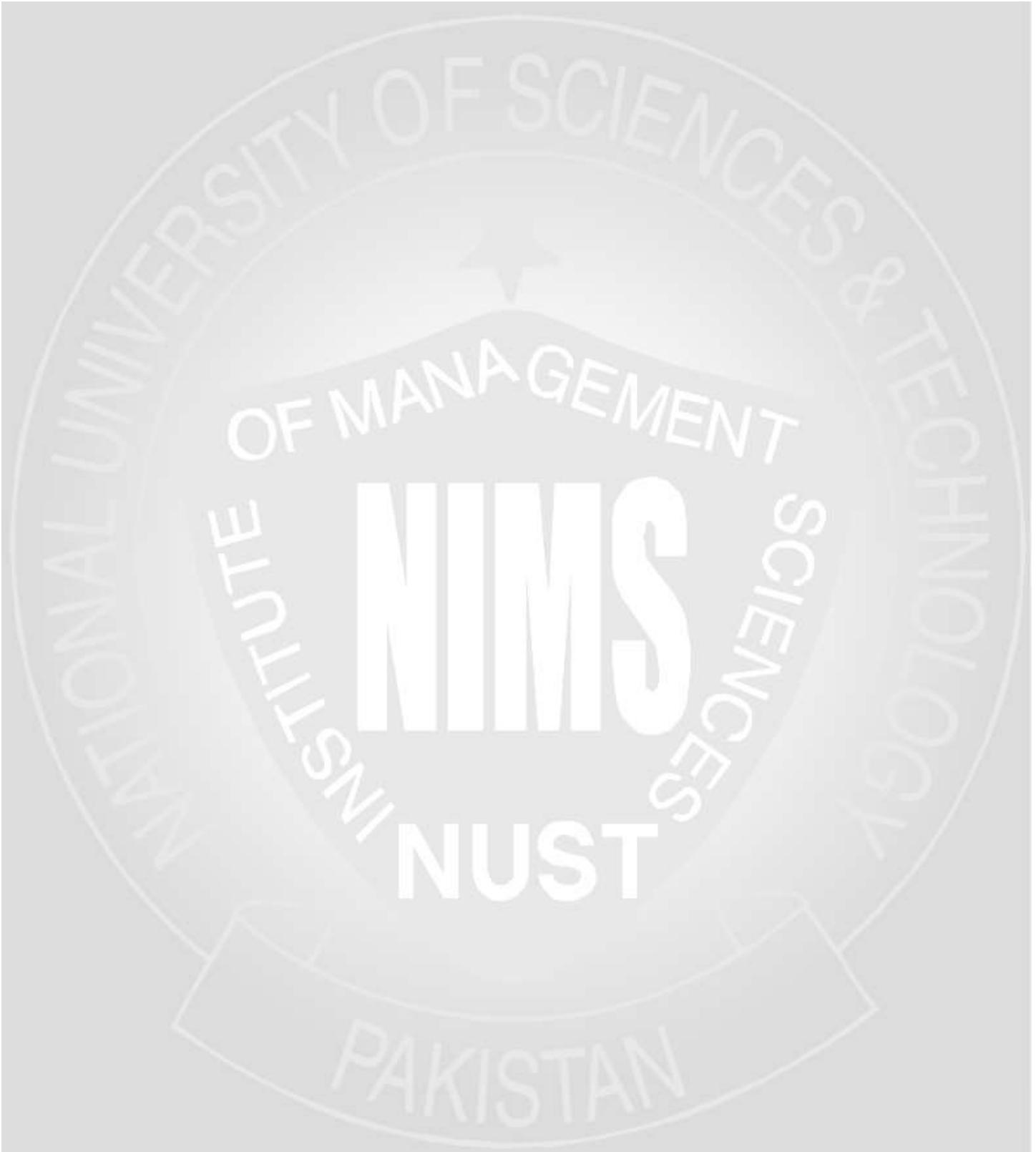


Submitted To:
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Kalyar



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“One of the things the government can't do
is run anything. The only things our
government runs are the post office and the
railroads, and both of them are bankrupt.”

Lee Iacocca (former chairman of Chrysler Corporation)



A World Class Service for 21st
Century



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Abbreviations Used

GPO = General Post Office

HO = Head Post Office

SO (HSG) = Sub Office Higher Selection Grade

SO (LSG) = Sub Office Lower Selection Grade

TSO = Time Scale Sub Office

NPO = Night Post Office

EDSO = Extra Departmental Sub Office

EDBO = Extra Departmental Branch Office

APO = Agency Post Office

FPO = Franchise Post Office



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Executive Summary

For an overwhelming majority of countries. The postal service is the most basic and most common means of communication. Pakistan is no exception to it. In a world where reliable and speedy communication is essential to the success of rapidly globalizing trade, industry and services, the development of this sector is vital. In many developing countries, the postal service operates with huge inefficiencies and offers a poor quality of services to the public – services that, in addition, have not responded to the needs of the changing market. Consequently, the post has become a significant financial burden on the government

In spite of this, the key role of this sector and its significance for economic progress and social development were not acknowledged by governments in the past. As a result, while significant progress in terms of reform has been made in other public service sectors, the postal service is one of the last bastions of the old order of the British colonial past. There is growing competition from the private courier industry and the electronic communications industry.

A reform program should be initiated properly if the country is faced with poor quality postal service or if the postal service is unable to generate or raise sufficient funds for its development, or , again, if the sustainability of a low cost universal service is being threatened by growing competition (owing to volume erosion). Governments should take charge of the reform program. Since a comprehensive program includes legal, regulatory and institutional reform components, the management of change has to come from the government, not from the post office.

The reform could be implemented full at once, or a phased approach could be used. In either case it is important to implement a full reform program to achieve the maximum benefits.



Chapter 1: Literature Review



Literature Review

Post Office

A facility operated by the Pakistan Postal Service for the collection, processing and distribution of letters, packages and other mail, and for related postal services. A post office does not include commercial packaging and mailing services.

Reform

To improve by alteration, correction of error, or removal of defects; put into a better form or condition.

Enterprise

The entire organization, including all of its subsidiaries. It implies a large corporation or government agency, but it may also refer to a company of any size with many systems and users to manage. It depends on context. A corner candy store is "someone's enterprise." The terms "enterprise," "company," "corporation" and "organization" are used synonymously.

Privatization

Privatization (sometimes: denationalization, privatization or - especially in India - disinvestment) is the economic process of transferring property, from public ownership to private ownership. An opposite process is nationalization. In theory, privatization helps establish a "free market", as well as fostering capitalist competition, which its supporters hope will give the public better choices.

Regulatory Policy

Regulation or regulatory policy can be viewed as any government intervention in the economy, particularly to limit or control behaviour. Regulations, which are made under the authority of an act, are simply one way of implementing regulatory policy.

**Accountable Mail**

Mail that requires the signature of the addressee or addressee's agent upon receipt to provide proof of delivery or indemnification for loss or damage. This includes Express Mail.

Activity

A named process, function, or task that occurs over time and has recognizable results. Activities use up assigned resources to produce postal products and services.

Activity-Based Management

A system of management that seeks to optimize the value added activities performed by the Post Office enterprise while at the same time minimizing or eliminating the non-value added activities, resulting in overall improvements in the effectiveness and the efficiency of the Postal Service in serving its customers.

Address

The location to which the Post Office is to deliver or return a mail piece. It consists of certain elements such as recipient name, street name and house number, and city, province, and ZIP Code as required by the mail class.

Addressee

The person or organization to which a mail piece is addressed as shown in the delivery address.

Area

One of ten administrative field units that are divided into customer service support, operations support, finance, human resources, and sales. Each area is responsible for airport mail centers/facilities, bulk mail centers/facilities, customer service districts, mail transportation equipment centers, post offices, processing and distribution centers/facilities, remote encoding centers, and vehicle maintenance facilities.

**Associate Post Office (AO)**

A post office that reported to a larger post office or that was within the service area of a sectional center facility (SCF). It usually received and dispatched all mail classes from and to the SCF. (Also called associate office.)

Aux

The abbreviation for the term auxiliary assistance, which is provided to a letter carrier, most often, because of unusually heavy mail volume. The term also applies to the carrier who provides the assistance.

Backstamp

To mark the back of a mail piece with a postmarking or canceling device to show that the piece was received, dispatched, or missing.

Backtrack

To deliver mail to a point that the letter carrier has mistakenly bypassed.

Basket

A canvas container used for hauling and distributing all mail classes.

Benchmarking

A method of measuring Post Office processes against those of recognized leaders. It helps establish priorities and targets leading to process improvement. It is undertaken by identifying processes to benchmark and their key characteristics; determining whom to benchmark; collecting and analyzing data from direct contact, surveys, interviews, technical journals, and advertisements; determining the “best of class” from each benchmark item identified; and evaluating the postal process in terms of the benchmarks set and the improvement goals.

**Best Practice**

A method of accomplishing a postal business function or process that is considered to be superior to all other known methods.

Black Bag

A reusable overnight pouch for transmitting postal documents, reports, and work papers.

Bulk Mail

Mail that is rated for postage partly by weight and partly by the number of pieces in the mailing. The term is generally used to refer to Standard Mail.

Bulk Rate

The postage rate for mail pieces that are part of a large-volume mailing and that meet minimum volume and preparation requirements. The term is most often applied to Standard Mail (A) mailings, which usually consist of a per piece rate plus a per pound rate.

Bundle

Two or more packages secured together into a single piece or unit.

Bypass Mail

Metered mail, permit imprint mail, and official mail arriving at a post office that does not require preparation before outgoing distribution. Also, mail improperly entered into the mainstream without verification of postage or preparation.

Cancel

To render a postage stamp (except a precanceled stamp) unusable, usually at the point of original entry into the mailstream. This is done by using a facer-canceler or a handstamp (for bulkie, fragile, or odd-shaped mail).

**Cooperative mailing**

A mailing made jointly by one or more organizations authorized to mail at Nonprofit Standard Mail rates at the same post office.

Delivery

The act of taking mail from the post office to the customer. The mail itself taken to the customer's business or residential delivery address or picked up at a post office — whether post office box, window, or dock.

Manual Distribution

The sortation of mail into cases by hand as opposed to mechanized means (such as a letter sorting machine) or automated means (such as a multiline optical character reader).

Sort

To separate mail by a scheme or ZIP Code range; to separate and place mail into a carrier case; to distribute mail by piece, package, bundle, sack, or pouch.

Verify

To check either the proper destination of mail by piece-by-piece examination or the rates claimed on a postage statement with the actual mailing it accompanies.

Zone

A number that expresses the distance that a zone rate mail piece must travel from point of entry to point of delivery. It is based on the air mileage along a great circle line between three-digit ZIP Code prefix areas of dispatch and receipt. This mileage range is converted to a zone number.

Way Pouch

A pouch containing mail for post offices along a certain route. It is opened at each office to remove local mail and add mail from that office to other destinations on the route.



Chapter 2: Research Methodology



2.1 Research (Definition)

“A systematic investigation, including research development, testing and evaluation, designed to develop or contribute to general knowledge. Activities that meet this definition constitute research for purposes of this policy, whether or not they are conducted or supported under a program, which is, considered research for other purposes. For example, some demonstrations and service programs may include research activities. “

The word “research” derives from the Middle French and the literal meaning is “to investigate thoroughly”.

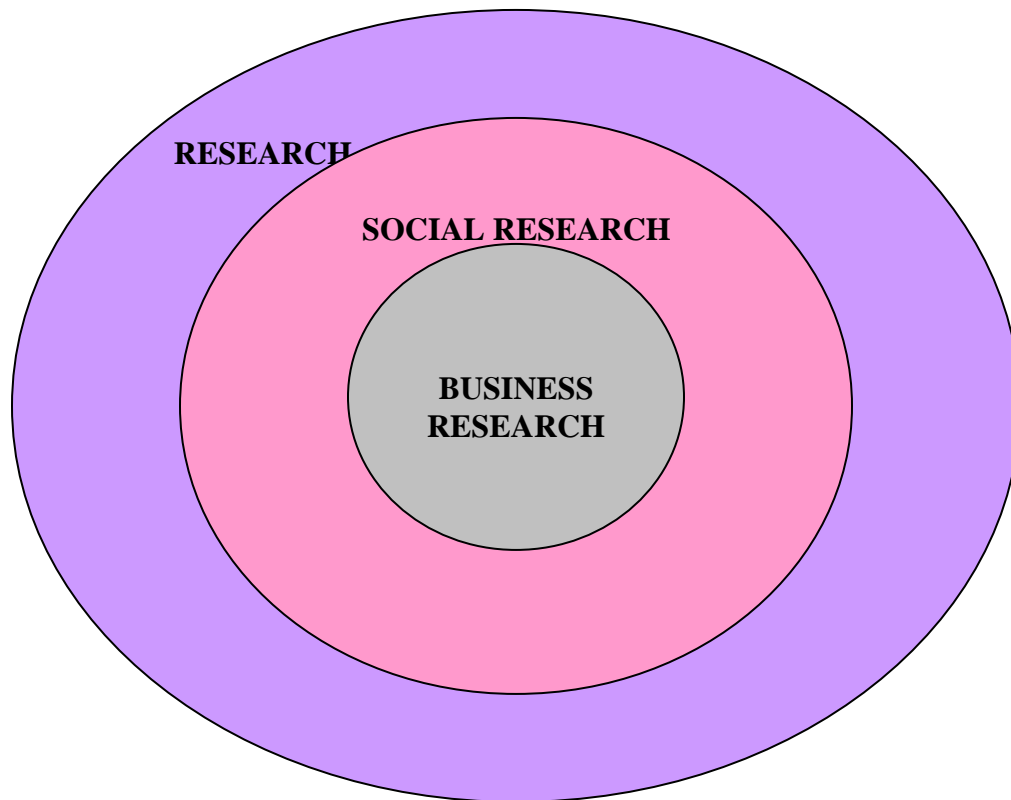
Generally, research is understood to follow a certain structural process. Though step order may vary depending on the subject matter and researcher, the following steps are usually part of most formal research:

- Formation of the topic
- hypothesis
- conceptual definitions
- operational definitions
- Gathering of data
- Analysis of data
- Conclusion, revising of hypothesis



2.2 Research, social research and business research; what holds them together?

To answer this question let us first look at the following diagram which symbolizes the link between the three.



As can be seen in the diagram, research is the super set of social research and business research and social research carries in it the head of business research. All three areas are not mutually exclusive. Rather they have areas of overlap. Let us now try to establish the inherent links between the three.

The link between research and the other two is quite obvious. Social research and business research are the offshoots of research. They follow the basic principles of research and are in essence its application in specific circumstances and on special topics. Take the analogy of the word meter. As the name implies it can be used to measure anything but when the terms “thermo” and “baro” are added to it, it becomes a specific



application of a general tool. Same is the case with the three areas. Research is the general tool and social and business research is the specific applications used for specific and different purposes. However, even these two are not entirely distinct

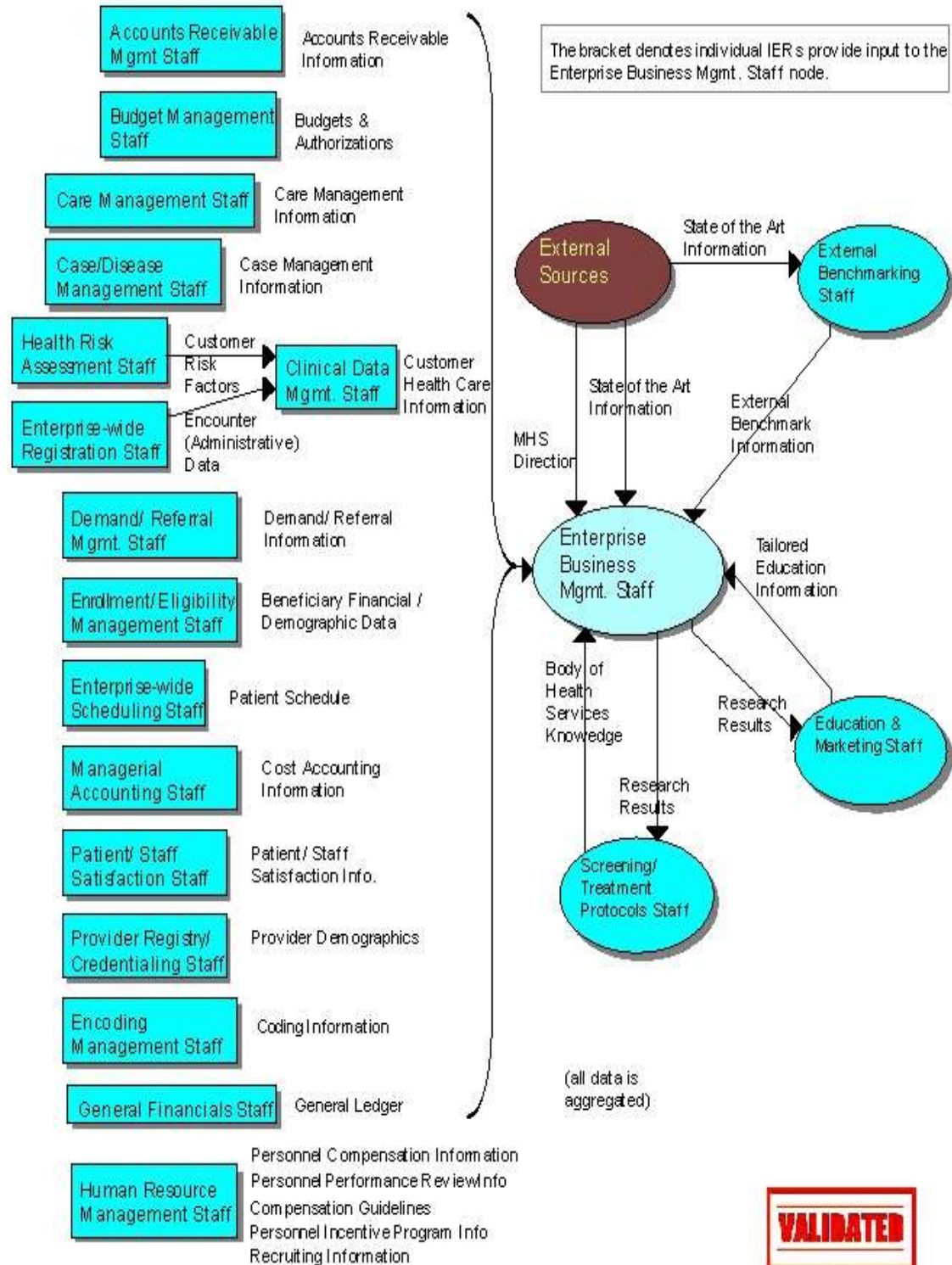
Consider the following definition of a business organization:

“A business organization is commercial or industrial enterprise, and the people who constitute it, that operates in a society to make profits and is socially responsible to its customers and stakeholders.”

Thus the link between social and business research exists because of the inherent link between the society and businesses. Businesses operate in the society, influence it and are in turn influenced by it. Owing to the fact that business entities can not exist in isolation from the society they operate in, business research also cannot remain aloof from social research. It would in fact not be wrong to say that business research is part of social research. Consider the example of a business research that aims to study the motivation level of its employees and its impact on performance. If studied closely this is in direct relation with the area of sociology in terms of human psychology, thus the link. Also specially in the field of marketing research which is in essence a part business research, a lot of social issues are considered and it is inclined towards the behavioral study of its subjects. Thus the influence of the society on business and that of social research on business research is evident. In this regard the findings of social research can be used to gather inferences about business phenomena and provide useful insight into the reasons of them taking place.



OV-2 4.6.4 Conduct Business Research



6 DEC 01



Apart from the fact that businesses operate in societies, the presence of people in organizations further creates the link. Humans are endowed with the capacity for thought which is shaped by social interaction. In social interaction people learn meanings and symbols that allow them to exercise their distinctively human capacity for thought. Meanings and symbols allow people to carry on distinctively human action and interaction. The intertwined patterns of action and interaction make up groups and societies. So even inside the business organization, a small scale society exists and this is the reason for the link between the business research and social research.

Thus in summary the link between the two exists because of two major reasons:

- Businesses operate in societies and the two are not inseparable
- Even inside business organizations the presence of people and their interactions link it to the field of sociology and hence any research carried on employees would also include aspects of social research.

There is no doubt in the assumption that business research and social research are interlinked. In my own humble opinion they are the two different angles of the same picture. Social and business research is like two brothers who have the same parents but differ from each other in certain ways.

The first and the most important link between social and business research that I will like to discuss can be summarized in one word and that is “Society”. Society is the most vivid, permanent and simple link between the two.

Social research is about society and the people living in a society. On the other hand business research relates to business issues. But since business cannot exist without a society, without the people living in a society and interacting and essentially every business is about people, then it becomes inevitable for a business researcher not to take into account the social research. When a research is being conducted about a business, then it will necessarily encompass some of the people related directly or indirectly with that business, and so in this manner social research will come into the scene. Similarly



while conducting a social research, the role played by business in the lives of people cannot be ignored and thus here business research comes in the way of social research. Thus in the end it could be safely said that both the business research as well as the social research often overlap each other and though they are two distinct types of research, they are definitely interlinked.

2.3 Objectives of Research

Research in this study focuses on the following objectives:

2.3.1 Objective 1:

To improve postal services for business and domestic customers through greater choice, better quality, and falling real prices.

2.3.2 Objective 2:

To maintain a universal service of the postal delivery throughout Pakistan, and a uniform tariff.

2.3.3 Objective 3:

To establish clear and accountable relationships between the government, the Post Office, the Regulator and the General Public.

2.3.4 Objective 4:

To equip the Pakistan Post Office to meet the challenges of the changing postal market both domestically and internationally.

2.3.5 Objective 5:

To support a viable network of post offices so as to ensure nationwide access to a range of public and private services.



Chapter 3: Introduction to the Topic



3.1 Issues to be Discussed

For an overwhelming majority of countries. The postal service is the most basic and most common means of communication. In these countries the postal service is, in some areas, the only link serving the entire populace; it also serves as the most important medium of communication for business and commerce. Pakistan is no exception to it. In a world where reliable and speedy communication is essential to the success of rapidly globalizing trade, industry and services, the development of this sector is vital. The sheer size and impact of the sector are also significant in terms of the employment that the sector supports. In spite of this, the key role of this sector and its significance for economic progress and social development were not acknowledged by governments in the past. As a result, while significant progress in terms of reform has been made in other public service sectors, the postal service is one of the last bastions of the old order of the British colonial past.

In many developing countries, the postal service operates with huge inefficiencies and offers a poor quality of services to the public – services that, in addition, have not responded to the needs of the changing market. Consequently, the post has become a significant financial burden on the government. Until recently, postal services could operate with cost and service inefficiencies because they faced virtually no challengers. As state-owned companies they had no fear of going bankrupt. Many had tidy non-mail income earners such as postal saving banks or a contract to distribute government benefits also called agency functions. As for the mail segment – the core product – monopolies on collection, transport and delivery kept rivals out; in addition, there were few alternative means of communication. The telephone service, which was the main competitor, was also run by the post office. All these factors which protected the postal service provided no incentives to improve performance.

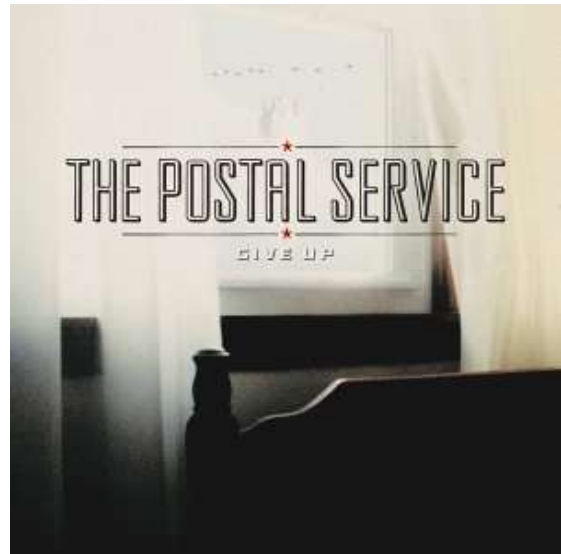
However, the situation is changing significantly and rapidly. Governments are no longer prepared to continue covering the losses of the postal sector as public revenues are becoming scarcer. Indeed, many countries are dismantling the integrated PTT (Post, Telephone, and the Telegraph) structure, and thus the post office is more exposed



financially without the support of telecommunications and postal banks. There is growing competition from the private courier industry and the electronic communications industry. Even with continued monopoly protection in some areas of business, postal volumes face a significant threat of erosion if the postal service remains intransigent regarding change. Unless national postal services adapt to the changes in government priorities, in customer needs, and in the communication industry, they face a bleak future. If they reform early, however, postal services could benefit significantly from the explosive growth in overall communications worldwide. Some postal services, at least, have taken heed.

3.2 New Directions

In recognition of the magnitude of changes urgently needed in the postal sector, the Government should give greater priority to immediate comprehensive reform. It is clear from the worldwide review of reforms that the following four broad principles should be adopted for the postal sector:



3.2.1 Principle 1: A reform program should be initiated properly if the country is faced with poor quality postal service or if the postal service is unable to generate or raise sufficient funds for its development, or, again, if the sustainability of a low cost universal service is being threatened by growing competition (owing to volume erosion).

3.2.2 Principle 2: A comprehensive reform program should be undertaken. Many countries have implemented independent programs in several functions of the post office or have undertaken partial reforms. Although these efforts lead to some improvement in those particular functions, a very little global benefit in the overall postal service is realized. This is one of the primary reasons why several countries have spent a significant



amount of resources on improving the postal service and yet have failed to improve the service at the customer end.

3.2.3 Principle 3: Traditional beliefs should not be allowed to limit the nature and scope of the reform effort. This is particularly true in dealing with sensitive aspects such as universal service, monopoly. Competition, market definition, social obligations, and private sector participation. The communications industry, the market preferences, and the supply economics have all changed dramatically since Rowland Hill's postal reform in 1840. It is time for the postal sector to respond to these changes.

3.2.4 Principle 4: Governments should take charge of the reform program. Since a comprehensive program includes legal, regulatory and institutional reform components, the management of change has to come from the government, not from the post office.

The way to move forward is to rethink the basic design of the postal sector and to prepare and implement a comprehensive reform program quickly by addressing the old issues, monopoly, competition, universal service, tariffs, regulations, commercialization, institutional arrangement, private sector participation and technological integration. The specific reform design largely depends on the objectives for the sector as a whole. However, in general terms, like in any other developing country, significant benefits could be achieved in Pakistan only by fostering some level of competition in the sector through relaxing the scope of the monopoly given to the national postal service operator. Competition is the best force for introducing rapid commercial orientation and business realignment. However, since in most developing countries the national operator can easily be won over by the private sector, a level playing field should be created for competition before any changes are made to the competitive regime. Creating a level playing field includes not only providing appropriate amendments to the existing legislation and regulatory framework, but also upgrading the business capability of the national operator so that the incumbent can compete equally with competitors. The most prudent and most rapid way of upgrading the management capability of the postal organization in low income and middle income countries is to bring in the private sector



for the management and possibly the financing, of the postal service. Such an institutional approach, which could be in the form of a management contract, a leasing contract or a joint venture, provides immediate access to proven modern management techniques, business marketing approaches, project management capability, and technological know-how that otherwise would take the postal organization a very long time to develop by self.

The reform could be implemented full at once, or a phased approach could be used. In either case it is important to implement a full reform program to achieve the maximum benefits.



Chapter 4: History of Pakistan Post Office



4.1 History of Post

4.1.1 History in Antiquity

- ✓ Use of clay or soap stone tablets for messages existed in Babylon about 3800 B.C.
- ✓ Discovery at Cappadosia (Asia Minor) consists of small tablets of baked clay inserted in clay envelopes bearing address on the outside and the seal of the senders, sent both by kings and private individuals.
- ✓ Addresses ended with a polite note “that Gods would bless the receiver”.
- ✓ Runners or slaves were used to carry such letters in the time of Pharaohs.
- ✓ Tomb of Ammen-Hatep-II bears the picture of a “letter carrier” about 1500 B.C.
- ✓ Running references in the Bible e.g. “And he wrote in the King Asaheuras name and sealed it with the king’s ring and sent letters by post on horse back”.
- ✓ “One post shall run to meet another to show king of Babylon that his city is taken at one end”
- ✓ “So the posts went with letters from the king and his princes throughout all Israel and Judah according to the commandment of the king”—Book of Esther.
- ✓ King Cyprus the Great of Persia established “Postal Runners” system of the Persian Monarch carrying address and instructions.
- ✓ The writing of letters on earthen bricks, stones, simple and waxed tree leaves and woods are some of the evolutionary stages adopted to patronize the exchange of messages in ancient days.
- ✓ The Greek states were linked with one another through a courier system.
- ✓ The Romans also had a highly organized postal system.
- ✓ The transmission of messages used to be done by carrier pigeons by the Romans.
- ✓ According to Marco Polo China had as many as 10,000 postal posts facilitated with smart work force and strong horses.
- ✓ Every intersection post had a supervisor who used to exchange the vouchers/receipts from every incoming and outgoing messenger carrying mailbags.
- ✓ Every messenger used to play whistle well ahead of reaching the post, enabling the post in charge to keep the fresh horses ready assuring the journey to continue without break.



4.1.2 Indo-Pak Sub-Continent

- ✓ Postal system existed in rudimentary form at the time of Chandra-Gupta, the founder of the Mauryan Dynasty (322 B.C).
- ✓ Kutilya mentions a variety of both settled and wandering spies who maintained links of communication and carried reports for the guidance of Hindu rulers and princes.
- ✓ Dak Chalkies (postal service) were available in India during the reign of Allaudin Khilji (1296 A.D.)
- ✓ Horse-and-foot postal administration was maintained to receive regular news of his army in the field.
- ✓ During the reign of Muhammad Bin Tughlaq (1340's) ordinary journey from Sind to Delhi took 50 days but official communications took only 5 days by postal service.
- ✓ The horse couriers used to be available at a distance of every 4 miles.
- ✓ Foot couriers used to be available in tents in every inhabited village, one waiting to receive to forward to another.
- ✓ Rubbers had rods in their hands about two cubits long with small bells on the head.
- ✓ Sikander Lodhi (1488 to 1518 A.D) established small posts and sent out messages to his armies.
- ✓ Emperor Babar developed horse courier system from Agra to Kabul.
- ✓ Emperor Sher Shah Suri (1541 to 1545 A.D.) extended it further and constructed 1700 "Sarais" along the road from Bengal to Sind for the postal services, keeping two horses ready at every 2 miles, in each "Sarai".
- ✓ There was a post of "Darogha-i-Dak Chouki" as In charge.
- ✓ Emperor Akbar (1566-1605) built Post houses at every 10 miles deploying swift Turkish horses.
- ✓ Camels were introduced over desert routes.
- ✓ East India Company (1639 to 1688) used "Harcaras" between its trading places.



- ✓ East India Company established first regular Post Office at Bomaby in 1688 and later at Madras.
- ✓ Improved communication problem by using its own runners with runners already in position under the local rulers.
- ✓ In 1774, Warren Hasting allowed carriage of private person's mails through the company channels on payment of fee.
- ✓ The postage was used to be paid through small "copper tickets" valued at 2 annas each payable only at the Post Office.
- ✓ In 1774 single letters were charged 2 annas for every 100 miles in Bengal areas.
- ✓ Letters on "Public Service" were exempted from payment under the rules framed for Bengal and Madras areas.
- ✓ Letters coming by sea from England or elsewhere were subjected to a charge on delivery.
- ✓ In 1776 Lord Clive regularized the service for official purposes like the post maintained by the princes.
- ✓ The salary of the Postmaster General was fixed at Rs. 1,000 per month in 1781 in addition to commission on postal revenue.
- ✓ In July 1778 "Sip Postage Rates" were prescribed on all letters of every denomination whether imported or exported.
- ✓ The salary of Postmaster General was Rs. 40,000 per annum during 1809.
- ✓ Establishment of "Derroks" (postal services) and a General Post Office (GPO) in 1774 and a Postmaster General (PMG) at Calcutta with the bye rules from the foundation of the large base that we now have.
- ✓ The collectors of taxes excise and customs acted as Ex-officio Deputy Postmaster.
- ✓ The Post Office Department was then placed under the Board of Revenue.
- ✓ The "Post Office Committee" was setup in early 1820 at Cownpore (kanpur) to look into the system of postal services and suggest reorganization of the department.
- ✓ Whether the packets weighed a grain or an ounce, or whether it was directed to Allahabad or Benaras or Delh, the charge for conveying was fixed the same by the Committee one anna payable on delivery by the person receiving it.



- ✓ The Act of 1837 imposed restriction on private Dak.
- ✓ Director General of the post office first appointed in 1854.
- ✓ At that time there were 201 headquartering offices and 451 minor offices in the Indo-Pak Sub-continent.
- ✓ In 1861, a Compiler of Post Office Accounts was appointed. The country was divided into different Postal circles, each headed by a Postmaster General.
- ✓ The number of Imperial Post Offices rose from 700 in 1854-55 to 2707 in 1871-72.
- ✓ Scinde District Dak Stamps were introduced by Sir Bartle Frere, the then Commissioner of Sind in 1852.
- ✓ Postage stamps were introduced on a regular basis by the Act of 1854 and postage rates were fixed for letters irrespective of distance.
- ✓ In 1869, Indian Postal Guide was first published.
- ✓ The Post Card was introduced in 1879.
- ✓ In 1883 inland and international reply post cards were introduced.
- ✓ Money Order Service was started in 1880.
- ✓ In the year 1882, Savings Bank work was undertaken by the Post Office.
- ✓ The Post Office Department established an insurance fund in 1884 to provide its employees with a cheap and secure means of assuring their lives.
- ✓ The benefits of the Postal Life Insurance were gradually extended to employees of other government departments and then all persons having a regular means of income.

4.2 Pakistan Post Office

Pakistan Post Office is one of the oldest government departments in the Sub-Continent. After independence from the Great Britain it began functioning as the Department of Post & Telegraph.





In 1962 it was separated from the Telegraph & Telephone and was launched as an independent attached department of the Ministry of Communications. Beginning with 3036 post offices in 1947, it has expanded its network to 13419.

It is one of the largest employers in Pakistan having more than 49,502 employees. Apart from the traditional postal services, it boasts a wide range of banking, life insurance and a number of other public services.

The history of Pakistan Post spans across more than fifty years. Starting from scratch after partition, it has risen to one of the most efficient postal administrations in South Asia through the sheer hard work of its rank and file.

Pakistan Post Office provides an extensive range of products and services to cater for both the personal and business needs of various segments of Society. These traditional services constitute the core business of Pakistan Post.

Pakistan Post Office consists of a network of 13,419 post offices, 76 General Post Offices (GPOs), 48 District Mail Offices (DMOs) and 3 Offices of Exchange, along with central management facilities in Islamabad and Lahore. Our purpose is to provide every household and business across Pakistan with the ability to communicate and conduct business with each other and the world efficiently and economically.

4.2.1 Milestones

- 1947 Office of the Postmaster General Lahore starts functioning on Aug. 15.
- 1947 British Indian postage stamps overprint "Pakistan" on October 1.
- 1947 Pakistan joins the *SWAPPU on 10th November.
- 1948 A set of first ever Pakistan postage stamps is issued on 9th July.
- 1950 Sind and Baluchistan circles are established.
- 1952 Premier participation in the UPU congress and election to executive and Liaison Committee.
- 1957 Pakistan is reelected to the Executive Council and elected to newly created *CCPS during 14th



- Congress of the U.P.U.
- 1959 Introduction of all-up scheme for all first class mail.
- 1961 *P&T Model School is set up at Lahore.
- 1962 Pakistan Post is separated from the Telephone & Telegraphs and launched as a separate department.
- 1964 Pakistan is re-elected to the CCPS during 15th congress of the UPU at Vienna.
- 1968 A new postal circle is set up in NWFP.
- 1968 A new position of General Manager Postal Life Insurance is created.
- 1969 Pakistan is reelected to both the Executive Council & the Consultative Council for Postal Studies during 16th congress of the U.P.U.
- 1974 Pakistan chairs UPU- IATA Contact Committee and is also re-elected to the CCPS during 17th congress of the U.P.U.
- 1975 Northern Punjab Circle is established with headquarters at Rawalpindi.
- 1976 First RCD International Philatelic exhibition at Karachi.
- 1977 Pakistan joins A.P.P.U.
- 1977 Pakistan joins as founder member of SWAPPU.
- 1979 Postal Directorate General moves from Karachi to Islamabad in its new premises.
- 1979 Pakistan participates in 18th congress and re-elected to the CCPS for the fifth time.
- 1979 Baluchistan Postal Circle starts functioning.
- 1981 Pakistan Post Office Foundation is set up.
- 1984 Pakistan presents 18 proposals for amendment of the UPU Act and also serves a Vice Chairman of a Congress Committee on Letter Post during 19th Congress.
- 1986 International Speed Post is launched for 22 countries.
- 1986 Airexpress Service is introduced.
- 1987 Postal Staff College is inaugurated at Islamabad.
- 1988 A five digit post code is introduced.
- 1989 Pakistan attends 20th Congress in Washington D.C and is nominated as coordinator of the



- general debate besides re-election to the Executive Council and the CCPS.
- 1991 Monthly Post News and bi-annual Pak Post are published.
- 1991 Sub-contracting of Express Mail at Karachi.
- 1992 Post Office is offered on franchised basis to the private sector.
- 1992 Revamping of national mail transportation system and setting up of District Mail Offices.
- 1992 Conversion of the Post Office Department into Public Corporation.
- 1992 Issuance of stamps on Commercial basis.
- 1994 Participates in the twenty-first U.P.U. Congress at Seoul and is elected as Chairman of the Strategic Planning Working Party and is also reelected to the Postal Operations Council.
- 1994 Incentive Scheme is introduced to boost up revenue collection.
- 1994 *PPSC enters into real estate business as it starts construction of first Post Plaza.
- 1996 Utility Bills Delivery Centers are set up in 4 major cities.
- 1996 Pakistan Post Office is reconverted into an attached department of the Ministry of Communications.
- 1997 Revised Time Test becomes operative.
- 1998 Pak Post enters into cyber age by launching its website on the world wide web.
- 1999 Pak Post overcomes its deficit.
- 2000 Automation & Computerization of Islamabad GPOs counters begin.
- 2001 Establishes Information Technology Centers to reaffirm its commitment to internal training and national capacity building.
- 2002 Introduces co-brand with the DHL.
- 2002 Pak Post enters an agreement with the Western Union to deliver foreign remittances all over Pakistan.
- 2002 First-ever state of the art paperless Post Mall begins offering services to customers.
- 2003 Pakistan Post initiates transition from the public accounting to the commercial accounting system



Chapter 5: Introduction of Pakistan Post Office



PAKISTAN POST OFFICE DEPARTMENT

5.1 Regulating Authority

Pakistan Post Office is a Federal Government Department setup under the authority of the Post Office Act 1898, to provide postal and allied services in the country. Under the Act, no other agency can carry and transmit letters and the monopoly, in this area, rests with the Pakistan.

5.2 Mission Statement

The mission statement of the Department is:

“Secure timely delivery of mail at the doorstep of the customer within affordable cost”.



5.3 Postal Network

Pakistan Post is providing postal services in every nook and corner of the country through a network of more than 12,000 post offices. Contrary to the aim of its competitors whose main thrust is to cream off the business from key urban areas commercially without any



social obligations, Pakistan Post Office is providing delivery services to about 20 million households and businesses as community service obligation without any cost consideration in order to play a seminal role in the socio-economic development of the country.

Pakistan Post has the biggest infrastructure and the oldest experience in the business of moving letters, packets, documents, merchandise, parcels etc locally as well as globally. In spite of manifold development in other fields of communication, the post is still widely used as a means of communication and happens to be the best affordable choice for the masses.

In a rapidly evolving and increasingly competitive environment, in order to meet the challenges of escalating customer sophistication, Pakistan Post has also taken giant strides to provide to the clientele faster, cost-effective and time certain delivery system by introducing express mail services like Urgent Mail Service, Air Express, International Speed Post, Fax Mail and Fax Money Order Services.

In addition to its traditional role, Pakistan Post also performs agency functions on behalf of Federal and Provincial governments, which include Savings Bank, Postal Life Insurance, collection of taxes, collection of electricity, water, gas and telephone bills on behalf of WAPDA, WASA, SSGPL and PTCL respectively, collection of television license fee on behalf of Pakistan Television Corporation, disbursement of pension to retired non-commissioned ranks of Armed Forces as well as retired employees from the Pakistan Post, Pakistan Telecommunication Limited and Capital Development Authority.

5.4 Postal Traffic

Postal traffic is generally divided into two categories i.e. Unregistered and registered mail. Each category includes various kinds of postage articles of both inland and international mail. The following table would show the different kinds of unregistered



mail which can be registered on payment of prescribed fee to ensure recorded movement during the course of transmission through post:

INLAND & FOREIGN
Letters
Aerogramme
Postcards
Printed Papers <ul style="list-style-type: none"> I. Text Books II. Other than text books
Small packets
Newspapers
Parcels
Literature for the blind

5.5 The Role of the Post in Pakistan

The post office in Pakistan has a broad and varied role. It provides an important communication link to individuals and businesses for:

- ✓ Exchange of official, commercial and private letters and communications;
- ✓ Means for the dissemination of knowledge, culture and information on national and current affairs through a lower priced (compared to letters) exchange of printed matter;
- ✓ Facilities to trade and industry for exchange of samples of merchandise at minimum possible cost;
- ✓ Facilities for the remittances of small sums of money from one person to another through the postal order, postal draft and postal money order service.

The Post in Pakistan serves an indispensable communication link with the country's vast population and rural areas. The postal network stretches to touch virtually every town, hamlet and persons in the country.



5.6 Objectives and Functions

Pakistan Post Office functions under the authority of Post Office Act 1898 to provide domestic as well as international postal and allied services at an affordable cost, on equitable basis and at standards, which meet needs and requirements of the postal clientele. Its organizational setup is regulated through Postal Services Management Board Ordinance 2001.

Pakistan Post Office provides the following principal postal and allied services through a network of more than thirteen thousand Post Offices through out the country:

- a. Exchange of official, commercial and private letters and communications;
- b. Dissemination of knowledge, culture and information on national and current affairs through a lower priced (compared to letters) exchange of printed matters;
- c. Exchange of samples of merchandise to facilitate trade and commerce and light weight parcels;
- d. Remittances of small sums of money from one person to another through the postal order and money order services

Besides the traditional services, Post office also performs a number of other functions on behalf of Federal and Provincial Government Departments and Agencies. These functions are known as Agency Functions and include:

A. On Behalf of Federal Government

1. National Savings Scheme such as Post Office Savings Bank, Savings Certificate, Prize Bonds.
2. Postal Life Insurance
3. Sale of excise, passport and visa stamps
4. Payment of pension to retired persons of Defense forces and P.T.C.





5. Provision of telegraph facilities in small towns/villages.
6. Printing and sale of agricultural loan pass books and NIC and Income Tax Forms.
7. Issue and renewal of BRL/CBRL and PTV/DISH Antenna and VCR Licenses.
8. Printing and sale of Highway Safety Books
9. Collection of Zakat on postal investments like savings bank, cash certificates etc.
10. Printing and supply of various non-postal stamps and stationery.
11. Collection of telephone bills in small towns and villages.
12. Collection of fixed income tax.
13. Collection of custom duty and sales tax on inward foreign parcels.
14. ATTA subsidy scheme

B. On Behalf of Provincial Governments

1. Printing and sale of revenue stamps, arms and driving license fee stamps, traffic fine coupons, motor vehicle fitness stamps etc.
2. Collection of motor vehicles tax from owners of private vehicles (except in Sindh province)
3. Registration and renewal of motor driving and arms licenses.
4. Printing and supply of various judicial and non-judicial court fee stamps and security papers to District Treasuries of the provincial government.

C. Express Post and Financial Services

In order to meet the requirements of time sensitive mail and to compete the couriers operating in the private sector, Pakistan Post Office introduced a number of express mail and financial services with effect from 1988. These include the following:

1. Airmail Express (Airex)
2. International Speed Post (ISP)
3. Urgent Mail Service (UMS)
4. Local Express Service (LES)
5. Fax Mail and Fax Money Order



6. Urgent Money Order
7. Postal Draft Service
8. Savings Bank Mobile Account
9. Postal GIRO Service

5.7 Organizational Structure

Pakistan Post Office is a department of Federal Government in the Ministry of Communications and it is headed by the Director General who is also an Ex-Officio Additional Secretary to the Federal Government. His office (known as the Director General of Pakistan Post Office) functions, among other things as the secretariat of the Ministry of Communication in regard to postal matters.

The Director General is assisted by a number of senior and junior officers.

5.8 Policy Formation and Execution

The Director General's chief functions are:

- To arrange the establishment of postal and allied services in the country;
- To lay down norms of services;
- To prescribe procedures to be followed;
- To establish and maintain postal communications with foreign countries;
- To arrange for printing of postage and non-postal stamps;
- To manage the post office budget and to frame all policy directions in regard to postal and allied services, with the approval government where necessary.

Executive management of postal and allied services below the Director General is done at two levels:

1. The Circle Level; and
2. The Divisional Level



5.8.1 The Circle Level

A Postal Circle is headed by a Postmaster General and its territorial jurisdiction may extend over a whole province or several districts of a province. The Postmaster General is the chief executive officer directly responsible for the management of postal and allied services within his specified territorial jurisdiction. He also keeps the post offices and their supporting offices, namely, the Mail and Sorting Offices (MSO) properly staffed and supplied with the needed stamps, forms, stationery, bags and other equipment, controls the organization of work in these offices according to the norms of service laid down by the Director General and ensures security of mails, cash and other valuables handled in the post offices and MSO. There are eight postal circles, two postal life insurance circles, one training circle and one stamp circle.

5.8.2 The Divisional Level

Below the Circle level, the divisional circle operates. The head of a postal division is known as Divisional Superintendent of Post offices (recently named as District superintendent of Post Offices, as the territorial jurisdiction of a superintendent of Post Offices is now a district) or Divisional Superintendent Railway Mail Service. He is basically responsible for operational and managerial control of post offices functioning under his control.



5.9 Postal Circles

The territorial jurisdiction of each postal circle is given below:

Circle with Headquarters	Jurisdiction
1. Sindh Circle, Karachi	Whole of Sindh Province
2. Postal Life Insurance, Southern Pakistan, Karachi	Provinces of Baluchistan and Sindh.
3. Balochistan Circle, Quetta	Balochistan province
4. NWFP Circle, Peshawar	North Western Frontier Province
5. Punjab Circle, Lahore	Whole of Punjab Province
6. Postal Life Insurance Circle, Northern Pakistan, Lahore	Provinces of Punjab and NWFP as well as Federal Capital, Northern Areas and AJK.
7. Federal Capital Area & Azad Jammu Kashmir Circle, Islamabad	Federal Capital Area Islamabad, Northern Areas and Azad Kashmir

5.9.1 Postal Life Insurance Circles

Procurement of life insurance business, maintenance of individual account of policy holders, settlement of claims are specialized functions and as such are controlled by General Manager Postal Life Insurance (PLI).

Presently there are two circles. One for province of Sindh and Balochistan with headquarters at Karachi and the other for Punjab and NWFP with headquarters at Lahore.

5.9.2 Training Circle

For human resource development, training of staff in the administrative, operational, financial and correspondence fields, a separate Circle has been established known as Training Circle. The head of the training circle has been designated as Director and he has his headquarter located at Postal Staff College, Islamabad. He has three Regional Training Institutes (Postal Training Centers) working under his control at Karachi, Lahore and Islamabad.





5.9.3 Stamps Circle

The head of stamps circle has been designated as Chief Controller of stamps and he has his headquarters at Karachi.

5.9.3.1 Organizational Structure of Stamps Circle

Prior to 1958, the stamps organization was under the Ministry of Finance, Government of Pakistan. It was transferred in 1958 to Pakistan Post Office Department under Ministry of Communications. Chief Controller of stamps is also Ex-Officio Assistant Director General and Staff Officer to the Director General Pakistan Post Office Department. He functions as Assistant Director General (Stamps) in matters relating to designing and printing of postal stamps and stationery and non-postal stamps and security papers and all other related matters including philately. He is as such a part of Post Office Directorate General and one branch of the Directorate General known as Stamps Branch, functions directly under him with office at Karachi.

As Chief Controller of Stamps, he was previously acting as head of stamps organization attached to the Post Office Directorate General. In order to provide management and financial independence to the extent enjoyed by other Heads of Circles, the stamps organization was declared as a circle in 1995 and authorized to operate and function as a circle like other postal and PLI circles with authority to exercise all powers delegated to heads of circle under the rules.



5.9.3.2 Functions of Stamp Circle

Chief Controller of Stamps when officiating as Ex-Officio Asstt. Director General (Stamps) is responsible for designing and printing all types of stamps and stationery (postal as well as non-postal). The various types of stamps and stationery include the following items:

Postal Items

- ✓ Public and service postage stamps
- ✓ Commemorative and special postage stamps
- ✓ Stationery: inland envelopes, airmail envelopes, post cards, UMS envelopes, Airex/Swift Post envelopes, aerogram etc

Non-Postal Items

- ✓ Adhesive Court fee stamps
- ✓ Impress Court fee stamps
- ✓ Special Adhesive stamps
- ✓ Non-judicial stamps
- ✓ Revenue stamps
- ✓ Entertainment stamps



- ✓ National registration stamps
- ✓ Federal government attestation stamps
- ✓ Notarial stamps
- ✓ Insurance stamps
- ✓ Insurance fee stamps
- ✓ Central excise revenue stamps
- ✓ Share transfer stamps
- ✓ Foreign bill stamps
- ✓ Arms license stamps
- ✓ Driving license stamps
- ✓ Motor fitness stamps
- ✓ Route permit stamps



The main function of designing and printing of the above categories of stamps is performed mainly through Pakistan Security Printing Corporation (PSPC).

The office of Chief Controller of Stamps is responsible for determining, on the basis of indents and requirements of Federal and Provincial Government Department, the quantities to be printed, placing the print orders with PSPC and on receipt of printed material from the printers, transferring to the Central stamps Store, a sub-ordinate office of the Chief Controller of Stamps, Karachi. It is then supplied to indenting offices i.e. all district treasuries operating through out the country in respect of non-postal and service postage stamps. As regards supply of postage stamps and stationery, post office department established two zonal stamps stores at Lahore and Rawalpindi in 1994. Bulk supply of postal items are made to zonal stamps stores for further supply to post offices falling under Central Punjab Circle, Northern Punjab Circle, NWFP and Northern Areas. Inventory management exercising internal control measures is thus one of the major functions of Chief Controller of Stamps.

Direct supply is being made to all GPOs in Karachi from 1989 and to Hyderabad Circle from 1990. Earlier postal items were being supplied through district treasuries to post



offices, on payment. In Balochistan Postal Circle, postal items are being supplied through district treasuries of Balochistan province.

Being security items (postal and non-postal) Pakistan Post Office department is captive of Pakistan Security Printing Corporation, Karachi.

Financial System

The expenditure of printing is first borne by post office department and is then subsequently recovered from federal and provincial government departments who are the users of those stamps departmental share cost of the office of Chief Controller of Stamps is also recovered from the federal and provincial governments in addition to the cost of printing stamps.



Chapter 6: Competitors



Competitors of Pakistan Post Office

6.1 TCS

Ever since its inception in 1983, TCS Pakistan has continued to lead, the courier and logistics service industry in Pakistan through innovation, pioneering spirit, commitment and passion. Starting with just 25 shipments, the TCS Express saga now spans five continents. TCS with its international look now caters South Asia with over 2000 locations in Pakistan. TCS Pakistan has also largely helped redefine the very path and direction for the entire industry to follow.

TCS is one of the leading pioneers in the courier industry of Pakistan. It has a strong presence not only in Pakistan but also in the Middle East and North America — its headquarter is located in Greater Toronto area of Canada. TCS short history reads like a modern-day success story. It has come a long way since it started operations 20 years ago in Pakistan.

TCS offers a range of document, parcel and cargo services, many of them not offered by anyone else. It offers a wide range of document delivery services — both domestic and international — as well as the country's premier gift service, the Sentiment Express, through which one can send over 60 exclusive products including garden-fresh flowers, scrumptious cakes, mouth-watering sweets, cuddly stuffed toys, luxurious leather goods and elegant watches suitable for all festivities and occasions be it Eid, Christmas, birthday, anniversary, Valentine's day, promotion, to make someone feel special. The service is available to 120 destinations across the country.

TCS also offers international delivery services — World Fast Documents and WorldFast Parcel Express — to over 3,500 destinations across the world through its extended International Network.



6.2 OCS

OCS was established in 1957 in Tokyo, Japan, when a consortium of newspaper publishers formulated the concept of a worldwide speed delivery network for their publications. Their invention was called "Overseas Courier Service Co., Ltd."

Since then, OCS has been providing premium quality express courier, freight forwarding, transportation and logistic solutions worldwide. Major OCS corporate offices worldwide anchor one of the most extensive international delivery systems ever developed.

It was in 1986 that OCS Pakistan (Pvt.) Ltd. first started operations as an independent courier company in Pakistan. In the wee hours of a crisp winter morning, the first express document was booked in Karachi. What followed is history. Today, OCS Pakistan handles tens of thousands of shipments every single day. Within Pakistan, the OCS name has become synonymous with dependability and quality. It has 212 pickup points and more than 1500 delivery locations across Pakistan. Internationally it covers the globe with the OCS network of over 240 offices in more than 90 countries around the world. OCS is committed to provide high quality services that are reliable, time sensitive and effective catering to all courier needs of both local and international customers.

6.3 DHL

DHL Pakistan Private Limited commenced operations on March 13th, 1982 working as a joint venture company. It maintains all service standards and quality management as per the global DHL code. DHL Pakistan has successfully completed 20 years in Pakistan, attaining excellence in safety, security and reliability.

Following is a statistical view of DHL Pakistan's presence:

Network: 31 locations in 18 cities of Pakistan

Gateways: 4

Employees: 400+

Vehicles: 200+

Shipments: 650,000+ (2003)

DHL Pakistan has a variety of products that it offers having the most competitive rates in the country. Our experience and dedication enables us to have one of the best air and



ground handling of dutiable and non-dutiable shipments that have the fastest time deliveries.

- ✓ **Document Service**
- ✓ **World Wide Parcel Service**
- ✓ **Junior Jumbo Box**
- ✓ **Jumbo Box**
- ✓ **Heavy Parcel Express**
- ✓ **Mega Box**
- ✓ **Import Express**
- ✓ **Express Pallet**
- ✓ **Shippers Interest Insurance**
- ✓ **Co-brand Service (DHL Pakistan – Pakistan Post)**

6.4 Speed Ex

Pakistan International Airlines pioneered the express delivery of shipments in Pakistan when in the early 70s it launched its Air Express product, which offered the facility of airport – to – airport delivery of express documents and parcels, leading to the birth of the courier industry in Pakistan.

In 2003 PIA decided to expand its ‘Air Express’ product and launched its own flagship courier service with the name ‘PIA Speedex’, catering for door – to – door delivery of express documents and parcels of any size. Initially the service was launched in three cities only, i.e., Karachi, Lahore and Islamabad/ Rawalpindi. However soon it expanded its service to 12 major cities of the country. Today PIA Speedex offers premium courier services in 70 cities throughout the country, whereby shipments (documents and parcels) are picked up and delivered from and to the customer’s doorstep.

Using its huge IT resources, PIA Speedex pioneered the industry by launching the first ever WEB based tracking and tracing system in the domestic courier market, whereby shipments can be tracked at each transit point till the time of delivery.



Utilizing its experienced HR resource, Speedex came out as a quality service provider for the customers, whereby customers were given the multiple options of the following products:

Speedex in a very short span of time established itself as a reliable and credible courier player in the domestic courier industry and today Speedex, in a short span of little over two years, has captured 10 percent share of the market already, which continues to grow day by day.

Soon Speedex plans to go to the International fronts and will give its customers a flare of its delivery capacity outside Pakistan, which will be un-matchable by any other courier player in the industry.



Chapter 7: Need for Reform



7.1 Need For Reform

In most low income countries, and in several rural areas in middle income countries, paper mail is the only medium, or the predominant medium of communication. Not only personal communication but also business to private and private to business transactions is dependent on the postal services. Thus a viable, postal service is a basic commercial need for an economy. In countries where the postal service is unreliable, people are forced to use other modes of communications which are usually expensive and could carry a substantial cost to the economy as a whole.

The major reasons for introducing reforms in the postal sector are following:

- ✓ This sector is of usually considerable great importance to government. It is a large employer.
- ✓ The sector is inefficient in most developing countries. The service is often unreliable and has not been responsive to market needs and trends.
- ✓ The service is unable to generate sufficient income to cover its operating expenses. As a result, the sector suffers from chronic under investment.
- ✓ An efficient, universal postal service could generate substantial welfare gains. Owing to the poor service quality, the public will often resort to alternative modes communication, which are always more expensive than the postal service. In addition, since considerable commercial and financial transactions are carried out by mail, any excessive delay in mail leads to higher transaction cost.
- ✓ One of the “infrastructure facilitator” of economic growth is, in fact, the postal service. As economic activity grows, so does the number of commercial and financial transactions by mail. An efficient postal operation is important to the success of this growth cycle.

7.2 Financial Performance

In terms of return on sales, the postal sector throughout the world is operating at a loss (about -3 percent return on sales). Given the postal service in most countries is still operating as a government department, the return on sales shown by these postal



administrators does not take into account many cost or expenditure items that are nominally considered in generally accepted accounting principles (e.g. the cost of financing investments). This accounting deviation is particularly significant in the case of middle income and low income countries, since in high income economies, there are a high proportion of privatized postal services using commercial accounting principles.

Thus, the true losses would be higher than 3 percent of revenues.

The service offered by postal organizations in many countries has not changed in decades, and is not in line with market needs and industry dynamics.

7.3 Resource and Asset Utilization

Although only 16 percent of the world's mail volume is handled by the postal services in developing economies, well over 40 percent of the postal infrastructure is located within these countries. The necessity for fixed network assets is dictated by a multitude of other factors besides mail volume, including the geographic and demographic characteristics of a country. Developing economies have approximately five times the population and one-and-a-half times the surface area to service as do industrialized economies, and developing countries thus have more than double the population density as well.

Although there are limits to what can be deducted from aggregative analysis, the above would seem to imply, given the network characteristics and economies of scale associated with this sector, that developing economies possess a far more favorable population density for the postal sector to service. Therefore, if anything, they are in a superior position to benefit from cost economies through increased utilization of their networks. Nevertheless increased utilization of their networks applies only in a case by case basis to countries with dense population.

**Table 7.1****Distribution of Postal Service Infrastructure, Area, and Density**

	Staff (%)	Permanent Post Office (%)	Letter Boxes (%)	Population per Sq.km
Developing Economies	44	59	42	55
Industrialized Economies	56	41	58	21

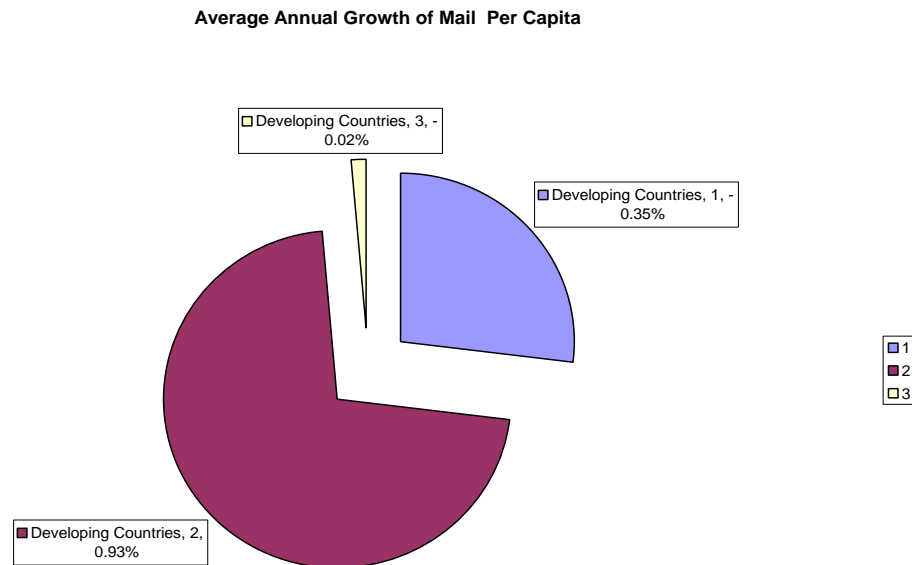
The excess of postal infrastructure located in developing economies relative to mail volumes they service, even after taking into account the population and size of these economies, would appear to imply either or both of the following:

1. The postal network is not being optimized and considerable inefficiencies exist in the operation and administration of the service
2. The postal service has considerable excess capacity which it has not been able to utilize

Moreover, the resource and asset utilization in developing countries is worsening, primarily because growth is hampered by the poor quality of the service. Whereas industrialized countries are experiencing a modest private growth in mail per capita, developing countries are actually experiencing a decline in mail per capita.



Average Annual Growth of Mail Per Capita



7.4 Investments

One of the immediate and profound causalities of poor financial performance and asset utilization is the level of investment. Therefore, it is no surprise that the postal sector suffers from chronic low investment levels. Since most of the network resources are in a poor or an unusable state in developing countries, significant investments are needed if a quality service is to be offered at low cost. The postal sectors of developing countries typically require investments in the following areas:

1. Network Rebalance: The postal network of many developing countries has been preserved intact for many years, although the mail flow patterns have changed significantly (mainly because of urbanization and economic development). Thus, there is an urgent need to rebalance the network to correspond with the logistics of mail operations. This typically calls for the construction of new post offices, storing centers and collection centers in optimal locations. The objective of



rebalancing is to develop the optimal network to provide good services at the lowest possible cost.

2. **Network Rehabilitation:** a significant proportion of postal facilities in low and middle income countries is dilapidated. This applies not only to buildings and equipment but also to transportation assets. Thus, not only is service performance affected because of frequent vehicle breakdowns, but the public is reluctant to use the postal service because of the apparent lack of security.
3. **Systemization:** Basic systems such as financial and management control systems and track-and-track systems for EMS are typically not found in developing countries. These are essential instruments for providing a reliable service and for enabling management to take appropriate tactical and strategic actions. Unfortunately, some developing countries, prior to investing even in basic management control systems, have spent large sums of money in automating their sorting functions (for example, using optical character recognition sorters, or automatic sorting machines). Automation will not provide any net benefits if there are not sufficient mail volumes to process through sorting center, since the acquisition and operating costs of automated sorting are very high. Automation should be looked at very carefully as an integral part of a comprehensive reform program.
4. **Service Expansion:** Investments are needed to extend the postal service to cover all residents of the country and to provide products and services that are responsive to specific market requirements.
5. **New Products:** To maintain their position, and indeed to fortify their competitiveness, postal organizations have to develop hybrid products using the traditional mail operations and electronic communications technology acquisition, and joint ventures. The payback for such investments could have moderately long gestation.

It is evident that postal services sector is caught in a vicious circle or poor financial performance which causes a lack of investment, thereby preventing either improvements in the quality of service or expansion, which generates even lower



usage of the sector and mail volumes, which further perpetuates the cycle. To disengage this sector from this downward spiral, urgent reform measures are called for.



Chapter 8: Enterprise Reform



8.1 Enterprise Reform

Until recently, the structure of the postal sector varied little among countries. Although change is gradually taking place, even today in most countries the postal service is provided by state-owned Postal Administration within a government department. The traditional justification for this has been the following characteristics of the sector:

- ✓ Its vital role in communication
- ✓ The obligation to provide a universal service, and, consequently;
- ✓ The high infrastructure costs

There has been a general belief that because of these characteristics, postal services are best provided under a government monopoly.

Historically, the importance of the postal service to communication and development has been understated, if not ignored, which partly explains why the postal sector has been unaffected by the renaissance that is transforming all other areas of infrastructure.

However, countries have been forced increasingly to look at the postal sector because:

1. the legacy of negligence has led to a crisis in the sector, and
2. dramatic changes in the approach to other sectors, especially telecommunications, have forced the issue.

Today, the postal service stands at a crucial crossroads: if the status quo continues, the service's contribution to development will rapidly diminish. On the other hand, adoption of a proactive stance toward reform could transform the postal service into a valuable national asset.

8.2 Commercialization

The postal market could be divided directly into "individual" and "business" segments. The individual segment is mainly concerned with securing safe and reliable services from the postal operation. Although this would appear relatively straightforward, many postal services fall short of these simple demands. In





addition, in most countries the principal driven force behind postal activity is no longer merely the communication between individuals for personal reasons. While this is still an important market segment, large untapped avenues for growth exist in business generated communication, which like any other transaction intrinsic to market, is also based on competitiveness. Therefore, unlike the “individual” segment, which required merely a reliable postal service with a single rate structure that was economical, business require an array of services at varying prices to meet their various needs. Each of these services must be characterized by speed, security and guaranteed delivery for domestic as well as international items. Today, to regain lost ground and competitiveness, the postal service must acknowledge and respond to both of the above segments.

The post, therefore, should be seen as a “service industry”, providing services that meet customer demand. Such a commercial orientation is currently absent in most postal administrations, which are characterized b their civil service outlook and by some weaknesses which are common to certain public enterprises. Under these circumstances, managers have little incentive or authority to satisfy customers or to achieve a reasonable financial return. Therefore, in addition to affording the postal service the protection of a commercial industry by privatizing it, several business practices not common to the public sector will have to become part of the post’s routine operations.

**Table 8.1****Common Management Problems in Public Sector Infrastructure Entities**

Common Management Problems in Public Sector Infrastructure Entities

Sector	Number of Projects	Percent of Projects Reporting Problem Areas			
		Unclear Goals	Lack of Management Accountability and Autonomy	Financial Problems	Wage and Labor Problems
Electricity	48	27	33	73	31
Water	40	25	40	70	35
Telecom	34	15	35	53	32
Rail	39	15	21	54	33
Roads	35	9	23	40	40
Ports	28	21	36	32	43

Commercialization is the process of introducing these market principles into postal administrations. Therefore, core assets such as finance, accounting, strategic planning, and so on, will have to be either introduced or strengthened within postal administrations. Training can be provided for the core functions, and often experienced personnel are brought in from the private sector or the management function is contracted out for specific period.

These measures can hasten the learning process and ensure its effectiveness. While some restructuring measures are within the realm of any postal administration's autonomy, the authority to introduce many reform steps may have to be specifically included in legislation, or explicitly sanctioned for a government department or a statutory corporation. However, a limited liability company, which has all the powers of a legal entity, normally has the freedom to undertake most reform measures.

Commercialization need not necessarily follow or precede privatization. There are many actions that postal administrations can take to improve quality of services and develop financial self-sufficiency and a market-oriented outlook even without the legislative changes that accompany privatization. In a few postal administrations these changes have been introduced sequentially and privatization is regarded as the next major step in the process of postal reform. However, complete commercialization cannot be achieved



without the appropriate autonomy, accountability and incentives that privatization grants, nor can privatization by itself lead to successful reform. Therefore, for reform to achieve its goals, it is vital that both processes be implemented. Some postal administrations have chosen to first initiate the privatization process, followed by commercialization, in the interest of clarifying the roles and responsibilities of all parties and thereby accelerating reform.

Changes at the policy level, such as market deregulation, establishment of an autonomous regulator, or privatization of the postal service, affect the parameters within which the service operates. The steps taken to commercialize the post may be termed enterprise reform. The mandate of financial self-sufficiency, or a specified financial return, that accompanies privatization forces the postal service to do the following:

1. Look inward to eliminate inefficiency, reduce costs and improve the service
2. Look outward to gauge market needs and tailor services accordingly.



Chapter 9: Regulatory Policy Reform



9.1 Regulatory Policy Reform

Enterprise reform can and does benefit postal service up to a point. Beyond that, further improvements are achieved only through policy changes relating to regulatory and institutional reform. Regulatory reform, in the context of the postal sector focuses mainly on:

1. the extent of monopoly powers and exclusive privileges granted to the post office;
2. the competitive structure within the sector, and
3. the appropriate mechanisms to ensure the proper functioning of a public service (for example tariffs, quality and coverage for the regulated service).

Many decisions to be made stem from the issue of competition, such as how the sector should be organized and what institution approaches should be adopted to foster efficiency and innovation while maintaining contestability or competition.

- There is an increasing trend, particularly among high income countries, to reduce the scope of monopoly protection in order to widen the non-reserved areas to foster competition. On the other hand, in many countries, particularly in developing countries, no changes have been made to the scope of monopoly protection.
- In most countries the definition of universal service (that is, that all residents of country should have reasonable access to core postal services at affordable prices) does not relate to optimal service economics. Many countries are attempting to provide the same level of service to all residents, including those in remote areas. In fact, there is no need to provide this level of equality when the cost of truly providing such service is very high. Customers attach greater value to reliability than to frequency of service. Even with a uniform tariff, a rebalanced universal service that is in line with user needs could be provided economically.
- Regulatory reform has the maximum benefit when it is considered as a component of an overall postal service reform. This is particularly true in countries in which





the postal service requires considerable upgrading in order to deliver service to acceptable standards. Isolated regulatory reform in such situations could lead to net welfare losses.

- There is very little evidence of private sector participation with the view of introducing contestability into the postal sector, although private sector involvement has been used successfully in other infrastructure sectors such as power, transport and water. Even where infrastructure service is provided economically by a single supplier, competition from alternative suppliers for the rights to supply the market can improve efficiency. In this regard, it is fair to say the postal sector has ignored the potential benefits that could be brought in through private sector participation in all or most of the postal operations.

9.2 New Directions

The postal sector, in its reform efforts, needs to rethink many of the traditional designs relating to the regulatory policy aspects of postal service and to craft a regulatory policy that is meaningful and is also responsive to the many changes that the sector has undergone and is undergoing in terms of industry and competitive structures.

Government as a policy maker in the postal field should consider the seven points detailed below:

- ✓ **Introducing Competition:** In many low income countries, where the postal market is still not well developed (i.e. where mail per capita is relatively low), it may not be prudent to remove the monopoly completely. However, in these countries competition can and should be introduced in segments of the postal market such as parcels, EMS, and parts of the letter mail. Thus, the scope of monopoly should be reexamined with a view to its reduction. As the postal market becomes more developed, the low and middle income countries will have greater flexibility regarding the monopoly scope. Argentina, which has completely removed monopoly across the postal service, has set a precedent for a feasible approach for those countries with high mail volume.



- ✓ **Licensing Exclusive Privileges:** Governments that prefer to maintain a monopoly for a portion of the postal market or other exclusive privileges should only do so on a licensing arrangement with an operator. The license grants the operator the privileges for affixed period of time only. Such licensing arrangements do in fact limit the “market guarantee” for the operator. At the end of the licensing period the government should review the regulatory situation again do determine the way to proceed.
- ✓ **Redefining Universal Service:** The definition of universal service should be redesigned as one of the prerequisites for reform. In defining the level of service and service standards to be provided of rural residents of a country, the economics of delivery should also be considered. Otherwise, it would be difficult to sustain a low cost service for the entire postal operation.
- ✓ **Unbundling Costs:** Whether the postal services is planning on providing nondiscriminatory network access to competitors or not, unbundling the total cost of the postal service across its value chain, from collection to retail operations, is a worthwhile exercise. This not only provides a basis for determining the best means of introducing competition, but it also helps to quantify the social obligations that the postal service is required to carry out on a fully allocated(activity) cast basis.
- ✓ **Pricing and Social Obligations:** Delivering mail to and maintaining outlets in remote areas of the country, together with providing non-commercial services to certain groups of the population, should be costed in order to understand the impact of these obligatory services on sustaining a commercially oriented business. If necessary directs payment for these services should be sourced from the government.
- ✓ **Introducing a Flexible Price Regime:** Although process and price development should be regulated, it is important to give the postal operator the flexibility to respond to market preferences and competition. This means that the traditional approach of not being able to deviate from a predetermined, rigid table of tariffs should be abandoned. As long as monopoly is reduced or removed, the freedom to



- set commercial prices and to flexibly price the services also becomes increasingly feasible.
- ✓ Establishing Regulatory Regime: The regulation of the postal sector should not be left to the postmaster general or to any agency that is directly linked to the post office. A clear, transparent regulatory regime should be established and the regulator should be located in as independent a place as possible. It is important to “privatize” as many as possible of the audit functions (for example the audit of service quality) by using external auditors.

Many of the regulatory “freedoms” (such as providing pricing flexibility to the post office, allowing the postal service to enter other businesses) are linked to the controls that governments typically impose on the postal service. These controls are in principle imposed because the risks assumed by state-controlled postal services are ultimately underwritten by the taxpayer. In particular, government controls over borrowing by the post office provide a discipline over all funds that are raised with the backing of the taxpayer and for which the government is ultimately accountable. Without such controls, a nationalized postal service would have a clear advantage over commercial rivals, both in competing for business and in raising new funds for capital markets. Public sector controls are designed to prevent public corporations from exploiting this privileged position. Given the nature of the commercial activities into which the postal services should plan to extend their business, governments would find it difficult to free the postal services as long as the service remains in the public sector.



For this reason, and for many others that have been cited earlier, it is important to institutionalize commercial freedom in a post office as early as possible. Many of the high income countries that have achieved commercial freedom have done so after 10



or 15 years of reform effort. The postal sectors of many developing countries do not have the luxury of spending 10 years on the reform of their service. The quickest and easiest way to achieve commercial freedom is for the postal service to bring in the private sector to manage and finance its operations. Thus, the ability to incorporate many of the regulatory aspects is closely linked to the establishment of an appropriate institutional framework.



Chapter 10: Institutional Approaches



10.1 Institutional Approaches

The institutional framework for the sector is key to its success in providing high quality service at competitive costs. Several institutional approaches are available to governments for the management and development of their postal sector. However, it is evident from the experiences of other sectors that enterprise reform is both more feasible and more effective when the private sector is involved as manager, investor, financier and increasingly, part-owner.

While it is possible to make a public enterprise work well without changing its ownership, World Bank and other experiences clearly show that under these circumstances success in commercialization has been elusive. The record of reforming public enterprises without involving the private sector is largely unsatisfactory. Some of the reasons cited for not involving the private sector or for not giving up government control of the postal service are listed below:

- ✓ The provision of universal service would not be respected
- ✓ Other public service obligations will be abandoned
- ✓ Profit orientation will result in higher prices
- ✓ Works will be made redundant

While improving efficiency is at the heart of such reforms, public sector goal can also be accommodated under an institutional arrangement involving the private sector. For example, it is feasible to cost the postal service's non-commercial activities separately, and to allow revenues from these non-commercial activities to be augmented as part of its social services program. In this way, the cost associated with the social elements of the postal services is isolated and the subsidization is made explicit and transparent.

Sweden has implemented such an explicit subsidization. It is indeed possible to continue to realize non-profit objective while increasing private participation in the supply of services. Thus, both universal service and public service obligations can be preserved (as in Sweden) even under a competitive environment involving the private sector.

A sound regulatory framework and a properly prepared contract will ensure that a private operator does not abuse its power on issues such as market power, tariffs, operational practices and human resource management. For example, it is a common practice to bring



in the private sector for management on a predetermined, explicit tariff evolution formula. The factors that make up the tariff formula are closely regulated.

Typically, the rationale for privatizing or implementing some form of private sector involvement includes the following:

- Governments increasingly feel that there is no longer a need for them to own or operate the postal service. Social service obligations could easily be built into the privatization framework. Many countries have done this in other socially sensitive sectors.
- Governments of developing countries would, and should, prefer to direct public funds toward poverty alleviation and investing in social sectors. Underwriting the losses of the postal service and investing in postal development are not priorities. Consequently governments feel that if postal infrastructure needs to be developed to support economic growth, the most prudent approach would be to involve the private sector in the operations and financing of the postal services,
- Implementing a comprehensive reform requires a strong institutional capacity that is typically not found in current organization of the postal services. Any form of private sector participation is an effective way of immediately strengthening the capability to implement and effect change in almost areas of the business.

A variety of options are available in which the private sector is involved in all or some of the postal operations and postal development. Private sector where involved in has worked well in other infrastructure sectors such as telecommunications, power, transportation and water supply and distribution. It is possible to involve the private sector efficiently in postal services despite the fact that natural monopoly elements may exist in the sector and that the postal service contain certain public service obligations which are considered “non-commercial”. Three types of private sector participation models are briefly described below – management contracting, concession and joint ownership.



10.1.1 Management Contracting

In management contracting, a public authority contracts with a private company to provide specific services for the operation and maintenance of the postal service. These services could include the provision of key staff for technical assistant, operations, maintenance, marketing, new product development, finance and project management. Compensation to the private company would be of the type made under contracts for consulting services (time-based, lump sum, percentage of revenue, cost-plus etc). the responsibility of the private company would be limited to the part of the system operated on behalf of the public authority. Where the complete operation is contracted out, customers legally remain clients of the public authority and the private company is compensated in accordance with the terms of the contract. There are several types of management contracts, including those which include a productivity bonus to the contractor or a share of the profits. Such incentivized management contracts provide the operator with the stimulus to be entrepreneurial, as well as to exceed the contractual targets.

10.1.2 Concession System

In a concession system, the public authority contracts out development and operations to a single private operator, or to a consortium of companies. The concessionaire finances, invests in the appropriate technology, constructs and operates at its own risk, all facilities and networks for the provision of postal services. On the termination of the concession, the concessionaire must return the postal system to the public authority in perfect condition. This means that during the life of the concession the concessionaire must replace dilapidated or non-functional equipment and facilities make the necessary additional investments for better operation and sales enhancement and also recover its invested capital.

The major difference between a management contract and a concession is that in a concession contract the concessionaire assume full commercial risk, that is, if the postal operations make a loss, the concessionaire realizes the loss. Equally, if the concession makes a profit, the concessionaire will keep it after paying the necessary taxes and dividends. In management contract the commercial risk assumed by the operator is



considerably smaller. In a fixed fee contract, for example, no operation risk is assumed. In incentivized management contracts, part of the operator fee is linked to the operator's performance. Although it is possible to have a management contract that involves investments, in general, if a primary motive for involving the private sector is to bring in private capital to accelerate the development of the sector, then a concession may be the most appropriate approach. And a concession gives the operator greater autonomy, since the operator assumes the full commercial risk.

10.1.3 Joint Ownership

Joint ownership involves a new partnership under which the employees, the sub-postmasters and the government could each hold significant shareholdings in the business, together with a strategic partner that has a strong interest in the business and that could provide not only financial capital but also technical and management expertise. The retention of government shareholding is an indication of the government's continued commitment to the vital public services that the post office provides. It also allows the government and the employees to share in the company's future success through its shareholding.

However, if this option is to add value to the development of the postal service, it is essential that the retained government shareholding should not leave the government in control of the business. If the government were to retain a majority shareholding, it would still be in control, the post office's borrowing would continue to count against the government's public sector borrowing requirements, and the taxpayer would effectively be underwriting the business.

For the post office to operate as a private sector company, the government must sell a majority of the shares and must also involve the strategic partner's ownership in a significant way. As long as the government is only a minority shareholder, the business would be classified to the private sector and would be free from public sector controls. This option provides the post office with the commercial freedoms that are most necessary if it is to respond to increasing competition and market dynamics, and could also benefit the consumer by allowing the new company to develop new services.



Figure presents a comparison of relative attributes of various institutional models of the postal sector.

In order to implement postal reform in the most effective way, and also to realize rapid benefits such as enhanced efficiency and improved service, the optimal institutional approach is to involve the private sector in the management and financing activities while retaining full or partial government ownership. While in some countries it might be difficult to transfer operations fully to a private operator, an attempt should nevertheless be made to gradually increase the private sector's role.



Table 10.1
Relative Attributes of Different Institutional Models for the Postal Sector

Government Owned			Private or Mixed (Government-Private) Company		
Institutional Alternatives	Government Department	Autonomous Board	Management Contract	Concession Contract	Joint Venture
Legal Autonomy	No	Yes	Yes	Yes	Yes
Responsibility for setting tariffs	Public	Public	Public	Public	Public
Financing of Fixed Assets	Public	Public	Public	Public	Public
Ownership of fixed assets	Public	Public	Public	Private until expiration of contract	Public and private
Operation and maintenance of system	Public	Public	Private without commercial risk	Private with full commercial risk	Private with full commercial risk
Beneficiary of revenues from tariffs	Public	Public	Public	To concessionaire taxes and dividends to public authority	To company Taxes and dividends to public authority
Compensation to private company	Public	Public	Proportional to physical parameters (mail volume, no of outlets)	Tariff revenues to concessionaire	Tariff revenues to joint venture company
Contact Validity Period	Public	Public	About 5 years	About 10-20 years	Variable



Chapter 11: Technological Reform



11.1 Technological Reform

The postal service as operated today is very much based on physical distribution. The mail is collected, transmitted and distributed physically. Indeed, in the postal services of almost all countries, the labor component of the total cost is in the range of 60 to 85 percent. This high labor content contributes to the physical limitations in service position – particularly as regards cost and service levels. In the most efficient postal service, a first class letter, if posted by close of business, can only be delivered the next day. While this is remarkably quick for a largely manual-based system, even this delivery rate can be challenged today by the rapid innovation and growth in electronic communications. With this in view, this discussion of technological reform addresses the postal sector's urgent need to respond to the ongoing communications revolution.

Today, in many countries where the telecommunications industry has been reformed, the use of electronic communication for business transactions has rapidly become reliable and affordable. In developing countries, because of the high hardware and link-up costs, electronic communication systems are usually owned by larger business companies. However, "intermediary" service providers (for example small bureaus that provide fax, e-mail and other electronic communication services) are also emerging rapidly in developing countries, albeit only in the urban centers. Close examination of the market for traditional postal services clearly indicates that the problem is more urgent than is realized. It is the business market segment that attaches a greater importance to high service standards and reliability, and the competitive threat from alternative communications media is greatest in this area. (See Figure)

Table 11.1
Typical Composition of Mail, by Origin and Destination, in Developing Countries

From	To		
	Household	Business	Total
Household	10%	5%	15%
Business	60%	25%	85%
Total	70%	30%	100%



It is ironical that the postal sector has expended so much energy arguing for legal protection from direct competition via monopoly protection and exclusive privileges, when the immediate and most significant threat is from the rapidly evolving electronic communications industry. Even if post offices remain partly protected by a monopoly, the most severe competitive attack is from electronic communications service providers, which are not, and are unlikely to be, subject to any restrictions in competing in the overall communications market. Postal operators need to realize that they are part of an overall communications market and that they do not have a privileged or special position in this respect; in other words, they must adapt to the new and evolving situation.

11.2 Need for Technological Reform and Attitudes of the “Governments” as “Owner” of Postal Service

- In the postal sector of many countries, there is no choice but to integrate technological reform in order to continue providing a low-cost universal mail service.
- Typically, postal administrations have been slow to embrace technological advances in the communication area and the postal administrations of developing countries are more focused, on most cases quite wrongly, on expensive processing technology.
- In a number of cases the real bottleneck to technological advancement comes from the legislative framework or financial control regime imposed by the government rather than from poor management or lack of innovation.
- There is often, in addition, a degree of complacency arising from the belief that:
 1. the physical mail business is “immune to” technological advances
 2. a safety net will always exist for the mail business through government protection
- There is overwhelming evidence that in post offices with a high degree of operating and financial autonomy (including autonomy for investment decisions) technological innovation and technological adoption are high.



- It appears that, with developing countries in particular, the entry of postal administrations into hybrid mail products can overcome severe problems in mail distribution (trucking) caused by poor transportation infrastructure.
- The gradual introduction of hybrid mail products and the take-off rate of these products have implications not only for the level of employment but also for the required skills mix of the postal service staff. Technological should pay attention to such labor issues as:
 1. The possible effects of the introduction of hybrid mail products, and
 2. How such effect could be handled to bring about the maximum staff buy-in.

11.3 Options Open to the Postal Service

In summary, postal administration the world over are confronted with the following challenges:

- ✓ The rapid growth in electronic communications (electronic text, data and image transfer mechanisms)
- ✓ A new generation of user/clientele
- ✓ Competition from sophisticated physical competitors
- ✓ the relaxation of monopolies

11.4 The Two Strategies

In view of the above challenges, two core strategies emerge that postal administrations can adopt at this juncture; one strategy is passive and the other is proactive. These two options are discussed below.

Postal services can choose to remain unchanged and to continue to engage in provision of purely traditional services (passive option). Indeed, in several countries in which the postal service's mission is narrowly interpreted as the carriage of mail, and wholly owned and controlled by government, postal administrations have been forced to adopt this strategy. The danger of adopting this strategy is that the postal services will be confined to a shrinking role and will be less able to meet the needs of its clientele. Decreasing mail



volumes will further increase unit operating costs which will exacerbate the problems of financial deficits faced by most postal administrations and will entrap the postal service in a cycle of perpetual subsidies and / or decreasing quality of service. In addition, as was mentioned earlier, a large section of the population may be deprived of access to certain electronic communication mechanisms that only the postal service could provide. Choosing this strategy would involve confronting another crucial issue; namely, will physical mail shrink too far and too rapidly to support national networks in the future?

Table 11.2
Available Options for the Postal Sector in Hybrid Messaging

Service Component	Passive	Proactive			
	Status Quo	Minimal	Intermediate	Expansionist	Exclusive
Electronic input	None	Private	Private / Sub-contracted by PO	Either	PO
Printing and Sorting	PO	Either	Either	Either	Po
PO	PO	PO	PO	PO	PO

In the second option the postal service could choose to capitalize on the opportunities provided by the various technological advances (proactive option). By providing an entire range of traditional, hybrid and electronic services, the postal sector could not only revive itself and face the onslaught of competition, but it could also contribute substantially to the communications infrastructure of the country. However, this strategy would necessitate a complete restructuring of the postal operations and the parameters within which most administrations currently operate. The postal sector would need to be removed from the government protection and provided with both the incentives and the autonomy to behave commercially and to operate on equal terms with its competitors. Several administrations that have reformed have already taken this proactive route.

11.5 Hybrid Messaging Systems

Hybrid messaging systems must rely on either the postal service or its potential competitors for the hard copy elements of the service, or they must receive these



elements from integrated suppliers that provide both electronic and hard copy message services and link them up. Therefore, a rigid extension of the monopoly that currently applies to the transmission of hard copy in most administrations would expand the postal sector's monopoly to one of the crucial inputs in hybrid services. Private companies in the telecommunications sector are both for and against the encroachment of the postal service on their domain. On the one hand, the postal sector could be of substantial help in diffusing several telecommunications services by educating the general public and by investing in the equipment to connect homes as well as the businesses via the postal delivery system. On the other hand, the private sector would prefer to maintain its hold over the electronic communications business. Competitors of the postal service are especially concerned about the following two issues:

1. The national postal service will try to extend the reach of the letter mail monopoly to cover electronic communications or hybrid products, thereby excluding the private sector.
2. The national postal service will attempt to use its letter mail monopoly to cross-subsidize the hybrid products it offers, thereby "out competing" the private sector via predatory pricing.

Accordingly, a crucial issue is the specifications of the entry and price regulations and the combinations thereof that would lead to the best intertemporal performance the combined communications market. A significant policy issue revolves around whether the postal service should provide the electronic communications portion of the service itself, and, if so, under what conditions it should do so. Typically, the telecommunications industry, like private courier industry, tends to favor exclusion of postal service from electronic messaging services on the ground that a government-subsidized multi-product firm that monopolizes some markets might engage in predatory behaviors. The compromise that is emerging is that the postal service should be authorized to enter electronic telecommunications without its letter mail monopoly and with restraints that are intended to ensure that its presence does not lead to anticompetitive effects in the relevant telecommunications submarkets. In the case of Sweden Post, for example, this dilemma



has been resolved because the entire postal sector is completely deregulated and access prices to the Post's delivery system are explicitly specified.

If postal services are permitted to retain their letter mail monopoly and proceed with the provision of hybrid services, their development and competitiveness in these markets will, nevertheless, be hampered unless the hard copy services that form part of are priced correctly, both internally (within the postal service) and externally (for clients or customers). Such a pricing arrangement would require a set of changes in the structure and regulatory environment of the postal system that would result in the unbundling of postal services. Not only should pricing be unbundled and transparent between the delivery service (the monopoly aspect of the service) and the electronic value-added activities (which are competitive), but prices should be based on a cost rationale that reflects the differentiating features of delivery (such as coverage, speed and place of insertion in the mail stream) and should not consist of the application of a flat rate. This would require sophisticated estimates of the postal service's costs functions and could also involve the application of multi-product pricing principles to the services the postal sector has to offer (Regulatory Policy Reform). Pricing plays an important role in determining the relative rates of development of various kinds of message services – electronic, hybrid or traditional. Proper pricing is essential to ensure that the pie is as large as possible, so that the greatest benefits are available to the society.

Even in the provision of hybrid messaging services, the postal service has the choice of adopting four strategic options:

1. a minimal role;
2. an intermediate role;
3. an expansionist role; and
4. an exclusive role

The postal sector's activities in each of these four scenarios are outlined below:

11.5.1 Minimal Role

The postal sector cooperates with the private sector in the provision of hybrid services that use the existing postal delivery network, but does not engage in the complete



provision of any of the services themselves. Thus, the role of the postal sector is confined to the provision of regional printing and sorting (possibly) and physical delivery. The drawback to this option is that the postal sector may not choose to pass on all the savings that it realizes to either the user or the sender.

11.5.2 Intermediate Role

In addition to carrying out the above minimal role, the postal sector is engaged in providing complete hybrid services that make use of the existing postal delivery network by sub-contracting with private firms that offer the relevant telecommunications input. The postal service would develop, operate, market and deliver the complete service to the public and would also accept electronic messages from other firms that meet certain standards. Thus the postal service and the private firms would offer competing hybrid services, although only the postal sector would provide complete physical delivery. The pricing of delivery takes on considerable significance under this option. By excluding the postal service from the electronic portion of the service, this option creates incentives for the postal service to cooperate with the industry and to do so on a non-discriminatory basis.

11.5.3 Expansionist Role

The postal sector uses the existing postal delivery network as a base from which to transform the postal service into a modern information processing company. Thus, the postal sector is in direct competition with the telecommunications sector firms in the provision of the electronic output. This arrangement would require the acquisition of substantial new technical and management capability by postal administrators. In addition, the postal service might have to re-evaluate its entire investment in automation, which is typically directed at processing hard copy mail. More attention would need to be directed at investment in information technology, which represents the products of the future.



10.5.4 Exclusive Role

The postal service offers the complete service (electronic component, regional printing, and physical delivery) on an exclusive basis, and there is no provision for accepting messages in electronic form from the private sector. Private firms can insert messages in the mainstream only in physical form. A likely consequence of this option might be the development of a large subsidized electronic mail service with a monopoly, which might discourage the development of new services and incentives to cut costs. Therefore, the logic of adopting this option is questionable.



Chapter 12: Role of the Post Offices in Rural Finance



Role of the Post Offices in Rural Finance

12.1 Introduction: The Rural Finance Market

According to estimates, the projected rural population based on declining household size because of lower population growth rates would be 96,429,000 in year 2002-2003. This in terms of households is 13,975,000. In case, Pakistan is serious to improve its economic indicators, a majority of these households would require some kind of financial marketplace. However, past experience shows that the outreach of financial institutions, especially in the rural market, has been dismally poor. For example, according to one estimate, the current clients of all financial as well as NGOs/RSPs working in rural areas is not more than 350,000.

The CRF has been assigned the task to have a holistic look at the entire rural finance market and come up with viable options which can help improve the out reach of and provide access to financial institutions. The CRF has been working on a multi pronged strategy to look at various options including extensive participatory review of existing institutions, both in the public as well as private sector. This was done with a sole purpose to address the challenge as to how and by which means can these institutions be reengineered and their capacity enhanced so that they are able to play a more effective role in improving access and delivery of services to the rural areas.

Pakistan Post is one such institution which has the potential of playing an increased role in the rural financial market.

There are 10,650 post offices in the rural areas working all over Pakistan. Out of these 1,200 has been upgraded and have been equipped to provide all modern facilities. The post office has started a process of reforms and through restructuring they have earned a profit of 400 million in year 2000-01. The main reason for their success is the decision to diversify and restructure their traditional organization and its role towards globalization, liberalization, e-commerce, computerization, and using Internet for their operations. This "attitudinal change" has been brought about through a conscious decision by their management to improve the quality of their services as well as accept the challenges of the future. This attitudinal change is the key to look at the post office to be an important partner in developing the rural finance market.



The following are some of the ways in which the post offices can play a vital role in promoting rural finance in Pakistan:

12.2 Post Offices as Outlets of Banks

The out reach of commercial banks in the rural areas is dismal and with privatization and deregulation, more and more rural branches of these banks are going to be closed. This would obviously have an adverse impact on the rural financial markets. ADBP has yet not decided whether it would start savings products or not. NGOs/RSPs by default cannot mobilize deposits and financial inter mediation except micro loans.

The Pakistan Post has successfully demonstrated that by encouraging commercial banks to open booths in the post offices, the transaction costs of these banks can be significantly reduces. The

UBL experience of opening the booths in some of the post offices need to be studied in detail especially to find out whether the arrangement is commercially viable for UBL. In case it is, then other commercial banks should be encouraged to follow suit. One option is that the SBP could not allow the closure of commercial banks branches in Rural areas unless these banks open two booths in adjacent post offices of their choice. This concept can also be introduced for new commercial banks as well as MFIs who apply for new licenses with the SBP.

Similarly, the ADBP, like other institutions have a limited outreach in terms of clients in the rural areas. Their offices are, mostly situated at the Tehsil level. The committee should strongly recommend that for a start, ADBP must have their booths set up at all post offices. Since ADBP is currently not in the business of offering loan products, this could be achieved seamlessly. In such a case, since the major beneficiary would be the ADBP, it should be asked to provide resources for the upgrading of the post offices.

In addition, the concept of setting up dedicated rural banks at the district level with branches down below can also be dovetailed with the rural post offices and booths of such banks opened at designated post offices. The kind of services which such booths can offer would of course depend on the business volume, but for a start they can initiate entertaining loan applications etc.



In order to achieve this, a comprehensive survey of all post offices needs to be conducted preferably by some independent agency under the auspices of the SBP to find out how and to what extent this scheme is workable. The CRF can develop TORs for such a study and could be part of the monitoring team to ensure that the information being collected is reliable.

12.3 Upgrading Rural Post Offices to Enable them to Provide Post

Services to Rural Post Offices

This has two aspects. One is the service products that are already available with the post Offices but are currently not being provided at all rural post offices. Such services include:

- ✓ Savings bank with collection and disbursement of money
- ✓ Foreign remittances through savings banks
- ✓ Collection of Tax on Arms and driving Licenses
- ✓ Providing pension funds to all retired Government officials and not just the Armed forces.
- ✓ Communication centers

All such services can be easily expanded to the rural areas provided investments are made to upgrade the post offices. This can be undertaken in a phased manner but in partnership with perhaps the proposed district rural banks. It cannot be left solely on the discretion of the post offices. For this, the CRF should propose setting up of a task force with representatives of the CRF, SBP, Ministry of Finance and Ministry of Communications to look into the matter.

The other aspect is provision of new service products. For this, according to the Pakistan Post, "re- engineering" so as to upgrade their capacity to offer rural financial services.

Some of these services include:



12.4 Rural Post Offices Performing Savings and Treasury Functions

Post office in general and the ones in the rural areas in particular can become an effective vehicle in the collection of cash through its savings bank network and in the transmission of money in any part of the country. Post can potentially perform the treasury functions on behalf of the SBP and the NBP where ever their branches are not strategically located but where Post offices are ideally situated. In addition Post offices can become the nucleus for physical conveyance of cash like the” BRINKS”.

Prompt remittance and receipt of money to various authorized banks through "remittance advice" prepared by Pakistan post is possible. This would reduce risk of loss especially in far-flung areas.

12.5 Insurance Products to Rural Population

The PLI share the unique distinction with the State Life Insurance of Pakistan of having a monopoly control over life insurance products. Insurance products are an important and can play a critical role in the development of Rural Financial market. Currently, there are no statistics available that can assess the potential of insurance products in the rural areas, but can be safely assessed from the ability of people to save in the rural areas. A xx % of all deposits of commercial banks comes from rural areas. This is despite the fact that savings products are not readily available to rural people.

In addition, the poor have their own unique way of savings, which include investments in livestock as well as in cash through informal ROSCAS. It is therefore sufficient to say that there is a huge unmet and untapped potential of offering insurance products in the rural areas. These products range from relatively simpler products like Life insurance, accidental insurance to progressively more complicated products like health insurance, property insurance and last but not the least crop insurance. (For example, considering crop insurance to be a complex and difficult subject, we might initially focus on covering the risk of interest accumulated on crop loans in case of calamity).

However, there is now sufficient data available, which can help design insurance products that are targeted to the rural market. It is therefore proposed that a joint committee be formed that can work with the main service providers to design targeted insurance products and test them.



The next challenge in terms of provision of insurance products is availability of service providers.

International best practices experience show that the marketing function is best performed by outsourcing. This therefore opens a vast area for RSPs/NGOs to act as "agents" for the loan products. This would also perhaps provide one option for these organizations to utilize the millions of rupees of compulsory savings which till now are laying unproductively in small accounts across the country. The organizations stand to benefit by earning their commissions; the Insurance Company by selling its products; and the people who never had access to such services.

Indeed a win-win situation.

By outsourcing, the Insurance Company would be utilizing existing but trained manpower and well set channels for service delivery. Other organizations working in the rural areas like the VHWs of the health department or the primary school teachers can also be inducted provided of course the products are designed in a manner that there is minimum discretion.

12.6 Telecomm Centers in the Rural Areas by Pakistan Post

This initiative would provide access to rural areas with latest communications technology. It is planned to equip each centre with computer with printers and scanners; Telephone through a new

"Wireless Loop Telephony (this is being provided to the Post by PTCL. This will also enable the system to have Internet facilities); Post digital Pay phone.

Whereas this initiative is still in its initial stage, it must be appreciated and given all support. The

CRF feels that since the centre would have access to internet a service of offering "Agriculture Commodity Market information System" wherein the farmers can have the knowledge of Commodity and inputs prices at various places within the country. In order to set this up, there would be a need to link a centralized cell, which updates the information regularly. South Korea has a similar system. So does parts of India especially in Andhra Pradesh and there is a need to study these systems.



It is also proposed that such centers should also be open for private sector. Each revenue village would need this kind of a centre and can have a potential of providing employment opportunities at the local level. In India, such facilities are being run by unemployed educated youth in villages. NGOs/RSPs join hands with the Pakistan Post to set up and then franchise these centers to the rural people. However, one needs to carefully calculate the costs involved and who will pay for what. Based on the Indian experience, one may initially look at the possibility to set up such centers at places where RSPs have their field offices, try to learn lessons and then offer them to the 25,000 community organizations under the RSPs for adoption.

12.7 Miscellaneous: Foreign Remittances Through Prepaid Internet Cards

Transfer of money from abroad through Internet by using a pre paid card system is being designed for expatriate Pakistanis. In the new post September 11 scenario this option needs to be looked more seriously. Whereas, it has a potential of facilitating people whose families live in the rural areas, it would definitely involve host Governments. However, this is an innovative initiative and deserves thoughtful consideration.



Conclusion



Conclusion

In Pakistan, the postal sector is a trigger point. If nothing is done and the status quo is maintained, then it is likely that the sector would continue to erode as competitors and other communications media take over the market. Given the importance of this sector, particularly in developing countries, such a situation would lead to adversity in the net welfare.

However, countries that commit themselves to the postal reform could turn their postal service around so that it becomes an important player in the communications market. The benefits of a carefully planned and well executed reform program can be significant. Argentina, for example, embarked on a comprehensive postal reform in 1993. This reform involved full commercialization, complete liberalization of the market, and private sector participation in the management and financing of the postal service. Within two years of reform, even before the reform process was completed, the sector and the consumers were reaping considerable benefits. During this period, mail volume grew by about 40 percent and 98 percent of the letter mail was delivered on time (an improvement from 78 percent in 1993). The consumers also benefited – the average price of delivery fell by 65 percent. An interesting point from Argentina's experience is that after removing the monopoly and introducing competition, not only did the overall mail volumes grow, but the volume of the national postal service increased substantially



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Annexure