

# The Postal Industry in an Internet Age

## Case Studies in Postal Reform



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# Universal Postal Union Preface

## Redirecting Mail: first study of the postal reform process

The publication of *Redirecting Mail: Postal Sector Reform*<sup>1</sup> in 1996 provided the first comprehensive study of the postal reform process. This growing interest in improving postal performance on the part of the World Bank Group and others reflected the changes which the postal sector was undergoing as it responded to the liberalization of postal markets and the globalization of trade and industry.

In the Introductory Statement to *Redirecting Mail*, I stated that, in response to these changes, “classic postal administrations are giving way to postal corporations of different colors.” Regulatory reform, internal restructuring, and the increased use of technology were transforming postal services from government agencies into commercial businesses with ambitious commercial and operational goals. Some postal administrations were even taking the ultimate step of privatizing their operations.

However, in this same *Introduction*, I also concluded that regardless of the regulatory or internal reforms undertaken, the fundamental question facing posts remained unchanged, namely “what is the basic mission of a postal service provider?” My answer at the time, and today, is that the postal sector must provide universal postal services of the highest possible quality at the lowest possible price.

## The changing world of communications

While this basic mission has not changed in the five years since the publication of *Redirecting Mail*<sup>2</sup>, a great deal in the environment surrounding our sector has. The most significant change has been the explosive growth and progress of information technologies, including the Internet. The importance of having access to the products of these modern technologies in a globalizing economy has convinced the World Bank Group and others that closing the “Digital Divide” between information rich and information poor countries is today’s most pressing development priority. Unfortunately, these breathtaking advances in information technology have also led some observers to conclude that the postal sector is a “sunset” industry whose best days are past.

In my view, this is a somewhat hasty and unproven theory. While the future for the post is indeed more challenging than ever, its potential value as a basic communications provider and its rele-

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<sup>1</sup> Kumar Ranganathan with Rohini Dey, *Redirecting Mail: Postal Sector Reform*, The World Bank, Washington, August, 1996.

<sup>2</sup> Indeed the most recent statement of the UPU’s basic Mission, the Beijing Postal Strategy, reiterates this view by calling on postal services to ensure universal postal service; improve the quality of this service, and reform the organizations which provide it.

vance as part of the growing Knowledge Economy are also greater than ever before. In fact, market liberalization, globalization, and the rapidly advancing digital technologies that challenge the Post today should be viewed as excellent opportunities for increasing our sector's contribution to economic well being and progress.

## A future of challenges and opportunities

For example, while market liberalization has resulted in a lowering of postal monopolies and increased competition for traditional postal products, it has also convinced many governments that the public postal operator must have the autonomy and financial viability to compete effectively while providing universal service. These governments have gone on to sponsor regulatory reforms and targeted investments in the public postal operator. As will be seen in several of the case studies in this publication, the results of such reforms can be dramatic in terms of improved financial and operational performance and overall contribution to national economic growth.

Similarly, growing globalization and falling trade barriers have sparked competition that goes beyond national postal marketplaces. Traditional boundaries have been blurred and our accepted way of interacting as postal administrations is being challenged every day. Once again, this new challenge also provides new opportunities. Many postal services today are taking advantage of a more competitive and liberalized international system to establish mergers, alliances and joint ventures with their fellow administrations and with the private sector. They believe that these joint efforts, if properly structured, can utilize the combined strengths of one or more players to produce a “comprehensive” service that is greater than the sum of its parts. Our case studies will demonstrate that for postal services in developing countries, access to outside expertise and financing through such cooperative arrangements can be a significant element in rebuilding the postal business.

Finally, we all accept that the rapid advance of electronic information technologies poses the most serious threat to our traditional postal world. The increasing demand for faster, cheaper, and more flexible communications services means that postal services must continually rethink their methods for reaching and keeping today's communications customer.

## Merging postal and digital networks – a synergistic approach

At the same time, today's advances in technology also provide the greatest opportunities for tomorrow's Posts. By combining the traditional strengths and “reach” of postal services with the flexibility and speed of electronic media, a whole new range of products can be developed to meet emerging customer needs for value added communications products. Some of these applications, such as electronic bill presentation and payment, trusted third-party certification, electronic stamps, directory services, and secure e-mail already exist.

The synergistic merging of the Post's unrivalled retail and delivery networks with electronic media and the Internet is still in its very earliest stages. Vast possibilities in areas such as financial services,

eBusiness applications, and the conversion of post offices into “Communications Centers” which provide universal Internet access are only now being researched and implemented.

Postal services are also continually seeking out ways of incorporating modern information technologies into their operations to raise productivity and lower costs. Electronic bar-coding in mail processing, trace and track systems for premium items, and greatly enhanced management information systems are just three examples that can be drawn from our case studies.

It is particularly pleasing to see that the reform examples included in this brochure are drawn from developing countries with a wide variety of economic backgrounds. At the time of its publication, *Redirecting Mail* could only draw its conclusions on postal reform from the lessons provided by high-income countries. While these examples were encouraging, they did not demonstrate that postal services in developing countries could successfully undertake the same journey. The case studies from this brochure confirm that postal reform can be a universal phenomenon.

*Thomas E. Leavey*

*Director General, International Bureau, Universal Postal Union*

### Postal Development Action Group

Since 1991, the UPU’s Postal Development Action Group (PDAG) of twenty-five countries has been dedicated to increasing the amount of resources available for world-wide postal development and reform. This drive has brought us into close contact with the World Bank and with other development banks. We have learned that these institutions are willing and even eager to contribute to development of the postal sector where a strong, government-backed program for this process exists. Indeed, many of the case studies in this brochure provide examples of how governments, postal administrations, and multilateral investors have worked together to develop the best possible postal services at the lowest possible prices.

A great deal of our progress in disseminating postal reform beyond the industrialized world since 1996 has been due to the World Bank Group’s increased interest and involvement in development of our sector. The UPU-World Bank partnership has provided not only significant resources for this effort, but also has brought extremely valuable development and financial expertise to the postal reform process. The growing recognition by the World Bank Group and others that the postal sector plays a vital role in building national economies is a powerful argument for postal reform and modernization.

We look forward to working with these stakeholders and with others to continue to demonstrate that “Postal Reform is a Good Investment.”

*Richard J. Strasser, Jr.*

*Chairman, UPU Postal Development Action Group*

*Chief Financial Officer and Executive Vice President*

*U.S. Postal Service*

# The World Bank Group Preface

## Modern postal services are a critical factor in development...

Postal modernization has come a long way since the 1996 publication of *Redirecting Mail* and has achieved even greater priority for the World Bank Group since that time. Numerous postal projects financed by the World Bank are currently being implemented and many more are being prepared. Therefore, this is a good time to reflect on our past experiences with the sector and to derive some “lessons learned” that can help the World Bank Group respond to the growing demand for support for postal sector reform.

We strongly believe that a strong postal industry can provide vital support for economic and social development. Indeed, that is why modernization of this sector harmonizes so well with the Bank’s central mission. A strong postal network reaches all residents, many of whom have no other means of communicating with the outside world. By providing this universal level of communications, posts can also provide the increased access to information that is essential to poverty reduction in the Information Age. But postal services do much more; they connect people and raise their level of social development and cohesion. For businesses, both large and small efficient postal services are an important means to advertise and distribute their goods and services.

Like roads, telecommunications, water and power, postal services provide a core infrastructure that is essential to economic progress. In many countries, they also provide basic banking services that would otherwise be unavailable in remote and rural areas. Postal services cover not only all parts of a country, but also all parts of the world. In short, even after centuries of existence, the Post is still the most universally available and economically accessible form of communication.

## ... but major reforms are necessary

Despite this long history, today the postal industry finds itself undergoing major changes. Increasing competition, new customer expectations, technological advances and internationalization of business are creating enormous challenges for this essential service sector. The winds of change that have significantly changed postal systems in many OECD countries are now reaching less developed countries as the postal marketplace itself changes from a cooperative to a competitive environment.

But while postal modernization has come more slowly to the developing world, this sector still has a critical need for high quality postal systems that can both take advantage of emerging opportunities and respond to future challenges. In many cases, reform of the telecommunications sector has come more swiftly, leaving behind a postal component that needs both strategic reorientation and corporate restructuring. Significant progress in levels of autonomy, quality of service, productivity, business-focus, and financial viability are critical if postal services in developing countries are to survive and respond to evolving communications demands.

As telecommunications has done before them, posts must go through its own legislative, regulatory and institutional reforms and build a foundation for the future growth of the entire sector. Deregulation and (gradual) market liberalization are important elements in this process, but so are clearly defining universal service obligations and determining an appropriate legal status for the incumbent postal operator.

### The Bank's approach to postal reform

The World Bank Group strengthened its postal development practice and consolidated postal activities in the Global Information and Communication Technologies Department. This department is a joint unit of the International Bank for Reconstruction and Development (IBRD), the International Development Agency (IDA), and the International Finance Corporation (IFC). IBRD/IDA support governments in the developing world whereas IFC assists the private sector. The World Bank Group regards postal services as part of the overall information infrastructure sector of a country. Within the Global Information and Communication Technologies Department postal reform activities are often closely connected to telecommunications and information technology projects.

We encourage comprehensive postal reform projects including sector policy changes (legislative, regulatory, institutional) as well as enterprise modernization (restructuring of the main postal operator). The Bank can assist with ambitious transformation programs that typically include elements of market liberalization and the corporatization of the public postal entity. A postal project (which can also be a component in a larger infrastructure reform project) can consist of several phases that ideally are closely linked to each other. The World Bank Group typically encourages private sector participation. However, we know that one size does not fit all and that postal sector reform can come in many forms. The case studies in this book exemplify several models of postal modernization. We appreciate the specific conditions in each of our client countries and help to find the best possible solutions.

The World Bank offers a wide range of instruments, including advisory services, technical assistance and adjustment loans, partial risk guarantees and direct investment loans. The preparation for private sector participation or even an eventual full privatization can also involve subsequent financing by IFC.

Our postal projects typically start with a postal sector policy which can include a new postal law, elements of market liberalization, a clear definition of universal service obligations and a regulatory framework. The Bank is also able to support the restructuring and modernization of the existing postal operations; corporatization, commercialization and private sector participation are the key concepts. As soon as a strong and reliable postal system has been secured the Bank also encourages and supports the development of new business (expansion of the product base and value-added services).

## Postal services can connect the Old and New Economy

Postal networks (collection, transportation and delivery of mail, retail outlets) can be used for a wide range of value-added services. A modern postal system can help to provide logistical solutions to integrate data flows, physical flows and financial flows. The posts also can offer fulfillment and delivery functions for e-commerce (“bits become boxes”) as well as trust center and payment services for businesses and customers. And finally, the use of postal retail outlets as access points to the Internet via public terminals is just beginning to be explored and evaluated.

Even “cyberspace” has a physical dimension and that is where reliable postal services are and will be in high demand. The World Bank supports its client countries efforts to significantly improve their postal systems and to position these systems as facilitators for electronic business. The Bank also stresses, however, that a platform of reliable basic postal services today is an indispensable prerequisite for providing value-added and e-business solutions tomorrow. Nevertheless, a solid and trusted postal system is second to none in terms of its ability to enable the complex physical, information and financial transactions that will be at the heart of the “New Economy”.

## Good prospects for the Posts

After starting by building a strong platform of efficient core services, posts will be in an excellent position to diversify their product line and develop innovative solutions that respond to evolving customer demands. The New Economy needs a postal industry capable of providing these solutions.

The World Bank Group is prepared to support this process and to help ensure the postal industry is a major player in the era of the Internet. By cooperating with the Universal Postal Union, other international organizations, and the private sector we can work together to provide the best available expertise and experience for this transformation process.

The Bank continues to have confidence in the core messages of *Redirecting Mail* and today, we are in a better position than ever before to support their realization. This brochure is designed to update and strengthen these messages and to provide new impetus for postal reform in developing countries. We strongly believe that by redefining its institutional and market environments, the postal sector can take advantage of the outstanding opportunities provided by the revolution in information and communications technologies.

*Nemat Shafik*

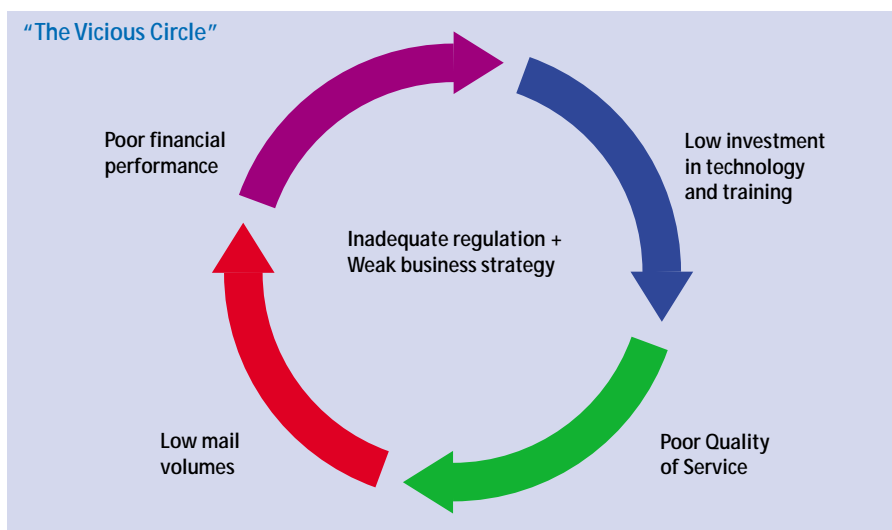
*Vice President*

*Private Sector Development and Infrastructure*

*The World Bank Group*

## Authors' Note on the Case Studies:

*Redirecting Mail* is an excellent study of the progress of the postal reform movement through 1996. The authors correctly identified the great demand for postal reform to respond to the ongoing lack of attention given to the sector by governments in developing countries. Without immediate reform, the “Vicious Circle” of low investment and poor performance that characterized the postal sectors in these countries would eventually lead to a postal “crisis” of significant proportions. *Redirecting Mail* did identify examples of successful reform from several high-income countries where postal transformations, based on significant regulatory, enterprise, and technological reforms had been enacted.



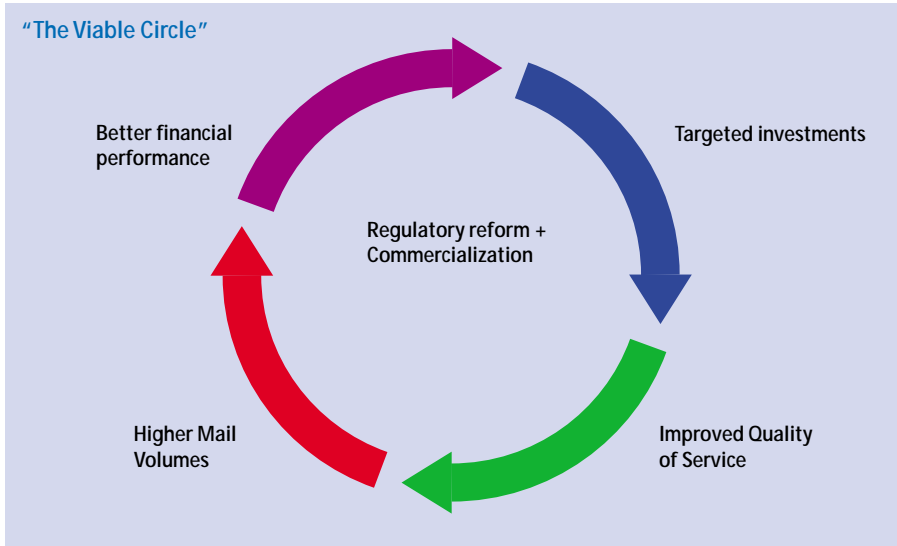
The purpose of *this* brochure is to show how, since 1996, postal administrations in several developing countries have been able to build upon the initial lessons provided by *Redirecting Mail* to break the Vicious Circle and replace it with a Viable Circle of self-sustaining postal performance and progress. These examples are not detailed blueprints for how to enact postal reform. However, they do provide tangible evidence that the reform strategies described in *Redirecting Mail* can be implemented effectively in developing as well as in industrialized countries.

These specific case studies were chosen based on the availability of data to establish a view of the postal enterprise before and after reform. They represent a geographic diversity as well as a variety of approaches to the reform process. Each case study also provides its own unique contribution to postal modernization and some valuable “lessons learned” about how postal reform proceeds in developing countries.

The authors would like to especially thank the postal administrations of the countries involved for their cooperation in gathering and reviewing data and the Universal Postal Union Regional Advisers for extremely useful input on current postal performance in their regions.

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*Global Information and*  
*Communication Technologies Department*  
*The World Bank Group*

*Juan B. Ianni*  
*Postal Development Action Group (PDAG)*  
*U.S. Postal Service*



# Reform Case – Correos de Costa Rica, S.A.

## Costa Rica

Costa Rica is a small, tropical country of 4 million inhabitants, located in Central America and bordered by the Pacific and Atlantic Oceans. The economy is principally based on agriculture and tourism, with a growing industrial and manufacturing base. In recent years, there has been a significant growth in the manufacture of electronic components for televisions and computers.

Nearly 50 percent of the population lives in urban areas. Recent advances in education have led to a 95% literacy rate. Costa Rica is considered a low middle income, developing country<sup>3</sup>; in 1999, the gross domestic product (GDP) was approximately \$10 billion USD and per capita gross national product \$2770 USD. During the past ten years, GDP has increased between 3 and 4.5% annually, and inflation has ranged from 12 to 25%. Unemployment has averaged 5.0 to 7.0%. Communications facilities are relatively advanced for this level of development, with 90% of the population having telephone coverage (22 lines per 100 inhabitants).

## Reform environment

Costa Rica has embarked on a program of increasing foreign investment, controlling public sector spending, and integrating its economy with its Central America neighbors and with other foreign partners. In recent years, numerous state agencies have been granted operational independence including telecommunications, power, and the national banking system. There has been some public resistance to the further step of privatizing these entities, although significant progress has been made in the banking sector.

## Postal marketplace

The total postal market in Costa Rica is small due to the overall size of the economy and the fact that Costa Rica does not have an urban address system that identifies streets or individual buildings. In fact, the same delivery point is routinely described in a wide variety of ways, based on its distance from known location points of reference. As a result, over 60% of postal volumes are delivered to post office boxes. The lack of a standardized address system also limits attempts to increase productivity through automation and other modern postal procedures.

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<sup>3</sup> World Bank Group, *The Little Green Data Book*, International Bank for Reconstruction and Development/The World Bank, Washington, April, 2000.

Total postal sector volume is approximately 65 million pieces per year or 18 pieces per capita annually<sup>4</sup>; this compares with an average of 10 per capita for the rest of Central America and 15 per capita for all of Latin America. Eighty-five percent of this total represents commercial and government mail. The public operator has typically obtained about 43% of the national and 73% of the international postal marketplaces for traditional postal products. It has a very small stake in the national and international courier markets that are dominated by DHL, UPS, FEDEX, and TNT.

### Pre-reform public operator structure and performance

Before 1996, the Postal Administration of Costa Rica operated as a part of the National Communications Agency of the Interior Ministry. Postal laws were first established in 1885 and were revised in 1921 and 1975. Overall direction of postal matters was overseen by the Administrative Board of the National Communications Agency and a Director General operating under the direction of the Board. A monopoly was reserved for the Postal Administration over postal products and was included in postal regulations; however, these provisions were not enforced and were generally ignored.

Prices for all services offered by the Postal Administration were set by the Interior Ministry. Postal personnel expenses (approximately 70% of the total costs) were paid out of the national budget, while other costs were paid out of operating funds. Annual financial performance was negative for the 3 years preceding 1999 and the government annually provided subsidies totaling nearly 67% of total revenues (see chart 1).

The postal network was based on a single mail processing plant serving 160 retail outlets, 60,000 post office boxes, and 350 delivery routes, including rural areas. Annual productivity (as measured by pieces per employee) averaged 21,000 for the five years preceding as compared with a regional average of 11,000 for all Central American postal administrations. Average delivery time in urban areas was D+5, and more than that in rural areas. The image of the Postal Administration as a communications provider was low and many government services and large private companies preferred to have their own private delivery services or to pay higher prices to “niche” operators dedicated to their specific delivery needs.

### Postal reform strategy

Starting in early 1996, the Government of Costa Rica began a process of postal reform designed to maximize the postal sector’s contribution to overall economic growth. The overall strategy for this reform was based on six principal strategies:

- Create a new postal service with sufficient autonomy to compete effectively and commercially;
- Eliminate government subsidies to the postal service;

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<sup>4</sup> Universal Postal Union, *Postal Statistics*, Bern, 2000, pp. 84-85. An additional 10 million pieces are received from foreign postal administrations.

- Define operational and financial goals for the postal service that would ensure its future development;
- Maximize the potential synergy between traditional postal products and emerging digital communications media;
- Finance internal postal development through increases in tariffs tied to improvements in service, reliability, image, and responsiveness; and
- Utilize the new, commercial outlook of the posts to increase private sector participation through joint ventures and partnerships.

The first step was to draft a new postal law in 1996 creating Correos de Costa Rica, S.A., an autonomous state enterprise operating under the same regulations as private companies. The postal sector was identified as a national priority, and the obligation to ensure universal postal service (primarily letters as defined by "LC" in the UPU Convention) was reaffirmed as a national obligation. Correos de Costa Rica S.A., was given responsibility for providing this universal level of service. A separate regulatory function was established within the Ministry of the Interior and the Public Services Regulatory Authority, an autonomous entity, with responsibility for negotiating prices for universal service mail with Correos de Costa Rica, S.A. The regulator also has responsibility for issuing licenses (for a maximum term of five years) and establishing licensing fees for private operators wishing to offer products within the universal service area. All other postal products are open to free competition.

Finally, and perhaps most significantly, the new postal law established a commission headed by the new postal service and composed of local authorities to develop a comprehensive addressing system for Costa Rica.

## Results

The new postal law, issued in April 1998, took effect later the same year; tangible results have already been achieved. The government subsidy was eliminated in 1999 and for the first time, postal revenues exceeded costs (see Chart 1) Postal volumes have been growing by approximately 7% per year.

Prices have been increased to fund investments in basic infrastructure and improved quality of service (see Chart 3). In September of 1998, average prices were raised by 50%. The price for the first weight step for letters (20 grams) went from \$0.08 USD to \$0.11 USD and was raised again to \$0.16 USD in December of 2000. Plans are to raise the price for a final time to \$0.20 USD in 2001 and to tie future increases to inflation rates.

Postal volumes have grown despite price increases due to an increase in quality of service. Eighty-five percent of letters are now delivered in D+2 in urban areas and D+4 for the rest of the country. Costs have remained relatively stable despite an increase in overall staffing. After an initial reduction of 300 positions (from total staffing of 1,280) achieved through voluntary retirement, staffing has been increased by 150 positions. New positions will be necessary to meet the growing

demand for street delivery and specialized services by large business customers switching from their own delivery services and from other providers to Correos de Costa Rica, S.A. Small investments have been made in information systems and other technology.

Modest investments have also been made in management training, information technology, facilities, and operational equipment. This increased network capacity has allowed Correos to respond to increased customer demands while greatly improving the performance and image of the postal service.

Contracts and joint ventures have been established with other government agencies and with the private sector, both domestically and internationally, to expand the range of products and services offered and add value to the postal retail network. These include, the Bank of Costa Rica for financial services, Radiográfica Costarricense for Internet services (see note below), and with foreign postal administrations for priority mail, packages, and network development and modernization. Postal outlets also sell telephone cards, locally produced artifacts, and insurance.

## Conclusions

Correos de Costa Rica, S.A. has used regulatory reform as the foundation for building a more commercially oriented and responsive postal business. While this reform was primarily driven by postal management, it received ongoing and sustained government support and guidance. The new company is achieving better financial and operational success than its predecessor and in the process has eliminated a costly financial burden for the government. Customers have a much more positive image of the post and are more likely than ever before to use Correos as their communications provider.

The strategy of developing capacity only in line with actual demand has allowed Correos de Costa Rica, S.A. to manage costs while satisfying increased demand for its products.

While this level of progress has been achieved with internal resources, further improvement of the national operator as well as full development of the entire postal sector will require significant outside investment, expertise, and technology, including partnerships with other postal stakeholders. Correos de Costa Rica, S.A. has worked with the World Bank Group and other outside experts to develop a Five Year Development Plan defining the goals, strategies, and level of investment (approximately \$23 million USD) that would be needed to realize this potential.

## Unique Feature: “Correos.com” – merging postal and digital communications

In order to maximize its contribution to economic development, the postal service of the future will need to provide hard copy communications and hybrid digital/mail products while simultaneously providing general access to the Internet and eCommerce. That future is happening today in Costa Rica.

The postal subsidiary “Correos.com”, in association with the Government of Costa Rica and State telecommunications agencies, began offering Internet services through its retail outlets in mid-2000. As part of this joint project, Costa Rican citizens can use their national identity number as an email address and have access to Internet free of charge for 10 minutes daily in post offices. Citizens can obtain additional Internet time in these same offices and at other locations by purchasing prepaid cards.

Correos de Costa Rica, S.A. has installed 80 computer booths in 30 localities and plans significant expansion of these facilities within the next three years. Obviously, this new feature provides increased communications access for all citizens at convenient locations. But it will also allow Correos to develop new hybrid products and services that respond to the emerging needs of eCustomers, particularly in the financial services area. Finally, the “wiring” of post offices to provide Internet services will also expand the use of Information Technology as a postal management tool.

Future expansion of these postal Internet services will be coordinated with development of a national address system to provide a new, synergistic approach to ensuring that universal communications services are available to all citizens of Costa Rica. The Costa Rican example also provides valuable lessons for postal services in both developing and industrialized countries. If the transformation of post offices into “communications centers” can help meet the emerging and as yet unimagined demands for faster, cheaper, and more reliable communications, then postal services will be a major player in the Digital Age.

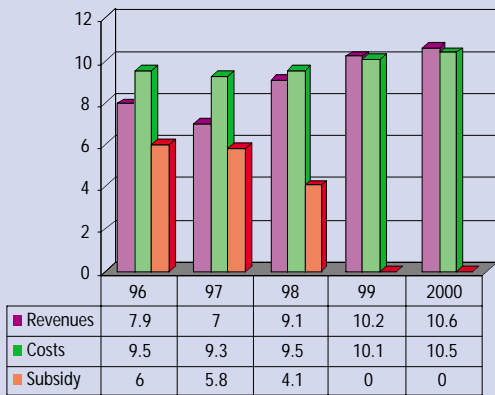


Chart 1 – Postal Financial Performance (\$millions USD)

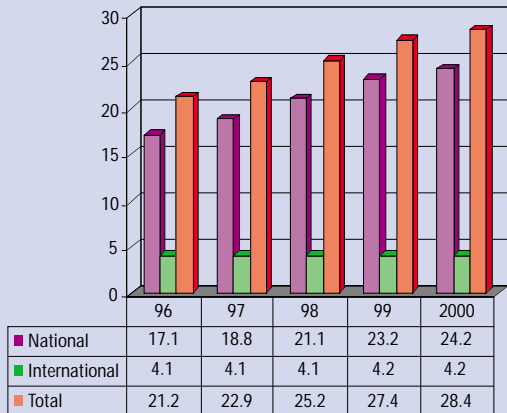


Chart 2 – National Operator Volumes (millions pieces)

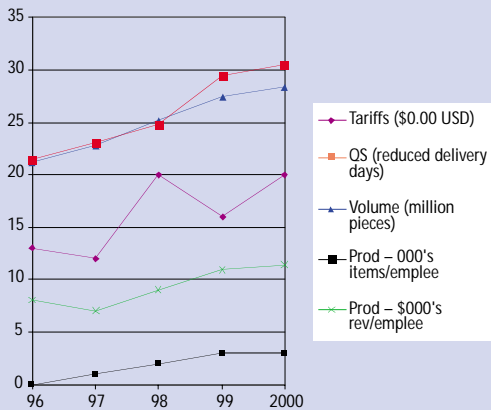


Chart 3 – Improvements in Quality and Productivity in line with Tariff Increases

<sup>5</sup> Data for charts from Correos de Costa Rica, S.A. and Universal Postal Union, *Postal Statistics*, Bern, 2000, pp. 84–85

# Reform Case – PT Pos Indonesia

## Republic of Indonesia

The Republic of Indonesia is a large, (nearly 2 million square kilometers) Southeast Asian country. Its 204 million inhabitants make it the fourth largest country in the world. Indonesia is made up of over 17,000 islands, 6,000 of which are inhabited. The climate is basically equatorial. The economy is based on agriculture (41.2%); trade (19.8%); public services (13.7%); and manufacturing (12.9%). Approximately 60% of the population live in rural areas.

Indonesia is considered a low-income, developing country with great potential for moving into the middle-income bracket<sup>6</sup>; 1999 Gross Domestic Product (GDP) was \$142 billion USD with an annual growth rate of 0.2%; per capita income for the same year was \$684. Inflation has fluctuated significantly in recent years, from a high of 77% to a low of 2%.

## Reform environment

In the decade preceding the economic crisis 1997–1998, Indonesia achieved remarkable economic growth and was one of East Asia's best performing economies. GDP growth reached as high as 7.8 percent in 1996 and per capita income nearly \$1,000 USD. The economic crisis and a severe drought temporarily slowed the progress but not the overall direction of economic and institutional reforms that had been underway for some time. These reforms were based on a drive to eliminate regulatory obstacles to economic activity. By late 2000, the economic situation had improved and the reform environment was once again strong.

Part of the overall reform environment has been a determination to improve and expand access to basic services, including information services, to all levels of society and all parts of the country. This is seen as a critical element in alleviating poverty and in ensuring Indonesia's competitiveness in information driven, global markets. Increasing private sector participation in the provision of these services is also seen as a key element in their modernization and wider availability.

## Postal Marketplace

Total postal volume (national mail plus originating international mail) processed by the public operator "PT Pos Indonesia" for 1998 was 690.6 million pieces or approximately 3.38 pieces per

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<sup>6</sup> World Bank Group, *Little Green Data Book*, International Bank for Reconstruction and Development/The World Bank, Washington, April, 2000.

capita annually.<sup>7</sup> Considering the high literacy rate in Indonesia (85%) and the traditionally high rate of economic activity, this must be considered exceptionally low and indicative of the potential for increasing postal volumes and performance.

The public postal operator is charged with providing universal service in Indonesia. However, there are over 600 licensed independent companies operating primarily in big cities and towns. In addition to these “postal” companies, many cargo and freight companies and public transportation companies also handle letters and parcels. As a result of lower volumes since the 1997–98 financial crisis and extensive universal service obligations (20,000 retail units stretched out over nearly 2.0 million square kilometers) the public operator must constantly develop opportunities to add value to the vast postal service basic network<sup>8</sup>.

### Pre-reform public operator structure and performance

While the public postal operator was separated from telecommunications in 1965, it continued to operate within the same ministry as a government agency until 1995. Up until that time, the government served as both operator and regulator of the postal marketplace. The public operator had the exclusive right to collect, transmit, and deliver letters, post cards and letter cards, although this restriction was generally ignored.

Management was highly centralized and not based on the need to compete in an evolving Indonesian postal marketplace. In fact, there was no marketing function within the headquarters structure and therefore, little market research or product development was undertaken<sup>9</sup>.

Generally accepted financial accounting procedures for the Post were not implemented until 1995, and therefore, any financial information should only be regarded as generally indicative of trends. However, it is possible to see that during the pre-reform phase (1990–1994), financial performance was declining:

**Financial results 1990–94**  
(IRP millions)

Year	90	91	92	93	94
Total revenues	269.703	337.696	401.858	446.687	465.595
Profit after taxes	28.306	41.187	30.761	32.501	32.92
Return on sales	10.5%	12.2%	7.7%	7.3%	7.1%

<sup>7</sup> Universal Postal Union, *Postal Statistics*, Bern, 2000, pp. 164–165. An additional 67.6 million pieces were received from foreign postal administrations in 1998.

<sup>8</sup> See “Unique Feature” at the conclusion of this Case Study. The authors are indebted to Hans Kok, Hans Kok Business Consult BV, Boskoop, The Netherlands, for information on the “wasantara Network” and other operational aspects of PT Pos Indonesia.

<sup>9</sup> Universal Postal Union, *Marketing Plan for Pos Dan Giro*, Indonesia, Bern, November, 1991.

## Postal reform process

### Phase 1 – Transformation to a Business Culture (1995–1999)

The postal sector reform process began in earnest in 1995 with the creation of an independent postal enterprise, PT Pos Indonesia as a state-owned corporation operating under the regulations developed by the Directorate General of Posts and Telecommunications (DG Postel). DG Postel was made responsible for setting overall postal sector policy as well as with ensuring maintenance of a national postal system. Supervisory responsibility for monitoring PT Pos Indonesia's performance in line with the national policy guidelines established by DG Postel was given to the Ministry of Communications.

PT Pos Indonesia's day-to-day managerial and decision making authority was greatly increased and its internal structure redesigned along more commercially oriented lines. PT Pos Indonesia was organized into five service divisions focusing on transportation, philately, technology and information systems, parcels, and property. During strategic planning exercises, special emphasis was placed on business development and advertising to meet the changing needs of a more sophisticated customer base.

The Government of Indonesia also embraced a customer-focus policy with respect to the national postal system. As a top priority, the Government determined to expand the PT Pos Indonesia network to customers with a wide variety of economic, social, and educational backgrounds. This was an important element in the overall drive to expand access to information systems and reflected the Government's support for postal development as a key element in building the economy and alleviating poverty.

### Results – Phase 1

The financial results of commercialization, based on externally audited accounts of PT Pos Indonesia for the first three years of Phase 1 demonstrate much better results than the pre-reform years. These results are even more impressive since they include interest paid on government loans to the new company.

**Financial results PT Pos Indonesia 1995–99**  
(IRP millions)

Year	95	96	97	98	99
Total revenues	504,300	572,661	674,568	987,182	1,062,181
Profit after taxes	47,612	58,373	66,439	54,400	67,501
Return on sales	9.4%	10.2%	9.8%	5.5%	6.4%

Another key Government goal, expansion of services was also achieved as total postal units were increased by nearly one third from 1994 to 1998. However, this increased coverage was achieved at minimal cost since nearly all of the units added were franchise offices. This also allowed total staff costs to be reduced over this same period (see Chart 1) while increasing private sector participation in postal operations.

Furthermore, by 1997 the commercialization of PT Pos Indonesia operations, with an expanding customer base and more direct attention to large-volume mailers had led to strong increases in mail volume (26%) and productivity (34%) before the full effects of the economic crisis suppressed postal activity (see Chart 2). PT Pos Indonesia has had to adjust to these lower volumes beginning in 1998 while at the same time confronting increased competition (e.g., DHL, Federal Express, UPS, TNT Worldwide, etc.) for express and other premium items. By striving to continually upgrade its full range of products, PT Pos has managed to maintain market share.

## Phase 2 – Major restructuring and re-design (1999–2003)

Phase 2 of Indonesia postal sector reform project is part of a major restructuring and redesign of the communications sector during 1999–2003. This project, which is receiving significant support from the World Bank Group, has the following objectives<sup>10</sup>:

- (i) Extend and intensify communications and information networks to facilitate sustainable regional development and economic growth by:
  - a) Extending the postal communications network to rural regions to establish a basic communications medium;
  - b) Extending email, Internet... to promote wider usage for information access towards the promotion of knowledge acquisition and economic growth;
  - c) Introducing new value added services using existing postal and electronic networks to be able to respond effectively to rapidly changing global market needs;
- (ii) Develop appropriate legal and regulatory frameworks that would effectively create the enabling environment for the provision of the above services in a sustainable manner;
- (iii) Strengthen institutional capability and capacity in the relevant agencies and administrations [e.g., PT Pos Indonesia];
- (iv) Promote private sector partnerships in the provision and management of information networks and systems.

The basic development strategy is to facilitate comprehensive development of the information infrastructure throughout the country. The mechanism for doing this would be the gradual liberalization of the postal market with simultaneous strengthening of the public postal operator's ca-

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<sup>10</sup> Global Information and Communication Department, *Indonesia-Information Infrastructure and App. Dvpt. (Project ID 48715)*, <<https://www.worldbank.org/ict/projects.nst>>, (2-21-01).

capacity to ensure its increasing competitiveness and universal service coverage. In another words, establishment of a truly level “playing field” to promote competition and the development of new, value added postal products.

While the financial and economic crisis of 1997–98 has slowed progress on Phase 2 of the reform process, a new postal law has been drafted and submitted to the parliament for approval. This law would establish ongoing liberalization of the postal markets and maintenance of universal service. It is envisioned that the law will also establish viable frameworks to monitor the cost and quality of universal service and the ongoing competitiveness of the postal marketplace.

### Unique Feature: The “Wasantara Network”

Indonesia has a vast geographical area within which PT Pos Indonesia operates over 27,500 total postal services points. Supporting the information needs of this network while simultaneously expanding the range of eBusiness postal products offered to the public requires a nation wide, comprehensive information system based on a strong Information Technology infrastructure. PT Pos Indonesia has already started the “Wasantara Network” to serve both as its own “Intranet” for operational purposes and as support for commercial activities in the field. The main post offices are already included in this network, while the others are served through batch processing.

The Wasantara Network *supports the following management information and operational systems:*

- financial accounting
- marketing and sales data
- human resources
- hybrid mail (remote printing)
- financial transactions (money orders)
- eCommerce and eFulfilment activities

These systems also provide an information platform for consultations between the PT Pos Indonesia and the Ministry of Communications.

The development of postal monitoring & support systems has also helped achieve the Government of Indonesia’s key development priority of enhancing and expanding the country’s information infrastructure. The Wasantara Network provides customer access to electronic mail, file transfer programs, *Telnet* (remote server), Web-browser, Web-hosting, and Server-hosting. Wasantara also functions as a gateway with international Internet connections via Singapore Telekom (Singtel).

As the “Digital Age” moves forward, the Wasantara Network can provide a valuable tool for managing the nation’s postal services *and* a comprehensive information infrastructure for Indonesia’s citizens.

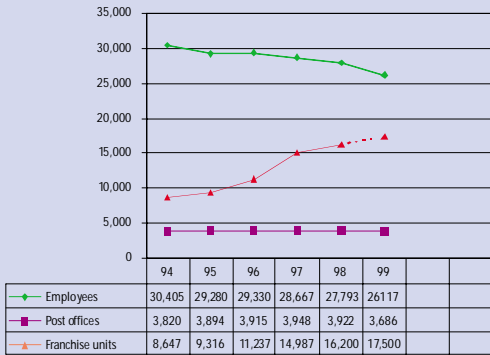
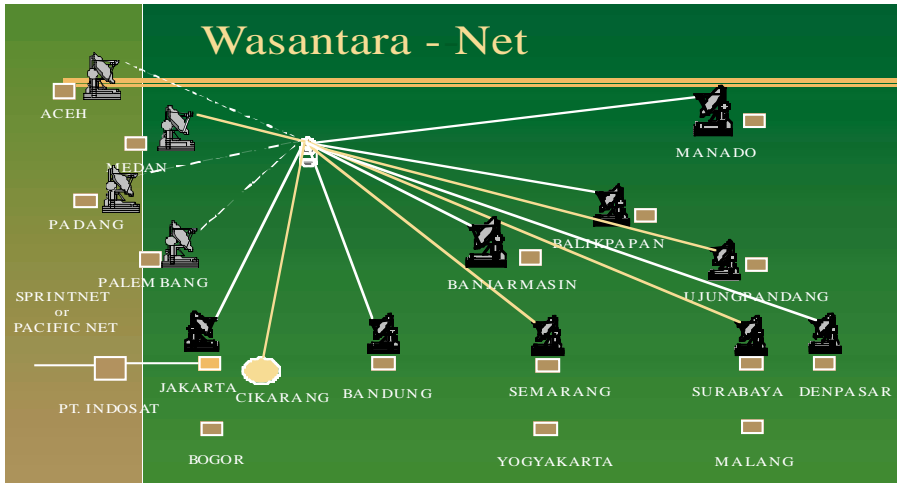


Chart 1 – Expansion of Coverage during Phase 1 PT Pos Indonesia Reform (1999 Franchise Units-projected) (source: UPU Postal Statistics)



Chart 2 – Volume and Productivity Growth: Phase 1 PT Pos Indonesia Reform (source: UPU Postal Statistics)

# Reform Case – Tanzania Posts Corporation

## United Republic of Tanzania

The United Republic Tanzania is a medium-sized country (947,000 sq. km.) of 33 million inhabitants located in Southeastern Africa. The climate varies from tropical to extremely arid throughout a very diverse terrain. The economy is principally based on agriculture, which provides more than 60% of GDP and 80% of employment. Principal cash crops include coffee, tea, and cotton. Industrial activity accounts for 10% of Gross Domestic Product (GDP) and is based on textiles, agribusiness, and light manufacturing.

Approximately 80% of the population is rural, and the overall literacy rate is 67%. Tanzania is considered a low income, least developed country<sup>11</sup>; in 1999, GDP was approximately \$ 8 billion USD and per capita income \$250 USD. GDP has increased by approximately 4 percent over the last three years; in 1999, inflation stood at approximately 8.8%.

## Reform environment

Starting in the late 1980's the Tanzanian Government began to take steps to encourage private sector participation in the economy. A comprehensive set of strategic policies designed to reduce budget deficits, liberalize trade, remove price controls, and restructure the financial sector were enacted. A three-year Enhanced Structural Adjustment Facility with the International Monetary Fund was enacted in 1996. A vigorous program of restructuring state-owned enterprises was also undertaken and 275 out of 425 "parastatal" functions were divested from direct government control.

## Postal marketplace

The total postal marketplace in Tanzania is limited due to the small number of mail generating businesses. Addressing systems are not strong and over 95% of all mail is delivered to post offices boxes. Total postal volume (national mail plus originating international mail) processed by the public operator for 1998 was 40.4 million pieces or approximately 1.26 pieces per capita annually.<sup>12</sup> This compares with an average of 0.88 for similar sub-Saharan African countries.

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<sup>11</sup> World Bank Group, *Little Green Data Book-2000*, International Bank for Reconstruction and Development/The World Bank, Washington, April, 2000.

<sup>12</sup> Universal Postal Union, *Postal Statistics*, Bern, 2000, pp. 366–367. An additional 14.3 million pieces were received from foreign postal administrations in 1998.

## Pre-reform public operator structure and performance

The pre-reform structure of the postal sector in Tanzania was based on centralized planning and organizational and financial dependence on the telecommunications sector. Before 1978, the posts and telecommunications services were provided by a supra-organization under the defunct East African Posts and Telecommunications Corporation—a specialized corporation of the then East African Community. Regulator and operator functions were both performed by the Corporation under government control of the partner states (Council of Ministers). In 1978, after the breakup of the East African Community, the postal and telecommunications services were put under a new parastatal, the Tanzanian Post and Telecommunications Corporation (TPTC). On January 1, 1994, TPTC was restructured to separate the postal and telecommunications services.

A monopoly over letter mail and other basic services existed, but was not strictly enforced. A wide variety of private providers also offered mail services. Banking services were offered at postal outlets on behalf of the Post Office Savings Bank, a separate government entity within the Ministry of Finance.

Between 1992 and 1996, when the second phase of the reform process began, there was an average 22% annual loss in mail volume. Parcel traffic alone decreased by almost 50% from 1992 to 1993. Productivity, as measured in pieces per employee stood at 13,492 per employee in 1994, compared with an average of 16,300 for other similar sub-Saharan Africa countries<sup>13</sup>. The 1994 per capita mail volume was 0.87, a low figure for a country with Tanzania's relatively high literacy rate.

There was little commercial orientation in the offering of postal services and products, and no differentiation or segmentation in attracting or servicing individual versus business customers. As a result of this negligence of business customers and a generally poor image for quality, security, and reliability, over 79% of the mail volume represented individual to individual mailings.

Quality of service was generally not measured and severe delays plagued interregional mail. The condition of the overall mail network was regarded as poor and unlikely to improve without major restructuring and investment. Within the TPTC itself, telecommunications concerns and initiatives were given priority over postal development.

Before postal reform, there was a rapidly growing and unregulated competition from private providers of letter and parcel services. These providers included a host of indirect communications companies such as freight transport companies, individual travelers, and bus companies. Mailers were willing to pay significantly higher prices for such services because of the post's reputation for poor service, lack of customer attention, and unreliability. Studies of the postal sector at the time indicated that most postal services were elastic with respect to quality of service rather than with regard to price.<sup>14</sup>

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<sup>13</sup> Ibid.

<sup>14</sup> UPU-World Bank Group, *Global Study on Postal Service Sector Reform-Report of the United Republic of Tanzania*; Bern, August, 1994.

In general terms, tariffs were not set to achieve cost coverage and were not subject to ongoing review. It is difficult to measure Tanzania Post's financial performance before 1993, when postal and telecommunications expenditures were separated and new accounting systems installed. Chart 1 does show financial performance for the two years immediately before Phase 2 of Tanzania's postal reform was implemented.

## Postal reform process

The postal reform process was accomplished in two phases. The first, a reform of the postal regulatory regime took place within the general restructuring of state owned enterprises in Tanzania from 1992–1995 and the creation of the Tanzania Post Corporation (TPC), as a state enterprise, fully owned by the Government of the United Republic of Tanzania. The second phase built upon these positive changes to accomplish the commercialization of TPC between 1995 and 1998.

### Phase 1 – Regulatory reform

Economic reforms in Tanzania produced an average annual increase of 4% in GDP between 1986–1992. However, postal volumes were decreasing significantly and it was clear that the postal sector was a financial drain on the government and on the overall economy. By 1992, postal management realized that in order to provide universal services while contributing to economic growth, it was imperative to undertake a reform program by obtaining operating and financial autonomy, developing a business culture, and improving productivity and quality of service. Fortunately, this vision was very much in line with the Government of Tanzania drive to restructure parastatals by giving them a more commercial orientation and encouraging increased private sector participation in their operations.

As a result, legislation was drafted in 1993 and came into effect on January 1, 1994 restructuring the postal sector in Tanzania. Two Acts, the Tanzania Communications Act and the Tanzania Posts Corporation Act established a sound regulatory framework for the future by:

- Separating regulatory and operational functions for the communications sector by establishing the functions and powers of the new Tanzania Communications Commission;
- Creating two new separate entities, the Tanzania Telecommunications Company and the Tanzania Post Corporation;
- Identifying as regulatory responsibilities:
  - development and coordination of overall postal sector policy
  - issuing licenses for providers of basic postal services (letters and postcards not exceeding two kilograms) and licensing TPC to perform this function;
  - regulating tariffs by giving guidelines on rate-setting for basic services; and
  - promoting competition and expanding postal services to support economic development

- Identifying as postal operator functions:
  - providing national and international postal services to meet industrial, social, and household needs;
  - providing postal financial and counter services;
  - charging rates at the minimum level needed to meet approved financial targets; and
  - achieving revenues sufficient to meet all operating and capital expenses.

TPC oversight was entrusted to a Board of Directors appointed by the Minister of Communication and Transportation in consultation with the Minister of Finance. Ongoing operational direction of the TPC was entrusted to a Postmaster General who reports to the Board. As a further measure of commercial autonomy, TPC was allowed to incorporate subsidiaries into its operations.

A transition period of one year was allowed to overcome the three most challenging aspects of separating posts and telecommunications, namely, the legal separation of existing TPTC balance sheets, determining how to fund existing pension commitments, and the process of evaluating and vesting the assets and liabilities between the two new corporations.

The World Bank Group also provided significant funding for this phase of the reform (approximately \$2.9 million USD) primarily in areas such as computer hardware and software, franking machines, vehicles, office equipment, consultant services in quality of service, security, and cost accounting, and training in a wide range of management, marketing, financial subjects.

## Phase 2 – Building a commercial postal business

At the end of this regulatory reform, TPC had sufficient autonomy to manage its own business affairs. However, if TPC were to maximize its performance, it would also be necessary to commercialize its finances and operations.

**Strategic Plan.** TPC first developed an overall strategic direction and embodied this in the 1994–1998 Strategic Plan. Some of the key objectives in this Plan were to:

- Improve the quality of service with special emphasis on mail, money orders, and security;
- Increase employee productivity by 60% to 90%;
- Develop and introduce new products and services to meet customer needs; and
- Incorporate new information management technologies into postal operations.

**Managing costs.** Beginning in 1994, TPC undertook ambitious efforts to reduce operating costs by adjusting the existing postal network and rationalization of overall staffing. Between 1994 and 1998, the total number of post offices staffed by TPC was reduced by over 30% (see Chart 2). Offices which were losing significant revenue due to low demand were reduced from full service operations to more cost efficient operations offering only basic postal services. Many of these offices were converted into franchise units thereby significantly increasing private sector participation in the postal sector.

Total staffing was reduced by nearly 45% to more accurately reflect actual workload. These reductions were achieved through attrition, voluntary, separations, early retirements, and transfers. At the same time, a new human resources plan was put in place to upgrade recruitment, training, and performance evaluation. Training was focused on areas that would enhance TPC's business culture, namely information technology, management, marketing and sales, Total Quality Management, and financial analysis.

**Decentralization.** Two senior staff positions, Director of Operations (responsible for operations and marketing) and Director of Corporate Service (responsible for finance, administration, and planning) were created to maintain the overall focus on running a successful postal business. Six regional directorates were also established with decentralized management authority and individual responsibility for meeting established revenue and budget targets, quality of service standards, and development objectives.

**Refocusing the business.** In order to properly balance public service and financial responsibilities, TPC operations were split into three distinct units, Mail, Counters, and EMS—each with sufficient autonomy to manage its own operations. Each unit was established as a separate business unit so that the costs and revenues associated with its specific products could be better measured and controlled.

**Mail.** Mail includes letters, small packets, periodicals, small parcels, etc. Treatment of these items was changed from content-based to priority-based with excellent results. As of 1996, 90% of mail is delivered within 24 hours in the inter-city areas and interregional delivery of mail (including parcels) was lowered from D+6 to a range of D+2 to D+4. Mail security operations were significantly upgraded in the main sorting center Dar es Salaam by installing closed circuit televisions and in regional centers with the establishment of security units.

In order to improve the financial performance for this cost center, overall tariffs were raised and terminal dues receipts were put under postal control.

**Counters.** The counters business offers a variety of products and services through retail units including money transfers, money orders, acceptance of bank deposits, sale and distribution of lottery tickets, telephone cards, photocopying, and philatelic services.

TPC, utilizing funding from the East African Development Bank, automated these counter operations in Dar es Salaam and is currently migrating this automation to regional offices. In addition to speeding up customer service and cash transfers, this provides better management information and control systems. Financial contribution for counters was strengthened by revising cash transfer commissions and bank deposit transaction fees and by promoting and expanding the number of customer contact points.

**EMS.** Express Mail Service (EMS) has traditionally been a strong performer in the TPC product portfolio and enjoyed a significant market share (70% of the domestic market and 26% of the

international market) despite strong competition from private couriers such as DHL and TNT. In 1997, a system to trace and track international EMS items was installed in the Dar es Salaam General Post Office. This system provides the additional benefits of gathering customer segment information. Financial performance was improved through tariff revision, network expansion, and aggressive marketing and sales.

## Results

TPC's performance, in terms of increased volumes and productivity has steadily improved since its establishment in 1994 (see Chart 3). This remarkable progress is even more impressive when one considers that after the regulatory reform of 1994, TPC operates in a totally liberalized postal market place. Licenses have been granted to both TPC and several other operators to provide comprehensive nationwide and international mail services. From 1994 to 1998, per capita mail volume increased significantly from 0.87 to 1.26, demonstrating the positive economic contribution associated with reform of the postal sector in Tanzania<sup>15</sup>.

Financial performance has also significantly improved. Total revenues have grown from \$3.1 million USD in 1993 to \$15.451 million USD in 1999. Volumes were temporarily depressed during the first two years of the commercial reform (1995–6) as TPC raised tariffs to pay one time costs of the rationalization of 400 staff positions, payment of back taxes, and reimbursement of bank deposits. However, by 1996, TPC had made its first profit and was even paying corporate taxes to the Government. Through careful cost management, TPC has made a net profit and paid a dividend to the government treasury, the sole shareholder in TPC, despite fluctuating volumes and the impact of overall economic conditions.

Each business center also enjoyed significant revenue growth (see chart 4). National coverage has been expanded and new services and products (such as one-day service for consolidated mailings between Dar es Salaam and several regions) introduced to attract new business customers. The strategic growth of premium counter and financial services such as "money fax", and high value products including EMS, has also helped ensure ongoing financial success.

## Conclusions

The reform of Tanzania's postal sector has expanded postal coverage, increased private sector participation, increased the sector's contribution to economic growth, and improved public operator performance. The sequence of regulatory reform followed by phased commercialization is a sound and proven direction. Furthermore, the intervention of the World Bank Group and East African Development Bank provided significant support and guidance for reform. However, the key elements in this process were postal initiative and strong government support for reform.

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<sup>15</sup> Postal Statistics, pp. 366–367.

## Unique Feature: Performance Contract

In April of 1997, TPC signed a performance contract with the Ministry of Communications and Transport and the Parastatal Sector Review Commission.

The objective of the performance contract is to provide for clear, measurable, and realistic performance targets, procedures for monitoring performance, and to demarcate responsibilities of the immediate key role players, in order to enhance the Corporation's commercialization.

This three-year contract sets performance targets for quality of service, business growth, customer satisfaction, security, and profitability. Significant penalties for not meeting these targets in terms of a percentage of salaries are part of this contract. Conversely, a bonus system has also been established for exceeding these targets. Performance in the first year under contract, 1997, was audited by NEPOSTEL Consultancy BV of the Netherlands while the second audit was performed by New Zealand Post International Limited (now "Transend").

First audit results indicated that established targets were met in only two areas, speed of service and security. Second audit results showed that targets were met in all parameters except business growth. The audits show an overall better performance in 1998 compared with 1997, an indication of the positive and consistently improving results brought about by the contract.

This level of direct accountability is unique within the postal world.

Year	94	95	96	97	98	99	2000
Operating Revenue	8.406	11.292	12.040	12.305	13.569	12.079	13.300
Expenses	8.887	11.688	12.608	13.563	14.358	13.074	12.124
Net	-0.011	-0.092	1.523	0.355	0.466	0.758	2.072
Tax	0.000	0.000	0.373	0.124	0.140	0.227	0.622
Net profit	-0.011	-0.092	1.150	0.231	0.326	0.530	1.450

Chart 1 – 1994–2000: Operating income and expenses (\$ Millions USD)

Source: TPC

NB: Net profit=Total income (operating income + other income) less expenses

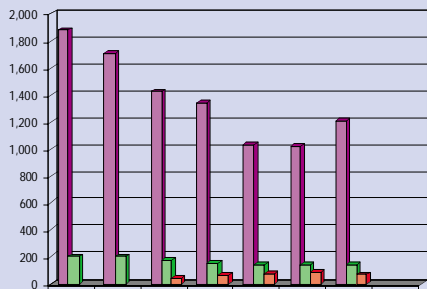


Chart 2 – Cost cutting measures  
Source: TPC

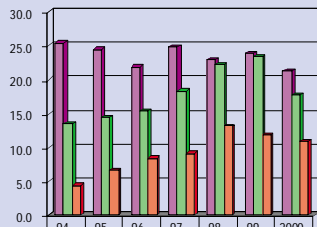


Chart 3 – Volumes and Productivity: 1994–2000  
Source: TPC

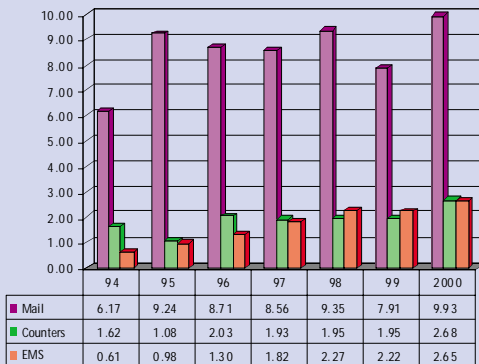


Chart 4 – Individual Business Center Revenue (\$ millions USD) /  
Source: TPC

# Reform Case – Trinidad and Tobago Postal Corporation

## Trinidad and Tobago

Trinidad and Tobago is a country in the Lesser Antilles chain in the Caribbean with 1.3 million inhabitants covering 5,130 square km. The country has a small, open economy that has made remarkable progress but which is still very vulnerable to external economic events. Oil and natural gas are key economic sectors; tourism plays an increasingly important role in the economy. About 74% of the population live in urban areas and there is an adult literacy rate of above 97%. Trinidad and Tobago can be considered an upper-middle-income developing country<sup>16</sup>; in 1999, the gross domestic product (GDP) was \$ 6.9 billion USD and per capita gross national product \$ 4,750 USD per capita (significantly above the Latin American/Caribbean average of \$ 3,840). In the second part of the 90s the real GDP growth averaged over 3% per year, in spite of declining oil prices which play a critical role for the country's economy. High unemployment is a persistent problem (14.2% in 1998) and more than 20% of the population still falls below the poverty line.

## Reform environment

Several government reform programs have successfully stabilized and vitalized the economy and strengthened Trinidad and Tobago's financial system. Recent governments have been making progress in redefining the scope and reducing the size of the public sector (which, however, still employs about 25% of the country's workforce). The country has seen a range of successful privatizations during the 90s. The main challenge remains the high incidence of poverty and therefore, the government's development programs have been directed at significantly reducing poverty by improving access to employment, education, and resources such as land. Improving the delivery of public utilities, achieving their financial self-sufficiency, and encouraging private sector initiatives have been key government priorities.

## Postal marketplace

The public operator handled approximately 16.3 million in 1999, or 12.64 pieces per capita annually, a low rate among similar Caribbean Island economies.<sup>17</sup> Furthermore, in spite of solid

<sup>16</sup> World Bank Group, *Little Green Data Book*, International Bank for Reconstruction and Development/The World Bank, Washington, April, 2000.

<sup>17</sup> Universal Postal Union, *Postal Statistics*, Bern, 2000, pp. 364–365. An additional 2.4 million pieces were received from foreign postal administrations in 1999.

economic growth during the past five years, there has been very little corresponding growth in postal volumes; before reform, the sector was not supporting economic and social development. Many larger postal retail outlets also offered basic savings services, although the volume of transactions declined steadily during 1995–1999 (58% loss in domestic money order business). Large consolidators and other private mailing firms participate strongly in “niches” of the express mail and package delivery business.

### Pre-reform public operator structure performance

In 1996, the public operator employed 1,526 employees in 169 permanent offices.<sup>18</sup> The Trinidad and Tobago Post Office and Postal Savings Bank were divisions of the Ministries of Public Utilities and Finance respectively. Service was poor, customer confidence low, and many business customers had switched to private mail service providers. The Post had lost money for many years and revenues typically covered only 2/3 of costs. The postal infrastructure and equipment were in bad shape (particularly the vehicle fleet) and deteriorating rapidly. Financial losses severely limited investments in network modernization, resulting in a predictable downward spiral in service quality and mail volumes (a 20% loss between 1995 and 1999).

### Postal reform strategy

Confronted with a very low level of quality, decreasing public trust in the service, a significant loss of customers to private service providers, and rapidly growing financial losses, the government made a clear decision to make a break with the past. It determined to reform the postal sector and redesign the public postal operator so it could achieve financial self-sufficiency while providing reliable and high quality postal services.<sup>19</sup> The government then sought, and received (as early as 1994) strong support for the reform process from the World Bank in the form of reform workshops, detailed analyses, policy advice and recommendations, and a loan package of approximately \$11.4 million USD.

After approval of new postal legislation by Parliament (Postal Act 1999) the public operator was transformed from a government department into a new postal corporation, the Trinidad and Tobago Postal Corporation (“TTPost”). The legislative reform brought significant policy changes including an increase in the public operator’s authority to enter partnerships with the private sector. TTPost was given clearly defined responsibilities and a strong reporting relationship to its Board of Directors. To secure the reform program, the government consulted with labor unions.

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<sup>18</sup> Ibid.

<sup>19</sup> “Post cards from the Caribbean,” *Forefront-The Magazine of New Zealand Post International Limited*, August, 1999, pp. 6–10.

Part of the World Bank's advice to the government concerning reform was to work to increase private sector participation in postal operations. A significant step in this direction was accomplished with the establishment of a management contract for the provision of postal services. This management contract incorporated several of the lessons learned from a similar management contract experience in the water sector. After an international, competitive bidding process (structured with support and advice from World Bank), this contract was awarded to New Zealand Post International Limited (since renamed Transend Worldwide Limited). The contract is embodied in a five-year "Delegated Management Agreement," which was effective in June 30, 1999. After the conclusion of the five-year contract, the Government plans to consider options for a long-term arrangement, including the possibility of a concession.

The Agreement precisely defines the responsibilities, obligations, and structural relationship of the three main signatories: the management operator (Transend), TTPost, and the Government of Trinidad and Tobago. Overall objectives, specific performance targets, and an ongoing progress-reporting requirement are defined for the management operator.

The operator is obliged to manage TTPost as a business in conformance with international best practices for postal services. Performance objectives addressing service and financial results are described and quantified with regard to:

- universal services (expansion of the reach of delivery)
- customer satisfaction
- transit time
- revenue growth
- net income.

Performance objectives and targets increase significantly during the five-year Agreement.

Additional project objectives are defined with regard to:

- change management
- human resources
- capital investment
- management information system
- the Post Office Savings Bank.

The Delegated Management Agreement specifies innovative payment procedures and defines important technicalities of the arrangement such as the key personnel the contractor must provide. The overall strategy for the Agreement is for the management contractor to increase TTPost's financial viability and profitability to the point where it can pay back the World Bank loan out of its own revenues.

## Results

While the postal reform in Trinidad and Tobago is in its initial stages and a full evaluation may take several more years, there is already significant progress and improvement. Innovative

payment procedures in the management contract (see “Unique feature” box below), are helping to ensure that all major dimensions of the postal system demonstrate clear signs of improvement. Under the direction of the management operator, TTPost has rapidly:

- opened new outlets with better equipment and brought service closer to customers;
- expanded home delivery to rural, isolated, and economically disadvantaged areas;
- offered a wider range of products and services (including Trinidad and Tobago’s first inland courier service) and extended these to areas where they were unavailable;
- significantly enhanced customer satisfaction;
- improved reliability, speed, and security of mail delivery
- enhanced revenue, productivity and financial performance, and
- improved working conditions and staff motivation.

**Processing improvements.** The mail processing infrastructure has been strengthened with better sorting equipment, stronger IT support, and the building of a modern National Mail Center to process all mail.<sup>20</sup> Further improvements to this network and to the retail and delivery network are also in process. Increases in customer satisfaction after just one year are an excellent example of the overall progress of the reform. Business customers are especially pleased with the expanded range of products and services, many of which are designed to meet their emerging mailing needs.<sup>21</sup>

**Delivery improvements.** Another important facet of the postal modernization program is the very evident improvement and expansion of the delivery network. The frequency of delivery has increased from 1–3 times to 5 times a week as a standard and next day delivery increased from 17% to 60% in just five months<sup>22</sup>. Mail delivery at or near private residences has grown from 52% of all households in June of 1999 to 62% just one year later. Even very small communities in Tobago that formerly had no postal services are progressively being incorporated into the delivery network and over the five-year Agreement, this level of delivery is targeted to increase to 94%. In order to further enhance the positive effect of these improvements, TTPost has started a national address database and is expanding installation of private letter boxes.

**Financial services improvements.** In addition to letter and parcel mail, money orders are now available in many new areas. The national expansion of dependable postal financial services has benefited many customers (particularly the elderly) who depend on remittances from family members abroad. These services are also demonstrating valuable support for micro-enterprises that need secure financial payment systems and efficient physical distribution systems for their direct mail advertising and order fulfillment services activities.

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<sup>20</sup> Transend, *Major Projects*, <<https://www.transworldwide.com/transend/control/projects>>, (3-7-01).

<sup>21</sup> There have been some challenges in full measurement of customer satisfaction levels due to the methods used to establish baselines. On the basis of more precise survey data, baselines will be modified with even higher performance parameters for the future.

<sup>22</sup> “A Caribbean Courier Move,” *Forefront-The Magazine of New Zealand Post International Limited*, March, 2000, pp. 6–8.

**Support for economic development.** The major beneficiaries of this postal modernization process are the rural and low-income communities that previously were isolated from most communications and physical and financial networks. Postal infrastructure improvement not only increases access to communications, but also expands business-sector opportunities in these communities. A strong postal infrastructure can also provide a platform for future electronic business opportunities and increased access to Internet related information and commerce. The postal modernization in Trinidad and Tobago is still in its earliest stages; significant new improvements in coverage, quality, and range of services will continue to increase postal sector support for economic development, particularly in economically disadvantaged parts of the country.

## Conclusions

The case of Trinidad and Tobago Post (TTPost) provides an example of the rapid and significant improvement that can be achieved with an ambitious postal reform process. The Government of the Republic of Trinidad and Tobago has transformed a government dependent postal agency into an autonomous, government-owned corporation. Management of this new entity has been arranged on a contract basis with measurable performance targets and defined responsibilities. A productive combination of policy framework adjustment, commercialization, restructuring and rehabilitation of the national operator, and increased private sector participation have produced rapid and dramatic changes in terms of improved financial and operational performance. Major improvements in universal service coverage, overall quality of service, and customer satisfaction have been achieved in just over a year. And perhaps most importantly, improvements in postal services are already benefiting remote rural areas of the islands and will continue to play a critical role in increasing access to communications.

### Unique feature: achieving better postal performance through a management contract

After considering various concession arrangements and even divestiture, the Government of Trinidad and Tobago opted for a management contract for public postal operations with measurable performance targets and defined responsibilities. This was one of the earliest examples of having the management of a national postal system turned over to a foreign business entity.

The benefits of this approach have been rapid and significant. A key factor for success in any management contract (as has often been demonstrated in other sectors) is the precise definition of performance targets and an appropriate mechanism for determining fees, incentives and penalties. In the TTPost case, the management operator has a strong financial interest in seeing that the project succeeds. The compensation package includes a management fee for the day to day costs of services provided by its management team and for the completion of special agreed upon projects. This compensation is enhanced with an incentive mechanism for exceeding certain performance targets. The management fee can also be reduced if one or more of the performance targets are not achieved. Finally, the management operator will share in profits as TTPost's financial performance improves.

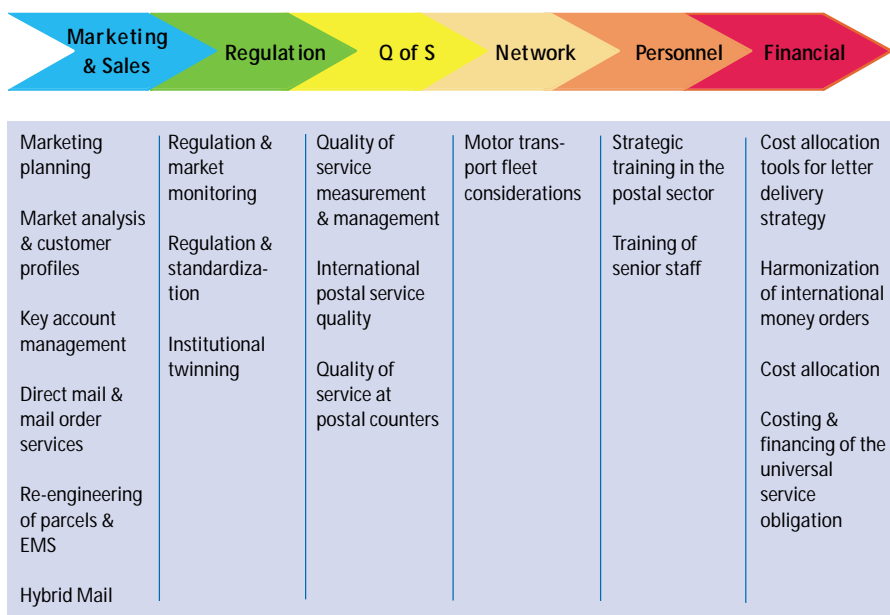
There also are some valuable lessons that can be derived from this case for use in future management contract arrangements. One of these is the importance of clearly and precisely defining targets (including base reference numbers) and performance indicators. It is also critical to clearly and precisely define the management operator's span of control and responsibilities.

# Reform case – Central and Eastern Europe

## Regional Approach<sup>23</sup>

Within the context of European Union enlargement and integration, the European Commission and national governments have recognized that the performance of infrastructure industries in Central and Eastern Europe needs to be improved. The European Commission established the PHARE funding program<sup>24</sup> through which grants were provided to countries to achieve this progress.

Two approaches to the postal sector were undertaken, individual country projects and regional (multi country) projects to which all 13 countries within the region could apply. In all, 18 regional projects were undertaken, based on a strategy of reviewing the key areas of the postal business while taking into account the full range of postal stakeholder needs. The full range of project areas can be seen in the diagram below.



Two of these projects can be used to describe both the regional and the individual country benefits of the PHARE approach to postal modernization.

<sup>23</sup> The authors are indebted to Graeme Lee, Senior Analyst, British Postal Consultancy Service for compiling the information contained in this case.

<sup>24</sup> PHARE countries include Albania, Bosnia & Herzegovina, Bulgaria, Czech Republic, Estonia, Former Yugoslav Republic of Macedonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic and Slovenia.

## Regional Project 1 – Key Account Management

**Strategy.** The project was designed to help administrations better understand their key customers and to establish a strategy for reaching and developing their postal business. This meant first establishing exactly who the key customers were and then developing a marketing and sales structure to manage their business. In some countries this actually involved recruiting key account managers and establishing for the first time a dedicated sales force for key customers.

**Results.** Action plans were devised which set targets, objectives, timescales and priorities for the key account management teams. In addition the project also developed a key account management database software system that was implemented in participating countries. The final output of the project was to provide training to managers of all participating countries.

## Regional Project 2 – Costing and Financing Universal Service Obligations (USO)

**Strategy.** The project had two main goals. The first was to determine a region-wide methodology for costing the USO and subsequently establish the cost within each of the countries. The second was to identify options for actually financing the USO in a market subject to EU liberalization targets.

Two costing methods were identified, one for costing in a static market and a second for costing in a liberalizing market. Both methods use the same base data collection methodology, namely to identify a series of physical flows known as “routes”. Each route was defined by a combination of cost factors based on product type, size, weight, delivery point, and distance. The cost of each route was then established and matched against revenue to determine overall profit or loss.

In the static market the cost of the USO is a simple case of adding together the total of the loss making routes (likely to include rural deliveries) on the assumption that if there was no USO the administration would not service those routes. In a liberalizing market the approach is very different. It looks at the profit making routes and calculates the amount that would be lost to competitors entering the market. The cost of the provision of the USO is therefore the sum of the market that would be lost to the competition.

**Results.** In several of the countries, applying this methodology determined that very few competitors would be likely to enter the market for USO products since there were very few profitable routes. A significant additional output of the project was to reveal that several countries needed to significantly revise their pricing mechanisms in order to adjust the subsidy provided by the State. The project also identified and evaluated numerous options to finance the USO including a reserved area, compensation funds, licensing, a USO obligation for all licensed operators, franchising and state subsidies.

### Unique feature: a regional approach to postal reform

The reform process that has taken place through the PHARE Program has not focused on changing the corporate status of individual postal administrations. It has, instead, focused on providing a region-wide framework for postal modernization with sufficient flexibility to be adaptable to individual country situations. One significant challenge in this approach was that it had to take into account countries displaying very different stages of postal and economic development.

However, the multi-country reform approach used in Central and Eastern Europe has provided much needed technical advice and has achieved significant postal modernization in the region. By focusing on simultaneously raising regional and individual performance levels, PHARE has provided all countries with a common reform direction and the necessary tools to improve their postal business. In a survey of participating countries carried out in 1997 (prior to the end of the program) many tangible benefits were identified. Beneficiary countries were generally satisfied with the technical assistance they had received during PHARE projects and identified production of business plans, increased marketing awareness, and training and benchmarking opportunities with western European posts as highlights of their participation.

# Trends in postal reform: lessons from the case studies

## Most postal reforms have very similar catalysts and goals...

The basic forces inspiring the current wave of postal modernization projects are fairly uniform throughout both the industrialized and developing world. New competition, technological change, higher customer expectations, and the globalization of the marketplace have created an invigorating environment for postal reform. In some cases, the separation of the old PTTs into different businesses has been an even more immediate impetus for change.

Similarly, most postal reform programs share the same goals:

- improving quality of service
- providing an efficient universal service
- making better use of government assets
- ensuring autonomy and financial viability for the public operator
- regulating the postal marketplace to ensure fair competition, and
- stimulating the entire postal sector to better performance and greater economic contribution

## ... but achieve these goals with different strategies

In spite of the similarity of drivers and destinations, the case studies in this brochure demonstrate that there is no single path to postal reform, but rather a series of alternate routes, and possibly even a detour or two along the way. Where one country might opt to increase its market share of basic postal products to achieve greater economies of scale, another could choose to improve the value of premium products to achieve higher profitability. Specific economic conditions, traditions of corporate governance, and evolving market needs all require unique strategies and customized solutions.

## While several general trends are emerging...

Some general trends in postal reform are emerging as evidenced both in these studies and in postal services in the industrialized world. These include:

- **Market liberalization.** Different countries have chosen very different options to define the postal “monopoly” and reserved areas that compensate the public operator for its obligation to provide universal service. While total elimination of this monopoly through full market liberalization is still the exception, many countries have initiated a continuous process of opening postal markets to increased competition.

- **Regulatory reform.** Some postal operators enjoy a great deal of commercial freedom and managerial autonomy while others are closely confined by rigid regulatory controls. However, as the case studies have shown, postal organizations operate most successfully when the postal regulatory regime is limited to monitoring price and quality levels for universal services while simultaneously ensuring fair and competitive marketplaces for other products.
- **Increased private sector participation.** The legal status of public postal operators ranges from traditional government agency, through various forms of “corporatization” all the way to full privatization. However, most postal entities have at least started some process of commercialization in order to remain competitive. At the same time, there is a growing level of private sector participation in the operation of public postal operators. There are many different modes for achieving this increase:
  - Franchising and outsourcing within the traditional postal corporate structure
  - Management contracts with other postal operators (Lebanon and Trinidad and Tobago)
  - Concession arrangements (Argentina and Guatemala)
  - Strategic investors, partnerships and alliances (South Africa)
  - Joint stock companies (Germany, Netherlands, and Singapore)

A full evaluation of the individual benefits of each of these approaches will take more time and greater experience. However, it can be asserted that the greater the investment by the private partner, the greater the need for up-front analysis of potential risk factors (e.g., the current and potential size of cash flows from the postal marketplace, the cost of providing universal service, investments needed to make the public operator financially viable and fully competitive, etc.).

... however, there are some essential elements in each case study

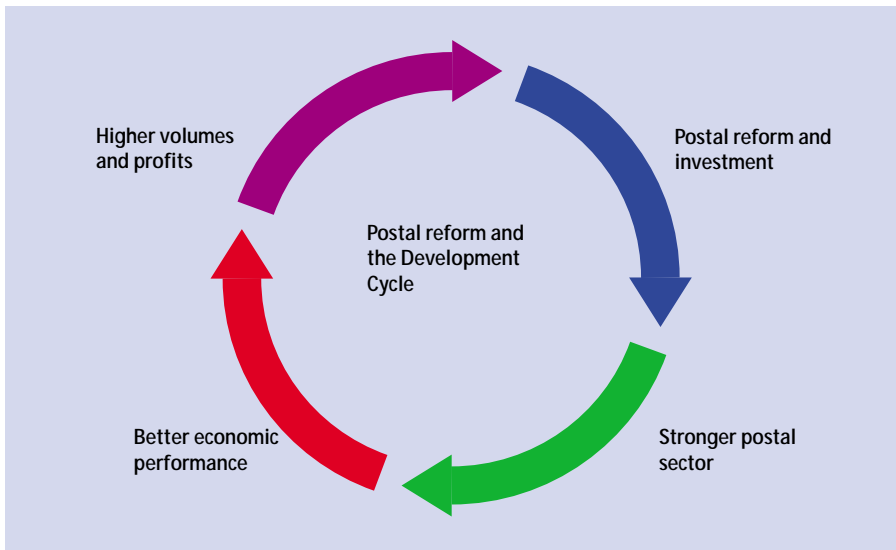
Although developing countries reforming their postal sectors are confronted with many different issues, some key elements were found in each case study:

- Postal reform cannot occur in a vacuum; it requires a “reform friendly” environment where the general drive is to reform all public service sectors.
- Commitment of all major stakeholders (government, postal management, employees/unions, customers, NGO’s) is essential.
- Sustainable reform must be based on long-term goals that support national development strategies.
- Postal reform initiatives must be ambitious and sustained. They should not be too narrowly defined and must provide flexibility and innovative solutions.
- A clear postal sector policy (a solid postal law, appropriate definitions of universal service obligations, clear regulatory conditions) is the best starting point for reform.
- A clear definition of the current regulatory and market situation, combined with a precise assessment of the public operator’s operating, revenue and cost structures must be undertaken.

- To achieve financial and operational viability, postal services require a high degree of autonomy and commercial flexibility and a customer driven business culture.
- Postal management must have a clear vision, mission and strategy and a strong reform team that is willing to overcome barriers and sustain progress.
- Technological reform must first be based on improving management systems and then evolve into support for the provision of advanced postal products.
- Postal reform must progress in an orderly fashion from sector policy definition and regulatory reform, through enterprise restructuring, and finally to commercialization through the integration of solid core businesses with new and innovative services.

### Finally, postal reform is a good economic investment...

A strong and vital postal sector creates a sustaining environment for economic development and the growth of mail-intensive industries.<sup>25</sup> This growth will generate more mail volume and revenues and thus help the “reformed” postal services invest in further improving its performance and support for overall development.



<sup>25</sup> The role of postal sector reform in economic development is the subject of a soon to be published study by Dr. Tim Walsh, Director, International Affairs, Consignia plc.

# The Postal Sector and the New Economy

The Digital Age and the New Economy are here...<sup>26</sup>

The Digital Age has arrived and is the motor for a New Economy based on instant communications and universally accessible information. Each day, the “e-World” spawns a new e-concept or e-technological advance based on making the interfaces between people, businesses, and information faster, cheaper, and more reliable. Each week, a new “virtual” application for digitized data raises the conceptual bar for defining the term “communications”.

One side effect of this growing wave of technological progress has been to forget, or at the very least diminish, how much these advances depend on sound physical distribution systems for their success. The information available through cyberspace can be digitized, compressed, and transmitted instantly, but the goods and merchandise this information describes must travel through physical transportation systems and be delivered to actual, not virtual addresses. Furthermore, the future growth of the New Economy will be directly related to the capacity of physical distribution networks to efficiently process the increased traffic being generated by new technologies.

... and provide promising opportunities for the Post.

With their comprehensive retail and distribution networks, postal services are in an excellent position to fulfill this growing demand and to help accelerate the growth of the New Economy.

The opportunity to provide reliable transportation and delivery of goods and merchandise comes most immediately to mind. But many additional hard copy transactions can be generated during the order and fulfillment cycle. Furthermore, numerous non-traditional opportunities for postal interface exist within this cycle including fulfillment (picking, packing, and shipping), warehousing, and supply chain management. These activities can also generate further information flows (tracing and tracking, inventory management, customs, and advanced advice of delivery), that provide excellent points of entry for postal systems. A key strategy for postal services will be to anticipate the need to reengineer existing services and to develop new ones to meet constantly emerging and evolving customer needs.

Strong postal infrastructures can also support the growth of the New Economy in other ways, such as through the provision of efficient and widespread postal financial services. These services can facilitate the payment process which often impedes the speed and reliability of order fulfillment. Through collection on delivery, giro accounts, and direct payment at postal retail outlets, the postal infrastructure can provide a secure and accessible payment channel for eCommerce

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<sup>26</sup> The authors are indebted to J. Gary Halpin, Director, International Relations, Canada Post Corporation for compiling the information contained in chapter.

activities. Postal services can also serve as a “trusted third party” to ensure that the exchange of goods and payments between seller and buyer is accomplished with speed, security, and reliability. Finally, through its comprehensive retail networks, the postal sector can provide a physical point of access to the virtual world of the Internet for potential customers who would otherwise be excluded from this commercial sphere. Broadening the base of these commercial activities can also serve as a spur to overall economic growth and sustainable development. Moreover, by serving as an Internet “node” for researching, purchasing, and receiving merchandise, post offices can significantly extend the reach of electronic commerce.

This concept of post offices, particularly in rural areas, as “communications centers” is only just emerging, but potential for expanding this new role for the postal network, as well as the opportunity to uncover mutually reinforcing relationships between digital and physical communications appear unlimited.

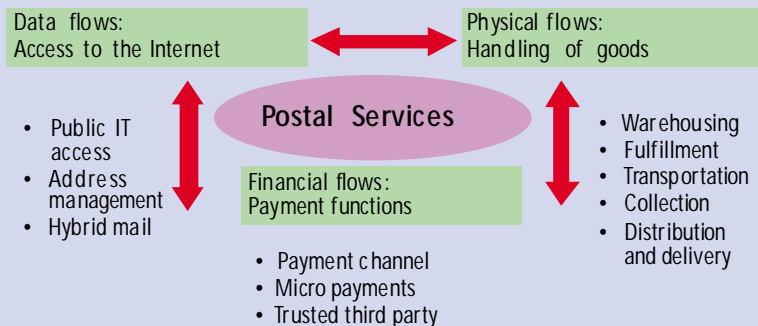
### Postal services are starting to take advantages of these opportunities...

Postal services in Canada, Denmark, France, Germany, Great Britain, the Netherlands, the United States and many other industrialized countries are moving quickly to take advantage of the opportunities described above. Some have even established subsidiaries to manage and exploit this business growth. Similarly, a growing number of countries in the developing world, such as Costa Rica, India, and Indonesia, are discovering unique ways to profit from the Digital Age.

### ...but must fully exploit their unique position in the communications chain.

However, there is much more that the postal sector can and must do in order to thrive and survive in the Internet Age. Most importantly posts must fully exploit their position at the intersection of three principal economic flows, namely information, goods, and money. By devising integrated solutions for managing these flows, postal services can become a major player in the New Economy. The diagram below shows just a few postal applications associated with these flows. However, the diagram also demonstrates that increases in one flow will generate increases in the other flows, in much the same way that better performance generated more volume and increased investment in the “Viable Circle” described earlier in this brochure.

## Postal services: uniquely positioned to support the New Economy



### The key to building for the future: getting the basics right today

In the end, expanding the role of the postal sector to match the acceleration of the Internet Age will depend on the ability of posts to manage and run their core business in an effective manner. Reliable and cost effective postal services, including postal financial services, must be the foundation for building the future business opportunities described above. For postal services in many developing countries, the first step will be to establish this foundation of reliable core services while simultaneously discovering opportunities to interact with emerging digital technologies. As the examples of Costa Rica, Indonesia, Tanzania, Trinidad and Tobago, and Central and Eastern Europe show, this goal can be achieved through carefully planned and vigorously implemented postal reform.

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