" of country X. Cities B1, B2 and A1, in that order, all warrant consideration as separate market areas, whose income figures set them apart from the rest of their respective areas.

#### Step 4 – Configuration of supply (competition)

Step 4 involves the configuration of market supply based on answers to the following main questions:

- What private operators are active in the country?
- What is their annual income? Are there published or otherwise available balance sheets?
- In what areas of business activity are they engaged?
- What products are they offering?
- In what areas are they active?
- Who are their main customers?
- Which services are used by such customers and in what numbers?
- What is the size and location of their retail service structure?
- What transportation and delivery infrastructure do they have (what is their daily delivery capacity, how many workers do they have, how many vehicles do they own)?
- What are their expansion and investment plans for the market in question?

The following questions with respect to their product and service offerings will also need to be answered:

- What is their price structure?
- What are the comparative advantages or disadvantages of their products and services vis-à-vis equivalent products or services offered by the designated operator?
- What delivery or turnaround times are promised to their customers for different types of services?

This data will need to be aggregated by business area, customer segment and market area to facilitate its analysis. It is also important to be aware of indirect competition from substitute products and services and of internal structures set up by businesses to provide services comparable to those offered by the designated operator.

### Step 5 – Characterizing postal service features

The supply (competition) analysis conducted in step 4 will need to be rounded out by an effort to diagram the main features of the various products and services offered on the postal market most valued by customers.

This diagramming process will facilitate the comparative study engendered by question b in the second block of questions under step 4 (on comparative advantages and disadvantages). The following is a partial list of features to be studied from both the customer standpoint and that of the competition. The purpose of this exercise is to confirm deficiencies in service offerings by the designated operator with respect to the types of feature valued by customers, compared with services offered by the competition. This list of features will need to be tailored to local market characteristics and dynamics.

Business area	Feature
<b>Messages and direct marketing</b>	▸ Service image, brand or reputation
	▸ Price
	▸ Speed (faster delivery or compliance with guaranteed delivery times)
	▸ Regularity (consistent delivery times)
	▸ Security (against loss and tampering)
	▸ Coverage of mailing service
	▸ Coverage of home delivery service
	▸ Supplemental services (registration, tracking, etc.)
	▸ Related products (envelopes, post cards, etc.)
	▸ Service image, brand or reputation
	▸ Price
<b>Parcels and express mail</b>	▸ Speed (express mail: faster delivery)
	▸ Speed (parcels: compliance with guaranteed delivery times)
	▸ Speed (prompt clearance through customs)
	▸ Regularity (consistent delivery times)
	▸ Security (against loss, damage and tampering)
	▸ Information (tracking)
	▸ Payment facilities (credit, COD, etc.)
	▸ Insurance of content
	▸ Customized services for contract customers
	▸ Pick-up service
	▸ Coverage of mailing service
▸ Coverage of home delivery service	
<b>Financial services</b>	▸ Service image, brand or reputation
	▸ Price
	▸ Speed (faster turn-around time)
	▸ Service coverage

## Step 6 – Planning of data collection activities

Steps 1 to 5 establish guidelines for the organized compilation of market data and intelligence. Step 6 establishes the types of tool to be developed for the conduct of internal and external studies. Most importantly:

- Designate a team of workers to assist with data collection efforts;
- Establish how data collection activities are to be carried out (by an in-house team or contractor);
- Establish the sources of information for each study topic (in-house, outside, field or secondary sources);
- Develop a master plan for all envisioned studies establishing work schedules, procedures (interviews, questionnaires, counts, etc.), data collection sites, officials in charge, etc.;
- Develop interviewing guides and questionnaires, data collection forms, procedural manuals for conducting research and miscellaneous supporting materials;
- Identify the software to be used for data processing purposes;
- Establish the types of reports to be produced from the study data.

## Step 7 – Conduct of in-house data collection activities

Since the designated operator is the major player on the postal market, there are various types of data which need to be collected from internal units within it, including information on the following factors:

- Trends in traffic volume and income generated by product and service offerings in its different business areas (at a minimum, over the past five years);
- Prices and rates charged for products and services included in the different business areas established under step 1;
- Breakdown of traffic volume and income by weight and/or value;
- Breakdown of traffic volume (mailing and delivery service) and income in each market area established in step 3;
- Breakdown of the volume of mail exchanged by the market areas established in step 3;
- Breakdown of traffic volume and income for each customer segment established in step 2, by business area;
- Breakdown of the retail network in each market area, by city;
- Qualitative evaluation of the features established in step 5 for each product or service.

As the market research progresses, it may become necessary to compile other types of in-house data and perform other studies.

## Step 8 – Collection and study of data from secondary sources

Whereas step 7 involves the compilation of in-house data in the possession of the designated operator, a more complete picture of the postal market requires an examination of data on other postal operators which, in most cases, is not directly accessible.

This makes it necessary to resort to various so-called "secondary" sources such as those outlined below:

- Government statistics on the population of each city/market area, the breakdown of per capita income, the number of dwellings and businesses, GDP by economic sector, schools, hospitals, banks, etc.;
- Annual publications on the performance and relative size and scale of the country's largest businesses in different sectors of economic activity;
- Budgets of government agencies and institutions, particularly the budget item for postal and related services;
- Published balance sheets, to establish the income of each postal operator;
- The number of water, sewerage and power customers;
- The number of customers/subscribers for fixed and cellular telephone services, cable television services, etc.;
- The number of active cheque accounts, current credit cards, pension fund accounts, etc.;
- Promotional and advertising materials from specialized marketing firms;
- Rate schedules, websites and in-house publications of other service operators on the postal market.

Obviously, this is only a partial list of possible secondary sources designed to show how to collect market intelligence indirectly, by means of comparisons and extrapolations.

Other sources and indicators can be used to supplement market analyses and calculations of the volume and value of business on each market. Continual refinements of study data and field research can also provide valuable information for targeted outputs.

## Step 9 – Conduct of field research

The top priority if not the sole purpose of field research is to collect qualitative information on the behaviour of consumers and competitors exposing new trends in their habits, preferences, strategies and attitudes.

Field research methods include direct observation, individual or group interviews and telephone, mail or online surveys.

Field research in the form of opinion polls is designed to evaluate different facets of postal operators' relations with their customers – including both individual and business customers – to assess the importance of different factors valued by customers in their contacts with the postal organization. These surveys will need to re-examine the features outlined in step 5, to adjust the relative importance of identified shortfalls in services delivered by the designated operator upwards or downwards compared with other service operators.

Though used somewhat less frequently for this purpose, field research can also help collect information on the volume and value of business transactions conducted or sums invested by a given organization in using the different products and services included in each business area established in step 1. This will require an appropriate size sample and the proper targeting of respondents in a position to supply such information. The information produced by this sample survey can serve as a basis for extrapolating this data for the economic sector represented by the surveyed organizations using the macroeconomic indicators compiled in step 8.

## Step 10 – Consolidation of collected data

Once all previous steps have been completed, the collected study data will need to be tabulated and charted, testing the consistency of corresponding figures and qualitative information through cross checks and further confirmations of corresponding data.

For guidance purposes, the following general models for the tabulation of study data are broken down into four instructional units: market size, price, retail service coverage and competitiveness.

## Step 10.1 – Market size

**Table 1 – Market size by business area**

Business area	Annual volume (No.)		Annual value (USD)		Share of market volume (%)	
		%		%		%
Messages						
Direct marketing						
Parcels						
Express mail						
Financial services						
Philately and products						
<b>Total</b>						

This table consolidates data on the size of the postal market in terms of the volume (numbers of items, products or transactions) and value of business and on the market share of the designated operator.

The data presented in this table is the sum of the data produced by individual studies of all postal operators in all business and market areas. For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, type of customer, products and services, or market area.

**Table 2 – Market size by type of customer**

Type of customer	Annual volume (No.)		Annual value (USD)		Share of market volume (%)	
		%		%		%
Retail						
Individual						
Wholesale						
Public utility						
Financial institution						
Government agency						
Other						
<b>Total</b>						

For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, business area, products and services, or market area. As indicated earlier, the individual customer segment can be broken down by income bracket.

**Table 3 – Market size by area**

Market area	Annual volume (No.)		Annual value (USD)		Share of market volume (%)	Share of market value (%)
		%		%		
Area 1						
Area 2						
Area 3						
Area 4						
....						
Area n						
<b>Total</b>						

For a more in-depth analysis, the figures in this table will need to be broken down by postal operator, customer segment, products and services, or business area. Foreign countries are to be considered as one or more market areas.

### Step 10.2 – Price

**Table 4 – Price comparison by postal operator**

Business area/product	Operators – Average price			
	A	B	C	D
Messages				
Domestic letter mail				
International letter mail				
....				
<b>Direct marketing</b>				
....				
Parcels				
....				
Express mail				
....				
<b>Financial services</b>				
....				
<b>Philately and products</b>				
....				

Remember that all price comparisons are to be based on the value delivered to the customer, as per table 6. In other words, in principle, a lower price is not a competitive advantage unless the characteristics and features offered to the customer are comparable.

### Step 10.3 – Retail service coverage

**Table 5 – Retail service coverage**

Market area	Operators – Number of retail facilities			
	A	B	C	D
Area 1				
Area 2				
Area 3				
Area 4				
....				
Area n				
<b>Total</b>				

### Step 10.4 – Competitiveness

**Table 6 – Comparative advantages and disadvantages**

Operator	Business area: messages		
	Product/service: domestic letter mail		
	Comparable service	Advantage	Disadvantage
A			
B			
C			
....			

The Advantage/Disadvantage columns position postal operators with respect to the features established in step 5 and the product/service in question. In step 11, this comparison is cross-referenced with the consumer preferences established through the field research conducted in step 9 to determine the real magnitude of any comparative advantages and disadvantages.

## Step 11 – Data analysis

The analysis conducted in this step is designed to add value judgments to the consolidated study data through appropriate permutations, cross references and evaluations to draw preliminary conclusions from the study process.

This is the time to highlight existing strengths, weaknesses, opportunities and threats to facilitate the framing of sound strategies for reforming the designated operator.

This step in the study process is designed to identify higher and lower value business areas, better and worse positioned competitors, more and less attractive market areas, the product and service characteristics and features most and least valued by corresponding customers, the types of customer regarded as larger or smaller consumers of a particular service and market-related barriers to the building of market share by the designated operator,

### 2.1.2

#### *Regulation of service operation on the postal market*

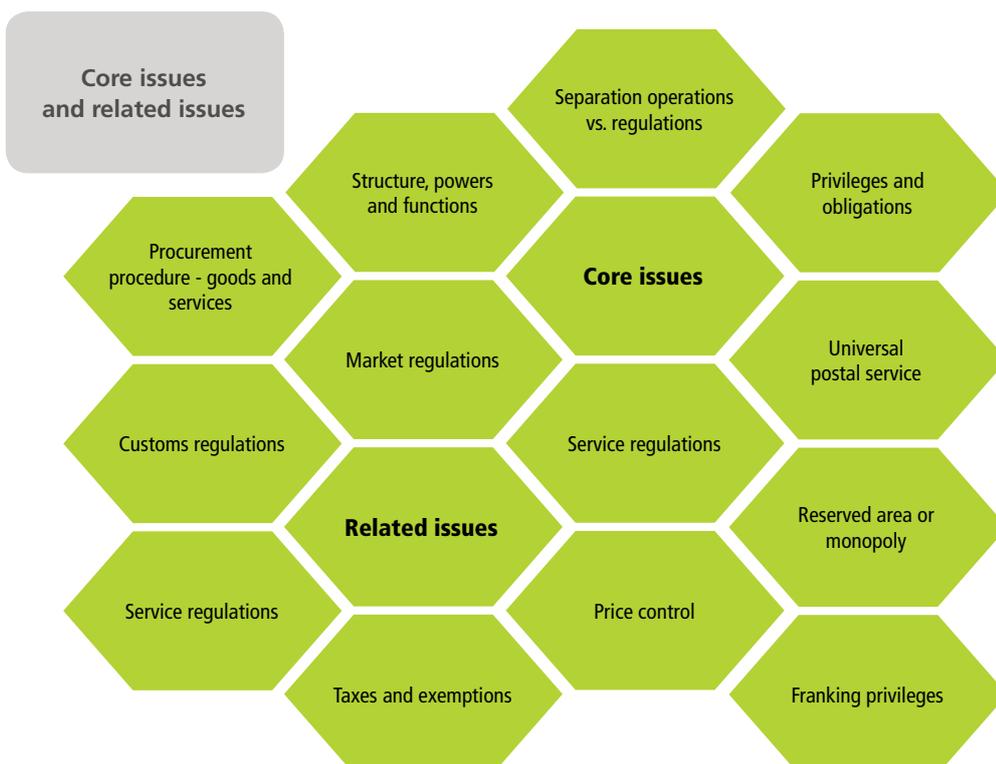
The second issue to be studied as part of the strategic assessment conducted as the basis for designing a reform programme for the designated operator has to do with the legislation governing the designated operator and, in particular, regulations governing service operation on the postal market.

This requires a baseline study for the charting of existing legislation, distinguishing between core issues and issues relating to the extent of the autonomy enjoyed by the designated operator to efficiently and effectively manage necessary resources for fulfilling its social mission.

The next step after compiling existing legislation is an assessment of the situation of the designated operator under each such instrument compared with that of other operators on the postal market. The purpose is to pinpoint positive and negative elements of the current legal framework for the postal market as the basis for framing appropriate strategies as part of the planning phase.

The examination of core issues should address the following points relating to the postal market:

- What is the scope of postal regulations?
- Which operators fall within and outside the scope of these regulations?
- Is market entry by new operators subject to licensing, registration or any other requirements?
- Is there a clear definition of the universal postal service?
- Is there a separation of universal postal service operating functions and postal regulatory functions?
- If there is a reserved service area to which the designated operator holds exclusive rights, is it clearly delineated?
- Are there any legal restrictions on the activities of the designated operator in any business or service area?
- Is there any additional government compensation for the universal postal service obligations imposed on the designated operator?
- Are there any regulations establishing consumer rights and the responsibilities of postal operators in the face of such rights?
- Are established legal mechanisms effectively applied and enforced in practice?



It should also address the following points with respect to the organization, status and powers of the designated operator:

- Is it government-owned or privately owned?
- In terms of its legal status, is the designated operator a ministerial department, a government enterprise, a government-controlled corporation or a privately controlled corporation?
- What is the supervisory ministry of postal services? Is there some kind of link?
- How are the prices of services provided by the designated operator set and by whom are they approved?
- What types of organization enjoy franking privileges?
- How and by whom are the designated operator's investment policies and plans approved?
- Are labour relations between the designated operator and its workforce governed by the same rules as in the private sector?
- To what rules is the designated operator subject with respect to matters such as worker compensation, hiring and firing practices and disciplinary procedures?
- Does the designated operator have budgetary and financial autonomy for managing its income and expenditure?
- To what rules is the designated operator subject in matters such as contracting and procurement of goods and services?
- Is the customs treatment of the designated operator the same as that of other operators on the postal market?

These and other issues will need to be explored to pinpoint opportunities and identify regulatory constraints undermining the performance of the designated operator and hampering market development.

### 2.1.3

#### *Competitive strength of the designated operator*

The third phase of the strategic assessment includes an evaluation of the competitive strength of the designated operator on the postal market, in the face of customer needs, projected trends and the existing legal environment.

A number of questions will need to be answered as part of this process, namely:

- Are product and service offerings by the designated operator responsive to customer needs and consistent with those of other postal operators?
- What percentage of the population is covered by retail and home delivery services in geographic terms?

- What is the condition of postal service delivery infrastructure, including postal facilities, equipment and technology? Is current capacity commensurate with demand?
- What standards of quality and productivity has the designated operator achieved?
- Is the number and deployment of management and operational personnel in line with demand under the current human resource management system? Are workers properly motivated, prepared and trained to perform better and be more productive?

The following is an outline of the steps to be followed in positioning the designated operator on the postal market and in the existing legal environment. This outline is presented for guidance purposes only and will need to be tailored to the situation in each country.

#### **Step 1 – Performance of current product and service offerings**

The goal in this step is to compile information on the following points with respect to each product/service:

- Its design and a brief description of how it functions (service delivery, operation and payment);
- Quality assurance;
- Current standard of quality achieved;
- Volume marketed and income earned, at a minimum, over the past five years;
- Share of total income over the past five reporting periods;
- Average annual growth rate for the previous period;
- Average price and price by type of product/service (standard price range);
- Specific commercial, operational and technological constraints hampering efforts to boost sales of the product or service in question, if any;
- High-demand market areas;
- Major customers.

The current product and service offerings evaluated in this step of the study process should account for at least 80% of the income of the postal operator.

The evaluation should pinpoint strengths and weaknesses to be addressed as part of the planning process.

## Step 2 – Retail and product and service operation infrastructure

The goal in this step is to gather information on the designated operator's retail service and mail sorting, transportation and delivery infrastructure, including data on its current physical condition, level of technological development, geographic coverage and ability to meet current demand.

At a minimum, the assessment of retail service infrastructure should generate the types of data illustrated in table 7 below.

The "number of inhabitants per office" indicator obtained by dividing column 3 by column 2 will help assess the balance of the retail network within the geographic area served by the designated operator.

Other relevant areas of study include office operating hours, customer flow per work shift, the degree of automation of retail service operations, and the quantity, physical condition and technological level of corresponding equipment (franking machines, scales, computers, counters, cash registers, etc.). The evaluation of mail-sorting operations will need to examine mail-processing facilities, including both mail sorting and ground and air transportation facilities, providing data on:

- the size of the facilities (in square metres);
- their location;
- environmental conditions;
- the quantity, physical condition and technological level of corresponding

- equipment (letter-sorting machines, mail carts, mail bags, containers, tables, etc.);
- daily production capacity, by work shift;
- operating schedules;
- the existence and use of postcodes in mail-sorting operations;
- organization;
- major problems encountered at this stage of the process.

At a minimum, the assessment of mail delivery infrastructure should generate the types of data illustrated in table 8 below.

In general, the "number per carrier" indicator obtained by dividing column 3 by column 2 is a good assessment of balance in the assignment of dwelling units to each letter carrier for different population groups.

The study of the home delivery service should also assess:

- the frequency of home deliveries (once, twice or three times a week, etc.);
- the quantity, physical condition and technological level of corresponding equipment (sorting frames, bicycles, pouches, uniforms, etc.);
- the motor vehicle fleet;
- total daily delivery capacity;
- the existence and use of postcodes for mail delivery purposes;
- the location of delivery units (existence of separate units);
- the percentage of undeliverable and returned items;
- the types of item for which home delivery service is available;
- major problems encountered at this stage of the process.

This assessment should also produce data on the percentage of mail delivered by each delivery mode (home delivery, post office boxes and general delivery), the daily productivity of each letter carrier, and the number of post office boxes and their breakdown by market area or population group (similar to the breakdown in table 8).

The assessment of the transportation network should examine:

- the locations serviced, resources used, operating arrangement (in-house or contract carriers) and capacity of regular domestic ground and air transportation networks;
- the make-up of the in-house vehicle fleet (numbers and types of vehicle), their manufacturing dates and their usage (operational or administrative);
- the locations serviced, resources used, operating arrangement (in-house or contract carriers) and capacity of the regular urban ground transportation network used for mail collection, office provisioning and home delivery purposes;
- major problems encountered at this stage of the process.

**Table 7 – Geographic coverage of the retail network**

Population groups <sup>(1)</sup> (No. of inhabitants)	Number of offices	Existing population <sup>(1)</sup>				
		Population served			Population not served	
		No.	%	Inhabitants per office	No.	%
Up to 500						
501 to 1,000						
1,001 to 2,000						
2,001 to 5,000						
5,001 to 10,000						
....						
<b>Total</b>						

(1) Current population data should be taken directly from the last published census for the smallest statistical unit for which census data is available (i.e. at the district, sector, ward or similar level) to help tie each office to the specific population group served.

**Table 8 – Geographic coverage of home delivery service**

Population groups <sup>(2)</sup> (No. of inhabitants)	Number of letter carriers or mail districts	Existing dwellings <sup>(2)</sup>				
		Dwellings serviced			Dwellings not serviced	
		No.	%	Number per carrier	No.	%
Up to 500						
501 to 1,000						
1,001 to 2,000						
2,001 to 5,000						
5,001 to 10,000						
....						
<b>Total</b>						

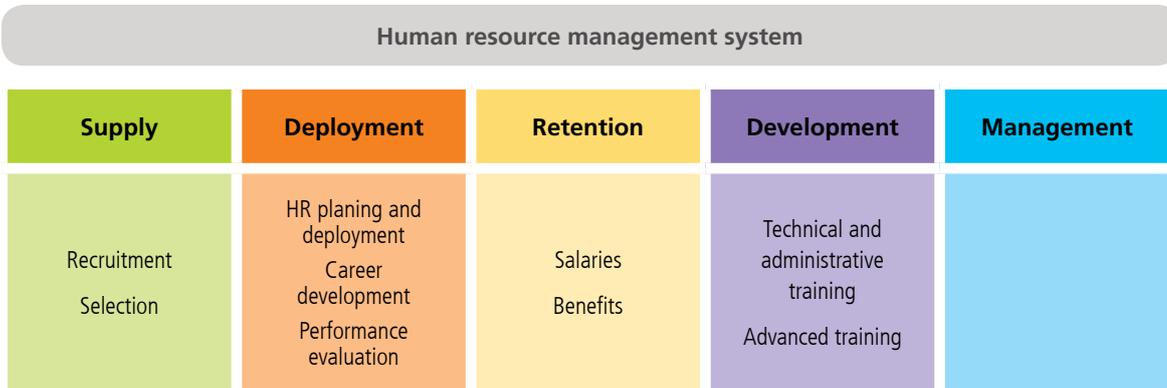
(2) The total number of existing dwellings should be taken directly from the last published census for the smallest statistical unit for which census data is available (i.e. at the district, sector, ward or similar level) to help tie the number of dwellings to the specific population group served.

### Step 3 – Administrative organization and structure

The goal in this case is to evaluate the designated operator's internal organization and structure. The questions posed in this step will examine central and regional administrative structures in terms of their functions and macro-activities, channels of communication, decision making processes, organizational chart and lines of authority, skills profiles for key positions, physical facilities, and technology. This study should pinpoint perceived strengths and weaknesses.

### Step 4 – Human resources

This step is designed to compile information on the status of the designated operator's human resources, specifically as regards the subsystems below.



The first analysis to be conducted as part of this step refers to the deployment and average salary of postal workers, with corresponding study data to be tabulated as illustrated in table 9 below.

**Table 9 – Work area and salary**

Market area	Retail service		Sorting		Transport		Delivery		Administration	
	No.	\$	No.	\$	No.	\$	No.	\$	No.	\$
1										
2										
3										
....										
<b>Total</b>										

No - Number of workers | \$ - Average salary

Another important breakdown has to do with the seniority (length of service) of postal workers by type of position, as illustrated in the following example.

**Table 10 – Length of service by job position**

Position	Up to 1 year	1 to 5 years	5 to 10 years	10 to 20 years	Over 20 years
Letter carrier					
Clerk					
....					
<b>TOTAL</b>					

The data in this table can be supplemented by a breakdown of personnel in each job position by age and gender.

It is also important to look at the educational level of workers in key positions within the organization based on the breakdown in table 11 below.

**Table 11 – Educational level by job position**

Position	Primary	Secondary education	Higher
Letter carrier			
Clerk			
....			
<b>Total</b>			

Answers to the following questions can also furnish important information:

- Are there specific job and career ladders and salary scales for the workforce of the designated operator or is it subject to the same general rules applicable to other government agencies?
- How are workers recruited and selected by the designated operator?
- Is this process conducted internally or is some outside agency involved?
- What types of fringe benefit do designated operator personnel enjoy?
- What is the required length of service for retirement of different categories of personnel?
- What is the length of the workweek?
- Are there different work shifts? What are they and what job positions are involved?

Training processes:

- Do they include all personnel?
- How often are they conducted?
- Are there specific annual budget appropriations for this purpose? How large?
- Are they conducted in-house or outsourced?
- Are there individual performance evaluation processes in place?
- Is the organizational climate conducive to building self-esteem and strengthening worker productivity? Are there regular studies of this factor?

Other studies will need to be conducted to pinpoint strengths and weaknesses in service operation, according to conditions in each country.

## 2.1.4

### *Economic performance*

The economic objective of any business is to make a profit. In private enterprises, making a profit means satisfying shareholders. State-owned enterprises are born out of public policy and do not tend to be overtly profit seeking, although they do need to make profit to finance investments geared towards the modernization and expansion of their services.

In the specific case of postal organizations, many of which are departments within central government structures or cabinet ministries, more often than not, the economic objective is to keep spending below authorized budget ceilings. This objective, though not explicitly stated, causes them to disregard earnings and can eventually lead to slippages in income.

This, in turn, obliges the government to provide the necessary financing for operating expenses, to step up budgetary controls and to cut back or cut off investment funding, weakening the operations and market position of the designated operator.

A clear assessment of the situation in each country requires an examination of the relationship of the designated operator with the government agencies involved in its economic-financial management. This, in turn, requires answers to the following questions with regard to the extent of the autonomy enjoyed by the designated operator in this area.

- Does the designated operator have its own budget or is it included in the budget of some other government agency?
- Are internally generated funds, or income from sales and international accounts, allocated directly to the designated operator or deposited in the government's general account?

- Which government agency approves the budget for the designated operator?
- Are expenditures of approved budget funds authorized on an annual, monthly or case-by-case (i.e. per-procurement) basis?
- Does the government contribute in any way to the financing of its operating and investment costs?
- Is the designated operator included in any government development or investment plan?
- Are the designated operator's accounting practices the same as those used by other private enterprises?
- Was the chart of accounts designed specifically for the designated operator or is it the same as that used by all government agencies?
- Are fixed assets picked up as assets of the designated operator or included on the balance sheet of some other agency?

#### 2.1.4.1

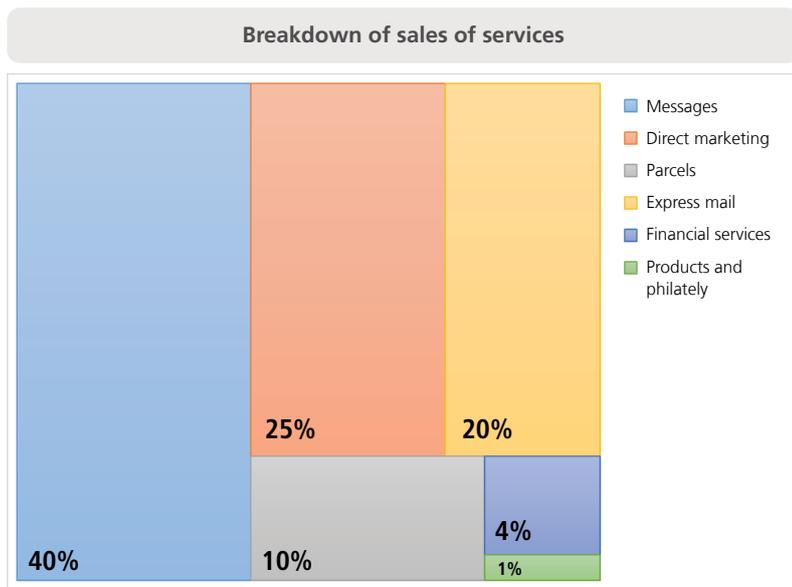
### Economic-financial performance

Once these questions are answered, the next step is the consolidation of economic performance data for the past five years.

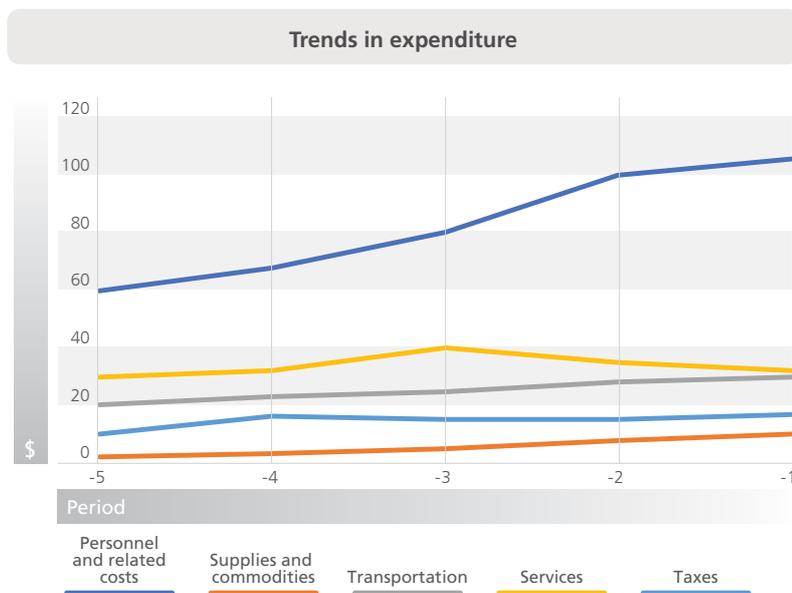
**Table 12 – Economic performance**

Item	Period				
	Year 5	Year 4	Year 3	Year 2	Year 1
<b>Income</b>					
<b>Sales of services</b>					
• Messages					
• Direct marketing					
• Parcels					
• Express mail					
• Financial services					
• Products and philately					
International accounts					
Other					
Government funding					
<b>Expenditure</b>					
<b>Personnel and related costs</b>					
• Salaries					
• Fringe benefits					
<b>Supplies and commodities</b>					
• Fuel					
• Other supplies					
<b>Transportation</b>					
• Domestic					
• International					
<b>Services</b>					
<b>Taxes</b>					
<b>Investments</b>					
• Buildings					
• Equipment					
<b>Profit/loss</b>					

In addition to providing a breakdown of income and expenditures, the data compiled in table 12 serves as a sound basis for establishing trends throughout the study period, as illustrated in the figures below.



This type of chart can be used to graphically depict the breakdown of income and expenditure or the breakdown of any subgroup of these two items. Such a breakdown helps establish the relative share of different income or expense categories in total profits or losses, in order of their importance, and allows for the tracking of these figures over different periods.



This type of graph is better for showing trends in income or expenditure over a given period, clearly depicting growing, stable and shrinking cost and income items.

This same source also provides many other types of data, such as the pattern and breakdown of investment, government funding and annual profit or loss.

Financial statements (mainly balance sheets and profit and loss statements) are another useful source of information and serve as a basis for balance sheet analyses. Such analyses are possible only if the designated operator has its own internal assets and manages its economic resources independently.

The balance sheet analysis is a powerful research tool in evaluating the past and present economic-financial soundness of the designated operator and making forecasts. It provides an impartial assessment of the performance of management personnel and can measure liquidity, or the volume of liquid assets or available resources.

The information drawn from a balance sheet analysis is highly time-sensitive, since it is categorically tied to the organization's financial performance for a particular reporting period. This makes it necessary to examine several consecutive fiscal years, normally three to five, to establish whether there is a consistent pattern in its financial situation and, if so, to forecast its future financial performance.

The balance sheet analysis uses the following three main ratios:

- Liquidity**  
 Quick or acid-test ratio (ratio of liquid assets to current liabilities, where liquid assets equal cash on hand and in bank + short-term assets);  
 Current or working capital ratio (ratio of current assets to current liabilities);  
 Solvency ratio (ratio of current plus long-term assets to current plus long-term liabilities).
- Capital structure or security**  
 Debt ratio (ratio of total liabilities to liquid assets, where total liabilities equal current plus long-term liabilities);  
 Fixed capital ratio (ratio of fixed to total assets).
- Profitability**  
 Earning power (ratio of operating income to operating assets);  
 Income from sales (ratio of liquid to gross operating income).

This analysis can be expanded to include countless other ratios, depending on the specific situation in each country and the necessary level of analytical detail. Any organization can be in excellent economic-financial shape, with a large proportion of internally generated funding, and yet, at a given moment, find itself short of funds for the settlement of its debts.

This latter factor – the availability of sufficient funds for the settlement of outstanding debts – determines the organization's financial standing or creditworthiness. The liquidity ratios outlined above can be used to assess the designated operator's creditworthiness.

## 2.1.5

### *Experiences of other designated operators*

Another important step in this phase of the assessment is a comparison of the designated operator with designated operators in other countries with similar features, mostly in terms of geographic, social and cultural factors.

Such a comparison will provide additional information on previous studies, successes and failures and their causes and effects and on strengths or weaknesses in the design and implementation of specific strategies.

Depending on the subject, it may be necessary to expand the scope of this study to quite different designated operators in search of examples of excellence which, in many cases, are non-existent in neighbouring or comparable countries.

Technological development, legal reform and similar programmes often require abstractions based on more sophisticated models which will need to be tailored to local conditions such as market size, cultural factors, economic conditions and so on.

The following question is an example of this type of comparison:

What conditions present in country X enable it to outperform the designated operator in this country:

- in terms of productivity;
- in terms of quality;
- in terms of its economic performance?

The quest for examples of excellence should also include best practices.

This concludes the assessment phase designed to clarify the current position of the designated operator in the surrounding postal environment, which can be rounded out by an evaluation of examples of excellence.

The data furnished by the assessment will also need to be supplemented by information on ongoing projects by the designated operator, focusing on those initiatives expected to have a real impact on its position. Smaller scale, one-off projects can be evaluated at another time, in another context.

Studies of selected projects should include a brief description of each project, an outline of its objectives, cost data and information on targeted outcomes.

## 2.2

### *Prospective analysis (future trends and projections)*

The second phase is that of exploratory research on the future of the postal organization based on alternative scenarios, trends and projections. This is referred to as prospective analysis.

### 2.2.1

#### *Market trends*

The steps outlined in section 2.1.1 are designed to assess the current state of demand on the domestic postal market. Up to this point, no attempt has been made to look at the future of each product/service.

An evaluation of macro and micro environmental factors is a good basis for predicting future market behaviour. This type of information is essential in developing strategies and activities designed to help the designated operator capitalize on the expected growth or contraction of different business areas or products/services as part of its planning process, as a way of boosting demand. Product and service offerings on the postal market are affected by countless different factors, including economic, demographic, social, technological and quality-related factors.

As discussed in chapter 1, examples of external factors affecting the extent of the use of postal services include GDP growth, population growth, per capita income, the exchange rate, the geographic distribution of the domestic population, trends in migration, the literacy rate, the Internet and e-commerce, postal regulations, privatization, the activities of other service operators and cultural habits.

Internal factors affecting service use include the image and reputation of the designated operator, the quality of its services compared with those of the competition and good market communication. Studies conducted by the UPU and other specialized agencies offer general guidance in this area, which will need to be tailored to the postal market of each country, as illustrated below:

## Market trends by business area

Business area	Trend
Messages	Letters
Direct marketing	
Parcels	
Express mail	
Financial services	

With the variety of different factors at play, it is important to focus on those with the greatest effect on the postal market to help project growth in each business area or product/service over the forecasting period.

In any event, the calculation of annual growth rates is by no means a deterministic process, since it deals with future behaviour. In other words, however refined the study data may be, there is always a possibility of error. Yearly repetitions of this exercise can reduce but not altogether eliminate the margin of error.

One way of minimizing this problem is by working with two or three different scenarios involving different sets of assumptions and alternatives. As such assumptions are borne out, a specific course of action is taken as the planning process unfolds.

The following table consolidates data on annual market growth rates by business area. The figures in this table are expressed as percentages and may be either positive or negative. The tabulated data can be broken down by product/service.

**Table 13 – Projected annual rate of growth in market volume**

Postal market – Average annual growth rate (%) – Scenario A					
Segments	Year 0	Year 1	Year 2	Year 3	Year 4
Messages					
Direct marketing					
Parcels					
Express mail					
Financial services					
Products and convenience items					

These growth rates can be applied to the consolidated data on market volume presented in table 1 to calculate the annual market volume by business area for each year of the forecasting period. In the event that available contextual data suggests a rise or fall in average prices on the postal market during the forecasting period, use a breakdown similar to table 7 to calculate trends in this variable.

This exercise should not consider annual inflation. The rise or fall in prices alluded to above should refer only to real rates. These projections of average annual prices and market volume can be used to construct the following table for each envisioned scenario.

**Table 14 – Market projections by business area**

		Business area					
		Messages	Direct marketing	Parcels	Express mail	Financial services	Products and convenience items
Year	No.						
	\$						
1	No.						
	\$						
2	No.						
	\$						
3	No.						
	\$						
4	No.						
	\$						
5	No.						
	\$						

## 2.2.2

### Forecasting economic performance

The economic performance of the designated operator as reflected in the aggregated data presented in table 12 will need to be projected over the same five-year period as the projections of market size discussed in the previous section.

The basic assumption underpinning this preliminary forecast is the perpetuation of the current situation throughout the forecasting period, with the addition of certain known impact factors. This is what is referred to as the baseline performance projection.

In making this type of projection, the following factors need to be taken into account for the purpose of estimating future income:

- Sales of services;
- Projected annual GDP growth rate according to official published figures;
- Average annual rate hike for the past five years, adjusted for the average annual inflation rate over the same period;
- International accounts;
- Average annual rate calculated based on reported figures for the past five years, as recorded in table 12;

- Projected annual GDP growth rate according to official published figures;
- Government funding;
- Estimated deficit, or the difference between the projected total figure for all other income categories and projected total expenditure for the year in question;
- Other..

Projections of expenditure will need to consider the following factors:

- Personnel and fringe benefits;
- Anticipated annual wage hikes;
- Expansion in workforce (new hiring);
- Retirement;
- Supplies and commodities, transportation, services and taxes;
- Projected annual GDP growth rate according to official published figures;
- Investments;
- Average annual rate calculated based on reported figures over the past five years, as recorded in table 12.

These projections will need to be refined based on information on other specific factors or phenomena affecting all or part of a particular income or cost item (such as a change in tax liabilities as of some future year). Since the baseline projection needs to be expressed in constant terms, i.e. based entirely on real fluctuations, all price-related data will have to be adjusted for the reported average annual inflation rate at the country level. Such a measure will prevent any misleading comparison of nominal values, which are often contaminated by illusory price hikes. This observation applies to both income and cost items.

The data produced by the baseline performance projection is aggregated as illustrated in table 12.

## 2.2.3

### *Alternative scenarios*

Forecasts of market size and economic performance for the next five years can help clearly establish trends in the market share of the designated operator and patterns in the funding of its expenditure and investment under an initial baseline scenario which, essentially, perpetuates current conditions and assumptions with respect to the operation of the domestic postal market.

The next task is to develop as many alternative scenarios as necessary to evaluate theories with respect to deteriorations or improvements in operating conditions on the postal market from the standpoint of the designated operator. This is a simple procedure in which critical assumptions and variables are grouped according to expectations with respect to the future course of development of the simulated scenario.

The selection and behavioural evaluation of each such variable and assumption is not a one-man job, but requires the involvement of executives and specialists in different areas and with different skills mixes.

The model presented below illustrates one such set of assumptions and variables and their potential estimated impact. Again, these assumptions and variables will need to be tailored to conditions in each country. It is not recommended that they be used as is, without first making necessary adaptations.

#### 2.2.3.1

##### Legal framework

The following table is an illustration of a sample analysis of different possible scenarios. The factors considered and the timing of corresponding changes will need to be tailored to conditions at the country level.

Each factor added to the benchmark scenarios will need to be defined and mapped out in detail in discussions with interested stakeholders (government reform and oversight agencies, executives, etc.).

**Table 15 – Scenario 1: Changes in the legal framework (sample data)**

Assumptions and variables	Benchmark scenario 1				
	Year 1	Year 2	Year 3	Year 4	Year 5
Ownership	100% government-owned				
Separation of regulatory functions	No	Yes			
Legal status	Cabinet ministry department		Government enterprise		
Assets	Tied to the ministry		Independent		
Universal postal service	No UPS obligation			Expanded UPS obligation	
Reserved service area	Monopoly		Government compensation for UPS (reserved area)		
Franking privileges	Numerous	Eliminated			
Degree of administrative autonomy	Low		Moderate		High
Labour relations	Civil service system		Same as private firms		
Pricing policy	Price controls and subsidies		Market prices with no subsidies		

### 2.2.3.2

#### Market management by the designated operator

There are two approaches to the construction of alternative market management scenarios for the designated operator.

The first approach is to calculate income for different market segments based on an evaluation of specific projects. The targeted outcome from such projects and their projected maturation dates will affect future income. The consolidation of data on the effects of these projects and on trends in market size for the forecasting period is a good basis for evaluating progress towards building market share. The disadvantage of this approach is that it precipitates certain planning activities whose commencement is somewhat premature at this stage. The planning process, which is discussed at length in chapter 3 of this module, is based on more complete information.

The second approach, which is the approach taken in this guide, provides for the simulation of trends in prices and market share over the forecasting period for the purpose of constructing alternative scenarios. These simulations should be based on the position of the designated operator vis-à-vis market trends and that of the competition, according to previous studies discussed earlier in this chapter. The data for each alternative or benchmark scenario will need to be aggregated based on the model presented in table 16 below.

**Table 16 – Calculations of projected trends in prices and in the market share of the designated operator (sample data)**

Assumptions and variables		Benchmark scenario 1				
		Period				
		Year 1	Year 2	Year 3	Year 4	Year 5
<b>Messages</b>	Market share	40%	62%	65%	66%	67%
	Price trends	+ 13%	+15%	+9%	+5%	-
<b>Direct marketing</b>	Market share	30%	38%	45%	58%	70%
	Price trends	+10%	+10%	+3%	+3%	+3%
<b>Parcels</b>	Market share	2%	5%	15%	20%	28%
	Price trends	+5%	+5%	-	-	-
<b>Express mail</b>	Market share	10%	16%	26%	30%	38%
	Price trends	15%	10%	5%	5%	5%
...	Market share	1%	1%	1%	3%	5%
	Price trends	-5%	-	-	-	15%

These projections of market share and price movements represent targets to be attained under each benchmark scenario, influencing the economic performance of the designated operator. Obviously, these figures depend on a series of conditions and a package of projects and activities to be designed and studied in-depth as part of the planning process, when one such scenario is chosen as the basis for future planning.

In general, this phase of work can identify new business opportunities and changes in supply-side conditions (more offices, changes in operating hours, etc.) and in the form of existing services associated with each benchmark scenario designed to add value (invoicing, turnaround times, operating process, etc.).

### 2.2.3.3

#### Operational and technological development of the designated operator

The third facet of the prospective analysis involves the construction of benchmark scenarios with respect to the future operating environment of the designated operator or, in other words, the conditions which need to be present in its operating platform for the attainment of each of the benchmark scenarios contemplated in the previous section on market management.

This requires the quantification of needed changes in infrastructure, in levels of service and in the physical and human resources used in furtherance of each established market management "target".

The following questions all address relevant issues:

- How many post offices will be opened in each year of the forecasting period?
- What is the policy for expanding the retail network (offices owned outright, franchises, partnerships, etc.)?
- How many post offices will be built and/or remodelled during the forecasting period?
- What types of new technology (equipment and/or systems) will be incorporated into retail service operating processes during the forecasting period? At what rate/in what numbers?
- At what rate will home delivery service be expanded?
- What percentage of the population and of mail traffic is targeted for home delivery service in each year of the forecasting period?
- What is the targeted level of productivity?
- What are the targeted standards of quality?
- How much mail traffic will be processed in each year of the forecasting period?
- What types of improvement are needed in mail processing facilities?
- What types of new technology (equipment and/or systems) will be incorporated into mail sorting and delivery processes during the forecasting period? At what rate/in what numbers?
- What is the policy with respect to long haul (ground or air) and urban transportation service (in-house vehicle fleet or outsourcing)? How many vehicles will be purchased?

These sample questions are linked to the different alternative scenarios constructed in section 2.2.3.2. The resulting data can be tabulated as illustrated below.

**Table 17 – Development of the designated operator (sample data)**

Assumptions and variables		Period				
		Year 1	Year 2	Year 3	Year 4	Year 5
<b>Retail service</b>	Establishment of new personally operated offices (units)	6	12	20	20	35
	Remodelled post offices (total m2)	750 m2	1.000 m2	750 m2	750 m2	750 m2
	Cities with over 10,000 inhabitants served by post offices run by the designated operator (%)	60%	65%	71%	82%	85%
	Automated counter services (%)	2%	6%	16%	35%	50%
	...	...	...	....	....	....
<b>Delivery</b>	Population with home delivery service (%)	8%	28%	40%	60%	65%
	On-time delivery (%)	6%	35%	58%	70%	80%
<b>Sorting</b>	Productivity per worker per year	12.000 obj.	18.000 obj.	25.000 obj.	35.000 obj.	40.000 obj.
	Tracking	No	No	Sí	Sí	Sí
	Consolidation of sorting facilities	No	Sí	Sí	Sí	Sí
	Expansion of the processing centre (m2)	-	-	-	2.000 m2	-
	....					
<b>Support services</b>	Corporate network (points)	-	15	55	100	150
	Manpower training (hours/year)	25	40	60	80	80
	Retirement (number of workers)	76	39	27	-	-
	Pay raises (%)	+5%	+10%	-	+5%	-
	...	...	...	....	....	....

### Performance of the designated operator

The alternative scenarios constructed in the previous sections are interrelated while, at the same time, producing different levels of income, spending and investment. The table presented below should be used to aggregate the data reflecting decisions and forecasts associated with each set of interdependent alternative scenarios.

**Table 18 – Economic performance: Linked to Scenario 1**

Item	Period				
	Year 5	Year 4	Year 3	Year 2	Year 1
<b>Income</b>					
<b>Sales of services</b>					
▸ Messages					
▸ Direct marketing					
▸ Parcels					
▸ Express mail					
▸ Financial services					
▸ Products and philately					
<b>International accounts</b>					
<b>Other</b>					
<b>Government funding</b>					
<b>Expenditure</b>					
<b>Personnel and related costs</b>					
▸ Salaries					
▸ Benefits					
<b>Supplies and commodities</b>					
▸ Fuel					
▸ Other supplies					
<b>Transportation</b>					
▸ Domestic					
▸ International					
Services					
Taxes					
Investment					
▸ Property					
▸ Equipment					
<b>Profit (loss)</b>					

The construction of these scenarios is still not strictly part of the planning process, since there are no in-depth analyses of proposed strategies, nor is there a position as to which scenario should be expanded on by the government and top management. The exercises and studies conducted up to this point simply evaluate the behaviour of a set of variables identified by the organization as desirable, possible and probable. This concludes the prospective analysis, whose purpose is limited to making predictions with respect to the future.

## 2.3

### Catalysts for reforming the designated operator

Customer expectations with respect to quality of service, market liberalization processes, the emergence (and substitution effect) of e-services and the increasing use of technology have been transforming the global postal market.

Today's new realities are pressuring postal services to adapt their market operating strategies, particularly with respect to resource allocation and improvements in quality of service. New competitors and substitute products are putting pressure on long-standing postal monopolies. All designated operators are facing numerous challenges in trying to hold onto their market share.

The slow but steady liberalization of the European postal market has already produced a number of important new trends, including pressure on prices and heightened competition in the communications segment (business mail, hybrid mail, fax and e-mail/EDI messages), as well as the physical delivery segment (special delivery service for airmail and surface mail, EMS, parcels, freight service, contract

logistics services and air freight), with a clear distinction between telecommunications and postal services.

The following factors need to be taken into consideration in building on the strengths of designated operators.

- **Installed capacity** – The designated operator, unlike any of its competitors, must have sufficient operating capacity to process large volumes of message and parcel traffic in all parts of the country, while easily absorbing any fluctuations in demand stemming from changes in the market.
- **Logistics integration** – The designated operator must develop an integrated network with all necessary facilities (physical and transportation) and resources (physical and human) for fulfilling its mandate, on both the domestic and the international market. This is a key point and pivotal to its ability to attract and retain customers.
- **Technological development** – In general, the designated operator must invest in improving the quality and productivity of its production processes to put it at a vantage point with respect to the postal services of other countries and in a clearly better position than its competitors on the domestic market. This competitive edge is essential to cut costs and to attract and hold onto new business and customers.
- **Branched operating infrastructure** – One of the most important strengths of the designated operator compared with its competitors is its branched infrastructure network. Its direct control of an extensive, branched retail and delivery network reinforces its other strategic strength, namely that of logistics integration.
- **Extensive logistics expertise** – The need to deal with very different sets of circumstances in conducting large-scale operations and servicing retail customers has helped the designated operator to develop unique logistics capacity and expertise for synchronizing appropriate resources and processes for both small-scale, highly dispersed operations in areas with low population density, and large-scale, highly concentrated operations in major urban population centres. This is a key strength to be built on by the designated operator to give it an advantage over its competitors, who tend to focus on specific customers, shipments or areas.
- **Skilled labour** – The development of an organizational culture built on a commitment to customer service and excellence in service delivery has enabled the designated operator to attract and retain skilled professionals at both the operational and management levels to carry out its mandate.
- **Investment capacity** – Annual surpluses generated by the designated operator need to be ploughed back into modernizing its infrastructure and services to give it comparative advantages over its competitors. In practice, this means reconditioned post offices, an updated vehicle fleet, more automated and technology-driven processes and greater customer satisfaction.
- **Competitive prices** – The prices charged by the designated operator need to be competitive, not only by international standards, but with prices charged by its competitors for services subject to competition. The efficient management of the designated operator is an incentive for other market participants to charge fairer prices.
- **Image** – Though it may take time to build such an image, a reputation for reliability, efficiency and quality is a definite plus in comparison with the competition.  
By the same token, designated operators will need to address the following weaknesses, among others.
- **Overhead costs** – The need for the designated operator to maintain a presence in all areas and a regular transportation network and to provide daily home delivery service to most households around the country requires a pattern of rather heavy spending, which is dependent on a large volume of business. Sudden reductions in traffic volume can seriously threaten the stability of this model. Likewise, the need to take on new long-term obligations without counterpart funding or offsetting income can further heighten its vulnerability. These uncontrollable overhead costs need to be offset by a steady growth in mail traffic, attracted by the various strengths discussed above.
- **Obligation to service all markets** – Unlike other enterprises with the ability to choose the markets on which they wish to do business and to stay out of those in which they have no interest, the designated operator as the universal postal service provider has an obligation to serve the entire population, without distinction, in all parts of the country, whether operating at a profit or at a loss. This puts the designated operator at a disadvantage compared with the competition, in that its prices must cover the cost of these cross-subsidies. Thus, it is extremely important to clearly establish the need for compensatory government financing.

The reform package discussed in module I can be divided into the following four work fronts:

**The first work front** involves the development of a regulatory framework for the postal sector establishing the scope of the privileges to be granted to the designated operator to enable it to meet its universal postal service obligations; the envisaged pattern of competition within the postal sector, through laxer or more stringent regulations; and appropriate mechanisms for ensuring the smooth operation of the basic (and universal) postal services entrusted to the designated operator.

**The second work front** has to do with business or enterprise reform. It involves acquainting the designated operator with market principles and strengthening key areas such as finance, marketing and strategic planning. The strengthening of these functions through training, the hiring of experienced professionals, etc., should enable the designated operator to improve service quality and become financially self-sustaining and more market-oriented, which are essential conditions for its independent management.

**The third work front** involves the choice of an institutional model for the designated operator, defining possible outside involvement in its management and ownership, partnership-building, etc.; the legal status of the designated operator which, in turn, is directly related to the extent of its autonomy and its appropriate legal standing; the financing of its assets and operations (public and private); and the rate-setting authority.

**The fourth and final work front** refers to necessary technological reforms for the incorporation of new technological breakthroughs into the designated operator's production platform as a way of improving quality of service and cutting costs to strengthen its competitiveness.

A discussion of these factors studied in the various stages of the assessment process is essential to ensure that the design of the new postal service model is conducive to the development of an appropriate legal environment, with government backstopping and the engagement of its workforce, as outlined in the following sections.

## 2.3.1

### *Legal environment*

As discussed earlier in this chapter and at greater length in module I, the sustainable development of the postal market and the designated operator is contingent on the existence of modern legislation eliminating any special privileges or conditions undermining its competitiveness and the quality of service rendered to different customer segments. In this same spirit, postal legislation should guarantee:

- the separation of market regulatory powers and functions from powers and functions relating to the operation of the universal postal service;
- market-wide coverage of regulatory activities;
- the clear and objective definition, mapping and delineation of universal postal services;
- clear provisions with respect to the obligations and autonomy of the designated operator and other service operators subject to regulation;
- compensation for the universal postal service obligations vested in the designated operator;
- the legal standing of the designated operator as a corporate entity;
- the elimination of legal barriers preventing the designated operator from competing with other service operators on an equal footing.

## 2.3.2

### *Government backing of the designated operator*

No reform programme based solely on the internal efforts of the designated operator can expect to make very much headway. Government decision makers will need to be involved in all stages of the discussion process engaged as part of the quest for a new model for the nation's postal sector.

Sensitizing government stakeholders to the need for reform through a continuing communication, engagement and information-sharing process will build the necessary political will for the success of efforts to strengthen the postal sector as a whole and the designated operator in particular.

This awareness-building process will need to take account of the following pivotal issues, as the focal point of corresponding discussions:

- Regular universal postal services help to bring the country together through communication, linking small communities to large cities and the rest of the world. However, the operation of postal services in these locations holds no interest for private service operators.
- The designated operator can consume precious government budget funds to cover deficits engendered by an inefficient organizational structure. It can either continue to be a direct or indirect drain on the government, or it can utilize its capacity to energize other related sectors of economic activity.

- Despite competition from technological breakthroughs, the postal sector is not in decline. On the contrary, modern technology is affording countless new opportunities for it to heighten its appeal and expand its growth potential.

Thus, the postal sector must be officially placed on the list of government priorities, as an integral part of national development plans.

## 2.3.3

### *Involvement and engagement of the postal workforce*

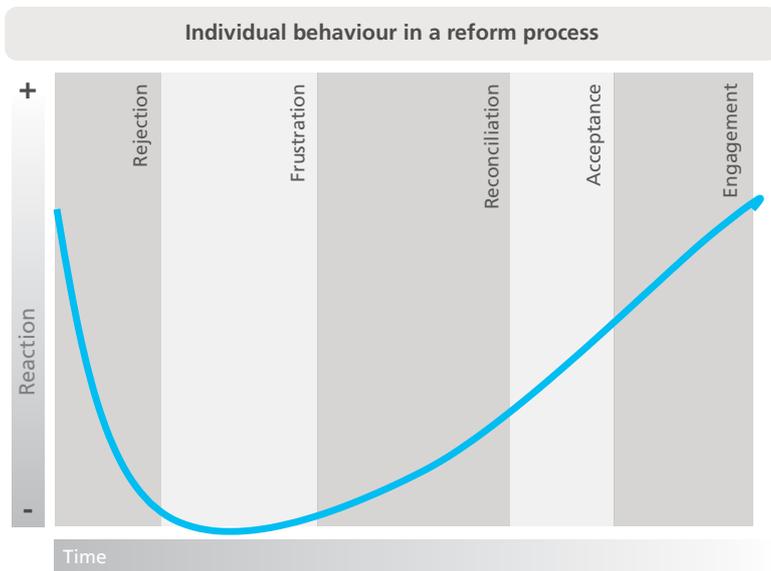
- Labour intensive/human resources as a strategic factor
- Unions/cultural changes
- New labour relations.

### 2.3.3.1

#### *Managing change*

A deep-seated reform programme will invariably engender different uncertainties and insecurities on the part of all interested stakeholders, within both government and the postal workforce. The success of the entire reform effort hinges on the proper management of envisaged changes to ensure their acceptance by the postal workforce.

Figure 5 graphically illustrates the phases which a typical individual goes through as part of a reform process, particularly in a business environment.



The organization needs to take into account so-called "cultural symptoms", such as:

- executive profiles (personal values, professional training and field of expertise, charisma, etc.);
- worker profiles (socio-cultural, professional 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 important to understand that communication and the sharing of information and experiences are facilitated by many different cultures. There is not just one culture but a series of constantly emerging subcultures as each member of the organization learns and adapts to the values and norms typical of each area in the course of his or her work. The fact that there are these different subcultures does not rule out the existence of an organizational culture. Imagine a single focal point (the corporate culture) nurturing and sustaining a number of different branches (the specific culture of each area within the organization).

The unique features of each part of an organization must be taken into account in managing the organization as a whole. The designated operator has its own organizational culture shaped mainly by the nation's culture, its position in the central government structure, its public image and an infinite number of other factors embodied in its workers, their notions and their positive and negative values.

For example, designated operators in the red or whose income from sales of services is not used to cover their expenses are generally more prone to distance themselves from their customers, since the survival of the organization is not directly tied to service quality considerations.

Clear and effective communication and greater involvement in discussions about envisaged changes to the designated operator tend to reduce the intensity of the reaction and the time spent by workers in each behavioural phase. Conversely, less involvement and less effective and transparent communication can delay the transition from one phase to the next. Mismanaged reform processes with no provision for engaging the workforce and dealing with its fear of the unknown often make good ideas unworkable. It is vital for the designated operator and, more importantly, for officials heading up reform programmes to pay special attention to communication and participation.

### 2.3.3.2

#### Organizational culture

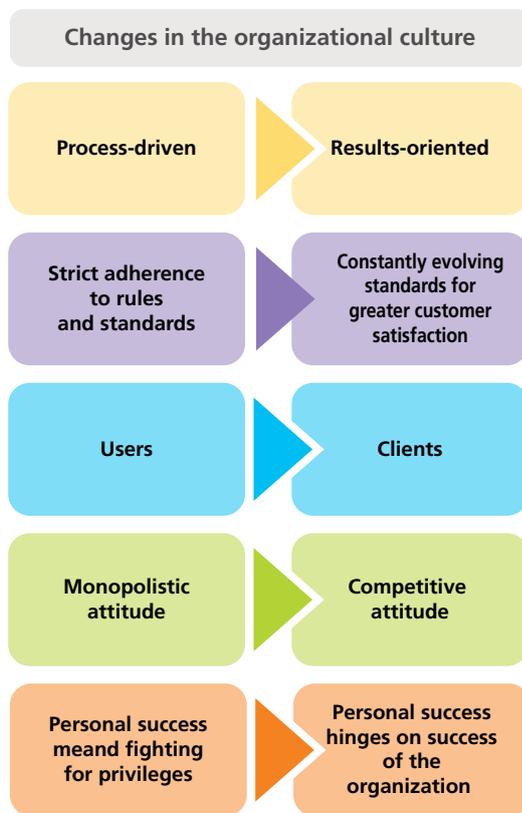
Organizational culture is the collection of ideas, values and norms shared by co-workers in any organization which shape their attitudes and behaviour. Moreover, the role played by this culture is vital to the organization's success.

Any programme or project affecting the organizational culture must encompass every component of the organization, from human relations and the organizational structure to the decision making process.

As a rule, the attitude of their workers is that they are paid the same low wage whether they give good or bad service. Thus, reform efforts will need to help change certain values and notions hindering the development of the designated operator while, at the same time, strengthening the positive values and notions making up the organizational culture.

Figure 6 illustrates a few of the notions and values which will need to be changed.

The list depicted in this figure is for reference purposes only and will need to be expanded or narrowed according to the national context and organizational climate of the designated operator. It is important to keep in mind that the success of reform efforts hinges on the implementation of necessary changes to the organizational culture – a long-term process which takes time to bear fruit.



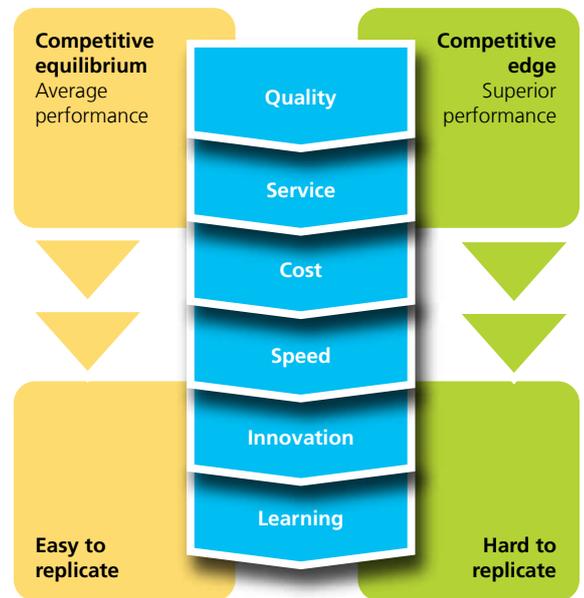
## 2.3.4

### Strategic positioning

The decision to reform the designated operator requires its supervisory agencies to select and approve one of the baseline scenarios constructed in section 2.2 as a basis for designing strategies, projects and activities to achieve the proposed vision.

This phase, which precedes the actual planning phase, is referred to as "strategic positioning." It correlates studies of probable and possible future scenarios as the basis for formulating viable plans in keeping with the prevailing internal and external philosophy. This correlation of study data establishes general priorities for future action.

This choice begins the planning process discussed in chapter 3.





# Development plans and programmes

## 3.1

### Formulation of development plans

This chapter addresses specific issues relating to the preparation, formulation and implementation of the development plan for the designated operator.

Some of the points addressed are designed to alert users of this guide to the types of obstacle which may need to be overcome. Others represent suggested approaches for ensuring the effectiveness and productiveness of the efforts of the strategic planning team.

### 3.1.1

#### *Development plans for the designated operator*

Meeting future challenges requires a well-engineered strategic planning effort on the part of the designated operator to help it visualize the course of action it needs to follow in accomplishing this task, overcoming the usual obstacles to planning processes.

- i Stepped-up pace of change** – Changes in normal postal business conditions are discernible through the actions of competitors and new customer needs. Escalations in competition and heightened demands by these stakeholders are speeding up the process of change. In such an environment, a sound strategy is an absolute must.
- ii Planning for the longer term** – The concept of short and long term varies according to an organization's sphere of operation. Oil and steel companies, for example, plan for visibly longer periods than service providers like the designated operator.
- iii Anticipating events** – Change, particularly accelerated change, does not happen by chance. It is a result of current changes in the global environment having powerful effects on virtually every country in the world, creating an explosive chain reaction that gradually affects all sectors of economic activity. Those organizations best able to clearly visualize the future impact of such changes on their business operations and to take appropriate measures early on to try and control undesirable situations are improving their chances for success.

- iv Lucrative/loss-making enterprises** – Profit or loss is the product of a strategic plan and the various actions taken to implement it. Just as the current success of an enterprise is planned in the past, a lack of planning may contribute to its current problems or failings. Thus, strategically speaking, it is important to guarantee the postal operator's future profit-making potential as a way of making viable the delivery and financing of the universal postal service.

Strategic planning by the designated operator means establishing the types of measure that need to be taken to ensure its future situation is different from its previous situation. A great deal of time and effort can be wasted through the lack of a modern, well-structured organization with results-oriented management practices.

The framing of a development plan visualizing and outlining the sequence of envisaged activities is essential to the future of the designated operator. This development plan will need to address factors such as quality of service, service offerings, rates, customers, suppliers, revenue, technology, investment, costs, the market, human resources and all the building blocks of the postal business system.

### 3.1.2

#### *Stakeholders in business planning processes*

Strategic planning is not confined to any one unit, area or individual within the designated operator. It is the product of a joint effort by the entire workforce, with the whole process headed up directly by the designated operator's senior executive or general manager responsible for organizing, coordinating and synchronizing team efforts, in line with the following concepts:

- a. **Participatory planning** – The main benefit of planning lies, not in its output, but in the planning process per se. Thus, the leader's role is not merely to frame plans, but also to facilitate the planning process. This means engaging all members of the organization, from the director general on down to its newest employee. The strategic planning process is a product of the efforts of representatives of all areas of the organization.
- b. **Synchronized planning** – All elements involved must be considered as interdependent variables or factors, since no one part or area of the designated operator can be efficiently planned as a separate element.
- c. **Integrated planning** – All levels of the management structure of the designated operator must be mobilized in preparation for the strategic planning process, and their activities must be consistent with planning efforts. All ensuing efforts and activities must be directly in line with established targets.
- d. **Ongoing planning** – This is essential to the success of any planning process. The effectiveness of all plans gradually diminishes over time.

A well-engineered participatory planning process is more deeply rooted, preventing individualistic behaviour, which is quite common with changes in an organization's leadership. This is not only true of the designated operator. It happens in all organizations, including private ones.

## 3.2

### Building blocks of a strategic plan

This section is designed to provide guidance for organizing the strategic planning process. Its goal is to outline the steps to the successful framing of a workable plan and the achievement of targeted outcomes by the designated operator.

#### 3.2.1

##### *The basics*

When dealing with a governmental body and business enterprise, successful strategic planning designed to strengthen the competitiveness and ensure the survival of the designated operator is predicated on an in-depth knowledge of its organizational structure and of the many outside influences at play, engendered by changes in the surrounding political, economic, social and technological environment.

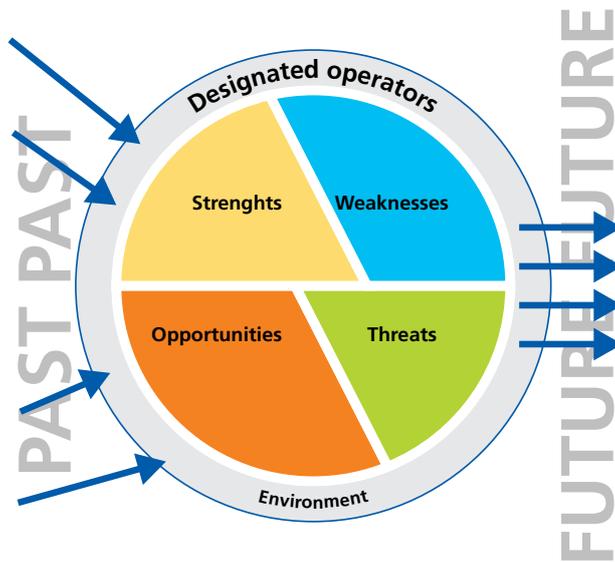
As a rule, the government has multi-year plans for all spheres of activity recapping national policies and spelling out its courses of action, in line with the broad outlines of policies with respect to national infrastructure and government spending.

More specifically, government planning for the postal sector should prepare the designated operator to meet its universal postal service obligations. However, a lack of government planning does not necessarily rule out the development of a strategic plan for the designated operator.

The specific path taken by the designated operator to arrive at its present position needs to be carefully evaluated as the basis for charting its future course of action.

This assessment needs to look at its strengths and weaknesses, as well as at the opportunities and threats present in its surrounding environment (see chapter 1).

The following figure graphically illustrates the process of assessing the current situation and charting future courses of action.

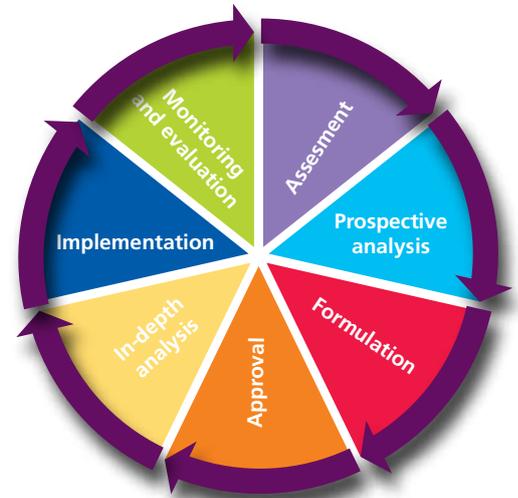


This assessment is the basis for establishing the operator's vision, mission, purposes (objectives), programmes, projects, sub-projects and activities, along with corresponding monitoring, supervision and evaluation procedures.

### 3.2.2

## Development of a strategic plan

The following flowchart illustrates the process of developing a strategic plan and shaping its objectives.



**The assessment** – the first technical phase of the strategic planning process discussed in chapters 1 and 2 – involves the collection of environmental data, both internal (strengths and weaknesses) and external (macro- and micro-environmental threats), while constantly endeavouring to correlate this data with the actual organization and its business operations. The focus is not yet on the future in this early phase of the process.

**The prospective analysis** – the second technical phase of the strategic planning process discussed in chapter 2 – involves the construction and analysis of possible and probable alternative future scenarios, which must map out the organization's strategic position from both an institutional and a business perspective. This phase includes the establishment of mega-trends (i.e. those having a significant impact five or more years in the future) and contextual variables (having a significant impact over the next five years).

**The formulation phase** refers to the development of core competencies and the closing of gaps detected during projects, programmes and activities and corresponding course corrections. This phase includes the development of a preliminary budget, simulating income, expenditure and investment engendered by established strategies, projects, programmes and activities.

**The approval phase** involves the discussion and approval of data and documents produced through the efforts of personnel at all levels of the organization by its top management and by the unit heading up the strategic planning process. As part of this process, top management will endorse or revise the proposed approach and officially approve the strategic plan.

**The in-depth analysis** refers to the framing of a development plan for a specific period, e.g. five years, with provisions for the yearly start-up of scheduled projects and activities. This document will spell out the persons in charge, indicators, deadlines, phases, values and targeted outcomes for all so-called "corporate" initiatives. This process is repeated for the framing of tactical and operational plans clearly establishing the "what", "who", "how", "where", "how much", "when" and "by when" for all envisaged initiatives.

**The implementation phase** per se follows the dissemination of the plan and the engagement of all areas and individuals involved, who will regularly supply data and receive reports on the projects and activities for which they are accountable.

**The monitoring and evaluation phase**, while scheduled at the end of the planning cycle to provide feedback for the following cycle, should really be an ongoing activity throughout the entire planning process, conducted at established intervals for each type of monitoring mechanism, as necessary, to re-evaluate or to step up or slow down the implementation of a particular strategy or initiative.

A strategic plan involves a sequence of clearly defined viable, quantifiable, measurable actions.

There are a number of issues which can be used as benchmarks in helping to ensure the successful crafting of a strategic plan. A few examples of these benchmark issues are outlined below.

### Finance

- Ability to secure low-cost, long-term capital
- Ability to secure short-term capital
- Ability to maximize the value of investments
- Ability to take risks with measurable returns

### General management

- Ability to provide continued high-level management
- Development of future leaders and managers
- Development of a sound organizational structure
- Development based on long-term planning
- Development of new quantitative, technical decision making tools
- Assurance of better judgement and of the use of more creativity and imagination in decision making processes
- Ability to use information technology as a problem-solving tool
- Ability to recognize new needs and opportunities for products and services
- Ability to promote administrative practices conducive to sustainable development

### Marketing

- Ability to collect market intelligence
- Development of a broad customer base
- Establishment of an efficient network of marketing channels
- Development of the ability to attract lucrative new business
- Assurance of creative advertising and sales promotion campaigns
- Effective use of pricing (discount policies, credit, warranties, instalment sales, compensation)
- Promotion of close cooperation by Operations, Marketing and Finance
- Revitalization of the sales structure
- Improvement of customer service
- Development of new products and services for new markets
- Expansion of sales of current products on new markets
- Product diversification through partnership building
- Use of creativity in designing new products and services
- Acquisition of a larger market share

## 3.2.3

### *Objectives, strategies and actions*

## Operations

- Improve delivery of current services
- Improve service quality control procedures
- Develop effective policies for acquiring new technology and replacing operating equipment
- Develop an efficient layout for mail sorting centres
- Establish a well-engineered mail delivery service structure
- Develop better inventory control and stocking procedures (for mailbags, labels, baskets, seals, etc.)
- Computerize production facilities
- Strengthen the claim processing system
- Strengthen the performance of operational personnel
- Optimize operating facilities (ergonomics, lighting, effective flow management, etc.)

## Human resources

- Promote better relations between managers, supervisors and work crews
- Develop expertise in dealing with labour organizations
- Maximize the utilization of worker skills
- Encourage results-oriented behaviour
- Develop the ability to encourage and capitalize on worker creativity
- Encourage the rotation of workers and supervisors
- Establish a staff development policy with provisions for training, courses and educational incentives
- Conduct individual performance evaluations of all staff members regardless of their level or position in the organization
- Develop a benefits package to help retain personnel
- Formulate a career development plan establishing promotional opportunities for postal employees

### 3.2.3.1

## Investment and performance

The implementation of any plan involves a number of technical, administrative and financial factors. All sources and uses of funding need to be clearly defined. Sources include internally generated investment funds, government financing and funding from domestic and international lenders.

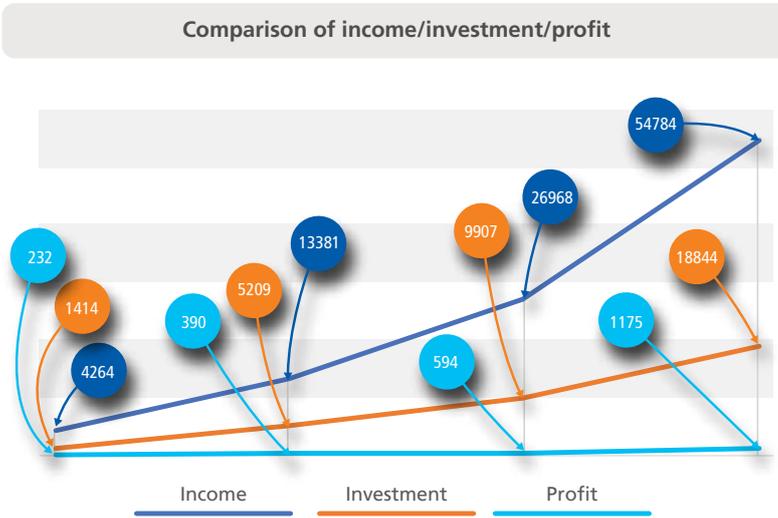
All prospective lenders base their financing decisions on appraisals and the content of proposed projects. Though traditional financial performance measurements may not always be enough to guarantee sound company and business management, these are the economic indicators used in macroeconomic analysis. Financial management techniques offer a number of tools for evaluating efficiency in this area, including:

- **Return on investment** – Ratio of operating income to total company assets reflecting the company's ability to generate profit with a given amount of investment. This indicator is used to evaluate both the company's operating profits (or losses) as a whole and expected returns on future investment.
- **Cash flow** – A projection of cash flow for a given future period quantifies the changes the company hopes to make in its major financial statement accounts in terms of the sources and uses of its funds, primarily in terms of present value.
- **Contribution margin** – This indicator, which is the difference between income from control units (such as a product line or sales affiliate) and variable costs for a given period, helps to establish the contribution of a particular unit within the organization to covering overhead expenses and generating profit.

All planning data and corresponding projections should fit into the following categories:

- **Operational performance data;**
- **Economic performance data;**
- **Organizational image.**

Insofar as possible, all findings should be quantified and presented in table and graph form, as in the following example.



### 3.2.4

#### *Formulation phase of the strategic planning process*

All planning should be the product of a creative, participatory process geared to the following needs:

- The establishment of mutually compatible objectives and challenges;
- Compatibility with internal funding;
- Compatibility with conditions in the surrounding environment;
- A positive cost-benefit ratio;
- An organization-wide commitment to quality;
- The freedom to make some mistakes;
- An awareness of what is realistic and unrealistic, while constantly striving to achieve the impossible.

Planning processes must set priorities and gradually implement envisaged actions. They should focus on the long term while providing for the implementation of short- and medium-term activities. Resulting plans must have built-in flexibility allowing for their modification, updating and adaptation.

Technically, long-term planning covers periods of five or more years, medium-term planning covers period of anywhere from one to five years and short-term planning is for periods of up to one year. In other words, planning processes establish an organization-wide policy turning what would otherwise be one-off projects and activities into a systematic approach to attaining established objectives. Long-term planning is the foundation of business activity.

The formulation phase of the strategic planning process includes the development of a vision, mission statement, objectives, programmes, projects, sub-projects and activities.

#### 3.2.4.1

##### Vision

An organization's vision is what it is looking to be. It establishes the broad outlines of the strategic plan to be developed and implemented by the organization.

An organization's vision should be shaped by the sound judgement and consensus of its leadership. The following is a list of suggested considerations to be taken into account in shaping an organization's vision:

- The organization's vision should be clearly defined.
- It should establish and respect individual rights.
- It should be centred on the organization's main focuses: major customers/public, workers and suppliers.
- The organization needs to build market share and generate profit by improving customer perceptions of its product and service offerings.
- The organization needs to develop a results-oriented performance culture.

The following is an example of the vision of a designated operator.

"We see the postal service":

- a. operating at the global level;
- b. as a major service operator on the international postal market;
- c. as the leader in all domestic market segments in which it is active;
- d. expanding its business operations;
- e. as an efficient, dynamic enterprise;
- f. making regular innovations in its services;
- g. constantly adding technological value to its products and services;
- h. as highly competitive in each and every one of its business areas;
- i. with a social conscience, making an important contribution to society;
- j. as responsive to stockholder expectations with respect to returns on their investments;
- k. with a strong organizational image;
- l. with a good work environment meeting the needs of its workers;
- m. as an advocate for the environment;
- n. as a business which is continually learning.

There are a number of important considerations to be taken into account by the strategic planning team in charge of shaping the organization's mission, as outlined below:

- It should not be confined strictly to an explanation of what is being done, since such mission statements fail to meet their main objective of engendering decisions in favour of change.
- It should not be tied directly to product and service offerings, which seriously limits its scope.
- Any definitions within it should be neither too short, lest they be unclear, nor too broad, which could make them difficult to assimilate.
- It should not establish a permanent slogan for the organization, which may eventually need to be changed in line with changing conditions in the internal and external environment. The goal is not only to define the organization's mission, but also to be prepared to redefine it whenever necessary, as part of an ongoing observation and thought process.

The following are examples of mission statements used by postal operators in different countries.

"Our business is to move mail, merchandise and print information around the country and around the globe. We also provide other products and services in a market-oriented environment. We are committed to satisfying customer needs, offer challenging career opportunities and provide a solid return on investments."

"Our objective is to establish, manage and operate public postal service infrastructure, engage in any and all follow-up, related or ancillary activities and provide financial services."

"To bring together individuals and organizations around the country and around the world, ensuring the satisfaction of their postal service needs."

### 3.2.4.2

#### Mission

The designated operator's mission is its *raison d'être*. It determines the type of business activities engaged in by the postal enterprise, the reason for its existence and the types of operation it should focus on in the future. The designated operator's mission statement underpins the establishment of its necessary macro-strategies and macro-policies, determines the thrust of its operations and sets boundaries for the adoption of an appropriate strategic position. To this end, it must meet reasonable, rational criteria that are:

- enterprising enough to have an impact on organizational behaviour;
- focused more on satisfying customer needs than on the features of service offerings;
- reflective of the organization's core competencies;
- intelligible;
- realistic;
- flexible;
- motivating.

### 3.2.4.3

#### Objectives

Objectives are quantitative goals or targets to be met through the efforts of the entire organization, with established performance deadlines and specific officials in charge of their attainment. The objectives of any organization must meet the following requirements:

- They must be clear and clearly communicated, understood and accepted.
- They must be specific, measurable, realistic.
- Their linkages and interaction should be briefly outlined.
- They must be sufficiently in step with internal and external factors affecting the organization.
- There must be an adequate monitoring and evaluation system in place.
- There must be set priorities for their attainment.

Objectives must be:

- **Hierarchized** – showing top priorities versus secondary objectives (etc.) and how these priorities are set.
- **Quantitative** – quantifiable and measurable.
- **Realistic** – the product of studies of surrounding threats and opportunities and of the organization's strengths, weaknesses and resources, rather than of the notions or preferences of interested individuals.
- **Consistent** – mutually coherent and interrelated.
- **Clear, understandable and written** – It is easier to carry out plans with clear objectives which can be easily understood by all stakeholders.
- **Clearly communicated** – The purpose and substance of an organization's objectives need to be clearly communicated to all parties directly or indirectly involved in their accomplishment.
- **Motivating** – An organization's objectives need to help create a motivating environment to achieve the full impact of the strategies to be implemented by the work team.
- **Practical** – identifying likely beneficiaries.
- **Decisive** – shedding light on the basic decisions involved in their attainment.
- **Operational** – outlining the basic steps in their attainment.

### 3.2.4.4

#### Programmes

Programmes are synchronized packages of projects and activities with homogeneous overall objectives. They reflect what the organization hopes to accomplish from a corporate perspective and help to make its efforts and resources more targeted over a given time period.

The main purpose of programmes is to coordinate projects with common goals and objectives.

### 3.2.4.5

#### Projects

Projects (and sub-projects) are initiatives with established start-up and completion dates, a general coordinator or manager, a pre-established result and necessary earmarked funding for their implementation.

Project preparation gives managers a way of establishing and implementing action plans to be conducted by the organization with a view to the achievement of targeted outcomes identified as part of the strategic planning process.

In general, a project has two main phases:

- **PHASE 1** Design.
- **PHASE 2** Implementation

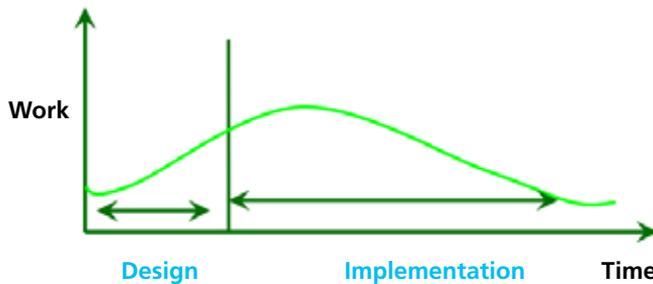
The main steps in the project design phase are as follows:

- Assessment of the target problem;
- Study of the surrounding environment;
- Establishment of project objectives;
- Establishment of project evaluation criteria and parameters;
- Conduct of necessary feasibility studies (strategic, marketing, technical and economic-financial feasibility studies);
- Negotiation and establishment of necessary resources;
- Designation of the project team;
- Resource planning and allocation.

The output from this phase is a project proposal and implementation plan. The main issues to be addressed in the project implementation phase are:

- the use of available resources according to plan;
- the supervision of work by the project team;
- the management and monitoring of project activities;
- the final evaluation of completed work.

The following figure graphically illustrates the different project phases.



## 3.2.5

### Approval

The next phase of the strategic planning process after the formulation phase (establishing the vision, mission, objectives, programmes, projects, sub-projects and actions) is the approval phase.

The approval phase involves two main processes:

- 1° Internal institutionalization process
- 2° External institutionalization of the strategic plan

#### 1° Internal institutionalization process

Planning requires preliminary preparation at basically all levels of the designated operator.

Communication, awareness-building and information activities and motivational, participatory and interfacing efforts will all need to be stepped up immediately prior to the start of the planning process, under the leadership of the designated operator's general management.

Resistance to change has very little to do with the size of the organization. It depends on the mindset of its members. In general, it stems from two main factors, namely success and fear.

Some successful organizations do not acknowledge or see any need for change, which could cause them to eventually become obsolete. (Such organizations are doing well and have no wish to change their future plans.)

People resist change out of a fear of losing their power, or of being forced to leave their comfort zone. There is a definite fear of the unknown. Beneath such resistance to change is the placement of personal interests above those of the organization.

#### 3.2.4.6

#### Sub-projects

Sub-projects involve a variety of specific, explicit, finite, time-phased activities contributing to the implementation of a given project component to which they are attached.

#### 3.2.4.7

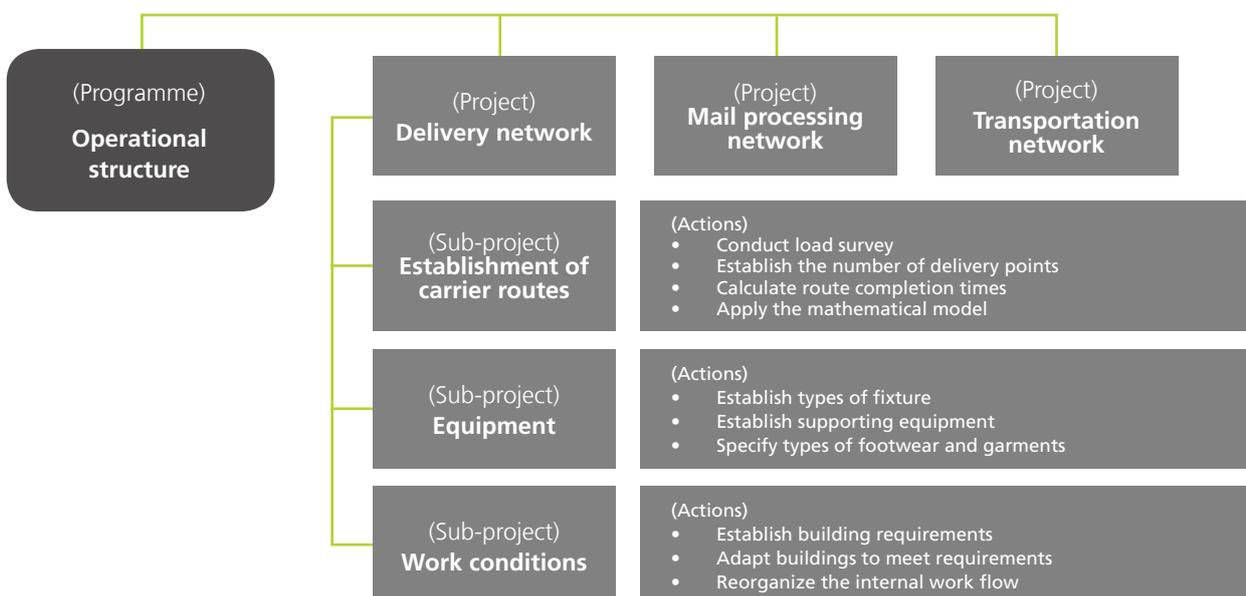
#### Actions

Actions refer to the implementation of a decision for the purpose of achieving a specific, pre-established outcome. Actions are pivotal to the execution of sub-projects and projects.

EXAMPLE:

The following figure graphically illustrates the basic relationship between these concepts.

Programme | Project | Sub-Project



Dealing with pockets of resistance requires effective action on the organizational culture.

As a rule, the following types of situation are likely to engender a certain resistance to change:

- A general perception that the corresponding cost-benefit ratio is unfavourable;
- A lack of confidence on the part of the workforce in the organization and in its real interest in making changes;
- A lack of confidence in the organization's ability to effectively implement required activities and patterns of behaviour.

Possible approaches to minimizing resistance to change include:

- early and continuous training with respect to the types of activity involved in the process of change;
- establishment of appropriate channels of communication to underscore and explain the need for change and the rationale for the entire reform process;
- effective, mass participation by the postal workforce in the planning process, creating an environment conducive to the sharing of ideas;
- establishment of a clear organization-wide information system;
- organization of information activities with respect to planning efforts.

The best way to overcome or minimize resistance to change is to ensure that the workforce understands the nature of the strategic planning process and receives extensive training in procedures for the development and implementation of strategic plans.

## 2° External institutionalization

All elements of the strategic planning process must be in line with government policy guidelines, international agreements in general and, more specifically, the underlying principles of the UPU's global strategy as established at Union Congresses, as well as with public needs, wants and priorities since, in the final analysis, the main beneficiary of all such planning efforts should be the general public.

All planning documents and the established action plan will need to be formally submitted to relevant government agencies (the supervisory ministry for the postal sector, the ministry of planning, the ministry of finance, the regulatory agency and any other agencies which could be helpful in implementing the plan).

An executive summary of the plan should clearly illustrate the consistency of envisaged activities by the postal organization with government policy guidelines.

Rounding out the internal planning process, the organization's general management will need to explain to interested government officials the procedures, objectives, projects and sub-projects forming an integral part of its plans.

Engaging the government and earning its trust to ensure the successful implementation of organization-wide plans is crucial to the attainment of its objectives. The next step after reaching a consensus on the broad outlines of an action plan and its approval by the government is its implementation, striving to meet established schedules and achieve targeted outcomes.

### 3.2.6

#### *In-depth analysis*

The approval phase of the strategic planning process is followed by an in-depth analysis. This phase is devoted to the framing of yearly tactical, operational and follow-up plans.

The strategic planning process needs to take into account the entire organization, not just one part. Thus, it is technically incorrect to talk about "strategic operations planning" or "strategic human resource planning".

These are examples of tactical (not strategic) planning for a clearly defined part of the organization. While such plans do address strategic issues, they do not encompass the organization as a whole and, accordingly, are referred to as tactical plans.

Tactical postal operations planning, for example, deals with the tactical planning of mail delivery, sorting, transportation and routing operations.

Tactical marketing plans have to do with markets, sales and customer service.

Tactical human resource planning involves human resource management, skills development and training.

Tactical financial planning has to do with financial management, financial services, budgeting and costs.

There are countless examples of other types of tactical plan (dealing with technology, logistics, management, quality, etc.), depending on the scale of the organization in question.

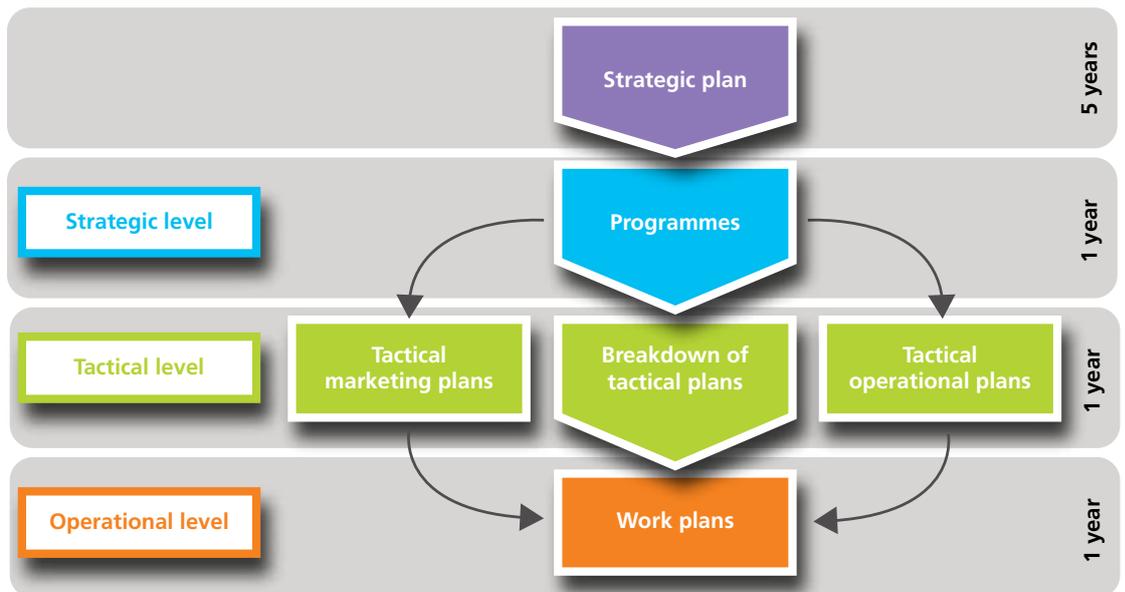
Business plans are an especially important element of launching a new product or service.

The crafting of business plans complements the strategic planning process. Business plans are highly specific plans addressing the following types of issue:

**Business analysis**

- Business features
- Driving forces
- Key success factors
- Market size
- Commercial business design
- Operational design and resource requirements
- Feasibility study
- Calculation of monthly sales volume
- Calculation of sales value
- Overhead costs
- Investment
- Break-even point
- Final evaluation

The following figure illustrates the different levels of planning discussed above (the strategic, tactical and operations levels) and corresponding linkages, and indicates the implementation period for each type of plan.



### 3.2.7

## Implementation

After the approval of strategic plans and corresponding programmes, projects and sub-projects and the framing of applicable tactical and operational plans comes the implementation phase, following the distribution of all such documents and the engagement of all interested areas and stakeholders, each of which will furnish and receive regular information on the projects and activities within its sphere of responsibility.

### 3.3

## Monitoring and evaluation of the strategic planning process

The purpose of the monitoring and evaluation function throughout the planning process is to scrutinize performance based on comparisons of actual results against targeted outcomes, particularly with respect to the organization's objectives, challenges, strategies and policies.

The monitoring and evaluation function is designed to ensure that actual performance is aligned with established standards.

Monitoring is a management function using comparisons with established standards to measure and evaluate the performance and outcomes of specific actions as a way of providing feedback for decision makers, to enable them to turn around or strengthen performance or to intervene in specific management functions to ensure that ensuing outcomes meet established targets, challenges and objectives.

The following figure is a general outline of the monitoring and evaluation function.

### 3.3.1

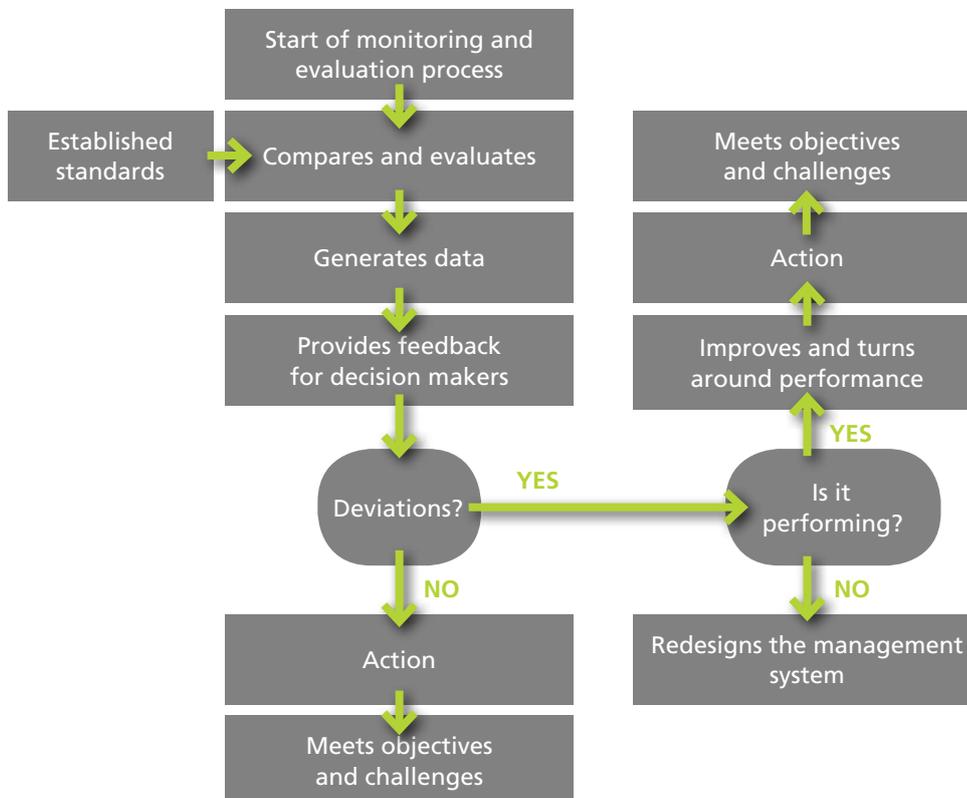
## Information requirements for monitoring and evaluation

Part of the monitoring and evaluation phase of the planning process involves establishing the types of information required as the basis for monitoring activities.

### Types of required information

Information requirements for monitoring and evaluation of the strategic planning process include, but are not limited to:

- quantitative data on the timing of activities;
- data establishing the dates of all events (information, reports, tables, actions, etc.);
- data on promised and actual values;
- data on the application of these values;
- data on the size of the workforce;
- measurements of the quality of work.



## Data collection and reporting intervals

Data collection, processing and reporting intervals basically depend on the type of activity in question. In the postal sector:

- strategic monitoring data involving top management should be collected or reported monthly;
- tactical monitoring (management) data should be collected or reported weekly or bimonthly;
- operational monitoring data should be collected or reported daily and tabulated on a weekly basis.

## Quality of information

The form, channels of communication, timing, timeliness, precision and content of monitoring and evaluation data are all important factors. Such data must meet the following criteria:

- Strategic monitoring (top management) data requires a low level of disaggregation and high level of aggregation.
- Tactical monitoring (management) data requires a medium level of disaggregation and high level of aggregation.
- Operational monitoring data requires a high level of disaggregation.

## Sources of information

Sources of information fall into two broad categories:

- Internal sources – including data supplied by activity managers and users of monitoring and evaluation systems (internal clients);
- External sources – including data furnished by the outside public, independent audits, the press and outside supervisory agencies.

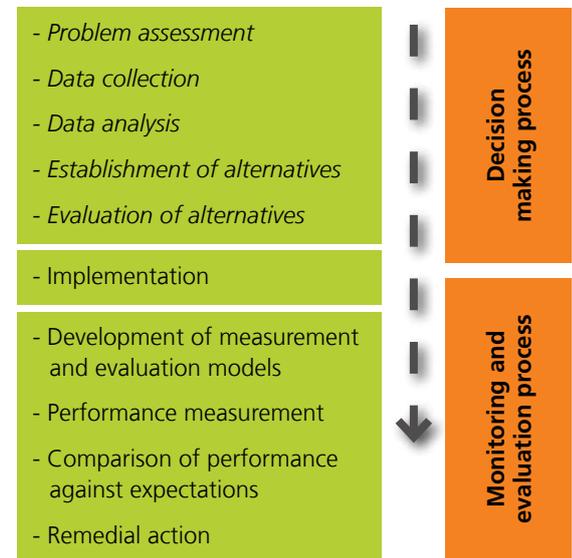
## Data managers

Each action contemplated in a given plan must have a coordinator in charge of its implementation and monitoring. This coordinator is also the primary source of information on the progress of all activities for which he (or she) is responsible. The individual in charge of coordinating each group of activities is responsible for aggregating and forwarding corresponding data to his (or her) superior by the prescribed deadline. Thus, there clearly needs to be an established chain of command for planning purposes.

### 3.3.2

## *Phases of the monitoring and evaluation process*

Information is an essential input for monitoring and evaluation and the foundation for decision making, as graphically illustrated below.



Top management would do best to follow the steps outlined below for the due and proper monitoring and evaluation of strategic planning activities.

### **a. Development of measurement and evaluation models**

Such models are based on established objectives, challenges, goals, strategies, policies, projects, standards and procedures, and are used as the foundation for comparisons of targeted outcomes, which may be tangible or intangible, explicit or implicit, and quantitative, qualitative and/or time-driven.

### **b. Performance measurement**

The performance measurement and evaluation process establishes and chooses what to measure and then measures it based on quantitative, qualitative and time-driven criteria. These criteria need to be coherent, homogeneous and well integrated, so as not to distort the monitoring of planning activities.

### **c. Comparison of performance against expectations**

Indicative tables that contain performance data and compare it against expectations are an effective means of visualizing the progress of corresponding actions and a useful supporting tool for top management, other levels of management, activity coordinators and other collaborators.

In general, there are four possible findings from such a comparison:

- Performance meets or exceeds expectations;
- Performance almost meets expectations, with deviations from the original plan;
- Performance exceeds expectations, with deviations from the original plan;
- Performance is far beyond expectations.

#### **d. Remedial action**

It is important to take special measures to prevent significant deviations from the original plan or, in some cases, to reinforce positive outcomes.

The monitoring and evaluation system must:

- focus on core issues to avoid wasting time and inflating costs;
- be transparent, to facilitate its understanding and acceptance by the members of the organization;
- be stringent and precise and, at the same time, have a certain built-in flexibility, in light of the imprecise, changeable nature of the postal environment;
- be realistic and workable, to generate accurate, objective data to facilitate decision making and further efforts to successfully implement the strategic plan;
- engender a positive cost-benefit ratio;
- be responsive and provide for the implementation of quick-acting remedial measures, which requires that it be underpinned by specific, clear, well-defined monitoring models;
- be objective, triggering appropriate corrective or strengthening measures.

## 3.4

### General guidance

#### 3.4.1

#### *Recommendations for project management*

The goal of this final section of module 4 is to provide some useful guidance for the design and implementation of strategic plans. For consistency purposes, it also includes a glossary providing standard definitions of the main terms used in the discussion.

Project managers should keep in mind that, if a project for which they are responsible is not properly prepared and conducted, it could cause problems in the implementation of the organization's strategic plan.

The following recommendations for project managers are designed to help them improve their job performance:

- Focus on targeted project outcomes.
- Be flexible, within reason.
- Engage senior management to secure necessary support for project preparation and implementation.
- Ensure there is an adequate, realistic information system.
- Stay in direct contact with all individuals involved in the project.
- Ensure a balanced distribution of work among corresponding collaborators.

- Keep project expenditure at a reasonable level, spending only what is necessary.
- Stay realistic and avoid being overly optimistic or pessimistic.
- Encourage criticism and discussion by interested co-workers with respect to the progress of the project.
- Maintain consistency with previous positions and decisions.
- Remember that the project is a system and must always be regarded as such.
- Resolve any disputes over the project's management.
- Bear in mind that the project addresses both current and future problems.
- Maintain an effective project management and evaluation system based on the monitoring of project activities.

#### 3.4.2

#### *Determinants of a successful project*

The success of any given project and corresponding project activities hinges on:

- compliance with established deadlines;
- compliance with pre-established cost estimates;
- attainment of targeted technical standards of quality;
- satisfaction of feasibility requirements;
- attainment of financial stability during project implementation and after its completion;
- continued operational stability of business activities;
- continued financial stability;
- higher or, at a minimum, stable earning power;
- better or, at a minimum, continued exploitation of business opportunities.

### 3.4.3

#### *Generally accepted concepts and terminology*

The following glossary of planning terminology

**a. Mega-trends**

Mega-trends are designed to show patterns of change in determinant and critical variables for the survival, growth and profitability of a given business, product or service. They should be used as the basis for strategic decision making for periods of between five and ten years.

**b. Contextual analysis**

A contextual analysis is designed to show patterns of change in determinant and critical variables for the survival, growth and profitability of a given business, product or service. It should be used as the basis for strategic decision making for periods of up to five years.

**c. Mission**

The mission statement defines the organization's current and potential *raison d'être*. It articulates the purpose of the organization and the scope of its operations. It should be expressed in terms of the satisfaction of needs and of market demand and expectations rather than of specific products or services offered by the organization.

**d. Vision**

The vision sums up the aspirations, ideas, expectations, ambitions and "dreams" of those in charge of making decisions on the organization's future business operations, products or services. It establishes a time frame and provides guidance for competition management. It needs to be clear and objective and to articulate how the organization's strategies perceive its business operations, products and services over the years.

**e. Core competencies**

Skills and technology enabling an organization to offer its customers a particular benefit.

**f. Values**

Values are attitudes and behaviour underpinning basic strategic decisions.

**g. Policies**

Policies are parameters or guidelines used in decision making. They establish levels of authority, value sets and/or floor and ceiling limits and the scope of strategies and actions in furtherance of established goals and objectives.

**h. Strategic assessment**

An analysis of the internal and external environment as the basis for the framing of corporate and sectoral strategies.

**i. Prospective analysis**

A study of the variables and data collected as part of the strategic assessment for the construction of alternative scenarios and the detection of future opportunities and threats throughout the forecasting period, identifying core competencies to be developed or strengthened and setting priorities for future action.

**j. Strategic positioning**

Evaluation of the competitive position of the business, product or service in question in the competitive domain for the purpose of setting strategic objectives, framing necessary strategies (programmes, projects and actions) for the attainment of such objectives, formulating policies relating to such strategies, and establishing necessary operating guidelines.

**k. Strategic objectives**

Strategic objectives are fully quantifiable, measurable targets with established deadlines to be continuously pursued by the organization with a view to disrupting the status quo.

**l. Programmes**

Packages of synchronized projects and activities summing up the organization's corporate plans and aspirations for a given time period.

**m. Projects**

Packages of finite, time-phased activities utilizing all available resources to make major changes to the status of an administrative process or procedure within the organization.

**n. Sub-projects**

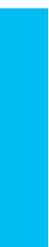
Packages of finite, time-phased activities contributing, in part, to the implementation of a given project.

**o. Action plan**

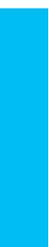
A package of common elements of different projects relating to a specific area (human resources, operations, marketing, etc.).

**p. Actions**

Elements of a continuing effort or project contemplated in an action plan designed to improve performance or generate a particular outcome without making any major changes in established methods or processes and without systematically addressing the problem in question.



**Module V**  
Postal Regulation



# Introduction

The delivery of nationwide postal services and the operation of the domestic postal market require that government have necessary mechanisms to ensure:

- the establishment of public policies governing the postal sector;
- due and proper delivery of the basic or universal postal services to which all segments of the population are rightfully entitled;
- compliance with the provisions of legislation governing postal activities, particularly with respect to the reserved service area;
- healthy competition on the postal market.

For years, the lack of regulations in the postal sector has hampered market development and, in some countries, has actually undermined the viability of the designated operator responsible for providing the universal postal service. The designated operator is required to ensure nationwide universal service, while private operators confine themselves strictly to lucrative market segments and niches, with no special demands placed on their operations, which often forces the designated operator to operate at a loss.

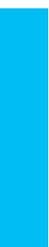
It is the designated operator which has been behind postal regulatory efforts in a number of countries, as it has striven to make government officials aware of the need for regulation. Such efforts have been most successful in countries whose governments are already regulating other industries, such as the telecommunications, transportation and power sectors.

However, for the most part, the issue of regulation has arisen as part of new trends driving trade in services, particularly over the course of the last two decades of the twentieth century.

It is not the intent of this module to go into detail addressing or explaining the technical, historic and political factors behind the implementation of postal regulations at the local or international levels since, first, the main purpose of this Guide is to provide users with practical work tools and, second, because the driving forces behind this process are as varied as are prevailing conditions at the country and regional levels.

Accordingly, this module focuses on certain basics which, hopefully, will be helpful to any countries which may need to mount their own postal regulatory efforts. Despite a growing trend to separate operational and regulatory functions, there are still comparatively few theoretical references on the issue of postal regulation.

However, a series of noteworthy international training activities by the Universal Postal Union over the last few years, along with the publication of certain reference materials and the conduct of several international forums in this area are helping to build common ground for the development of an appropriate frame of reference for the establishment of clear, realistic policies with respect to postal regulation.



# Government and Regulation

## 1.1

### Public services and regulation

#### 1.1.1

#### *Exercise of the constitutional powers of government*

"Public services" are a core element of national societal models. The population of any nation should have access to high-quality public services as a way of promoting social and economic cohesiveness, improving the quality of life and ensuring full and complete exercise of the basic rights which should be recognized under national constitutional provisions.

Both the executive and the legislative branches of government play an essential role in this process, with the power to embody changes dictated by developments in the surrounding environment in new legislation and regulations.

A nation's citizens have a right to public services and the government has a duty to ensure the operation of such services, directly providing them via one of its offices or through the establishment of specific institutions, and through the enactment of governing legislation in keeping with conditions in the surrounding environment.

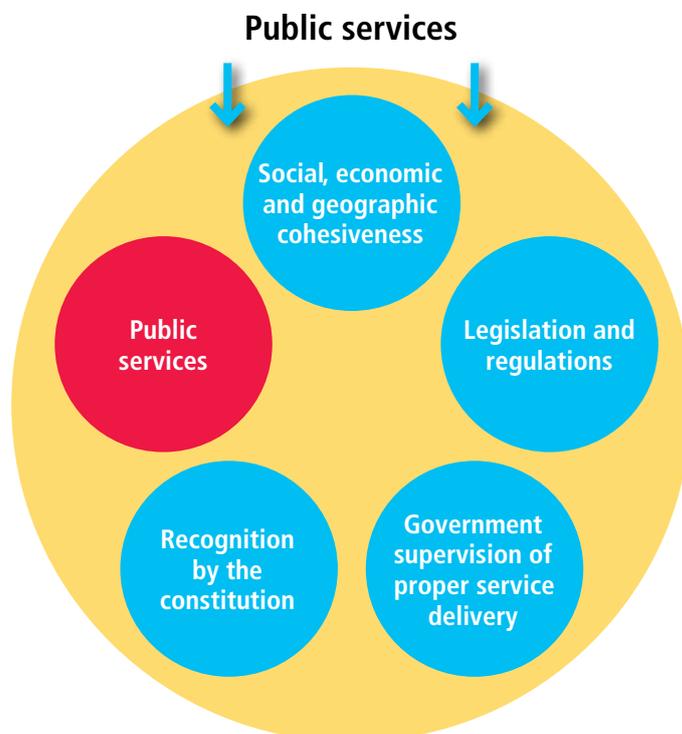
The governments of all countries have public service obligations, fulfilling such obligations directly via one of their offices or through the establishment of appropriate institutions, and through the introduction of relevant operating procedures. However, in time, most legal and regulatory instruments become obsolete in the face of constant changes in societal needs.

In most countries, government intervention began in the most lucrative public service industries, which required significant investment for development and which, at the same time, had caught the interest of the private sector, as in the case of the telecommunications and power industries, in which we find the earliest examples of government regulation.

There was little interest or investment in basic social sectors or industries without any value-added products and services, resulting in a steady deterioration in such services.

Nor was any attempt made at the time to regulate these services. Accordingly, the government saw no need to make any decisions with regard to these sectors until they were already in crisis. Many countries considered only the social dimension of postal service, despite its potential as a driving force in economic development.

Countries around the world have come to realize the extent of the deterioration in universal postal service and are interested in finding ways of strengthening the designated operator and of mounting sweeping reform programmes addressing the key issue of postal regulation.



## 1.1.2

### *Changes in public services*

Changes and refinements in the concept of public service, as well as in the actual services to be ensured by government in a climate of competition from private enterprise, have made it necessary to think long and hard about the ways and means of delivering such services.

In the past, public services were provided directly by the government, through one of its offices (ministry, secretariat, general directorate, etc.).

Over time, it was noted that, to provide services properly, they needed to be provided in a different way, with the result that, in compliance with public policies, many countries created government entities with greater management autonomy to provide public postal services. Those entities were considered legal persons and had their own assets. Thus, legally, they were no longer part of the national government and, therefore, could not exercise authority.

As a result, the former governing ministries retained some responsibility in order to exercise the necessary authority in the postal sector, and they maintained regulatory control of postal services. This is called the separation of regulatory and operator functions.

It is also important to remember that the former "postal monopoly" typically did not include all postal services (for example, packets and parcels were not included), meaning that the private sector has always been a part of the postal business.

Thus, each country needs to decide which services should continue to be provided exclusively by government via the entity created for that purpose, and which could be offered by the private sector in a competitive system.

Furthermore, countries need to address the problem of how to disengage themselves from certain public services, if such services are indeed in the public interest, and how to keep proper control in the event of the outsourcing of these services to continue to ensure the fulfilment of governmental universal service obligations.

Governments have discovered that the only way to establish a proper framework for the operation of public services in the new global environment is by enacting appropriate legislation ensuring the fulfilment of their obligations and defining the responsibilities of different market stakeholders.

A lack of appropriate legislation and regulations governing the market is detrimental to both government and the general public since, sooner or later, the population will be left without any public services, forcing the government to come up with new solutions at a considerable political as well as financial cost.

Globalization is playing an important role in shaping the government's perception of public services. Pressure from private enterprise to enter a market traditionally reserved for government operators is making it increasingly difficult for government to fulfil its responsibility to ensure the continuity of universal services.

The phenomenon of competition on an unregulated postal market is nothing new, particularly in certain countries in which local and foreign private firms have penetrated the domestic market, taking advantage of obsolete legal frameworks.

In many countries, this phenomenon, combined with the existence of extremely traditional public service management models whose operation hinged mainly on political leverage, left little room for the mounting of timely, effective reform efforts, resulting in the gradual debilitation of the designated operator.

The best way to help solve problems in the postal sector of any given country is through the enactment of administrative and legislative instruments by the national government, exercising its regulatory authority, as the body ultimately responsible for the provision of the universal postal service.

This process is graphically illustrated in the following figure.



### 1.1.3

## Responsibility for maintaining universal service

Free market principles, among which profit-taking prevails, can jeopardize the pursuit of social goals such as ensuring that all segments of the population have access to high-quality basic services. This means that the government will need to intervene to ensure equal access to universal postal service.

The term and the concept of universal postal service are defined in the Acts of the Universal Postal Union, in keeping with the substantive nature of this issue. This was discussed at length in module II of the guide and will be addressed later in this module. However, it is important to underscore the essential role played by government in ensuring the provision of universal postal service as a basic human right, regardless of any economic considerations affecting service operation on the postal market.

The premise that, faced with the prospect of the debilitation of the designated operator, the consumer public, including both large-scale mailers and individuals, will simply accept this new reality and turn to private service operators is clearly refuted by the facts. There are clear cases of countries in which the government has had to overturn strategic decisions and spend enormous sums on restoring postal services.

Each and every country needs to realize that the continued operation of its postal market without proper regulation could gradually wear down the designated operator until reaching a critical situation, causing a breakdown in service delivery, at an enormous cost to the national treasury, which would be forced to permanently take over the financing of universal service costs, as has already occurred in a number of cases.

Thus, before things go too far, it is crucial to lay the necessary groundwork for the government to exercise its regulatory authority over the postal industry, which is especially important right now, to ensure the continued fulfilment of its postal service obligations.

Thus, the country's regulatory authorities must strive to protect the right of communication, guided by the underlying principle that everyone has the same right of access to postal service, regardless of their geographic location or economic or social status.

All segments of society need to realize the importance of sound government decision-making as the basis for issuing appropriate regulations ensuring the provision of universal postal service and to understand that universal service delivery requires investment and funding to meet corresponding needs.

Thus, investment programmes at country level are essential to bring universal service in line with new breakthroughs in technology, help diversify the business activities of the designated operator and modernize logistics processes through the technological development of corresponding facilities.

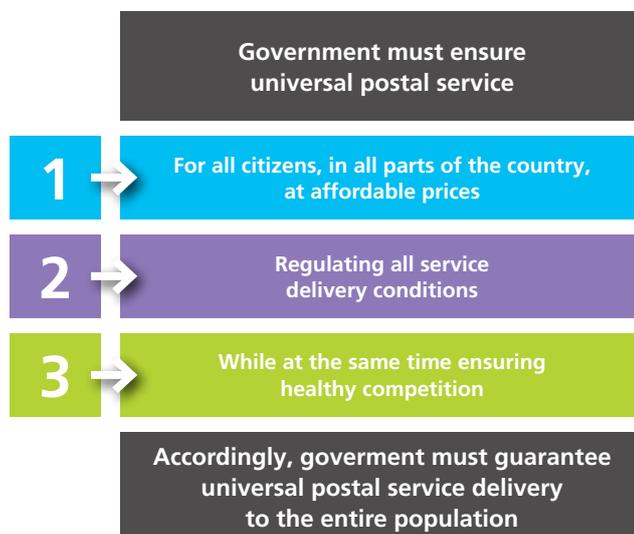
### National regulatory authority: Supervision and development of the universal postal service and the postal sector

**SUPERVISES** the effective delivery of the universal postal service by the designated operator

**ENSURES** the delivery of the universal postal service in the accordance with legislation and regulations governing service access, quality and pricing

**MONITORS AND INSPECTS** postal service operations on the nation's postal market

**SANCTIONS** violations of laws and regulations governing the delivery of the universal postal service.



## 1.2

### Regulation as part of the postal reform process

#### 1.2.1

#### *The regulator's role in national development policy*

The government normally gives top priority to mounting modernization programmes for the public sector requiring major investments designed to help create wealth and promote all forms of nationwide economic, social and cultural development.

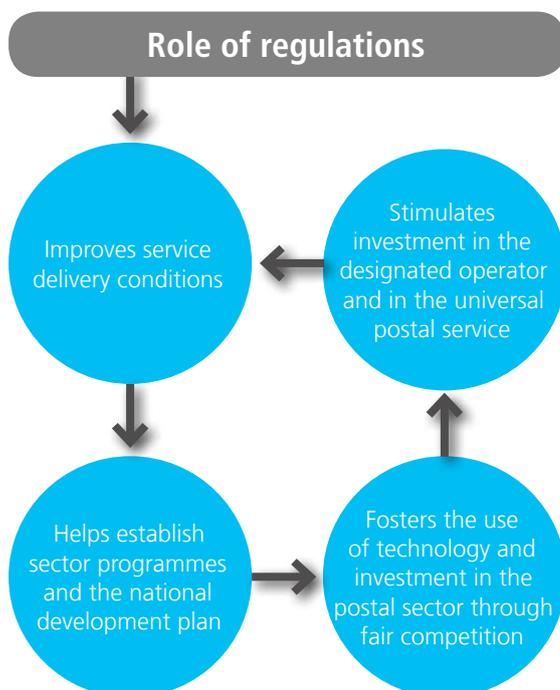
Development programmes for the postal sector need to be designed and planned in such a way as to form an integral part of national development plans, in particular with respect to the country's infrastructure.

The regulatory authority needs to work with the government in fulfilling its social and economic responsibilities, as well as with the public – with both businesses and individuals – which is entitled to assurances of necessary safeguards for continued access to universal postal service.

Thus, the functions of regulation and of regulatory authorities are to:

- protect consumer interests and meet customer needs;
- protect the public's right to high-quality service;
- ensure the mounting of efforts designed to modernize service and improve service quality.

The role of regulation as a vehicle for the attainment of government objectives is illustrated in the following figure.



#### 1.2.2

#### *Exogenous factors*

The shape and scope of the postal sector, like other essential service sectors, has changed dramatically over the past few years.

New breakthroughs in technology have had a particularly strong impact on conventional postal communications and, together with other factors, are revolutionizing today's postal services. This new technology, which was originally viewed by some as a threat to the postal sector, has opened up a whole new range of possibilities for the postal industry, and many countries and designated operators have recognized and capitalized on this fact to modernize and adapt their services to meet the needs of today's new information and communications society.

This issue has already been discussed in module I of the guide. However, it is interesting how the global communications environment has changed so rapidly and become so complex that governments have had to make decisions on technical issues requiring studies going far beyond mere policy assessments.

Exercising its regulatory authority allows government to do its job in protecting the rights of all segments of the nation's population while, at the same time, honouring its commitments.

**Regulation** of the postal market through the enactment of laws and regulations enables the public to exercise its right to universal service meeting reasonable standards of access, regularity, security and quality.

#### Postal regulation - Exogenous factors

1 → Change factors

2 → Globalization

3 → New technology

Within this environment, government must guarantee universal postal service as an engine of social, economic and geographic cohesiveness

### 1.2.3

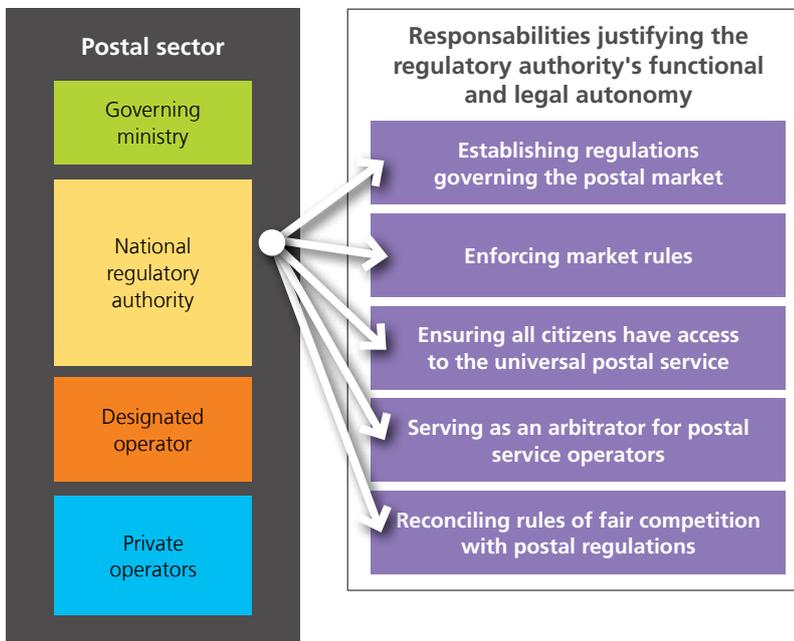
#### *Separation of service operation and regulatory functions*

In many countries, regulation, in the strictest sense of the term, was typically a task performed by the designated operator and, in those countries lacking a more developed regulatory framework, the designated operator had both operational and regulatory functions.

However, such a system has proven to be ineffective. Not only is it impractical to have the designated operator act as both the judge and the party at interest, so to speak, but the designated operator has neither the authority nor the necessary tools to oversee the entire postal industry.

In today's environment with the postal market opened to private enterprise, postal service models have been moving towards the separation of regulatory and operational functions, with consistent market regulation to guarantee all market operators legal security and the enforcement of established ground rules for the operation of postal services.

Regulation must also ensure the effective interplay of market forces to create a state of equilibrium guaranteeing the smooth operation of the postal market, equal market access and the enforcement of corresponding ground rules while, at the same time, fostering geographic and social cohesiveness by ensuring the delivery of a high-quality universal postal service.



## 1.3

### Fulfilment of governmental obligations

#### 1.3.1

#### *Implementation of legal mandates under the postal act*

Postal regulation must provide interested stakeholders with legal security by clearly establishing their rights and obligations.

Postal regulation begins with the enactment of legislation by the national government, exercising its authority over postal affairs. The postal act should include provisions addressing sector-wide problems and laying the foundation for the smooth operation of the postal market and for protecting the public interest by ensuring the delivery of universal postal service.

In turn, administrative instruments, namely, regulations, decrees, standards, and so on, are very important. Their purpose is to implement the provisions of postal legislation and clearly delineate the scope of postal services.

Other matters which can also be regulated under the provisions and in keeping with the spirit of the postal act include:

- the licensing system for service operation established under the postal act;
- the service pricing system established under the postal act;
- the formal agreement governing the delivery of universal postal service by the designated operator;
- the organizational structure of the regulatory body.

The advantage of rule-making through the issuance of government regulations is the flexibility of this process compared with formalities for the enactment of new legislation.

However, key decisions pertaining to the regulatory management of the postal market, service operation, and the organization of the postal sector should be defined, or at least considered, in legislation so that they can be developed through administrative instruments.

### Implementation of the regulatory model under the postal act

The postal act should establish

- THE LEGAL STATUS** of the national regulatory authority (postal regulation)
- THE TYPE OF REGULATION** (specific, sectoral, multisectoral)
- THE FINANCING METHOD**

### Substance of the enabling legislation of the national regulatory authority

- Legal framework for services on the postal market
- Service operating system and licensing procedures
- Supervision, monitoring and inspection of postal operators
- Pricing system for postal services
- Scope and conditions of national universal postal service delivery
- Agreement governing universal postal service delivery conditions, and service development plan
- Synchronization and adaptation of domestic and international legislation affecting consumers, and their implications for the postal system

## 1.3.2

### *Development of the national postal sector*

One of the main reasons for the debilitation of the designated operator in certain countries is its negligible impact on national development efforts and a general ignorance of the potentiality of postal service as a driver of national economic growth.

Module I of the guide explains how the postal service has the potential to help strengthen the national economy, trade and competitiveness. It is up to the designated operator to convince top government officials of the essential role of the postal service.

Once reform efforts for re-energizing the postal sector in line with national development plans are under way, it will be up to the regulatory agency to take advantage of the enabling environment created by the postal act to strengthen the designated operator's contribution to nationwide economic development efforts and help it expand its postal service operations and activities in related business areas.

### Functions of government

**ENSURE** effective universal postal service delivery and financing methods

**MONITOR** postal operator compliance with service delivery conditions

**ENSURE** the technological and economic development of the universal postal service to meet exogenous requirements

**ESTABLISH** investment programmes for the technological and economic development of the universal postal service

**SUPPORT** investment and development policies for the postal sector

**ENSURE** transparency and the enforcement of market rules

# Setting up the regulatory structure

## 2.1

### Decisions on postal regulation and implementing procedures

Once government has made the decision to establish an appropriate regulatory framework for postal service through the enactment of applicable legislation, it is up to designated officials to take necessary measures for setting up a regulatory structure. The functions and other facets of the regulatory agency can be mapped out in the provisions of applicable legislation and assigned to specific units within its organizational structure, as established by its statutory rules. However, practical issues associated with postal regulatory functions are best addressed in a regulatory instrument, which generally offers more flexibility and speed should amendments be needed and, thus, is better suited to today's rapidly changing postal environment.

In choosing to get involved in postal affairs and deciding to establish a regulatory agency for the postal sector, the government will need to conduct a series of preliminary studies as the basis for a more objective assessment of prevailing conditions in the nation's postal industry and in the international postal environment.

It will need to examine the inherent and external features of postal services as the basis for the framing of legislation considering both medium- and long-term trends. Naturally, it will also need to know what the public thinks about different postal-related issues.

Thus, it is important to heighten government awareness of the need to reform the postal sector, since the very first steps in this direction will require certain minor investments to fund the abovementioned studies.

The legal framework for postal regulation is graphically outlined in the figure presented on the next page.

## Regulatory mechanisms

**CONSTITUTION** – Gives the government exclusive authority to enact legislation governing basic rights and essential public services.

**POSTAL ACT** – Governs core issues within the postal sector, establishes a national regulatory authority and assigns it specific powers and functions.

**IMPLEMENTING REGULATIONS** – Expand on the core issues contemplated in the postal act.

May be in the form of:

- › government decrees
- › executive (ministerial) orders
- › rulings (by other agencies or by the regulatory authority)
- › standards

## Regulatory agency

- Created by the postal act or other legislation
- Functionally and legally separate from service operations
- Assignment of assets and specification of its sources of funding (in the case of an independent agency)
- Regulatory agencies without independent legal status are to be funded by budget appropriations for the area or unit of the governing ministry

The first step after establishing the process to be followed by the government in setting up the regulatory authority is to map out certain core issues, as illustrated below.



## 2.2

### Practical matters: ways and means

#### 2.2.1

##### *Affiliation*

The decision with respect to the affiliation of the regulatory agency will depend on conditions in each country. Whatever the decision, it must be realistic and objective. There are some who believe that the regulator should be an independent government agency. There are good arguments to be made for this case from the standpoint of transparency, for example.

However, from a practical point of view, this regulatory model requires finding the right formula for government intervention in overseeing the postal sector to guarantee universal service delivery.

The debate over the issue of the affiliation of the regulatory agency also revolves around the advisability of having a specific postal sector regulator; of integrating it with another sector regulator, such as communications; or even of putting it in the hands of a multi-sector regulator, such as for public services.

Each of these three options has been implemented in one country or another, and experience shows that all three have their advantages and their drawbacks. Clearly, the more autonomy enjoyed by the postal regulator, the better it can do its job. And while having a specific postal sector regulator may be the best option, the costs involved could make it unfeasible. Experience has also shown that the disadvantage of having the postal regulatory authority operate as part of a telecommunications regulator, for example, is that it often tries to take the same approach to the postal sector, despite its unique features and different universal service criteria.

#### 2.2.2

##### *Legal status*

This issue is closely related to the issue of the affiliation of the postal regulator and, consequently, depends on the unique circumstances in each country. Postal regulatory functions could be carried out by an independent agency with separate assets and legal standing, a decentralized government agency or a central government body such as a cabinet ministry or other type of governmental unit.

In any event, the national regulatory authority must be functionally and legally separate from the designated operator, since it is responsible for overseeing it and other operators.

Lastly, it is best to separate regulatory functions from the government body responsible for establishing postal public policies in order to ensure that they are seen not simply as regulatory actions, but rather, as acts of government.

#### 2.2.3

##### *Financing*

The national regulatory authority should strive to be financially self-sustaining. Regardless of its legal status, anticipated expenses and necessary income for covering such expenses will need to be clearly spelled out either in an independent budget or as part of a consolidated budget (in the case of an agency without independent legal status and with no autonomy). The ideal situation is a national regulatory authority which does not require any government funding or, in other words, which is not a burden on the public treasury.

The process of establishing a national regulatory authority, whether in the form of an independent agency or as a central government unit, must include an assignment of assets and a specification of all sources of funding to help ensure its smooth operation and effective performance, including but not limited to:

- income from fees for regulatory services;
- operating income and revenues;
- income and revenues from holdings in other organizations (in the case of independent agencies);
- any and all other allocated funding.

## 2.3

### Regulatory functions

The functions of the national regulatory authority are primarily fivefold, focusing on the postal market, universal postal service, system integrity, protection of the rights of postal service consumers, and international relations.

#### 2.3.1

##### *Market-related functions*

The regulator is in charge of regulating the postal **market**, not to limit its operation in any way but, on the contrary, to ensure compliance with established ground rules to give licensed service operators access to the market. Where applicable, it must ensure that competitors do not infringe on the service area reserved for the designated operator while, at the same time, making sure that these operators are able to exercise their right to deliver services outside the reserved area to promote free competition and prevent unfair practices.

Up-to-date, in-depth information on supply and demand for postal products and services on the postal services market, the publication of an annual report on the state of the sector, and the communication of information on applicable legislation and regulations and on the rights and obligations of each and every player on the postal market to interested stakeholders (customers, operators and business in general) will help strengthen the postal market.

Market research by the postal regulator on the following and other related issues is essential to provide guidance for the exercise of its postal regulatory functions:

- the extent of the development of the nation's postal industry;
- nationwide postal service needs;
- quantitative and qualitative characteristics of demand for postal service;
- economic, operational and labour-related data on postal operators;
- the level of technological development of service operators;
- an analysis of the current legal framework for the nation's postal sector, including provisions with respect to competition and consumers;
- the technical and economic viability of postal service enterprises;
- the quality of postal services rendered by the designated operator;
- universal postal service standards;
- the scope of universal postal services rendered by the designated operator;
- supply and demand for universal services;
- standards of quality and prices on the postal market;
- the level of investment in the postal sector;
- development plans and the level of investment by the designated operator.

The performance of these (domestic and international) studies by the national regulatory authority is a way of keeping abreast of market trends to continuously strengthen and update its knowledge and expertise.

As far as universal postal service is concerned, the national regulatory authority also needs to be knowledgeable of basic present and future consumer needs with respect to the postal service to enable it to continually adapt its work in line with changing public needs.

In exercising its regulatory functions, the postal regulator will need to measure the quality and efficiency of:

- universal postal service delivery by the designated operator; and
- the operation of postal services open to competition.

The postal regulator and, by extension, the general public should be aware of the actual quality of universal service offerings, measured against standards of quality established under corresponding regulations. The regulator should also inform the public as to the quality of different classes of service offered by different service operators doing business on the postal market.

This issue is discussed at length in module II of the guide, which is devoted specifically to universal postal service.

## 2.3.2

### *Universal postal service functions*

One of the main roles of the regulator is to ensure fulfilment of the government's obligations to society, the general public and international organizations, on its behalf.

As we know, universal postal services are basic postal services whose provision is to be guaranteed by government to all segments of the population in all parts of the country on a continuing basis, at affordable prices, subject to specific standards of quality.

Service delivery conditions will need to be monitored by the national regulatory authority in each country. The designated operator charged by the government with providing universal postal service is duty bound to adhere to certain basic principles with respect to service delivery, according to which:

- all customers must be treated equally and offered the exact same services;
- there can be no discrimination against any customers in the delivery of universal postal service; and
- service delivery may not be disrupted or suspended under any circumstances, except in cases of force majeure.

The regulator is responsible for issuing regulations establishing specific service delivery conditions for universal postal services, except where the supervisory ministry has retained that function. Specifications with respect to service delivery conditions should address factors such as:

- accessibility;
- speed and reliability;
- security;
- accountability.

In addition to supervising and monitoring compliance with service delivery conditions, the regulatory functions of the postal regulatory authority include the administration of pricing policies for service offerings on the postal market, including:

- universal postal services provided by the designated operator; and
- services open to competition, provided by all postal operators, including the designated operator.

In exercising its regulatory functions and authority under the postal act, the postal regulator may establish what it considers to be the most appropriate pricing system under conditions on the postal market in that country. In implementing pricing policy for the postal sector, the regulator may choose to use multiple and mixed pricing schemes in line with the legal framework for service operation, as outlined below.

- **Price control.** Under this pricing mechanism, the regulatory authority sets the prices of service offerings. This mechanism is generally used for reserved postal services operated under an exclusive franchise by the designated operator.
- **Monitored free market pricing.** Free market prices for services open to competition, subject to supervision by the regulatory authority and government intervention on the postal market in cases of abuse or unfair practices. This type of pricing mechanism can be used for all non-reserved universal postal services open to competition and, thus, is applicable to services rendered by the designated operator as well as private operators. In the event of the need for intervention by the postal regulator, it may decide to impose price control measures on these services.
- **Free market pricing.** Applicable to all services other than universal postal services. Prices are set by the free play of market forces.

These postal service pricing mechanisms and practices are the basis for the regulation of service operators by the postal regulator, according to the types of services rendered. The provisions of corresponding regulations will establish information disclosure requirements for operators, as well as corresponding reporting procedures, intervals, locations and media.

The pricing of universal postal services and services falling within the reserved service area should not be confused with price protection for the reserved service area.

Price protection is one of the three main elements delineating the reserved service area in some countries, along with class of service and item weight. It establishes a floor price which private operators are required to charge for their services which, in many cases, is expressed as a specific number of times the rate charged for a given weight step of a particular reserved service. Thus, the floor price for domestic and international mail service for a letter weighing 20 or 50 grammes, which falls within the reserved service area, is typically set at 3, 5 or more times the applicable rate charged by the designated operator.

In cases where the regulator is required to intervene in setting prices for reserved services or universal postal services, such prices must be commensurate with the cost of corresponding services which, in turn, must be a reflection of the stringent application of sound economic criteria in corresponding service operating processes to ensure that each such process is designed for maximum efficiency and productivity, while meeting applicable universal service obligations under domestic postal legislation and regulations.

It will be extremely hard to continue to defend unrealistic pricing practices for universal postal services in the current and future postal environment, both for political and social reasons. It is up to the government and the regulatory authority to establish economically viable pricing schemes to ensure that governmental obligations do not become a drain on the national treasury.

The regulator must ensure compliance with the service area reserved for the designated operator, where applicable, under legal instruments designed to ensure universal postal service financing. Any encroachment on the reserved service area by other postal operators will undermine universal service financing, causing the established system to malfunction and undermining its efficiency.

Accordingly, the regulatory agency will need to effectively administer the licensing system for postal operators offering non-reserved postal services, which means taking harsh measures under the penalty provisions of corresponding legislation against any service operator violating established operating regulations.

The regulator will need to monitor universal postal service delivery from the standpoint of three factors: **price, quality and access.**

The responsibilities of the regulatory agency should include monitoring compliance with **regulations** establishing specifications for service delivery conditions with respect to access facilities and standards of **quality** for universal postal service.

The regulator will need to work with the designated operator to set annual targets for improving service quality in terms of delivery time and reliability based on the established universal postal service development plan.

To this end, it is recommended that the government and the designated operator draw up a formal agreement embodying the service delivery conditions established in laws and regulations governing the operation of universal postal services.

This agreement is a warranty for both parties. On the one hand, the government can rest assured that minimum requirements for the provision of universal postal service by the designated operator are clearly and specifically defined and, thus, enforceable. On the other hand, it guarantees the designated operator that existing ground rules will not be changed in mid-course by politically motivated decisions, thereby ensuring its financial stability.

As far as **access** facilities for universal postal service are concerned, the regulator must ensure compliance with established requirements with respect to service access, checking to ensure that customer facilities providing access to the postal service network meet established targets and specifications for the designated operator.

In the past, the concept of access to universal services referred specifically to the establishment of a post office in each community, ignoring the existence of mail boxes, mail collection points, post office boxes and other such facilities. However, the global economic situation, new breakthroughs in technology and the need to make more effective use of existing resources have redefined this concept, with many designated operators now using a variety of different mechanisms to provide public access to universal postal service.

The regulatory agency will need to make a study of universal postal service needs, broken down into the following two phases:

## I Postal market assessment and survey

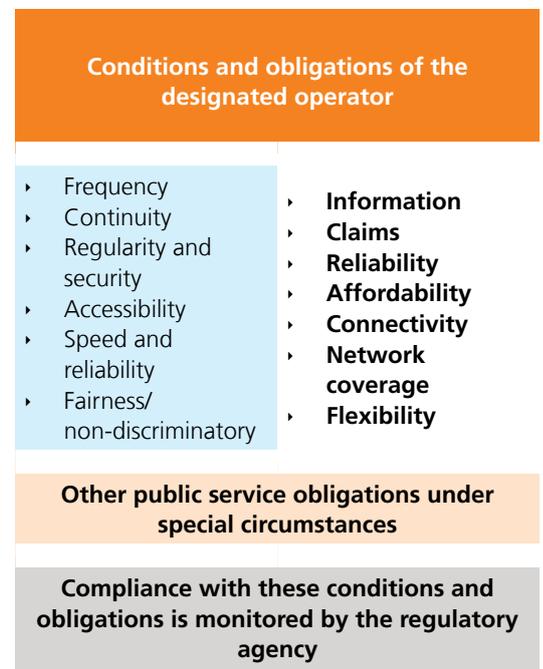
This study will familiarize the regulatory authority with the delivery of nationwide universal postal service and government obligations with respect to different types of service offerings, service coverage, access facilities, unmet needs, standards of quality demanded by consumers, etc. It should also include an assessment of the postal market, projections of future market trends and the conduct of environmental impact assessments required under current legislation.

Furthermore, an annual report should be prepared on the state of the country's postal sector.

## II Analysis of the technical and economic soundness of the designated operator

Based on the study conducted in phase I, the government will need to analyze the technical soundness and financial stability of the designated operator, examining its internal structure, resources and organizational culture, its financial, operational and technological requirements and the necessary level of investment to enable it to fulfil its universal postal service mandate, meeting established conditions and obligations under existing legislation and regulations.

An objective assessment of universal postal service needs and of the specific characteristics of the designated operator is a good basis for effective decision-making on requirements for the delivery of universal postal service meeting specific standards with respect to their cost, quality and price.



### 2.3.3

#### *Functions designed to ensure system integrity*

The operation of a nationwide postal service is not an isolated endeavour. According to the provisions of the Universal Postal Convention, such operations are part of an international network uniting nations around the world into a so-called "single postal territory". Thus, the postal regulator must ensure that corresponding infrastructure and service delivery conditions meet international standards binding on signatories of the UPU Acts and specific service agreements.

The regulator must also ensure compliance with established security standards binding on the designated operator. Security standards for postal services are designed to protect the physical integrity of items entrusted to the care of a particular operator and prevent problems stemming from acts of terrorism, drug trafficking and similar scourges not necessarily related to service delivery per se.

Regulations governing postal operators must require stringently controlled procedures eliminating or, at least, minimizing any risks endangering mail items, postal workers, customers and the general public. Accordingly, the regulator must guarantee the continuity of postal service to prevent the designated operator, for whatever reason, from eliminating any services which it has an obligation to the government to make available to the public.

This requires effective supervision on the part of the postal regulator to protect the integrity of the postal service.

The following outline of the responsibilities of the postal regulator with respect to the conduct of **international relations** is drawn from the experiences of selected countries with a functioning regulatory agency. All efforts in this respect should be coordinated with the designated operator and the national government. The duties of the regulatory agency in the area of international relations include:

- framing general international postal policies and strategies;
- making certain that national government budgets include appropriations for contribution dues payable to the postal organizations with which the country is affiliated, and making regular payments of dues and honouring all corresponding commitments to such organizations;
- making arrangements with appropriate government officials to secure necessary powers for attending the Congresses of postal organizations;
- establishing proper channels and mechanisms for ensuring the consistency of the positions of delegates attending international meetings;
- establishing contacts within the ministry of foreign affairs for the framing of action strategies for the attendance of international Congresses by country delegations and the signature of corresponding Acts;
- making contacts in different government agencies conducting international economic negotiations to prevent the postal industry from being hurt by decisions taken at other levels of the central government, particularly with regard to issues involving the World Trade Organization and trade agreements, as negotiations often lead to agreements liable to impact directly on postal service. Such matters may fall directly within the sphere of competence of the legal, technical and economic areas of the postal regulatory agency, which would require proper coordination with these internal units.

All these issues will need to be addressed in applicable regulations, both for transparency purposes and for the due and proper performance of corresponding regulatory functions.

### 2.3.4

#### *Functions pertaining to the conduct of international relations*

Relations between sovereign nations are conducted via their respective governments, in accordance with international legislation and the corresponding policies of each country.

The postal sector includes various international organizations, some of which are inter-governmental in nature. The members of intergovernmental organizations are sovereign nations. Thus, international organizations require delegates attending their meetings to be duly accredited by their respective governments.

In the specific case of the Universal Postal Union, only delegates to Union Congresses are required to hold plenipotentiary powers. Postal regulators as well as designated operators are actively involved in the work of standing Union bodies and of the different project teams in charge of periodic or ongoing Union activities.

It is essential that typical operational matters continue to be handled by the designated operator, given that the resolution of these technical issues is pivotal to the continuity of international postal service.

## 2.3.5

### *Summary of the general functions of the regulatory agency*

The following is a non-exhaustive list of specific functions which could be assigned to the regulatory agency. The actual functions of such an agency will depend mainly on its powers and responsibilities under existing postal legislation.

- Make recommendations to the government on universal postal service development policy;
- Work with the government to coordinate international postal communications policies to be followed in dealings with international postal organizations and with agencies and organizations in other countries;
- Serve as the body legally authorized to make preparations for and conduct trade talks and negotiations liable to affect the postal sector;
- Ensure service delivery by the designated operator pursuant to the provisions of applicable legislation and corresponding implementing regulations;
- Establish the cost of universal postal service delivery by the designated operator;
- Establish a market pricing policy, set and, where applicable, control the prices of reserved services operated by the designated operator, and monitor compliance by private postal operators with the reserved service area;
- Monitor prices for other postal services (under a monitored free market pricing system);
- Settle disputes between postal service operators and their customers;
- Settle disputes between the designated operator and other postal operators over infringements of the reserved service area, the adequacy or inadequacy of customer service warranties and access to the public postal network;
- Maintain a register of postal operators containing relevant data on holders of general and special government licences and any corresponding modifications;
- Issue appropriate licences to private operators seeking to offer postal services open to competition and closely monitor compliance by these service operators with applicable rules and regulations;
- Make decisions on possible damage to the designated operator caused by the actions of other operators;
- Conduct inspections and institute proceedings for the imposition of sanctions for violations of postal legislation and regulations. Regulatory agency personnel conducting inspections of service operators shall have official standing for purposes of soliciting any necessary assistance for the performance of their duties from other government departments and agencies;

- Impose sanctions for violations of postal legislation and regulations;
- Assess the quality of universal postal services rendered by the designated operator;
- Monitor discussions and legal decisions in other areas liable to affect the postal sector.

### **Establishment of the regulatory agency**

#### **Preliminary studies for the enactment of the postal act and the creation of the regulatory agency**

- Keep abreast of the state of the postal sector nationally and internationally.
- Establish the causes of changes in the national and international postal environment (legal, economic, social, technological, etc.).
- Anticipate future trends in the national and international postal sector.
- Predict future trends in specific quantitative variables relating to the postal industry and postal market.
- Establish standards of quality likely to be deemed acceptable by postal service customers.

#### **Form**

- Can be an independent agency with legal standing separate from that of the central government or an agency with its own legal standing.
- In either case, it must be functionally and legally independent of the designated operator and any other operators.

#### **Affiliation**

- Cabinet ministry.
- Independent government agency specifically for the postal sector.
- Sectoral independent government agency.
- Multisectoral independent government agency.

## System of financing

Regardless of the legal status of the regulatory body, it must:

- Establish expected operating costs.
- Establish expected internal income generated from the performance of its functions.
- Establish alternative financing mechanisms.

### Objective: financial self-sufficiency

## Potential sources of financing

- Government contributions.
- Income from fees for regulatory services.
- Operating income and revenues from regulatory activities.
- Income and revenues from holdings in other organizations (in the case of an independent legal entity).

## Main functions

- Make recommendations to the government on postal regulatory policy.
- Ensure universal postal service delivery under conditions established in postal regulations with respect to service access, quality and price.
- Establish the cost of universal postal service delivery by the designated operator.
- Ensure compliance with the service area reserved for the designated operator.
- Monitor or, where applicable, set prices for services rendered by the designated operator.
- Work with the government to coordinate the country's international postal policy.
- Settle disputes between postal service operators and customers.
- Settle disputes between different postal operators.
- Maintain a register of postal operators.
- Issue appropriate licences to private operators seeking to offer postal services open to competition.
- Conduct inspections and impose sanctions.
- Monitor the enactment of legislation liable to affect the postal sector.

## 2.4

# Organizational structure of the regulatory agency

As discussed earlier, the organizational structure of the regulatory agency is dependent on a number of different policy factors at the individual country level and needs to be established in the bill presented to the legislature under the provisions of the postal act. The authority to organize the postal regulatory structure is vested in the government, as part of its regulatory functions.

The regulatory structure should be organized according to the nature and special technical characteristics of its various functions, which will require the establishment of specialized functional units based on available resources. The following paragraphs outline possible areas of the regulatory agency and describe some of their duties:

- **Legal area:** This unit could be in charge of developing regulatory proposals, conducting legal studies and rendering legal opinions. It could also be responsible for processing customer claims and complaints, settling disputes between different postal operators and resolving other legal issues, as well as for handling alleged violations of postal legislation and regulations. Another important function of this unit is to regularly monitor legislation in other sectors of activity liable to affect postal service.

### *Main duties:*

- › Drafts proposed legislation and regulations according to guidelines established by the postal oversight authority (draft legislation, decrees, ministerial orders, rulings and similar instruments);
- › Conducts administrative proceedings for the sanctioning of companies allegedly violating postal legislation and regulations;
- › Settles any postal-related claims filed by postal operators or users/customers;
- › Renders requested legal opinions on postal matters;
- › Examines and make recommendations on consumer, user/customer and service-related legislation and regulations liable to directly or indirectly impact the postal sector.

- **Economic and financial area:** This unit handles matters pertaining to universal postal service costs, postal rates and income from service operation. It would also be in charge of cost planning and income management for the regulatory agency.

*Main duties:*

- › Calculates fees payable by postal service providers for the operation of postal services;
- › Administers the universal postal service compensation fund, where applicable;
- › Studies and reports on the prices of reserved services and universal postal services;
- › Studies and reports on universal postal service costs and the cost accounting system used by the designated operator;
- › Handles all matters pertaining to the income and expenditures of the regulatory agency (budget estimates and implementation);
- › Studies and reports on any other economic and financial matters pertaining to the postal sector.

- **Technical area:** This unit is in charge of postal development plans and programmes, service quality measurements and technical studies of postal service operations. It is essential that this unit be staffed with experts in postal affairs, since the smooth operation of established regulatory mechanisms hinges on the technical studies conducted and criteria established by this unit.

*Main duties:*

- › Monitors the quality of postal service in general and, more specifically, of the universal postal services entrusted to the designated operator;
- › Conducts postal market research;
- › Develops programmes for expanding, improving and continuously modernizing the postal network maintained by the designated operator;
- › Studies conditions in the postal environment and the market shares of postal operators;
- › Maintains a register of postal enterprises.

- **Inspection area:** This unit makes inspections of postal service operators to monitor compliance with postal legislation and regulations. Inspection personnel must have special nationwide powers and sufficient authority enabling them to carry out their assigned duties. This issue will need to be clearly addressed in postal legislation.

*Main duties:*

- › Conducts inspections and audits of postal enterprises operating on the postal market;
- › Inspects and monitors universal postal service delivery by the designated operator;
- › Makes inspections of all postal market operators and monitors their compliance with postal legislation and regulations.

- **Register of service operators:** This area is responsible for systematically overseeing the operation of the licensing system and for regularly updating corresponding data to enable the other areas to monitor compliance with service delivery conditions.

The register of postal operators could be maintained as part of the duties of the technical area.

*Main duties:*

- › Arranges for the licensing of private postal operators;
- › Regularly updates the register of postal enterprises;
- › Issues certificates with respect to the status of postal operators recorded in the register of postal enterprises;
- › Studies, analyzes and draws conclusions with respect to the data generated by the register of postal enterprises (increase in the number of postal operators, growth in the number of operators in certain niche markets, etc.)

- **International area:** Foreign policy and international relations. The work of this unit is vital in dealings with international organizations. The conduct of matters of state should not be confused with the specifically technical matters to be handled by the universal postal service operator. Thus, it is vital for this unit to establish good channels of communication with the designated operator to regularly work together on matters involving relations with international organizations. This area could also be in charge of domestic relations with other government agencies or private organizations.

*The main duties* of this unit with respect to the conduct of international relations were outlined earlier in this module in section 2.3.4.

The work of the regulatory agency can be rounded out by studies outsourced to firms specializing in postal affairs. Market research by outside experts and measurements of service quality are especially important.

<b>Proposed areas of the regulatory agency</b>	
<b>Legal</b>	<ul style="list-style-type: none"><li>• Regulation</li><li>• Legal opinions</li><li>• Conduct of administrative proceedings</li><li>• Analysis of the domestic and international regulatory framework</li></ul>
<b>Economic</b>	<ul style="list-style-type: none"><li>• Cost of universal service</li><li>• Regulator income/costs</li><li>• Postal service prices</li><li>• Procedures</li></ul>
<b>Technical</b>	<ul style="list-style-type: none"><li>• Market research</li><li>• Quality of service measurements</li></ul>
<b>Inspection</b>	<ul style="list-style-type: none"><li>• Monitoring and inspection</li></ul>
<b>Register</b>	<ul style="list-style-type: none"><li>• Maintenance of postal operator register</li></ul>
<b>International</b>	<ul style="list-style-type: none"><li>• International relations</li></ul>

# Regulatory instruments

## 3.1

### Postal service regulations

#### 3.1.1

#### *Regulation of the postal industry*

The passage of postal legislation establishing a basic policy framework for the postal sector should afford legal security for the regulatory system governing the delivery of the postal service. By setting basic ground rules for the postal sector, postal legislation provides legal security for all market participants.

Enforcement of postal legislation requires the framing of regulations implementing its provisions and articulating established mandates in more detail and more practical terms. Postal regulations need to spell out specific service delivery conditions and requirements, the obligations of service operators and corresponding customer guarantees.

The duties of the national regulatory authority should be carried out according to the provisions of the postal legislation and its implementing regulations. This latter regulatory instrument should be a versatile tool, which can be regularly updated to embody and reflect changes engendered by new trends in postal service.

#### 3.1.2

#### *Services to be governed by postal regulations*

Regulations for the postal industry should govern all services defined by the government as postal in nature, regulating through various means, via the regulatory authority, the operation of reserved services, if applicable, as well as services open to competition, distinguishing between basic universal services and other postal services.

The postal service regulations should define the services and corresponding activities falling under its provisions to clearly distinguish postal services from other types of economic activities which, in some cases, may share or pool their domestic infrastructure and operating facilities or technology. At a minimum, these regulations should define and govern the following types of services and activities:

- The collection, acceptance, sorting, processing, forwarding, transportation, distribution and delivery of postal items, with the guarantees and conditions established thereunder;
- Any and all other similar activities engaged in under international agreements binding on that country expressly defined by the government as postal in nature.

A postal item is any item whose physical and technical specifications allow for it to be transmitted via the postal network according to the classification system established under the postal service regulations.

### **Definition of postal services and classes of service**

The postal service regulations must define each and every phase of postal service, including the collection, acceptance, sorting, processing, transportation, distribution and delivery of postal items.

The main classes of national postal service and the types of services included under the concept of universal postal service should be established in the postal legislation. All other services other than so-called "basic" services recognized by law as constituting postal services should be defined under the postal service regulations, including special postal services, express mail or specialized courier services, value-added postal services, postal financial services, and electronic postal services (e-services).

#### 3.1.3

#### *Customer and consumer rights and obligations*

The postal service regulations issued under the postal legislation must clearly define the concept of "postal service customer and consumer" and establish customer and consumer guarantees and rights with respect to postal services.

It is important to highlight the concept of the postal customer. In the past, and in various countries, postal service customers have been called "postal users". The term "user" comes from ancient times, when the postal service was owned by the state, that is, by the government, which, in its benevolence, would allow citizens to use the postal network. In short, the rights of "users" were limited to simply being a "user" of the network.

The concept of postal customer implies a business relationship in which the customer contracts the services of the designated or other operator, and thus acquires rights.

However, the addressee is missing as a participant in the postal process. The addressee does not contract the service and is therefore not a postal customer. And although the addressee uses the postal network, he or she does so passively. The concept of "postal services consumer" resolves this issue in that, while the addressee has not contracted the service, he or she consumes the service, and therefore has rights.

## Customer and consumer rights

- Postal operators must fully guarantee the confidentiality and inviolability of postal communications; compliance with the obligations of the non-disclosure of personal information; the satisfaction of operational postal network security requirements established under postal regulations with respect to the transporting of hazardous substances and the prevention of drug trafficking, acts of terrorism, money laundering, and other such scourges; and compliance with environmental protection policy.
- Postal operators engaged in the delivery of postal service must guarantee certain basic principles such as:
  - a. postal secrecy and the inviolability of postal communications;
  - b. protection of the dignity and personal and family privacy of their customers and the full exercise of their rights;
  - c. the neutrality and confidentiality of the postal service;
  - d. protection of the personal information of all those involved in the postal process;
  - e. equal treatment for postal service customers under comparable conditions;
  - f. protection against any and all forms of discrimination on the basis of political beliefs, religion, ideology, ethnicity, sexual orientation, or other grounds.

In addition, postal operators will guarantee the following **customer or consumer rights** with respect to the delivery of postal services:

- a. protection against any health and safety risks;
- b. the disclosure of relevant postal service-related information, particularly with respect to general service delivery conditions, service access, quality assurances, postal rates and the handling of claims, to facilitate the effective use of postal services;

- c. compensation for non-compliance with service delivery conditions established under postal regulations;
- d. postal communications service, in keeping with the obligations of the designated operator;
- e. good service quality and availability, both for the universal postal service and for all other services.

## Customer obligations

Postal service customers must comply with provisions relating to bans on the mailing of prohibited items under applicable regulations. Customers are responsible for the packaging of mail items, the accuracy of the information provided regarding item contents, and the payment of applicable charges, taxes or duties.

## Obligations and responsibilities of postal operator

The protection of customer rights imposes certain obligations and responsibilities on postal operators, in keeping with the following principles:

- a. **Confidentiality of postal items (secrecy of mail).** This principle unconditionally bans postal operators and their employees from disclosing any information whatsoever with respect to the existence of a postal item, its contents, the type of item involved, the attendant circumstances with respect to such item, or the name or address of the sender or addressee, except at their specific request or at the request of their legal representatives or attorneys or in compliance with a court order.
- b. **Inviolability of postal items.** Postal items are inviolable, or guaranteed against tampering. Examples of tampering include the arbitrary or unlawful detention, deliberate misrouting, opening, theft, destruction, wrongful withholding or concealment of mail items and, in general, any breach of trust affecting their safekeeping. The inviolability of letter mail (correspondence) is a right generally protected under national constitutional provisions. Postal items are not considered to have been tampered with when opened under a court order and in accordance with the country's legislation.
- c. **Ownership of postal items.** Until such time as they are delivered to the addressee, mail items remain the property of the sender. Undeliverable items also remain the property of the sender, who may recover them or make changes in their address information against the payment of corresponding charges or fees, so long as necessary tracing efforts do not interfere with normal postal service operations.

## Regulatory framework for postal service

### National regulatory authority

#### POSTAL SERVICES

Acceptance, sorting, transportation and delivery of postal items

#### POSTAL ITEMS

Articles properly identified with the addressee's name and delivery address for conveyance by the service provider

Postal service regulations

POSTAL LEGISLATION

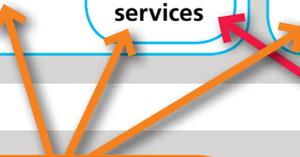
Other regulations

#### UNIVERSAL POSTAL SERVICE

Postal services

#### REGISTER OF POSTAL ENTERPRISES FEES AND COMPENSATION FUND

SERVICE DELIVERY PLAN



Designated operator

Private postal operators

Customer rights

Operator obligations

- Confidentiality of postal items
- Inviolability of postal items
- Ownership of postal items
- Neutrality and confidentiality
- Equal treatment

The signature of a formal service agreement, or plan, by the government and the designated operator is not something which is done systematically. However, a clear definition of the universal postal service obligations of both parties can prevent misunderstandings, which could be detrimental to both the designated operator and to service delivery per se.

A service agreement can:

- clearly define the obligations of the government and the designated operator;
- ensure the sustainability of the postal organization and the satisfaction of its investment needs;
- ensure the continuity of universal postal service;
- require payment of universal postal service costs;
- establish pricing and price control provisions;
- determine the density of the postal network and control service quality;
- meet customer and public needs;
- spell out corresponding responsibilities.

### Universal postal service plan

Designated operator obligations  
(Service delivery conditions)

Government obligations to the designated operator

Endorsement of the plan by the government and designated operator

## 3.2

Universal postal service plans and programmes and formalization of agreements with the designated operator

The delivery of the universal postal service is subject to compliance with legally established conditions and with any conditions spelled out by the government in the universal postal service development plan. Clearly, the government must approve and back this development plan in order for the designated operator to fulfil its function.

The designated operator has already been discussed at length in module IV of the guide.

The delivery of universal postal service is subject to the provisions of the postal legislation and the negotiated terms and conditions of the service agreement entered into with the designated operator. This agreement should contain guidance for the expansion and development of universal postal service.

## 3.3

### Operation of the reserved service area

The subject of the exclusive rights of the designated operator to operate certain universal postal services referred to as "reserved services", "the reserved service area" or "the reserved market segment" is discussed in detail in module II. However, the role of the regulator in protecting and monitoring compliance with this reserved area, which is vital for the financing of universal postal service, is important and relevant to the discussion presented in this module.

In addition to a reserved service area, some countries have other universal postal service financing mechanisms such as a universal postal service compensation fund, grants of special or exclusive rights and, in certain cases, government funding.

According to the experiences of countries with well-developed postal markets and industries, the most effective mechanism is that of a reserved service area. The elimination of the reserved area implies the loss of the main source of funding of the universal service, meaning that alternative sources of financing will need to be found.

The government funding option is becoming increasingly impractical. However, the final decision on this matter hinges on the situation in each country and will need to be clearly spelled out in the national postal legislation.

As explained earlier in this module, the most important point is that the government take responsibility for ensuring the operation of the universal postal service, which requires transparent decision making to protect service delivery and, thus, guarantee corresponding financing.

**The government needs to compensate the designated operator for the economic cost of providing universal postal service through:**

- the exclusive operation of reserved services
- the granting of special or exclusive rights
- the creation of a compensation fund for the universal service
- direct government funding under national budget appropriations established in the legislation

Moreover, the government may also intervene in the setting of price caps on **non-reserved universal services** provided by the designated operator, via the regulatory authority.

Accordingly, the recommended configuration of the pricing system for postal services is as follows:

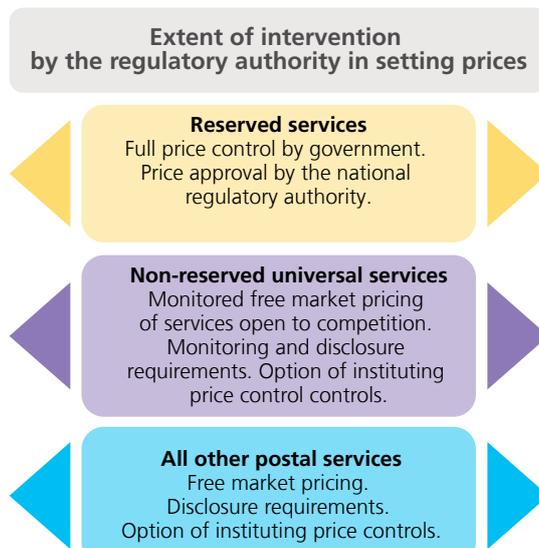
- **Prices for reserved services:** Price control system, with the regulator charged with ensuring affordable prices, seeing to the implementation of cost-cutting measures and exacting improvements in the efficiency and productivity of the designated operator in the delivery of reserved services.
- **Prices for non-reserved universal postal services:**
  - › Monitored free market prices, with the regulator authorized to intervene on the market and to set floor and ceiling prices.
  - › This monitored free market pricing system should not be confused with the price protection for the reserved service area discussed earlier in this module.
  - › This pricing system applies to universal postal services not included in the reserved service area. The regulator may decide to impose price controls on any such monitored services where warranted by market conditions.
  - › In no instance may such prices be set below the established floor value designed to protect the reserved service area.
- **Prices for all other postal services:** The prices of all other services may be set by the free play of market forces, subject to compliance with regulations with respect to the reserved service area if applicable. Accordingly, such prices must begin at or above the established floor price designed to protect the reserved service area.

**3.4**  
Pricing system

Government assurances of high quality, affordable universal postal service spelled out in the provisions of the postal legislation require the establishment of a pricing system for different types of services. The public service orientation of universal postal service operations requires some control over corresponding rate-setting mechanisms by the regulatory authority.

The involvement of the postal regulator in the pricing of universal postal services was already discussed in the section of chapter 2 of this module dealing with the functions of the regulatory authority. This section of the module simply touches on the issue of the type of pricing system to be established under the provisions of postal regulations.

Intervention by the national regulatory authority is pivotal and decisive in the pricing of the **reserved services** provided by the designated operator, which means instituting a system for the approval of these prices by the postal regulator, in keeping with the restriction of rights entailed by the establishment of any sort of monopoly.



## 3.5

### Customs clearance policy

Il est indispensable que les droits spéciaux ou exclusifs octroyés à l'opérateur désigné couvrent le droit à un dédouanement prioritaire pour tout envoi entrant dans le cadre de ses obligations de service universel.

The purpose of establishing this type of privilege has nothing to do with the service operator per se, but rather, with its public service orientation, the public interest and, ultimately, the good of the businesses and individuals using its services.

Thus, mail items falling within the scope of the universal postal services rendered by the designated operator are given priority over other items for customs clearance purposes. Whether or not this privilege is embodied in customs regulations, it is important that this special, exclusive right enjoyed only by the designated operator be expressly recognized in the postal legislation passed by the government.

Accordingly, as the government representative for postal affairs, the regulatory agency will need to take a leadership role in working with the customs authorities to ensure that all necessary measures are taken to expedite customs formalities for mail items included in the concept of universal postal service and monitor compliance with regulations governing the operation of the reserved service area.

In many countries, expeditious customs clearance is not always possible, owing to the enormous volume of inbound and outbound international mail traffic within the reserved service area.

Such studies show a number of developing countries using some sort of licensing system, though the names given to such systems and the types of procedures used may differ from country to country.

The following general conclusions can be drawn with respect to this issue:

- The establishment of a countrywide licensing system is tied directly to the existence of a regulatory agency or to market regulatory management efforts.
- Where licensing systems do exist, corresponding regulations are an integral part of the regulatory framework for the postal sector.
- There are many different administrative procedures for the registration of service operators.
- In many countries, licensing authority is vested in the regulatory agency.
- Regulations with respect to the obligations of different service operators are fairly similar.

It is recommended that postal service operators be **licensed** according to the type of services to be rendered, with postal services other than universal services requiring a general government licence and **non-reserved** universal services requiring a special government licence.

This, in turn, will require the establishment of a register of postal service enterprises to be maintained by the regulatory authority.

For reasons of transparency, this register must be accessible to the public and governed by applicable regulations. It should contain pertinent data on holders of general and special government licences and information on any relevant modifications. Without exception, the operation of all corresponding postal services would be contingent on the recording of the service operator in question in the register of postal operators, subject to the satisfaction of applicable licensing requirements.

## 3.6

### Licences

#### 3.6.1

#### *Need for service operating licences*

The issue of the licensing of postal service operators is especially important in the face of the need to properly oversee the delivery of postal services by private operators as part of efforts to effectively organize the postal sector and ensure the smooth operation of clear market rules.

What such licences are called will vary from country to country according to the legislation of each and their scope. They may be called licences, permits, concessions, and so on.

As discussed earlier in this chapter, there are certain basic rules with respect to citizens' rights in general and consumer rights in particular whose enforcement needs to be monitored by the postal regulator to prevent the abuse or exploitation of postal service customers.

The Universal Postal Union has been conducting studies directly related to the issue of licensing, which have produced extremely interesting information on licensing practices around the world.

Licensing requirements for domestic postal service operators will need to be clearly spelled out in corresponding regulations. Such requirements should be designed to provide necessary assurances for the protection of the universal postal service and of postal customers and their rights.

Suggested requirements to be met by prospective service operators include:

- proof of their economic soundness;
- proof of their ability to fulfil their obligations;
- appropriate qualifications and practical experience with the operation of postal services;
- certification of their agreement to abide by basic postal communication principles as set forth in the terms and conditions of the licensing agreement;
- certification of their agreement to fully respect the service area reserved for the designated operator;
- the furnishing of performance and back-up guarantees for claims and compensation.

Obviously, these requirements will need to be further examined in the light of the existing legal system in each country.

The following is an outline of practical guidelines for the development of regulations for a hypothetical licensing system governing the issuance of so-called "**general licences**" for services other than the universal postal service and "**special licences**" for non-reserved universal postal services.

### Licences for postal services other than the universal postal service

#### Scope and conditions

- A **general licence** should be required for the operation of all postal services not included in the universal postal service.
- The issuing of these general licences should be duly regulated, with applicants obliged to meet certain basic requirements for the operation of postal services, as well as other requirements established under applicable regulations.
- Basic requirements for the operation of postal services include compliance with the principle of the inviolability of letter mail; compliance with non-disclosure requirements and postal network security requirements under postal legislation and regulations with respect to the transporting of hazardous substances and the prevention of drug trafficking, acts of terrorism, money laundering and other scourges; and compliance with environmental protection policy.

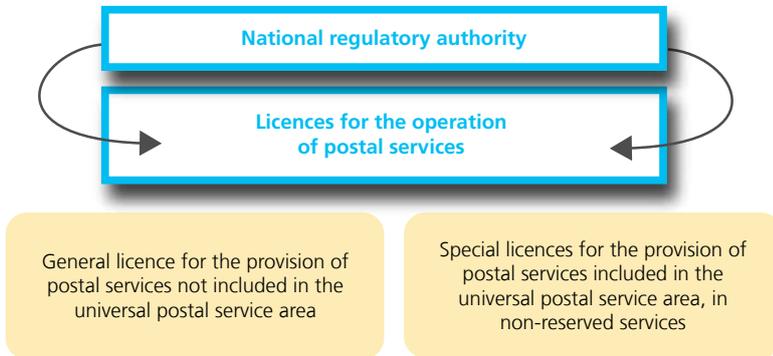
- Non-disclosure requirements include an obligation to protect the confidentiality of personal communications, any and all transmitted or stored data, personal information, and customer privacy rights.
- Parties seeking to operate postal services other than universal postal services must advise the regulatory authority of their interest, expressly agreeing to abide by the provisions of postal legislation and furnishing all necessary information to clearly delineate the scope of corresponding service offerings.
- All relevant data on general licence holders is to be recorded in the general register of postal service enterprises.
- Prospective service providers may not commence business until the corresponding licence has been officially issued and ordered recorded in the register by the prescribed deadline under postal regulations.
- The existence of a general operating licence is established by the licence certificate and corresponding entry in the register of service providers.

### Licences for universal postal services

#### Scope and conditions

- A special **licence** should be required for the operation of any **non-reserved** universal postal services.
- The issuing of special licences should be duly regulated and subject to the presentation by applicants of proof of compliance with requirements for the operation of postal services and of their satisfaction of all conditions established under postal legislation and any other conditions which may be established in the public interest.
- Applicants must also agree to meet the following obligations:
  - › Mandatory public service obligations under postal legislation;
  - › Voluntary universal postal service obligations, to be spelled out in service offerings to customers;
  - › An obligation not to infringe on any special or exclusive rights or on the service area reserved for the designated operator in the course of their own service operations.

- Parties interested in operating any universal postal services not reserved for the designated operator must submit an application to the postal regulatory authority, accompanied by all required documentation. As part of the application, they must agree, in writing, to meet all conditions established under existing postal legislation.



### 3.7 Ratification of the Universal Postal Convention and other UPU Acts

Last but not least, this module addresses the issue of the role of the regulatory agency in implementing necessary instruments and procedures for the ratification of the Universal Postal Convention and other UPU Acts signed by that country through its plenipotentiary delegate to the Universal Postal Congress.

According to section I, chapter I, article 1 of the Constitution of the Universal Postal Union, together, the member countries of the UPU represent "a single postal territory for the reciprocal exchange of letter-post items" in which they are guaranteed "freedom of transit."

Moreover, UPU member countries have agreed to ensure that designated operators offer prescribed services and that such services meet prescribed standards of quality.

The UPU is governed by its Constitution, which is its organic act, by General Regulations containing provisions for implementing the Constitution and ensuring its smooth operation, and by the Universal Postal Convention, which contains general rules governing postal services. Compliance with the provisions of these Acts of the Union is mandatory for all member countries.

As members of the UPU, countries have certain rights and responsibilities with respect to the management of postal services. The ratification of the UPU Acts refers to the procedure through which member countries incorporate mandatory provisions of such Acts into their own domestic legislation.

Under the current legal systems in most nations, upon ratification, the obligations incurred by member countries under the provisions of the UPU Acts become binding pursuant to applicable constitutional provisions with respect to the signature of international treaties.

Some countries encounter problems in endeavouring to ratify the Acts of the Union owing to complications arising in connection with the legislative process. In such cases, the postal regulator will need to establish appropriate mechanisms to ensure that this obligation can be met within the prescribed time frame.

Incidentally, the UPU Acts which are not ratified by a particular member country are still binding on that country by virtue of international legislation pertaining to treaties.



# Administrative and criminal sanctions under postal regulations "Model"

## Administrative procedure

### Inspection functions and sanctioning authority

The responsibilities of the regulatory authority include the inspection of postal services governed by the postal act and the imposition of applicable sanctions.

Postal inspection personnel attached to the regulatory agency must have recognized official standing for the exercise of their authority and for soliciting necessary assistance from government security forces and law enforcement agencies through appropriate government channels.

Owners or managers of service operations or activities falling under the scope of the postal act are to be required to give inspection personnel on official business access to their premises, to any facilities and equipment used in the course of their service operations or activities and to any documents which they are required to maintain by law.

### Liability

The following parties will be held accountable for violations of postal legislation and regulations under administrative law:

- a. Violations committed in the course of service operation under a corresponding licence agreement: the individual or corporate owner.
- b. Violations committed in the course of service operation without a corresponding licence when such licence is required by law: the individual or legal entity engaging in the activity in question and, as an accessory, the party using the facilities or equipment or in possession of corresponding postal items.
- c. In all other cases: the individuals or legal entities committing the specific acts constituting violations of postal regulations.
- d. The trademark holder will be held jointly and severally responsible for violations committed in the course of the operation of postal services using a specific trademark if discovered to have acted in concert with the corresponding offender.

## Classification of violations

Il convient de qualifier les infractions à la réglementation des services postaux de majeures, graves ou mineures, selon leur nature. Les infractions majeures comprennent notamment:

- a. violations of universal postal service delivery conditions severely undermining such service;
- b. the unauthorized operation of postal services reserved for the designated operator, undermining the universal postal service financing system;
- c. the unlicensed operation of postal services open to competition or the operation of services other than those permitted under the corresponding licence, to the detriment of the universal postal service;
- d. the non-payment of pecuniary liabilities funding the postal service licensing system budget under conditions seriously interfering with the satisfaction of basic requirements under the corresponding postal act or undermining the delivery of universal postal service;
- e. violations of special or exclusive rights granted to the designated operator;
- f. the acceptance of letter-mail items falling within the scope of the reserved service area and their subsequent delivery to individuals or legal entities other than the designated operator, where such operations are liable to undermine the delivery of the universal postal service;
- g. refusing to submit to inspections and obstructing or resisting government inspection activities;

- h. the use of identification marks by other service operators likely to be confused with those marks whose use is reserved for the designated operator. This includes the use of labels, advertisements, symbols, date stamps or imprints liable to be confused with those used by the designated operator;
- i. conduct designed to perpetrate postage fraud schemes;
- j. the commission of two or more serious violations within a one-year period.

Examples of serious violations include:

- a. the violations referred to in subsections a) to j) above, in the absence of attendant circumstances warranting their classification as major violations;
- b. the mere public offering of any reserved postal services;
- c. the commission of two or more minor offences within a one-year period.

Examples of minor violations include:

- a. refusing to supply or convey information whose disclosure or submission is required under postal service regulations at the request of the national regulatory authority, by the prescribed deadline;
- b. non-compliance by the service operator with rules governing the treatment of consumers and customers under consumer protection regulations;
- c. any and all other violations of obligations imposed on service operators or customers under current postal legislation and regulations designed to ensure the due and proper delivery of postal services.

## Sanctions

In general, the aforesaid violations are punishable by fines in varying amounts, depending on their classification as major, serious or minor violations.

The amount of the prescribed fine for a particular violation may be incremental, within a specified range of values, and set according to guidelines established under the penalty provisions of domestic legislation, in keeping with the special characteristics of the activity in question and its social or economic ramifications. Fines imposed for any of the abovementioned major violations involving activities requiring a government-issued licence may be accompanied by accessory penalties such as the sealing off of corresponding premises, the seizure of vehicles or equipment, or the shutting down of the facilities in question pending the acquisition of a proper operating licence.

The circumstances surrounding the commission of a major violation may warrant revocation of the offender's service operating licence.

The country's postal act must grant government the appropriate authority to issue executive orders adjusting the value of established fines according to fluctuations in the consumer price index.

In addition to prescribed fines for certain major violations, the corresponding offender may be barred from operating any postal services for a specified period of time, effective as of the date of the imposition of such sanctions.

## Preventive measures

The abovementioned violations may give rise to the implementation of preventive measures. The appropriate administrative agency for deciding cases of alleged violations of postal legislation and regulations may take any interim measures considered necessary to ensure the enforceability of its ensuing decision, prevent such violations from continuing and protect the public welfare, at any time, based on the issuance of a reasoned decision to such effect.

The agency instituting the corresponding proceedings or the investigating authority may take necessary preventive measures in emergency situations in which their implementation cannot be postponed.

Examples of interim measures include the retention of postal items for purposes of their inspection, the temporary shutdown of facilities used in the conduct of corresponding activities or the impounding of corresponding equipment. In cases where the party charged with the violation is an unlicensed service operator, preventive measures shutting down and impounding corresponding facilities and equipment will remain in effect until the proceedings are concluded. In any event, any and all such interim measures should be commensurate with the objectives of their implementation.

## Compensation for damages

The imposition of administrative sanctions under a country's postal legislation is without prejudice to the right of the designated operator to seek compensation for corresponding damages.

## Proceedings for the imposition of sanctions – Governing principles

Proceedings for the imposition of administrative sanctions should be governed by domestic legislation and general rules of administrative procedure, as well as by the following principles.

### Procedural due process

1. Exercise of the government's sanctioning authority is subject to the conduct of a legal or other prescribed proceeding.
2. Procedures governing the imposition of administrative sanctions should break down corresponding proceedings into an investigatory and a penalty phase, each of which is to be conducted by a different agency.
3. No sanctions may be imposed without the conduct of an appropriate proceeding.

### Rights of alleged offenders

All alleged offenders have the following rights under proceedings for the imposition of administrative sanctions:

1. The right to be informed of the acts of which they are being accused, the violations allegedly engendered by their actions and applicable sanctions, the identity of the investigating authority and competent sanctioning authority and the legal provision establishing such authority;
2. The right to submit pleadings and to use any and all appropriate legitimate means to defend themselves under current legislation;
3. All other rights recognized by applicable legislation.

### Preventive measures

The appropriate authority may take preventive measures to ensure the enforceability of its final ruling based on a reasoned decision to such effect.

### Presumption of innocence

1. Proceedings for the imposition of administrative sanctions are to presume an absence of any liability under administrative law until proven otherwise.
2. The national regulatory authority is bound by proven facts embodied in final criminal court decisions in substantiating administrative proceedings for the imposition of sanctions.

3. Facts established by postal inspection personnel with recognized official standing recorded in a notarized instrument meeting applicable legal requirements have probative value, without prejudice to any evidence produced or furnished by alleged offenders in defense of their corresponding rights or interests.
4. The national regulatory authority will produce or admit sufficient evidence to establish the facts and any potential liability, at its own initiative or on a motion by the alleged offender. The only evidence which may be declared inadmissible is that whose relationship to the facts under investigation is such that it can have no bearing on the final decision rendered with respect to the alleged offender.

### Décision

1. The decision concluding the proceeding must be well founded and must resolve all pending issues.
2. The decision may not admit any facts other than those established in the course of the proceeding, regardless of other judicial findings.
3. The decision will become final upon the exhaustion of all corresponding administrative remedies. Where necessary, specific preventive measures may be taken to ensure its enforceability until such time as it becomes final.
4. Under no circumstances may administrative sanctions of a pecuniary or other nature include the imposition of a prison sentence, either directly or as an accessory penalty.
5. The value of applicable fines must be set high enough to ensure that it is not more cost-effective to commit the violations in question than to comply with corresponding provisions of postal legislation and regulations.

### Incremental sanctions

Legislation governing the sanctions system and decisions handed down by the competent sanctioning authority must ensure that any and all sanctions imposed are commensurate with the seriousness of the violation committed by the offender, bearing in mind the following incremental sanction guidelines, among other factors:

- a. the existence of intent or of a pattern of behaviour;
- b. the nature of the injury or injuries caused;
- c. recidivism, or the commission of more than one violation of the same nature within a one-year period according to final decisions handed down by the appropriate authority.

## Double jeopardy

The same acts or facts already subject to criminal or administrative sanctions may not be punished twice, where the alleged offender, the facts and the merits of the cases in question are identical.

## Statute of limitations

The statute of limitations for bringing action for alleged violations and for the imposition of corresponding sanctions will be established under the postal act. As a guideline, the institution of administrative proceedings could be statute-barred after three years in the case of major violations, after two years in the case of serious violations and after six months in the case of minor violations. Likewise, the imposition of sanctions could be statute-barred after three years for major violations, after two years for serious violations and after one year for minor violations.

The statute of limitations for bringing action begins to run as of the date of the commission of the violation and is tolled by the institution of corresponding proceedings and the issue of a summons, resuming in the event of the suspension of such proceedings for a period of over one month for reasons not attributable to the alleged offender.

The statute of limitations for the imposition of sanctions begins to run as of the day following the date on which the decision imposing the sanction becomes final and is tolled by the institution of the enforcement proceeding, resuming in the event of the suspension of such proceeding for a period of over one month for reasons not attributable to the offender.

In cases of continuing offences, the statute of limitations begins to run as of the date of the termination of the course of conduct or of the last act of the offence.

## Sanctioning authority

The authority to impose sanctions will be vested in agencies attached to the national regulatory authority according to the nature of the violation in question.

Decisions by such agencies are appealable to the competent authority in such matters.

## CRIMINAL PROCEDURE

The procedure for the prosecution of criminal offences should be established in applicable criminal statutes. Alternatively, the postal act should establish corresponding felonies and misdemeanours.

Without exception, all such offences are to be tried and punished by competent criminal courts, without prejudice to the filing of a complaint by the national regulatory authority or authorized personnel.

Felonies and misdemeanours should be defined and classified in applicable legislation, which should also establish corresponding criminal sanctions.

## Definition of postal offences

Postal offences are acts, actions or omissions characterized as such by law. Examples of postal offences include:

- Mail tampering;
- Violation of professional postal secrecy requirements;
- Release, for profit or otherwise, of the personal information of postal service customers or consumers;
- Unlawful operation of mail service;
- Conveyance of prohibited items;
- Counterfeiting of postage stamps or postage payment imprints;
- Use of counterfeit stamps or postage payment imprints;
- Unlawful use of postage stamps and postage payment imprints;
- Removal of cancellation stamps or marks
- Abuse of power or authority by postal employees.

\* Penalties may vary according to the country. The timeframe mentioned should be taken only as an example.

## Mail tampering

Anyone tampering with letter mail or other postal items is punishable by imprisonment for a term of from six (6) months to two (2) years and payment of a fine. These same penalties apply to anyone who wrongfully discards, retains, appropriates, conceals or destroys letter mail or postal items belonging to others.

**Violation of professional postal secrecy requirements**

Any postal employee disclosing information or data with respect to postal service customers is punishable by imprisonment for a term of from six (6) months to two (2) years and payment of a fine.

**Operation of unlicensed postal services**

Anyone engaging in any type of postal service operations without proper authorization from the national regulatory authority is punishable by imprisonment for a term of from six (6) months to three (3) years and payment of a fine.

In the case of corporations, the legal representative will be held accountable for its actions.

**Violation of the reserved service area or of special or exclusive rights held by the designated operator**

Anyone violating the reserved service area or any special or exclusive rights held by the designated operator is punishable by imprisonment for a term of from one (1) to five (5) years and payment of a fine. In the case of corporations, the legal representative will be held accountable for such violations.

**Conveyance of prohibited items**

Anyone seeking, arranging for or permitting the conveyance of items banned under postal legislation is punishable by imprisonment for a term of from six (6) months to two (2) years and/or payment of an applicable fine.

**Counterfeiting of postage stamps or postage payment imprints**

Anyone counterfeiting, manufacturing or tampering with postage stamps or postage payment imprints is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

**Use of counterfeit postage stamps or postage payment imprints**

Anyone purchasing, selling, supplying, using or recycling counterfeit postage stamps or postage payment imprints is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

**Unlawful use of postage stamps and postage payment imprints**

Anyone unlawfully using postage stamps or postage meters for personal gain or for the benefit of another party is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

**Removal of cancellation stamps or marks**

Anyone removing cancellation stamps or marks from bona fide postage stamps or postage payment imprints for falsification purposes or for purposes of their reuse is punishable by imprisonment for a term of from two (2) months to two (2) years and/or payment of an applicable fine.

**Abuse of power or authority by postal employees**

Anyone who, through deceit, concealment or any other fraudulent means, unjustly enriches himself or causes harm to any class of mail service in the course of the performance of his or her work is punishable by imprisonment for a term of from six (6) months to three (3) years and/or payment of an applicable fine.

Without exception, all defendants are to be treated in accordance with established legal principles and are entitled to all guarantees afforded under the domestic criminal justice system.



**Module VI**  
Financing the Postal Reform



# Introduction

This sixth and final module of the Guide to Postal Reform and Development is a tool that rounds out the process shaped in the five previous modules. This step is essential to the reform process, as many countries will require external support.

Since this guide is based on a publication prepared in the Latin American region, more detailed information is provided on financing agencies specific to that area. However, the new material in this module will help all designated operators to obtain up-to-date information on the most active financing agencies in their respective regions.

As explained in previous modules, across-the-board reform of the postal sector and the designated operator is in most cases the best way to ensure universal postal service in a given country. However, governments generally do not have the resources to mount such an effort and must make use of different financing facilities. The term "financing facilities" is used in the plural to underscore the need for multiple sources of financing from all parties involved in the reform: the government, public or private backers, and the postal operator responsible for providing the universal postal service (although the latter party, where in financial difficulty, may be fully or partially exempted from contributing such funds).

In addition to financing multi-year investment programmes, governments will need to look for ways to free up funding in amounts commensurate with their political will to effectively implement envisaged postal reform projects.

In many countries around the world, there has been very little, if any, investment in the postal sector in recent decades, which has driven designated operators into weakened states at one of the most critical times in their history, with market liberalization, mounting competition and declining mail volumes directly affecting their economic performance and market share. Against this backdrop, it is essential to devise innovative strategies that enable designated operators to provide quality services and diversify their product portfolios as part of a continuing effort to ensure the sustainability of the universal postal service.

Thus, the public authorities of each country and the top management of each designated operator must take account of the need to finance the much-needed postal reform and familiarize themselves with the various mechanisms for making that reform possible.

The first part of this module discusses the necessary preconditions for presenting a reform process and provides important information to help facilitate access to lending agencies. The second part provides information on the development of strategies for obtaining funds from multilateral organizations to bring postal reform to fruition. The third part discusses the general project cycles of international financing agencies, and the annexes set out the key information that should be provided when pitching projects to international backers.



# 1

## Grounds for financing investments in the postal sector

### 1.1

#### Need for development of the postal sector

#### 1.1.1

##### *Public service orientation*

The postal sector is especially important to the national economy. As an economic activity with a public service orientation, it helps to drive the economy and strengthen the country's competitiveness. It also helps promote social integration at both the individual and the community level. A dynamic and efficient postal sector helps to strengthen economic, social and cultural ties between a country's citizens.

The main challenge facing governments around the world is to spur economic growth as a means of creating wealth, augmenting reserves and boosting investment while reducing poverty.

Investment in modern infrastructure plays a pivotal role in promoting national economic growth and development during the transition to a market economy. It also helps to ensure the universality of public services.

Investment in the development of the postal sector earmarked specifically for infrastructure rehabilitation and the construction of new infrastructure makes sense only if it has a positive impact on countrywide economic and social factors, particularly in terms of:

- improving income and productivity levels;
- creating jobs;
- facilitating access to information;
- improving quality of life;
- reducing poverty;
- promoting social integration.

### 1.1.2

#### *Development of the postal sector*

Postal reform must meet the needs of society. The strategies devised by corresponding officials must be responsive to the needs of stakeholders, including both users/customers and operators, and in keeping with technological developments.

Economic globalization is of transcendental importance. The openness of today's global economy is creating new opportunities for the postal sector. However, taking advantage of these will require deep-seated improvements to infrastructure, legislation, management practices and operating procedures.

## 1.2

National political will – inclusion of the postal sector in national development plans

### 1.2.1

*National development plans*

In many countries, for decades the postal sector has not been considered important in the integration of national development plans. Instead, governments have focused on those sectors which in their view will accelerate GDP growth and create more jobs. As a result, development plans have primarily targeted export-oriented industries (agriculture, fishing, livestock, raw materials and commodities in general) and infrastructure sectors (power, water, transportation, ports, telecommunications, etc.), which have benefited from greater investment. The postal sector – which, while an important part of a country's infrastructure network, is generally not a good source of foreign exchange for the national economy and is considered by many to be obsolete and anachronistic – has not been a priority for governments.

Thus, it is vital to change public authorities' perceptions of both the postal sector and the designated operator as the universal postal service provider, and to persuade governments to include the postal sector in their national development plans as a component of infrastructure and support. This will facilitate access to international financing through infrastructure investment.

### 1.2.2

*Integrated postal reform and development plans*

To establish a comprehensive overview of postal reform, in line with a decision of the Bucharest Congress (2004), in 2005 the International Bureau launched a new approach to postal reform, involving all stakeholders from the very start (the government body responsible for setting public policy on postal matters, the regulator, designated operators, trade unions, private operators and so on).

Integrated postal reform and development plans (IPDPs) were designed to provide countries with a general strategy for postal sector reform when setting objectives and implementing activities for short-, medium- and long-term development.

They are formulated by multidisciplinary national teams made up of representatives of the supervisory ministry for postal services, the postal regulator (if any), the designated operator and other ministerial departments potentially involved in the development of such plans (e.g. ministry of finance), under the constant direction of UPU experts in the field.

The IPDP approach is fully compatible with the United Nations programming process based on Common Country Assessments and the United Nations Development Assistance Framework in the sense that it can help to obtain external financing – one of the major concerns and challenges facing countries.

### 1.2.3

*Business plan of the designated operator*

The designated operator's public service mandate and the fact that it is subject to government supervision in no way diminish the importance of its meeting established standards of profitability and efficiency.

The transformation of the postal market sets a dual challenge for the designated operator: reconciling the traditional duties that society expects of a postal service (i.e. those in the public interest) with postal activities that are subject to market economy conditions. When applying for funding for the purpose of sectoral reform and, more specifically, development of the designated operator, the latter must have a business plan.

A credible business plan is a prerequisite for obtaining funding. Any potential lender will want to know that the borrower has a plan to invest the loan wisely, and most importantly that the plan will deliver sufficient extra revenue to pay for the investment. Within the IPDP framework, a number of developing and least developed countries have put together business plans for their designated operators. Business plans should focus on the most important business activities, including:

- personnel;
- operations;
- products and services;
- marketing;
- competition;
- financial planning.

## 1.3

### The postal sector in the context of international cooperation

Given the current status of their postal sectors, all developing and least developed countries are dependent on external assistance for the planning and implementation of the reform process (UPU, restricted unions, technical cooperation, etc.) and the acquisition of funding (financial institutions).

In an international context characterized by rising commodity prices, natural disasters, armed conflict and devastating diseases such as AIDS, malaria and tuberculosis, and given the economic situation facing most industrialized countries, the resources set aside for international cooperation are becoming increasingly scarce and are either ringfenced for emergency aid or focused on areas other than the postal sector.

It is important that interventions in the postal sector take into account this situation and propose reform plans that effectively address the major difficulties facing a number of countries.

The overarching aim of these new goals is to encourage all countries – whether rich, poor or middle-income – to adopt measures that promote prosperity while protecting the planet. They start from the premise that initiatives to end poverty must go hand in hand with strategies that favour economic growth and address a range of social needs, including education, health, social protection and employment opportunities, while combating climate change and promoting environmental protection.

Each section below sets out strategies and products that can be used by UPU member countries to show how developing the postal network can help to achieve the SDGs and, consequently, to secure funding for the sector's development.

The postal sector has to compete with many other sectors to obtain funding. Since all the developing countries committed to achieving the 17 SDGs, their investment and development strategies are – and will continue to be – geared to honouring that commitment. When deciding in which priority areas to invest their resources, governments, cooperation agencies and development banks will select those projects that give the best return on their investment and are linked to the SDGs, so the postal sector must demonstrate that it is dynamic and that reform and investment will have an impact on the economy and benefit society at large.

When countries present IPDPs and related projects, it is recommended that they take account of their development needs as a whole. They should establish that the development of the postal sector is clearly linked to that of other sectors and can have a positive impact on the national economy. Moreover, since international cooperation agencies and the governments of industrialized and developing countries will continue to prioritize SDG-related actions, it is essential that the postal development plans presented be linked to the achievement of one or more of the SDGs.

### 1.3.1

#### *United Nations development strategy: the world postal network at the service of the UN Development Goals*

In 2000, 189 countries undertook to achieve eight goals by 2015, the so-called Millennium Development Goals (MDGs). Since then, many international organizations have focused their financing priorities on MDG-related actions. As a specialized UN agency, the UPU is tasked with assisting its member countries in their efforts to achieve the MDGs. In many countries, the postal network has been contributing to the achievement of the MDGs for a number of years, while in others it has the potential to do so.

In September 2015, more than 150 heads of state and government met at the Sustainable Development Summit, where they adopted the Agenda for Sustainable Development. This Agenda contains 17 universally applicable objectives which, from 1 January 2016, govern countries' efforts to achieve a sustainable world by 2030.

The Sustainable Development Goals (SDGs) are the successors of the MDGs and seek to build on the success of the latter and address those goals that were not attained.

Below is a description of how postal development can be linked to each of the SDGs:



Postal services can contribute to achieving this objective. One example is the lack of access to basic financial services by the poor. Extremely disadvantaged segments of the population do not have access to credit and are unable to invest their savings. This problem is more acute in rural areas. In many countries, Posts have the densest network of any organization. The poverty cycle could be broken by providing access to basic financial services and microcredit.

The Brazilian Post has been participating for years in the government's "Bolsa familia" programme, through which families receive financial aid provided they keep their children in school and follow the vaccination schedule. Other Posts, such as those in Egypt or Tunisia, participate in similar programmes.



The UPU is working in association with the International Fund for Agricultural Development (IFAD) in six West African countries on a project to widen the UPU electronic payment network to more than 300 rural post offices. Rural communities, which many migrants leave behind, will then have access to an affordable and high-quality money transfer service.

An efficient postal network facilitates the timely transfer of consumer goods, including food items.



In Africa, the child mortality rate (number of children who die before reaching the age of five) in 2010 was over 160 deaths per 1,000 live births, compared with 20 deaths per 1,000 live births in Europe ([www.who.int](http://www.who.int)). Almost 25% of such deaths occur during labour. The main causes of infant mortality are pneumonia (19%), diarrhoea (17%), premature birth (10%), neonatal infections (10%), malaria (8%) and lack of oxygen during labour (8%). In general, considerable progress was made towards achieving the Millennium Development Goal. Between 1990 and 2015, the under-five mortality rate decreased from 91 to 43 per 1,000 live births. However, this fell short of the target to reduce infant mortality by two thirds over that period.

Again, Posts can play a key role in the effort to reduce the child mortality rate. For years, the Brazilian Post has been working in tandem with the Brazilian government by disseminating information on the benefits of breastfeeding, showing that breastfed infants are less susceptible to diarrhoea. Diarrhoea is directly linked with access to clean water, and Posts can play a role in the water supply chain by developing bill-payment systems. Moreover, they can disseminate information on the proper use of water. Posts can also help to combat diseases such as malaria by becoming local agents for the distribution of mosquito nets and anti-mosquito spray. Since 2017, the Uruguayan Post has been supporting government-led national research into preventable congenital diseases by making the mail logistics network available to the health system. This facilitates the sending of blood samples from newborns to authorized health centres in order to get an early diagnosis of this type of disease and be able to treat them in time.

The Brazilian Post disseminates information to mothers on the benefits of breastfeeding. The scope of the information provided could be extended to address the need for women to be assisted by a midwife and the importance of pre- and post-partum hygiene. Post offices could again act as information points and identify pregnant women in their respective areas of influence.



A link can be established between achieving quality education and the development of the postal sector: social inclusion. One of the factors which contributes to social exclusion is the lack of addresses. Without an address, the most disadvantaged segments of the population cannot have access to basic health and education services. Posts can help with the development of addressing systems and databases. As was explained under SDG No. 1, in certain countries, parents receive a government allowance if their children attend school. In many countries, the Post acts as a payment agency and a monitoring unit to ensure that families receiving the allowance continue to send their children to school. The Tunisian Post participates in a government bursary scheme to support students in financial hardship, while in Venezuela, the Post participates in "Defensores de los Niños", a programme aimed at protecting children from abuse, and at ensuring that all children of school age have access to education. In Uruguay, the Post participates in "Plan Ceibal", which involves distributing laptops to each student.



The goal of promoting gender equality has aspects in common with the previous objective, as one of its specific aims is to eliminate gender inequality in primary and secondary education. As has been seen, various countries have launched programmes under which the provision of assistance is conditional upon children attending school. A key factor in achieving this goal is raising awareness among parents that educating girls is as important as educating boys. Post offices can operate as service points and help to drive home this message.

Compared with other industries, the postal sector employs a significant proportion of women. It has been calculated that, currently, over 30% of the world's postal employees are women. In 2015, this figure exceeded 50% in places such as Albania, Botswana, Brunei Darussalam, Bulgaria, China, Czech Republic, El Salvador, Estonia, Hong Kong, Hungary, Latvia, Lithuania, Panama, Poland, Romania, Slovakia, Uruguay and the United States. Moreover, 36% of the sector's managerial positions are held by women. Many Posts have developed policies to facilitate the incorporation of women into the labour market, for example, introducing flexible hours, the ability to work from home (post office at home), specialized training programmes and day care centres.

Since 2009, the South African Post – almost half of whose 17,000 employees are women – has partnered with the major women's rights organization People Opposing Women Abuse (POWA) and participated in the annual campaign 16 Days of Activism for No Violence Against Women and Children. It has called on all postal services to lead by example and implement zero-tolerance policies against all forms of violence against women, whether in the workplace or in the community.

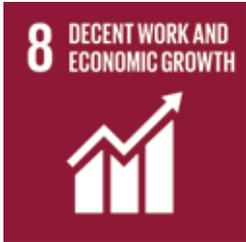


The Post can play different roles in achieving this goal, one aim of which is to reduce the number of people without sustainable access to clean drinking water and basic sanitation services. In many cases, access to safe drinking water and electricity is linked to the ability to make and receive payments rapidly via reliable networks, as well as to the establishment of an addressing system that can allow a payee to be located. Designated operators can be trusted partners in both these regards. Although the inhabitants of disadvantaged neighbourhoods face financial difficulties, they all need to have access to safe drinking water. Postal services can play an important role in providing them with addresses, thereby bringing them into contact with society.



Energy is central to almost all the great challenges and opportunities facing the world today. Whether for employment, security, climate change, food production or to increase income, universal access to energy is essential.

Sustainable energy is an opportunity to transform lives, the economy and the planet. Postal services can be an effective tool for the timely delivery of invoices for energy consumption to inhabitants, facilitating their payment and helping to achieve energy sustainability.



The postal service is a labour-intensive one, making it one of the largest employers in each country. As such, offering employees appropriate working conditions helps maintain an efficient postal service, and contributes to the economic development of the country.



Posts are a component of national infrastructure, with their post office networks and vehicle fleets. An efficient and self-sustaining postal service strengthens national infrastructure.



The postal service can effectively reduce inequalities by enabling communication with all parts of a country and making products available in both urban and rural environments.



The Post provides a basic public service which is key to fostering sustainable cities and communities. Post offices, in addition to serving as business centres, must also become service centres for communities, participating in public policy.



Posts act as facilitators between producers and consumers. When operating efficiently, they can help to ensure responsible consumption by enabling prompt communication between both parties.



Working with the United Nations Environment Programme, the UPU prepared the first two global inventories of greenhouse gases for the postal sector. They showed that postal operators emit the equivalent of at least 54 million tonnes of carbon each year, which represents 0.7% of total annual greenhouse gas emissions.



Postal services can play only a marginal role in achieving this goal, by facilitating communication.



Working with the United Nations Environment Programme, the UPU prepared the first two global inventories of greenhouse gases for the postal sector. They showed that postal operators emit the equivalent of at least 54 million tonnes of carbon each year, which represents 0.7% of total annual greenhouse gas emissions.



The Post, as an integral component of national infrastructure, has traditionally supported justice systems as an authenticator for the deposit of postal items (registered mail).

An efficient postal service helps strengthen the running of national institutions.



The final SDG is to develop a global partnership for development. Designated operators can support trading systems by providing logistical and financial services. In theory, the least developed countries have duty-free access to developed economies, but mechanisms need to be established to allow service providers to enter those markets. Designated operators can play a key role in this regard by introducing simplified export procedures for small businesses and developing trustworthy and transparent financial systems for payments. The Brazilian Post developed Exporta Fácil, a programme to help small and medium-sized businesses with the exportation process, which is also being introduced in other countries in the Latin America region. India Post is working with its partners to provide breeders and farmers with information on market development and the best way to store their merchandise. It also allows its logistics network to be used for the distribution of Internet-enabled computers, printers and so on. Many Posts have for years been providing populations with access to new technologies, and promoting the development of telemedicine programmes, teleagriculture and e-commerce.

The importance of the SDGs should not be underestimated, as they are a priority for all countries and especially development agencies. Thus, when seeking funding for postal reform, designated operators and governments must be aware of, and able to explain and justify, the important social and economic role that the national postal network can play in the economic development of a country, linking it to the attainment of the SDGs.

## 1.3.2

### *The IPDP as a starting point for a new vision of the postal sector – Product and service diversification*

The IPDP methodology was developed and approved in the 2005–2008 cycle. The aim was to introduce a new approach to cooperation in matters of postal sector reform within the framework of the UPU. For the first time, a need had emerged to coordinate the postal sector reform and development activities of key players: the supervisory ministry for postal services, the regulator, the designated operator, workers, other postal service providers and other government bodies involved in providing the postal service (ministry of finance, economy, planning, social development, etc.). This roadmap, in addition to proposing the step-by-step reform of the traditional postal sector in different countries, can be used to expand the vision of the postal sector – based on the comments in the SDG section.

The importance of that vision stems from the experience gained in certain countries where the respective designated operators have very low volumes of traditional postal services. It is essential that those countries, when presenting their reform projects, also put forward plans to expand and diversify their range of services.

Postal services are often underappreciated. As a result, it is incumbent on the postal sector and the UPU to illustrate the benefits of the postal sector in the modern world. In developing countries, the postal sector must be more than a mere provider of products and services. It must contribute to economic and social development.

To help illustrate the value of the postal sector, a description is provided below of the various services that designated operators could provide in diversifying their offerings, increasing their market share and further promoting the development of their respective countries.

## 1.3.2.1

### Banking

Postal operators have historically been important providers of financial services. The first postal savings bank was established in the United Kingdom in 1861. In 1878, an intergovernmental treaty was concluded on international money orders. Around two-thirds of Posts worldwide provide some form of financial service (money orders, savings, bill payments, social benefits, etc.). The main advantage offered by Posts that provide banking services is their extensive network. On average, Posts have twice as many offices as banks in their respective countries. Post offices are also more widely geographically distributed than banks, enabling them to serve rural communities. Postal banks tend to attract individuals on low incomes, who are not typically targeted by major banks. Since development agencies are particularly interested in expanding financial services in rural areas, governments planning to institute postal reform should highlight the potential of such a process to facilitate financial inclusion. Donor agencies are also interested in supporting the correspondent banking model, as used by Banco Postal in Brazil. The Brazilian designated operator, Correios, acts as an agent for Bradesco, a private bank. Together, they launched Banco Postal, a postal financial services branch which capitalizes on the Post's physical network to promote access to financial services. From 2002 to 2010, Banco Postal brought basic savings accounts to 10 million citizens, most of whom did not previously have bank accounts.

## 1.3.2.2

### Payments

From bill payments to social security to pensions, designated operators can facilitate payments on behalf of many organizations. The Argentine Post teamed up with Pago Fácil ("Easy Payment") to accept most household bill payments. A barcode on the bill is read at the post office, payment is accepted and the customer receives a receipt. The designated operator receives a transaction fee for each bill paid, and the customer has local access to the service through the post office. Bill payment systems significantly contribute to ensuring the sustainability of utilities and can be facilitated by designated operators without any need for major investment.

In Paraguay, the UNDP described the difficulties encountered in trying to pay allowances to poor rural mothers to encourage them to send their children to school. While mothers were eligible for the allowance as long as their children attended school, there was a problem in physically reaching the mothers to pay them because the post office did not provide financial services and there was no banking network in rural areas. This was a

clear opportunity for the designated operator to meet a development need, but one that required the government's approval. Designated operators need to identify such opportunities in their own country and lobby government to allow them to expand their service offerings.

In Kenya, the Post concluded 320 partnerships with different public utility companies at the national, regional and local level to collect their payments. The Post receives cash payments on behalf of its partners in return for a fee, generating more income and footfall for post offices.

### 1.3.2.3

#### Remittances

Domestic and international remittances have enormous value for many travelling workers needing to send money home to their families. Often, the only choice available is an international company that takes 20% or more of the transfer in commission fees. In addition, access to money transfers is limited in rural areas, forcing people to travel considerable distances to transfer money or rely on a third party to do so on their behalf, often at additional cost.

Designated operators can serve as alternative providers of national and international remittances, at more competitive prices and with broader geographical coverage. In Latin America, the CorreoGiro project, launched with the support of the UPU, has had a positive impact. However, more work must be done to provide an efficient and economic service that can be accessed in rural areas to gain market share from major remittance companies. In Laos, whereas the introduction of remittances by fax has met with great success and simplified the transfer process, a greater emphasis must be laid on quality of service. In West Africa, the introduction of electronic remittance services in 355 rural offices across six countries has had a significant impact on the volumes transferred, which doubled in the space of a year.

### 1.3.2.4

#### E-government

The importance of providing simplified government services to the general public is recognized within development organizations. They focus significant funds on projects that increase transparency of government and access to services, particularly in rural areas. Given their extensive networks, designated operators are well placed to benefit from such projects. However, they must demonstrate that they have the capability to offer such services and gain the trust of both the agencies and users/customers.

Designated operators that become providers of e-government services may receive contributions (in cash or in kind) to help them install computer equipment or improve their connectivity. This is an opportunity for the designated operator not only to expand its product range, but also to optimize its resources and improve its other networked services, including the quality and speed of its banking, remittance and bill payment services.

### 1.3.2.5

#### Information

Many development initiatives do not realize their full potential because they cannot reach their intended recipients. Postal networks can be used to disseminate information, with individual postal outlets providing advice on health, education, social benefits and other government initiatives. The Brazilian Post provides information to expectant mothers on the importance of breastfeeding for the health of their babies. The Kenyan Post has delivered information on AIDS to help educate employees and the public. Botswana Post has established "Kitsong" (knowledge) centres in more than 50 of its 192 post offices and branches. These provide access to such services as Internet, fax, photocopying, desktop publishing, printing and digital photography. They also provide information on agricultural and business development and tourism, a community bulletin board, a localized directory of government services and links to financial and educational institutions for the benefit of local communities.

Designated operators must be aware of the priority issues within their respective countries and work with relevant development organizations to ensure the right information reaches the right people. The government should use the postal network to distribute and collect information on behalf of itself and other public enterprises (census, health information, etc.).

### 1.3.2.6

#### Addressing

The postal sector can play an important role in developing addressing systems. Many countries still do not have formal address systems, leading to problems with census updates, taxation, education, health and other social issues. Some countries have developed peculiar address systems that can only be deciphered with the specialist knowledge of the local designated operator. But designated operators can use that knowledge to develop standard address and postcode systems and ultimately databases, which would serve as both a tool for social inclusion and a key product to be sold to the direct mail community, thus contributing to economic development.

One of the aims of the SDGs is to reduce the number of people without access to clean drinking water and basic sanitation services. In Laos, 50% of the population do not have access to clean water. Providing the whole population with access will require significant investment in water and sewage systems, and in order for those services to be sustainable there must be a suitable billing and bill payment system. Posts can play an active role in billing. But while the advent of the Internet will undoubtedly facilitate e-billing, this technological leap is unlikely to happen quickly in developing and least developed countries.

Postal services with added value, such as express mail and parcels, are particularly important for the development of business and trade. Customer expectations with regard to speed, security, reliability and tracking information are becoming ever more demanding. Governments must liberalize the express services sector to allow competitors to enter the market and promote innovation. But designated operators can and should develop their own express services and provide added-value services such as tracking and tracing to compete with national and international private operators.

### 1.3.2.7

#### Mail and express services

### 1.3.2.8

#### Logistics

Logistics services are a natural progression for postal operators. Indeed, many larger Posts are moving into the logistics sector. It is common for a single operator to offer mail, finance and logistics services. Many remittance companies exploit the complementarity of these three systems. They make the customer an offer through a mail piece, receive payment and then facilitate delivery of a product. This service is increasingly important in the Internet age, and designated operators can establish themselves as the partner of choice for mail order companies with their end-to-end mail solutions, payment systems and global logistics networks. Developing countries have more basic needs in terms of logistics systems. But since many Posts have their own transport systems moving mail throughout the country, there is an opportunity to utilize spare capacity to move other goods on behalf of third parties.

Malawi Post developed such a project to enable postal vehicles to transport the goods of other companies, thus maximizing revenue. In Brazil, the launch of *Exporta Fácil* has simplified exportation procedures for small and medium-sized companies. The project condensed the 29 steps required for exportation into just three. It has also enabled small producers to export their products directly from the post office, opening up the global market to them without any need for major investment.

Korea Post developed an e-commerce portal specializing in the sale of local rural products, enabling producers across the country to sell local specialities directly to consumers over the Internet. More than 7,200 products are currently offers through the portal, with annual invoices amounting to 135 million USD.

### 1.3.2.9

#### E-services

Digital transformation has become a strategic priority for Posts that want to remain relevant. Postal operators around the world are implementing new technologies to adapt to customer demand for electronic services (e-services).

For example, many Posts now offer basic e-services such as online tracking and tracing, e-mail, hybrid mail and e-notifications. Some Posts also offer more advanced online services such as digital signatures, mobile applications and website integration.

The most advanced Posts have expanded their product ranges with next generation services such as mobile apps (which 51 designated operators now offer). In the past few years, e-post and e-government services have developed significantly in countries with conducive environments.

E-commerce-related services are a high priority in Posts' product innovation plans. These include website integration, payment solutions and online management of delivery options.

The UPU provides tools and resources to help Posts devise strategies and policies for the development of more innovative services, thereby ensuring the sustainable development of the postal sector.

### 1.3.2.10

#### Other services

Post offices throughout the world already provide a wide range of services. Over recent years, the most advanced Posts have been transforming their offices into genuine commercial outlets, using them to sell a range of different products (stationery, detergents, cards, mobile services, etc.). Others have opted to rent out available space in offices, giving them additional resources and offsetting the significant cost of maintaining the office network. While not everybody is on board with this type of strategy, the benefits are threefold: offices receive rental income; vendors gain new customers by virtue of their location; and customers are able to save time by accessing multiple products and services in one place.

In both Japan and India, provision of insurance through post offices is very important. Other operators have chosen to become mobile operators, offering a whole host of services related to modern technology.

In view of the postal vision of international cooperation, it is important that designated operators and governments, when planning postal reform, broaden their vision of the sector and think of new ways to capitalize on the postal network while promoting national social and economic development.



# Financing postal reform

## 2.1

### Introduction – preparing to apply for funding

Broadly speaking, postal reform refers simultaneously to legal frameworks, institutions and the development of postal networks and markets. All planned actions, in addition to seeking to provide the general public with access to more efficient postal services, must aim to boost competition and increase the independence of the designated operator and the postal service regulator.

Preparatory work is crucial to the framing of a well-thoughtout plan of action for presentation to prospective sources of financing. In most cases, the work involved in the preparatory phases of reform programmes requires the services of experts affiliated with postal enterprises and consulting firms, who will need to be paid at the going market rate. Since unfamiliarity with the postal sector can lead to undesired results, the involvement of a postal expert is crucial. Thus, the first step is to secure necessary funding for preparatory work and baseline studies such as:

- an analysis of the postal market;
- an analysis of the existing legal framework and the definition of an appropriate draft legal framework for the country;
- assessments of service operations in the market;
- the definition and determination of the scope of the universal postal service in the country;
- the development of cost models for the designated operator;
- the framing of a development plan for the designated operator.

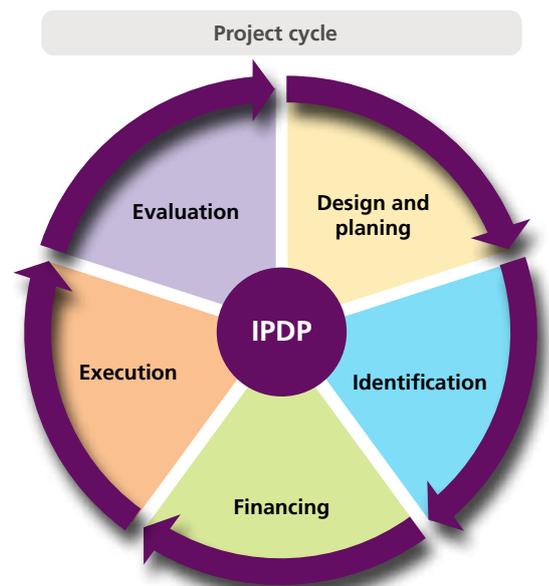
As a rule, lenders are reluctant to finance preliminary studies that are not part of a comprehensive sector reform plan. Their rationale is that it is up to the government to make this initial financial effort as evidence of a real commitment on its part to modernize the postal sector. Nevertheless, some financial institutions are prepared to provide the necessary funding subject to framework contracts stipulating that such studies are a precondition for pursuing the main objectives.

Another option that involves little outlay, depending on the study to be conducted, is to ask the designated operators or regulatory authorities of industrialized or developing countries to furnish the local designated operator with experts in the relevant field.

Preparatory work is vital in establishing the economic, social or legal viability of projected investment in the development of the recipient country's postal sector.

As previously mentioned, IPDPs are an extremely useful planning tool when applying for funding as they establish a roadmap for reform, identifying key projects to be developed and the resources required to do so. However, since it would be difficult for a single institution to commit to financing a country's entire postal reform project from the outset, the IPDP should be used as a basis for selecting priority projects which are most likely to obtain initial funding.

One of the key steps in the project cycle is financing, without which the reform process would not be possible.



Once the priority project has been identified, it is important that the party presenting it and defending it to the financing bodies be the government, supported by the designated operator and/or regulatory body, depending on the nature of the project (operational or regulatory).

In terms of profitability and productivity, the criteria applied by multilateral banks are very similar to those of commercial enterprises. Therefore, it is important when presenting a project to emphasize that the development of the country's designated operator and postal network can make a significant contribution to the social and economic development of the nation as a whole.

The development bank's aim in making a financial commitment is to promote the achievement of objectives in terms of sectoral policy and development plans. In the postal sector, the IPDP approach, which the UPU developed after the methodology was validated during the 2005–2008 cycle, is fully in line both with the global approach favoured by the development bank for its projects, and with the strategy of the United Nations and its specialized agencies, whose principal aim is to define national policies and comprehensive sustainable development plans.

## 2.2

### Development financing bodies

When the decision has been made to apply for external financing, it is essential to identify the main bodies which might, under certain conditions, grant loans or donations to implement the reform process.

This section contains basic information on:

- the main multilateral financing bodies:
  - › multilateral banks (the World Bank and other regional banks);
  - › initiatives by United Nations specialized agencies;
  - › EuropeAid;
- the main bilateral cooperation agencies (industrialized countries only).

With regard to multilateral banks, we will concentrate on the functioning of the World Bank, as principal player, and the regional banks. We will also provide a detailed description of other regional banks, and we suggest that countries of all regions approach the bodies mentioned in this guide directly for further information.

## 2.2.1

### Multilateral financing bodies

As a general rule, multilateral financing bodies, in conjunction with the government of the developing country concerned, identify the main problems affecting the country. They then prepare "multi-year intervention plans" which are collated in documents known generically as "country strategies". The next step is to define, within each multi-year plan, specific areas of intervention for which financing is required, or to prepare specific projects in relation to these areas of intervention.

It is important to stress that all these multilateral financing bodies work directly with governments, and not with designated operators. It is therefore up to the government to show an express interest in postal sector reform and the modernization of the designated operator, and to include these measures in its national strategy.

### 2.2.1.1

#### Multilateral banks

Multilateral development banks are organizations owned by their member countries and are major providers of development financing for those countries.

The funds these banks have at their disposal come from two sources:

- The financial markets, through bond issues;
- Ordinary capital (including subscribed capital, capital on deposit and reserve assets), plus special funds (e.g. working capital and special trust funds) earmarked for specific projects, such as loans with a degree of concessionality in favour of the least developed countries in economic terms.

These institutions use the available resources to grant loans and provide technical assistance. They also participate in a large number of co-financing agreements, including mutual loans, with other multilateral, bilateral and private institutions.

The **World Bank's** intervention in the postal sector involves support for the following projects:

- Basic studies to map out a course for postal reform;
- The modernization of the designated operator responsible for the universal postal service;
- The modernization of the sector, the development of added-value services and the use of new technologies (e.g. hybrid mail services and electronic postal services);
- The development of postal financial services;
- The use of public service points as "community communication centres".

It is important to point out once again that multilateral banks work directly with governments, and not with designated operators. The designated operator should prepare a strategy to obtain its government's agreement to include the postal reform plan in its national development plan (or country strategy), as this will enable it to apply to multilateral banks for financing. Normally, the authorities in charge of negotiating with multilateral financing bodies are the ministries responsible for finance, the economy and national planning.

The main development bank is the World Bank Group, but there are a large number of development banks at the regional and subregional levels, as evidenced by the following list:

#### **Regional development banks**

- African Development Bank
- Asian Development Bank
- Asian Infrastructure Investment Bank
- Development Bank of Latin America (known as CAF – the initials of its previous name)
- European Investment Bank
- European Bank for Reconstruction and Development
- Council of Europe Development Bank
- Inter-American Development Bank

#### **Subregional development banks**

- Eastern and Southern African Trade and Development Bank (also known as the Preferential Trade Area (PTA) Bank)
- African Export–Import Bank (known as Afreximbank)
- Arab Bank for Economic Development in Africa
- Central American Bank for Economic Integration
- Economic Cooperation Organization Trade and Development Bank
- Black Sea Trade and Development Bank
- West African Development Bank
- East African Development Bank
- North American Development Bank
- Caribbean Development Bank
- Development Bank of the Central African States

- Eurasian Development Bank
- International Investment Bank
- Islamic Development Bank
- Nordic Investment Bank
- New Development Bank (formerly known as the BRICS Development Bank, established by the BRICS states in 2013 and based in Shanghai, China)

#### 2.2.1.1.1

### *The World Bank Group*

The World Bank Group, which was created in 1944, belongs to its 189 member countries, whose views and interests are represented by a board of governors and a board of directors. The member countries are its shareholders and hold ultimate decision-making powers.

The World Bank comprises the following institutions:

- **International Bank for Reconstruction and Development** (IBRD, 189 member countries): Established in 1945 with the aim of reducing poverty in creditworthy developing and middle-income countries, providing them with financial advice on economic management.
- **International Development Association** (IDA, 173 member countries): Established in 1960, its members' contributions enable the World Bank to grant virtually zero-interest loans for between 6,000 and 7,000 million USD per year to the world's 79 poorest countries. The IDA plays an important role since developing countries cannot take out finance under market conditions. It allocates funds for the establishment of basic services (education, housing, drinking water, sanitation), driving reform and investment geared to promoting higher productivity and employment rates.
- **International Finance Corporation** (IFC, 184 member countries): Established in 1956, the IFC is tasked with promoting the economic development of countries through the private sector.

- **Multilateral Investment Guarantee Agency** (MIGA, 180 member countries): Established in 1988, MIGA aims to promote foreign investment in underdeveloped countries. It provides investors with guarantees against losses caused by non-commercial risks such as expropriation, currency inconvertibility, transfer restrictions, war and riots.
- **International Centre for Settlement of Investment Disputes** (ICSID, 158 member countries): Created in 1966, ICSID is primarily focused on foreign investment in various countries, in which regard it provides international settlement and dispute resolution services.

In a world in which designated operators are run along increasingly commercial lines, or even privatized, it is important to distinguish between the different arms of the World Bank. A state-owned postal body will apply to the IDA for financing, whereas a private operator will turn to the IFC.

The World Bank has offices in 67 countries and is headquartered in Washington. It has an active presence in over 100 countries and participated in over 25 postal sector reform projects in various countries around the world.

Within the World Bank, which has a total workforce of more than 10,000, there is a Department of Information and Communication Technologies staffed by a small team, with a limited capacity.

Since the UPU and the World Bank signed a letter of intent for the development of joint actions in April 2001, a close link has existed between the two organizations. However, it is important to point out that the World Bank gives priority to the financing of projects linked to new technologies and postal financial services, as the allocation of funds by sector shows.

## Organization of the World Bank

	Africa	East Asia and Pacific	Europe and Central Asia	Latin America and Caribbean	Middle East and North Africa	South Asia
ESSD	Environment and socially sustainable development					
Finance	Anti-money laundering	Banks (PFS)	Housing finance	Credit reports	Financial inclusion	Payments and remittances
HD	Human development					
Infrastructure	Energy	ICT (postal sector)	Oil, gas and mining	Transport	Urban development	Water and sanitation
PREM	Poverty reduction and economic management					
PSD	Private sector development					

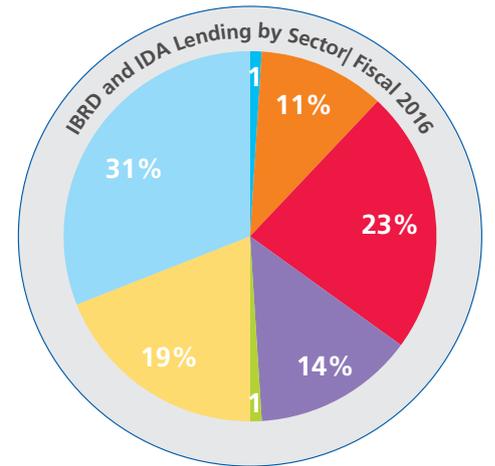
As the table shows, the World Bank is a parent organization divided into six inter-regional network groups, each of which provides information about its sector. The finance and infrastructure networks are subdivided into several areas. The postal sector is included under the ICT section of the infrastructure unit. Each region and each network group has a vice-president. The postal sector has direct links with two network groups: Infrastructure and Finance. Postal resources are located in the Bank's ICT department, within the Infrastructure sector. However, it should be pointed out that there is only one dedicated full-time staff member in the postal area.

World Bank loans* by sector (2017)	
Sector	Millions of USD
Agriculture, fishing and forestry	2,779
Education	2,847
Energy and extractives	6,325
Financial sector	3,106
Health	2,435
Industry, trade and services	4,235
Information and communication technologies	1,022
Public administration	6,708
Social protection	2,691
Transport	5,822
Water, sanitation and waste management	4,102
<b>Total</b>	<b>42,072</b>

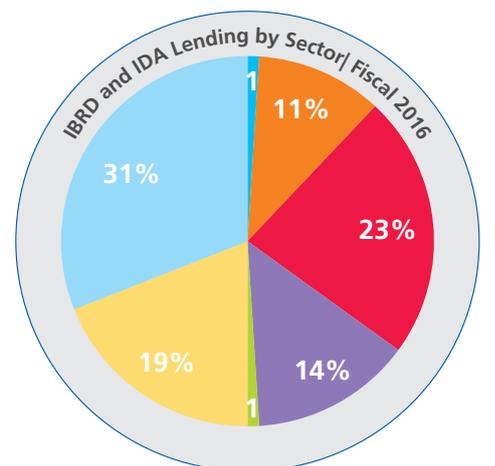
\* Including IBRD and IDA loans

<http://www.bancomundial.org/es/about/annual-report/fiscal-year-data>

## The above diagrams show the distribution of loans from World Bank institutions by region and sector in



Source: Rapport annuel 2001, Banque mondiale (exercices comptables).



Source: Rapport annuel 2001, Banque mondiale (exercices comptables).

The diagram on the right shows that IT and communication projects accounted for less than 1% of lending in 2016. Furthermore, most of these loans were earmarked for ICT and communications. The financial sector represented 7% of all projects financed in that year, amounting to around 3,106 million USD. Public administration took priority, with an investment of 6,708 million USD in 2016.

The previous chart helps to identify the areas on which designated operators should focus their objectives. Given that the information and communication sector represents less than 1% of total lending, and postal operators represent only 1% of that sector overall, the postal sector needs to identify areas in which it can contribute to development. The most obvious of these is finance, which accounted for 7% of total lending, and there are solid arguments in favour of including designated operators in financial reform. Designated operators should also consider the public administration sector, with 19% of total lending, as an area in which they could obtain financing for reform. Designated operators should develop projects in these specific areas in order to link their own reform with that of the public administration sector.

## **Global Information and Communication Technology Department**

The Global Information and Communication Technology Department (GICT) is responsible for all projects relating to the postal sector.

Its chief objective is to assist and promote technological development and to facilitate access to information and communication technology and services in developing countries. It also seeks to reform communication sectors and regulatory bodies.

Its main activities are:

- advising on ICT-related policy matters in areas such as telecommunications, liberalization, privatization and regulation, Internet services (e.g. network connectivity, online administration and e-commerce), and postal and transmission services;
- lending to governments to enable them to grant loans to private borrowers to set up ICT infrastructure in rural areas and disadvantaged urban areas and within the postal network;
- granting loans for innovative projects and sharing knowledge on the development opportunities offered by ICTs.

Contact: <http://www.bancomundial.org/es/topic/ict/overview>

## **How to obtain funding from the World Bank**

As has already been mentioned, the World Bank, like most international cooperation bodies and institutions, negotiates directly with governments, and not with designated operators. Therefore, an expression of interest in postal sector reform and its inclusion in development plans must be obtained from the government, through an official channel (generally the ministry of finance and planning).

Officials from the Bank then visit the country and in conjunction with the government define sectoral policies and reform plans. To create the best conditions for success, the government should prepare a global strategy for the sector, defining in particular the universal postal service, the market structure and the rules governing competition. It should also highlight the many areas (financial, technological, etc.) that can be developed through the postal network.

The advice provided by the Bank relates mainly to the development of a sectoral strategy, legislation and regulation, the linking of reforms, private sector participation and the overcoming of obstacles to investment.

## **The various phases of participation**

Once the government has officially indicated its commitment to sectoral reform, arrangements can be made with the Bank to carry out a fact-finding mission to assess the situation. Discussions on the project orientation can then begin.

In order to be considered, postal projects must be presented as part of a wider government project (e.g. public sector reform, telecommunications sector, infrastructure development) and be systematically linked to quantifiable objectives which show the role the postal sector can play in the country's general and economic development.

## Inter-American Development Bank

The Inter-American Development Bank (IDB) is an international finance institution headquartered in Washington D.C. in the United States. It was established in 1959 with the aim of funding viable economic, social and institutional development projects and promoting regional commercial integration in the Latin America and Caribbean area. It is the largest regional development finance institution of its kind.

Its core objectives are to reduce poverty in Latin America and the Caribbean and to promote sustainable long-term growth. The IDB currently has an ordinary capital of 101,000 million USD.

Its 48 member countries are split into two categories: borrowing and non-borrowing. The 22 non-borrowing members do not receive any funding but do benefit from the IDB's procurement rules: only member countries can supply goods and services to projects financed by the bank. The non-borrowing members are: Austria, Belgium, Canada, China, Croatia, Denmark, Finland, France, Germany, Israel, Italy, Japan, Korea (Rep.), Netherlands, Norway, Portugal, Slovenia, Spain, Sweden, Switzerland, United Kingdom and United States.

The 26 borrowing members of the IDB jointly hold 50.02% of voting power on the board and are divided into two groups according to the maximum percentage of finance that they can receive:

- **Group I:** Argentina, Bahamas, Barbados, Brazil, Chile, Mexico, Trinidad and Tobago, Uruguay and Venezuela.
- **Group II:** Belize, Bolivia, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Peru and Suriname.

The priorities of the IDB are to:

- reduce poverty and social inequality;
- address the needs of small and vulnerable countries;
- promote development through the private sector;
- tackle climate change and challenges relating to renewable energy and environmental sustainability; and
- foster cooperation and regional integration.

The IDB grants loans and provides technical assistance, using resources contributed by its member countries and funds raised on worldwide financial markets through the issue of bonds. It is also party to a large number of co-financing agreements with other multilateral, bilateral and private institutions.

## The IDB structure

### Inter-American Development Bank

The economic, social and institutional development projects supported by the IDB in the Latin America and Caribbean region include sectoral reform and orientation programmes, emergency operations in the event of natural disasters and financial crises, and assistance for public and private investments. The IDB is owned by its 48 member countries, comprising 26 borrowers and 22 non-borrowers, including Canada, China, Israel, Japan, Korea (Rep.), the United States of America and 16 European countries. It finances projects carried out in its member countries in Latin America and the Caribbean only.

### Inter-American Investment Corporation

The Inter-American Investment Corporation (IIC) is an autonomous institution focusing exclusively on the direct and indirect financing of small and medium-sized enterprises in Latin America and the Caribbean.

(45 member countries)

### Multilateral Investment Fund

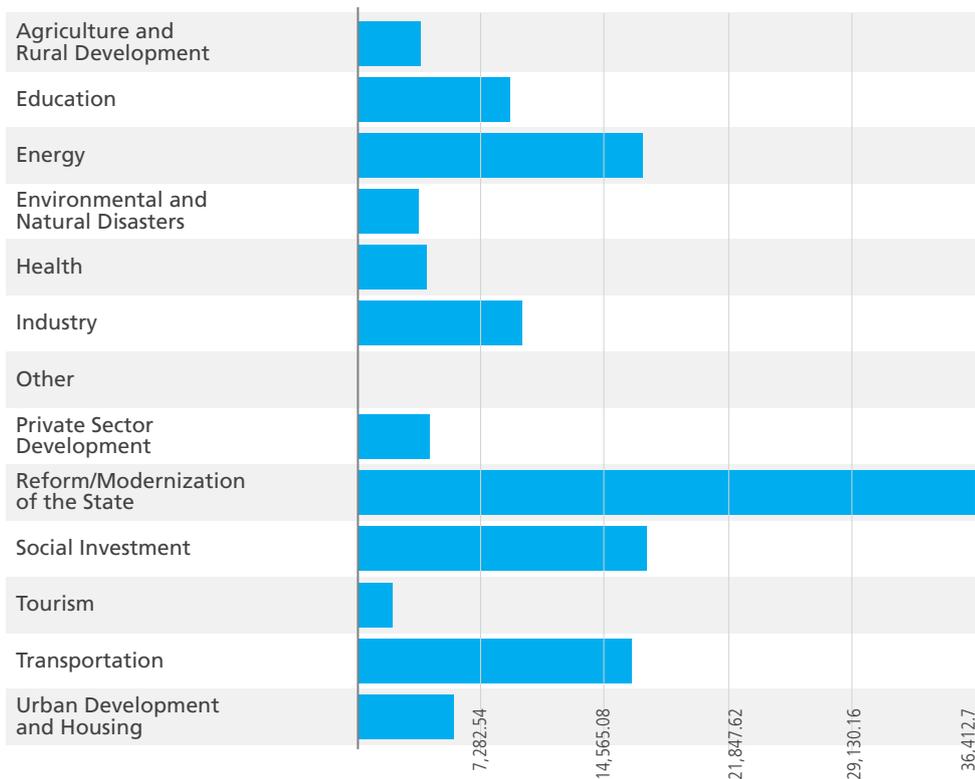
The Multilateral Investment Fund (MIF) serves as an innovation laboratory to promote development through the private sector in Latin America and the Caribbean. It is the principal source of private sector development funding in Latin America and the Caribbean. It supports pilot projects for institutional, legal and regulatory reform, skills training, and small and micro-enterprise development.

### Breakdown of IDB loans by sector from 1961 to July 2016

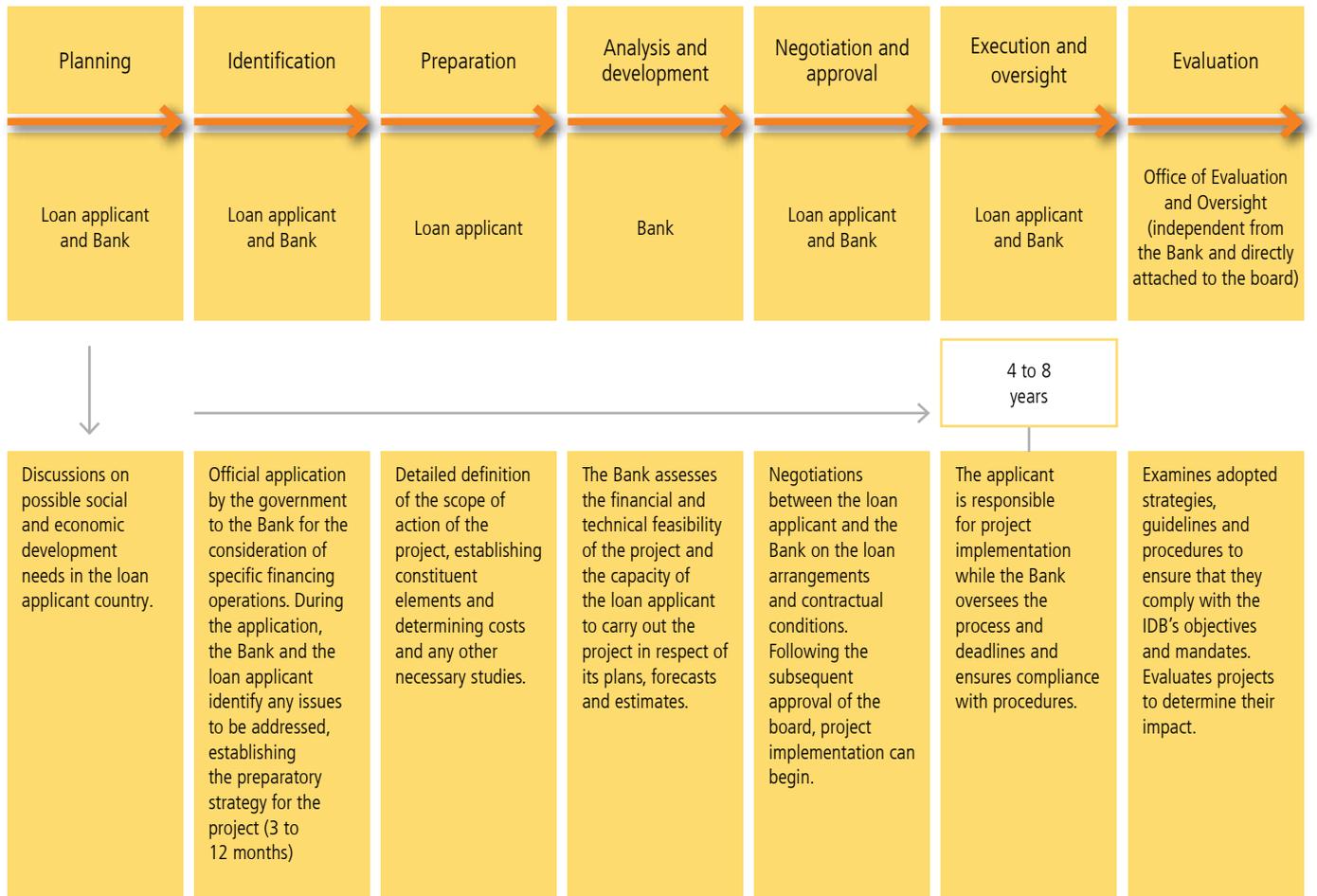
Of the sectors that have received the greatest IDB input, the biggest share of the loans from 1961 to date has gone to the state modernization and reform sector. This sector is divided into a number of subsectors, into which the projects set out in the IPDP could fit. For example, the postal service of El Salvador received a donation from the IDB for a project to strengthen the designated operator. This project was included under the state modernization and reform sector, sub-sector: modernization and administration of

justice. However, postal projects do not have to be limited to this sector. For example, in 2007 the IDB approved a regional pilot project for a simplified postal export system under the heading of private sector development, sub-sector: market development and operations. Therefore, it is important to be aware of each body's strategy for granting funding and to maintain a broad vision of the postal sector's role in the economy and in society.

### Approved Loans by Sector from 1961 to March 31, 2016



## IDB project cycle



### 2.2.1.1.2

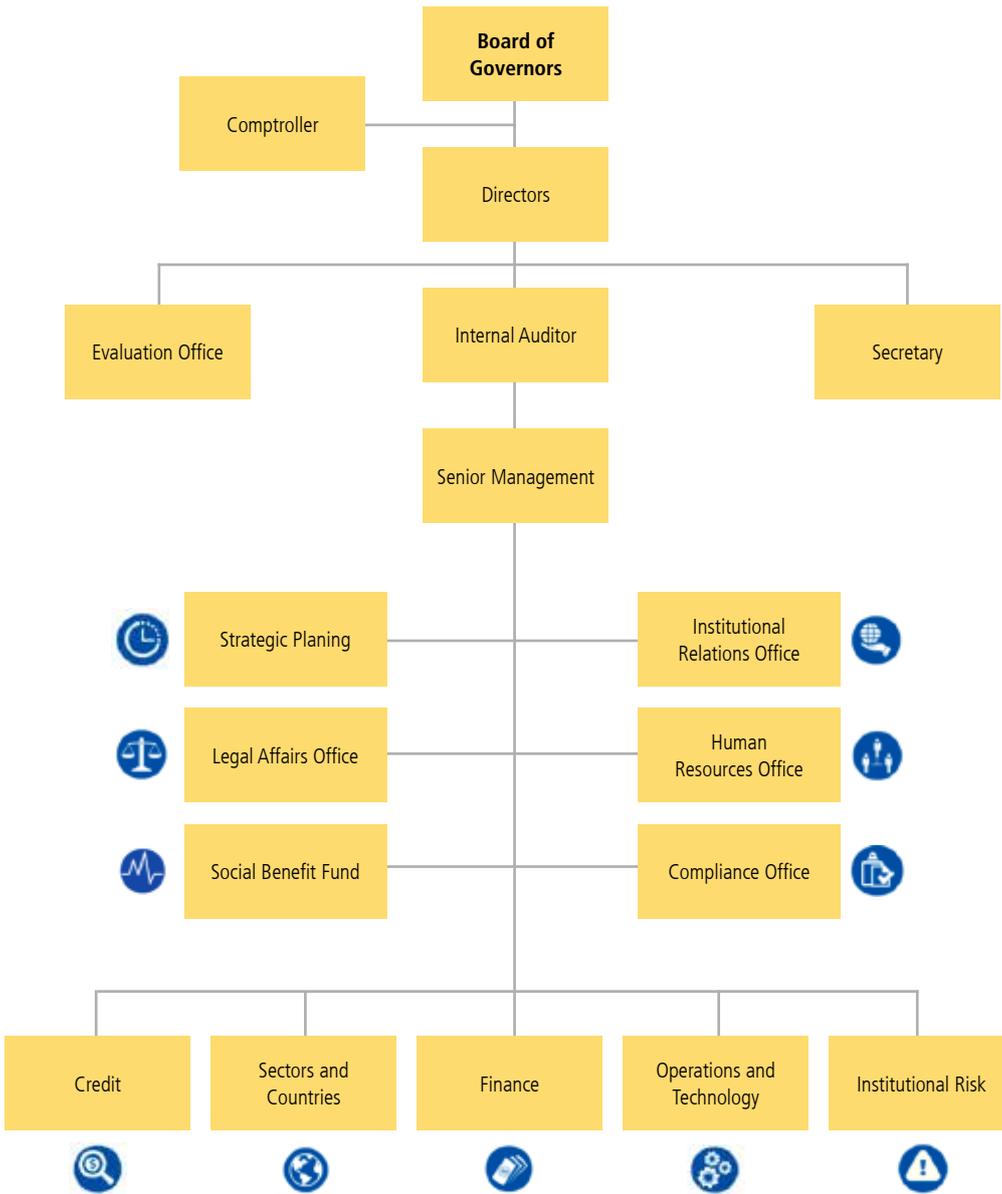
#### *Central American Bank for Economic Integration*

The Central American Bank for Economic Integration (CABEL), which was established in 1960, is a financial institution whose objective is to promote economic integration and development in the Central America region. It contributes on an equitable basis to development and economic growth in the countries of this region by supporting employment-generating programmes and projects which improve productivity and competitiveness, in order to raise the level of human development indicators.

The Bank is headquartered in Tegucigalpa, Honduras, and has branches in all its founding countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua). Its membership also includes three non-founding countries (Belize, Dominican Republic and Panama) and five countries outside the region: Argentina, Colombia, Mexico, Spain and Taiwan.

The CABEL is managed by its Board of Governors, under the operational and administrative responsibility of the nine-member Board of Directors, which defines policies and votes on the budget. The institution's legal representative is its Executive President.

# Organizational structure of the Central American Bank for Economic Integration



In 2016, the CABEL held authorized capital of 1,718 million USD. It generated net revenue of 118 million USD and administered a loans portfolio of around 6,062 million USD (as at 30 June 2017). As these figures demonstrate, it is a very stable financial institution within Central America.

The CABEL finances numerous projects in various sectors:

- Telecommunications;
- Energy;
- Infrastructure and transport;
- Social sectors: urban planning, poverty prevention, health and environment.

The CABEL's strong ties with international financial institutions forged over the past half a century greatly aid its efforts to evaluate the region's businesses. It has in-depth knowledge of commercial practices and market dynamics, as well as access to companies' data.

The various projects are evaluated according to the following criteria:

- an analysis of the business applying for financing (market experience, competitive profile, economic and financial profile);
- an analysis of the project to be financed (project objective, market aspects, financial, technical, political and economic aspects);
- an analysis of the guarantees;
- an analysis of the business/project.

To encourage international financial institutions to look to Central America, the CABEL acts as financial and technical adviser for the promotion and analysis of projects. Its experience and financial contacts in the region provide a sound basis for making an appropriate financial evaluation for each project, which is clearly advantageous to the institutions, for both direct financing and co-financing arrangements.

As a multilateral financing body for Central America, the CABEL specializes in mobilizing and granting external resources to supplement funds originating from other sources, in order to promote sustainable development and integration in the region.

## 2.2.1.2

### Key information on other multilateral banks

The following section consists of data sheets providing key facts on multilateral banking. Taking various financial bodies as examples, it defines their objectives, the main sectors supported, the loan instruments and the conditions generally applied.

### International Bank of Reconstruction and Development

While the IBRD has already been mentioned in the section on the World Bank, some useful information for the preparation of projects is given below.

- **Type of institution:** Multilateral, member of the World Bank Group.
- **Main objectives:** Poverty reduction in the poorest solvent, middle-income countries and promotion of sustainable development.
- **Principal areas of intervention:** Critical areas for the well-being of disadvantaged people in all beneficiary countries.
- **Financing instruments:**
  - › Loans
  - › Guarantees
  - › Risk management products
  - › Analysis and consultancy services
- **Criteria for evaluating applications and other information:** IBRD customers are solvent, middle-income countries with a per capita income of between 1,000 and 10,000 USD. Unless they are solvent, countries with a per capita income of below 1,000 USD are not generally eligible to receive IBRD loans. However, low-income countries can obtain loans at a reduced rate of interest or concessionary credits from the IDA.

As well as helping beneficiary countries by means of financing, the Bank offers access to information needed for development. In terms of the transfer of information, the Bank's activities include research and development of analytical and conceptual frameworks designed to help countries create the necessary conditions for sustainable development.

- **Applications for funding:** Every project financed is governed by a bilateral legal agreement drawn up between the World Bank and the public body receiving the funds. One of the government's key obligations under the loan agreement is to comply with the Bank's policies on procurement, as set out in the "Guidelines for procurement under IBRD loans and IDA credits" and the "Guidelines for the selection and employment of consultants by World Bank borrowers".

<http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20064677~pagePK:84269~piPK:60001558~theSitePK:84266,00.html>

**Contact:**

[bdm@worldbank.org](mailto:bdm@worldbank.org)

[www.worldbank.org/en/about/contacts](http://www.worldbank.org/en/about/contacts)

**Address:**

THE WORLD BANK  
1818 H STREET, NW  
WASHINGTON, DC 20433  
UNITED STATES

**Eligible regions/countries:**

solvent middle-income countries

## International Development Association

While the IDA has already been mentioned in the section on the World Bank, some useful information for the preparation of projects is given below.

- **Type of institution:** Multilateral, member of the World Bank Group.
- **Main objectives:** Offering loans to the poorest countries: 79 least developed countries, including 39 in Africa.
- **Principal areas of intervention:** Health, education, infrastructure and agriculture, institutional and economic development.

- **Financing instruments:** One fifth of the funds loaned by the IDA is concessional financing. The remainder is granted in the form of interest-free credits with long repayment terms. IDA concessional financing, whether granted direct or administered through partnerships, is used for:
  - › alleviating the debt burden of heavily indebted poor countries;
  - › improving health and water supplies;
  - › promoting vaccination and immunization programmes to reduce the incidence of easily transmissible diseases, such as malaria;
  - › combating the HIV/AIDS pandemic;
  - › helping civil society organizations;
  - › promoting initiatives to cut greenhouse gas emissions.
- **Criteria for evaluating applications and other information:** Two criteria are taken into consideration to determine whether a country is eligible for IDA funds:
  - › Relative poverty, which corresponds to a gross national income per capita below a predefined threshold, updated annually;
  - › Insolvency, preventing it from obtaining a loan under market conditions.
- **Applications for funding:** As the IDA is part of the World Bank Group, every project financed is governed by a bilateral legal agreement drawn up between the World Bank and the public body receiving the funds. One of the government's key obligations under the loan agreement is to comply with the Bank's policies on procurement, as set out in the "Guidelines for procurement under IBRD loans and IDA credits" and the "Guidelines for the selection and employment of consultants by World Bank borrowers". <http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/PROCUREMENT/0,,contentMDK:20064677~pagePK:84269~piPK:60001558~theSitePK:84266,00.html>

## International Finance Corporation

While the IFC has already been mentioned in the section on the World Bank, some useful information for the preparation of projects is given below.

- **Type of institution:** Member of the World Bank Group.
- **Main objectives:** Strategic priorities for maximizing the effects of sustainable development:
  - › Invest in productive private enterprises in association with private investors and without any guarantee of government return, where sufficient private capital is not available under reasonable conditions;
  - › Serve as an information-sharing hub to ally investment opportunities, private capital (whether domestic or foreign) and administration with experience;
  - › Help to stimulate the productive investment of private capital, whether domestic or foreign.
- **Principal areas of intervention:** The IFC helps businesses and financial institutions in emerging markets to create employment, generate fiscal revenue, improve systems of governance, adopt environmentally sound policies and support local communities. The aim of these efforts is to improve quality of life, particularly for those in greatest need of support for their country's growth and development.
- **Financing instruments:** The IFC finances investment in the private sector, mobilizes capital in international financial markets and offers consultancy services to businesses and governments.

Main investment services:

- › Loans for its own account;
- › Syndicated loans;
- › Intermediary services;
- › Risk management products;
- › Local currency financing;
- › The Municipal Fund:Trade finance.

IFC loans generally range from 1 million to 100 million USD. It also grants a limited number of loans of between 100,000 and 1 million USD. To ensure the participation of private sector investors and lending bodies, the IFC does not normally finance more than 25% of the estimated total cost of the project.

- **Criteria for evaluating applications and other information:** To be eligible for IFC funding, a project must:
  - › be located in a developing country that is an IFC member;
  - › be carried out in the private sector;
  - › be technically sound;
  - › have good prospects of being profitable;
  - › benefit the local economy; and
  - › be environmentally and socially sound, satisfying the IFC's environmental and social standards as well as those of the host country.

The IFC does not lend directly to SMEs and micro-businesses, or to individual entrepreneurs. It generally lends to financial intermediaries that on-lend to smaller businesses.

- **Applications for funding:** There is no standard procedure for applying to the IFC for financing. Any business or entrepreneur seeking to establish a new venture, or expand an existing enterprise can approach the IFC directly. This is best done by reading the "How to apply for financing guide" and submitting an investment proposal.
- **Address:**  
International Finance Corporation  
2121 Pennsylvania Avenue NW  
Washington DC, 20433  
United States
- **Eligible regions/countries:** Any developing country that is an IFC member. However, projects in selected sectors, such as information technology, may be located in an industrialized country if the benefits primarily accrue to a developing country or countries.

## African Development Bank

The African Development Bank (AFDB) is a multinational development bank that was established in 1964. It has 54 African member countries and is financed by 27 European, American and Asian countries.

The Bank is responsible for promoting the economic development and social advancement of African countries. It is headquartered in Abidjan, Côte d'Ivoire.

The AfDB Group comprises three entities: the AfDB, the African Development Fund (ADF) and the Nigeria Trust Fund (NTF).

Its main objective is to stimulate sustainable economic development and social advancement in its regional member countries, thus helping to reduce poverty.

To this end, the AfDB:

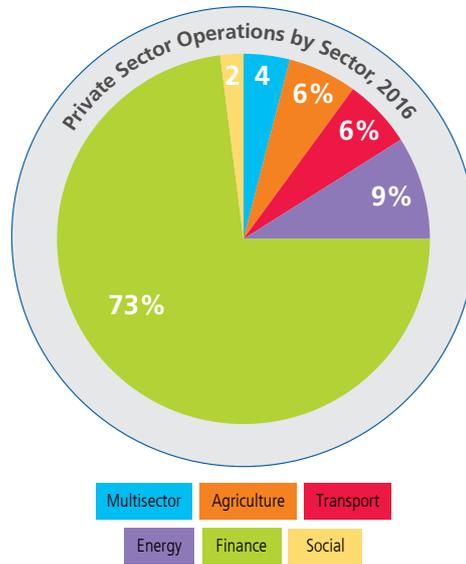
- mobilizes and allocates resources for investment in regional member countries; and
- provides policy advice and technical assistance to support development efforts.

**Principle areas of intervention:**

- **Fragile states:** Supporting fragile states can strengthen these economies, which account for a fifth of the continent's people and a significant proportion of its poverty. Fragility is contagious as well as episodic. It calls for support tailored to diverse needs and a continuum and regional approach built around dialogue, local ownership and the celebration of success.
- **Agriculture and food security:** Strengthening agriculture and food security through an integrated value chain approach can improve the livelihoods of Africans who live in rural areas. Many are reliant on subsistence farming, and a sizeable proportion are chronically vulnerable to climatic uncertainty. Africa lives off its land, and more than 70% of Africans work on the land, which too often fails to provide for their needs. By continuing to invest in rural infrastructure (such as rural roads, irrigation, electricity, storage facilities, access to markets, conservation systems and supply networks), the Bank will help countries increase agricultural productivity and competitiveness. By investing in regional infrastructure and engaging in policy dialogue to remove trade barriers to importing food and supplies such as fertilizers, it will help restrict food price volatility and reduce food insecurity.
- **Gender:** Increasing the capabilities and opportunities of women and girls can boost the productivity and participation of half the African population. A focus on knowledge, skills development, and legal and property rights is the precursor to empowering women's enterprise. Women and girls bear significantly more than half of the continent's burdens, but they also have disproportionately high potential as generators of income.

**Breakdown by sector of loans approved for projects in 2016:**

As the following chart shows, designated operator diversification and postal sector development projects could play a role in supporting fragile states, which are a priority for the AfDB.



Source: AfDB Statistics Department

- **Financing instruments:**
  - › Loans, risk management products, guarantees, technical assistance for member countries;
  - › The ADF finances projects, technical assistance operations and studies under very favourable conditions (very low interest rates and repayment periods of up to 50 years, with a 10-year grace period) for least developed member countries;
  - › The NTF, used to finance concessionary loans for national or regional projects promoting development in low-income countries;
- **Criteria for evaluating applications and other information:** For every project carried out in a member state in the region and financed wholly or partly by the AfDB, an agreement is signed between the AfDB and the beneficiary country. One of the key conditions of the agreement (whether it is a loan agreement or a subsidy protocol) is that procurement under the project must comply with the Rules of Procedure for Procurement of Goods and Works or, if applicable, the Rules and Procedures for the Use of Consultants.

- **Applications for funding**

- › Project cycle: <https://www.afdb.org/en/projects-and-operations/project-cycle/>
- › Standard bidding documents have been developed to assist borrowers in the preparation of tender documents required for the execution of procurement activities: <http://www.afdb.org/en/projects-and-operations/procurement/resources-for-borrowers/standard-bidding-documents/>

- **Contact:**

African Development Bank Group  
Avenue Joseph Anoma  
01 BP 1387 Abidjan 01  
Côte d'Ivoire  
Tel: +225 20 20 40 10  
E-mail: [afdb@afdb.org](mailto:afdb@afdb.org)  
Website: [www.afdb.org](http://www.afdb.org)

- **Eligible regions/countries:** Most AfDB resources and projects are intended for its regional member countries.

Countries are classified under three categories on the basis of two criteria: (i) creditworthiness; and (ii) GNI per capita. The first category comprises "not creditworthy" countries with a GNI per capita below an established threshold updated annually (in fiscal year 2013–2014: 1,205 USD). Countries in the first category are only eligible for concessional resources from the ADF window. The second category contains countries that have a GNI per capita below the operational GNI cut-off but are creditworthy: these are called "blend countries" and are eligible for ADF and AfDB resources. Finally, the third category is made up of countries that are above the operational GNI cut-off and creditworthy. Those countries are eligible for AfDB resources only.

The Group's credit policy was reviewed in May 2014, enabling an ADF-eligible country to borrow non-concessional resources from the AfDB window under certain conditions.

## Asian Development Bank

The Asian Development Bank (ADB) was conceived in the early 1960s as a financial institution that would be Asian in character and foster economic growth and cooperation in one of the poorest regions in the world. It is composed of 67 members, 48 of which are from the Asia-Pacific region.

The ADB assists its members and partners by providing loans, technical assistance, grants and equity investments to promote social and economic development.

The ADB's 2008–2020 strategic framework sets out three distinct but complementary development agendas:

- › Inclusive economic growth;
  - › Environmentally sustainable growth; and
  - › Regional integration.
- **Main objectives:** The ADB helps developing member countries to combat poverty. Its activities are based on its long-term strategic framework, Strategy 2020. The Bank's principal missions are to:
    - › lend to governments and public and private enterprises in developing countries that are members of the institution;
    - › provide technical assistance services for the planning and execution of development projects, which are financed by donations, credits, or a combination of the two;
    - › boost public and private investment in the region; and
    - › coordinate the development plans and policies of its developing member countries.

Principal areas of intervention:

Eighty percent of ADB loans are granted in five central operating areas identified as comparative strengths of the ADB:

- › infrastructure;
- › education;
- › environment;
- › regional cooperation and integration strategy;
- › operational planning of the finance sector.

- **Financing instruments:** Loans, technical assistance and grants.
- **Criteria for evaluating applications and other information:**
  - › Ordinary funds are loans granted to the region's most developed countries. They are offered at near-market rates, and the repayment term is usually between 15 and 25 years.
  - › Special funds:
    - » Asian Development Fund: This is the Bank's instrument of concessional financing for granting soft loans to member countries with a low per capita income and very limited capacity for servicing the debt.
    - » Technical Assistance Special Fund: This is the principal source of non-reimbursable financing.
    - » Special Funds financed by Japan, such as the Japan Special Fund, used mainly to finance or co-finance technical assistance projects by means of grants.
    - » Japan Fund for Poverty Reduction: This fund is intended for financing postgraduate studies in economics, management, science and technology, etc., in academic institutions in the Asia-Pacific region.
- **Contact:**  
Headquarters  
6 ADB Avenue,  
Mandaluyong City 1550, Metro  
Manila, Philippines  
Tel: +63 2 6324444  
Fax: +63 2 6362444  
[www.adb.org](http://www.adb.org)

## Council of Europe Development Bank

The Council of Europe Development Bank (CEB) is a multilateral development bank with an exclusively social mandate.

Through the provision of financing and technical expertise for projects with a high social impact in its member states, it actively promotes social cohesion and strengthens social integration in Europe.

The CEB represents a major instrument of the policy of solidarity in Europe. It participates in financing social projects, responds to emergency situations and contributes to improving the living conditions of the most disadvantaged population groups.

The CEB contributes to the implementation of socially oriented investment projects through three sectoral lines of action, namely:

- Sustainable and inclusive growth;
- Integration of refugees, displaced persons and migrants;
- Climate action: developing adaptation and mitigation measures.

In 2016, the CEB granted loans for 13,715 million EUR to 3,351 projects.

- **Criteria for evaluating applications and other information:** The CEB carries out its mission within the strategic framework of a formal "Development Plan" that describes the logic underpinning its action and sets forth guidelines for the activity in the medium term in relation to the operational context within which the Bank operates. The current Development Plan covers the period 2017–2019.
- **Applications for funding:** Loan requests are prepared individually, according to the specific nature of the projects involved. Therefore, potential borrowers do not need to complete a standard form or questionnaire.
- **Contact:** <https://coebank.org/en/contact/>
- **Address:**  
CEB  
55, avenue Kléber  
FR-75116, PARIS  
France  
Tel: +33 (0)1 47 55 55 00

## European Bank for Reconstruction and Development

The European Bank for Reconstruction and Development (EBRD) was founded in 1991 to further progress towards market-oriented economies and promote private and entrepreneurial initiative in the former communist countries of Eastern Europe.

It is headquartered in London and provides loans to banks, businesses and public authorities.

The EBRD was established to help former Eastern Bloc countries establish their private sectors. To this end, it provides project financing for banks, industries and businesses, whether new ventures or existing companies. It collaborates with public enterprises to support their privatization, as advocated by the WTO since the 1980s, and the improvement of municipal services.

The EBRD's mandate stipulates that it must only work in countries that are committed to democratic principles. It promotes environmentally reasonable and sustainable development and does not finance defence-related activities, the tobacco industry, selected alcoholic products, substances banned by international law or stand-alone gambling facilities.

- **Main objectives:** Investing primarily in private sector clients whose needs cannot be fully met by the market. The Bank fosters transition towards open and democratic market economies. It provides project financing for banks and businesses, investing in both new ventures and existing companies.
- **Principal areas of intervention:**
  - › Agribusiness
  - › Capital funds
  - › Financial institutions
  - › Information and communication technology
  - › Legal reform
  - › Manufacturing and services
  - › Municipal infrastructure
  - › Nuclear safety
  - › Power and energy
  - › Property and tourism
  - › Transport
- **Financing instruments:** loans, equity finance, guarantees, leasing facilities and trade finance. Typically, it funds up to 35% of the total project cost.
- **Criteria for evaluating applications and other information:** Each project is tailored to the customer's needs and the specific situation of the country, region or sector. Direct investments generally range from 5 to 250 million EUR.
- **Contact:** <http://www.ebrd.com/pages/about/contacts.shtml>
- **Address:**  
EBRD  
One Exchange Square  
London EC2A 2JN  
United Kingdom  
Tel: +44 (0)207 338 6000

## European Investment Bank

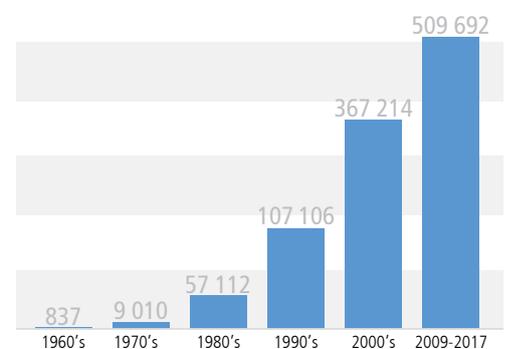
The European Investment Bank (EIB) is the European Union's bank. It was founded in 1958 under the Treaty of Rome and is headquartered in Luxembourg. Its mission is to contribute to the balanced development of the EU through economic integration and social cohesion.

The shareholders of the EIB are the EU member states, whose ministers of finance make up the Bank's Board of Governors.

Outside the Union, the EIB supports the pre-accession strategies of EU candidate countries and enforces the financial provisions of agreements concluded under European aid and development cooperation policies.

- **Main objectives:** The Bank seeks to:
  - › boost Europe's potential in terms of jobs and growth;
  - › support action to mitigate climate change;
  - › promote EU policies outside the EU.
- **Principal areas of intervention:** The EIB provides billions of euros in high-impact projects that make a difference to companies, the climate and the lives of people, through four public policy priorities or goals:
  - › Innovation and skills;
  - › SMEs;
  - › Infrastructure;
  - › Climate and environment.

**Historic investment** (in EUR millions of EUR)



- **Financing instruments:** The EIB's products and services fall into three main categories:
  - › Lending – about 90% of its total financial commitment. The Bank lends to clients of all sizes to support growth and jobs, and this support often helps to attract other investors.
  - › "Blending" – allowing clients to combine EIB financing with additional investment.
  - › Advising and technical assistance – maximizing value for money.
- **Eligible regions/countries:** Despite being the bank of the EU, the EIB has a vital role to play outside the Union. It mobilizes resources for economically sound projects having a high impact in:
  - › countries that are preparing to become EU members;
  - › African, Caribbean and Pacific countries;
  - › countries neighbouring the EU to the east;
  - › partner countries in the Mediterranean, Central Asia, Asia and Latin America.

The EIB issues loans above 25 million EUR directly. Where smaller loans are involved, it opens credit lines for financial institutions that then lend funds to creditors.

- **Criteria for evaluating applications and other information:** Project cycle (<http://www.eib.org/projects/cycle/index.htm>). Projects can be submitted for the attention of the EIB, either officially or informally, through various channels: potential project promoters (private or public companies); commercial banks wishing to include the EIB in their financing plans; public authorities; and national or international development finance institutions.

It is advisable to submit projects to the EIB at the earliest possible stage, particularly in the case of infrastructure-related projects and projects stemming from public-private partnerships.

- **Applications for funding:** Initial contacts to discuss a proposed project can be in any form, by telephone, fax, e-mail or letter. The form and content of the project documents submitted to the EIB are the responsibility of the borrower, which is free to seek internal or external technical assistance with their preparation if necessary. The documentation sent to the EIB (which should be adapted to the particular project) should cover the following points:
  - › General information on the borrower and its legal status;
  - › Financial information;
  - › Technical information;
  - › Environmental information;
  - › Economic information.
- **Contact:** <http://www.eib.org/infocentre/contact/index.htm>
- **Address:**  
 EIB Switchboard:  
 98-100, boulevard Konrad Adenauer  
 L-2950 Luxembourg  
 Tel: (+352) 43 79 1  
 Tel: (+352) 43 77 04
- **Main objectives:** Fostering the economic development and social progress of member countries and Muslim communities individually as well as jointly in accordance with the principles of Sharia (Islamic Law). The Bank also finances SMEs and offers microcredit solutions.
- **Principal areas of intervention:** Reducing poverty and illiteracy, combating diseases (malaria, AIDS, etc.) and developing agricultural, industrial and agro-industrial sectors and infrastructure.
- **Financing instruments:**
  - › Loans
  - › Technical assistance
  - › Leasing
  - › Instalment sale
  - › Lines of credit
  - › Equity participation
  - › Profit sharing
- **Applications for funding:**
  - › Identification of a project can come from several sources, including the government, IDB missions, and contact with other development finance institutions, such as UN agencies, or private sponsors.

## Islamic Development Bank

The Islamic Development Bank (IDB) is a multilateral development financing agency headquartered in Jeddah, Saudi Arabia. It was formally opened on 20 October 1975. The Bank's main shareholders, in order of contribution, are: Saudi Arabia, Kuwait, State of Libya, Turkey, United Arab Emirates, Iran, Egypt, Indonesia and Pakistan.

The aims of the Bank are to hold equity interests in companies, grant loans for productive projects and entrepreneurial initiatives, and provide financial assistance to its member countries.

- › Generally, in order to be considered for IDB financing, a project should have official government endorsement and must also meet a prima facie feasibility test to show that technical and institutional solutions are likely to be found at costs commensurate with expected benefits. Once identified, a project might be incorporated into a three-year programme for the country concerned, whereby the programme forms the basis for the Bank's future operations in that country. However, some governments have agreed that such endorsement is not necessary for projects submitted by the private sector.
- **Contact:** <https://www.isdb-pilot.org/contact-us/>
- **Address:**  
IDB  
P.O. Box 5925  
Jeddah 21432  
Saudi Arabia  
Tel: +966 12 636 1400  
Fax: +966 12 636 6871  
E-mail [info@isdb.org](mailto:info@isdb.org)
- **Criteria for evaluating applications and other information:** The Caribbean Development Bank prioritizes business productivity and infrastructure or services that support productive businesses and promote social and community development. It generally requires borrowers to select their contractors by competitive tendering.
- **Contact:** <http://www.caribank.org/about-cdb/contact-us>
- **Address:**  
Caribbean Development Bank  
P.O. Box 408  
Willey  
St Michael  
Barbados, W.I. BB11000  
Tel: (246) 431 1600  
Fax: (246) 426 7269  
E-mail: [info@caribank.org](mailto:info@caribank.org)

## Caribbean Development Bank

The Caribbean Development Bank is an international financial institution that aims to promote regional cooperation and integration, and finance economic, social and institutional development projects in the Caribbean area. It began operating in 1970. The Bank is currently headquartered at Willey, Saint Michael, Barbados, and has 25 members.

- **Principal areas of intervention:**
  - › Economic and social infrastructure
  - › Training and education
  - › Agriculture and rural development
  - › Private sector development
  - › Water and sanitation
  - › Environmental management
  - › Climate resilience
  - › Energy efficiency
  - › Renewable energy
  - › Disaster risk management
- **Financing instruments:** Loans, grants, action plans, technical assistance to secure funding. The minimum loan amount granted by the Caribbean Development Bank directly to a public sector borrower is the equivalent of 200,000 USD.

## African, Caribbean and Pacific Group of States

The African, Caribbean and Pacific Group of States (ACP) fosters cooperation between the EU and African, Caribbean and Pacific states under the Cotonou Agreement. Signed in 2000, the Cotonou Agreement is the most comprehensive partnership agreement between developing countries and the EU. It provides a framework for cooperation in matters of development and trade and also has a political dimension. Its ultimate objective is to eradicate poverty in ACP countries.

- **Main objectives:** Alleviating and eradicating poverty and promoting sustainable development and the gradual integration of ACP member states into the global economy.
- **Principal areas of intervention:** The areas of intervention are generally at the ACP's discretion and include the communication and transport sectors and ICT development, poverty reduction, sustainable development and international trade. The ACP countries have agreed to focus cooperation on three main areas from 2020:
  - › Trade, investment, industrialization and services;
  - › Development cooperation, technology, science and innovation; and
  - › Political dialogue.

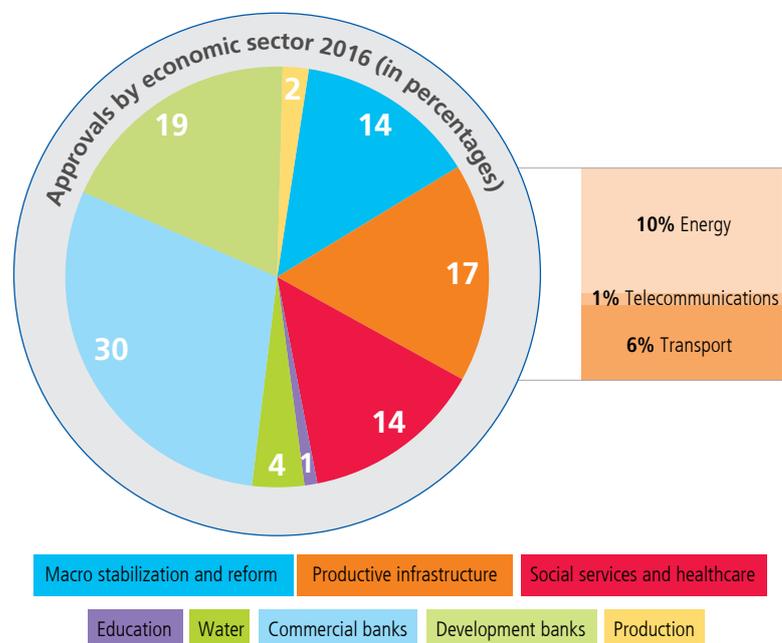
The cooperation framework and political guidelines are developed according to each country's particular situation. They are designed to promote the implementation of social and economic reforms and the participation of private partners and civil society players in the development process.

- **Financing instruments:** Calls issued by EuropeAid – ACP. The ACP acts as an intermediary (providing information, clarifying doubts, etc.).
- **Criteria for evaluating applications and other information:** Provision of financial assistance to:
  - › ACP member countries, regional and interstate organizations;
  - › joint bodies made up of ACP and EU countries;
  - › national and/or regional public or semi-public agencies;
  - › municipal authorities or governments and the corresponding financial institutions;
  - › development banks, enterprises, businesses and other private operators;
  - › financial intermediaries of the ACP or the EU which provide funds and promote and finance private investment in ACP countries; and
  - › decentralized cooperation agencies.
- **Applications for funding:** ACP and EU countries are jointly responsible for:
  - › establishing the rules of financial cooperation within the framework of joint agencies;
  - › planning;
  - › evaluating projects and programmes;
  - › ensuring equality in the treatment of participants and consultants;
  - › proposing follow-up and evaluation measures and forecasting project impacts;
  - › ensuring that projects are implemented efficiently, effectively and speedily.
- **Contact:** <http://www.acpsec.org/en/secretariat/contact.htm>
- **Address:**  
Avenue Georges Henri 451  
1200 Brussels  
Belgium

It works with the public and private sectors, providing multiple financial products and services to a broad range of clients, including the governments of its shareholder countries, financial institutions, and public and private companies.

Its main activities are acting as a financial intermediary, obtaining resources from industrialized countries for the region, financing the development of productive infrastructure, promoting development, fostering trade and investment, and supporting the business sector.

- **Main objectives:** To promote sustainable development and regional integration by amassing sufficient funds to lend to the public and private sectors of its member countries and providing various financial services, and to support the financial structuring of public and private projects.
- **Principal areas of intervention:** In 2016, the breakdown of approved investment by sector was as follows:



## Development Bank of Latin America

The Development Bank of Latin America (CAF) aims to promote sustainable development and regional integration in Latin America by financing projects in the public and private sectors and providing technical assistance and other specialized services. Created in 1970 and comprising 19 countries from Latin America, the Caribbean and Europe, as well as 13 private banks, it is one of the main sources of multilateral financing and an important generator of knowledge for the region.

- **Products and services:**
  - › Loans
  - › Structured finance
  - › Financial advice
  - › Guarantees and endorsements
  - › Partial guarantees
  - › Shareholding
  - › Treasury services
  - › Technical cooperation
  - › Lines of credit
  - › Co-financing

- **Loans:**

Loans represent CAF's main financial tool and can be short term (1 year), medium term (1–5 years) or long term (over 5 years). They fall into three categories: commercial loans (pre-shipment and post-shipment) and working capital loans, loans for projects, and limited guarantee loans.

CAF may finance sovereign risk and non-sovereign risk operations. Loans can be granted at all stages of project implementation. Under certain circumstances and within the context of an integral credit relationship, CAF may provide loans for the development of commercial operations geared to promoting exports, and working capital for companies or financial institutions.

The range of projects that CAF may fund varies but includes infrastructure plans for roads, transportation, telecommunications, power generation and transmission, water and sanitation, and projects that encourage border development and physical integration between shareholder countries.

In the area of industry, CAF invests in projects to expand and modernize the production capacity and business integration of its shareholder countries in regional and global markets.

The advantages of this programme include:

- access to better financing terms based on the support of a multilateral institution that meets the client's needs with regard to duration (whether short, medium or long term);
- flexibility and responsiveness.

Loans are agreements between CAF and its clients, whereby clients agree to return to CAF, within a specified period, the sum of money borrowed for a specific purpose, plus interest, fees, and other expenses agreed between the parties.

Eligible transactions for funding by CAF are those that are submitted by the governments of shareholder countries, as well as private or mixed capital sector projects from a wide range of economic sectors.

- **Contact:** <https://www.caf.com/es/sobre-caf/contacto/>
- **Address:**  
CAF  
Av. Luis Roche, Torre CAF  
Altamira, Caracas  
Tel: +58 212 209 2111  
Fax: +58 212 209 2444  
E-mail: [infocaf@caf.com](mailto:infocaf@caf.com)

## 2.2.2

### *Commercial banks*

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As an alternative to seeking public funding from multilateral banks, borrowers can apply to commercial banks for loans and grants. However, in order to attract private capital, the government needs to establish a stable legal framework for the postal service, with regulatory provisions that will encourage participation and private investment. The state's role is therefore to promote competitiveness and the functioning of the markets in which the private operators participate.

## 2.2.3

### *Other international financing bodies*

---

As a United Nations agency, the Universal Postal Union has, over the past few years, developed an important network of contacts with other agencies to promote the development of various projects and obtain additional funding from sister organizations. A description of the method by which the UNDP and EuropeAid grant financing is given below.

## United Nations Development Programme

The United Nations Development Programme (UNDP) is present in 170 countries and territories, working to help countries eradicate poverty, eliminate inequalities and foster inclusion. It helps countries to develop policies, alliances, leadership skills and institutional capabilities, and to build resilience in order to sustain development results.

### Results at a glance (2014–2017)

- Sustainable development
  - › 24.7 million people (51% women) benefited from improved livelihood initiatives in 119 countries.
  - › Over 2 million new jobs (36% for women) were created in 98 countries.
  - › 35 countries developed action plans to address unfinished MDGs work and transition to the SDGs.
  - › 94 countries implemented measures towards low-emission and climate-resilient development.
- Democratic governance
  - › Nearly 75 million new voters registered in 40 countries.
  - › Over 3.2 million people in 35 countries gained access to legal aid services.
  - › 2 million people in 22 countries received antiretroviral treatment.
  - › 27.6 million people took part in HIV-related behavioural change communication initiatives in 24 countries.
- Resilience building
  - › 1,239 disaster risk reduction and adaptation plans were put into place at national and supranational levels in 58 countries.
  - › 38 countries adopted enforceable laws or regulations to address disaster and climate risks.
  - › More than 5.3 million people had improved access to energy in 50 countries.
  - › 240 early warning systems were established in 30 countries.
  - › 481 plans and programmes informed by disaster and climate risk assessments in 36 countries.
- **Financing instruments:** Solutions and assistance in the field of ethical policy. The UNDP implements its programmes with the assistance of specialists, non-governmental organizations, UN specialized agencies and research bodies.

- **Criteria for evaluating applications and other information:** 85% of the UNDP's basic funds are earmarked for countries with an annual per capita income of 750 USD or less. Most UNDP initiatives are in the public sector (implemented by ministries and key electoral commissions for development) aimed at developing skills within institutions in order to attain human development objectives. It mobilizes and manages funds entrusted to it by the beneficiary countries themselves.
- **Contact:** <http://www.undp.org/content/undp/es/home/operations/contact-us.html>
- **Address**  
United Nations Development Programme  
One United Nations Plaza  
New York, NY 10017  
United States of America  
Fax: +1 212 906 5364

## EuropeAid Cooperation Office

The European Union, through the European Commission, is one of the largest funders of projects in the world, providing more than 50% of all global development aid.

The Commission is present in more than 150 countries and is the second largest donor of humanitarian aid in the world.

The European Union's external aid is channelled through EuropeAid, the European Commission's directorate general responsible for external aid. Its aim is to maximize the impact of such funding. EuropeAid implements the Commission's external aid instruments, funded by both the EU budget and the European Development Fund. Its responsibilities

- **Main objectives:** It is responsible for formulating EU development policy and thematic policies in order to reduce poverty in the world; to ensure sustainable economic, social and environmental development; and to promote democracy, rule of law, good governance and respect for human rights, notably through external aid. It fosters coordination between the EU and its member states in the area of development cooperation and ensures the external representation of the EU in this field.

- **Criteria for evaluating applications and other information:** Conditions of eligibility for budget support:
  - › Implementation of a sectoral or national development policy, reform policy, or clearly defined strategy.
  - › Introduction of a macroeconomic framework based on stability.
  - › Implementation of a credible, relevant programme for improving public finance management.
  - › The European Union does not monitor the use of these funds by, for example, auditing the accounts. It is the responsibility of the national authorities to oversee, monitor and audit public funds.
- **Contact:** [http://ec.europa.eu/europeaid/index\\_en.htm](http://ec.europa.eu/europeaid/index_en.htm).
- **E-mail:** [info@ec.europa.eu](mailto:info@ec.europa.eu)
- **Adresse:**  
 EuropeAid Cooperation Office  
 Directorate-General for External Relations  
 European Commission  
 EuropeAid H/5 L41 7/52, Wetstraat, 200  
 1049 Brussels  
 Belgium  
 Tel: +32 (0)22 99 11 11  
 Fax: +32 (0)22 99 64 07

### 2.2.3.1

#### Bilateral institutions

There has been an increase in the number of development finance organizations in recent years. There are more than 70 bilateral institutions (whose shareholders are industrialized or developing countries acting as international donors), around 260 multilateral bodies, and numerous global funds and private foundations. However, as a significant proportion of international development cooperation action is channelled through bilateral institutions, it is important for countries to understand how these agencies work.

Given that the prioritization of aid objectives differs from one bilateral agency to another, it is difficult to identify a framework into which they will all fit. However, certain areas of transversal action are common to most of them, and are listed below:

- Gender equality;
- Combating poverty;
- Environmental sustainability;
- Defending human rights.

Although the processes for formulating and presenting projects vary between agencies, the most commonly adopted sectoral priorities are:

- Coverage of basic needs;
- health and education;
- development of an economic base, which can be broken down into three key areas:
  - › infrastructure development;
  - › promotion of technical improvements in the various activities making up the country's productive structure to enable it to enter the international market;
  - › promotion of private enterprise through the encouragement of entrepreneurial initiatives and the efficient functioning of markets;
- strengthening of institutions and good governance.

It is evident from this list of transversal priorities that, in general terms, the postal sector as such is not a priority sector for any of the agencies. It is therefore important to stress that the authorities responsible for postal sector policy and/or the designated operator should ensure that the government includes the postal sector in its national development plan when cooperation agreements are negotiated with the various agencies.

Although the strategy for including the postal sector in the development plan can vary from one country to another, it is clear that postal network development fits perfectly into the "infrastructure development" category, and that postal market development facilitates the country's entry into the international market.

When taking steps to ensure that the government includes the postal sector in the national development plan, it is also important to point out the role that postal network development can play in achieving the donor agencies' own objectives. Therefore, at this stage, and when formulating projects relating to postal reform, it is advisable to refer to the other broader objectives of international cooperation or of the national plan, rather than focusing solely on postal network development.

Information on some of the bilateral institutions involved in areas connected with the postal sector is set out below.

## French Development Agency

The French Development Agency (AFD) is an inclusive public development bank that plays a central role in development policy in France. It makes commitments to projects that genuinely improve the everyday lives of people in developing and emerging countries and in French overseas territories.

The AFD is active in several areas:

- Energy;
- Healthcare;
- Biodiversity;
- Water;
- Digital;
- Training and education.

It supports the transition towards a safer, fairer and more sustainable world in line with the SDGs.

The Bank is present in 108 countries through its network of 85 branches and finances more than 2,500 development projects.

- **Financing instruments:** Loans, grants, guarantees, and debt reduction and development agreements.
- **Criteria for evaluating applications and other information:** Local sponsors present financing applications to AFD branches, which study the project and ensure that it conforms to the AFD's sectoral and geographical strategies. Businesses and service providers are selected on the basis of a call for tenders made by the project manager in accordance with national regulations. The Agency ensures that the process is valid but does not intervene in the selection of consultants.
- **Applications for funding:** Project cycle management: [http://idele.fr/fileadmin/medias/Documents/FT6\\_AFD\\_01.pdf](http://idele.fr/fileadmin/medias/Documents/FT6_AFD_01.pdf) (French only).

Project database: <http://www.afd.fr/base-projets/listerProjets.action>

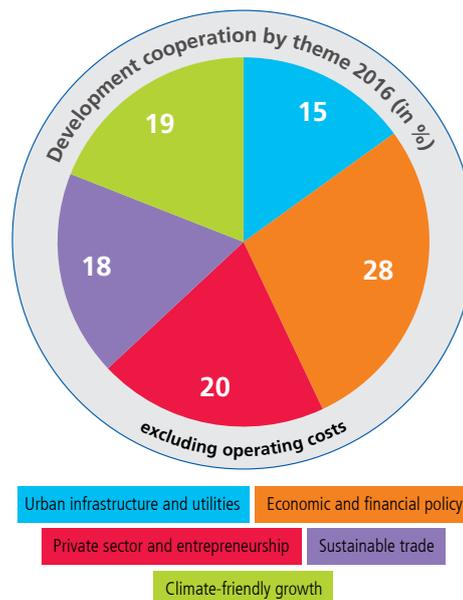
- **Contact:** <https://www.afd.fr/fr/contacter-afd>
- **Address:**  
AFD  
5 Rue Roland Barthes  
75 598 PARIS CEDEX 12  
FRANCE

## Swiss Economic Cooperation and Development Division

The Economic Cooperation and Development Division of the State Secretariat for Economic Affairs (SECO) contributes to achieving the strategic goals of Switzerland's foreign economic policy.

It engages at a bilateral and multilateral level with many different partner organizations and draws on the specialist knowledge of economic and trade policy within SECO and the Federal Department of Economic Affairs, Education and Research. It uses this knowledge in specific areas of development cooperation, e.g. to develop regional economic and labour market policy, strengthen competitiveness and engage with the WTO or OECD.

- **Main objectives:** To support the integration of partner countries into the global economy and promote their sustainable growth, thus contributing to poverty reduction.
- **Principal areas of intervention:** Urban infrastructure and public services, economic and financial policy, private sector, sustainable trade and environmentally friendly development.



- **Contact:** <https://www.seco-cooperation.admin.ch/secocoop/en/home/about-us/contact.html>

- **Address:**  
Economic Cooperation and Development  
State Secretariat for Economic Affairs (SECO)  
Holzikofenweg 36  
3003 Berne  
SWITZERLAND  
Tel: +41 (0)58 468 60 56  
E-mail: [info.cooperation@seco.admin.ch](mailto:info.cooperation@seco.admin.ch)

## United Kingdom Department for International Development

The Department for International Development (DFID) leads the UK's work to end extreme poverty. It addresses the global challenges of our time, including poverty and disease, mass migration, insecurity and conflict. Its work is building a safer, healthier, more prosperous world for people in developing countries and in the UK too.

DFID is a ministerial department supported by two agencies and public bodies.

- **Priorities**
  - › Strengthening global peace, security and governance
  - › Strengthening resilience and response to crisis
  - › Promoting global prosperity
  - › Tackling extreme poverty and helping the world's most vulnerable
  - › Delivering value for money
- **Bodies responsible for financing requests:**  
The department works with the governments of developing countries and with charitable organizations, commercial fundraisers and international organizations such as the World Bank, UN agencies and the European Commission.
- **Contact:** <http://www.dfid.gov.uk/About-DFID/Contact-us>
- **Address:**  
DFID  
London headquarters  
22 Whitehall  
London  
SW1A 2EG  
United Kingdom  
Tel: +44 (0)20 7023 0000  
Fax: +44 (0)20 7023 0012

## Swedish International Development Cooperation Agency

The Swedish International Development Cooperation Agency (SIDA) is a government agency working on behalf of the Swedish parliament and government to reduce poverty in the world. Through its work, it contributes to implementing Sweden's Policy for Global Development.

It implements Swedish development policy in order to:

- › enable people living in poverty to improve their lives;
- › cooperate on reform matters with Eastern Europe;
- › distribute humanitarian aid to people in need of assistance; and
- › carry out enhanced development cooperation with a total of 35 countries in Africa, Asia, Europe and Latin America. Cooperation countries are selected based on political decisions made by the Swedish government.

- **Principal areas of intervention:**
  - › Democracy
  - › Human rights and gender equality
  - › Economic opportunities
  - › Knowledge
  - › Sanitation and social development
  - › Development of environmental sustainability
  - › Peace and security
- **Bodies responsible for financing requests:**  
Sweden supports governments, agencies, the private sector, organizations and individuals in poor countries.
- **Financing instruments:** Finance for projects involving private initiative:
  - › Direct finance for company mergers;
  - › Guarantees, loans or finance for a client of the company, often agencies or public enterprises;
  - › Investment or loans for companies in developing countries through the risk capital organization Swedfund and the World Bank Group organization International Finance Corporation;
  - › Finance for the projects of partners collaborating on SIDA issues.
- **Contact:** <http://www.sida.se/English/Contact-us/Sida-i-Sverige/>
- **Address:**  
SIDA  
Valhallavägen 199  
105 25 Stockholm  
SWEDEN  
Tel: +46 (0)8 698 50 00  
Fax: +46 (0)8 20 88 64  
E-mail: [sida@sida.se](mailto:sida@sida.se)

## 2.3

### Role of the UPU

Given the weak position of the postal service in many developing countries, the UPU has an important role to play in promoting postal development. Furthermore, it can make a significant contribution to raising the postal sector's profile with development banks and development organizations in general. As a United Nations specialized agency, the UPU should also forge closer links with the main UN institutions.

### 2.3.1

#### *Relations between the UPU and the World Bank*

The World Bank is an important ally of the UPU and its member countries. However, when the World Bank decides to invest in the postal sector, the conditions under which it does so generally assume a certain liberalization of the market and the designated operator's services. Therefore, if it acts as a vehicle for investment the World Bank will, in a sense, shape the reform process.

The UPU can establish links with the World Bank on various levels: by developing high-level relations it will be able to ensure that the Bank actually invests in the postal sector; links forged at other levels will allow the UPU to influence the type of reform carried out.

Such relations can help to establish the importance of the postal sector in broader economic development and set the parameters for how the two organizations can work together to establish the future direction of the postal sector and any investment in it.

The UPU is already working on economic models and has presented papers that demonstrate the value of the postal sector. It is important that this work be continued in coordination with World Bank economists.

The World Bank is doing important work on urban development and is implementing various projects around the world to provide people with addresses. The UPU is also carrying out important work in this area and has considerable knowledge that it could share with the World Bank. Both organizations could draw on one another's knowledge to provide better solutions.

Postal financial services are of particular importance. The World Bank has recognized the importance of the postal sector in financial inclusion, given the density of the postal network and its ability to reach people in rural or marginalized areas where there are no financial institutions. Regular contact between the two organizations could help to highlight the role of the postal sector in development and social inclusion.

### 2.3.2

#### *The UPU's role in national postal development*

The UPU has an important part to play in national postal development. There are various aspects to this role: on a political level, the UPU can intercede with governments to promote postal reform; it can also provide technical support for the many Posts that are unable to implement reform without external assistance. For example, in Paraguay and Laos, the UPU's ongoing support, in various forms, has proved crucial to the success of the reform process. Laos requested knowledge-based assistance to enable it to demonstrate the connection between postal development and national development in the wider sense. Paraguay asked for the UPU's support at a political level to enable it to gain access to areas normally closed to postal officials.

In both cases, it is recommended that the UPU lead workshops on postal sector development as a preliminary stage in the reform process. However, depending on the outcome in each case, the relationship could continue after the workshop has ended. If the results are good, the UPU should continue to support the country in its reform process, helping it to develop the IPDP and supporting it at the various stages of that IPDP. If they are poor, the UPU should consider whether it would be better to transfer the resources involved to a country where the process would be successful.

### 2.3.3

#### *Relations between the UPU and development organizations*

The UPU maintains ties with major development organizations in order to promote postal development, especially those within the United Nations system. The UNDP has already implemented postal development projects, and the UPU can promote the importance of the postal sector in order to ensure future investment. In recent years, the UPU has signed several memoranda of understanding and forged alliances with various UN bodies, such as the United Nations Conference on Trade and Development. It has also established ties with initiatives such as Aid for Trade (a WTO-led initiative). This has helped to improve the visibility of the UPU and the postal sector as a whole.

### 2.3.4

#### *Support of the UPU and the restricted unions*

The restricted unions also play a crucial role in fundraising. The UPU and the restricted unions are continuing their efforts to make the postal sector more visible and to assist countries with fundraising. Regular activities should include seminars on fundraising and experience sharing; in addition, this guide should be updated regularly.

The restricted unions and regional project coordinators can identify financing solutions in their respective regions. However, irrespective of the type of fundraising activity involved, the International Bureau's participation is essential to ensure that regular contact is maintained with the key financing bodies.



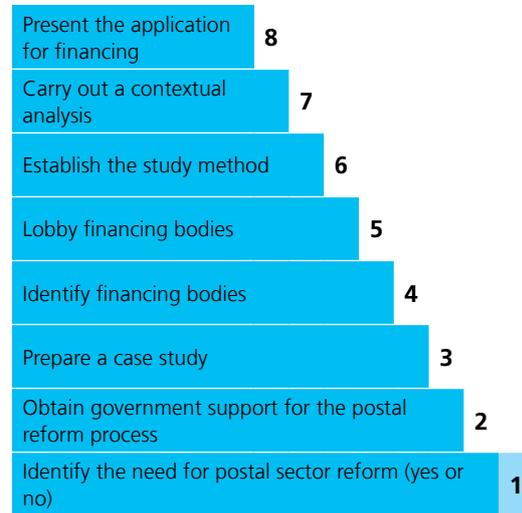
# Procedure

The following section of the guide contains concrete information on the steps to be taken, in terms of form and content, and the various sources of support available.

## 3.1

Summary of steps to be taken to obtain financing

A number of years ago, a model was developed to provide countries with guidance on the procedure to be followed to obtain financing. It set out the following steps:



The steps are still valid but do not necessarily always follow this order. In some countries, the support of the financing institutions has to be guaranteed before the government can be convinced of the need to reform the postal sector. Countries should also find out what the financing bodies' requirements are before conducting a case study. The model should be adapted to meet the particular needs of the country concerned. However, the first stage will always be to determine whether there is a need for reform, and the last will be the granting of a concessional loan or financing. If agreement is reached, stage 7 is important, because it will define what the development bank or financing body is expected to invest in the postal sector, through an in-depth analysis of the necessary investment and expected benefits.

The stages described below are intended solely as a general guide to the steps to be taken to obtain a favourable response from international financing institutions.

### Step 1: Identify the need for postal sector reform

*Does the country need postal reform?* To answer this question accurately, the following points should be analyzed:

- Current universal postal service provision (quality, coverage, features);
- Evolution of the postal market;
- Customer needs;
- Financial results;
- Quality of service;
- Status of designated operator;
- Business management evaluation.

The need to reform the postal sector can be demonstrated by the designated operator or the government, but in the case of the former, the political will for postal reform must be forthcoming. It can also stem from a legislative amendment.

### Step 2: Obtain government support for the postal reform process

Postal reform involves legal and regulatory changes which cannot be made without the government's participation. It is therefore essential to establish political will at the highest possible level to ensure the cooperation of the relevant ministry or ministries.

### Step 3: Prepare a case study

A basic document including a description of the aims and objectives of the reform should be prepared to convince authorities and financing bodies of the need for reform and to inform them of the project requirements and the impact that such a project would have in the context of the national economy. This document will be a deciding factor when initial contact is made with the bodies involved.

## Step 4: Identify financing bodies

It is important to identify the various financing bodies and to distinguish between them based on their different features.

As a rule, financing bodies fall into two categories:

- Those whose lending is primarily for reform programmes (commercial agreements), e.g. banks;
- Donors that focus their assistance mainly on studies relating to the type of reform to be undertaken (technical assistance), e.g. governments of industrialized countries, the European Union.

## Step 5: Lobby financing bodies

To present sound arguments to potential financing organizations from the outset, it is advisable to first contact:

- the UPU International Bureau;
- the relevant UPU regional project coordinator/restricted union;
- the UNDP.

It is important to be familiar with the objectives and programmes of the local offices of all international financing bodies and to compile as much information as possible prior to drafting the project document.

On the basis of that information, general guidelines should be established on the most appropriate way to approach those bodies.

## Step 6: Establish the study method

During initial conversations, the financing body will explain which method the country should aim to use. It will ask the country to take specific measures to obtain funding. The country can then devise its study method on that basis.

## Step 7: Carry out a contextual analysis

A contextual analysis is an in-depth study involving:

- a detailed diagnosis of the postal service;
- the definition of objectives and the preparation of a timetable of development actions;
- the identification of areas for which investment is required.

This study is based on the basic project document, prepared at step 3 and adapted at step 6. The financing body should, in principle, approve the project before the study is finalized.

## Step 8: Present the application for financing

- Show that the funds received will be used appropriately.
- Explain which resources will be used to repay the loan (income).
- Demonstrate that the sector is able to carry out organizational changes, review its prices and rates, and introduce or modify some of its products or services.
- Demonstrate return on investment.
- Provide a detailed cost estimate for achieving the objectives set.
- Estimate the time frame.
- Draw up a list of reference works consulted and people contacted in order to carry out the analyses presented.

The application should be prepared in close collaboration with the relevant national authorities, to show their support for the postal sector reform.

The following points should be included:

- General information on the beneficiary sector: legal framework; structure and organization, services; financial situation and human resources.
- Justification for the project, in particular the link between the project and the national development plan, the current situation, problems to be resolved and the situation expected on completion of the project.
- The project objectives, i.e. the expected results and the actions that need to be carried out.
- Responsibilities and commitments of parties involved.
- Methods of oversight and follow-up.

Also:

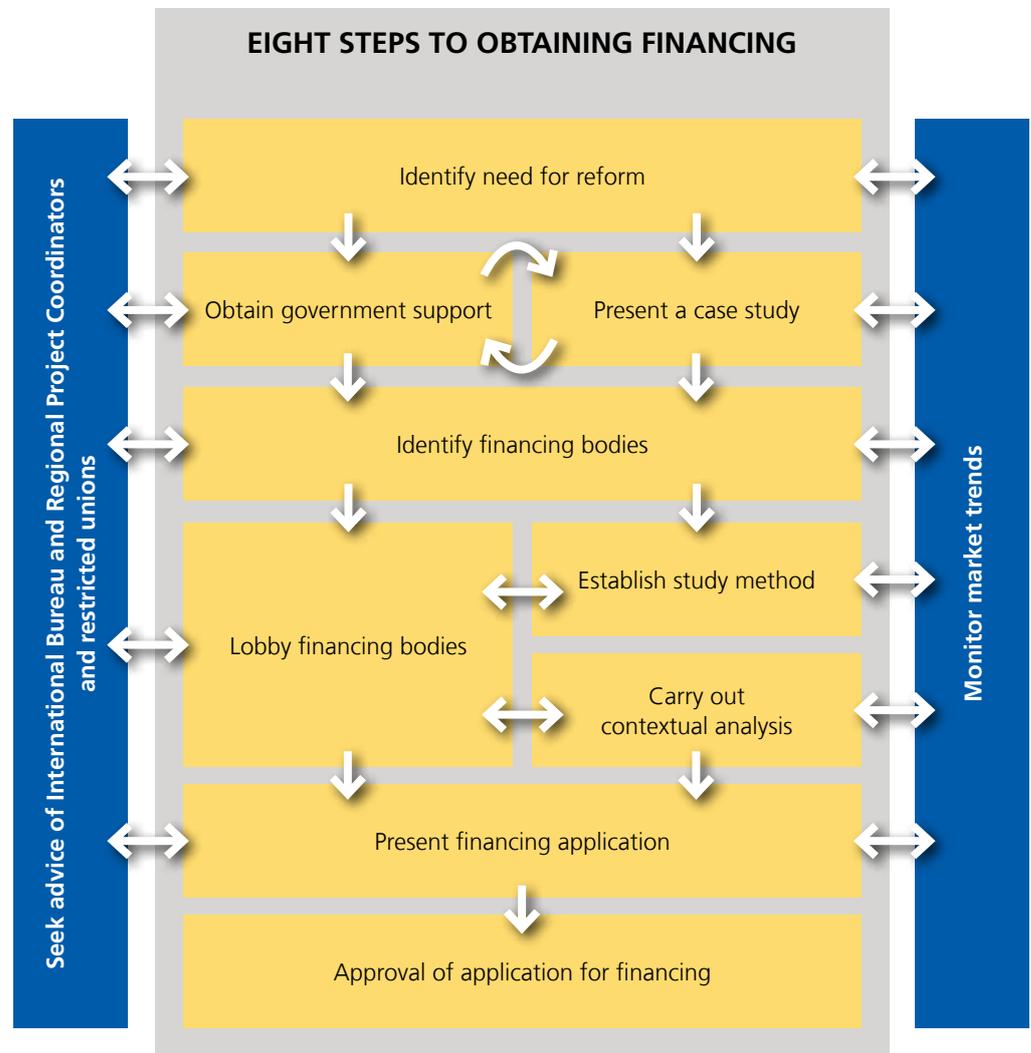
- The work plan
- The consultants' obligations.
- Planned training courses and teams.
- National contributions in cash and in kind.
- Financial contributions and their sources.

The presentation should place particular emphasis on financial results, which will be a decisive factor in the lender's decision making. The data, information and analyses should be presented in the formats used by the financial institutions to analyze the financial aspects of a project.

To sum up, the extent to which the country's senior public authorities take on board the postal reform project can be said to depend on the ability of the designated operator to point out the challenges and opportunities offered by the new climate of liberalization and competition.

The reform project will contain an analysis of the current situation, a description of the actions to be undertaken and a table showing the expected results. It should be submitted to the government, which should approve it before forwarding it to the lenders. In order to obtain the government's approval, countries will need to seek the UPU's opinion and the help of its support structures, i.e. the regional project coordinator and experts sent by the UPU. The project will also need to be validated by the International Bureau, and by the restricted unions if appropriate.

The following diagram shows the various steps to be followed in order to obtain financing:



# Preliminary study

Models of forms to be used for gathering the information needed to carry out a preliminary study are annexed.

---

**Country**

---

**Information supplied by** (name of office manager)

---

**Date**

---

# Socioeconomic data

	2014	2015	2016	2017	2018
<b>Area</b>					
<b>Population</b>					
<b>Population density</b>					
<b>Average annual population growth</b>					
› Global GDP (in billions of USD)					
› GDP per capita (in USD)					
› Change in GDP					
<b>Inflation rate</b>					
<b>Illiteracy rate</b>					
<b>Unemployment rate</b>					
› Population of the capital city					
<b>Number of</b>					
› regional capitals					
› inhabitants per region					
<b>% working population/% GDP</b>					
› Agriculture					
› Industry					
› Trade					
› Service industries					
<b>Foreign trade</b>					
› Imports					
› Exports					

# Information on development or adjustment plans

**National development plan:**  Yes  
 No

**Effective date:**

---

**Funding agencies:**

---

**Is the postal service included in this national development plan?**

---

---

---

---

---

---

**Structural adjustment programmes for government enterprises**  Yes  
 No

**Effective date:**

---

**Funding agencies:**

---

**Is the postal service included in these programmes?**

---

---

---

---

---

---

---

# Status of the postal enterprise

**Name**

---

**Current legal status** (attach a copy of its bylaws, where possible)

---

---

---

**Advantages of its current status** (outline briefly)

---

---

---

---

**Disadvantages of its current status** (outline briefly)

---

---

---

**Is there an ongoing project designed to change its current status?**  Yes

No

**If so, to change its status to what?**

---

**Status of the project**

---

# Transactions on behalf of other agencies

## Telecommunications

**Service:**

---

- Collection:

---

- Payment:

---

## Other services rendered (describe and indicate the amount of revenue)

**Service:**

---

- Collection:

---

- Payment:

---

---

**Service:**

---

- Collection:

---

- Payment:

---

---

**Service:**

---

- Collection:

---

- Payment:

---

---

**Service:**

---

- Collection:

---

- Payment:

---

# Additional information on the restructuring project

**Aside from the change in legal status, will the envisaged restructuring project affect:**

- its financial independence?

---

- service organization?

---

- its workforce?

---

- the number of post offices?

---

**Will the restructuring project require:**

- funding for its implementation?

---

- a special compensation package in case of lay-offs?

---

**Investment:**

in equipment?

in buildings?

**Previously contacted organizations (World Bank, etc.) and results of these contacts**

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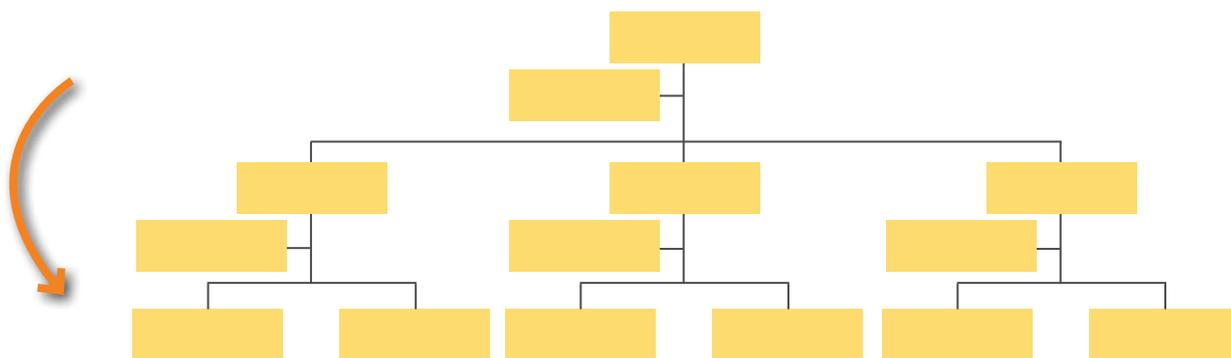
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# Postal service organization chart



Provide an organization chart of the postal service including:

- general headquarters;
- regional or departmental headquarters;
- post offices;
- related services.

# Trends in staffing levels

	2014	2015	2016	2017	2018
Number of senior managers					
Number of middle managers					
Number of line staff positions					
Number of support staff positions					
<b>TOTAL</b>					
Number of new employees					
Number of:					
› retired employees					
› deceased employees					
› resignations					
› lay-offs					
Percentage					
Number of postal workers per 100 inhabitants					

**Staff regulations** (attach all pertinent documents and indicate any negative factors)

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**Hiring procedures** (attach all pertinent documents)

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**Promotion procedures** (describe customary promotion procedures in the postal sector)

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# Trends in staffing levels

- Compensation systems**     salaries  
    bonuses



Indicate advertised salaries in the private sector for comparable positions for comparison purposes

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**Training:**

- Initial training (duration, by type of position)

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- Follow-up training (how is such training organized?)

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# Management auditing

Guidelines for management audits

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Internal auditing

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# Rate setting

Can the postal operator independently set its own rates?

Yes

No

If not, indicate the prescribed procedure for obtaining a rate increase

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	2014	2015	2016	2017	2018
<b>Letters</b>					
Domestic rate, first weight step					
• Ratio postage rate/GNP					
International rate, first weight step (including airmail surcharge)					
• Registration charge					
<b>EMS</b>					
Domestic rate					
Rate for the first weight step					
International EMS rates					
Zones:					
▷					
▷					
▷					
Post office box rental fee					
Money order fees					
• domestic (minimum)					
• international (minimum)					

# Competition

- **International courier firms and parcel services** (use a separate sheet for each firm)
  - › Firm name
  - › Legal status
  - › Number of offices nationwide
  - › Staff size – managers (including overseas managers)
  - › Number of vehicles
  - › Rates
  - › Sales volume
  - › Number of items:
    - » international (inbound items)
    - » domestic (outbound items)
  - › Market share
  - › Projected trends
  
- **Domestic courier firms** (use a separate sheet for each firm)
  - › Firm name
  - › Number of offices
  - › Staff size
  - › Number of vehicles
  - › Rates
  - › Sales volume
  - › Number of domestic items
  - › Market share

# Marketing system

## Mail

Describe the current organization and policy

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Indicate whether:

- there is a marketing department at headquarters level in charge of the framing of marketing policy

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- there are any decentralized units (at what level)

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Are there ongoing customer relations (customer files, contract rates, etc.)?

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## Financial services

Describe the current organization and policy

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Indicate whether there is a special marketing department for the promotion of financial products

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# Organization of postal service operations

## Mail

Number of mailing locations	
Collection boxes in post offices	
Kerbside collection boxes	
Pick-up service for large mailers	
Organization of mail delivery service	
Number of sorting centres	
Number of routes	
Mail transportation	
Types of transportation media	
Number of mail vehicles	
Delivery	
Delivery by mail carrier: number of carriers	
Delivery to post office boxes: <ul style="list-style-type: none"> <li>&gt; total number of post office boxes</li> <li>&gt; number of rented boxes</li> </ul>	
Autres modes de distribution	
Other delivery methods	
Total number of post offices: <ul style="list-style-type: none"> <li>&gt; main post offices</li> <li>&gt; branch post offices</li> </ul>	
Number of post offices in urban areas (areas with a population of over 5,000 inhabitants)	
Number of post offices in rural areas	
Number of areas not served by post offices	

# Trends in mail volume

	2014	2015	2016	2017	2018
<b>Domestic mail volume</b>					
Letters					
Packets					
Parcels					
<b>International mail volume</b>					
<b>Outbound</b>					
Letters					
Packets					
Parcels					
<b>Inbound</b>					
Letters					
Packets					
Parcels					
<b>EMS</b>					
<b>International</b>					
Outbound					
Inbound					
<b>Domestic</b>					
Outbound					
Inbound					
<b>Fax service</b>					
Postal revenue (in local currency)					
Value of terminal dues collected (in local currency)					
Number of complaints					

# Trends in postal financial services

1 Money orders	2014	2015	2016	2017	2018
<b>Domestic service</b>					
Number of money orders issued					
Amount					
Fees					
<b>International (and equivalent) service</b>					
<i>Money orders issued</i>					
- Number					
- Amount					
- Fees					
<i>Money orders paid</i>					
- Number					
- Amount					

2 Giro service (CCP)	2014	2015	2016	2017	2018
Number of service centres					
Number of accounts					
<i>Customer accounts</i>					
- Banks					
- Businesses					
- Individuals					
<b>Assets at 31 December</b>					
<i>Customer accounts</i>					
- Banks					
- Businesses					
- Individuals					
- Total assets					
<i>Number of transactions</i>					
- Deposits					
- Withdrawals					
Revenue					
Fees collected from account holders					
Other revenue					

# Trends in postal financial services

Are giro services computerized?

Number of counters equipped with terminals linked to postal giro centres

	2014	2015	2016	2017	2018
<b>Operating expenses for giro centres</b>					
Personnel					
Other expenses					
<b>Operating expenses for post offices</b>					
Personnel					
Other expenses					

Are these expenses itemized?

	2014	2015	2016	2017	2018
Proceeds from investment of funds deposited in giro accounts					
Institution in which these funds are deposited or types of investment					
Value of funds invested during the year					
Interest rate paid					
Value of income for the fiscal year					

	2014	2015	2016	2017	2018
Market share of giro service					

# Savings bank

Bank name

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Legal status

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- Is the savings bank an independent establishment?

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- Is the savings bank part of the postal operator?

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Are account management services computerized?

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Number of windows equipped with terminals linked to the savings centre

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3 Savings bank	2014	2015	2016	2017	2018
Number of accounts at 31 December					
Total deposits at 31 December (or for the last accounting period) <sup>1</sup> before compounding					
Total compounded interest due to account holders for the year (or the last accounting period)					
Total new accounts for the year (or for the last accounting period)					
Total deposits (not including new accounts)					
Total number of repayments, including full repayments					

<sup>1</sup> Specify the accounting period

# Savings bank

	2014	2015	2016	2017	2018
Total value of repayments, including full repayments					
Savings bank operating costs (excluding payments of interest)					
Savings bank internal administrative costs:					
› Personnel					
› Other expenses					
Postal service administrative costs allocable to the savings bank:					
› Personnel					
› Other expenses					
Does the savings bank pay the postal operator for its services?					
Proceeds from investment of savings bank capital					
Value of capital investments for the year (or fiscal year)					
Interest rate paid on these investments					
Value of returns on capital investments for the fiscal year					
Other savings bank revenue					
Fees collected from depositors					
Miscellaneous revenue					
Nominal interest rate promised to account holders (indicate the advertised interest rate in percentage terms, describing the loyalty bonus system, if any)					
Market share of the savings bank					

# Financial position of the postal service

	2014	2015	2016	2017	2018
<b>Income</b>					
<i>Operating income</i>					
› Postage					
› Licences					
› Terminal dues					
› Money order fees					
› Other products					
<i>Financial income</i>					
› Savings bank revenue					
› Giro service revenue					
› Other financial income					
› Other income					
<b>TOTAL</b>					
<b>Expenditure</b>					
<i>Operating expenses</i>					
› Procurements of goods and services					
› Transportation costs					
› Telecommunications costs					
› Staffing costs					
<b>Taxes and fees</b>					
<b>Depreciation allowance and reserves</b>					
<i>Financial expenses</i>					
› Loan interest					
› Interest paid to savings bank depositors					
› Other costs					
<b>TOTAL</b>					
<b>Balance</b>					
<b>TOTAL</b>					

# Funds flow

	2014	2015	2016	2017	2018
<b>Application of funds</b>					
Investment					
Loan payments					
Changes in working capital					
Other					
<b>TOTAL</b>					
<b>Resources</b>					
Operating income					
Depreciation allowance and reserves					
Cash flow					
Other resources					
Long-term debt					
<b>TOTAL</b>					

# Balance sheet

	2014	2015	2016	2017	2018
<b>Assets</b>					
Intangible fixed assets					
Plant and equipment					
Fixed investments					
<b>Total fixed assets (net)</b>					
Inventories					
Financial claims					
Securities and trust funds					
Liquid assets					
Prepaid expenses					
Income adjustment accounts					
<b>Liabilities</b>					
<b>Capital and reserves:</b>					
› capital endowment					
› reserves					
› balance carried forward					
› annual balance					
› capital subsidies					
<b>Total capital and reserves</b>					
Reserves					
<b>Debts:</b>					
› financial debts (loans)					
› operating debts (suppliers)					
› other debts					
<b>Total debts</b>					
Cash in banks					
Deferred income					
<b>TOTAL</b>					

**Debt**

Specify the type and value of short- and long-term debts

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**Financial claims**

Specify the type and amount of claims

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